

ACCOUNTS

DIAGONAL COMPUTER SERVICES LIMITED

Company No : 2304655

30 November 1995



The directors present their report and the audited accounts for the year ended 30 November 1995.

PRINCIPAL ACTIVITY

The principal activities of the company comprise the provision of the services of management consulting, information technology consulting and computer staff to commerce, industry, government and public bodies.

REVIEW OF THE BUSINESS

The company continued the strong growth experienced in the previous year and revenue increased by 68% to £10.4 million. Fees generated by permanent staff represented 58% of the total compared with 44% last year.

Operating profit grew by 91% to £786,000 mainly as a result of increasing the use of permanently employed consultants.

1996 has started well and further improvement is expected.

RESULTS AND DIVIDENDS

Details of the results are set out on page 4 and the movements in reserves are shown in note 16 on page 10. The directors recommend the payment of a dividend of £375,000 (1994 - £200,000).

DIRECTORS

The directors who served during the year and the beneficial interests of those serving at the end of the year in the shares of the parent company, DIAGONAL PLC, were as follows:

		10p Ordinary shares	
		30 November 1995	30 November 1994
Ms J. M. Burr	(resigned 30 November 1995)	120,333	120,333
R. E. L. Cocks		70,000	70,000
D. P. Fidgeon	(appointed 16 May 1995)	173,333	173,333
P. B. Moore	(resigned 30 September 1995)		
D. K. Ireland	(appointed 16 May 1995 - resigned 8 December 1995)	-	-

Messrs. C. D. Burnside, B. D. Churcher and M. T. Samuels, who also served throughout the year, are directors of the parent company and their interests in the shares of that company are disclosed in the accounts of DIAGONAL PLC.

No director has any interest in the shares of the company or any other subsidiary.

AUDITORS

On 1 February 1996 our auditors changed the name under which they practise to Deloitte & Touche and, accordingly, have signed their report in their new name.

By order of the board

R. E. L. Cocks



Secretary

29 March 1996

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 as at the end of the financial year and of the profit or loss of the company 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
- 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. They are also responsible for safeguarding the assets of the company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

We have audited the financial statements on pages 4 to 11 which have been prepared under the accounting policies set out on page 6.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

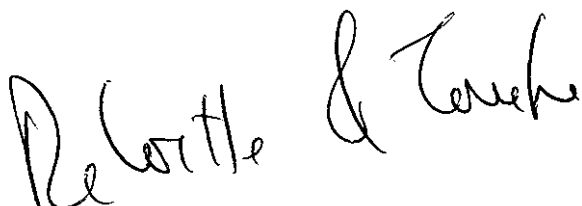
BASIS OF OPINION

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'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's affairs as at 30 November 1995 and its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



DELOITTE & TOUCHE

Chartered Accountants and Registered Auditors

Hill House
1 Little New Street
London EC4A 3TR

29 March 1996

PROFIT AND LOSS ACCOUNT
for the year ended 30 November 1995

DIAGONAL

	Note	1995	1994
TURNOVER	1(a)	10,445,603	6,210,512
COST OF SALES		<u>(7,558,335)</u>	<u>(4,475,968)</u>
GROSS PROFIT		2,887,268	1,734,544
ADMINISTRATIVE EXPENSES			
Exceptional items	2	(164,457)	-
Other administrative expenses		<u>(1,865,604)</u>	<u>(1,251,928)</u>
		<u>(2,030,061)</u>	<u>(1,251,928)</u>
		857,207	482,616
AMOUNT WRITTEN OFF GOODWILL		<u>(71,500)</u>	<u>(71,500)</u>
OPERATING PROFIT	3	785,707	411,116
Interest receivable	6	820	929
Interest payable and similar charges	7	<u>(113,470)</u>	<u>(79,395)</u>
		<u>(112,650)</u>	<u>(78,466)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		673,057	332,650
TAX ON PROFIT ON ORDINARY ACTIVITIES	8	<u>(273,553)</u>	<u>(131,114)</u>
PROFIT FOR THE YEAR		399,504	201,536
DIVIDENDS PAYABLE		<u>(375,000)</u>	<u>(200,000)</u>
RETAINED PROFIT FOR THE YEAR	16	<u>£24,504</u>	<u>£1,536</u>

All activities derive from continuing operations.

There are no recognised gains or losses other than the profit for the current and preceding financial periods. Accordingly, no statement of total recognised gains and losses is given.

There are no movements in shareholders' funds other than the profit for the current and preceding financial periods. Accordingly, no reconciliation of movement in shareholders' funds is given.

