

DIAGONAL

COMPUTER SERVICES LTD

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ACCOUNTS

DIAGONAL COMPUTER SERVICES LIMITED

Company No: 2304655

29 November 1998



REPORT OF THE DIRECTORS

DIAGONAL

The Directors present their report and the audited accounts for the 52 weeks ended 29 November 1998.

PRINCIPAL ACTIVITY

The principal activity of the Company is the provision of professional services in Information Technology to computer users.

REVIEW OF THE BUSINESS

The Directors have pleasure in reporting a further strong financial performance by the Company, with significant advances in turnover and profit before tax. The SAP Division returned a very strong result and this was supported by a sound improvement in the performance of Projects Division. The outlook for SAP Division remains very positive and the prospects for Projects Division are viewed optimistically despite current market difficulties which are seen as short term, but which will affect the results for the current year.

RESULTS AND DIVIDENDS

Details of the results are set out on page 4 and the movements in reserves are shown in note 13 on page 10. The Directors recommend the payment of a dividend of £3,000,000 (1997 - £1,350,000).

DIRECTORS

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

| | | <i>10p Ordinary Shares</i> | |
|------------------|-------------------------------|----------------------------|--------------------|
| | | <i>29 November</i> | <i>30 November</i> |
| | | <i>1998</i> | <i>1997</i> |
| D M Beresford | | 7,460 | 13,750 |
| Ms C Chittock | | 8,000 | 8,000 |
| R E L Cocks | | 70,000 | 70,000 |
| D P Fidgeon | (resigned 1 June 1999) | 153,833 | 163,833 |
| D N Ingram | (appointed 20 July 1998) | 146,257 | - |
| I Mainprize | | 20,000 | 40,000 |
| M C Slade | (appointed 10 September 1998) | - | - |
| W J Thornborough | | 7,783 | 10,833 |
| R F Wilkins | (resigned 11 January 1999) | 31,142 | 167,542 |

D N Ingram and M C Slade held no beneficial interest on appointment.

Messrs C D Burnside, B D Churcher and M T Samuels, who also served throughout the period, 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 of DIAGONAL PLC.

CREDITOR PAYMENT POLICY

It is the Company's policy to pay contract staff three working days following receipt of valid invoices supported by authorised timesheets. All other creditors for goods and services are normally paid within 30 days of receipt of invoice. Since the Company's trade creditors include a number of intra-group transaction balances and an increasing proportion of the Company's purchases are handled by the Company's parent company, it is considered by the Directors that a calculation of creditor days would be misleading and it is therefore omitted.

YEAR 2000

The Company's potential exposure to issues relating to the Year 2000 is being monitored and managed at a Group level by the Company's parent company, DIAGONAL PLC. The Directors are satisfied that all necessary steps are being taken to minimise the company's exposure to costs or liabilities. The Directors do not consider the costs of Year 2000 compliance to be material to the Company.

By order of the board

R E L Cocks

Secretary



24 September 1999

DIAGONAL COMPUTER SERVICES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 and 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 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS OF DIAGONAL COMPUTER SERVICES LIMITED

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 circumstances of the Company, 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 affairs of the Company as at 29 November 1998 and of its profit for the 52 weeks 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

27 September 1999

PROFIT AND LOSS ACCOUNT

52 weeks ended 29 November 1998

| | <i>Note</i> | <i>52 weeks ended 29 November 1998</i> | <i>53 weeks ended 30 November 1997</i> |
|--|-------------|--|--|
| TURNOVER | 1(a) | 30,629,102 | 17,790,873 |
| COST OF SALES | | (20,475,372) | (11,760,376) |
| GROSS PROFIT | | 10,153,730 | 6,030,497 |
| ADMINISTRATIVE EXPENSES | | (4,802,178) | (3,415,289) |
| | | 5,351,552 | 2,615,208 |
| AMORTISATION OF GOODWILL | 7 | (71,500) | (71,500) |
| OPERATING PROFIT | 2 | 5,280,052 | 2,543,708 |
| Interest payable and similar charges | 5 | (207,987) | (112,335) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 5,072,065 | 2,431,373 |
| TAX ON PROFIT ON ORDINARY ACTIVITIES | 6 | (1,628,525) | (816,396) |
| PROFIT FOR THE PERIOD | | 3,443,540 | 1,614,977 |
| EQUITY DIVIDENDS PAYABLE | | (3,000,000) | (1,350,000) |
| RETAINED PROFIT FOR THE FINANCIAL PERIOD | 13 | £443,540 | £264,977 |

