

Directors' Report and Financial Statements

Diagonal Limited

Company No: 2153353

Year ended 30 June 2009

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Directors' Report

The Directors present their report and the audited financial statements for the year 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 11. The Directors do not recommend the payment of a dividend (2008: £nil).

There is a deficit on the Profit and loss reserve, meaning that the Company is unable to pay dividends.

The Directors have reviewed the available options for the Company in order to enable dividends to be declared out of future profits. The Directors have concluded that, subject to shareholders' approval, a Court Approved Capital Reduction process should be undertaken in order to use part of the share premium account, standing at £30.3 million at 30 June 2009, to extinguish the negative distributable reserves. The Directors believe that this is in the best interests of shareholders. If shareholders approve the capital reduction then it is anticipated that the Court process will be completed in November 2009 and that the first dividend that could be declared out of future profits would be for the year ending 30 June 2010.

Directors

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

E Dodd (resigned 30 September 2008)
M Hobbs (resigned 5 February 2009)
M Phillips (appointed 1 October 2008)
M Emmett (appointed 10 March 2009)
S Chase (appointed 5 February 2009)
G Millward (appointed 1 July 2009)

Political and charitable donations

The Company made no political or charitable donations or incurred any political expenditure, during the year (2008: £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 487 of the Companies Act 2006, 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

25 September 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 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 year ended 30 June 2009. 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 sections 495 and 496 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 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

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

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 30 June 2009 and of its profit for the year 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 financial year 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.



Tudor Aw

For and on behalf of KPMG Audit Plc, Statutory Auditor

KPMG Audit Plc
Chartered Accountants
8 Salisbury Square
London EC4Y 8BB

5 October 2009

Diagonal Limited
Year ended 30 June 2009

Profit and loss account
For the year ended 30 June 2009

		2009	2008
	<i>Note</i>	£'000	£'000
Administrative expenses before exceptional items		(6)	(28)
Exceptional items	2	126	(9,345)
Total administrative expenses		120	(9,373)
Operating profit / (loss)		120	(9,373)
Interest payable	4	-	(10)
Profit / (loss) on ordinary activities before taxation		120	(9,383)
Income from group undertakings		2,000	-
Tax charge on ordinary activities	5	(35)	(132)
Profit / (loss) for the financial year		2,085	(9,515)

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.

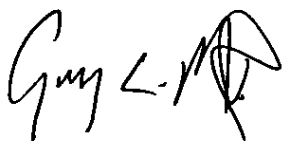
There is no difference between the result on ordinary activities before taxation and the retained result for the periods stated above and their historical cost equivalents.

Diagonal Limited
Year ended 30 June 2009

Balance Sheet as at 30 June 2009

		2009		2008	
	Note	£'000	£'000	£'000	£'000
Fixed assets					
Investments	6		13,959		10,510
Current assets					
Debtors	7	4,386		8,981	
Cash at bank and in hand		2,410		2	
		<u>6,796</u>		<u>8,983</u>	
Creditors: amounts falling due within one year	8	<u>(4,335)</u>		<u>(4,969)</u>	
Net current assets			<u>2,461</u>		<u>4,014</u>
Total assets less current liabilities			<u>16,420</u>		<u>14,524</u>
Provisions for liabilities and charges	9		-		(189)
			<u> </u>		<u> </u>
Net assets			<u>16,420</u>		<u>14,335</u>
Capital and reserves					
Called up share capital	10		9,132		9,132
Share premium account	11		30,303		30,303
Other reserves	11		4,252		4,252
Profit and loss account	11		<u>(27,267)</u>		<u>(29,352)</u>
Shareholders' funds	12		<u>16,420</u>		<u>14,335</u>

These financial statements were approved by the Board of Directors on 5 September 2009 and are signed on their behalf by:



G Millward
 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 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

These financial statements have been prepared on a going concern basis.

Investments

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

Impairment of goodwill

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 items

An analysis of exceptional items is as follows:

	Year ended 30 June 2009 £'000	Year ended 30 June 2008 £'000
Impairment of intercompany balances	-	(5,000)
Impairment of investment	-	(4,345)
Release of onerous property lease provision	126	-
	<u>126</u>	<u>(9,345)</u>

An exceptional credit of £126,229 was recognised in the year following the release of an onerous property provision.

For the year ended 30 June 2008, the fixed asset investments of the Company were written down by £4,345,120 following an impairment review. The charge was determined in accordance with FRS 11 'impairment of fixed assets and goodwill'. In addition, the intercompany debt owed by Diagonal Consulting Limited was impaired by £5,000,000.

