

ACCOUNTS

DIAGONAL COMPUTER SERVICES LIMITED

Company No : 2304655

24 November 1996



The directors present their report and the audited accounts for the 52 weeks ended 24 November 1996.

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

Strong growth was experienced throughout the period particularly from the increasingly successful SAP Consulting Division. Operating margin increased to very nearly 10% of turnover. Further strong growth is expected in 1997.

RESULTS AND DIVIDENDS

Details of the results are set out on page 4 and the movements in reserves are shown in note 15 on page 11. The directors recommend the payment of a dividend of £750,000 (1995 - £375,000).

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:

		10p Ordinary shares	
		24 November 1996	26 November 1995
D. M. Beresford	(appointed 1 June 1996)	13,750	-
Ms. J. M. Burr	(resigned 30 November 1995)		
Ms. C. Chittock	(appointed 1 June 1996)	8,000	-
R. E. L. Cocks		70,000	70,000
D. P. Fidgeon		163,833	173,333
D. K. Ireland	(resigned 8 December 1995)		
I. Mainprize	(appointed 30 May 1996)	50,000	40,000

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.

By order of the board

R. E. L. Cocks

Secretary

20 May 1997



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.

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 hence 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 12 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 24 November 1996 and 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

20 May 1997

PROFIT AND LOSS ACCOUNT
52 weeks ended 24 November 1996

DIAGONAL

	Note	52 weeks ended 24 November 1996	52 weeks ended 26 November 1995
TURNOVER	1(b)	14,125,494	10,445,603
COST OF SALES		<u>(9,957,311)</u>	<u>(7,558,335)</u>
GROSS PROFIT		4,168,183	2,887,268
ADMINISTRATIVE EXPENSES			
Exceptional items	2	-	(164,457)
Other administrative expenses		<u>(2,692,692)</u>	<u>(1,865,604)</u>
		<u>(2,692,692)</u>	<u>(2,030,061)</u>
		1,475,491	857,207
AMOUNT WRITTEN OFF GOODWILL		<u>(71,500)</u>	<u>(71,500)</u>
OPERATING PROFIT	3	1,403,991	785,707
Interest receivable	6	1,698	820
Interest payable and similar charges	7	<u>(153,640)</u>	<u>(113,470)</u>
		<u>(151,942)</u>	<u>(112,650)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,252,049	673,057
TAX ON PROFIT ON ORDINARY ACTIVITIES	8	<u>(442,305)</u>	<u>(273,553)</u>
PROFIT FOR THE PERIOD		809,744	399,504
EQUITY DIVIDENDS PAYABLE		<u>(750,000)</u>	<u>(375,000)</u>
RETAINED PROFIT FOR THE FINANCIAL PERIOD	15	<u><u>£59,744</u></u>	<u><u>£24,504</u></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
24 November 1996


	Note	24 November 1996	26 November 1995 (as restated)
FIXED ASSETS			
Intangible assets	9	1,001,000	1,072,500
Tangible assets	10	1,237,779	914,473
		<u>2,238,779</u>	<u>1,986,973</u>
CURRENT ASSETS			
Debtors	11	3,998,405	2,850,963
Cash at bank and in hand		-	22,097
		<u>3,998,405</u>	<u>2,873,060</u>
CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR			
	12	<u>(4,008,484)</u>	<u>(3,120,492)</u>
NET CURRENT LIABILITIES		<u>(10,079)</u>	<u>(247,432)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,228,700	1,739,541
CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
	13	(2,138,115)	(1,708,700)
		<u>£90,585</u>	<u>£30,841</u>
CAPITAL AND RESERVES			
Called up share capital	14	2	2
Profit and loss account	15	90,583	30,839
EQUITY SHAREHOLDERS' FUNDS		<u>£90,585</u>	<u>£30,841</u>

APPROVED BY THE BOARD OF DIRECTORS

M. T. Samuels

R. E. L. Cocks

20 May 1997



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) Accounting date and restatement of comparative figures

In previous years the company's accounts have been made up to 30 November. In practice the profit and loss account was made up to the nearest preceding Sunday and the balance sheet was adjusted forwards to 30 November by accounting for the movements in cash, debtors and creditors. It is now the policy of the company to make the accounts up to the effective date of the transactions as reflected within the profit and loss account. Consequently the comparative figures in the balance sheet have been readjusted to the revised accounting date for 1995.

b) Turnover

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

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% 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.

