Morse plc

FINAL Version

Morse plc

(Registered no 3108179)

Annual Report and Accounts
for the year ended 30 June 2007

Morse plc

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Highlights

In the year Morse plc consisted of two operating units, Morse Consulting (Morse's professional services business) and Monitise (Morse's secure mobile banking applications business) The demerger of Monitise was completed on 28 June 2007, resulting in Morse becoming a pure professional services business reported here as continuing operations For the year ended 30 June 2007 the results for the Monitise business include an operating loss of £7 3 million (operating loss of £6 6 million and share of loss of JV of £0 7 million) and £2 5 million of expenses associated with the Monitise demerger These results are reported as discontinued operations and prior year figures have been restated accordingly

Financial Highlights

- Operating profit from continuing operations before exceptional items up 16% to £12 2 million (2006 £10 6 million), having significantly improved in the last two years (2005 £7 6 million)
- Operating margin percentage from continuing operations before exceptional items up 1 2% points to 4 8% (2006 3 6%)
- Profit before tax[1] from continuing operations before exceptional items up 14% to £12 5 million (2006 £11 0 million)
- Revenue from continuing operations of £256 5 million (2006 £296 5 million)
- Strong cash position of £15 3 million to support ongoing investment in the business (2006 £17 8 million)
- Pro forma adjusted basic earnings per share[2] of 5 6p (2006 5 0p)
- Proposed final dividend of 2 80p per share (2006 2 70p per share) resulting in a total dividend for the year up 3 8% at 4 05p per share (2006 3 90p per share)

1 includes total net financing income of £0 3 million (2006 £0 4 million)
2 definition can be found in the Earnings Per Share section of the Financial Review

Statutory results for continuing and discontinued operations

- Operating profit £4 3 million (2006 £12 8 million)
- Profit before tax £3 8 million (2006 £6 0 million)
- Basic earnings per share 1 0p (2006 2 6p)

Operational Highlights

- Successful demerger of Monitise with no further funding obligations, giving Morse the strategic focus and financial strength to fulfil its potential as a professional services firm
- Fully integrated business operating under a single Morse brand, with strong differentiation in the business and IT consulting services market
- Clearly defined growth strategy and medium term performance objectives to
    - Double the operating margin to 7 2% (from 3 6% at 30 June 2006)
    - Deliver absolute operating profit of £20 0 million
    - Enhance operating margin by between 0 5% and 1 0% per annum
    - Improve gross margin to between 27% and 30%
    - Enhance the recurring revenue stream from 24% to 30%
    - Increase chargeable headcount aligned to our revenue and profit targets
    - Develop the balance of One Morse clients to greater than 50% of our core relationships
- Strong prospects for the current financial year

Morse plc

Chairman's statement

This year the Group became a fully integrated, international professional services firm, operating under one brand and delivering business and IT consultancy services across four chosen industry sectors Following the successful demerger of the mobile banking applications business, Monitise, in June 2007, Morse is now totally focused as a pure professional services business and over the past year we have made many changes to our operating model to ensure we have the right foundation to take the business forward Morse now has the ability and resources to pursue its own growth strategy, building on our outstanding blue chip client base and leveraging our range of specialist capabilities

Results

Operating profit before interest, taxation and exceptional items from continuing operations was up 16% to £12 2 million (2006 £10 6 million) The continuing business has seen a significant increase in operating profit over the past two years (2005 £7 6 million to 2007 £12 2 million) Operating margin percentage from continuing operations was up 1 2% points to 4 8% (2006 3 6%) The increase in operating margin reflects the continuing improvement in the underlying quality and mix of our services business We will aim to maintain solid earnings per share growth at similar levels to that achieved in the year to 30 June 2007

Group revenue from continuing operations for the year to 30 June 2007 was £256 5 million (2006 £296 5 million) The decline in revenue was principally due to our continued withdrawal from the IT infrastructure product fulfillment business and our desire to ensure product is only ever delivered as part of a services engagement We now believe that our revenue is reaching a level of support from which we can progress

A final dividend of 2 80p (2006 2 70p) will be proposed for shareholder approval at the Annual General Meeting to be convened on 30 October 2007 and, subject to shareholder approval, will be paid to shareholders on the register as at 12 October 2007 The dividend will be payable on 5 November 2007

Morse

Morse's advisory and execution services are focused on three main areas Management Consulting, Applications Consulting and Infrastructure Consulting We will continue to manage the business broadly along these lines in the short term as we strengthen our existing vertical sector capabilities in four key markets financial services, media and communications, commercial and public sector We are already transitioning our relationships with many strategic clients and over time will move to a full client-driven vertical sector model

By combining the strengths of our three business units into a single portfolio of services, we are now providing our clients with specialist services in support of their business strategies and operating models including business processes, IT applications and IT infrastructure We maintain strong partnerships with the market-leading product and solutions vendors We are also leveraging our specialist expertise and deep industry domain knowledge to develop long term sustainable client relationships

Morse operates under one brand, with one culture, utilising a unified client franchise We have established strong thought leadership in our chosen sectors and emerging information technology and we aim to deliver total solutions to clients We can deliver in a consistent style and develop our people within a single coordinated talent management process and we aim to attract and retain the best talent available

Morse is a top 15 consultancy player in the UK consulting market with strong international reach and is gaining market and client momentum As such, the business is now well placed to move towards the operating margins that are consistent with other established advisory and execution firms and we therefore aim to match or exceed industry benchmarks and double the operating margin percentage from 30 June 2006 over the medium-term

Following the demerger of Monitise at the financial year-end, Morse now has the strategic focus and financial strength to fulfil its potential as a pure professional services firm With the demerger of the Monitise business from Morse, Kevin Alcock was appointed Chief Executive Officer of Morse plc, having been Chief Executive of the Morse operating business since July 2006 Duncan McIntyre, previously Chief Executive Officer of Morse plc, has moved to the role of Deputy Chairman Management remains focused on the strong financial management that has been a hallmark of the Morse story to date, while pushing forward with clearly stated performance objectives and well defined actions to deliver shareholder value

Richard Lapthorne
Chairman
4 September 2007

Morse plc

What we do

One Company

Morse is an international consulting company offering our clients specialist business and IT advice and execution to maximise their results We are a delivery-oriented company, with focused industry expertise Our offering is a powerful combination of management, application and infrastructure consulting skills

We are a client-driven organisation in which every relationship matters in our efforts to deliver real value Moreover, our commitment to clarity of thought and effective communications helps to make the complex simple

Morse experts provide our clients with a blend of international, industry and technical specialisation Our people speak their clients' language and understand their metrics So what we do, we do right from the outset

Morse plc

The year in review

July 2006
Kevin Alcock is appointed CEO of Morse Group Limited to accelerate the transformation of the business into an advisory and execution professional services firm The One Morse programme is launched and 'Project Rainbow', a change management initiative, is established to drive and coordinate Morse's strategic goals

Morse's operations in Germany and Austria are sold because their focus as a reseller of technology does not fit the new profile of the firm

July 2006
Illustrating Morse's objective to develop international business reach through a process of skills acquisition, a new Management Consulting operation opens in Paris

August 2006
To support the transformation activity, a new One Morse business framework is introduced This encompasses the firm's vision, strategy and strategic goals and objectives It also includes the architecture for our operating model, structure, culture and communications and decision-making as well as systems for effective management, performance and governance

October 2006
To underpin Morse as a professional services company, David Mitchell joins as Managing Partner for human capital A new and detailed talent management programme is launched to ensure that Morse attracts, develops and retains the best people in the market

November 2006
To strengthen and enhance the executive and support the strategic goals of the business, the Morse Partnership Group is formed to provide an extended and client-driven leadership team

So far in 2007 .
The extensive Morse blue chip client base now benefits from newly established One Morse relationships, ensuring commercial advantage from the breadth and depth of consultancy services and solutions capabilities provided

February 2007
Morse culminates the success of the One Morse transformation programme with the launch of the new Morse brand and integrated Morse website The well received launch includes a comprehensive communications portfolio directed to all stakeholders

May 2007
The One Morse transformation project (Project Rainbow) successfully achieves its goals To support the transition from 'design phase' to 'execution phase', Morse launches seven strategic Group-wide objectives and key performance indicators

June 2007
Morse's financial year closes with the successful demerger of the Monitise business, allowing us to focus on accelerating the firm's development as a business and IT consulting company Kevin Alcock is appointed CEO of Morse plc to lead the business and deliver our strategic objectives

Morse plc

Chief Executive Officer's review

Morse has transformed itself into a fully integrated professional services company operating under one brand and, as a result, has made significant progress in improving the quality and mix of our business By combining the strengths of our three business units into a single portfolio of services, we are now providing our clients with specialist advisory and execution services in support of their business strategies and operating models including business processes, IT applications and IT infrastructure

What differentiates us from other companies in the market is our specialist knowledge, our ability to respond quickly to our clients' business and IT needs, and our company culture The new Morse brand is developing an outstanding reputation in the business and IT services market in our chosen sectors and we have the right strategy, investment capability and management skills in place to exploit our key strengths and to build on the strong position we have already established in our chosen markets

The Morse transformation programme has focused on improving the quality and shape of the business in terms of client relationships, mix of advisory and execution services and balance between product services and consultancy-led engagements This strategy has provided the foundation for the progress we are making towards our medium-term strategic goals to

- Double the operating margin to 7 2% (from 30 June 2006) by growing it between 0 5% and 1 0% per annum
- Deliver absolute operating profit of £20 0 million
- Improve gross margins to between 27% and 30%
- Enhance recurring revenue streams from 24% to 30%
- Increase chargeable headcount aligned to our revenue and profit targets
- Develop the balance of One Morse clients to greater than 50% of our core relationships

Achievements in the year

Having completed our transformation during the past year, we are now in the process of implementing our strategies and delivering the tangible results we sought

- Successful demerger of Monitise with no further funding obligations, giving Morse the strategic focus and financial strength to fulfil its potential as a professional services firm
- Fully integrated business operating under a single Morse brand, with strong differentiation in the business and IT consulting services market
- We have enhanced and strengthened the senior management team and have implemented a structured and very active talent management programme
- Progress against our clearly defined growth strategy and medium term performance objectives
    - Operating profit from continuing operations before exceptional items up 16% to £12 2 million (2006 £10 6 million), having significantly improved in the last two years (2005 £7 6 million)
    - Operating margin percentage from continuing operations before exceptional items up 1 2% points to 4 8% (2006 3 6%)
    - Recurring revenue enhanced from 22% to 24% over the last three years
    - Chargeable headcount has increased by 30% over the last three years
    - One Morse clients now represent 10-15% of the business
- Strong cash position of £15 3 million to support ongoing investment in the business

Strategic objectives

The Morse business now represents a balanced portfolio of business and IT consulting services and capabilities that we will continue to enhance by focusing on increasing client value and exceeding industry standard benchmark metrics To drive the business forward we are focusing on seven strategic objectives, each with detailed key performance indicators These are reviewed, developed and cascaded throughout the organization

- Making the most of the breadth and depth of Morse resources and capabilities through a strategic client management programme designed to enhance our client relationships
- Increasing our focused industry proposition capabilities through the development, recruitment and acquisition of specialist skills
- Developing a culture and values framework that, together with a structured people development programme, creates an inspiring environment for all stakeholders
- Optimising our core business process management to maximise the quality of client engagement and align resources directly to providing client value
- Growing the balance of our business profitably so that we can support our investment programme for enhancing our specialist consulting skills
- Delivering, in all aspects of the Morse business, the One Morse brand promise to offer better value to our clients
- Enhancing our capabilities as an international consulting business with selected investment in increasing local operational resources and skills base

Shape of the business going forward
There are three key dimensions to the Morse business that will shape the way that we develop and grow

- The range of our advisory and execution consultancy services
- The breadth and depth of our infrastructure, applications and management consulting capabilities
- The level of focused industry segment specialisation within the financial services, media and communications, commercial and public sector vertical markets

We plan to significantly increase the advisory services within our applications and infrastructure consultancy business units At the same time, we will develop and grow our execution services within our management consulting business unit from the strong base of advisory services that exist already

We will also drive a more comprehensive balance of services across our business units as we develop Morse's specialist capabilities and vertical market expertise

Industry verticals – Morse will continue to build on its significant position within the financial services market where we are a top five player and has revenues of £116 1 million We are developing the specialist media and communications business with a well-articulated client focus and market offering including defined propositions and solutions coverage that draws on a full range of Morse's consulting capabilities, and we continue to develop clients across the large operators, network providers, equipment manufacturers and media and content companies Media and communications now represent £50 4 million of revenue We will also continue to develop the breadth and depth of our proposition in the commercial sector, which already delivers £73 1 million in revenue, with emphasis on the retail and consumer goods segments In the public sector, a relatively small segment for Morse with revenues of £16 9 million, our focus will be on opportunities arising from the government's transformation agenda and back office transformation in local government

Plans are in place to move forward with all these areas from within our own resources We continue to invest organically and during the current year examples include, the development of our business in France and our focus on the Government's Building Schools for the Future (BSF) initiative which is already yielding opportunities for which we are short listed In addition, the Company will make acquisitions where these offer the opportunity to add specialist capabilities or accelerate the overall development effort

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Outlook

We have made a good start to the current financial year across all business units and remain on track to achieve our performance targets of a 7 2% operating margin producing an absolute operating profit of £20 0 million in the medium term

The business continues to identify and execute on opportunities to accelerate our strategy, we are moving forward with increasing confidence

Kevin Alcock
Chief Executive Officer
4 September 2007

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Business Review Section

The Directors have provided the following business review in accordance with the Companies Act Accordingly, the Company is disclosing the main trends and factors likely to affect the future development, performance and position of the Company's business

Morse plc

Executive management team
The Morse plc management team reviews operational issues and progresses the development of strategic topics

Our values
Morse is client-focused and delivers maximum value by working in true **partnership** with clients and suppliers as well as internally To that end, we focus on building strong Morse teams that span our own business and develop long-term relationships with our clients

We aim to deliver our services in a way that is different and **refreshing** Although we relish addressing complexity, we keep our solutions and our communications as simple and as practical as possible

We always act with **integrity** – in our words and actions and with everyone we come into contact with

We combine deep, **specialist** knowledge of industries, processes and technologies in order to provide thought leadership, deliver the best possible service to our clients and provide interesting and challenging careers for our people

We are **passionate** about what we do This passion, coupled with our knowledge and experience, is the key to our success and that of our clients

We believe that working to this set of values and using them to influence our decision-making will deliver maximum long-term benefit to our clients Their success ensures the sustainability of our own

Kevin Alcock, Chief Executive Officer
Kevin joined Morse in 2004 as part of the acquisition of CSTIM Limited, which he had co-founded in 1998 He was appointed to Morse's executive team later that year to grow our management consultancy services He became chief executive officer in 2007 Before CSTIM, Kevin was head of the investment management consultancy business at Ernst & Young

Eric Dodd, Group Finance Director
Eric is a chartered accountant with an MBA from the London Business School Prior to joining Morse in Autumn 2005 he held financial management positions in GlaxoSmithKline, Whitbread and Marconi Eric was appointed to the Morse Board in September 2006

David Mitchell, Managing Partner
David joined Morse as Managing Partner for human capital in November 2006 Previously, he worked at Detica for 15 years, initially in a number of fee-earning positions and, from 1998, as the group HR director

Alex Zaragoza, Managing Partner
Alex is Managing Director of Morse Spain and joined Morse in 2001 through the acquisition of ISASA, a firm he co-founded in 1991 Alex's earlier experience includes principal consulting roles with IBM and Philips Computers

Paul McCarthy, Managing Partner
Paul joined Morse in 2003 to lead the Morse Mobile Business and has developed the strategic focus within the Media & Telecommunications sector He has also served as Divisional Director for the Client Services Division and Managing Director for Morse Technology & Integration Paul has a 17 year track record within IT including heading up Group Bull's International Finance Systems Division and as Managing Director of Brokat

Morse plc

David Beresford, Managing Partner
David joined Morse in December 2002 Before then, he held senior management positions at Andersen Consulting, Diagonal Plc and Sportbusiness Group He was appointed to the Morse Board in August 2003 and became the Managing Director of Diagonal in 2004

Nick Petheram, Managing Partner
Nick joined Morse in October 2002 as a Client Director, following 17 years in the financial services and IT industries Nick was promoted to Managing Director of Delphis in 2004 and in 2006, as a partner, led the integration of Delphis with the Infrastructure Consulting business

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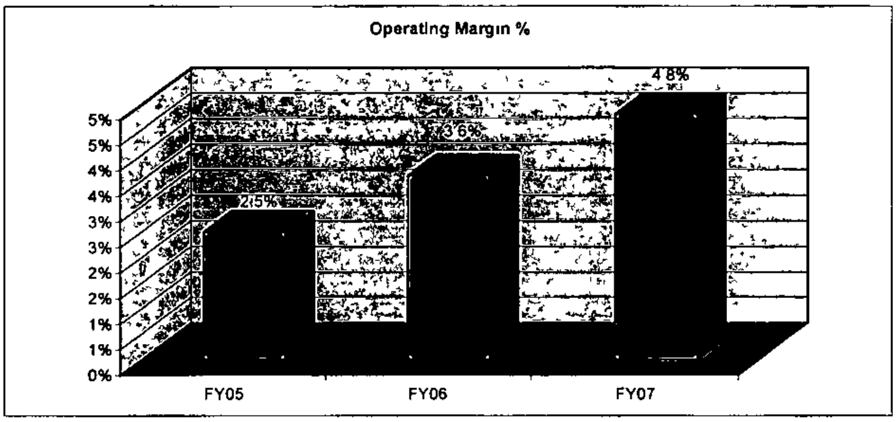
Key performance indicators

The Board and Executive Team have put in place a set of focused strategic objectives and key performance indicators (KPIs) to underpin Morse's transition to a business and IT consulting company The KPIs are designed to allow the Board, Executive and shareholders to monitor operating performance and progress against strategic goals As a people-based business, going forward Morse will be collecting and evaluating a portfolio of internal and external data points including client satisfaction, stakeholder returns, employee satisfaction, skills utilisation, attrition and headcount We are developing a more comprehensive KPI analysis for our management processes and FY08 reporting

