Registered No 2153353

Diagonal Limited

Report and Financial Statements

31 December 2011

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Registered No 2153353

Directors
S Burt
T W Burt
N Grossman

Secretary
N Grossman

Auditors
Ernst & Young LLP
Apex Plaza
Forbury Road
Reading
Berkshire RG1 1YE

Registered Office
The Mansion House
Benham Valence
Speen
Newbury
Berkshire RG20 8LU

Directors' report

Registered No: 2153353

The directors present their report and financial statements for the year ended 31 December 2011

Results and dividends

The result after taxation for the year was a profit of £73,000 (18 months to the 31 December 2010 – loss of £3,848,000) The directors declared and paid dividend in the year of £12,645,000 (18 month period to 31 December 2010 – £nil)

Principal activity and review of the business

The principal activity of the company is the provision of professional services in information technology

As part of the commercial rationalisation of the group, on 31 December 2010 the company sold the trade and assets to 2e2 UK Limited, another group company During the year the company has not traded and the directors do not envisage that the company will trade in the foreseeable future

Directors

The directors who served during the year ended 31 December 2011 were

S Burt
T W Burt
N Grossman

None of the directors who held office at the end of the financial period had any disclosable interest in the shares of the company

T W Burt, N P Grossman and S Burt are also directors of 2e2 Holdings Limited, the company's ultimate holding company, and their interests in the share capital of that company are disclosed in its financial statements

Key performance indicators

The senior management of the company focus on a number of key performance indicators These include sales bookings and billings, the value of contracted annuity revenues, gross margins and staff utilisation. These, along with other measures, are monitored regularly with explanations sought for variances against expectations Management have reviewed the key performance indicators during the year and are satisfied with the results

Future developments

Following the sale of the trade and assets to 2e2 UK Limited, the directors expect the company to be dormant for the foreseeable future

Principal risks and uncertainties

Discussed below are the company's major business risks, together with systems and initiatives in place to address them

Market risk

The IT services market is subject to fluctuations of demand by customers These fluctuations are linked to the economic cycle and changes in the spending patterns of customers. In addition, the company works with a number of key vendors and it is important to maintain strong relationships and terms of business with these partners

Operational risk

This related to the risk of financial loss resulting from internal processes, people and systems. The company manages this risk through appropriate internal controls and proactive intervention, such as management reporting systems, insurances, business interruptions and disaster recovery planning

Directors' report (continued)

Registered No: 2153353

Liquidity risk

This relates to the risk that the company is unable to fund its requirements because of insufficient banking facilities The group manages liquidity risk via revolving credit facilities and long term debt

Credit risk

This relates to the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation Group policies are aimed at minimising such losses and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures

Directors' qualifying third party indemnity provision

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in Section 234 of the Companies Act 2006 Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report

Employees involvement

The company maintains a practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the company

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities In the event of employees becoming disabled, every effort is made to retain them in order that their employment with the company may continue

It is the policy of the company that training, career development and promotion opportunities be available to all employees

Corporate governance

The directors' recognise the importance of adopting good corporate governance practices in the best interests of shareholders as a whole

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information

Auditors

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

On behalf of the Board

S Burt
Director
30 April 2012

Statement of directors' responsibilities

The directors are responsible for preparing the annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 of the company for that period In preparing these 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, 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 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 the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

To the members of Diagonal Limited

We have audited the financial statements of Diagonal Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 13 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom 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 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, 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 (APB'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 In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on the 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 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom 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 financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report

to the members of Diagonal Limited

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

Ernst + Young LLP

Kevin Harkin (Senior statutory auditor)

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

Reading

30 April 2012

Profit and loss account

for the year ended 31 December 2011

	Notes	2011 £000	18 months ended 31 December 2010 £000
Administrative expenses			
Exceptional items	2	(2,242)	(3,883)
Loss on ordinary activities before investment income and taxation		(2,242)	(3,883)
Dividend received		2,315	–
Profit / (Loss) on ordinary activities before taxation		73	(3,883)
Tax	4	–	35
Profit / (Loss) for the financial year	10	73	(3,848)

