

Report and Financial Statements

Diagonal Limited (formerly Diagonal plc)

Company No: 2153353

18 month period ended 31st May 2005



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Contents

	Page
Directors Report	1
Statement of Directors' Responsibilities	4
Independent Auditors' Report to the Members of Diagonal Limited (formerly Diagonal plc)	5
Consolidated Profit and Loss Account	6
Consolidated Statement of Total Recognised Gains and Losses	7
Reconciliation of Movements in Consolidated Shareholders' Funds	7
Consolidated Balance Sheet	8
Company Balance Sheet	9
Consolidated Cash Flow Statement	10
Notes to the Consolidated Cash Flow Statement	10
Notes to the Accounts	12

Directors' Report

The Directors present their report and the audited financial statements for the 18 month period ended 31 May 2005.

Principal Activity

The principal activity of the Group is the provision of information technology consulting and services. Working with SAP and Microsoft in particular Diagonal helps our clients to deliver continuing business improvement, through the application of world-leading technology.

Review of the Business

On 9 February 2004 Diagonal plc acquired 100% of the issued share capital of Egility Solutions Limited (a specialist IT retail consultancy) for consideration of £2.5 million. Full details are given in note 25.

In July 2004 Morse plc announced a recommended cash and share offer for Diagonal plc which was declared wholly unconditional on 26 August 2004. On 24 September 2004, Diagonal plc de-listed from the London Stock Exchange and is now a wholly owned subsidiary of Morse plc. On 13 October 2005 the Company re-registered as Diagonal Limited.

Results and Dividends

Details of the results are set out in the consolidated profit and loss account on page 6 and the movement in the profit and loss account is shown in note 20. The Directors do not recommend the payment of a final dividend (2003: 1.20 pence per ordinary share), bringing the total for the period to 0.7 pence per share (2003: 1.90 pence per ordinary share).

Share Capital

During the period 1,921,230 ordinary shares were issued in part consideration for the acquisition of Egility Solutions Limited. Details of this can be found in note 19.

Directors

The Directors who served during the period were as follows:

D McIntyre	(appointed 26 August 2004)
G James	(appointed 26 August 2004, resigned 24 August 2005)
D Beresford	(appointed 26 August 2004)
L Cameron	(appointed 26 August 2004)
S Cruickshank	(appointed 14 July 2005)
C Chittock	
C Burnside	(resigned 13 December 2005)
M Gloak	(resigned 17 September 2004)
M Andrews	(resigned 30 September 2004)
M Samuels	(resigned 25 March 2004)
B Clark	(resigned 22 September 2004)
C Packshaw	(resigned 22 September 2004)
P Devine	(appointed 26 August 2004, resigned 19 November 2004)
N Sandison	(appointed 26 August 2004, resigned 30 September 2004)
M Hobbs	(appointed 26 August 2004, resigned 28 September 2004)
L Baker	(appointed 26 August 2004, resigned 28 September 2004)
S Lomax	(appointed 26 August 2004, resigned 28 September 2004)
M McAuley	(appointed 26 August 2004, resigned 28 September 2004)

According to the register of directors' interests, the beneficial interests of those serving at the end of the period in the shares and share options of the Company and parent Company are shown below:

Shares (Morse plc unless otherwise stated)

	As at 31 May 2005	As at 28 November 2003 (or date of appointment)
D McIntyre	5,214,544	5,198,713
G James	363,292	363,292
D Beresford	15,831	-
L Cameron	5,000	-
C Burnside	285,382	3,242,429 (in Diagonal plc)
C Chittock	8,294	32,000 (in Diagonal plc)

Diagonal Limited (formerly Diagonal plc)
Period ended 31 May 2005

Directors Report (continued)

Save-As-You-Earn Option Scheme

	Date of Grant	Exercise Price	As at 28 Nov 2003	Granted/ (Lapsed) during period	As at 31 May 2005	Exercise Period	Stock
C Chittock	April 2003	40p	23,625	(23,625)	-	April 2006- Oct 2006	Diagonal Ltd
C Chittock	Feb 2005	91p	-	10,412	10,412	April 2006- Oct 2006	Morse plc
C Burnside	April 2003	40p	23,625	(23,625)	-	April 2006- Oct 2006	Diagonal Ltd
L Cameron	Jan 2003	90p	10,500	-	10,500	Jan 2006- June 2006	Morse plc

Following the acquisition by Morse plc, SAYE options in Diagonal Limited (formerly Diagonal plc) were either converted into options over Morse plc shares based on the market value of both shares at that date or exercised. Options held by C Burnside were exercised and the gain on these options amounted to £1,711.

