

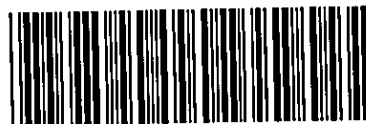
Directors' Report and Financial Statements

Diagonal Limited

Company No: 2153353

Year ended 30th June 2008

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Directors' Report

The Directors present their report and the audited financial statements for the year ended 30 June 2008.

Principal Activity and Review of the Business

The principal activity of the Company is a holding Company for a group of companies who provide information technology consulting and services. The Company has met the requirements in Companies Act 1985 to obtain the exemption provided from the presentation of an enhanced business review.

Results and Dividends

Details of the results are set out in the profit and loss account on page 4 and the movement in the profit and loss account is shown in note 12. A charge of £9,345,120 was recognised in relation to write down of investments and intercompany receivables following an impairment review (2007: charge of £858,617). The Directors do not recommend the payment of a dividend (2007: £nil).

Directors

The Directors who served during the year and up to the date of approval of this Directors' report were as follows:

D Beresford (resigned 7th February 2008)
E Dodd (resigned 30th September 2008)
M Hobbs (resigned 5th February 2009)
M Phillips (appointed 1st Oct 2008)
M Emmett (appointed 10th March 2009)
S Chase (appointed 5th February 2009)

Political and charitable donations

The Company made no political or charitable donations or incurred any political expenditure, during the year (2007: nil).

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



Suzanne Chase
Company Secretary

22 June 2009

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK generally accepted Accounting Policies).

The financial statements are required by law to 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 year.

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 UK 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 enable them to ensure that its 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

We have audited the financial statements of Diagonal Limited for the year ended 30 June 2008 which comprise of Profit and Loss Account, Balance Sheet, Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 2.

Our responsibility is to audit the financial statement in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 the information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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'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, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 June 2008 and of its loss for the year then ended;
- The financial statements have been properly prepared in accordance with the Companies Act 1985; and
- The information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London
EC4Y 8BB
United Kingdom
22 June 2009

Profit and Loss Account

	Note	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Administrative expenses before exceptional write off		(28)	(11)
Exceptional write off	2	(9,345)	(858)
Total administrative expenses		(9,373)	(869)
Operating loss		(9,373)	(869)
Interest receivable	4	-	9
Interest payable	5	(10)	(4)
Loss on ordinary activities before taxation		(9,383)	(864)
Tax charge on ordinary activities	6	(132)	(69)
Loss for the financial year		(9,515)	(933)

All activities derive from continuing operations.

There are no recognised gains or losses other than as shown above. Accordingly, no statement of total recognised gains and losses is given.


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
Year ended 30 June 2008

Balance Sheet

	Note	As at 30 June 2008 £'000	£'000	As at 30 June 2007 £'000	£'000
Fixed assets					
Investments	7		10,510		14,855
Current assets					
Debtors	8	8,981		14,418	
Cash at bank and in hand		2		-	
		<u>8,983</u>		<u>14,418</u>	
Creditors: amounts falling due within one year	9	<u>(4,969)</u>		<u>(5,072)</u>	
Net current assets			<u>4,014</u>		<u>9,346</u>
Total assets less current liabilities			<u>14,524</u>		<u>24,201</u>
Provisions for liabilities and charges	10		<u>(189)</u>		<u>(351)</u>
Net assets			<u><u>14,335</u></u>		<u><u>23,850</u></u>
Capital and reserves					
Called up share capital	11		9,132		9,132
Share premium account	12		30,303		30,303
Other reserves	12		4,252		2,848
Profit and loss account	12		<u>(29,352)</u>		<u>(18,433)</u>
Shareholders' funds	13		<u><u>14,335</u></u>		<u><u>23,850</u></u>

These financial statements were approved by the Board of Directors on 22 June 2009 and are signed on their behalf by:



Mike Phillips
Director

Notes to the Accounts

1. Accounting policies

The financial statements are prepared under the historical cost convention and in accordance with the Companies Act 1985. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements are prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

The Company is exempt by virtue of section 228 of the Companies Act 1985 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

Investments

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

Impairment

Impairment losses are recognised if the carrying value of an asset or its cash generating units exceeds its estimated recoverable amount.

Taxation

The tax charge for the periods presented comprises current and deferred tax. Taxation is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of prior periods.

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.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

Provisions

Provision is made where the Company has a present legal or contractual obligation as a result of past events and it is probable that an outflow of economic benefit will be required to settle the obligation.

A provision is recognised for a contract that is onerous (i.e. one in which the unavoidable costs of meeting the obligations under the contract exceed the benefits to be derived).

Notes to the Accounts (continued)

2. Exceptional administrative expenses

An analysis of exceptional items is as follows:

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Impairment of intercompany balances	5,000	858
Impairment of investment	4,345	-
	<u>9,345</u>	<u>858</u>

Following an impairment review of the Company's fixed asset investments as at 30 June 2008, the fixed asset investments of the company were written down by £4,345,120. The charge has been determined in accordance with FRS 11 'impairment of fixed assets and goodwill'. In addition, the intercompany debt owed by Diagonal Consulting Limited has been impaired by £5,000,000.

For the year ended 30 June 2007 a charge of £858,617 was recognised in relation to the write off of balances with group undertakings which were dissolved during the year.

3. Staff costs and directors' and auditor's remuneration

No director received any emoluments for their services to this Company (2007: £nil). There were no employees and hence no staff costs during the year (2007: £nil). In the current and prior year the auditor's remuneration of £5,000 (2007: £5,000) was borne by another group Company.

4. Interest receivable and similar income

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Interest receivable from bank	<u>-</u>	<u>9</u>

During the year the Company has entered into a Group wide cash pooling arrangement with the interest now being recognised in another Group entity.