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, 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) Pension costs

Until the end of the financial year the company participated in the DIAGONAL Contracted Out Money Purchase pension scheme on behalf of some members of staff. This involved 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.

h) Cash flow

The company is exempt from preparing a cash flow statement under FRS1 because a consolidated cash flow statement is prepared in the parent company's accounts.

2. EXCEPTIONAL ITEMS

The exceptional items in Administrative expenses in 1995 comprised

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

3. OPERATING PROFIT

The operating profit is arrived at after charging

	<i>52 weeks ended</i>	
	<i>24 November 1996</i>	<i>26 November 1995</i>
	£	£
Amounts written off intangible assets	71,500	71,500
Depreciation	78,405	48,408
- owned assets		
- leased assets	294,290	227,888
Auditors' remuneration	11,000	9,000
Operating lease charges	116,308	89,016
- property		
- hire of machinery	<u>7,489</u>	<u>4,684</u>

4. EMPLOYEES

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>52 weeks ended</i>	
	<i>24 November 1996</i>	<i>26 November 1995</i>
	<i>No. of employees</i>	
Operating	96	69
Sales	11	11
Administration	15	15
	<u>122</u>	<u>95</u>

The costs incurred in respect of these employees were as follows

Wages and salaries	6,102,106	4,073,840
Social security costs	640,890	437,379
Other pension costs	32,439	28,545
Compensation payments & other redundancy costs	<u>13,842</u>	<u>182,790</u>
	<u><u>£6,789,277</u></u>	<u><u>£4,722,554</u></u>

5. DIRECTORS

The emoluments of the directors of the company were as follows

	52 weeks ended	
	24 November 1996	26 November 1995
Management remuneration	625,966	501,792
Compensation payments including taxable benefits	-	122,094
	<u>£625,966</u>	<u>£623,886</u>

The management remuneration excluding pension contributions of directors was as follows

	£-	£-
Chairman	<u>£-</u>	<u>£-</u>
Highest paid director	<u>£140,414</u>	<u>£98,728</u>

Other directors

	No. of directors	
£0 to £5,000	one	none
£5,001 to £10,000	one	none
£40,001 to £45,000	one	none
£45,001 to £50,000	none	one
£50,001 to £55,000	none	two
£55,001 to £60,000	one	none
£60,001 to £65,000	none	one
£65,001 to £70,000	one	none
£70,001 to £75,000	one	none
£75,001 to £80,000	one	none
£80,001 to £85,000	none	one
£85,001 to £90,000	none	one
£140,001 to £145,000	<u>one</u>	<u>none</u>

6. INTEREST RECEIVABLE

	52 weeks ended	
	24 November 1996	26 November 1995
Bank interest	1,698	816
Other interest	-	4
	<u>£1,698</u>	<u>£820</u>

7. INTEREST PAYABLE AND SIMILAR CHARGES

	52 weeks ended	
	24 November 1996	26 November 1995
Group interest in respect of bank overdraft repayable within five years	115,811	74,493
Finance lease charges	37,829	38,967
Other interest	-	10
	<u>£153,640</u>	<u>£113,470</u>