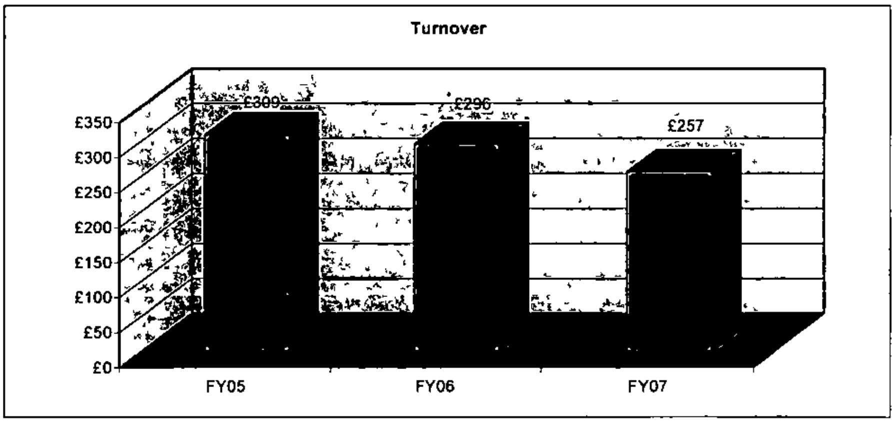
Operating margin % from continuing operations



Comments

Operating margin percentage represents operating profit as a proportion of third party revenues
Operating profit is the difference between gross margin and overheads and excludes exceptional items
The improvement in the operating margin reflects the improved quality and profit generation of the continuing businesses over the period
The Group's objective is to double the operating margin to 7 2% in the medium term (from June 2006)

Revenue from continuing operations



Comments

Turnover represents third party revenues generated from Morse's four business segments
The decline in turnover is consistent with the transition of the Group from a reseller to a professional services firm
Decline in product sales mainly in the UK is compensated for by growth in consulting services across the Group
The 13% year on year decline in FY07 is due to the decision to withdraw from the product fulfilment market in the UK

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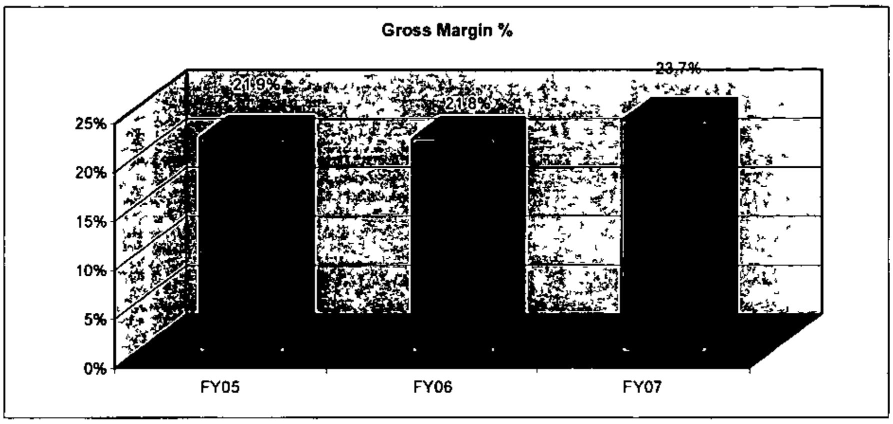
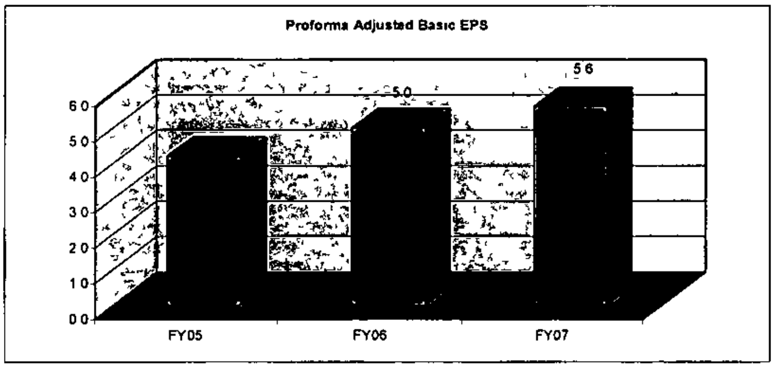
Gross margin % from continuing operations



Comments

Gross margin percentage (GM%) represents gross profit as a proportion of third party revenues
Gross profit is the difference between turnover and cost of sales and excludes exceptional items
The improvement in GM% is consistent with the transformation of the business from a product reseller model to a pure play consulting player
The GM% improvement is also a reflection of the quality and mix of business
The Group's objective is to improve gross margin to between 27% and 30% in the medium term

Pro forma adjusted basic EPS from continuing operations



Comments

Earnings per share (EPS) is a ratio that shows how much of a company's after tax profits each shareholder owns, and is stated in pence per share
Adjusted EPS represents profit after tax excluding exceptional items divided by the weighted average number of shares in issue (see Earnings Per Share section of the Financia Revie
The improvement in EPS reflects the improved profit generation of the continuing businesses over the period with little change in the number of issued shares

Morse plc

Business risk assessment
The Morse business is constantly evolving which brings with it changes in the risks the Company faces The financial performance of our business could be affected by any of these changes and associated risks Whilst not all risks are foreseeable and are difficult to plan for, Morse has established a proactive and collaborative approach to risk assessment and management, utilising the expertise of its own executive and management teams, a decision making and governance process, an approvals matrix and the advice of its professional advisers

Risk management process
Senior management is aware of their responsibility for managing risk within their strategic business units (SBU) Each SBU head reports to the Morse Executive Committee, which in turn reports to the Board on the status of these risks through management reporting Throughout the business, risk is constantly being reviewed to take account of the changing structures and issues affecting the Group

The Audit Committee actively reviews business risk twice annually and is reasonably satisfied that the Group has adequate tools and control mechanisms to mitigate risk and ensure it is identified promptly and monitored

The Board regularly reviews Group risk to ensure that risk management is being implemented and monitored effectively

The Board's policy is to ensure the SBUs are empowered to manage their businesses effectively and appropriately, bearing in mind the requirements for timely decision making and commercial reality

The Company regularly reviews its commercial insurance programme and maintains an appropriate and adequate portfolio of insurance policies in line with the nature, size and complexity of the business

Operationally, an approvals matrix is utilised to ensure risk is identified and escalated to the relevant managerial levels, with a rigorous internal sign-off process governing risk decisions Standard form contracts are provided for business use and to assist the commercial function to negotiate within an appropriate and approved safety zone The legal department regularly provides update contract seminars to ensure that processes are known, being adhered to and updated as necessary to meet the changing needs of the business The legal department further supports the drafting and implementation of the risk and approvals process

Through the management reports, risks are highlighted and monitored to identify potential business risk areas and, wherever possible, to quantify and address the risk with a contingency/mitigation plan

General risks
There are three specific areas of risk that Morse has identified as being of core importance to its business, and hence, merit specific focus

<u>Delivering against client contracts</u>
With the transformation of Morse into an advisory and execution professional services firm, the size, complexity and duration of the contracts it delivers increases As a business and IT partner to our clients, we are tasked with delivering solutions that are business critical in nature The projects normally involve interdependencies with our clients' operational systems, and indeed with other IT suppliers, and as such there is a risk that our projects could be subject to delay This brings the risk that cash flows are affected It also involves the appropriate management of major fixed price implementation contracts

<u>People-based business</u>
Our people, their experience, expertise, skills and capabilities are our major asset, and represent a key means by which we are able to differentiate ourselves from our competitors If Morse looses key individuals with specialist skills, it can prove difficult and costly to replace them and the market for quality individuals with specialist business, industry and technology skills is highly competitive Morse utilises a

variety of mechanisms to attract, develop, retain and incentivise staff, in order to mitigate this risk The management and development of people through our talent management programme is a key objective

Reputation with clients
In conjunction with the contract and people-based risks above, we could fail to meet client expectations, the clients' operations could be adversely affected, and consequently, our reputation for delivery damaged

Principal risks

- Maintenance of sufficient liquidity to enable the Group to continue to invest in new acquisitions to allow the business to refresh and grow talent for long term-future development

- The ongoing successful execution of the One Morse change programme to ensure integration continues, synergies are maximised and the business prospers through 'pull-through' deals encouraged by cross-selling of services and product The sales environment will require education and possibly incentivisation to support the cross-selling philosophy Resistance to change must be highlighted and properly dealt with by the Group Acquisitions could further impede the One Morse integration strategy

- Fluctuations in demand and project phasing for a consultancy-based services business can result in non-recoverable costs and poor utilisation of resource

- Ensuring that bonus schemes across the Group adequately incentivise and motivate the sales staff to exceed budgeted performance

- Ensuring the Group processes, systems and structures are rationalised and 'fit for purpose' for a professional services business The Group has undergone a full review of existing practices and processes in an attempt to stream-line the business to improve the control environment and robustness of process The risk of not transitioning similar processes across the Group could impact on the overall performance and integration of the One Morse strategy

- Ensuring that the quality of business and margin is maintained and enhanced

- Dependency on quarterly resulting peaks, which need to be transitioned to a monthly cycle, which in turn would assist in providing greater predictability and faster identification of trends

The above principal risks are mitigated and managed through robust internal 'checks and balances' with the involvement of all Managing Partners (Morse Executive team) and the legal department as appropriate

Morse plc

Operating review

Management Consulting

Management Consulting had an excellent year, showing continued growth and development The strategy of the business remains unchanged to provide specialist consultancy services to our key clients in the industry verticals, our strength today lies in the financial services industry We have achieved growth in the current year by broadening our service to clients through better integration of our applications and infrastructure offerings alongside our proven management consulting services We have done this within the context of expanding our management consulting business geographically

During the year, the business developed a range of new services for hedge fund managers and life and pension companies We also developed specialist knowledge regarding operating models and IT applications to help clients trade more complex instruments such as derivatives These capabilities have enabled us to gain a deeper understanding of the Capital Markets industry, where we can start to exploit the overlap of services with the Investment industry

As a result, revenue for the year increased to £17 8 million (2006 £14 1 million) and operating profit before exceptional items increased to £2 4 million (2006 £2 2 million) Since the acquisition of CSTIM in 2004, which provided the foundation for our management consulting business unit, turnover has grown from £7 3 million to £17 8 million

Across all geographic regions (UK, Channel Islands, France, Luxemburg, South Africa, Australia and Singapore), our Management Consultancy business experienced steady growth in revenues and profit In particular, the development of our business in France was pleasing, in the first full year of operation we achieved an operating margin of 6%, we ended the year with a chargeable headcount of 17 staff and became an established consultancy in the region We have experienced extremely strong demand for our services throughout the year, however the recruitment of suitably skilled personnel has remained a particular challenge and restricted our further growth

SkillsHub, our specialist financial services resourcing and contractor placement business, became wholly-owned by the Group during the year and it recorded strong growth with profit increasing by 10% on the previous year

Our Transaction Services practice, which provides consulting services to organisations undertaking merger or acquisition activities, had excellent revenue growth, lifted by the buoyant private equity market

Applications Consulting

Applications Consulting (formerly referred to as 'Business Consulting'), consists of four main lines of business

- Consulting delivers management, IT transformation and enterprise-wide systems integration in support of technologies such as SAP, Oracle and Microsoft
- Global Support Services (GSS) provides a 24x7 managed service , business process optimisation and offshore delivery and support
- Enterprise Content Management (ECM) provides solution implementation skills in support of technologies such as Stellent, Vignette, Autonomy and Wisdom
- Strand is an IT placement business for contractor staff aligned to our applications consulting capabilities

The business operates in three main territories the UK, Asia and the USA

In the year ended 30 June 2007 sales were £74 9 million (2006 £84 9 million) and operating profit before exceptionals was £5 5 million (2006 £6 7 million) The ECM, IT Transformation and GSS lines of business have all performed strongly In the GSS business in particular, we now have a global support model and are seeing strong performance in the UK and a significantly improved performance in Asia and the USA

Morse plc

Although we have seen some extremely profitable and exciting business throughout the year, we undertook a strategic review of the Consulting business following the difficulties relating to the trading in this area outlined in our half year results Through this review we identified issues relating to people, processes and capabilities in certain areas and a small number of challenging (fixed price) client contracts in the SAP division We have duly made changes to the operational structure of the business, re-balancing the headcount and our approach to new business opportunities, with a focus on transforming our consulting business from a generalist project organisation to one with a greater emphasis on specialist consulting We are pleased to report good progress in the second half as a result of the actions taken

We continue to be pleased with the development and growth of the GSS business This area has exceeded expectations at both revenue and profit levels during FY07 A significant proportion of this business' revenues are annuity-based and these have seen strong growth over the year, with revenues more than doubling compared to the same period last year Such performance enables us to maintain a strong ongoing relationship with clients to support their organisations' internal change programmes In Consulting, the IT Transformation business had a strong year and is starting to leverage the broader range of Morse clients We expect another strong performance in the current year

Our ECM business has continued to develop well The second half of the year has seen stronger revenues and profits from delivery engagements involving software products including Stellent, Vignette, Autonomy and our in-house niche product Wisdom which continues to build a strong client base

Marshall Wilkins, the permanent recruitment business, was disposed of during the year as this did not fit with our ongoing business strategy We continue to build and develop Strand, our IT resourcing and contractor placement business

Moving into the current financial year, our focus will be on deepening the specialisation within our business and generating a higher quality of revenue, making changes that allow us to further develop our existing client relationships and build new relationships based upon the value we can deliver

Operational excellence is critical to our success We have made significant changes to the operating model of the Applications Consulting business during the year The changes were mainly in relation to the development of specialist business and IT skills, the sales model, staff remuneration structures, cost management processes and project governance We will look to further improve and evolve these processes and procedures as the business develops Equally important, we are a people business and we have made great efforts to develop a career development framework to provide opportunity and progression to all our staff on whom we rely to deliver our strategies for success

Infrastructure Consulting
In the year to 30 June 2007, we increased the services capability of our UK Technology & Integration business to create Morse Infrastructure Consulting This has included the development of our technology and consulting services at advisory and implementation levels and has resulted in a shift in focus to higher quality business for the technologies we provide with all infrastructure sales now being services led We have also restructured the organisation to increase operational efficiency, balance cost and resources, and ensure concentration on key clients, vertical markets and promising propositions Our drive to gain cost efficiencies through improvements to our sales model and back office business processes is an ongoing process

Morse Infrastructure Consulting revenue for the year decreased by 31% to £97 3 million (2006 £140 7 million), with operating profit before exceptional items increasing to £5 6 million (2006 £2 6 million) This reflects our strategy to focus on higher margin, services-led client engagements and withdraw from pure product fulfilment business Whilst we were expecting a decline in revenues as a result of this shift, the drop-off in revenue has been sharper than anticipated Moving forward, we will continue to focus on growing our services business, however product delivered as part of the service remains a key part of the offering and we believe that in this regard product revenues are now reaching a level of support from which we can progress

The year saw a good performance and we continued to capitalise on our business transformation progress The first half was particularly strong with profits of £3 5 million before exceptional items, in the second half the business achieved operating profits before exceptional items of £2 1 million

We have continued to execute on our strategy to increase the level and range of services that we provide Our client-led approach has supported the successful transformation to an infrastructure consulting business This has resulted in significant growth in our services business and a greater proportion of advisory and consultancy work Our business wins are now Morse proposition led This shift has enabled us to reduce the risks associated with a vendor-led business model and enabled us to better protect operating margins Instead, we now operate a strong, sustainable and relationship led business that is much more under our control

The Morse-led marketing plans developed in the last year to 30 June 2007 have continued to evolve Building on our reputation for technology expertise and handling complex projects we have focused on positioning Morse as a thought leader in infrastructure technologies and related business issues We now take four key technology propositions to market technology services, flexible resourcing, managed services and technology consulting We will continue to further develop these propositions and have the full support of our vendor partners in following this approach

Significantly, over the course of this year we have seen incremental opportunity from the pull-through of business from the Morse Applications and Management Consulting teams with very favourable reaction from clients to our integrated consulting offering This has accelerated since the launch of the new Morse programme and our unified brand As a result we have secured new client engagements that combine management or application consulting with our advisory and execution services at the technology infrastructure layer

Europe – Spain and Ireland
In the year ended 30 June 2007, sales were £66 5 million (2006 £56 8 million) and operating profit before exceptional items was £3 5 million (2006 £3 4 million)

Morse Spain achieved year-on-year revenue growth of 21% with strong performance in consulting activities

Morse Ireland has experienced significant growth with services and consultancy now accounting for 32% of gross margin

Both the Spanish and Irish businesses are well positioned to continue their current success in infrastructure services and grow their consulting capabilities

International coverage
Apart from Spain and Ireland which are managed as a separate business segment, Morse has a significant international presence which is reported within the Management, Applications and Infrastructure Consulting business units

Morse has an outstanding blue chip client base which we are now positioned to leverage more effectively A significant number of these clients operate internationally, and we are well placed to continue the deployment of our core services and support capability where and when required

Although we operate internationally, we are not aiming to deliver the full range of Morse's capabilities in all regions Currently, we have international offices to support our management consulting business in the UK, Channel Islands, France, Luxemburg, South Africa, Australia and Singapore with over 85 consultants providing specialist services to the Investment and Life and Pensions industries We also have international capabilities supporting our applications and infrastructure consulting businesses in Spain, Ireland, USA and Asia Pacific (APAC) Morse's international operations continue to support and drive our revenue and operating profit growth

Monitise[1]

Monitise, which was demerged from Morse in June 2007, has a well established position in the UK with its MONILINK service accessible to 35% of all current account holders in the UK by Autumn 2007 It is confident that it will reach agreement to provide its services to further UK banking groups over the coming months

