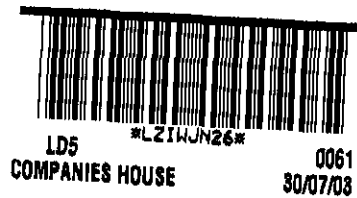


Company Registered Number: 4297905
Charity Registration Number: 1096300

POLICY EXCHANGE LTD

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 30 SEPTEMBER 2002



BERG KAPROW LEWIS LLP
35 Ballards Lane
Finchley London
N3 1XW

POLICY EXCHANGE LIMITED

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FOR THE YEAR ENDED 30 SEPTEMBER 2002**

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LEGAL AND COMPANY INFORMATION

LEGAL STATUS

The charity is constituted as a company limited by guarantee and is, therefore, governed by a Memorandum and Articles of Association.

REGISTERED COMPANY NUMBER: 4297905

REGISTERED CHARITY NUMBER: 1096300

REGISTERED ADDRESS: 35 Ballards Lane
London
N3 1XW

DIRECTORS AND TRUSTEES: Alice Mary Rose Thomson
Camilla Hilary Cavendish
Iain Campbell Dale
Michael Gove
Richard John Micklethwait
Robin Edwards

AUDITORS: Berg Kaprow Lewis LLP
Chartered Accountants
35 Ballards Lane
Finchley
London
N3 1XW

BANKERS: National Westminster Bank
Great Portland Street Branch
P O Box 2027
125 Great Portland Street
London
W1A 1GA

SECRETARY: Robin Edwards

PRINCIPAL OFFICE: Clutha House
10 Storeys Gate
London
SW1P 3AY

**DIRECTORS' AND TRUSTEES' REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2002**

The Trust was incorporated as a company under the name Questnow Limited with no share capital, limited by guarantee, on 3 October 2001. It changed its name to Xchange Ideas Limited on 9 November 2001 and to Policy Exchange Limited on 23 May 2002.

The company was registered as a charity with the Charity Commission on 3 March 2003.

This report and financial statements has been prepared on the basis that the organisation was a charity during the period ended 30 September 2002 as in the opinion of the trustees the subsequent formal registration as a charity on 3 March 2003 makes charitable the existing funds.

OBJECT OF THE TRUST

The objects of the charity as set out in its memorandum and articles are as follows:

The non-partisan advancement of education of the public in the economic, social and political sciences and their effect on public policy and the policy-making process in the UK and the promotion and publication of objective research.

REVIEW OF FINANCIAL ACTIVITIES

The results for the year and financial position of the Trust are set out in the annexed financial statements.

DIRECTORS AND TRUSTEES

All Directors of the company are also Trustees of the charity, and there are no other Trustees. The directors served as follows:-

Alice Mary Rose Thomson	(Appointed 12 June 2002)
Camilla Hilary Cavendish	(Appointed 12 June 2002)
Iain Campbell Dale	(Appointed 12 June 2002)
Michael Gove	(Appointed 12 June 2002)
Richard John Micklethwait	(Appointed 12 June 2002)
Robin Edwards	(Appointed 12 June 2002)
David Lindsay Willetts	(Appointed 2 November 2001 Resigned 12 June 2002)
Francis Anthony Aylmer Maude	(Appointed 2 November 2001 Resigned 12 June 2002)
Peter Wilding	(Appointed 2 November 2001 Resigned 12 June 2002)

APPOINTMENT OF DIRECTORS AND TRUSTEES

The power to appoint and remove Trustees is vested in the trustees.

RESERVES POLICY

The Charity's policy on reserves is to maintain adequate reserves to enable it meet urgent running and expansion costs. All funds are unrestricted.

The funds of the charity were in deficit at 30 September 2002. The trustees are aware of the necessity to build up the funds of the charity and the charity is engaged in various fund-raising activities in order to raise further donations. The trustees also believe that the £75,000 loan provided by Conservatives for Change will not need to be repaid until the charity is in a position to do so.

**DIRECTORS' AND TRUSTEES' REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2002 (CONTINUED)**

RISK MANAGEMENT

The trustees have reviewed the risks to which the charity is subject and believe that they have put in place sufficient systems to mitigate those risks.