BALANCE SHEET
30 November 1995

DIAGONAL

	Note	1995	1994
FIXED ASSETS			
Intangible assets	9	1,072,500	1,144,000
Tangible assets	10	914,473	650,622
		<u>1,986,973</u>	<u>1,794,622</u>
CURRENT ASSETS			
Debtors	11	2,523,690	1,380,360
Cash at bank and in hand		100	34,844
		<u>2,523,790</u>	<u>1,415,204</u>
CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR	12	<u>(2,771,222)</u>	<u>(1,544,928)</u>
NET CURRENT LIABILITIES		<u>(247,432)</u>	<u>(129,724)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,739,541	1,664,898
CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	13	(1,708,700)	(1,650,401)
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	14	-	(8,160)
		<u>£30,841</u>	<u>£6,337</u>
CAPITAL AND RESERVES			
Called up share capital	15	2	2
Profit and loss account	16	30,839	6,335
EQUITY SHAREHOLDERS' FUNDS		<u>£30,841</u>	<u>£6,337</u>

APPROVED BY THE BOARD OF DIRECTORS

M. T. Samuels



R. E. L. Cocks



29 March 1996

1. ACCOUNTING POLICIES

These financial statements have been prepared in accordance with applicable Accounting Standards, using the historical cost convention. The particular accounting policies which the directors have adopted within that convention are set out below.

a) Turnover

Turnover is the amount derived from the provision of services falling within the company's ordinary activities after deduction of value added tax.

b) Tangible fixed assets and depreciation

Depreciation is calculated to write down the cost of fixed assets to their estimated residual values over the period of their estimated useful economic lives. The following rates have been used

Motor vehicles	- 30% p.a. reducing balance
Furniture, fixtures & fittings	- 15% p.a. straight line
Office equipment	- 20% p.a. straight line
Computer equipment	- 25% p.a. straight line

c) Goodwill

Goodwill arising on the acquisition of other group companies' businesses is being amortised over the estimated useful economic life through the profit and loss account. Useful economic life is determined by the directors as twenty years.

d) Leased assets

Fixed assets held under finance leases, including hire purchase, 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 as they accrue.

e) Deferred taxation

Deferred tax is provided at anticipated tax rates in respect of significant timing differences to the extent that it is probable that such tax will become payable.

f) Pension costs

The company participates in the DIAGONAL Contracted Out Money Purchase pension scheme on behalf of some members of staff. This involves the diversion of a portion of National Insurance Contributions into the fund. In addition contributions are made towards personal pension plans of certain senior officials. The pension cost represents the company's contributions made in respect of the accounting period.

2. EXCEPTIONAL ITEMS

The exceptional items in Administrative expenses comprise

Compensation to a director of the company who resigned during the year	113,522
Compensation to a director of the parent company whose employment costs were borne by this company	50,935
	<u>£164,457</u>

3. OPERATING PROFIT

The operating profit is arrived at after charging

	1995	1994
	£	£
Amounts written off intangible assets	71,500	71,500
Depreciation		
- owned assets	48,408	29,710
- leased assets	227,888	129,551
Auditors' remuneration	9,000	7,500
Operating lease charges		
- property	89,016	48,532
- hire of machinery	4,684	4,258

4. EMPLOYEES

The average number employed by the company during the year, including those directors whose employment costs were borne by the company, was as follows

	1995	1994
	<i>No. of employees</i>	
Operating	69	35
Sales	11	6
Administration	15	7
	<u>95</u>	<u>48</u>

The costs incurred in respect of these employees were as follows

Wages and salaries	4,073,840	1,908,100
Social security costs	437,379	209,260
Other pension costs	28,545	27,916
Compensation payments & other redundancy costs	182,790	-
	<u>£4,722,554</u>	<u>£2,145,276</u>

5. DIRECTORS

The emoluments of the directors of the company were as follows

	1995	1994
Management remuneration	501,792	374,753
Compensation payments including taxable benefits	122,094	-
	<u>£623,886</u>	<u>£374,753</u>

The management remuneration excluding pension contributions of directors was as follows

Chairman	£-	£-
Highest paid director	<u>£98,728</u>	<u>£112,659</u>

Other directors

	<i>No. of directors</i>	
£30,001 to £35,000	none	one
£45,001 to £50,000	one	one
£50,001 to £55,000	two	none
£60,001 to £65,000	one	none
£80,001 to £85,000	one	one
£85,001 to £90,000	<u>one</u>	<u>one</u>

6. INTEREST RECEIVABLE

	1995	1994
Bank interest	816	929
Other interest	4	-
	<u>£820</u>	<u>£929</u>

7. INTEREST PAYABLE AND SIMILAR CHARGES

	1995	1994
Group interest in respect of bank overdraft repayable within five years	74,493	57,384
Finance lease charges	38,967	22,011
Other interest	10	-
	<u>£113,470</u>	<u>£79,395</u>

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

Taxation is based on the results for the year and comprises

	1995	1994
Corporation tax at 33%	281,722	123,498
Overprovision in prior years	(9)	(4,062)
Deferred taxation	(8,160)	11,678
	<u>£273,553</u>	<u>£131,114</u>

The tax charge is disproportionate due to the amortisation of goodwill.