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 of shareholders' funds is given.

BALANCE SHEET

29 November 1998

| | Note | 29 November 1998 | 30 November 1997 |
|---|------|---------------------|---------------------|
| FIXED ASSETS | | | |
| Intangible assets | 7 | 858,000 | 929,500 |
| Tangible assets | 8 | 2,556,149 | 1,878,392 |
| | | <u>3,414,149</u> | <u>2,807,892</u> |
| CURRENT ASSETS | | | |
| Debtors | 9 | 9,410,074 | 5,512,731 |
| Cash at bank and in hand | | 50 | - |
| | | <u>9,410,124</u> | <u>5,512,731</u> |
| CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR | 10 | <u>(9,016,460)</u> | <u>(5,181,285)</u> |
| NET CURRENT ASSETS | | <u>393,664</u> | <u>331,446</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>3,807,813</u> | <u>3,139,338</u> |
| CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR | 11 | <u>(3,008,711)</u> | <u>(2,783,776)</u> |
| | | <u>£799,102</u> | <u>£355,562</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 12 | 2 | 2 |
| Profit and loss account | 13 | 799,100 | 355,560 |
| EQUITY SHAREHOLDERS' FUNDS | | <u>£799,102</u> | <u>£355,562</u> |

APPROVED BY THE BOARD OF DIRECTORS

M T Samuels



R E L Cocks



24 September 1999

NOTES TO THE ACCOUNTS

29 November 1998

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) Foreign currency transactions

Transactions in foreign currencies are translated at the rate of exchange on the date of the transaction. Assets and liabilities in foreign currencies are translated at the balance sheet date. Exchange differences are taken to the profit and loss account.

c) 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% per annum reducing balance |
| Furniture, fixtures and fittings | - 15% per annum straight line |
| Office equipment | - 20% per annum straight line |
| Computer equipment | - 25% per annum straight line. |

d) 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.

e) Leased assets

Fixed assets held under finance leases, including hire purchase contracts, 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.

f) 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.

g) Pensions costs

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. OPERATING PROFIT

| 52 weeks ended | 53 weeks ended |
|----------------|----------------|
| 29 November | 30 November |
| 1998 | 1997 |
| £ | £ |

The operating profit is arrived at after charging or crediting

| | | | |
|-----------------------------------|---------------------|----------|----------|
| Amortisation of intangible assets | | 71,500 | 71,500 |
| Depreciation | - owned assets | 210,684 | 144,559 |
| | - leased assets | 586,236 | 391,222 |
| Profit on sale of fixed assets | | (34,651) | (20,165) |
| Auditors' remuneration | - audit | 17,000 | 12,000 |
| Operating lease charges | - property | 16,872 | 54,606 |
| | - hire of machinery | - | 8,032 |
| Losses on foreign exchange | | 191 | 2,247 |

NOTES TO THE ACCOUNTS

DIAGONAL

29 November 1998

3. EMPLOYEES

**52 weeks ended
29 November
1998** **53 weeks ended
30 November
1997**

The average number employed by the Company during the period, including those Directors whose employment costs were borne by the Company, was as follows

| | <i>No. of employees</i> | |
|----------------|-------------------------|------------|
| Operating | 190 | 133 |
| Sales | 10 | 7 |
| Administration | 18 | 17 |
| | <u>218</u> | <u>157</u> |