AUDITORS

Berg Kaprow Lewis were appointed auditors to the company. On 1 April 2003, Berg Kaprow Lewis transferred its business to a limited liability partnership, Berg Kaprow Lewis LLP, incorporated under the Limited Liability Partnerships Act 2000. The directors consented to treating the appointment of Berg Kaprow Lewis as extending to Berg Kaprow Lewis LLP with effect from 1 April 2003. A resolution to re-appoint Berg Kaprow Lewis LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

STATEMENT OF TRUSTEES' RESPONSIBILITIES

The Charities Act 1993 requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Trust and of its results for that year. In preparing those financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue to operate.

The Trustees 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, Charities Acts 1993 and the Statement of Recommended Practice (SORP 2000) 'Accounting by Charities'. They are also responsible for safeguarding the assets of the Charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ON BEHALF OF THE TRUSTEES



Robin Edwards

Dated: 29 July 2002

POLICY EXCHANGE LTD

We have audited the financial statements on pages 6 to 12 for the year ended 30 September 2002 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

This report is 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 Trustees and auditors

As described on page 4 the trustees are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 with the company is not disclosed.

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

Basis of opinion

We conducted our audit in accordance with United Kingdom 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 judgments 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 information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material mis-statement, 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 Company's state of affairs as at 30 September 2002, and of its incoming resources and application of resources for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Boz Kaprow Lewis LLP

BERG KAPROW LEWIS LLP
Registered Auditors
Chartered Accountants

35 Ballards Lane
Finchley
London
N3 1XW

Date: **30-7-2003**

**STATEMENT OF FINANCIAL ACTIVITIES
FOR THE YEAR ENDED 30 SEPTEMBER 2002**

	<u>Note</u>	<u>2002</u> £
INCOMING RESOURCES		
Donations		67,030
Other income	2	<u>15,409</u>
Total incoming resources		82,439
RESOURCES EXPENDED		
Cost of generating funds:	4	<u>8,889</u>
Charitable expenditure:		
Costs of activities in furtherance of the charity's objectives:		
Research costs		27,081
Management and administration of the charity	5	<u>78,696</u>
Charitable expenditure	3	<u>105,777</u>
Total resources expended	6	<u>114,666</u>
Net Incoming / (Outgoing) resources		(32,227)
FUND BALANCES BROUGHT FORWARD AT START OF PERIOD		
		<u>-</u>
FUND BALANCES CARRIED FORWARD AT 30 SEPTEMBER 2002		
		<u>(32,227)</u>

Incoming resources are all unrestricted

BALANCE SHEET AT 30 SEPTEMBER 2002

	<u>Note</u>	£	<u>2002</u>	£
FIXED ASSETS				
Tangible assets	7			17,189
CURRENT ASSETS				
Debtors	8	55,263		
Cash at bank and in hand		6,875		

		62,138		
LIABILITIES				
Amounts falling due within one year	9	111,554		

NET CURRENT ASSETS				(49,416)

NET ASSETS				(32,227)
				=====
FUNDS				
Unrestricted funds				(32,227)
				=====

The financial statements were approved by the Board of Trustees on 29 July 2003 and signed on its behalf by:

.....Trustee
Robin Edwards

YEAR ENDED 30 SEPTEMBER 2002
NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

1.1 Basis of Accounting

The financial statements have been prepared under the historical cost convention and in accordance with the Statement of Recommended Practice (SORP 2000) 'Accounting by Charities' issued by the Charity Commissioners for England and Wales and the Companies Act 1985.

The financial statements have been prepared on a going-concern basis which assumes that the £75,000 loan provided by Conservatives for Change will not need to be repaid until the company is in a position to do so.

1.2 Financial Reporting Standard Number 1

Exemption has been taken from preparing a cash flow statement on the grounds that the Trust falls outside the size criteria specified in Appendix 2 of the Statement of Recommended Practice.

1.3 Incoming Resources

Voluntary income is received by way of donations and is included in full in the Statement of Financial Activities when receivable.

Other income relates to charges made to other entities for shared staff and premises.

1.4 Resources Expended

In line with the functional classification of costs in the Statement of Recommended Practice- Accounting by Charities (October 2000) expenditure is allocated or attributed as follows:

1 Direct charitable expenditure

Costs of policy research

11 Fundraising and publicity

Costs of fundraising events.