9. INTANGIBLE FIXED ASSETS

Goodwill arising on acquisition of trades

	<i>Diagonal Plc</i>	<i>Strand Computer Systems</i>	<i>Total</i>
Cost			
At 1 December 1994 and 30 November 1995	1,200,000	230,000	1,430,000
Amortisation			
At 1 December 1994	240,000	46,000	286,000
Provided in year	60,000	11,500	71,500
At 30 November 1995	300,000	57,500	357,500
Net book value			
At 30 November 1995	<u>£900,000</u>	<u>172,500</u>	<u>£1,072,500</u>
At 30 November 1994	<u>£960,000</u>	<u>184,000</u>	<u>£1,144,000</u>

10. TANGIBLE FIXED ASSETS

	<i>Motor vehicles</i>	<i>Furniture, fixtures and fittings</i>	<i>Office equipment</i>	<i>Computer equipment</i>	<i>Total</i>
Cost					
At 1 December 1994	711,724	87,250	35,381	126,893	961,248
Additions	502,929	4,278	7,442	63,646	578,295
Disposals	(98,770)	-	-	-	(98,770)
At 30 November 1995	1,115,883	91,528	42,823	190,539	1,440,773
Depreciation					
At 1 December 1994	203,154	43,862	27,499	36,111	310,626
Charge for the year	225,887	10,549	2,518	37,342	276,296
Disposals	(60,622)	-	-	-	(60,622)
At 30 November 1995	368,419	54,411	30,017	73,453	526,300
Net book value					
At 30 November 1995	£747,464	37,117	12,806	117,086	£914,473
At 30 November 1994	£508,570	43,388	7,882	90,782	£650,622
Net book value of assets held under finance leases					
At 30 November 1995	£732,452	-	-	17,911	£750,363
At 30 November 1994	£501,676	-	-	25,588	£527,264

11. DEBTORS

	1995	1994
Trade debtors	2,445,898	1,350,954
Other debtors	2,685	7,381
Corporation tax recoverable	15,081	544
Prepayments and accrued income	60,026	21,481
	<u>£2,523,690</u>	<u>£1,380,360</u>

12. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	1995	1994
Bank overdraft	92,503	-
Trade creditors	453,365	202,157
Amounts owed to group companies	604,794	532,139
Other creditors	38,785	12,086
Corporation tax payable	281,713	123,498
Other taxation and social security	365,201	193,638
Obligations under finance leases	279,654	179,339
Dividends payable	375,000	200,000
Accruals and deferred income	280,207	102,071
	<u>£2,771,222</u>	<u>£1,544,928</u>

The bank overdraft is secured by a fixed and floating charge over the assets of the company.

**13. CREDITORS - AMOUNTS FALLING DUE AFTER
MORE THAN ONE YEAR**

	1995	1994
Amount owed to parent company	1,430,000	1,430,000
Obligations under finance leases	278,700	220,401
	<u>£1,708,700</u>	<u>£1,650,401</u>

Obligations under finance leases fall due between two and five years.

14. DEFERRED TAXATION

	1995	1994
Balance at 1 December	8,160	-
Current year (release)/charge	(8,160)	11,678
Adjustment in respect of prior years	-	(3,518)
Balance at 30 November	<u>-</u>	<u>£8,160</u>

15. SHARE CAPITAL

	1995	1994
Authorised		
1,000 ordinary shares of £1 each	<u>£1,000</u>	<u>£1,000</u>
Allotted and fully paid		
2 ordinary shares of £1 each	<u>£2</u>	<u>£2</u>

16. PROFIT AND LOSS ACCOUNT

Balance at 1 December 1994	6,335
Retained profit for the year	24,504
Balance at 30 November 1995	<u>£30,839</u>

Since the company commenced trading on 1 December 1991, cumulative dividends have been paid to the parent company amounting to £665,000 and cumulative provisions have been made for the amortisation of goodwill arising on the acquisition of trades amounting to £357,500 (1994 - £286,000) - see note 9.

17. ULTIMATE PARENT COMPANY

The company is a wholly owned subsidiary of DIAGONAL PLC, a company registered in England and Wales, the accounts of which can be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, Wales, CF4 3UZ.

18. FINANCIAL COMMITMENTS

a) Capital

At 30 November 1995 the company had contracted to purchase tangible assets costing £62,760 (1994 - £49,380) which are not included in these accounts.

b) Operating leases

At 30 November the company had annual commitments under non-cancellable operating leases as set out below.

	<u>1995</u>		<u>1994</u>	
	<u>Land and buildings</u>	<u>Other</u>	<u>Land and buildings</u>	<u>Other</u>
Operating leases which expire				
- within one year	22,208	-	-	-
- in the second to fifth year	-	6,676	14,300	5,102
- over five years	41,552	-	41,552	-
	<u>£63,760</u>	<u>£6,676</u>	<u>£55,852</u>	<u>£5,102</u>

19. CONTINGENT LIABILITIES

Cross-guarantee

The company has issued a guarantee in favour of National Westminster Bank PLC in respect of the indebtedness of the parent company and other subsidiaries to the bank. At 30 November 1995 the contingent liability amounted to £719,846 (1994 - £713,864).