

## **Report and Financial Statements**

### **Diagonal Solutions Limited**

Company No: 643333

28 November 2003



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## Directors' Report

The Directors present their report and the audited financial statements for the 52 weeks ended 28 November 2003.

### Principal Activity

The principal activity of the Company, which is a wholly owned subsidiary of Diagonal Plc, is the provision of professional services in information technology.

### Review of the Business

Diagonal Solutions has developed an electronic records management product "Wisdom", which is based on Microsoft technology, for use in both the commercial and government sectors. Diagonal Solutions also specialises in EAI and content management solutions and is a Microsoft Gold Certified Partner. The Company has enjoyed a successful year. The launch of 'Wisdom 6' is planned for 2004.

### Results and Dividends

Details of the results are set out on page 5 and the movement in the profit and loss account is shown in note 13 on page 11. A dividend of £500,000 (2002: £2,000,000) has been paid to the parent company.

### Directors

The Directors who served throughout the period, except as noted, and the beneficial interests of those serving at the end of the period in the shares of the ultimate parent company, Diagonal Plc, were as follows:

	<b>10p Ordinary Shares</b>	
	<b>28 November 2003</b>	<b>29 November 2002</b>
D J Filler (resigned 18 July 2003)	-	13,000
G S Hodges	-	13,533
M Lord	600	18,600

The share options held at 28 November 2003 over shares in the ultimate holding company were as follows:

### Save-As-You-Earn Option Scheme

	<b>Date of Grant</b>	<b>Exercise Price</b>	<b>As at 29 November 2002</b>	<b>Granted / (Lapsed) In period</b>	<b>As at 28 November 2003</b>	<b>Exercise Period</b>
D J Filler	April 2002	85p	11,176	(11,176)	-	April 2005 - October 2005
G S Hodges	April 2002	85p	11,176	(11,176)	-	April 2005 - October 2005
G S Hodges	April 2003	40p	-	23,625	23,625	April 2006 - October 2006
M Lord	April 2002	85p	11,176	(11,176)	-	April 2007 - October 2007
M Lord	April 2005	40p	-	20,531	20,531	April 2008 - October 2008

### Long Term Incentive Plan

	<b>Date of Grant</b>	<b>Exercise Price</b>	<b>Options Held</b>	<b>Exercise Date</b>	<b>Expiry Date</b>
D J Filler	May 2001	n/a	27,000	May 2004	May 2011
D J Filler	March 2002	n/a	89,201	March 2005	March 2012
G S Hodges	March 2002	n/a	61,032	March 2005	March 2012

The options held under the Long Term Incentive Plan were granted at nil cost and are exercisable subject to Group performance targets being met.

M T Samuels, who served throughout the period, together with M J Andrews (appointed 6 November 2003), C D Burnside, (appointed 22 July 2003), G M Creswick (resigned 22 July 2003) and S R Fleming (resigned 22 July 2003) served as Directors of the company and of the parent company during the year and their interests in the shares and share options of the parent company are disclosed in the financial statements of Diagonal Plc.

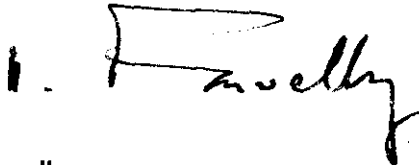
No Director had any interests in the shares of the Company or any other subsidiary of Diagonal Plc during the period.

## Directors' Report (continued)

### Auditors

On 1 August 2003 Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 25(5) of the Companies Act 1989. Pursuant to section 386 Companies Act 1985 an elective resolution was passed on 16 October 2001 dispensing with the requirement to appoint auditors annually. Therefore, Deloitte & Touche LLP are deemed to continue as auditors.

By order of the Board

A handwritten signature in black ink, appearing to read 'I B Farrelly', with a stylized flourish at the end.

I B Farrelly

Secretary  
31 March 2004

## Statement of Directors' Responsibilities

United Kingdom company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period 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; 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 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 the system of internal control, for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Independent Auditors' Report to the Members of Diagonal Solutions Limited

We have audited the financial statements of Diagonal Solutions Limited for the 52 weeks ended 28 November 2003 which comprise the profit and loss account, the balance sheet and the related notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 described in the Statement of Directors' Responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company are not disclosed.

We read the Directors' Report for the above period and consider the implications for our report if we become aware of any apparent misstatements.