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

No director received any emoluments for their services to this Company (2008: £nil). There were no employees and hence no staff costs during the year (2008: £nil). In the current and prior year the auditor's remuneration of £5,000 (2008: £5,000) was borne by another group Company.

4. Interest payable and similar charges

	Year ended 30 June 2009 £'000	Year ended 30 June 2008 £'000
Unwinding of discount	-	10
	<u>-</u>	<u>10</u>

Notes to the Accounts (continued)

5. Tax charge on loss on ordinary activities

	Year ended 30 June 2009 £'000	Year ended 30 June 2008 £'000
UK corporation tax at 28% (2008: 29.5%)	35	-
Adjustment in respect of prior periods	-	132
Current tax – charge for period	35	132
Deferred taxation		
Timing differences, origination and reversal	-	-
Tax charge on loss on ordinary activities	35	132

The standard rate of tax for the current year was 28% (Prior year 30% until 31 March 2008, thereafter it was reduced to 28%). The actual tax charge for the current year and prior year differs from the standard rate for the reasons set out below:

	Year ended 30 June 2009 £'000	Year ended 30 June 2008 £'000
Profit / (loss) on ordinary activities before tax	120	(9,383)
Tax charge / (credit) at 28% (2008:29.5%) thereon	34	(2,756)
Expenses not deductible for tax purposes	1	2,756
Prior period adjustments	-	132
Current tax - charge for year	35	132

6. Fixed asset investments

	Subsidiary Undertakings £'000
Cost	
At 30 June 2008	44,438
Additions	18,666
At 30 June 2009	63,104
Amounts provided	
At 30 June 2008	33,928
Provision against intercompany debt converted to provision against investment	15,217
At 30 June 2009	49,145
Net Book Value	
At 30 June 2008	10,510
At 30 June 2009	13,959

Following an internal restructuring, the company subscribed to 2,999,998 shares in Diagonal Consulting Ltd for consideration of £18,665,794 (being £6.22 per share with a premium of £5.22). The consideration was satisfied by the extinguishment of the indebtedness owed to the company by Diagonal Consulting Ltd. As part of the same restructuring, the provision against the intercompany debtor of £15,216,971 was transferred to provision against investment.

Notes to the Accounts (continued)

6. Fixed asset investments (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.

<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 Limited	Hong Kong	Information technology consultancy
MFT Computers Ltd	England	Investment holding company
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 provision of information technology contract personnel

7. Debtors

	30 June 2009 £'000	30 June 2008 £'000
Amounts owed by group companies	4,386	8,981
	<u>4,386</u>	<u>8,981</u>

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

8. Creditors – amounts falling due within one year

	30 June 2009 £'000	30 June 2008 £'000
Amounts owed to group companies	4,300	4,969
Corporation Tax	35	-
	<u>4,335</u>	<u>4,969</u>

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

Notes to the Accounts (continued)

9. Provision for liabilities and charges

	Onerous property leases £'000
At 30 June 2008	189
Utilisation of provision	(63)
Release of provision	(126)
At 30 June 2009	-

The provision relates to property vacated in the UK that during the year has been occupied by a subsidiary of the company, Diagonal Consulting Ltd. As a result this provision is no longer required and the balance as at 30 June 2008 was released to the profit and loss account.

10. Called up share capital

	30 June 2009 £'000	30 June 2008 £'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

11. Share premium and reserves

	Share Premium Account £'000	Merger Reserve £'000	Capital redemption Reserve £'000	Profit and Loss account £'000
At beginning of year	30,303	3,674	578	(29,352)
Profit for the year	-	-	-	2,085
At end of the year	30,303	3,674	578	(27,267)

12. Reconciliation of movements in shareholders' funds

	Year ended 30 June 2009 £'000	Year ended 30 June 2008 £'000
Profit / (loss) for the financial period	2,085	(9,515)
Net increase / (reduction) in shareholders' funds	2,085	(9,515)
Opening shareholders' funds	14,335	23,850
Closing shareholders' funds	16,420	14,335

Notes to the Accounts (continued)

13. Operating lease commitments

At 30 June 2009 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 2009 £'000	Land and buildings 2008 £'000
After 5 years	125	125
	<u>125</u>	<u>125</u>

14. 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 17.

15. 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 2009 this contingent liability amounted to £nil (30 June 2008: £nil).

16. 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 accessed through the internet at www.morse.com and obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff, Wales, CF14 3UZ.

17. Registered office of ultimate parent company

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