All results arose from discontinued operations

Statement of total recognised gains and losses

for the year ended 31 December 2011

There are no recognised gains or losses other than the result attributable to the shareholders of the company of £73,000 for the year ended 31 December 2011 (18 months ended 31 December 2010 – loss of £3,848,000)

Balance sheet

at 31 December 2011

	Notes	2011 £000	2010 £000
Fixed assets			
Investments	5	–	10,076
Current assets			
Debtors	6	–	5,998
Cash at bank		9	18
		–	6,016
Creditors: amounts falling due within one year	7	(9)	(3,520)
Net current assets		–	2,496
Net assets		–	12,572
Capital and reserves			
Called up share capital	8	–	9,132
Share premium	10	–	3,037
Other reserves			4,252
Profit and loss account	10	–	(3,849)
Shareholders' funds	10	–	12,572

Approved and authorised by the board

S Burt
Director
30 April 2012

Notes to the financial statements

at 31 December 2011

1. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention

Statement of cash flows and related parties

The company is exempt from the requirement of FRS 1 (revised), to prepare a statement of cash flows as it is a wholly owned subsidiary undertaking, and its cash flows are included within the group statement of cash flows of 2e2 Holdings Limited, a company incorporated in the UK. The company has taken advantage of the exemption available under FRS 8 not to disclose transactions with other members of the 2e2 group

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exceptions

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Research and development

Research and development expenditure is charged to the profit and loss account in the period in which it is incurred

Provisions for liabilities

A provision is recognised when the company has a legal and constructive obligation as a result of a past event and it is probable that an outflow of economic benefit will be required to settle the obligation

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date The financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to reserves Where exchange differences result from the translation of foreign currency borrowings raised to acquire foreign assets they are taken to reserves and offset against the differences arising from the translation of those assets All other exchange differences are dealt with through the profit and loss account

Notes to the financial statements

at 31 December 2011

2. Exceptional items

	2011 £000	18 months ended 31 December 2010 £000
Impairment of investment	(2,242)	(3,883)

On the 20th September 2011 both MFT Computer Holdings Ltd and Strand IT Recruitment Ltd were dissolved and therefore £2,242,000 was charged to the profit and loss account representing the value held as an investment for these two companies.

3. Directors' emoluments

Directors' remuneration have been borne by fellow group company 2e2 Holdings Limited. It is impractical to apportion directors' salaries to Diagonal Limited Further details of the director remuneration are disclosed in the financial statements of 2e2 Holdings Limited

4. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2011 £000	18 months ended 31 December 2010 £000
Current tax		
Adjustments in respect of prior year	–	(35)
Current tax charge for the year	–	(35)

Notes to the financial statements

at 31 December 2011

4. Tax (continued)

(b) Factors affecting tax charge for the year

The tax assessed for the year is different than the standard rate of corporation tax in the UK of 26 5% (18 months to the 31 December 2010 – 28%). The differences are explained below

	2011 £000	18 months ended 31 December 2010 £000
Profit/(Loss) on ordinary activities before taxation	73	(3,883)
Profit/(Loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26 5% (18 months to the 31 December 2010 – 28%)	19	–
Effects of		
Non taxable income	(19)	22
Capital allowances in excess of depreciation	–	(11)
Impairment of investments not deductible for tax purposes	–	–
Dividend income not taxable	–	–
Group relief received for nil payment	–	(11)
Adjustment in respect of prior periods	–	(35)
Current tax for the year	–	(35)

(c) Deferred tax

	2011 £	2010 £
Deferred taxation assets not recognised in the financial statements		
Tax losses	–	110
Decelerated capital allowances	–	27
	–	137