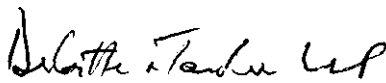
### Basis of Opinion

We conducted our audit in accordance with United Kingdom 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 28 November 2003 and of its profit for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors  
London

6 April 2004

## Profit and Loss Account

52 weeks ended 28 November 2003

	Note	52 weeks ended 28 November 2003 £	52 weeks ended 29 November 2002 £
Turnover	1(a)	4,908,190	5,855,343
Cost of Sales		(2,708,013)	(3,542,949)
Gross Profit		2,200,177	2,312,394
Administrative Expenses		(1,491,552)	(1,944,857)
Operating Profit	2	708,625	367,537
Interest receivable and similar income	5	3,883	334
Profit on Ordinary Activities Before Taxation		712,508	367,871
Tax on Profit on Ordinary Activities	6	(213,112)	(90,860)
Profit on Ordinary Activities After Taxation		499,396	277,011
Dividend	7	(500,000)	(2,000,000)
Retained Loss For the Financial Period	13	(604)	(1,722,989)

All activities derive from continuing operations.

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

There are no movements in shareholders' funds other than as shown above. Accordingly, no reconciliation of movement of shareholders' funds is given.

# Balance Sheet

28 November 2003

	Note	As at 28 November 2003 £	As at 29 November 2002 £
<b>Fixed Assets</b>			
Tangible assets	8	105,576	94,901
<b>Current Assets</b>			
Debtors	9	3,654,575	3,711,154
Cash at bank and in hand		8,333	1,372
		<u>3,662,908</u>	<u>3,712,526</u>
<b>Creditors – Amounts Falling Due Within One Year</b>	10	<u>(3,007,594)</u>	<u>(3,045,933)</u>
<b>Net Current Assets</b>		<u>655,314</u>	<u>666,593</u>
<b>Total Assets</b>			
<b>Less Current Liabilities</b>		<u>760,890</u>	<u>761,494</u>
<b>Capital and Reserves</b>			
Called up Share Capital	12	10,000	10,000
Share Premium Account		3,294	3,294
Profit and Loss Account	13	<u>747,596</u>	<u>748,200</u>
<b>Equity Shareholders' Funds</b>		<u>760,890</u>	<u>761,494</u>

These financial statements were approved by the Board of Directors on 31 March 2004 and signed on their behalf by:



M J Andrews

## Notes to the Accounts

### 1. Accounting Policies

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, using the historical cost convention. The particular accounting policies which the Directors have adopted within that convention are set out below. The accounting policies have been consistently applied.

#### a) Turnover

Turnover is the amount derived from the provision of services falling within the Company's principal activities after deduction of value added tax. All turnover originates in the United Kingdom.

#### 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

Fixed assets are valued at cost less accumulated depreciation and any provision for impairments. 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

Office equipment	- 15% per annum straight line
Computer equipment	- 25% per annum straight line.

#### d) Research and development

Research and development expenditure is written-off as incurred.

#### e) Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those which are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### f) Pension costs

Contributions are made towards personal pension plans of certain senior employees. The pension cost represents the Company's contributions made in respect of the accounting period.

#### g) Cash flow statement

The Company is a wholly owned subsidiary of Diagonal plc and the cash flows of the Company are included in the consolidated cash flow statement of Diagonal plc. Consequently the Company is exempt from the requirement under FRS 1 (revised) to prepare a cash flow statement.

### 2. Operating Profit

		52 weeks ended 28 November 2003 £	52 weeks ended 29 November 2002 £
The operating profit is arrived at after charging / (crediting):			
Depreciation	- owned assets	46,222	46,605
Loss on sale of fixed assets		306	1,453
Auditors' remuneration	- audit	8,400	8,200
	- other services	2,000	1,900
Research and development expenditure		163,411	77,380
Loss/(profit) on foreign exchange		9	(29)
		<hr/>	<hr/>



# Notes to the Accounts

## 3. Employees

52 weeks ended  
28 November  
2003

52 weeks ended  
29 November  
2002

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

	Number	Number
Operating	29	38
Sales	8	14
Administration	6	7
	<u>43</u>	<u>59</u>
	£	£

The costs incurred in respect of these employees were as follows:

Wages and salaries	1,831,539	2,321,550
Social security costs	209,513	243,691
Other pension costs	39,540	50,820
	<u>2,080,592</u>	<u>2,616,061</u>

## 4. Directors

52 weeks ended  
28 November  
2003

52 weeks ended  
29 November  
2002

£

£

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

214,520

185,201

Contributions paid in respect of money purchase pension schemes

10,576

9,249

Number

Number

Numbers of Directors who were accruing benefits as members of a money purchase scheme

2

2

Highest paid Director

Emoluments excluding pension contributions

118,708

77,236

Contributions paid in respect of money purchase pension scheme

7,176

6,403

## Notes to the Accounts

<b>5. Interest Receivable</b>	<b>52 weeks ended 28 November 2003 £</b>	<b>52 weeks ended 29 November 2002 £</b>
Other interest receivable	3,883	334
Total interest receivable	3,883	334
<b>6. Tax on Profit on Ordinary Activities</b>	<b>52 weeks ended 28 November 2003 £</b>	<b>52 weeks ended 29 November 2002 £</b>
UK corporation tax on profits for the period	(5,700)	(113,104)
Group relief - surrendered by other group undertakings	(203,798)	-
Adjustments in respect of prior periods	(1,167)	(2,188)
Current tax - charge for the period	(210,665)	(110,916)
Deferred tax	(2,447)	20,056
Tax on Profit on Ordinary Activities	(213,112)	(90,860)