Monitise's international presence is expanding rapidly It has a joint venture established in the US with Metavante Corporation, a presence in Germany through T-Systems and strong interest for partnerships in the Gulf States and Australia

The mobile banking and payments market is rapidly gaining momentum, not dissimilar to the growth of internet banking in its early stages, and Monitise's technology has the mass-market characteristics required for mobile banking to become a ubiquitous and valuable banking channel

Monitise has strong momentum, an excellent competitive position and compelling prospects It believes the current year will show substantial progress

1 The Monitise business was demerged from Morse on 28 June 2007

Morse plc

Corporate social responsibility

At Morse we recognise that our community responsibilities reach beyond our clients, shareholders, employees and suppliers Our high ethical standards extend to everything we do, including meeting all relevant legislative requirements on environmental issues and minimising the environmental impact of Morse's operations

We also support a wide range of charities and encourage members of staff to become involved in local projects and initiatives and support their efforts We are proud of our membership of the FTSE4Good Index Series which measures the performance of companies that meet globally recognised corporate standards

Values

Morse is a client driven organisation Our values underpin the behaviours required for success and to ensure we conduct our business to the highest standards We

- Work in partnership
- Are refreshing
- Act with integrity
- Are specialists
- Are passionate about our work

Charity work

Morse's charity policy focuses on supporting the charitable activities of our staff and, where possible, our clients and partners Over the course of FY07 Morse has supported over 40 separate charity requests from employees participating in a range of activities These included The Flora London Marathon, the British Heart Foundation's London to Brighton Bike Ride and the Florida Ironman Challenge In addition, the company has donated surplus computers to charitable organisations

Morse recognises the importance of company initiatives and so leads a number of such activities including the annual charity Christmas card and participation in the 'girl-child in Afrika' project Founded by St Cyprian's School in Cape Town to help to break the cycle of poverty and lack of education that is the plight of many in South Africa, it provides financial assistance to girls who would otherwise not be able to afford the quality of education offered by the school We have supported the charity since 2005

Give As You Earn (GAYE)

We recognise that many Morse employees wish to donate to charitable causes Parts of the company operate a GAYE scheme, enabling staff to donate to a charity of their choice via regular deductions from their salary We plan to extend the scheme throughout the Group in the near future

Environmental awareness

We acknowledge Morse's environmental responsibility and so are committed to operating the business in an environmentally sensitive manner

Recycling

All Morse UK offices are provided with paper and toner recycling facilities and a system will shortly be rolled out across the business for recycling glass, plastic and cardboard

Asset recycling

Morse operates an asset retirement programme internally and offers this as a service to its clients It donates surplus computers to charitable organisations

Morse plc

Reducing the carbon footprint

We aim to reduce Morse's carbon footprint wherever possible We also advise our clients on methods to limit their carbon emissions while trimming their costs as well Recommended techniques include reducing power consumption, improving equipment utilisation, managing the datacentre efficiently and changing employee behaviours

The Group has chosen not to set environmental key performance indicators (KPIs) due to its relative size and limited impact which it has on the environment Morse's environmental policy is proactive in limiting its impact and includes internal infrastructure which is purchased in compliance with the RoHS directive and disposed of in compliance with the WEEE directive Compliance with these directives has had no material impact on the Group

Supporting students

In order to build strong links between the Group, schools and colleges as well as the local and regional economic communities in which we operate, Morse offers work experience and placements to students In doing so, we strive to make Morse work placements positive, challenging and relevant to participants' current studies and their future job prospects We also presents lectures and seminars on career options in the business and IT consulting space to university students, to help them decide on the career best suited for them

Health and safety

Morse recognises that health and safety is a business function and must, therefore, continually progress and adapt to changes Health and safety has positive benefits to the organisation Therefore, our commitment to a high level of safety makes good business sense

We fully comply with the Health and Safety at Work Act 1974 As part of this process, we ensure allocation of appropriate levels of resources to health and safety issues and activities within the organisation and work to encourage a positive culture within this context Our overall approach to health and safety is soundly based on the identification and control of risks

By reviewing our Health and Safety Policy annually we are able to track any changes in legislation or in our own operations and act accordingly We have in place effective procedures for communication and consultation between all levels of staff on matters of health, safety and welfare

Employees

Morse provides employees with regular information about the business through newsletters, email, and update meetings that allow the free flow of information and ideas between management and employees

The Group recognise the importance of non-discriminatory employment practice and has an equal opportunities policy that includes the employment of people with disabilities It gives full consideration to applications from disabled persons when the requirements for the job can be fulfilled and this applies equally where existing employees become disabled

Morse plc

Financial review

Changes in Group operations

There have been two major changes in the Group's operating entities compared to the prior period

- Morse Germany

The disposal of Morse Germany was completed on 24 July 2006 There was no profit or loss on disposal this year as a consequence of goodwill being impaired by £1 6 million in the accounts for the year to 30 June 2006

- Monitise

On 28 June 2007 Monitise was demerged from Morse and listed on the AIM independently raising £20 2 million of funds from the placing of shares The loss of £7 3 million incurred by the business for the year to 30 June 2007 has been included in discontinued operations with prior year comparatives restated accordingly

Revenue and profit

Group revenue from continuing operations fell by 13% year-on-year to £256 5 million The revenue performance reflects our strategy to focus on services-led client engagements and withdraw from product fulfilment business

Operating profit before exceptional items for the continuing operations was £12 2 million, up 16% on last year

Revenue and operating profit before exceptional items from continuing operations by business segment is as follows

£'m	FY07		FY06	
	Revenue	Operating profit	Revenue	Operating profit
Management Consulting	17 8	2 4	14 1	2 2
Applications Consulting	74 9	5 5	84 9	6 7
Infrastructure Consulting	97 3	5 6	140 7	2 6
Europe	66 5	3 5	56 8	3 4
Group		(4 8)		(4 3)
	256 5	12 2	296 5	10 6

Exceptional items

The net exceptional items before tax amounted to £1 4 million This amount is analysed in more detail in note 3 The major items included in this category are noted below

- Business disposal

Morse plc

The expense associated with the Monitise demerger was £2 5 million, which was recognised in discontinued operations

- Property provisions

There was a net reduction of £2 7 million in the property provision this year Following a review of ongoing requirements, the Group exited properties in Chineham, Manchester, Hanwell and Brentford during the year The settlements paid on the exit were below the provisions held in the accounts resulting in a release of £2 1 million During the year, operations in Brentford were consolidated resulting in a provision of £1 0 million being set up

Interest

Net interest income fell by 50% year-on-year to £0 3 million This is a result of a lower average cash balance during the year following the disposal of Morse Germany and continued investment in the Monitise business

Taxation

The tax expense of £2 0 million represents an effective rate of 53% which compares to a rate of 30% for the year to 30 June 2006 The high underlying tax rate was due to non-allowable costs relating to the demerger of Monitise The company expects the rate to revert to 30% for the foreseeable future

Earnings per share

Basic earnings per share including discontinued operations decreased from 2 6p last year to 1 0p in the year to 30 June 2007 Details can be found in note 4

Pro forma adjusted basic earnings per share increased from 5 0p last year to 5 6p in the current year The pro forma earnings per share figure is based on profit before tax from continuing operations before exceptional items (2007 £12 5 million, 2006 £11 0 million) less tax at a normalised effective group rate of 30% for both years The calculated profit after tax is then divided by the weighted average number of shares (2007 154,573,000, 2006 151,827,000)

Dividend

A final dividend of 2 80p per share, an increase of 3 7% over last year, will be subject to approval at the AGM and be paid on 5 November 2007 to all shareholders on the register at the close of business on 12 October 2007 This gives a total dividend for the year of 4 05p, an increase of 3 8% on last year

Cash flow

Cash and cash equivalents at the year-end amounted to £15 3 million compared to £27 3 million last year The principal outflows during the year were dividend payments of £6 1 million, Monitise investment (including JV) of £7 2 million and disposal of Morse Germany £3 2 million

Morse plc

Funding

During the year, Morse has put in place a committed facility of £10 0 million, through a Revolving Advance Facility with its bankers This facility, together with overdraft facilities and cash balances provides an adequate headroom position for the Group to fund investment opportunities into 2007/08

Eric Dodd.

Eric Dodd
Group Finance Director
4 September 2007

Morse plc

Board of Directors

What the Board does

The Board is accountable for the performance and affairs of Morse plc It is responsible for the adoption of strategic plans, monitoring of operational performance and management, and ensuring effective risk management strategies and compliance with applicable legislation It meets its objectives by reviewing and guiding corporate strategy, approving key policies and objectives, understanding key risks and ensuring operating processes are in place to mitigate them

Working with the Executive Management

In fulfilling its responsibilities the Board is supported by the Executive Management, which is required to implement the plans and strategies approved by the Board The Board monitors management's progress on an ongoing basis

Richard Lapthorne
Chairman
Richard joined Morse in 1998 and was Vice Chairman of BAE until 1999 He is Chairman of Cable & Wireless and New Look

Duncan McIntyre
Executive Deputy Chairman
Duncan joined Morse as Finance Director in 1994, was then appointed Commercial Director and was the Group's Chief Executive Officer from 1997 to 2007 In 2007 he became the Group's Executive Deputy Chairman He is a qualified accountant and worked at Price Waterhouse for ten years before joining Morse He is Chairman of Monitise plc, Chairman of Acclimatise and a Non-Executive Director of Profero Limited

Kevin Alcock
Chief Executive Officer
Kevin joined Morse in 2004 as part of the acquisition of CSTIM Limited, which he had co-founded in 1998 He was appointed to Morse's executive team later that year to grow our management consultancy services He became Chief Executive Officer in 2007 Before CSTIM, Kevin was head of the investment management consultancy business at Ernst & Young

Eric Dodd
Group Finance Director
Eric is a chartered accountant with an MBA from the London Business School Prior to joining Morse in Autumn 2005 he held financial management positions in GlaxoSmithKline, Whitbread and Marconi Eric was appointed to the Morse Board in September 2006

Derrick Nicholson
Non-Executive Director
Derrick joined Morse in 2005 Before his appointment to the Board in December 2005, Derrick was an Executive Director and CFO of the Avecia Group He previously worked for Astra Zeneca and ICI and held a number of senior financial positions He became Senior Independent Director in 2006

The Hon. Michael Benson
Non-Executive Director
Michael joined Morse in 2007 He is the Non-Executive Chairman of Ashmore Group plc, a Non-Executive Director of Invesco Japan Discovery Trust plc and a Director of Border Asset Management Limited, Badanloch Estates Limited and Community Foundation Network He was formerly a Vice-Chairman of Amvescap plc and has held various roles within Invesco

Morse plc

Nigel Whitehead
Non-Executive Director
Nigel joined Morse in 2004 He is Group Managing Director of Air Systems, a division within BAE Systems, and brings with him over 20 years' management experience from varying roles within the aerospace and defence industry

Nicholas Sandison
Company Secretary
Nicholas joined Morse in 2004 He is a solicitor and legal counsel in the Legal Department advising on legal and compliance matters across the Morse group of companies He was appointed Company Secretary in 2007

Morse plc

Morse plc

Registered in England No 3108179

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Financial advisers and stockbrokers
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EC2V 7QP

Independent auditors
KPMG Audit Plc
8 Salisbury Square
London
EC4Y 8BB

Principal bankers
Royal Bank of Scotland
PO Box 2153
1-4 Berkeley Square
London
W1A 1SN

Registrars
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

Financial calendar

Ex-dividend date	10 October 2007
Record date	12 October 2007
Annual General Meeting	30 October 2007
Dividend payment date	5 November 2007

Morse plc

Directors' report
for the year ended 30 June 2007

The Directors present their annual report and the audited financial statements of Morse plc and its subsidiary companies ('the Group') for the year ended 30 June 2007

Principal activity
This year the Group has completed its progress in the transition of its core business, from IT reseller and technology integrator to a Group delivering business and IT consulting and delivery services The Group is now a single, unified advisory and execution professional services business operating under a single Morse brand

Results
The results of the Group are set out on page 55

Review of the Group
To meet the requirements of the enhanced business review, the Directors have presented the necessary information on pages 14 to 23 of the business review

Dividends
The Directors propose the payment of a final dividend of 2 80p per Ordinary share (2006 2 70p), which in addition to the interim dividend of 1 25p per Ordinary share (2006 1 20p), amounts to a total dividend for the full year of 4 05p per Ordinary share (2006 3 90p)

Research and development
During the year the Group spent £2,477,000 (2006 £1,322,000) on research and development which was primarily attributed to its mobileATM and Wisdom applications

Directors and their interests
The Directors who held office during the year and to the date of this report were as follows

R Lapthorne	(Non-Executive Chairman)
K Alcock	(Chief Executive Officer - appointed 28 June 2007)
D McIntyre	(Executive Deputy Chairman, former Chief Executive Officer until 28 June 2007)
E Dodd	(Group Finance Director - appointed 28 September 2006)
D Nicholson	(Senior Independent Non-Executive Director)
W Passmore	(Independent Non-Executive Director - retired 9 November 2006)
C Tucker	(Independent Non-Executive Director - resigned 28 June 2007)
N Whitehead	(Independent Non-Executive Director)
The Hon M Benson	(Independent Non-Executive Director - appointed 24 April 2007)
D Beresford	(Executive Director - resigned 28 September 2006)
P Coll	(Executive Director - resigned 2 January 2007)

Directors' beneficial interests in the share capital (including share options) of the Company are given in the Directors' Remuneration Report on page 46 There has been no change in the Directors' interests in shares of the Company and its subsidiaries between the end of the financial year and 4 September 2007 The Register of Directors' Interests, which is open to shareholders' inspection, contains full details of Directors' shareholdings

Richard Lapthorne, whose profile is given on page 28, has been Chairman of the Company for nine years He has announced his intention to retire soon after the 2007 Annual General Meeting but has agreed to retain the role until a suitable replacement has been recruited to ensure continuity of cover, especially considering the recent changes to the Executive Directors of the Company In line with the Combined Code, he will retire and offer himself for re-election

Morse plc

Kevin Alcock, Eric Dodd and the Hon Michael Benson were appointed to the Board on 28 June 2007, 28 September 2006 and 24 April 2007 respectively and will retire and offer themselves for re-election at the Annual General Meeting

Political and charitable contributions

During the year the Group made various charitable contributions totalling £23,003 (2006 £14,588) The Group made no political donations (2006 £nil)

Supplier payment policy and practice

It is the Group's policy that payments to suppliers are made in accordance with agreed terms and conditions on an individual basis provided all trading terms and conditions have been complied with

The average number of creditor days for the Group for the year was 76 (2006 73)

Substantial shareholdings

The Company has been notified that the following shareholders held 3% or more of the Company's Ordinary shares as at 4 September 2007

Shareholder	Number of shares held	% of the issued share capital
3i Investments	24,767,399	15 78
Harris Associates LP	22,960,900	14 63
UBS Global Asset Management	16,206,513	10 33
Standard Life Investments	9,997,136	6 37
Liontrust Asset Management	9,465,044	6 03
Legal & General Investment Management	5,952,516	3 79
GAM	5,765,000	3 67

See Directors' Remuneration report for the table of Directors' shareholdings on page 46

Interests in own shares

The Company did not make any acquisitions of its own shares during the year The Company held a balance of 1,693,620 shares in respect of shares held in its EBTs (2006 1,132,345 shares)

Capital structure

Under its Articles of Association, the Company has authority to issue 250,000,000 Ordinary 10p shares At 4 September 2007, the Company had allotted 156,927,780 fully paid Ordinary shares Of these shares, 100 have no voting rights and the remainder have full voting rights There are no restrictions on the transfer of securities At the 2007 Annual General Meeting, the Directors will request, via special resolution, the authority to buy back shares pursuant to section 166 of the Companies Act

Annual General Meeting

The Annual General Meeting of the Company will be held on 30 October 2007

Going concern

The Directors are satisfied that the Company and the Group have adequate resources to continue to operate for the foreseeable future For this reason, they continue to adopt the 'going concern' basis for preparing the accounts

Auditors

A resolution to re-appoint KPMG Audit Plc will be proposed at the Annual General Meeting

Morse plc
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 Group's auditors are unaware Each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information

Approved by the Board of Directors on 4 September 2007 and signed on its behalf

Nicholas Sandison

Nicholas Sandison
Company Secretary

Morse plc

Statement of Directors' responsibilities in respect of the Report and the financial statements

The Directors are responsible for preparing the Report and the Group and parent company financial statements, in accordance with applicable law and regulations

Company law requires the Directors to prepare Group and parent company financial statements for each financial year Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU (and applicable law) and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company

In preparing each of the Group and parent 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,
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU,
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements, and
- prepare the financial statements on the 'going concern' basis unless it is inappropriate to presume that the Group and the parent company will continue in business

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities

Under applicable law and regulation, the Directors are also responsible for preparing a Directors' report, Directors' remuneration report and corporate governance statement that comply with that law and those regulations

The Directors are responsible for the maintenance and integrity of the corporate and financial information included in the Company's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from the legislation in other jurisdictions

Morse plc

Corporate governance statement

Combined Code on Corporate Governance Compliance Statement

The Board is committed to the main provisions of the July 2003 Combined Code on Corporate Governance (the 'Code') and endeavours to comply with the Code in all respects

This report highlights the way in which the Board believes it has been compliant with the provisions of the Code during the year, other than as set out below within this report

The Board of Directors

The Board collectively embraces its responsibilities and accountability in reserving certain matters for its review and approval, including an effective overall strategy, prudent financial strategy and planning, strategic aims, human resources to ensure the Company can meet its objectives, material acquisitions and disposals, investments and capital projects

The Board believes it makes its decisions in the best interests of the Company ensuring that its obligations to shareholders and others are effectively met

The Board currently consists of three Executive Directors and three Non-Executive Directors (excluding the Chairman)