Long Term Incentive Plan

	Date of Grant	Exercise Price	As at 28 Nov 2003	Granted During Period	Lapsed during Period	As at 31 May 2005	Exercise Period	Stock
C Burnside	Mar 2004	0p	-	208,695	(208,695)	-	Mar 2007 - Mar 2014	Diagonal Ltd
C Burnside		0p	-	94,960	-	94,960	Mar 2007 - Mar 2014	Morse plc
C Chittock	Mar 2004	0p	-	173,913	(173,913)	-	Mar 2007 - Mar 2014	Diagonal Ltd
C Chittock		0p	-	79,134	-	79,134	Mar 2007 - Mar 2014	Morse plc
D McIntyre	Dec 2004	0p	-	250,000	-	250,000	Dec 2007 - Dec 2008	Morse plc
G James	Dec 2004	0p	-	250,000	-	250,000	Dec 2007 - Dec 2008	Morse plc
D Beresford	Dec 2004	0p	-	150,000	-	150,000	Dec 2007 - Dec 2008	Morse plc
L Cameron	Dec 2004	0p	-	50,000	-	50,000	Dec 2007 - Dec 2008	Morse plc

Following the acquisition by Morse plc, options held under the Long Term Incentive Plan by C Burnside and C Chittock in Diagonal plc were lapsed on 7 October 2004 and converted to options over Morse plc shares based on the market value of both shares at that date.

Executive Share Option Scheme

	Date of Grant	Exercise Price	As at 28 Nov 2003	Granted During Period	Lapsed during Period	As at 31 May 2005	Exercise Period	Stock
L Cameron	Apr 2004	137.5p	-	50,000	-	50,000	Jul 2007 - Apr 2014	Morse plc
C Burnside	Mar 2004	57.5p	-	104,348	(104,348)	-	Mar 2007 - Mar 2014	Diagonal Ltd
C Burnside		126.0p	-	47,479	-	47,479	Mar 2007 - Mar 2014	Morse plc
C Chittock	Mar 2004	57.5p	-	136,957	(136,957)	-	Mar 2007 - Mar 2014	Morse plc
C Chittock		126.0p	-	62,317	-	62,317	Mar 2007 - Mar 2014	Morse plc
D McIntyre	Apr 2003	104.0p	280,000	-	-	280,000	Jul 2006 - Jul 2013	Morse plc
G James	Apr 2003	104.0p	177,000	-	-	177,000	Jul 2006 - Jul 2013	Morse plc
D Beresford	Apr 2003	104.0p	243,000	-	-	243,000	Jul 2006 - Jul 2013	Morse plc
L Cameron	Oct 2002	112.0p	10,000	-	-	10,000	Oct 2005 - Oct 2012	Morse plc
D McIntyre	Mar 1999	250.0p	98,000	-	-	98,000	Mar 2002 - Mar 2009	Morse plc
G James	Mar 1999	250.0p	64,000	-	-	64,000	Mar 2002 - Mar 2009	Morse plc
L Cameron	Mar 1999	250.0p	3,016	-	-	3,016	Mar 2002 - Mar 2009	Morse plc
L Cameron	Dec 2000	415.0p	2,458	-	(2,458)	-	Dec 2002 - Nov 2010	Morse plc
L Cameron	Sept 2001	118.5p	12,152	-	(12,152)	-	Sept 2004 - Sept 2011	Morse plc

Following the acquisition by Morse plc, options held under the Executive Share Option Scheme by C Burnside and C Chittock in Diagonal plc were lapsed on 7 October 2004 and converted to options over Morse plc shares based on the market value of both shares at that date.

Supplier payment policy and practice

It is the Group's policy that payments to suppliers are made in accordance with the terms and conditions agreed between the Group and its suppliers on an individual basis provided all trading terms and conditions have been complied with.

Donations

During the year the Group made various charitable contributions totalling £2,500 (2003: £505). The Group made no political donations (2003: £nil).

Directors Report (continued)

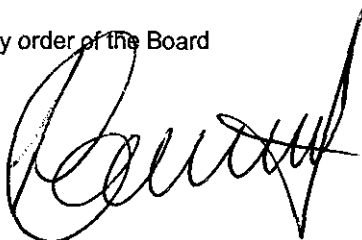
Research and Development

During the year the costs of research and development amounted to £441,000 (2003: £nil). Diagonal Solutions Limited has developed its own electronic records management product "Wisdom", which is based on Microsoft technology. Sales to date are encouraging.

Auditors

Following the acquisition of the Company by Morse plc, KPMG Audit Plc were appointed auditors. A resolution to reappoint KPMG Audit plc will be proposed at the forthcoming Annual General Meeting.

By order of the Board

A handwritten signature in black ink, appearing to read 'Lee Cameron', written over a horizontal line.

Lee Cameron
Company Secretary

28 March 2006

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the profit or loss of the Group 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;
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent Auditors' Report to the Members of Diagonal Limited (formerly Diagonal plc)

We have audited the financial statements on pages 6 to 24.