The standard rate of tax for the current and prior year is 30%. The actual tax charge for the current and prior year exceeds the standard rate for the reasons set out below:

	<b>52 weeks ended 28 November 2003 £'000</b>	<b>52 weeks ended 29 November 2002 £'000</b>
Profit on ordinary activities before tax	712,508	367,871
Tax at 30% thereon:	(213,753)	(110,361)
Effects of:		
Expenses not deductible for tax purposes	(1,515)	(4,500)
Capital allowances in excess of depreciation	2,470	1,757
Marginal relief	3,300	-
Prior period adjustments	(1,167)	2,188
Current tax - charge for the period	(210,665)	(110,916)

<b>7. Dividend</b>	<b>52 weeks ended 28 November 2003 £</b>	<b>52 weeks ended 29 November 2002 £</b>
<b>Ordinary Shares</b>		
£50 per share (2002: £200 per share)	500,000	2,000,000

# Notes to the Accounts

## 8. Tangible Fixed Assets

	Office equipment £	Computer equipment £	Total £
<b>Cost</b>			
At 29 November 2002	24,596	345,276	369,872
Additions	4,995	52,208	57,203
Disposals	-	(667)	(667)
<b>At 28 November 2003</b>	<b>29,591</b>	<b>396,817</b>	<b>426,408</b>
<b>Depreciation</b>			
At 29 November 2002	19,851	255,120	274,971
Charge for the period	2,744	43,478	46,222
Disposals	-	(361)	(361)
<b>At 28 November 2003</b>	<b>22,595</b>	<b>298,237</b>	<b>320,832</b>
<b>Net book value</b>			
<b>At 28 November 2003</b>	<b>6,996</b>	<b>98,580</b>	<b>105,576</b>
At 29 November 2002	4,745	90,156	94,901

## 9. Debtors

	28 November 2003 £	29 November 2002 £
Trade debtors	939,083	872,865
Amounts owed by group undertakings	2,638,658	2,572,591
Other debtors	700	150,840
Deferred taxation (note 11)	17,609	20,056
Prepayments and accrued income	58,525	94,802
	<b>3,654,575</b>	<b>3,711,154</b>

## 10. Creditors – Amounts Falling Due Within One Year

	28 November 2003 £	29 November 2002 £
Trade creditors	150,904	203,357
Amounts owed to group undertakings	1,838,277	1,823,202
Corporation tax payable	5,700	110,916
Group relief payable	203,798	-
Other taxation and social security	135,738	349,923
Other creditors	8,165	12,043
Accruals and deferred income	665,012	546,492
	<b>3,007,594</b>	<b>3,045,933</b>

## Notes to the Accounts

### 11. Deferred Taxation

	28 November 2003 £	29 November 2002 £
<b>a) Movement on Deferred Taxation in the Period</b>		
Opening Balance	20,056	-
(Charge) / credit to profit and loss account	(2,447)	20,056
Closing Balance	<u>17,609</u>	<u>20,056</u>
<b>b) Analysis of Deferred Tax Balance</b>		
Capital allowances in excess of depreciation	<u>17,609</u>	<u>20,056</u>

The deferred tax asset is regarded as recoverable because the Directors are of the opinion, based on recent and forecast trading, that the level of taxable profits in the current and future years will be sufficient to ensure future reversal.

The deferred tax asset is regarded as recoverable as the directors are of the opinion, based on recent and forecast trading that the level of taxable profits in the current and future years will be sufficient to ensure future reversal.

### 12. Called up share capital

	28 November 2003 £	29 November 2002 £
Authorised, called up, allotted and fully paid 10,000 (2002: 10,000) Ordinary shares at £1 each	<u>10,000</u>	<u>10,000</u>

### 13. Profit and Loss Account

	£
Balance at 29 November 2002	748,200
Retained loss for the financial period	<u>(604)</u>
<b>Balance at 28 November 2003</b>	<b><u>747,596</u></b>

### 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 immediate parent company is MFT Computer Holdings Limited, a company incorporated in Great Britain. The ultimate parent company and controlling party, and the smallest and largest group for which group accounts are prepared is Diagonal Plc, a company incorporated in Great Britain, the accounts of which can be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff, Wales, CF14 3UZ.

Notes to the Accounts

16. Capital Commitments

	<i>28 November 2003 £</i>	<i>29 November 2002 £</i>
Authorised but not contracted for	<u>7,789</u>	<u>-</u>