All Non-Executive Directors excluding the Chairman are considered by the Board to be independent for the purposes of the Code even though they are permitted to hold other directorships with other companies The Chairman is also considered by the Board to be independent As announced last year in the Annual Report and Accounts, Bill Passmore retired from the Board on 9 November 2006 after the Annual General Meeting Whilst he had been a Non-Executive Director of the Company for more than nine years, he was considered by the Board to be independent for the purposes of the Code Richard Lapthorne has been Chairman of the Company for more than nine years Richard Lapthorne's range of other directorships and wide previous experience has allowed him to bring distinct and challenging views to Board discussions and it was felt important to continue to retain his on-going commitment during the recent transition of the Company, especially through the demerger of Monitise He has announced his intention to retire soon after the 2007 Annual General Meeting but has agreed to retain the role until a suitable replacement has been recruited to ensure continuity of cover

The balance between Executive and Non-Executive Directors has been reviewed by the Nominations Committee and the Board

The posts of Chairman and Chief Executive Officer are held by different Directors and their differing responsibilities defined The Chairman leads the Board in determining strategy, achievement of objectives and organising the business of the Board, but has no involvement in the day-to-day business of the Group The Chief Executive Officer is responsible for formulating the Group's strategy and for the Group's day-to-day business and is accountable to the Board for the financial and operational performance of the Group

The Board believes its style of involvement with the senior executives through the Chief Executive Officer and the Executive Directors is the most effective way to provide confidence in the control environment of the Company Through openness and discussion, the Board endeavours to understand and provide leadership as to the willingness of the Company to take appropriate risks in the interests of the shareholders The Board focuses almost exclusively on operational and strategic matters and thereby lays the foundation for an understanding of the business which facilitates effective governance

The Board meets at least six times during the year and holds other meetings as necessary All Directors have access to the Company Secretary, who, under the direction of the Chairman, is responsible for ensuring Board procedures are followed The Chairman is responsible for ensuring all Directors receive accurate and appropriate information in a timely manner in advance of Board meetings The Board is provided with comprehensive information to enable it to discharge its duties

The Company Secretary, under the direction of the Chairman, is also responsible for ensuring that there is good information flow to and within the Board and its Committees The role also involves ensuring that the flow of information between the Board and the senior executives within the business is maintained and that the Board is duly updated and made aware of any governance matters The appointment and removal of the Company Secretary is the responsibility of the entire Board

The Chairman ensures the effective contribution of the Non-Executive Directors and ensures the maintenance of good and constructive relations by them with the Executive Directors

The Company has Directors' and Officers' Liability Insurance cover in place covering all directors and officers

A procedure exists for all Directors to be entitled to take independent professional advice, if necessary, at the Company's expense where they need to ensure they are discharging their responsibilities as Directors

Directors are required to retire at least every three years Directors appointed to the Board during and after the period are required to seek election at the first Annual General Meeting following their appointment Any re-election of a Non-Executive Director, which would take them over a six-year appointment, is subject to rigorous review taking into account the need for progression of the Board

The performance of the Executive Directors (excluding the Chief Executive Officer) is evaluated by the Chairman in consultation with the other Non-Executive Directors and the Chief Executive Officer The Non-Executive Directors, led by the Senior Independent Director, are responsible for the performance evaluation of the Chairman and the Chief Executive Officer, after having sought the input of all other Directors The results of these evaluations are used when considering the re-election of Board members The results will also be used by the Chairman and Senior Independent Director to ensure the strengths and weaknesses of the Board are recognised and that there is planned and progressive refreshing of the Board

In compliance with Code provision A 6, the Company continues to review and consider whether appropriate methods and processes for establishing a more formal annual evaluation of all Directors is required The Company is therefore not currently compliant with Code provision A 6 1, in that the performance evaluation methods are not formalised The current informal evaluation covers individual contribution and commitment

The Chairman and the Board believe that the Board and each Committee of the Board are operating appropriately and effectively They focus on operational issues and are carried out in an atmosphere of openness Papers are usually produced in advance to support agenda items The Executive Directors, as managers, always seek to provide appropriate answers to all questions asked by the Non-Executive Directors

The Directors' details, along with their membership of each Board Committee and attendance record, is set out in the table below (other members may attend at the invitation of the Committee)

Morse plc

Board structure and attendance between 1 July 2006 and 30 June 2007

	Status	Audit Committee member	Nominations Committee member	Remuneration Committee member	Board meetings attended	Audit Committee attended	Nominations Committee attended	Remuneration Committee attended
No of meetings held					12	2	2	3
R Lapthorne	Non-Executive	No	Yes [13]	No	12	-	2	-
D McIntyre [1]	Executive	No	No	No	12	-	-	-
K Alcock [2 15]	Executive	No	No	No	-	-	-	-
E Dodd [3]	Executive	No	No	No	9	-	-	-
D Beresford [4]	Executive	No	No	No	3	-	-	-
P Coll [5]	Executive	No	No	No	4	-	-	-
D Nicholson [6]	Non-Executive	Yes [12]	Yes	Yes	9	2	1	2
N Whitehead	Non-Executive	Yes	Yes	Yes [14]	11	2	2	3
The Hon M Benson [7]	Non-Executive	Yes	Yes	Yes	3	-	-	-
C Tucker [8]	Non-Executive	Yes	Yes	Yes	9	1	2	2
W Passmore [9]	Non-Executive	Yes	Yes	No	4	1	-	-
L Cameron [10]	Company Secretary	No	No	No	10	-	-	-
N Sandison [11]	Company Secretary	No	No	No	1	-	-	-

1 D McIntyre was CEO until the appointment of K Alcock to the Board as CEO on 28 June 2007, whereupon he assumed the role of Executive Deputy Chairman
2 K Alcock was appointed CEO of Morse Group Ltd in July 2006 and appointed to the Board as Company CEO on 28 June 2007
3 E Dodd was appointed to the Board as Group Finance Director on 28 September 2006
4 D Beresford resigned from the Board on 28 September 2006
5 P Coll resigned from the Board on 2 January 2007
6 D Nicholson is the Senior Independent Director
7 The Hon M Benson was appointed to the Board as Non-Executive Director on 24 April 2007
8 C Tucker resigned from the Board on 28 June 2007
9 W Passmore retired from the Board on 9 November 2006
10 L Cameron resigned from the Board as Company Secretary on 28 June 2007
11 N Sandison was appointed to the Board as Company Secretary on 28 June 2007
12 D Nicholson is Chairman of the Audit Committee
13 R Lapthorne is Chairman of the Nominations Committee
14 N Whitehead is Chairman of the Remuneration Committee
15 K Alcock was present for eight Board meetings

During the year, there are occasions when Directors are unable to attend Board and Committee meetings In those circumstances, the absent Director is provided with a copy of the Board papers and the resultant minutes and has the opportunity to raise questions at a subsequent meeting

All new Non-Executive Directors are to be appointed for specified terms

Notice periods for all Directors are set at six months or less

The Committees of the Board

The following Committees have been established to assist the Board in fulfilling its responsibilities

Audit Committee

During the year the Committee met twice to fulfil its duties A record of individual attendance is listed in the table above The Chairman, Chief Executive Officer, Group Finance Director and external auditors were invited to attend both meetings

This Committee is responsible for overseeing the involvement of the Group's auditors in the planning and review of the Group's financial statements and any other formal announcements relating to the Group's financial performance, for recommending the appointment and fees of its auditors, and for discussing with the auditors the findings of the audit and issues arising from the audit The Committee considers the independence and objectivity of the auditors with regard to the way in which it conducts its audit duties It reviews the Group's compliance with accounting, legal and listing requirements It is also responsible, along with the Board, for reviewing the effectiveness of the systems of internal control

The Committee's terms of reference are available for public inspection at the Company's registered office

In the normal course, the Company will expect its auditors to provide audit and tax services, subject to auditor objectivity, independence regarding audit duties, review and re-tendering every four years The Audit Committee has discretion to vary this review period depending on satisfaction with the audit process A review was conducted this year and the Audit Committee's recommendation is that KPMG Audit Plc be re-appointed as the Company's auditors An appropriate resolution will be put before the shareholders at this year's Annual General Meeting

All other non-audit/tax advisory (e g due diligence) services will always be benchmarked by management to ensure value for money, auditor objectivity and independence of advice Management may exercise its discretion to retain the auditors for such services subject to a de minimis of £50,000 per individual transaction or, for a series of smaller transactions, fees aggregating 50% of the annual combined audit and tax fee as projected in each year's initial auditors' review Transactions involving higher fees, or where the independence of the auditors may be called into question, may be agreed by the Audit Committee Chairman who will, at his discretion, refer the matter for approval by the full Audit Committee in material cases The auditors do not receive management consultancy work

The members of the Audit Committee (all of whom are Non-Executive Directors) are Derrick Nicholson (who chairs the Committee), Nigel Whitehead and the Hon Michael Benson

The Board is satisfied that Derrick Nicholson, the Chairman of the Audit Committee, has recent and relevant financial experience

The role of the Audit Committee is to monitor all financial statements of the Company, review internal financial controls, consider the need for an internal audit function and report to the Board on its findings if it considers action or improvement is required

The Board reviews the Company's requirement for an internal audit function on an annual basis It has determined that the Group is not sufficiently complex in overall size or structure to warrant a dedicated internal audit function The Audit Committee considers they have adequate structures in place to monitor financial statements and review financial controls without the requirement for a permanent internal audit function This position will be kept under annual review and, should an internal audit function become necessary or desirable in the future, measures will be taken to ensure the Company establishes an internal audit function without delay

The Company has a formal 'whistle-blowing' policy made available to all employees of the Company and all subsidiary companies in compliance with Code Provision C 3 4

Remuneration Committee

The Committee considers and approves specific remuneration packages for each Executive Director following consultation with the Chairman In accordance with guidelines set by the Board, it determines the Group's policy on remuneration of senior executives and controls the operation of share option schemes and the grant of options

Remuneration of Non-Executive Directors and the Chairman is set by a Committee of the Board consisting of at least two Executive Directors

The Committee's terms of reference are available for public inspection at the Company's registered office

The members of the Remuneration Committee (all of whom are Non-Executive Directors) are Nigel Whitehead (who chairs the Committee), Derrick Nicholson and the Hon Michael Benson The Remuneration Report appears on pages 42 to 51

Nominations Committee

The Committee meets as required to initiate the selection process of, and make recommendations to, the Board with regard to the appointment of new Directors

The Board has established a formal procedure for appointment of new Board Directors based upon merit and objective criteria, ensuring the appointee has sufficient time to devote to the role The Board is satisfied with the plans for assessment of Directors, updating of skills and knowledge regarding the Company to fulfil their functions, and orderly succession, ensuring that an appropriate core level of skill and experience is maintained within the Company and on the Board Any significant commitments which might conflict with the effectiveness of new appointees is disclosed to the Board before appointment Major shareholders are given the opportunity to meet new Non-Executive Directors at the Annual General Meeting

The Board requires its members to make it aware of any changes in commitments which might give concern regarding the effectiveness of that member

The Board does not allow any Executive Director to take on more than one Non-Executive Directorship in a FTSE 100 company or the Chairmanship of such company

The members of the Nominations Committee are the Chairman and the three Non-Executive Directors The Committee is chaired by Richard Lapthorne

The employment contracts for the Non-Executive Directors are made available for public inspection at the Company's registered office

The Committee's terms of reference are also available for public inspection at the Company's registered office

Kevin Alcock, Eric Dodd and the Hon Michael Benson were appointed to the Board on 28 July 2007, 28 September 2006 and 24 April 2007 respectively In compliance with Code Provision A 5 1, they were given a full, formal and tailored induction on joining the Board Shareholders have the opportunity to meet with all the Directors at the Annual General Meeting

Relations with shareholders

The Company and Board recognise the importance of developing and maintaining good relationships with its shareholders There are regular dialogues with shareholders to ensure that issues and concerns are raised, including presentations following the Company's interim and preliminary announcements The Company also uses the Annual General Meeting as an opportunity to communicate with its shareholders All Directors are required to attend the Annual General Meeting and the Chairmen of the Audit, Remuneration and Nominations Committees are also available to answer shareholders' questions

Notice of the 2007 Annual General Meeting will be despatched to shareholders not less than 20 business days before the meeting At the Annual General Meeting, details of all proxy votes will be made available in accordance with the provisions of the Code Separate resolutions on each substantially separate issue in particular any proposal relating to the Annual Report and Accounts, will be made at the Annual General Meeting

Derrick Nicholson is the Independent Director appointed as the Senior Non-Executive Director He is available to shareholders if they have concerns which have not been resolved following contact through normal channels – being the Chairman, the Chief Executive Officer or Group Finance Director

Information is made available to shareholders on the Group's website, which can be found at www morse com

Management structure

The Executive Directors meet regularly as part of the Executive Committee, which comprises the Executive Directors, strategic business unit heads and senior executives to discuss strategic and operational matters Executive Directors also attend Subsidiary Board meetings where necessary and appropriate

Health and safety

The Company recognises the importance of health and safety and understands the high standards required to ensure the health, safety and welfare of its employees at work, its customers and the general public The Company has an exemplary health and safety record

Internal control systems

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness on an annual basis However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss

Elements of the system of material controls in line with the Turnbull guidance (which includes financial, operational and compliance controls) are

- An annual budget is prepared to facilitate the monitoring of the Group's business and financial activities and is formally adopted by the Board
- Board meetings are held on a regular basis to consider performance against budget, the management accounts and the forecast for the coming months
- Within each strategic business unit, the relevant strategic business unit head meets with senior executives of businesses within that strategic business unit to discuss issues particular to that business
- The Audit Committee meets at least twice a year to consider the plans and the results of the audit performed by the external auditors The external auditors have direct access to the Audit Committee and vice versa
- Business processes and internal control procedures are maintained through the BSI Certified BS EN ISO 9001 2000 Business Process documentation

Risk management

During the year there were processes to ensure that business risk is considered, assessed and monitored as an integral part of the business The Directors are of the view that from 1 July 2006 and up to the date of approval of the Annual Report and Accounts, there is an ongoing process for identifying, evaluating and managing the Group's significant risks that is regularly reviewed by the Board

Statement from independent directors

The Non-Executive Directors have been asked to provide their views on the effectiveness of the corporate governance processes within the Company to ensure compliance with the Code These views have been determined by the Non-Executive Directors and shared with the full Board in open session

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'We have addressed the quality of the relationship between the Chairman and Chief Executive Officer, the openness of the Chief Executive Officer with the Board, the visibility of checks and balances between the Executive Directors and whether all questions asked by the Non-Executive Directors in Board and Committee meetings have been appropriately addressed The Non-Executive Directors have concluded that issues are fully debated at Board and Committee meetings and subjected to rigorous scrutiny without detracting from any openness in Board relationships at all levels - particularly as between the Chief Executive Officer and the Chairman and between the Executive and Non-Executive Directors '

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Directors' remuneration report

Introduction

The Board presents its report on remuneration, which sets out the policy and disclosures in relation to Directors' remuneration This report will be submitted to shareholders for their approval at the Annual General Meeting of the Company to be held on 30 October 2007 and has been produced in accordance with the Directors' Remuneration Report Regulations 2002

The Remuneration Committee section, Remuneration Policy section, total shareholder return performance graph and service contracts section below are not subject to audit

Remuneration Committee

The Remuneration Committee reviews and determines on behalf of the Board the overall remuneration package of the Executive Directors and the Chairman The Chief Executive Officer recommends and monitors the remuneration of all other senior executives, with appropriate oversight from the Committee The Committee's terms of reference are available for public inspection

Its members, all independent Non-Executive Directors, are Nigel Whitehead (Chairman), Derrick Nicholson and the Hon Michael Benson The Chairman and Chief Executive Officer may, upon the Committee's invitation, also attend the meetings of the Committee The Chief Executive Officer does not attend where his own remuneration is being considered

During the year, advice has been sought from New Bridge Street Consultants LLP (who have been appointed by the Committee) in relation to current market trends and best practice with regard to Directors' remuneration No other services are offered by New Bridge Street Consultants LLP to the Company save for technical advice relating to the operation of the Company's share incentive arrangements

Remuneration policy for Executive Directors

The Company's remuneration policy is designed to ensure that Executive Directors' rewards are competitive when compared to similar companies, to recognise the plans for the Group and align the interests of Directors and shareholders The remuneration packages comprise base salary, benefits, performance-related bonuses, defined contribution pensions and long-term incentive awards Base salaries are set to ensure the Company can recruit and retain the most capable talent, which the Company believes is vital for driving shareholder value Strong emphasis is then placed on the variable performance-related aspects of the overall package to ensure performance, both during a single fiscal year and over longer periods, can be appropriately rewarded Base salaries are normally set with due reference given to the median market level with variable incentives (annual bonus and share incentive arrangements) offering upper quartile earnings for upper quartile performance in a normal market environment

When setting the remuneration levels of the Directors, account is taken of pay levels elsewhere in the Group

There were no contracts of significance subsisting during or at the end of the year in which a Director of the Company is or was materially interested

Executive Directors may accept outside appointments provided these do not interfere with their duties to the Company Whether a Director may retain any related fees will be considered on a case-by-case basis Duncan McIntyre is a Non-Executive Director of Profero Limited but this position does not attract any remuneration

The current elements of the remuneration packages can be summarised as follows

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Base salary

The Company has decided to alter the review date of Directors' salaries to bring them in line with all other salary reviews Directors' salaries will therefore be reviewed in August by the Remuneration Committee in accordance with the terms above The Group results for the previous trading year, individual performance and (as stated above) market rates are considered

Duncan McIntyre's salary will reduce from £320,000 per annum for his role as Chief Executive Officer, to £170,000 for his role as Executive Deputy Chairman, effective from 1 July 2007

Kevin Alcock assumed the role of Chief Executive Officer on 28 June 2007, and was therefore only in the role for two days - until 30 June 2007 – during the year His salary (effective 1 September 2007) is currently £300,000

Eric Dodd assumed the role of Group Finance Director on 28 September 2006 – before then he was acting Group Finance Director His salary (effective 1 September 2007) is currently £175,000

Benefits

Benefits include the provision of a car allowance, private medical insurance, life insurance and personal accident and travel insurance