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 directors are responsible for preparing the directors' report and, as described on page 4, 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 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 and other members of the Group 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 Company and Group'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 and the Group's affairs as at 31 May 2005 and of the Group's loss for the 18 months then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Date 28 March 2006

Diagonal Limited (formerly Diagonal plc)
Period ended 31 May 2005

Consolidated Profit and Loss Account

18 months ended 31 May 2005

	Note	18 months ended 31 May 2005		12 months ended 28 November 2003	
		£'000	£'000	£'000	£'000
Turnover					
Continuing Operations		74,606		56,312	
Acquisitions		1,855		-	
Total Turnover	2	<u>76,461</u>		<u>56,312</u>	
Cost of sales			(54,469)		(39,334)
Gross profit			<u>21,992</u>		<u>16,978</u>
Administrative expenses					
Administrative expenses before amortisation of goodwill and exceptional expenses		(21,142)		(14,994)	
Amortisation of goodwill		(3,975)		(3,036)	
Exceptional expenses	4	(8,874)		(2,146)	
Total Administrative expenses			<u>(33,991)</u>		<u>(20,176)</u>
Operating (loss) / profit					
Continuing Operations		(12,483)		(3,198)	
Acquisitions		484		-	
Total Operating Loss	3		<u>(11,999)</u>		<u>(3,198)</u>
Loss on disposal of fixed assets			(298)		(1)
Other interest receivable and similar income	7		496		438
Interest payable and similar charges	8		<u>(10)</u>		<u>(54)</u>
Loss on Ordinary Activities Before Taxation			<u>(11,811)</u>		<u>(2,815)</u>
Tax charge on loss on ordinary activities	9		<u>(710)</u>		<u>(214)</u>
Loss on Ordinary Activities After Taxation			<u>(12,521)</u>		<u>(3,029)</u>
Dividends	10		<u>(655)</u>		<u>(1,678)</u>
Retained Loss on Ordinary Activities for the period	20		<u><u>(13,176)</u></u>		<u><u>(4,707)</u></u>

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

Diagonal Limited (formerly Diagonal plc)
Period ended 31 May 2005

Consolidated Statement of Total Recognised Gains & Losses

18 months ended 31 May 2005

	Note	18 months ended 31 May 2005 £'000	12 months ended 28 November 2003 £'000
Loss on ordinary activities after taxation		(12,521)	(3,029)
Currency translation differences on foreign currency net investments		(24)	(84)
Total recognised losses relating to the period		<u>(12,545)</u>	<u>(3,113)</u>

Consolidated Reconciliation of Movements in Shareholders' Funds

18 months ended 31 May 2005

	Note	18 months ended 31 May 2005 £'000	12 months ended 28 November 2003 £'000
Loss on ordinary activities after taxation		(12,521)	(3,029)
Currency translation differences on foreign currency net investments		(24)	(84)
UITF 17 charge (non - cash)	20	81	-
Dividends	10	(655)	(1,678)
Issue of shares	19	999	-
Net deduction from Shareholders' Funds		<u>(12,120)</u>	<u>(4,791)</u>
Opening equity Shareholders' Funds		35,748	40,539
Closing Equity Shareholders' Funds		<u>23,628</u>	<u>35,748</u>

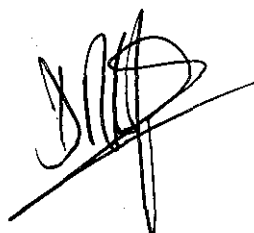
Diagonal Limited (formerly Diagonal plc)
Period ended 31 May 2005
Consolidated Balance Sheet
As at 31 May 2005

		As at 31 May 2005		As at 28 November 2003	
	Note	£'000	£'000	£'000	£'000
Fixed Assets					
Intangible Assets	11		11,238		18,128
Tangible Assets	12		1,501		2,349
Investments	13		54		-
			<u>12,793</u>		<u>20,477</u>
Current Assets					
Investments	14	4,536		-	
Debtors	15	17,825		14,509	
Cash at bank and in hand		4,971		12,345	
		<u>27,332</u>		<u>26,854</u>	
Creditors: Amounts Falling Due Within One Year	16	(15,925)		(11,583)	
Net Current Assets			<u>11,407</u>		<u>15,271</u>
Total assets less current liabilities			<u>24,200</u>		<u>35,748</u>
Provisions for Liabilities and Charges	17		(572)		-
Net Assets			<u><u>23,628</u></u>		<u><u>35,748</u></u>
Capital and Reserves					
Called up share capital	19		9,132		8,940
Share premium account	20		30,303		29,496
Other reserves	20		(723)		(804)
Profit and loss account	20		(15,084)		(1,884)
Total Equity Shareholders' Funds			<u><u>23,628</u></u>		<u><u>35,748</u></u>

These financial statements were approved by the Board of Directors on 28/3/06 and are signed on their behalf by:

D Beresford

Director

 28/3/06


Diagonal Limited (formerly Diagonal plc)
Period ended 31 May 2005
Company Balance Sheet
As at 31 May 2005

	Note	As at 31 May 2005 £'000	£'000	As at 28 November 2003 £'000	£'000
Fixed Assets					
Tangible Assets	12		-		640
Investments	13		14,855		28,754
			<u>14,855</u>		<u>29,394</u>
Current Assets					
Investments	14	4,536		-	
Debtors	15	21,899		15,338	
Cash at bank and in hand		-		11,751	
		<u>26,435</u>		<u>27,089</u>	
Creditors: Amounts Falling Due Within One Year	16	(16,792)		(12,109)	
Net Current Assets			<u>9,643</u>		<u>14,980</u>
Total assets less current liabilities			<u>24,498</u>		<u>44,374</u>
Provisions for Liabilities and Charges	17		(572)		-
Net Assets			<u>23,926</u>		<u>44,374</u>
Capital and Reserves					
Called up share capital	19		9,132		8,940
Share premium account	20		30,303		29,496
Other reserves	20		2,848		2,848
Profit and loss account	20		(18,357)		3,090
Total Equity Shareholders' Funds			<u>23,926</u>		<u>44,374</u>