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	<i>52 weeks ended</i>	
	<i>24 November 1996</i>	<i>26 November 1995</i>
Taxation is based on the results for the period and comprises		
Corporation tax at 33%	463,576	281,722
Overprovision in prior years	(21,271)	(9)
Deferred taxation	-	(8,160)
	<u>£442,305</u>	<u>£273,553</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 27 November 1995 and 24 November 1996	<u>1,200,000</u>	<u>230,000</u>	<u>1,430,000</u>
Amortisation			
At 27 November 1995	300,000	57,500	357,500
Provided in the period	<u>60,000</u>	<u>11,500</u>	<u>71,500</u>
At 24 November 1996	<u>360,000</u>	<u>69,000</u>	<u>429,000</u>
Net book value			
At 24 November 1996	<u>£840,000</u>	<u>161,000</u>	<u>£1,001,000</u>
At 26 November 1995	<u>£900,000</u>	<u>172,500</u>	<u>£1,072,500</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 27 November 1995	1,115,883	91,528	42,823	190,539	1,440,773
Additions	609,724	165	23,897	179,718	813,504
Disposals	(262,538)	(5,864)	-	(4,549)	(272,951)
At 24 November 1996	1,463,069	85,829	66,720	365,708	1,981,326
Depreciation					
At 27 November 1995	368,419	54,411	30,017	73,453	526,300
Charge for the period	293,472	8,452	5,721	65,050	372,695
Disposals	(152,142)	(1,405)	-	(1,901)	(155,448)
At 24 November 1996	509,749	61,458	35,738	136,602	743,547
Net book value					
At 24 November 1996	£953,320	24,371	30,982	229,106	£1,237,779
At 26 November 1995	£747,464	37,117	12,806	117,086	£914,473
Net book value of assets held under finance leases					
At 24 November 1996	£920,253	-	-	10,235	£930,488
At 26 November 1995	£732,452	-	-	17,911	£750,363

11. DEBTORS

	24 November 1996	26 November 1995 (as restated)
Amounts owed by group companies	87,324	-
Trade debtors	3,853,210	2,777,718
Other debtors	9,035	2,685
Corporation tax recoverable	-	15,081
Prepayments and accrued income	48,836	55,479
	£3,998,405	£2,850,963

12. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR	24 November 1996	26 November 1995 (as restated)
Bank overdraft	49,962	-
Trade creditors	779,918	561,936
Amounts owed to group companies	77,346	557,664
Other creditors	582,451	406,684
Corporation tax payable	377,855	281,713
Group relief payable	85,722	-
Other taxation and social security	612,095	365,230
Obligations under finance leases	341,006	289,754
Dividends payable	750,000	375,000
Accruals and deferred income	352,129	282,511
	<u>£4,008,484</u>	<u>£3,120,492</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	24 November 1996	26 November 1995
Amount owed to parent company	1,800,000	1,430,000
Obligations under finance leases	338,115	278,700
	<u>£2,138,115</u>	<u>£1,708,700</u>

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

14. SHARE CAPITAL	24 November 1996	26 November 1995
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>

15. PROFIT AND LOSS ACCOUNT	
Balance at 27 November 1995	30,839
Retained profit for the financial period	<u>59,744</u>
Balance at 24 November 1996	<u>£90,583</u>

Since the company commenced trading on 1 December 1991, cumulative dividends have been paid to the parent company amounting to £1,415,000 and cumulative provisions have been made for the amortisation of goodwill arising on the acquisition of trades amounting to £429,000 (1995 - £357,500) - see note 9.

16. 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, Maindy, Cardiff, Wales, CF4 3UZ.

17. FINANCIAL COMMITMENTS

a) Capital

At 24 November 1996 the company had contracted to purchase tangible assets costing £158,614 (26 November 1995 - £62,760) 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.

	<u>24 November 1996</u>		<u>26 November 1995</u>	
	<u>Land and buildings</u>	<u>Other</u>	<u>Land and buildings</u>	<u>Other</u>
Operating leases which expire				
- within one year	18,941	6,237	22,208	-
- in the second to fifth year	-	685	-	6,676
- over five years	41,552	-	41,552	-
	<u>£60,493</u>	<u>£6,922</u>	<u>£63,760</u>	<u>£6,676</u>

18. 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 24 November 1996 the contingent liability amounted to £240,554 (restated 26 November 1995 - £666,904).