Annual performance-related bonus

The annual bonus plan has a maximum threshold of 100% of base salary In 2007, target bonuses for individual Directors were set in a range of 25% to 66% of base salaries These bonuses are triggered by achieving agreed challenging performance objectives of the Group Bonus payments are non-pensionable and are payable after the Group's statutory accounts have been audited In respect of the year ended 30 June 2007, £175,550 of bonuses were awarded to the Executive Directors of the Company (2006 £148,334) This represents 41% of the possible maximum bonuses available to Executive Directors For the year ending 30 June 2008, any bonus payable will be based on achieving challenging Group financial targets and meeting personal objectives

Pensions

The Company operates a defined contribution scheme (money purchase) which is operated for Executive Directors and employees The Company contribution rate is set at a fixed amount for each of the Executive Directors for the relevant year, Duncan McIntyre's rate was set at £35,000, Kevin Alcock's rate was set at £20,000 and Eric Dodd's rate was set at £10,000, making an average contribution of 9 15% This is below the previous recommendation of 14% from the Remuneration Committee In August 2007 the decision was taken to move pension contributions for Executive Directors towards median levels Pension contributions for Kevin Alcock and Eric Dodd are £42,000 and £20,000 respectively (effective 1 September 2007)

Executive share incentive schemes

Executive share incentives are considered to be a key part of management retention and motivation The policy of the Company is to incentivise Directors to perform at high levels and to align their interests with those of shareholders

Prior to the Annual General Meeting held on 1 November 2004, the Company operated an options-based long-term incentive policy Under the Unapproved and Approved versions of the Executive Share Option Schemes 2000, all option grants were subject to a performance condition that 'there be an average annual increase in adjusted earnings per share of at least 5% more than the average annual percentage increase in the Retail Price Index in the three-year performance period' Options granted under the Morse Unapproved Executive Share Option Scheme preceding the 2000 Scheme contained the same 5% provision, but in addition allowed re-testing in a fourth consecutive financial year

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Further details of the Executive Share Option Schemes and the Directors' interests are given below

At the November 2004 Annual General Meeting, the Long-Term Incentive Plan ('Plan') was adopted which the Committee intends be operated as the primary long-term incentive for senior executives of the Company Save in exceptional circumstances, no individual may receive awards under the Plan in any financial year over shares having a market value on grant in excess of 150% of his or her annual rate of base salary Prior to the Committee making an award under the Plan, it may require a prospective participant to buy and retain ordinary shares in the Company worth up to one third of the value of the shares over which the proposed award would be made

Awards will normally vest following the third anniversary of grant once the Committee has determined the extent to which the applicable performance conditions have been satisfied and provided the participant is still employed in the Group

The performance condition attached to awards granted under the Plan to Executive Directors thus far have related to the Company's relative total shareholder return ('TSR') performance against the FTSE All-Share Software and Computer Services Sector

The percentage of shares subject to such awards that may vest is as follows

Rank of the Company's TSR against FTSE All-Share Software and Computer Services Sector	Percentage of award that vests
Below median	0%
Median	25%
Upper quartile	100%
Between median and upper quartile	25% - 100% on a straight-line basis

The performance period is a single three-year period For awards made in the period 1 July to 31 December in the year, the baseline year is the year immediately prior to the grant For awards made in the period 1 January to 30 June in the year, the baseline year is the year immediately following the grant There is no provision for re-testing In addition, irrespective of the Company's TSR performance, no awards vest unless the Committee is satisfied that the Company's earnings per share grows in real terms over the three-year performance period (unless the Committee believes that it would be inappropriate to apply this underpin)

The Committee chose this performance condition as it believed it appropriate for Directors to be encouraged to generate returns to shareholders greater than the Company's sector peers, albeit also taking account of the Company's underlying financial performance The extent to which the performance conditions are satisfied will be determined by the Committee

The notice of Annual General Meeting accompanying this document contains details of changes that it is proposed be made to the operation of the Company's share incentive arrangements, with the relevant sections of the notice of Annual General Meeting deemed incorporated into this report Indeed, the Committee will regularly review the operation of the Company's share incentive arrangements to ensure they continue to take appropriate account of market/best practice and the Company's changing circumstances

The following graph shows the value of £100 invested in Morse plc on 30 June 2002 compared with the value of £100 invested in the FTSE All-Share Software and Computer Services Index, which the Committee now believes is the most appropriate index to use for this purpose as (i) the Company has been a constituent of this index throughout the relevant period and (ii) it is the group of companies used in the Long Term Incentive Plan for these purposes

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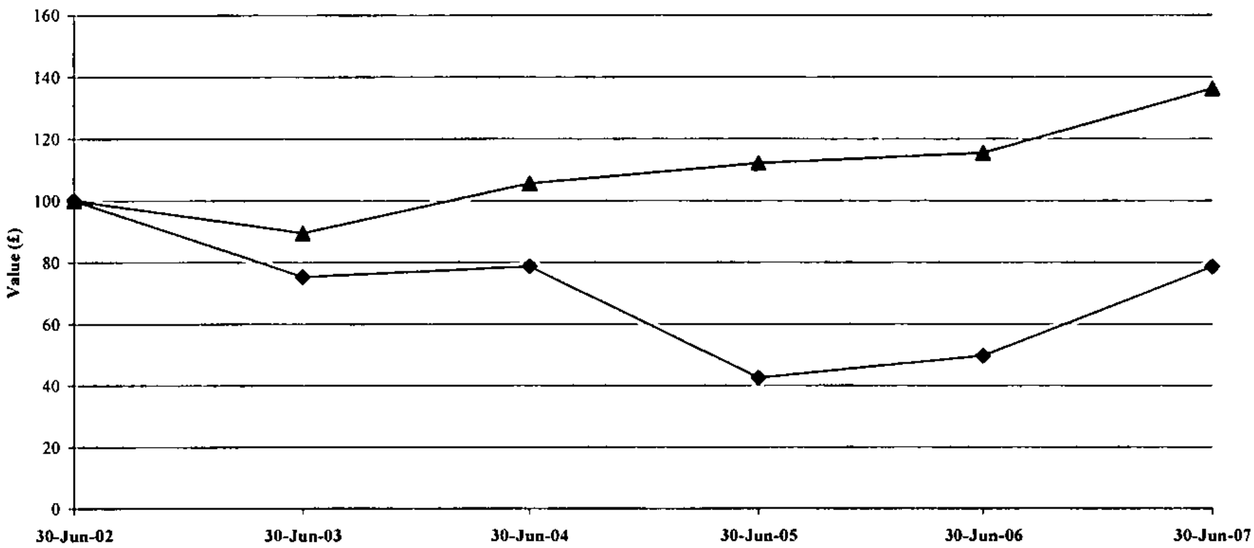
Total shareholder return
Source Thomson financial



This graph looks at the comparative values by 30 June 2007 of £100 invested in Morse plc on 30 June 2002 and invested in the FTSE All-Share Software & Computer Services Index The other points plotted are the values at intervening financial year-ends

Employee share schemes

The Company operates a number of all-employee share schemes in which the Executive Directors are also entitled to participate Details of the awards, granted and outstanding, under each of the schemes are given in note 5 to the financial statements

Employee Share Option Scheme

Shortly prior to listing, all employees of the Company (apart from Directors) who had commenced employment with the Group prior to 17 February 1999 were granted options under this scheme The value of most of the options granted was based on both basic salary and length of service No further options have been granted under this scheme since listing

Unapproved Executive Share Option Scheme

A number of Directors and members of senior management have been granted options under this scheme with the intention of motivating and retaining such key personnel No options have been granted under this scheme since April 2000 and it has since been replaced by the Unapproved Executive Share Option Scheme 2000

Unapproved Executive Share Option Scheme 2000 and Approved Executive Share Option Scheme 2000

These schemes were designed to provide the flexibility required in a competitive market, and were adopted by the Company at the Annual General Meeting in November 2000 Details of the options granted under these schemes are given in note 5 to the financial statements

Sharesave Share Option Schemes

The Company has established an Inland Revenue-approved Sharesave Scheme and an international Save As You Earn Scheme Sharesave options will be exercisable on completion of an associated savings contract The Sharesave options may be granted at a discount of up to 20% to the market price of the Company's shares on the day prior to the day of invitation, as permitted by the rules of the scheme

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Diagonal Option Schemes

At the time of the acquisition of Diagonal Plc, Diagonal employees who held options over Diagonal shares under the Diagonal Plc Discretionary Award of Share Options Scheme, the Diagonal Plc Long-Term Incentive Plan and the Diagonal Plc 1997 Savings-Related Share Option Scheme exchanged their options for equivalent options over the Company's shares There are options over the Company's shares which remain outstanding under these schemes but no further options will be granted under these schemes

Service contracts

With the exception of Duncan McIntyre who was on a 12 month notice period both to and from the Company (this changed to six months effective 1 July 2007 to reflect his revised role), Executive Directors are employed on a rolling contract and have a six month notice period both to and from the Company These contracts contain no provisions for termination payments other than those that may arise under notice provisions, which the Company believes reflects market and best practice With the exception of Richard Lapthorne who is on a six month notice period, Non-Executive Director appointments contain a one month notice provision and are for a 12 month duration There are no compensation provisions for early termination of Non-Executive Director appointments

Directors during the year.

Director	Date of contract
R Lapthorne	January 1999
K Alcock [1]	January 2007
E Dodd [1]	December 2006
D McIntyre	July 2004
D Nicholson	December 2005
N Whitehead	December 2004
M Benson [1]	April 2007
D Beresford [2]	July 2004
P Coll [2]	July 2004
C Tucker [2]	March 2000
W Passmore [2]	February 1999

1 These Directors were appointed to the Board during the year
2 These Directors ceased to be Directors of the Company during the year

Directors' shareholdings

The Directors' and their families' beneficial interests in the share capital of the Company at 30 June 2007 are shown below

	30 June 2007		30 June 2006	
	Beneficial Ordinary shares of 10p	**Share options Ordinary shares of 10p**	Beneficial Ordinary shares of 10p	Share options Ordinary shares of 10p
R Lapthorne	**300,000**	-	300,000	-
D McIntyre[1 2]	**6,060,087**	**2,150,117**	6,060,087	805,252
K Alcock[3]	**1,301,960**	**1,032,901**	1,301,960[4]	1,032,901[4]
E Dodd	**22,500**	**275,191**	3,000[5]	275,191[5]
M Benson	**50,000**	-	-	-
D Nicholson	**1,926**	-	1,926	-
N Whitehead	-	-	-	-
D Beresford[6,7]	**67,960**	**567,115**	43,181	270,000
P Coll[7]	**206,627**	**589,577**	106,271	589,577

1 Included in D McIntyre's beneficial shares are 704,468 (2006 704,468) Ordinary shares held in trust for his minor children
2 D McIntyre's shareholding represents 3 86% (2006 3 95%) of the total issued share capital as at 4 September 2007
3 Included in K Alcock's beneficial shares are 1,187,941 Ordinary shares held jointly with his wife
4 K Alcock's share and share option holdings are at the date of his appointment as a Director
5 E Dodd's share and share option holdings are at the date of his appointment as a Director
6 Included in D Beresford's beneficial shares are 27,350 held in his wife's name and 24,779 held jointly with his wife
7 D Beresford and P Coll ceased to be Directors during the year

From 30 June 2007 to 4 September 2007 there have been no changes in the Directors' interests

Non-Executive Directors' fees

The Non-Executive Directors are not involved in decisions determining their own remuneration, with their fees being set by a Committee comprising at least two Executive Directors (save for the fees of the Chairman which are set by the Committee)

The Company's policy on Non-Executive Directors' remuneration is to ensure that Non-Executive Director fees are competitive when compared to similar companies in the IT and IT services consultancy field and the market generally, are aligned with the interests of shareholders, and reflect the time, commitment and responsibilities of the role

There is no policy of paying Non-Executive Directors' remuneration in shares, and share incentive awards will not be granted to them Non-Executive Directors do not receive any bonuses or pension contributions

The following sections of the Directors' Remuneration Report have been subject to audit

Directors' emoluments comprised

					2007		2006
Summary	**Base salary/ fees**	**Annual bonus**	**Benefits and allowances**	**Total exc pensions**	**Pension cont**	Total exc pensions	Pension cont
	£	**£**	**£**	**£**	**£**	£	£
R Lapthorne	**100,000**	**-**	**-**	**100,000**	**-**	100,000	-
D McIntyre	**320,000**	**138,000**	**14,750**	**472,750**	**35,000**	390,114	19,845
K Alcock[1]	**1,846**	**-**	**91**	**1,937**	**163**	-	-
E Dodd[2]	**113,942**	**37,500**	**8,155**	**159,597**	**7,543**	-	-
P Coll[3]	**92,500**	**-**	**5,375**	**97,875**	**12,500**	223,727	12,799
D Beresford[4]	**45,222**	**-**	**2,628**	**47,850**	**6,111**	216,614	13,062
M Benson[5]	**5,577**	**-**	**-**	**5,577**	**-**	-	-
W Passmore[6]	**10,750**	**-**	**-**	**10,750**	**-**	30,000	-
C Tucker[7]	**30,000**	**-**	**-**	**30,000**	**-**	30,000	-
N Whitehead	**30,000**	**-**	**-**	**30,000**	**-**	30,000	-
D Nicholson	**30,000**	**-**	**-**	**30,000**	**-**	16,731	-
Total	**779,837**	**175,500**	**30,999**	**986,336**	**61,317**	1,037,186	45,706

1 K Alcock was appointed to the Board as the Company CEO on 28 June 2007 and the emoluments listed are from that point onwards
2 E Dodd was appointed to the Board on 28 September 2006 and the emoluments listed are from that point onwards
3 P Coll ceased to be a Director on 2 January 2007
4 D Beresford ceased to be a Director on 28 September 2006
5 M Benson joined the Board on 24 April 2007 His fees are set at the same level as for other Non-Executive Directors
6 W Passmore retired from the Board on 9 November 2006
7 C Tucker retired from the Board on 28 June 2007

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The aggregate compensation paid by the Company to its collective senior management for services for the year ended 30 June 2007, is set out below

	2007
Base salary / fees	£ 729,802
Annual bonus	£ 208,252
Benefits and allowances	£ 35,239
Pension contribution	£ 47,958
Total	£1,021,251

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Interest in share options

Name	Options Held at 1 July 2006	Options Granted During The Year	Options Exercised During The Year	Options Cancelled During The Year	Options Held at 30 June 2007	Earliest Date Of Exercise	Expiry Date
Kevin Alcock[9]							
Morse plc Long Term Incentive Plan	50,000[2]	-	-	-	50,000	Sep 2008	Sep 2009
Sharesave Option Scheme 7	12,808[3]	-	-	-	12,808	Feb 2009	Aug 2009
Morse plc Long Term Incentive Plan	70,093[2]	-	-	-	70,093	Mar 2009	Mar 2010
Morse plc Long Term Incentive Plan	-	900,000[2]	-	-	900,000	Oct 2009	Oct 2010
Eric Dodd[9]							
Sharesave Option Scheme 7	12,808[3]	-	-	-	12,808	Feb 2009	Aug 2009
Approved & Unapproved Executive Share Option 2000	37,383[4]	-	-	-	37,383	Jul 2009	Mar 2016
Morse plc Long Term Incentive Plan	-	225,000[2]	-	-	225,000	Sep 2009	Sep 2010
Duncan McIntyre							
Unapproved Executive Share Option Scheme	98,000[1]	-	-	-	98,000	Mar 2005	Mar 2009
Morse plc Long Term Incentive Plan	250,000[2]	-	-	-	250,000	Dec 2007	Dec 2008
Sharesave Option Scheme 7	12,808[3]	-	-	-	12,808	Feb 2009	Aug 2009

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Name	Options Held at 1 July 2006	Options Granted During The Year	Options Exercised During The Year	Options Cancelled During The Year	Options Held at 30 June 2007	Earliest Date Of Exercise	Expiry Date
Duncan McIntyre Contd							
Morse plc Long Term Incentive Plan	444,444[2]	-	-	-	444,444	Mar 2009	Mar 2010
Approved & Unapproved Executive Share Option 2000	-	864,865[5]	-	-	864,865	Jul 2009	Mar 2016
Morse plc Long Term Incentive Plan	-	480,000[2]	-	-	480,000	Sep 2009	Sep 2010
David Beresford							
Morse plc Long Term Incentive Plan	150,000[2]	-	-	-	150,000	Dec 2007	Dec 2008
Morse plc Long Term Incentive Plan	120,000[2]	-	-	-	120,000	Sep 2008	Sep 2009
Morse plc Long Term Incentive Plan		285,000[2]	-	-	285,000	Sep 2009	Sep 2010
Sharesave Option Scheme 8		12 115[6]	-	-	12,115	Feb 2010	Aug 2010
Phil Coll							
Unapproved Executive Share Option 2000	56,000[1]	-	-	-	56,000	Mar 2002	Mar 2009
Unapproved Executive Share Option 2000	30,769[7]	-	-	-	30,769	Sep 2005	Sep 2009
Approved & Unapproved Executive Share Option 2000	120,000[8]	-	-	-	120,000	Jul 2007	Apr 2014
Morse plc Long Term Incentive Plan	250,000[2]	-	-	-	250,000	Dec 2007	Dec 2008

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Name	Options Held at 1 July 2006	Options Granted During The Year	Options Exercised During The Year	Options Cancelled During The Year	Options Held at 30 June 2007	Earliest Date Of Exercise	Expiry Date
Phil Coll Contd							
Morse plc Long Term Incentive Plan	120,000[2]	-	-	-	120,000	Sep 2008	Sep 2009
Sharesave Option Scheme 8	12,808[3]	-	-	-	12,808	Feb 2009	Aug 2009

Summary of Executive Directors' Options

	Options Held at 1 July 2006	Options Granted During The Year	Options Exercised During The Year	Options Cancelled During The Year	Options Held at 30 June 2007
Kevin Alcock	132,901	900,000			1,032,901
Eric Dodd	50,191	225,000			275,191
Duncan McIntyre	805,252	1,344,865			2,150,117
David Beresford	270,000	297,115			567,115
Phil Coll	589,577				589,577
Total	**1,847,921**	**2,766,980**	-	-	**4,614,901**