These financial statements were approved by the Board of Directors on 28/3/06.... and are signed on their behalf by:

D Beresford

Director

 28/3/06

Diagonal Limited (formerly Diagonal plc)
Period ended 31 May 2005

Consolidated Cash Flow Statement

	Note	18 months ended 31 May 2005 £'000	12 months ended 28 November 2003 £'000
Net cash (outflow) / inflow from operating activities	a	(3,735)	3,093
Returns on investments and servicing of finance	b	486	384
Taxation received / (paid)		213	(1,244)
Capital expenditure and financial investment	c	(5,412)	(855)
Acquisitions and disposals	d	(1,198)	(1,694)
Equity dividends paid		(1,715)	(1,678)
Cash outflow before financing		(11,361)	(1,994)
Financing			
Net repayment in borrowings	e	(96)	(78)
Decrease in net cash in the period	f	(11,457)	(2,072)

Notes to the Consolidated Cash Flow Statement

	18 months ended 31 May 2005 £'000	12 months ended 28 November 2003 £'000
a. Reconciliation of operating loss to net cash (outflow) / inflow from operating activities		
Operating loss	(11,999)	(3,198)
Amortisation and impairment of goodwill	9,281	3,036
Depreciation	1,375	1,027
(Increase) / decrease in debtors	(2,887)	6,593
Decrease in creditors	(158)	(4,365)
Increase in provisions	572	
UITF 17 charge (non-cash)	81	-
Net Cash (outflow) / inflow from operating activities	(3,735)	3,093

Notes to the Consolidated Cash Flow Statement (Continued)

	18 months ended 31 May 2005 £'000	12 months ended 28 November 2003 £'000		
b. Returns on investments and servicing of finance				
Interest received	496	415		
Interest element of finance lease payments	(6)	(31)		
Other interest payable	(4)	-		
Net cash inflow from returns on investments and servicing of finance	486	384		
c. Capital expenditure and financial investment				
Purchases of tangible fixed assets	(861)	(899)		
Proceeds of disposals of fixed assets	39	44		
Purchase of fixed asset investment	(54)	-		
Purchase of short term deposits	(4,536)	-		
Net cash outflow from capital expenditure and financial investment	(5,412)	(855)		
d. Acquisitions and disposals				
Purchase of subsidiary undertaking	(1,244)	(2,494)		
Net cash acquired with subsidiary	46	800		
Net cash outflow from acquisitions and disposals	(1,198)	(1,694)		
e. Reconciliation of net cash flow to movement in net funds				
Decrease in cash in the period	(11,457)	(2,072)		
Movement in finance leases	96	78		
Movement in loan notes	(251)	-		
Change in Net funds	(11,612)	(1,994)		
Net funds brought forward	12,249	14,243		
Net funds carried forward	637	12,249		
f. Analysis of Changes in net funds				
	At 28 November 2003 £'000	Cash Flows £'000	Other non-cash movements £'000	At 31 May 2005 £'000
Cash at bank	12,345	(7,374)	-	4,971
Bank overdrafts	-	(4,083)	-	(4,083)
Changes in net funds resulting from cash flows	12,345	(11,457)	-	888
Finance leases	(96)	96	-	-
Loan notes	-	-	(251)	(251)
Net funds	12,249	11,361	(251)	637

1. Accounting Policies

The financial statements are prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards, using the following principal accounting policies, which have been consistently applied. The accounting policies below cover items which are considered material in relation to the Group's financial statements:

Basis of Consolidation

The Group financial statements consolidate the accounts of the Company and its subsidiary undertakings. The acquisition method of accounting has been adapted. Under this method the results of companies acquired or disposed of in the year are included in the consolidated financial statements from the date of acquisition or up to the date of disposal. Under section 230(4) of the companies Act 1985 the company is exempt from the requirement to present its own profit and loss account. All companies within the Group with the exception of Partners for Change Limited and Egility Solutions Limited prepare their financial statements to the same date. Partners for Change and Egility Solutions Limited have each prepared accounts to 30 November 2004 and 30 June 2005. The results for the 12 months to 30 November 2004 and 6 months to 31 May 2005 for Partners for Change Limited and Egility Solutions Limited have been included in this consolidation.

Goodwill

Goodwill arising on consolidation is capitalised and amortised on a straight line basis over the directors' estimate of its useful economic life. Goodwill represents the difference between the fair value of the consideration given on acquiring an entity and the aggregate of the fair value of the separately identifiable assets and liabilities.

Turnover

Turnover represents the value of services provided within the Group's ordinary activities net of value added tax and excluding intra-group sales. Turnover includes sales of services that are delivered over extended periods of time and recognised on a percentage completion basis over the period that the service is delivered.