Notes to the financial statements

at 31 December 2011

4. Tax (continued)

(d) Factors that may affect future tax charges

In Budget 2011 on 23 March 2011, the Chancellor of the Exchequer announced a reduction in the UK rate of corporation tax to 26% This reduced rate applied from 1 April 2011 and was enacted using secondary legislation, called the Provisional Collection of Taxes Act A further 1% rate reduction to 25% was also announced and it was intended that this would be effective from 1 April 2012 However, in his budget of 21 March 2012, the Chancellor of the Exchequer announced a number of further changes to the UK Corporation Tax rate These included a reduction in the UK corporation tax rate from 25% to 24% effective from 1 April 2012 (and substantively enacted as of 26 March 2012 and dealt with by Resolution under the Provisional Collection of Taxes Act). The UK government intends to further reduce the UK corporate income tax rate, to 22%, in annual increments of 1% per annum which will be enacted in successive Finance Bills Consequently, the company will only recognise the impact of the rate change which is substantively enacted at that time in its financial statements

5. Investments

	Shares in group undertakings £
Cost	
At 1 January 2011	63,104
Disposals	(63,104)
31 December 2011	-
Provision	
At 1 January 2011	53,028
Impairment during the period	2,242
Disposal	(55,270)
31 December 2011	-
Net book value	
At 31 December 2011	-
At 31 December 2010	10,076

On the 20th September 2011 both Strand IT Recruitment Ltd and MFT Computer Holdings Ltd were dissolved giving rise to an impairment charge of £2,242,000 in the year On the 23rd December 2011 the investment in Diagonal Consulting Ltd was sold to 2e2 Limited.

As at 31 December 2011 Diagonal Limited held no investments

Notes to the financial statements

at 31 December 2011

6. Debtors

	2011 £000	2010 £000
Amounts owed by fellow subsidiary undertakings	–	5,998

7. Creditors: amounts falling due within one year

	2011 £000	2010 £000
Amounts owed to fellow subsidiary undertakings	9	3,520

8. Issued share capital

	2011 No	2011 £000	2010 No	2010 £000
Authorised				
Ordinary share of 0 00001p each (2010 - 10p each)	120,000,000	–	120,000,000	12,000
Allotted, called up and fully paid				
Ordinary share of 0 00001p each (2010 – 10p each)	91,322,571	–	91,322,571	9,132

On the 22nd December 2011 a special resolution was passed to reduce the authorised share capital from £12,000,000 comprising 120,000,000 ordinary shares of 10p each to £12 divided into 120,000,000 ordinary shares of 0 00001p each The allotted, called up and fully paid share capital was reduced from £9,132,000 comprising 91,322,571 ordinary shares of 10p each to £9 divided into 91,322,571 ordinary shares of 0 00001p each

9. Dividends

	2011 £000	2010 £000
Declared and paid during the year		
Equity dividends paid on ordinary shares Interim for 2011 13 8p	12,645	-

There were no outstanding dividend liabilities as at 31 December 2011.

Notes to the financial statements

at 31 December 2011

10. Reconciliation of shareholders' funds and movements on reserves

	Share capital £000	*Share premium account £000*	*Merger reserve £000*	*Other reserves £000*	*profit and loss account £000*	*Total £000*
At 1 January 2011	9,132	3,037	3,674	578	(3,849)	12,572
Profit for the year	–	–	–	–	73	73
Capital reduction	(9,132)	(3,037)	(3,674)	(578)	16,421	–
Dividend paid	-	-	-	-	(12,645)	(12,645)
At 31 December 2011	–	–	–	–	–	–

On the 22[nd] December 2011 a special resolution was passed to reduce the value of share capital, cancel the share premium account, merger reserve and other reserves and transfer £16,421,000 to distributable reserves

11. 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

12. 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.

13. Ultimate parent undertaking and controlling party

The immediate parent company of Diagonal Limited is Morse Limited, a company incorporated in the United Kingdom 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