1	Exercise price of	£2 500	5	Exercise price of	£1 10
2	Exercise price of	£nil	6	Exercise price of	£0 78
3	Exercise price of	£0 73	7	Exercise price of	£2 275
4	Exercise price of	£1 07	8	Exercise price of	£1 375
			9	Kevin Alcock and Eric Dodd's share option holdings are as at the date of their appointment as Directors	

The market price of the Company's shares at the end of the year was £0 95 (2006 £0 785)

During the year the market price ranged between £0 75 and £1 19

No other Directors have been granted awards in the shares of the Company or other Group entities

Signed on behalf of the Board

Nigel Whitehead
Chairman of the Remuneration Committee
4 September 2007

Morse plc

Report of the independent auditors to the members of Morse plc

We have audited the Group and parent company financial statements (the 'financial statements') of Morse plc for the year ended 30 June 2007 which comprise the consolidated income statement, the consolidated and Company balance sheets, the consolidated cash flow statement, the consolidated statement of recognised income and expense and the related notes These financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Directors' Remuneration Report that is described as having been audited

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 auditor's 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

The Directors' responsibilities for preparing the Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 34

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements The information given in the Directors' Report includes that specific information presented in the business review section that is cross-referred from the Review of the Group section of the Directors' Report

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the listing rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures

We read the other information contained in the Report and Accounts and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

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Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors' Remuneration Report to be audited It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 30 June 2007 and of its profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation,
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 30 June 2007,
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985,
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB

4 September 2007

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Consolidated income statement for the year ended 30 June 2007

	Note	Continuing £'000	Discontinued £'000	2007 Total £'000	*2006 Total £'000
Group revenue	2	256,510	815	257,325	367,120
Cost of sales		(195,807)	(657)	(196,464)	(290,911)
Exceptional trading balance release	3	-	-	-	8,831
Total cost of sales		(195,807)	(657)	(196,464)	(282,080)
Gross profit		60,703	158	60,861	85,040
Distribution expenses		(19,436)	(912)	(20,348)	(38,501)
Administrative expenses before exceptional restructuring costs, exceptional trading balance release, impairment and demerger costs		(29,046)	(5,833)	(34,879)	(31,181)
Exceptional trading balance release	3	-	-	-	4,300
Demerger costs	3	-	(2,455)	(2,455)	-
Exceptional restructuring income/(costs) and impairment	3	1,084	-	1,084	(6,821)
Administrative expenses		(27,962)	(8,288)	(36,250)	(33,702)
Operating profit/(loss) before exceptional restructuring costs, exceptional trading balance releases, impairment and demerger costs		12,221	(6,587)	5,634	6,527
Exceptional trading balance releases	3	-	-	-	13,131
Demerger costs	3	-	(2,455)	(2,455)	-
Exceptional restructuring income/(costs) and impairment	3	1,084	-	1,084	(6,821)
Operating profit/(loss)	2,6	13,305	(9,042)	4,263	12,837
Financial income	7	696	-	696	971
Financial expenses	7	(404)	-	(404)	(353)
Net financing income		292	-	292	618
Share of loss of jointly controlled entities and associates which are accounted for under the equity method		-	(709)	(709)	(401)
Exceptional loss on sale of discontinued operations	3	-	-	-	(7,058)
Profit/(loss) before taxation		13,597	(9,751)	3,846	5,996
UK taxation		(3,484)	2,376	(1,108)	(974)
Overseas taxation		(936)	-	(936)	(851)
Taxation	8	(4,420)	2,376	(2,044)	(1,825)
Profit/(loss) for the year	2	9,177	(7,375)	1,802	4,171
Attributable to					
Equity holders of the parent		8,980	(7,375)	1,605	3,982
Minority interests		197	-	197	189
Profit/(loss) for the year	2	9,177	(7,375)	1,802	4,171
Dividends	9			6,085	5,754
Basic earnings/(loss) per share	4	5 8p	(4 8p)	1 0p	2 6p
Diluted earnings/(loss) per share	4	5 6p	(4 6p)	1 0p	2 6p

*Refer to page 57 for the 2006 prior year analysis of continuing and discontinued activities

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Consolidated income statement for the year ended 30 June 2006

	Note	Continuing £'000	Discontinued £'000	2006 Total £'000
Group revenue	2	296,476	70,644	367,120
Cost of sales		(231,752)	(59,159)	(290,911)
Exceptional trading balance release	3	8,831	-	8,831
Total cost of sales		(222,921)	(59,159)	(282,080)
Gross profit		73,555	11,485	85,040
Distribution expenses		(25,244)	(13,257)	(38,501)
Administrative expenses before exceptional restructuring costs, exceptional trading balance release and impairment		(28,926)	(2,255)	(31,181)
Exceptional trading balance release	3	4,300	-	4,300
Exceptional restructuring costs and impairment	3	(3,936)	(2,885)	(6,821)
Administrative expenses		(28,562)	(5,140)	(33,702)
Operating profit/(loss) before exceptional restructuring costs, exceptional trading balance releases and impairment		10,554	(4,027)	6,527
Exceptional trading balance releases	3	13,131	-	13,131
Exceptional restructuring costs and impairment	3	(3,936)	(2,885)	(6,821)
Operating profit/(loss)	2,6	19,749	(6,912)	12,837
Financial income	7	697	274	971
Financial expenses	7	(300)	(53)	(353)
Net financing income		397	221	618
Share of loss of jointly controlled entities and associates which are accounted for under the equity method		-	(401)	(401)
Exceptional loss on sale of discontinued operations	3	-	(7,058)	(7,058)
Profit/(loss) before taxation		20,146	(14,150)	5,996
UK taxation		(1,871)	897	(974)
Overseas taxation		(1,022)	171	(851)
Taxation	8	(2,893)	1,068	(1,825)
Profit/(loss) for the year	2	17,253	(13,082)	4,171
Attributable to				
Equity holders of the parent		17,064	(13,082)	3,982
Minority interests		189	-	189
Profit/(loss) for the year	2	17,253	(13 082)	4,171
Dividends	9			5,754
Basic earnings/(loss) per share	4	11 2p	(8 6p)	2 6p
Diluted earnings/(loss) per share	4	11 2p	(8 6p)	2 6p

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Consolidated statement of recognised income and expense for the year ended 30 June 2007

	Note	Year ended 30 June 2007 £'000	Year ended 30 June 2006 £'000
Foreign exchange translation differences	22	**(449)**	267
Net income and expense recognised directly in equity	22	**(449)**	267
Profit for the year		**1,802**	4,171
Total recognised income and expense		**1,353**	4,438

Total recognised income and expense for the period is attributable to

Equity holders of the parent	**1,156**	4,249
Minority interest	**197**	189
Total recognised income and expense	**1,353**	4,438

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Consolidated balance sheet as at 30 June 2007

	Note	30 June 2007 £'000	30 June 2006 £'000
Assets			
Non-current assets			
Property, plant and equipment	11	**2,700**	3,615
Goodwill	10	**51,622**	51,168
Other intangibles	10	**6,098**	6,484
Investments	12	**51**	255
Other financial assets	13	**-**	119
Deferred tax assets	14	**420**	50
Total non-current assets		**60,891**	61,691
Current assets			
Inventories	15	**4,287**	7,123
Assets classified as held for sale	26	**-**	34,400
Trade and other receivables	16	**77,353**	83,584
Cash and cash equivalents	17	**15,345**	17,800
Total current assets		**96,985**	142,907
Total assets		**157,876**	204,598
Liabilities			
Current liabilities			
Interest bearing loans and borrowings	20	**-**	(350)
Trade and other payables	18	**(87,579)**	(98,621)
Tax payable		**(7,796)**	(7,832)
Financial liabilities	20	**-**	(206)
Liabilities classified as held for sale	26	**-**	(28,176)
Provisions	19	**(472)**	(1,621)
Total current liabilities		**(95,847)**	(136,806)
Non-current liabilities			
Interest bearing loans and borrowings	20	**-**	(625)
Deferred tax liability	14	**(200)**	(57)
Provisions	19	**(949)**	(2,652)
Total non-current liabilities		**(1,149)**	(3,334)
Net assets		**60,880**	64,458
Capital and reserves			
Called up share capital	21, 22	**15,692**	15,338
Share capital to be issued	22	**348**	3,803
Share premium account	22	**70,767**	70,385
Other reserves	22	**30,868**	27,563
Retained earnings	22	**(57,024)**	(52,776)
Total equity attributable to equity shareholders		**60,651**	64,313
Minority interest	22	**229**	145
Total equity		**60,880**	64,458

The financial statements were approved by the Board of Directors on 4 September 2007 and signed on its behalf by
E Dodd Eric Dodd.

Consolidated cash flow statement for the year ended 30 June 2007

	Note	Year ended 30 June 2007 £'000	Year ended 30 June 2006 £'000
Cash flows from operating activities			
Profit before tax		**3,846**	5,996
Adjustments for			
Depreciation and amortisation		**2,523**	3,769
Financial income		**(696)**	(971)
Financial expenses		**404**	353
Share of loss of jointly controlled entities and associates	*12*	**709**	401
Loss on sale of property, plant and equipment	*6*	**630**	239
Impairment of goodwill	*10*	**-**	2,293
Loss on sale of discontinued operations		**-**	7,058
Operating profit before changes in working capital and provisions		**7,416**	19,138
Decrease in inventories		**2,824**	673
Decrease/(increase) in trade and other receivables		**3,854**	(2,821)
(Decrease) in trade and other payables		**(10,105)**	(15,015)
(Decrease) in provisions		**(2,852)**	(154)
Cash generated from operations		**1,137**	1,821
Interest received		**696**	971
Interest paid		**(404)**	(353)
Tax paid		**(1,110)**	(3,518)
Net cash inflow/(outflow) from operating activities		**319**	(1,079)
Cash flows from investing activities			
Acquisition of property, plant and equipment	*11*	**(1,142)**	(2,157)
Proceeds from sale of property, plant and equipment		**27**	66
Acquisition of intangibles (software and R&D)		**(936)**	-
Acquisitions of subsidiary in the period, net of cash acquired	*28*	**(303)**	-
Payment of deferred consideration on acquisitions		**-**	(51)
Investment in joint venture	*12*	**(656)**	(700)
Disposal of subsidiary, net of cash disposed	*27*	**(3,239)**	(1,099)
Net cash from investing activities		**(6,249)**	(3,941)
Cash flow from financing activities			
Proceeds from issue of shares	*22*	**166**	407
Repayment of loan notes on previous acquisitions		**(114)**	(61)
Proceeds from other loans		**119**	62
Payment of dividend to minority interest		**(27)**	(60)
Dividends paid	*9*	**(6,085)**	(5,754)
Net cash from financing activities		**(5,941)**	(5,406)
Net decrease in cash and cash equivalents		**(11,871)**	(10,426)
Opening cash and cash equivalents	*17*	**27,263**	37,646
Effect of exchange rate fluctuations on cash held		**(47)**	43
Closing cash and cash equivalents	*17*	**15,345**	27,263

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Notes to the financial statements for the year ended 30 June 2007

1 Accounting policies

Basis of preparation

Morse plc is a company incorporated in the UK

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group') and equity account the Group's interest in associates and jointly controlled entities The parent company financial statements present information about the Company as a separate entity and not about its Group

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs') The Company has elected to prepare its parent company financial statements in accordance with UK GAAP, these are presented on pages 96 to 112

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 30

Application of recently issued International Financial Reporting Standards

The group has considered the following amendments to IFRS in these financial statements

New interpretations effective at 1 July 2006 adopted by the Group that did not have a material impact are as follows.

IFRIC 4 'Determining whether an Arrangement contains a Lease', IFRIC 5 'Rights to Interests arising from Decommissioning Restoration and Environmental Rehabilitation Funds', IFRIC 6 'Liabilities arising from Participation in a Specific Market – Waste Electrical and Electronic Equipment', IFRIC 7 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies'

New Interpretations effective for the Group from 1 July 2007 that will not have a material Impact are as follows

IFRIC 8 'Scope of IFRS 2', IFRIC 9 'Reassessment of Embedded Derivatives', IFRIC 10 'Interim Financial Reporting and Impairment', IFRIC11 'IFRS 2 – Group and Treasury Share Transactions', IFRS 7 'Financial Instruments Disclosure'

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value, derivative financial instruments and financial instruments classified as fair value through the profit or loss Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell

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Notes to the financial statements for the year ended 30 June 2007 (continued)

1 Accounting policies (continued)

Basis of consolidation

Subsidiaries are those entities controlled by the Company Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities In assessing control, potential voting rights that presently are exercisable or convertible are taken into account The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases Intra-group balances and any unrealised gains and losses or income and expenditure arising from intra-group transactions, are eliminated in preparing the consolidated financial statements

An associate is an undertaking in which the Group has a long-term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control The Group's share of the profits less losses of associates and of joint ventures are included in the consolidated profit and loss account, and its interest in their net assets is included in investments in the consolidated balance sheet

Revenue

Revenue represents the values of goods delivered and services provided within the Group's ordinary activities net of value added tax and excluding intra-group sales Revenue comprises sales of hardware, software, consulting services and maintenance/support services

Revenue recognition occurs when persuasive evidence of an arrangement exists, despatch has occurred, the fee is determinable and collectability is probable

Hardware and installation
Hardware sales are recognised on delivery, unless significant installation work is required or customer specific conditions must be met, in which case revenues are recognised on installation or acceptance by the customer

Consulting services
Revenues include sales of services that are delivered over extended periods of time and recognised on a percentage completion basis over the period that the service is delivered Profits on fixed price contracts are taken in proportion to the cost of work performed on each contract relative to the estimated total cost of completing the contract Revenues derived from variations on contracts are recognised only when they have been agreed by the customer Full provision is made for estimated losses on all contracts in the year in which they are first foreseen

The gross amount due from customers for contract work is included within trade and other receivables and the gross amount due to suppliers is included within trade and other payables

Sales of software
Revenue from the sale of software product licences at the time the software licence is granted is recognised in accordance with the contract, typically at the time of supply of the software product to the customer

Maintenance & support
Revenues from maintenance and support services are recognised over the period that the services are provided Payments in advance of services are recorded in the balance sheet as deferred income

1 Accounting policies (continued)

Property, plant and equipment

The cost of the tangible fixed assets, net of estimated residual value and impairment, is depreciated in equal annual instalments over the estimated useful lives of the assets The residual values of assets or group of like assets and the useful economic lives of assets are reviewed annually

The rates of depreciation are as follows

Leasehold improvements	Shorter of ten years and the unexpired expected term of the lease
Fixtures and fittings	Four years
Motor vehicles	Four years
Office equipment	Four years except for computer equipment, which is depreciated by 40% in the year of acquisition and thereafter in equal annual instalments over the next two years

Intangible assets and goodwill

All business combinations are accounted for by applying the purchase method Goodwill arising on the acquisition of subsidiaries, associates and jointly controlled entities represents the excess of the fair value of consideration given in respect of the acquisition over the fair value to the Group of the net assets and any contingent liabilities acquired

In respect of business combinations prior to 1 July 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired (Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable)

In respect of acquisitions prior to 1 July 2004, goodwill is included on the basis of deemed cost, which represents the amount recorded under UK GAAP, (which was broadly comparable, save that only separable intangibles were recognised and goodwill was amortised)

In accordance with IFRS 3, goodwill has been frozen at its net book value at 1 July 2004, is allocated to cash-generating units and is not amortised, but instead is subject to annual impairment reviews Goodwill is stated at cost or deemed cost less accumulated impairment losses Any impairment losses are recognised immediately in the income statement Negative goodwill arising on an acquisition is recognised in the income statement

Expenditure on research activities is recognised as an expense in the period in which it is incurred Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads Other development expenditure is recognised in the income statement as an expense as incurred Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period to which it relates

Other intangible assets acquired by the Group are stated at cost less accumulated amortisation Software is capitalised as part of other intangibles and amortised over three years

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Amortisation is charged to distribution expenses on a straight-line basis over the estimated useful lives of the intangible assets unless such lives are indefinite Software is capitalised as part of other intangibles and amortised over three years

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Notes to the financial statements for the year ended 30 June 2007 (continued)

1 Accounting policies (continued)

Intangible assets and goodwill (continued)

Other intangible assets are amortised from the date they are available for use or acquired The estimated useful lives are as follows

Trade names	Ten years
Customer relationship backlog	One year
Maintenance contracts	Six years
Follow on consulting	Eight years
Research and development	Three years
Software	Three years
Intellectual property	Seven years

Subsequent expenditure

Subsequent expenditure on capitalised tangible and intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates All other expenditure is expensed as incurred

Impairment

The carrying amounts of the Group's assets, other than deferred tax assets, are reviewed at each year end to determine whether there is any indication of impairment If any such indication exists, the asset's recoverable amount is estimated

For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount Impairment losses are recognised in the income statement

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis A cash-generating unit is the smallest identifiable group of assets that generates cash inflows and that are largely independent of the cash inflows from other assets or groups of assets

Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i e the effective interest rate computed on initial recognition of these financial assets) Receivables with a short duration are not discounted

The recoverable amount of other assets is the greater of their net selling price and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs

1 Accounting policies (continued)

Impairment (continued)

Reversal of impairment

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after an impairment loss was recognised

An impairment loss in respect of goodwill is not reversed

In respect of other assets an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised

Non-current assets held for sale and discontinued operations

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of the previous carrying amount and the fair value less costs to sell, with any adjustments taken to profit or loss The same applies to gains and losses on subsequent re-measurement

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be principally recovered through a sale transaction rather than through continuing use This condition is regarded as met only when the sale is highly probable within one year and the asset (or disposal group) is available for immediate sale in its present condition Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale Discontinued operations are presented on the income statement (including the comparative period) as a column analysing the post tax profit or loss of the discontinued operation and the post tax gain or loss recognised on the re-measurement to fair value less costs to sell or on disposal of the assets/disposal groups constituting discontinued operations