Tangible fixed assets and depreciation

The cost of tangible fixed assets, net of estimated residual value is depreciated in annual equal instalments over the estimated useful lives of the assets. The rate of depreciation is as follows:

Land and Buildings	- 2% per annum straight line
Furniture, Fixtures and Fittings	- 15% per annum straight line / over 3 years straight line
Office and Computer equipment	- 20 / 25% per annum straight line
Motor vehicles	- 30% per annum reducing balance

Investments

Investments in subsidiary undertakings are stated at cost less provision for any impairment in value. Trade investments are held at cost less provision for any impairment in value.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in future, or a right to pay less tax in future have occurred at the balance sheet date except as otherwise required by FRS 19. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of available evidence it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Foreign exchange

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The results of overseas subsidiary undertakings are translated at the average exchange rate for the period. The assets and liabilities of such undertakings are translated at year-end exchange rates. Any resulting exchange differences are taken to reserves and are reported in the statement of total recognised gains and losses. Exchange differences arising on the Group's net investments in overseas subsidiary undertakings and on borrowings in foreign currency financing those investments are dealt with through reserves. Other exchange differences are taken to the profit and loss account.

Leases

Fixed assets held under finance leases, including hire purchase contracts, are capitalised and depreciated over their expected useful economic lives. The finance charges are allocated over the primary period of the lease in proportion to the capital element outstanding. The costs of operating leases are charged to the profit and loss account in equal amounts over the term of the lease.

1. Accounting Policies (continued)

Pensions

Contributions are made towards personal pension plans of certain senior employees. The pension cost in the accounts represents the Company's contributions made in respect of the accounting period.

Employee share scheme

The cost of awards to employees that take the form of shares or rights to shares are recognised over the period of the employee's related performance. No cost is recognised in respect of SAYE schemes that are offered on similar terms to all or substantially all employees.

Research and development

Expenditure on research and development is charged to the profit and loss account as it is incurred.

2. Segmental Analysis

An analysis of the Group's turnover by geographical market by destination is set out below:

	18 months ended 31 May 2005 £'000	12 months ended 28 November 2003 £'000
UK	66,300	49,077
Other European countries	3,193	1,117
US	3,944	5,413
Rest of world	3,024	705
	<u>76,461</u>	<u>56,312</u>

An analysis by class of business of turnover, operating loss and net assets is set out below:

Class of Business	Turnover		Operating Profit / (loss)		Net Assets / (Liabilities)	
	18 months ended 31 May 2005 £'000	12 months ended 28 Nov 2003 £'000	18 months ended 31 May 2005 £'000	12 months ended 28 Nov 2003 £'000	As at 31 May 2005 £'000	As at 28 Nov 2003 £'000
Consulting	48,640	35,505	2,881	3,369	8,941	6,352
Recruitment	8,025	4,973	67	-	974	460
Enterprise Application Integration	7,012	4,742	598	785	1,774	174
Security	12,784	11,092	(322)	186	526	(57)
Central	-	-	(2,374)	(2,356)	11,412	28,819
	<u>76,461</u>	<u>56,312</u>	<u>850</u>	<u>1,984</u>	<u>23,628</u>	<u>35,748</u>
Exceptional Costs			(8,874)	(2,146)		
Goodwill amortisation			(3,975)	(3,036)		
Operating Loss			<u>(11,999)</u>	<u>(3,198)</u>		

Diagonal Limited (formerly Diagonal plc)
Period ended 31 May 2005
Notes to the Accounts

3. Operating Loss

The operating loss is stated after charging:

	18 months ended 31 May 2005 £'000	12 months ended 28 November 2003 £'000
Amortisation of goodwill	3,975	3,036
Depreciation - owned assets	1,278	972
Depreciation - leased assets	97	55
Current Auditors' remuneration - audit	94	-
Previous Auditors' remuneration - audit	71	90
Current Auditors' remuneration - other services	35	-
Previous Auditors' remuneration - other services	44	96
Loss on foreign exchange	60	75
Operating lease charges - land and buildings	1,294	753
Operating lease charges - plant and machinery	21	17
Research and Development	441	-

4. Exceptional Items

An analysis of exceptional items is as follows:

	18 months ended 31 May 2005 £'000	12 months ended 28 November 2003 £'000
Impairment in goodwill	5,306	-
Headcount reduction and reorganisation(including termination of service agreements with former directors)	1,037	1,186
Costs associated with takeover by Morse Plc (2003 - aborted MBO)	1,159	290
Property reorganisation (provision for onerous leases)	572	-
Loss on contract	1,050	-
Provision against outstanding debt plus related legal costs	(250)	670
	<u>8,874</u>	<u>2,146</u>

Following an impairment review of the Group's goodwill as at 31 May 2005, the goodwill was written down by £5,306,000. The charge has been determined in accordance with FRS 11 'Impairment of fixed assets and goodwill'.

Following a cost to complete review of long term contracts, provision was made for the loss expected on a long term contract of £1,050,000. This provision has been determined in accordance with SSAP 9 'Stocks and long term contracts'. An exceptional credit of £250,000 has been accounted for in the period following settlement of the alleged breach of contract provided for and referred to in last year's accounts. No further contingent liabilities exist in relation to this matter, with the other party having dropped claims for further compensation.