111 Management and administrative of the Charity

All other costs. No apportionments have been made of overheads.

1.5 Tangible Fixed Assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Computer Equipment	-	15% reducing balance.
Furniture and Fittings	-	15% reducing balance.

2. OTHER INCOME

	<u>2002</u>
	£
Management charges	7,909
Premises charges	7,500

	15,409
	=====

YEAR ENDED 30 SEPTEMBER 2002
 NOTES TO THE FINANCIAL STATEMENTS (contd)

3.	DIRECT CHARITABLE EXPENDITURE				<u>2002</u>
					£
	Research costs				27,081
	Management and administration				78,696

					105,777
					=====
4.	FUNDRAISING AND PUBLICITY				<u>2002</u>
					£
	Fundraising events				8,889
					=====
5.	MANAGEMENT AND ADMINISTRATION OF THE CHARITY				<u>2002</u>
					£ £
	Staff costs				27,682
	Depreciation				3,033
	<u>Other Costs</u>				
	Legal & professional		10,972		
	Bookkeeping and accountancy fees		3,500		
	Audit fees		1,200		
	Premises, insurance and security		7,356		
	Other administrative costs		11,089		
	Website, utilities and IT support		13,864		

					47,981

					78,696
					=====
6.	TOTAL RESOURCES EXPENDED				
		<u>Staff and staff</u>	<u>Depreciation</u>	<u>Other</u>	<u>Total</u>
		<u>related costs</u>		<u>costs</u>	<u>2002</u>
		£	£	£	£
	Fundraising costs	5,937	-	2,952	8,889
	Research costs	17,229	-	9,852	27,081
	Management and administration	27,682	3,033	47,981	78,696
		-----	-----	-----	-----
		50,848	3,033	60,785	114,666
		=====	=====	=====	=====
					<u>2002</u>
					£
	Staff costs:				
	Wages and salaries				46,356
	Social security costs				4,492

					50,848
					=====

YEAR ENDED 30 SEPTEMBER 2002
 NOTES TO THE FINANCIAL STATEMENTS (contd)

7. TANGIBLE ASSETS

	<u>Furniture and Fittings</u> £	<u>Computer Equipment</u> £	<u>Total</u> £
COST			
Additions	16,793	3,429	20,222
At 30 September 2002	<u>16,793</u> =====	<u>3,429</u> =====	<u>20,222</u> =====
DEPRECIATION			
Depreciation in the year	2,519	514	3,033
At 30 September 2002	<u>2,519</u> =====	<u>514</u> =====	<u>3,033</u> =====
NET BOOK VALUE			
At 30 September 2002	<u>14,274</u> =====	<u>2,915</u> =====	<u>17,189</u> =====

8. DEBTORS

	<u>2002</u> £
Rent and other deposits	19,256
Other debtors	13,210
Prepayments	13,415
VAT receivable	9,382
	<u>55,263</u> =====

9. LIABILITIES - Amounts falling due within one year

	<u>2002</u> £
Trade Creditors	6,942
Taxation and social security	2,698
Accruals and other creditors	26,914
Loans	75,000
	<u>111,554</u> =====

YEAR ENDED 30 SEPTEMBER 2002
 NOTES TO THE FINANCIAL STATEMENTS (contd)

10. **EMPLOYMENT INFORMATION**

The total emoluments of the Trust's employees during the period amounted to:

	<u>2002</u>
Direct charitable expenditure	17,229
Fundraising	5,937
Administration	27,682
	<u>50,848</u>
	=====

One employee earned over £50,000 per annum on an annualised basis and no trustees were paid any remuneration. Minor amounts of expenditure were reimbursed for directly incurred travel, subsistence and entertainment to certain trustees.

The average number of employees including those employed on a part-time basis during the year was:

Research	2
Fundraising	1
Administration	2
	<u>5</u>
	===

11. **ACCUMULATED FUNDS**

There are no restricted and designated funds. The accumulated fund represents the surplus of incoming resources over resources expended. These funds are carried forward to be applied to the *general aims of the Charity*. These funds are donations and other incoming resources receivable for the objects of the charity without further specified purpose and are available as general funds.