5. Interest payable and similar charges

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Interest payable on loan notes	-	4
Unwinding of provision	<u>10</u>	<u>-</u>
	<u>10</u>	<u>4</u>

Notes to the Accounts (continued)

6. Tax charge on loss on ordinary activities

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
UK corporation tax at 29.5% (2007: 30%)	-	69
Adjustment in respect of prior periods	132	-
Current tax – charge for period	132	69
Deferred taxation		
Timing differences, origination and reversal	-	-
Tax charge on loss on ordinary activities	132	69

The prior year adjustment of £132,000 relates to the tax charge for the year ended 30 June 2007 which totalled £201,000, but as at 30 June 2007 only £69,000 had been charged to the accounts.

The standard rate of tax for the current and prior year was 30% until 31 March 08, thereafter it was reduced to 28% (prior year 30% throughout). The actual tax charge for the current period and prior year exceeds the standard rate for the reasons set out below:

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Loss on ordinary activities before tax	(9,343)	(864)
Tax (credit) at 29.5% (2007:30%) thereon	(2,756)	(259)
Expenses not deductible for tax purposes	2,756	257
Other permanent timing differences	-	99
Other short term timing differences	-	(28)
Prior period adjustments	132	-
Current tax - charge for year	132	69

7. Fixed asset investments

	Subsidiary Undertakings £'000
Cost	
At 30 June 2008 and 2007	44,438
Amounts provided	
At 30 June 2007	29,583
Write down following impairment review	4,345
At 30 June 2008	33,928
Net Book Value	
At 30 June 2007	14,855
At 30 June 2008	10,510

Following an impairment review of the Company's fixed asset investments as at 30 June 2008, the fixed asset investments of the Company were written down by £4,345,120, comprised of £750,000 against Strand IT Recruitment

Notes to the Accounts (continued)

7. Fixed asset investments (continued)

Limited, and £3,596,055 in total against Eurostar, Claritas, Interop and CenturyCom as the trade and assets of these businesses were transferred to Morse Group Limited.

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.

<i>Subsidiary</i>	<i>Country of incorporation</i>	<i>Nature of business</i>
Diagonal Consulting Limited	England	Information technology consultancy
Morse Consulting Inc	USA	Information technology consultancy
Diagonal Consulting Pte Ltd	Singapore	Information technology consultancy
Morse Consulting Sdn Bhd	Malaysia	Information technology consultancy
Diagonal Solutions Limited	England	Data management consultancy and systems implementation
Strand IT Recruitment Limited	England	Campaign recruitment and information technology contract personnel

8. Debtors

	30 June 2008 £'000	30 June 2007 £'000
Trade debtors	-	2
Amounts owed by group companies	8,981	14,379
Corporation tax	-	37
	<u>8,981</u>	<u>14,418</u>

Amounts owed by group companies are payable on demand and are non-interest bearing.

9. Creditors – Amounts Falling Due Within One Year

	30 June 2008 £'000	30 June 2007 £'000
Amounts owed to group companies	4,969	4,970
Bank overdraft	-	66
Accruals and deferred income	-	36
	<u>4,969</u>	<u>5,072</u>

Amounts owed to group companies are payable on demand and are non-interest bearing.

Notes to the Accounts (continued)

10. Provision for Liabilities and Charges

	Onerous property leases £'000
At 30 June 2007	351
Utilisation of provision	(100)
Unwinding of discount	10
Release of provision	(72)
At 30 June 2008	189

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.

11. Called Up Share Capital

	30 June 2008 £'000	30 June 2007 £'000
Authorised share capital		
120,000,000 Ordinary shares of 10p each	12,000	12,000
Allotted, called up and fully paid		
91,322,571 Ordinary shares of 10p each	9,132	9,132

12. Share Premium and Reserves

	Share Premium Account £'000	Merger Reserve £'000	Other Reserves Capital redemption Reserve £'000	ESOP Reserve £'000	Profit and Loss account £'000
At beginning of year	30,303	3,674	578	(1,404)	(18,433)
(Loss)/profit for the year	-	-	-	-	(9,515)
Reserve transfer	-	-	-	1,404	(1,404)
At end of the year	30,303	3,674	578	-	(29,352)

Following the conversion of Diagonal shares to Morse plc shares, the ESOP reserve has been transferred to the P&L reserve.

13. Reconciliation of Movements in Shareholders' funds

	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Loss for the financial period	(9,515)	(933)
Net reduction in shareholders' funds	(9,515)	(933)
Opening shareholders' funds	23,850	24,783
Closing shareholders' funds	14,335	23,850

Notes to the Accounts (continued)

14. Operating Lease Commitments

At 30 June 2008 the Company was committed to make the following payments under non-cancellable operating leases in the year to 30 June 2009. All operating lease rentals are borne by another group company.

	Land and buildings 2008 £'000	Land and buildings 2007 £'000
After 5 years	125	125
	<u>125</u>	<u>125</u>

15. 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. The Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Morse plc, within which this Company is included, can be obtained from the address given in note 18.

16. Contingent Liabilities

The Company and certain other group companies have entered into a pooling arrangement with Royal Bank of Scotland plc and are jointly and severally liable in respect of any overdraft arising on the group pooling arrangement. At 30 June 2008 this contingent liability amounted to £nil (30 June 2007: £nil).

17. Ultimate Parent Company and Controlling Party

Diagonal Limited is a wholly owned subsidiary of Morse plc. The ultimate 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.

18. Registered Office of ultimate parent Company

Morse plc
Profile West
950 Great West Road
Brentford
Middlesex
TW8 9EE