5. Employees

The average number employed by the Company during the period (including those Directors whose employment costs were borne by the Company) was as follows:

	18 months ended 31 May 2005 No.	12 months ended 28 November 2003 No.
Operating	241	272
Administrative staff and Directors	135	146
	<u>376</u>	<u>418</u>

5. Employees (continued)

The costs incurred in respect of these employees were as follows:

	18 months ended 31 May 2005 £'000	12 months ended 28 November 2003 £'000
Wages and salaries	30,528	26,574
Social security costs	3,644	3,049
Other pension costs	185	291
	<u>34,357</u>	<u>29,914</u>

6. Directors

Aggregate remuneration of those Directors whose emoluments were borne by the Company:

	18 months ended 31 May 2005 £'000	12 months ended 28 November 2003 £'000
Emoluments	591	697
Compensation for loss of office (included in exceptional costs)	556	485
Contributions paid in respect of money purchase pension schemes	58	68
	<u>1,205</u>	<u>1,250</u>

6. Directors (continued)

Emoluments of the highest paid director were:

	18 months ended 31 May 2005 £'000	12 months ended 28 November 2003 £'000
Emoluments	119	160
Compensation for loss of office (included in exceptional costs)	290	342
Contribution paid and accrued in respect of a money purchase pension scheme	15	12
	<u>424</u>	<u>514</u>

Numbers of Directors who were accruing benefits as members of a money purchase scheme

No.	No.
<u>2</u>	<u>5</u>

7. Other Interest Receivable

	18 months ended 31 May 2005 £'000	12 months ended 28 November 2003 £'000
Interest receivable from bank	496	430
Other	-	8
	<u>496</u>	<u>438</u>

8. Interest Payable and Similar Charges

	18 months ended 31 May 2005 £'000	12 months ended 28 November 2003 £'000
Interest payable on bank borrowing	1	23
Interest payable on loan notes	3	-
Finance Charges payable in respect of finance leases	6	31
	<u>10</u>	<u>54</u>

9. Tax charge on Loss on Ordinary Activities

	18 months ended 31 May 2005 £'000	12 months ended 28 November 2003 £'000
UK corporation tax at 30% (2003: 30%)	1,095	275
Adjustment in respect of prior years	(187)	(28)
Current tax charge for period	<u>908</u>	<u>247</u>
Deferred taxation		
Timing differences, origination and reversal	(198)	(33)
Tax charge on loss on ordinary activities	<u>710</u>	<u>214</u>

9. Tax charge on Loss on Ordinary Activities (continued)

The standard rate of tax for the current and prior year is 30%. The actual tax charge for the current period and prior year exceeds the standard rate for the reasons set out below:

	18 months ended 31 May 2005 £'000	12 months ended 28 November 2003 £'000
Loss on ordinary activities before tax	(11,811)	(2,815)
Tax at 30% thereon	(3,543)	(844)
Expenses not deductible for tax purposes	643	62
Capital allowances in excess of depreciation	58	37
Utilisation of tax losses	(3)	3
Other timing differences	71	55
Marginal relief	-	(7)
Goodwill amortisation not deductible for tax purposes	2,784	910
Overseas losses for which no relief is available	170	59
Excess management expenses c/f	968	-
Other permanent timing differences	(53)	-
Adjustment in respect of prior periods	(187)	(28)
Current tax - charge for period	908	247

10. Equity Dividends

	18 months ended 31 May 2005 £'000	12 months ended 28 November 2003 £'000
Ordinary Shares		
Interim dividend of 0.7p per share (2003: 0.7p)	632	618
Final dividend of 0p per share (2003: 1.2p per share)	-	1,060
Adjustment in respect of prior year	23	-
	655	1,678

The £23,000 adjustment in respect of the prior year relates to the final dividend for 2003 accruing to shares issued after 30 November 2003

11. Intangible Fixed Assets

Group	£'000	£'000
Goodwill arising on consolidation		
Cost at 28 November 2003	35,108	
Acquisitions (see note 25)	2,391	
Cost at 31 May 2005		37,499
Amortisation at 28 November 2003	(16,980)	
Amortisation provided in the period	(3,975)	
Impairment recognised in the period	(5,306)	
Amortisation at 31 May 2005		(26,261)
Net Book value at 31 May 2005		11,238
Net Book value at 28 November 2003		18,128

12. Tangible Fixed Assets (Continued)

b) Company

	Land and Buildings	Furniture, fixtures and fittings	Office and Computer Equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 29 November 2003	33	1,397	1,286	2,716
Additions	-	51	2	53
Transfers within Group	(33)	(71)	(358)	(462)
Disposals	-	(1,377)	(872)	(2,249)
At 31 May 2005	-	-	58	58
Depreciation				
At 29 November 2003	22	1,112	942	2,076
Charge for the period	1	88	186	275
Transfers within Group	(23)	(15)	(262)	(300)
Disposals	-	(1,185)	(808)	(1,993)
At 31 May 2005	-	-	58	58
Net Book Value				
At 31 May 2005	-	-	-	-
At 28 November 2003	11	285	344	640

The net book value of assets held under finance leases were as follows:

	31 May 2005 £'000	30 November 2003 £'000
Net book Value		
Short leasehold land and buildings	-	11
Office and Computer Equipment	-	162

13. Fixed Asset Investments

a) Group

	Joint Venture £'000
Cost and Net Book Value	
At 29 November 2003	-
Addition	54
At 31 May 2005	54

The above investment relates to a minority investment in a venture between Diagonal Consulting Inc and Group Intelligence Inc to oversee the creation and operation of the IBM Choices program. The Choices program offers SAP clients the choice of utilising non-SAP solutions to solve their integration needs. This service consists of a community website that allows customers to become partners or subscribers to the mapping of sales tools.