The costs incurred in respect of these employees were as follows

| | | |
|--|--------------------|--------------------|
| Wages and salaries | 14,215,897 | 9,149,496 |
| Social security costs | 1,479,729 | 980,476 |
| Other pension costs | 33,011 | 39,333 |
| Compensation payments and other redundancy costs | 75,250 | 6,580 |
| | <u>£15,803,887</u> | <u>£10,175,885</u> |

4. DIRECTORS

**52 weeks ended
29 November
1998** **53 weeks ended
30 November
1997**

Aggregate remuneration, excluding pension contributions of those Directors whose emoluments were borne by the Company

£965,627 £807,945

Contributions paid in respect of money purchase pension schemes

£18,565 £24,600

Numbers of Directors who were members of a money purchase scheme

three two

Highest paid Director
Emoluments excluding pension contributions

£165,457 £155,595

Contribution paid in respect of a money purchase pension scheme

£- £9,600

5. INTEREST PAYABLE AND SIMILAR CHARGES

**52 weeks ended
29 November
1998** **53 weeks ended
30 November
1997**

Group interest in respect of bank overdraft
Finance lease charges
Other interest

150,000 78,000
57,803 34,202
184 133

£207,987 £112,335

NOTES TO THE ACCOUNTS

29 November 1998

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

| | <i>52 weeks ended 29 November 1998</i> | <i>53 weeks ended 30 November 1997</i> |
|--|--|--|
| Corporation tax at 31% (1997 – 31.67%) | 1,628,683 | 751,669 |
| Group relief | - | 58,641 |
| (Over)/under provision in prior years | (158) | 6,086 |
| | <u>£1,628,525</u> | <u>£816,396</u> |

The tax charge is disproportionately high due to the amortisation of goodwill.

7. INTANGIBLE FIXED ASSETS

Goodwill arising on acquisition of trades

| | <i>DIAGONAL Plc</i> | <i>Strand Computer Systems</i> | <i>Total</i> |
|---|---------------------|--|--------------|
| Cost | | | |
| At 30 November 1997 and 29 November 1998 | 1,200,000 | 230,000 | 1,430,000 |
| Amortisation | | | |
| At 30 November 1997 | 420,000 | 80,500 | 500,500 |
| Provided in the period | 60,000 | 11,500 | 71,500 |
| At 29 November 1998 | 480,000 | 92,000 | 572,000 |
| Net book value | | | |
| At 29 November 1998 | £720,000 | £138,000 | £858,000 |
| At 30 November 1997 | £780,000 | £149,500 | £929,500 |

NOTES TO THE ACCOUNTS

DIAGONAL

29 November 1998

8. 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 30 November 1997 | 2,165,339 | 86,362 | 70,360 | 680,959 | 3,003,020 |
| Additions | 1,338,368 | 1,295 | 6,988 | 321,580 | 1,668,231 |
| Disposals | (545,341) | (54,235) | (25,911) | (80,688) | (706,175) |
| At 29 November 1998 | 2,958,366 | 33,422 | 51,437 | 921,851 | 3,965,076 |
| Depreciation | | | | | |
| At 30 November 1997 | 740,171 | 67,010 | 43,865 | 273,582 | 1,124,628 |
| Charge for the period | 592,823 | 5,509 | 9,254 | 189,334 | 796,920 |
| Disposals | (361,942) | (52,255) | (24,762) | (73,662) | (512,621) |
| At 29 November 1998 | 971,052 | 20,264 | 28,357 | 389,254 | 1,408,927 |
| Net book value | | | | | |
| At 29 November 1998 | £1,987,314 | £13,158 | £23,080 | £532,597 | £2,556,149 |
| At 30 November 1997 | £1,425,168 | £19,352 | £26,495 | £407,377 | £1,878,392 |
| Net book value of assets held under finance leases | | | | | |
| At 29 November 1998 | £1,984,024 | - | - | - | £1,984,024 |
| At 30 November 1997 | £1,379,680 | - | - | £2,558 | £1,382,238 |

