

Directors' Report and Financial Statements

Diagonal Limited

Company No 2153353

18 months ended 31 December 2010



Diagonal Limited
18 months ended 31 December 2010

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Directors' Report
Registration No 2153353

The Directors present their report and the audited financial statements for the 18 months ended 31 December 2010
Comparative figures are for the twelve months period ended 30 June 2009

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 2006 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 9. The Directors do not recommend the payment of a dividend (2009 £nil)

Directors

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

M Phillips	(resigned 21 June 2010)
M Emmett	(resigned 12 November 2009)
S Chase	(resigned 21 June 2010)
G Millward	(resigned 21 June 2010)
S Burt	(appointed 21 June 2010)
T Burt	(appointed 21 June 2010)
N Grossman	(appointed 21 June 2010)

Political and charitable donations

The Company made no political or charitable donations or incurred any political expenditure, during the year (2009 £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

KPMG LLP resigned as auditors on 23 August 2010 and Ernst & Young LLP were appointed in their place

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

By order of the Board



Simon Burt
Director
28 April 2011

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 Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing the company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments 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,
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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 18 months ended 31 December 2010, which comprise the Profit and Loss Account and the Balance Sheet and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditors' 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

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- Give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the 18 months then ended,
- Have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- Have been prepared in accordance with the requirements of the Companies Act 2006.


Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- The financial statements are not in agreement with the accounting records and returns, or
- Certain disclosures of directors' remuneration specified by law are not made, or
- We have not received all the information and explanations we require for our audit.



Kevin Harkin (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Reading

28 April 2011

Profit and loss account
For the 18 months ended 31 December 2010

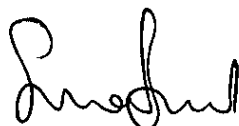
		2010	2009
	<i>Note</i>	£'000	£'000
Administrative expenses before exceptional items		-	(6)
Exceptional items	2	(3,883)	126
Operating (Loss)/profit		(3,883)	120
Income from group undertakings		-	2,000
(Loss)/Profit on ordinary activities before taxation		(3,883)	2,120
Tax credit/(charge) on ordinary activities	4	35	(35)
(Loss)/Profit for the period		(3,848)	2,085

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

Diagonal Limited
18 months ended 31 December 2010

Balance Sheet as at 31 December 2010

		2010		2009	
	<i>Note</i>	£'000	£'000	£'000	£'000
Fixed assets					
Investments	5		10,076		13,959
Current assets					
Debtors	6	5,998		4,386	
Cash at bank and in hand		18		2,410	
		<u>6,016</u>		<u>6,796</u>	
Creditors amounts falling due within one year	7	<u>(3,520)</u>		<u>(4,335)</u>	
Net current assets			<u>2,496</u>		<u>2,461</u>
Net assets			<u>12,572</u>		<u>16,420</u>
Capital and reserves					
Called up share capital	8		9,132		9,132
Share premium account	9		3,037		30,303
Other reserves	9		4,252		4,252
Profit and loss account	9		<u>(3,849)</u>		<u>(27,267)</u>
Shareholders' funds	10		<u>12,572</u>		<u>16,420</u>



Simon Burt
 Director
 28 April 2011

Notes to the Accounts

1 Accounting policies

The financial statements are prepared under the historical cost convention and in accordance with the Companies Act 2006. 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 400 of the Companies Act 2006 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.

Going Concern

The directors, after making appropriate enquiries, have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

Based on this undertaking the directors believe that it remains appropriate to prepare financial statements on a going concern basis.

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. The carrying values of fixed asset investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

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.

In June 2010 the Morse Group was acquired by the 2e2 Group. A deferred tax asset has not been recognised in respect of timing differences as there is insufficient evidence that the asset will be recovered.

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 items

An analysis of exceptional items is as follows

	18 months ended 31 December 2010 £'000	Year ended 30 June 2009 £'000
Impairment of investment	(3,883)	-
Release of onerous property lease provision	-	126
	<u>(3,883)</u>	<u>126</u>

The carrying value of investments has been impaired as a result of a review by the directors to reflect the net realisable value of those investments

In the year ended 30 June 2009 an exceptional credit of £126,229 was recognised following the release of an onerous property provision

3 Staff costs and directors' and auditor's remuneration

No director received any emoluments for their services to this Company (2009 £nil) There were no employees and hence no staff costs during the year (2009 £nil) In the current and prior year the auditor's remuneration of £5,000 (2009 £5,000) was borne by another group Company

4 Tax charge on loss on ordinary activities

	18 months ended 31 December 2010 £'000	Year ended 30 June 2009 £'000
UK corporation tax at 28% (2009 28%)	-	35
Adjustment in respect of prior periods	(35)	-
Tax (credit)/charge on loss on ordinary activities	<u>(35)</u>	<u>35</u>

The standard rate of tax for the current year was 28% (2009 28%) The actual tax charge for the current year and prior year differs from the standard rate for the reasons set out below