Diagonal Limited (formerly Diagonal plc)

Period ended 31 May 2005

Notes to the Accounts

13. Fixed Asset Investments (continued)

b) Company

	Subsidiary Undertakings £'000
Cost	
At 29 November 2003	41,944
Additions (see note 25)	2,494
	<hr/>
At 31 May 2005	44,438
	<hr/>
Amounts provided	
At 29 November 2003	13,190
Write down of investments	16,393
	<hr/>
At 31 May 2005	29,583
	<hr/>
Net Book Value	
At 31 May 2005	14,855
	<hr/>
At 28 November 2003	28,754
	<hr/>

Following an impairment review of the Company's fixed asset investments as at 31 May 2005, the fixed asset investments of the Company were written down by £16,393,000. The charge has been determined in accordance with FRS 11 'Impairment of fixed assets and goodwill'.

Principal subsidiary undertakings

The principal subsidiaries of the Company are set out below. The Company owns 100% of the ordinary issued share capital either directly or through other subsidiaries.

Subsidiary	Country of incorporation	Nature of business
Diagonal Consulting Limited	England	Information technology consultancy
Diagonal Consulting Inc	USA	Information technology consultancy
Diagonal Consulting Pte Ltd	Singapore	Information technology consultancy
Diagonal Consulting Sdn Bhd	Malaysia	Information technology consultancy
Diagonal Solutions Limited	England	Data management consultancy and systems implementation
Diagonal Security Limited	England	Network security consultancy
Claritas Information Security Limited	England	Information security consultancy
Marshall-Wilkins Limited	England	Campaign recruitment and information technology contract personnel
Partners for Change Limited	England	Change management consultancy

14. Current Asset Investments – Group and Company

Current Asset Investments comprise treasury investments that are readily convertible into known amounts of cash close to their carrying value and are traded in an active market. These are stated at the lower of cost and market value.

	Current Asset Investments £'000
Cost	
At 29 November 2003	-
Additions	4,536
At 31 May 2005	4,536
Amounts provided	
At 29 November 2003 and 31 May 2005	-
Net Book Value	
At 31 May 2005	4,536
At 28 November 2003	-

15. Debtors

	Group		Company	
	31 May 2005 £'000	28 Nov 2003 £'000	31 May 2005 £'000	28 Nov 2003 £'000
Trade Debtors	11,629	11,488	1	-
Amounts owed by Group companies	3,420	-	21,096	14,222
Corporation tax	331	409	126	400
Deferred taxation (note 18)	343	145	119	47
Other debtors	430	1,078	557	497
Prepayments and accrued income	1,672	1,389	-	172
	<u>17,825</u>	<u>14,509</u>	<u>21,899</u>	<u>15,338</u>

16. Creditors – Amounts Falling Due Within One Year

	Group		Company	
	31 May 2005 £'000	28 Nov 2003 £'000	31 May 2005 £'000	28 Nov 2003 £'000
Bank overdraft	4,083	-	4,083	-
Loan Notes (see note 25)	251	-	251	-
Obligations under finance leases	-	96	-	96
Trade creditors	1,541	2,322	59	80
Amounts owed to Group companies	256	-	10,882	9,561
Corporation tax	1,158	386	-	110
Other taxation and social security	2,225	2,177	1,091	667
Other creditors	680	348	149	87
Accruals and deferred income	5,731	5,194	277	448
Dividends payable	-	1,060	-	1,060
	<u>15,925</u>	<u>11,583</u>	<u>16,792</u>	<u>12,109</u>

The Company has issued £0.25m of loan notes redeemable at any time between 6 February 2005 and 6 February 2010. Interest accrues on the loan note at a rate of LIBOR minus 0.25%. The interest is payable half yearly in February and August.

17. Provision for Liabilities and Charges

Group and Company	Onerous property leases £'000
Charge to the profit and loss account	572
Utilised during period	-
	<hr/>
At 31 May 2005	572
	<hr/>

The provision relates to property vacated in the UK that is not sublet. This is being utilised as the lease commitments fall due and will be fully utilised by 2012.

18. Deferred Taxation

	Group £'000	Company £'000
a) Movement on Deferred Taxation in the period		
Deferred tax asset at beginning of period	145	47
Credit for the period	198	72
	<hr/>	<hr/>
Balance at 31 May 2005	343	119
	<hr/>	<hr/>
b) Analysis of Deferred Tax balance		
Depreciation in excess of capital allowances	268	119
Provisions	75	-
	<hr/>	<hr/>
	343	119
	<hr/>	<hr/>

The deferred tax asset is regarded as recoverable because the Directors are of the opinion, based in recent and forecast trading, that the level of taxable profits in the current and future years will be sufficient to ensure future reversal.