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Notes to the financial statements for the year ended 30 June 2007 (continued)

1 Accounting policies (continued)

Derivatives and other financial instruments

The Group's financial instruments comprise debtors, creditors, other borrowings and bank borrowings

The Group uses a limited number of derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates The Group does not hold or issue derivative instruments for speculative purposes

The Group uses foreign exchange forward contracts to manage the financial risks of changes in foreign currency exchange rates The Group does not apply hedge accounting and changes in the value of derivative financial instruments are recognised in the income statement as they arise Derivative financial instruments are recognised at fair value The fair value of forward exchange contracts is their quoted market price at the balance sheet date

Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date Foreign exchange differences arising on translation are recognised in the income statement Non monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions Exchange differences arising from this translation of foreign operations are taken directly to the translation reserve They are released into the income statement upon disposal

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 adjustment to tax payable in respect of prior periods

1 Accounting policies (continued)

Taxation (continued)

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount for financial reporting purposes and those for taxation purposes The following temporary differences are not provided for goodwill not deductible for tax purposes, initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised

Leases

Operating leases and rentals paid under operating leases are charged to the income statement on a straight-line basis over the period of the lease Lease incentives received are recognised in the income statement as an integral part of the total lease expense

Net financing costs

Interest income and interest payable is recognised in the profit or loss as it accrues, using the effective interest method Dividend income is recognised in the income statement on the date the entity's right to receive the payment is established

Pension costs

Payments made to defined contribution schemes are charged to the income statement as they accrue Assets of the schemes are not included within the financial statements of the Group

Share-based compensation

The share option programme allows Group employees to acquire shares of the ultimate parent company, these awards are granted by the ultimate parent Share options have been granted to Monitise Ltd employees under the Monitise share option plan Options granted under the Group's share option schemes are equity settled

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options The fair value of the options granted is measured using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted True ups are made only for service and non-market conditions The amount recognised as an expense is adjusted to reflect the actual number of share options that vest In FY08 the Company is considering moving to the Monte Carlo simulation model to value share options

During the year, the Group introduced a share matching scheme, where senior management forgo part of their bonus entitlement for shares in the Group The Group matches the bonus forgone on a 2 1 basis and if the employee is still with the Group after two years, then the shares will vest

1 Accounting policies (continued)

Interest in own shares

The assets and liabilities of the Group ESOP trusts are recognised in the financial statements where there is de facto control of those assets and liabilities The Company's own shares held in the ESOP trust are deducted from shareholders' funds until they are transferred to employees

Cash and cash equivalents

The Group manages its short-term liquidity through holding of cash and highly liquid interest bearing deposits For the purpose of the cash flow statement only deposits with an original maturity period of three months or less are shown as cash and cash equivalents Bank overdrafts that are repayable on demand are shown as cash and cash equivalents

Provisions

Provision is made where the Group 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 for restructuring is recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less associated transaction costs Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis

Inventories

Inventories are stated at the lower of cost and net realisable value Cost is determined on a weighted average basis and includes expenditure incurred in bringing the inventories to their present location and condition Net realisable value is the amount that can be realised from the sale of inventories in the normal course of business after allowing for the costs of realisation

Trade receivables

Trade and other receivables are initially stated at their fair value and thereafter at amortised cost

Trade payables

Trade and other payables are initially stated at their fair value and thereafter at amortised cost

Dividends

Dividends receivable are recognised when the Group's right to receive payment is established Dividends payable to the Company's shareholders are recognised as a liability and deducted from shareholders' equity in the period in which the shareholders' right to receive payment is established

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Notes to the financial statements for the year ended 30 June 2007 (continued)

1 Accounting policies (continued)

Segmental information

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic (geographical segment), which is subject to risks and rewards that are different from those of other segments

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis

2 Segmental reporting

Segmental analysis

The Group's primary reporting format is business segments and its secondary format is geographical segments The business segment reporting format reflects the Group's management and internal reporting structure

Business segments

The following tables present revenue, expenditure and certain asset information regarding the Group's business segments for the years ended 30 June 2007 and 2006

Year ended 30 June 2007

	Infrastructure Consulting £'000	Application Consulting £'000	Management Consulting £'000	Europe £'000	Central £'000	Total Continuing £'000	Discontinued Operations (Europe & Software) £'000	Total £'000
Revenue								
Sales to external customers	97,296	74,876	17,844	66,494	-	256,510	815	257,325
Inter-segment sales	4,313	4,543	-	-	-	8,856	-	8,856
Segmental revenue	101,609	79,419	17,844	66,494	-	265,366	815	266,181
Operating profit/(loss) before exceptional items	5,556	5,494	2,371	3,455	(4,655)	12,221	(6,587)	5,634
Demerger costs	-	-	-	-	-	-	(2,455)	(2,455)
Exceptional restructuring costs and impairment	1,084	-	-	-	-	1,084	-	1,084
Operating profit/(loss)	6,640	5,494	2,371	3,455	(4,655)	13,305	(9,042)	4,263
Net finance income						292	-	292
Share of loss of jointly controlled entities and associates						-	(709)	(709)
Taxation						(4,420)	2,376	(2,044)
Profit for the year						9,177	(7,375)	1,802

	Application Consulting £'000	Management Consulting £'000	Europe £'000	Infrastructure Consulting & Central £'000	Total Continuing £'000	Discontinued Operations (Software) £'000	Total £'000
Assets and liabilities							
Segment assets	60,077	20,987	25,522	51,239	157,825	-	157,825
Investment in a joint venture	51	-	-	-	51	-	51
Total assets	60,128	20,987	25,522	51,239	157,876	-	157,876
Segment liabilities	(15,589)	(4,052)	(19,218)	(58,137)	(96,996)	-	(96,996)
Total liabilities	(15,589)	(4,052)	(19,218)	(58,137)	(96,996)	-	(96,996)
Other segment information							
Capital expenditure							
Property plant and equipment	143	74	464	442	1,123	138	1,261
Intangible fixed assets	498	589	-	-	1,087	438	1,525
Non-cash costs							
Depreciation	627	112	189	427	1,355	26	1,381
Amortisation	1,028			-	1,028	114	1,142

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Notes to the financial statements for the year ended 30 June 2007 (continued)

2 Segmental reporting (continued)

Year ended 30 June 2006

	Infrastructure Consulting £ 000	Application Consulting £ 000	Management Consulting £ 000	Europe £ 000	Central £ 000	Total Continuing £ 000	Discontinued Operations (Europe & Software) £ 000	Total £ 000
Revenue								
Sales to external customers	140 744	84 854	14 092	56 786	-	296 476	70 644	367 120
Inter-segment sales	4 175	3 194	-	14	-	7 383		7 383
Segmental revenue	144 919	88 048	14 092	56 800	-	303 859	70 644	374 503
Operating profit/(loss) before exceptional items	2 558	6 689	2 187	3 386	(4 266)	10 554	(4 027)	6 527
Exceptional trading balance releases	13 131	-	-		-	13 131		13 131
Exceptional restructuring costs and impairment	(3 626)	(310)	-	-	-	(3 936)	(2 885)	(6 821)
Operating profit/(loss)	12 063	6 379	2 187	3 386	(4 266)	19 749	(6 912)	12 837
Net finance income						397	221	618
Share of loss of jointly controlled entities and associates						-	(401)	(401)
Exceptional loss on sale of discontinued activities						-	(7 058)	(7 058)
Taxation						(2 893)	1 068	(1 825)
Profit for the year						17 253	(13 082)	4 171

	Application consulting £ 000	Management Consulting £ 000	Europe £ 000	Infrastructure Consulting & Central £ 000	Total Continuing £ 000	Discontinued Operations (Europe and Software) £ 000	Total £ 000
Assets and liabilities							
Segment assets	61 115	18 439	28 845	60 763	169 162	35 181	204 343
Investment in a joint venture	-			255	255		255
Total assets	61 115	18 439	28 845	61 018	169 417	35 181	204 598
Segment liabilities	13 197	3 113	17 319	78 675	112 304	27 836	140 140
Total liabilities	13 197	3 113	17 319	78 675	112 304	27 836	140 140
Other segment information							
Capital expenditure							
Property plant and equipment	1 501	63	196	282	2 042	115	2 157
Non-cash costs							
Depreciation	799	157	306	854	2 116	648	2 764
Amortisation	1 005	-	-	-	1 005	-	1 005

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Notes to the financial statements
for the year ended 30 June 2007 (continued)

2 Segmental reporting (continued)

Morse operates under four key segments – Infrastructure Consulting, Application Consulting, Management Consulting and Europe

In the year ended 30 June 2006 a separate segment called Software included the results of Diagonal Solutions and Monitise In the year ended 30 June 2007 Diagonal Solutions became a part of Application Consulting and Monitise was demerged on 28 June 2007 and is included in discontinued operations for the year ended 30 June 2007

Discontinued operations for the year ended 30 June 2006 comprised Monitise, which included share of Mobile ATM joint venture, Morse Germany and Morse Austria Morse Germany and Morse Austria were part of the Europe business until their disposal on 24 July 2006 The assets and liabilities of these operations have been classified on the 2006 balance sheet as being held for sale

The Infrastructure Consulting segment comprises Morse Group Limited

The Application Consulting segment has four main lines of business Diagonal Consulting Global (covering our Oracle, SAP, enterprise service management and information management capability), Delphis (which specialises in providing resources at the infrastructure layer, mainly to the banking sector), Marshall-Wilkins (an IT recruitment business), Diagonal Solutions (Wisdom™)

The Management Consulting segment comprises four businesses CSTIM, Morse SI, SkillsHub and Morse Transaction Services

The European segment comprises the operations in Spain and Ireland The business activities in Spain and Ireland are predominantly infrastructure consulting related Europe is treated as a distinct business segment as its operations are managed separately In the geographical segment, Europe comprises the businesses in Spain and Ireland and France (Management Consulting)

In the geographical segments, the rest of the world relates to operations in South Africa and Australia (Management Consulting), and Malaysia and USA (Application Consulting)

The assets and liabilities of Infrastructure Consulting and of Central are managed collectively (for example, cash is managed on this basis) and are therefore not capable of any meaningful separation

Morse plc

Notes to the financial statements for the year ended 30 June 2007 (continued)

2 Segmental reporting (continued)

Geographic segments

The following tables present revenue and asset information for the geographical segments for the years ended 30 June 2007 and 2006

Year ended 30 June 2007	**UK £'000**	**Europe £'000**	**Rest of world £'000**	**Total continuing £'000**	**Discontinued operations (Europe and Software) £'000**	**Total £'000**
Revenue						
Sales to external customers	**179,875**	**68,637**	**7,998**	**256,510**	**815**	**257,325**
Inter-segment sales	**8,856**	**-**	**-**	**8,856**	**-**	**8,856**
Total	**188,731**	**68,637**	**7,998**	**265,366**	**815**	**266,181**
Year ended 30 June 2006						
Revenue						
Sales to external customers	229,042	57,752	9,682	296,476	70,644	367,120
Inter-segment sales	7,369	14	-	7,383	-	7,383
Total	236,411	57,766	9,682	303,859	70,644	374,503
As at 30 June 2007						
Segment assets	**124,272**	**27,095**	**6,458**	**157,825**	**-**	**157,825**
Investment in a joint venture	**51**	**-**	**-**	**51**	**-**	**51**
Total assets	**124,323**	**27,095**	**6,458**	**157,876**	**-**	**157,876**
Other segmental information						
Capital expenditure						
Property, plant and equipment	**547**	**509**	**67**	**1,123**	**138**	**1,261**
Intangible fixed assets	**1,087**	**-**	**-**	**1,087**	**438**	**1,525**
Depreciation	**1,009**	**197**	**149**	**1,355**	**26**	**1,381**
Amortisation	**1,028**	**-**	**-**	**1,028**	**114**	**1,142**
As at 30 June 2006						
Segment assets	140,317	26,270	2,575	169,162	35,181	204,343
Investment in a joint venture	255	-	-	255	-	255
Total assets	140,572	26,270	2,575	169,417	35,181	204,598
Other segmental information						
Capital expenditure						
Property, plant and equipment	1,846	196	-	2,042	115	2,157
Depreciation	1,810	306	-	2 116	648	2,764
Amortisation	1,005	-	-	1,005	-	1,005

In the year ending 30 June 2007 total revenue comprised £92,710,000 (2006 £167,720,000) of goods revenue and £164,615,000 (2006 £199,400,000) of services revenue In the year ending 30 June 2007 revenue of continuing operations comprised £92,710,000 (2006 £126,300,000) of goods revenue and £163,800,000 (2006 £170,176,000) of services revenue

Morse plc

Notes to the financial statements for the year ended 30 June 2007 (continued)

3 Exceptional items

	2007 £'000	2006 £'000
Demerger costs	**(2,455)**	-
Trading balance releases	-	13,131
Impairment of goodwill	-	(2,293)
Restructuring income/(costs)	**1,084**	(4,528)
Loss on sale of discontinued operation	-	(7,058)
	(1,371)	(748)

Demerger costs comprise legal and professional fees incurred as a result of the demerger of Monitise

Restructuring income in the year ended 30 June 2007 of £1,084,000 relates to a release of a vacant property provision In 2007, the Group made provisions of £1,048,000 and released in the same period provisions of £2,132,000 Restructuring costs of £4,528,000 for the year ended 30 June 2006 related mainly to headcount reductions and property costs in the United Kingdom and Germany and were incurred as part of the restructuring of those businesses

The trading balance credit of £13,131,000 arose in the year ended 30 June 2006 from the normal business review of these balances This was highlighted because of the magnitude of the release in that period

The goodwill impairment charge of £2,293,000 related to the sale of Morse GmbH on 24 July 2006

The loss on sale of discontinued operation in 2006 relates to the disposal of the business in France, Morse SAS, on 12 July 2005

The tax effect of the exceptional items is a charge of £325,000 (2006 charge of £2,825,000)

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Notes to the financial statements for the year ended 30 June 2007 (continued)

4 Earnings per share

Basic earnings per share (EPS) is calculated by dividing the earnings attributable to Ordinary shareholders by the weighted average number of Ordinary shares in issue during the year, excluding those held in the Employee Benefit Trusts (note 5) which are treated as cancelled

For diluted earnings per share, the weighted average number of Ordinary shares in issue is adjusted to assume conversion of all dilutive potential Ordinary shares

Reconciliations of the earnings and weighted average number of shares used in the calculation are set out below

	2007 Earnings £'000	**2007 Weighted average number of shares (thousands)**	**2007 Per share amount pence**	2006 Earnings £'000	2006 Weighted average number of shares (thousands)	2006 Per share amount pence
Basic EPS						
Profit attributable to Ordinary shareholders	**1,605**	**154,573**	**1 0**	3,982	151,827	2 6
Effect of dilutive securities options	-	**5,684**	-	-	2,128	-
Effect of deferred consideration to be issued	-	**1,081**	-	-	1,745	-
Diluted EPS	**1,605**	**161,338**	**1 0**	3,982	155,700	2 6

The number of potentially dilutive options that are currently non diluting are 7,887,269 (2006 4,328,991)

Continuing operations

Basic earnings per share of 5 8p (2006 11 2p) for continuing operations is calculated from the net profit attributable to equity holders of the parent from continuing operations of £8,980,000 (2006 £17,064,000) divided by the weighted average number of shares Diluted earnings per share is calculated by dividing the profit of £8,980,000 (2006 £17,064,000) by the diluted number of shares per the table above

Discontinued operations

Basic loss per share of 4 8 (2006 loss per share 8 6p) for discontinued operations is calculated from the net loss attributable to equity holders of the parent from discontinuing operations of £7,375,000 (2006 loss £13,082,000) divided by the weighted average number of shares Diluted loss per share is calculated by dividing the loss of £7,375,000 (2006 loss £13,082,000) by the diluted number of shares per the table above

Morse plc

Notes to the financial statements for the year ended 30 June 2007 (continued)

To provide a comparable measure of performance per share from the normal operations of the business, a supplementary EPS has been calculated in addition to the disclosure required by IAS 33 with the following adjustments to the basic and diluted EPS

	2007 Earnings £'000	2007 Weighted average number of shares (thousands)	2007 Per share amount pence	2006 Earnings £'000	2006 Weighted average number of shares (thousands)	2006 Per share amount pence
Basic EPS	**1,605**	**154,573**	**1 0**	3,982	151,827	2 6
Exceptional items	**1,371**	-	**0 9**	748	-	0 5
Tax on exceptional items	**325**	-	**0 2**	2,825	-	1 9
Adjusted basic EPS	**3,301**	**154,573**	**2 1**	7,555	151,827	5 0

Diluted EPS	**1,605**	**161,338**	**1 0**	3,982	155,700	2 6
Exceptional items	**1,371**	-	**0.8**	748	-	0 5
Tax on exceptional items	**325**	-	**0 2**	2,825	-	1 8
Adjusted diluted EPS	**3,301**	**161,338**	**2.0**	7,555	155,700	4 9

5 Information regarding employees, Directors and their interests

(a) Directors' remuneration

	2007 £'000	2006 £'000
Aggregate emoluments	**947**	1,533
Group contributions to defined contribution schemes	**61**	54
	1,008	1,587

In 2007 five Directors (2006 five) had benefits accruing to them under defined contribution schemes

More detailed disclosures of Directors' remuneration are made in the Remuneration Committee report on page 42

(b) Employees

	2007 Number	2006 Number
Average monthly number of persons employed (including Directors) by the Group during the year		
Management and administration	**234**	290
Sales and technical staff	**1,007**	1,330
	1,241	1,620

Morse plc

Notes to the financial statements for the year ended 30 June 2007 (continued)

5 Information regarding employees, Directors and their interests (continued)

(c) Staff costs (including Directors)

	2007 £'000	2006 £'000
Wages and salaries	**73,057**	84,895
Social security costs	**8,975**	10,257
Other pension costs	**1,191**	1,336
	83,223	96,488