9. DEBTORS

| | <i>29 November 1998</i> | <i>30 November 1997</i> |
|---------------------------------|-----------------------------|-----------------------------|
| Trade debtors | 9,032,691 | 5,139,765 |
| Amounts owed by Group companies | 335,797 | 208,213 |
| Other debtors | 5,709 | 6,479 |
| Corporation tax receivable | 158 | - |
| Prepayments and accrued income | 35,719 | 158,274 |
| | £9,410,074 | £5,512,731 |

10. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

| | <i>29 November 1998</i> | <i>30 November 1997</i> |
|------------------------------------|-----------------------------|-----------------------------|
| Bank overdraft | 128,211 | 4,949 |
| Obligations under finance leases | 726,880 | 490,137 |
| Trade creditors | 1,411,973 | 784,612 |
| Amounts owed to Group companies | 152,249 | 393,578 |
| Corporation tax payable | 1,628,683 | 666,819 |
| Group relief payable | - | 149,648 |
| Other taxation and social security | 1,211,017 | 686,957 |
| Other creditors | - | 100,706 |
| Accruals and deferred income | 757,447 | 553,879 |
| Dividends payable | 3,000,000 | 1,350,000 |
| | £9,016,460 | £5,181,285 |

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

NOTES TO THE ACCOUNTS

29 November 1998

| 11. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR | 29 November 1998 | 30 November 1997 |
|--|----------------------|----------------------|
| Amounts owed to parent company Obligations under finance leases | 2,250,000 758,711 | 2,250,000 533,776 |
| | <u>£3,008,711</u> | <u>£2,783,776</u> |
| Obligations under finance leases fall due as follows | | |
| Between one and two years | 528,615 | 368,138 |
| Between two and five years | 230,096 | 165,638 |
| | <u>£758,711</u> | <u>£533,776</u> |
| 12. SHARE CAPITAL | 29 November 1998 | 30 November 1997 |
| Authorised 1,000 Ordinary shares at £1 each | <u>£1,000</u> | <u>£1,000</u> |
| Called up, allotted and fully paid 2 Ordinary shares of £1 each | <u>£2</u> | <u>£2</u> |
| 13. PROFIT AND LOSS ACCOUNT | | |
| Balance at 30 November 1997 Retained profit for the financial period | | 355,560 443,540 |
| Balance at 29 November 1998 | | <u>£799,100</u> |
| Since the Company commenced trading on 1 December 1991, cumulative dividends have been paid to the parent company amounting to £5,765,000 and cumulative provisions have been made for the amortisation of goodwill arising on the acquisition of trades amounting to £572,000 (1997 - £500,500) – see note 7. | | |
| 14. RELATED PARTY TRANSACTIONS | | |
| The Company is taking advantage of the exemption granted by paragraph 3.(c) of Financial Reporting Standard No.8, 'Related Party Transactions', not to disclose transactions with group companies which are related parties. | | |
| 15. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY | | |
| The ultimate parent company and controlling party is 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, Maindy, Cardiff, Wales, CF4 3UZ. | | |

NOTES TO THE ACCOUNTS

29 November 1998

16. FINANCIAL COMMITMENTS

a) Capital

At 29 November 1998 the Company had contracted to purchase tangible fixed assets costing £245,354 (30 November 1997 - £217,370) which are not included in these accounts.

b) Operating leases

At the period end the Company had annual commitments under non-cancellable operating leases as set out below

| | <i>29 November 1998</i> | | <i>30 November 1997</i> | |
|--|-------------------------------|--------------|-------------------------------|--------------|
| | <i>Land and buildings</i> | <i>Other</i> | <i>Land and buildings</i> | <i>Other</i> |
| Operating leases which expire within one year | - | - | 16,637 | - |
| in the second to fifth year | - | - | - | 276 |
| | £- | £- | £16,637 | £276 |

17. 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 29 November 1998 the contingent liability amounted to £265,848 (30 November 1997 - £nil).