	18 months ended 31 December 2010 £'000	Year ended 30 June 2009 £'000
(Loss)/Profit on ordinary activities before tax	<u>(3,883)</u>	<u>120</u>
Tax (credit)/charge at 28% (2008 28%) thereon	(1,087)	34
Expenses not deductible for tax purposes	22	1
Capital allowances in excess of depreciation	(11)	-
Group relief surrendered/(received) for nil payment	(11)	-
Impairment of investment not deductible for tax purposes	1,087	-
Adjustment in respect of prior periods	(35)	-
Current tax - charge for year	<u>(35)</u>	<u>35</u>

Notes to the Accounts (continued)

Deferred taxation assets not recognised in the financial statements

	2010 £'000	2009 £'000
Tax losses	110	115
Decelerated capital allowances	27	39
Total	<u>137</u>	<u>154</u>

The deferred taxation asset has not been recognised because sufficient profits will not be generated to recover the tax losses in the near future

Finance Act 2010, which included a reduction in the UK corporate tax rate to 27% was substantially enacted on 21 July 2010. Therefore the deferred tax assets and liabilities of the company have been calculated at this rate.

In his budget of 23 March 2011, the Chancellor of the Exchequer announced Budget tax changes, which, if enacted in the proposed manner, will have an effect on the company's future tax position. The Budget proposed a decrease in the rate of UK corporation tax from 27% to 26% in April 2011 and by a further 1% each year until 2014. This reduction will affect any future and current tax charge of the company. The effect of the reduction in the tax rate to 23% would be to reduce the unrecognised deferred tax asset by £20,404.

The effect on the Company of these proposed changes to the UK tax system will be reflected in the Company's financial statements in future years, as appropriate, once the proposals have been substantively enacted.

5 Fixed asset investments

	<i>Subsidiary undertakings £'000</i>
Cost	
At 1 July 2009	63,104
Additions/(Disposals)	-
At 31 December 2010	<u>63,104</u>
Amounts provided	
Provision at 1 July 2009	49,145
Impairment during the period	3,883
At 31 December 2010	<u>53,028</u>
Net book value	
At 31 December 2010	<u>10,076</u>
At 1 July 2009	<u>13,959</u>

Notes to the Accounts (continued)

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
MFT Computer Holdings Ltd	England	Investment holding company
Strand IT Recruitment Limited	England	Campaign recruitment and provision of information technology contract personnel

The impairment provision of £3,883,000 relates to the carrying value of the investment in MFT Computers Limited, after it sold its investment in Diagonal Solutions Limited to another 2e2 group company as part of the rationalisation of the 2e2 group's company structure.

6 Debtors

	31 December 2010 £'000	30 June 2009 £'000
Amounts owed by group companies	5,998	4,386
	<u>5,998</u>	<u>4,386</u>

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

7 Creditors – amounts falling due within one year

	31 December 2010 £'000	30 June 2009 £'000
Amounts owed to group companies	3,520	4,300
Corporation Tax	-	35
	<u>3,520</u>	<u>4,335</u>

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

8 Called up share capital

	31 December 2010 £'000	30 June 2009 £'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

Notes to the Accounts (continued)

9 Share premium and reserves

	Share Premium Account	Merger Reserve	Capital redemption Reserve	Profit and Loss account
	£'000	£'000	£'000	£'000
At 1 July 2009	30,303	3,674	578	(27,267)
Loss for the period	-	-	-	(3,848)
Reserve Transfer	(27,266)	-	-	27,266
At end of the year	<u>3,037</u>	<u>3,674</u>	<u>578</u>	<u>(3,847)</u>

10 Reconciliation of movements in shareholders' funds

	18 months ended 31 December 2010 £'000	Year ended 30 June 2009 £'000
(Loss)/Profit for the period	<u>(3,848)</u>	<u>2,085</u>
Net (reduction) / increase in shareholders' funds	<u>(3,848)</u>	<u>2,085</u>
Opening shareholders' funds	<u>16,420</u>	<u>14,335</u>
Closing shareholders' funds	<u>12,572</u>	<u>16,420</u>

11 Operating lease commitments

At 31 December 2010 the Company was committed to make the following annual payments under non-cancellable operating leases which expire as shown below All operating lease rentals are borne by another group company

	Land and buildings 2010 £'000	Land and buildings 2009 £'000
Between 2 and 5 years	125	-
After 5 years	<u>-</u>	<u>125</u>
	<u>125</u>	<u>125</u>

12 Related party transactions

The company has not disclosed related party transactions with group entities as permitted by the exemption under Financial Reporting Standard No 8

13 Financial commitments

Following the acquisition of Morse plc by 2e2 Ltd on 21 June 2010, the company entered into a cross guarantee on 21 June 2010 for the amount of £85,000,000, in favour of certain investors

14 Ultimate parent company and controlling party

Diagonal Limited is a wholly owned subsidiary of Morse Limited The ultimate holding company and controlling party is 2e2 Holdings Limited, a company incorporated in the United Kingdom

The smallest undertaking into which the results of the company are consolidated is 2e2 Group Limited, and the largest undertaking into which the results of the company are consolidated is 2e2 Holdings Limited Copies of financial statements for 2e2 Holdings Limited can be obtained from the company's registered office at The Mansion House, Benham Valence, Newbury, Berkshire, RG20 8LU