19. Called Up Share Capital

	31 May 2005 £'000	28 November 2003 £'000
Authorised share capital		
120 million Ordinary shares of 10p each	12,000	12,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
91,322,571 (2003 : 89,401,341) Ordinary shares of 10p each	9,132	8,940
	<hr/>	<hr/>

On 9 February 2004, 1,921,230 Ordinary shares of 10p each were issued at their market value of 52p in part consideration for the share capital of Egility Solutions limited (see note 25).

20. Statement of Movements on reserves

a) Group

	Share Premium Account £'000	UITF 17 Reserve £'000	Other Reserves Merger Reserve £'000	Capital redemption Reserve £'000	ESOP Reserve £'000	Profit and Loss account £'000
Balance at 28 November 2003	29,496	-	22	578	(1,404)	(1,884)
Retained loss for the period	-	-	-	-	-	(13,176)
Share Premium on issue of shares	807	81	-	-	-	-
Currency translation differences	-	-	-	-	-	(24)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 May 2005	30,303	81	22	578	(1,404)	(15,084)

20. Statement of Movements on reserves (continued)

b) Company

	Share Premium Account £'000	Merger Reserve £'000	Other Reserves Capital redemption Reserve £'000	ESOP Reserve £'000	Profit and Loss account £'000
Balance at 28 November 2003	29,496	3,674	578	(1,404)	3,090
Retained loss for the period	-	-	-	-	(21,447)
Share Premium on issue of shares	807	-	-	-	-
Balance at 31 May 2005	30,303	3,674	578	(1,404)	(18,357)

21. Operating Leases

At the period end the Group had annual commitments under non – cancellable operating leases as set out below:

	31 May 2005 £'000	28 November 2003 £'000
Land and Buildings leases which expire:		
Within one year	404	18
In the second to fifth year	115	115
After more than five years	229	643
	<u>748</u>	<u>776</u>
Plant and machinery leases which expire:		
In the second to fifth year	<u>14</u>	<u>17</u>

22. Related Party Transactions

The Company is a wholly owned subsidiary of Morse plc and 100% of the Company's voting rights are controlled within the group headed by Morse plc. During the period Diagonal Limited (formerly Diagonal plc) and its subsidiaries transacted with Morse plc. The group sold to its fellow subsidiary – Morse Group Limited, £391,093 worth of services at normal trade prices and purchased £3,472 of services at normal trade prices. At 31 May 2005 £195,076 was due from Morse Group Limited in respect of these services. In addition £3,225,000 was due from Morse plc and £255,753 due to Morse plc in respect of funding movements. The consolidated financial statements of Morse plc are made up to 30 June 2005 and within which this group is included can be obtained from the address given in note 26.

23. Financial Instruments

The Group has various financial instruments such as cash, trade debtors and trade creditors which arise directly from its operations. The Group does not trade in financial instruments.

Short term debtors and creditors have been omitted from all FRS 13 ('Financial Instruments') disclosures.

Details of the maturity profile of financial liabilities is shown in notes 15 and 16 to the accounts. All liabilities are denominated in sterling, the fair value of which is not materially different to book value.

The Group has net cash at bank and in hand at 31 May 2005 of £88,000 which is held in current accounts. The Group has cash held in deposit of £4,536,000 on terms upto three months and earning interest at market rates which approximate to base rate.

24. Ultimate Parent Company and Controlling Party

Diagonal Limited (formerly Diagonal plc) is a wholly owned subsidiary of Morse plc. The parent Company and controlling party, and the smallest and largest group for which group accounts are prepared is Morse plc, a Company incorporated in Great Britain, the accounts of which can be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff, Wales, CF14 3UZ.

25. Acquisition of Egility Solutions Limited

On 9 February 2004 the Company acquired 100% of the issued share capital of Egility Solutions Limited for consideration of £2,494,224 and this has been accounted for as an acquisition. The fair value table is presented below:

	Book and fair value £'000
Tangible fixed assets	6
Debtors and work in progress	579
Creditors	(528)
Cash	46
	<hr/>
Net assets acquired	103
Goodwill	2,391
	<hr/>
Consideration	2,494
	<hr/>
Consideration satisfied by:	
Cash	1,079
Share Capital	999
Loan Notes	251
Costs	165
	<hr/>
	2,494
	<hr/>

The book value of assets and liabilities have been taken from the management accounts of Egility Solutions Limited as of 9 February 2004, being the date of acquisition.

From the date of acquisition to 31 May 2005 the acquisition contributed £1,855,000 of turnover and £484,000 of profit before tax and interest.

Except for the acquisition costs Egility Solutions Limited has not had a significant impact on the cash flow statement of Diagonal Limited for the period ended 31 May 2005.

In its last accounting reference period, prior to acquisition, for the 12 months to 30 June 2003, Egility made a profit after tax of £150,000. For the period since that date to the date of acquisition on 9 February 2004, Egility management accounts showed:

	£'000
Turnover	807
Operating Loss	(235)
Loss before tax	(234)
Total recognised loss for the period	(95)

26. Registered Office

Diagonal Limited (formerly Diagonal plc)
Profile West
950 Great West Road
Brentford
Middlesex
TW8 9EE