(d) Employee share schemes

	Options outstanding over 10p Ordinary shares at 30 June 2006	Exercise price	Period during which options exercisable	Options outstanding over 10p Ordinary shares at 30 June 2007
Employee Option Scheme	544,778	£2 50	Apr 2000-Mar 2009	386 270
Unapproved Executive Option Scheme	182 000	£2 50	Mar 2002-Mar 2009	166,000
Unapproved Executive Option Scheme	135,571	£2 275	Sep 2002-Sep 2009	90 374
Delphis EBT Share Option Scheme	409 623	£nil	May 2001-Sep 2008	138,792
Unapproved and Approved Executive Share Option Scheme 2000	19 133	£1 96	Apr 2005-Apr 2012	19,133
Sharesave Option Scheme 4	87,570	£0 90	Jan 2006-Jun 2006	-
International Sharesave Option Scheme 4	17,044	£0 90	Jan 2006-Jun 2006	-
Sharesave Option Scheme 5	55 628	£1 028	Jan 2007-Jun 2007	29 249
Unapproved and Approved Executive Share Option Scheme 2000	231,667	£1 375	Jul 2007-Apr 2014	231 667
Sharesave Option Scheme 6	437 484	£0 91	Feb 2008-Jul 2008	250 497
Morse plc Long Term Incentive Plan	875,000	£nil	Dec 2007-Dec 2008	775 000
Unapproved and Approved Executive Share Option Scheme 2000	461,667	£0 89	Jul 2008-Apr 2015	346 667
Morse LTIP Scheme	282 500	£nil	Sep 2008-Sep 2009	282 500
Morse LTIP Scheme	75 000	£nil	Sep 2008-Sep 2009	50,000
Morse LTIP Scheme	50,000	£nil	Sep 2008-Sep 2009	50 000
Unapproved and Approved Executive Share Option Scheme 2000	200 000	£0 93	Jul 2009-Mar 2016	150 000
Sharesave Option Scheme 7	1,000,524	£0 73	Feb 2009-Jul 2009	616 046
Unapproved and Approved Executive Share Option Scheme 2000	19 000	£1 09	Jul 2009-Mar 2016	19 000
Morse LTIP Scheme	444 444	£nil	Mar 2009-Mar 2010	444,444
Morse LTIP Scheme	214,953	£nil	Mar 2009-Mar 2010	182 243
Unapproved and Approved Executive Share Option Scheme 2000	102 800	£1 07	Jul 2009-Mar 2016	93 455
Unapproved and Approved Executive Share Option Scheme 2000	-	£1 11	Jul 2009-Sep 2016	864 865

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Notes to the financial statements for the year ended 30 June 2007 (continued)

5 Information regarding employees, Directors and their interests (continued)

(d) Employee Share Schemes (contınued)

	Optıons outstandıng over 10p Ordınary shares at 30 June 2006	Exercise prıce	Perıod durıng whıch optıons exercısable	Options outstanding over 10p Ordınary shares at 30 June 2007
Morse LTIP Scheme	-	£nıl	Sep 2009-Sep 2010	990,000
Morse LTIP Scheme	-	£nıl	Oct 2009-Oct 2010	3 515 000
Sharesave Optıon Scheme 8	-	£0 78	Feb 2010-Jul 2010	928 480
Morse LTIP Scheme	-	£nıl	Dec 2009-Dec 2010	150 000
Unapproved and Approved Executıve Share Optıon Scheme 2000	-	£0 95	Jul 2010-Mar 2017	470,000
Morse LTIP Scheme	-	£nıl	Apr 2010-Apr 2011	10,000
Unapproved and Approved Executıve Share Optıon Scheme 2000	-	£0 94	Jul 2010-Apr 2017	21 797

Dıagonal Options

Dıagonal Long Term Incentıve Plan	194 563	£nıl	Mar 2007-Mar 2014	26,378
Dıagonal Employee Share Optıon Scheme	234,807	£1 26	Mar 2007-Mar 2014	60 544
Clarıtas Share Optıon Scheme	6,563	£1 67	Oct 2002-Oct 2009	-
Dıagonal Sharesave Optıon Scheme 5 Years	675	£5 00	May 2006-Oct 2006	-
Dıagonal Sharesave Optıon Scheme 5 Years	10,266	£1 87	May 2007-Oct 2007	8 850
Dıagonal Sharesave Optıon Scheme 3 Years	63 352	£0 88	May 2006-Oct 2006	-
Dıagonal Internatıonal Sharesave Optıon Scheme 3 Years	47 250	£0 88	May 2006-Oct 2006	-
Dıagonal Sharesave Optıon Scheme 5 Years	100 784	£0 88	May 2008-Oct 2008	74,655
Dıagonal Sharesave Optıon Scheme 3 Years	73,840	£0 90	May 2007-Oct 2007	25 968
Dıagonal Sharesave Optıon Scheme 5 Years	10 900	£0 90	May 2009-Oct 2009	10,900

Summary of Share optıons

	2007 Number of optıons ('000)	2007 Weıghted average exercıse prıce (pence)	2006 Number of optıons ('000)	2006 Weıghted average exercise price (pence)
Outstandıng 1 July	6,589	77 10	8 875	103 41
Granted durıng the year – other	2 629	93 63	1 372	78 96
Granted durıng the year – nıl prıce	5,440	-	1,194	-
Exercısed durıng the year	679	18 05	760	49 95
Expıred/Lapsed durıng the year	2 500	74 28	4,092	117 31
Outstandıng at 30 June	11 479	48 45	6 589	77 10
Exercısable at 30 June	1 519	157 45	1,524	156 70

Notes to the financial statements for the year ended 30 June 2007 (continued)

(d) Employee Share Schemes (continued)

The average share price during 2007 was 98 68 pence (2006 96 41 pence)

Diagonal Plc option schemes relate to option plans in place in Diagonal Plc at the time of acquisition by Morse plc The schemes have retained the same terms and conditions as before but are now options for Morse plc shares

The Morse Group operates its share schemes in conjunction with Employee Benefit Trusts At the year end the Morse Employee Benefit Trust held 1,195,521 shares (2006 268,165) in the Company of which 982,102 (2006 nil) have share options held over them The Delphis Employee Benefit Trust holds 475,936 shares (2006 712,656) in the Company of which 138,792 (2006 409,623) have share options held over them The Diagonal Employee Benefit Trust holds 81,713 shares (2006 151,524) in the Company all of which have share options held over them

After the demerger of Monitise, as at the year end the Morse Employee Benefit Trust held 1,195,521 Monitise shares (2006 nil) of which nil (2006 nil) have share options held over them The Delphis Employee Benefit Trust holds 475,936 Monitise shares (2006 nil) of which nil (2006 nil) have share options held over them The Diagonal Employee Benefit Trust holds 81,713 shares (2006 nil) shares all of which have share options held over them

(e) Share based payments

The fair value of the Share Option Scheme and the Performance Related Share Option Scheme plans are estimated as at the date of grant using a Black-Scholes model

The following table gives the assumptions made during the year ended 30 June 2007

Share options granted to LTIP schemes

Nature of the arrangement	Grant of share options	Grant of share options	Grant of share options	Grant of share options	Grant of Share options	Grant of share options
Date of grant	December 2004	September 2005	September 2005	September 2005	March 2006	March 2006
Number of instruments granted	1,125,000	410,000	75,000	50,000	444,444	214,953
Exercise price	£nil	£nil	£nil	£nil	£nil	£nil
Share price at date of grant	£0 96	£0 99	£0 98	£0 86	£1 09	£1 07
Contractual life (years)	4	4	4	4	4	4
Vesting conditions	Shareholder return and EPS growth in real terms	Shareholder return and EPS growth in real terms	Shareholder return and EPS growth in real terms	Shareholder return and EPS growth in real terms	Shareholder return and EPS growth in real terms	Shareholder return and EPS growth in real terms
Expected volatility	47 9%	45 3%	45 3%	45 3%	43 9%	43 8%
Expected option life at grant (years)	3 5	3 5	3 5	3 5	3 5	3 5
Risk free interest rate	4 47%	4 21%	4 21%	4 21%	4 44%	4 73%
Dividend yield	3 54%	3 79%	3 83%	4 36%	3 49%	3 55%
Fair value per granted instrument determined at grant date	£0 84	£0 86	£0 84	£0 73	£0 96	£0 95

Morse plc

Notes to the financial statements for the year ended 30 June 2007 (continued)

5 Information regarding employees, Directors and their interests (continued)

(e) Share based payments (continued)

Share options granted to LTIP schemes - continued

Nature of the arrangement	Grant of share options	Grant of share options	Grant of share options	Grant of share options
Date of grant	September 2006	October 2006	December 2006	April 2007
Number of instruments granted	990,000	3,765,000	450,000	10,000
Exercise price	£nil	£nil	£nil	£nil
Share price at date of grant	£1 13	£0 97	£0 95	£0 93
Contractual life (years)	4	4	4	4
Vesting conditions	Shareholder return and EPS growth in real terms	Shareholder return and EPS growth in real terms	Shareholder return and EPS growth in real terms	Shareholder return and EPS growth in real terms
Expected volatility	45 6%	44%	44%	44%
Expected option life at grant (years)	3	3	3	2 5
Risk free interest rate	4 71%	4 93%	5%	5 41%
Dividend yield	3 45%	4 02%	4 11%	4 2%
Fair value per granted instrument determined at grant date	£0 98	£0 82	£0 80	£0 78

Employee share scheme 2000

Nature of the arrangement	Grant of share options	Grant of share options	Grant of share options	Grant of share options	Grant of share options	Grant of share options	Grant of share options
Date of grant	April 2003	December 2003	April 2004	April 2005	September 2005	March 2006	March 2006
Number of instruments granted	1,519,428	287,184	231,667	511,667	200,000	19,000	102,800
Exercise price	£1 04	£1 36	£1 38	£0 89	£0 93	£1 09	£1 07
Share price at date of grant	£1 04	£1 36	£1 38	£0 89	£0 87	£1 09	£1 07
Contractual life (years)	10	10 5	10 25	10	10	10	10
Vesting conditions	Growth in EPS of RPI plus 5%	Growth in EPS of RPI plus 5%	Growth in EPS of RPI plus 5%	Growth in EPS of RPI plus 5%	Growth in EPS of RPI plus 5%	Growth in EPS of RPI plus 5%	Growth in EPS of RPI plus 5%
Expected volatility	63 2%	60 1%	58 6%	55 5%	57 4%	54 2%	54 2%
Expected option life at grant (years)	6	6	6	6	6	6	6
Risk free interest rate	4 18%	4 73%	4 93%	4 51%	4 25%	4 40%	4 39%
Dividend yield	3 03%	2 32%	2 33%	3 93%	4 31%	3 49%	3 55%
Fair value per granted instrument determined at grant date	£0 50	£0 67	£0 67	£0 36	£0 34	£0 45	£0 44

Morse plc

Notes to the financial statements for the year ended 30 June 2007 (continued)

5 Information regarding employees, Directors and their interests (continued)

(e) Share based payments (continued)

Employee share scheme 2000 - continued

Nature of the arrangement	Grant of share options	Grant of share options	Grant of share options	Grant of share options
Date of grant	September 2006	October 2006	March 2007	April 2007
Number of instruments granted	864,865	200,000	470,000	21,797
Exercise price	£1 11	£0 99	£0 95	£0 94
Share price at date of grant	£1 13	£0 99	£0 95	£0 93
Contractual life (years)	5 85	6	5 85	6
Vesting conditions	Growth in EPS of RPI plus 5%	Growth in EPS of RPI plus 5%	Growth in EPS of RPI plus 5%	Growth in EPS of RPI plus 5%
Expected volatility	42 1%	42 3%	44%	44%
Expected option life at grant (years)	6	6	6	6
Risk free interest rate	4 71%	4 69%	5 08%	5 13%
Dividend yield	3 45%	3 94%	4 11%	4 20%
Fair value per granted instrument determined at grant date	£0 38	£0 32	£0 31	£0 30

Save As You Earn schemes

Nature of the arrangement	Grant of share options	Grant of share options	Grant of share options	Grant of share options
Date of grant	November 2003	December 2004	December 2005	November 2006
Number of instruments granted	164 626	841,078	1,050,473	1,071,919
Exercise price	£1 03	£0 91	£0 73	£0 78
Share price at date of grant	£1 21	£0 99	£0 95	£0 95
Contractual life (years)	3 5	3 5	3 5	3 5
Vesting conditions	3 years service	3 years service	3 years service	3 years service
Expected volatility	61 2%	53 60%	45 30%	45%
Expected option life at grant (years)	3 5	3 5	3 5	3 5
Risk free interest rate	4 84%	4 48%	4 42%	4 92%
Dividend yield	2 60%	3 43%	3 95%	3 93%
Fair value per granted instrument determined at grant date	£0 56	£0 36	£0 35	£0 37

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Notes to the financial statements for the year ended 30 June 2007 (continued)

5 Information regarding employees, Directors and their interests (continued)

(e) Share based payments (continued)

Diagonal schemes

Nature of the arrangement	Grant of share options	Grant of share options	Grant of share options	Grant of share options	Grant of share options	Grant of share options
Date of grant	March 2004	March 2004	March 2003	March 2003	March 2004	March 2004
Number of instruments granted	333,680	284,333	100,784	444,252	115,723	36,332
Exercise price	£nil	£1 26	£0 88	£0 88	£0 90	£0 90
Share price at date of grant	£1 22	£1 22	£1 10	£1 10	£1 13	£1 13
Contractual life (years)	10	10	5 5	3 5	3 5	5 5
Vesting conditions	3 years service	3 years service	3 years service	3 years service	3 years service	5 years service
Expected volatility	58 9%	58 9%	63 5%	67 2%	58 4%	58 9%
Expected option life at grant (years)	6	6	5 5	3 5	3 5	5 5
Risk free interest rate	4 67%	4 67%	4 06%	3 81%	4 58%	4 66%
Dividend yield	2 62%	2 62%	2 86%	2 86%	2 83%	2 83%
Fair value per granted instrument determined at grant date	£1 04	£0 57	£0 57	£0 54	£0 51	£0 57

In accordance with IFRS 2, the 45,000 Monitise share options granted on 1 November 2005 and the 10,000 Monitise share options granted on 18 April 2006 per note (5d) have not been fair valued

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur in future

The expected volatility reflects the assumption that the recent historical volatility is indicative of future trends, which may also not necessarily be the actual outcome

No other features of the options granted were incorporated into the measurement of fair value

The Directors consider that the value of Diagonal shares can be calculated on the same basis as the Morse plc shares as the nature of Diagonal shares are consistent with those of Morse plc

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Notes to the financial statements for the year ended 30 June 2007 (continued)

6 Operating profit/(loss)

	2007 £'000	2006 £'000
Operating profit/(loss) is stated after charging		
Auditors' remuneration		
- Audit of these financial statements	**153**	236
- Audit of subsidiaries' financial statements	**128**	157
- Other services relating to taxation	**447**	201
- Other services	**170**	-
Net foreign currency differences	**249**	121
Operating lease rentals		
- plant and machinery	**463**	1,296
- other	**2,054**	3,334
Research and development	**2,477**	1,332
Depreciation of property, plant and equipment	**1,381**	2,764
Amortisation of intangible assets	**1,142**	1,005
Loss on disposal of tangible fixed assets	**630**	239

Non-audit fees paid to auditors relate to transaction costs associated with the demerger of Monitise The auditors do not provide management consultancy services to the Group Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis

7 Finance income and expense

	2007 £'000	2006 £'000
Bank interest income	**424**	351
Other interest income	**272**	614
Interest from associate	**-**	6
Financial income	**696**	971
Bank loans and overdrafts interest expense	**(206)**	(154)
Other loans interest expense	**(22)**	(99)
Unwinding of discount on provisions (note 19)	**(176)**	(100)
Financial expenses	**(404)**	(353)

Included within other interest receivable is interest earned from cash invested in Open Ended Investment Companies (further details provided in note 20)

Notes to the financial statements for the year ended 30 June 2007 (continued)

8 Tax on ordinary activities

Corporation tax

	2007 £'000	2006 £'000
United Kingdom corporation tax at 30% (2006 30%)	**1,070**	3,978
Adjustment to corporation tax provision from prior years	**137**	(2,927)
Overseas tax on profit for the year	**936**	895
Current tax	**2,143**	1,946
Deferred tax (note 14)	**(76)**	(121)
Deferred tax restatement at 28% (note 14)	**(23)**	-
Total tax charge	**2,044**	1,825

In 2007 the tax charge is higher than the UK rate of 30% because of non-deductible costs, primarily the amortisation of goodwill, and certain demerger costs

Similarly in 2006 the tax charge was higher than the UK rate of 30% because of non-deductible costs, primarily the amortisation of goodwill, and certain exceptional costs, offset by the benefit of credits resulting from the resolution of prior year tax positions

Reconciliation of the Group's current tax charge to the United Kingdom statutory rate

	2007 £'000	2006 £'000
Profit before tax	**3,846**	5,996
Tax on profit before tax at 30% (2006 30%)	**1,155**	1,800
Effects of		
Expenses not deductible for tax purposes including amortisation of intangible assets, demerger costs and exceptional costs	**797**	1,135
Loss of joint venture	**213**	-
Loss not deductible on sale of France	-	2,117
Profit and loss items not taxable	-	(524)
Losses of overseas undertakings not available for relief	-	462
Losses of overseas undertakings utilised in the period	-	(45)
Difference between UK and overseas standard tax rates	**(257)**	(193)
Adjustments to tax charge in respect of previous periods	**136**	(2,927)
Total tax charge	**2,044**	1,825

Notes to the financial statements for the year ended 30 June 2007 (continued)

9 Dividends paid and proposed

	2007 £'000	2006 £'000
Declared and paid during the year		
Equity dividend on ordinary shares		
Final dividend for 2006 2 7p (2005 2 6p)	**4,130**	3,921
Interim dividend for 2007 1 25p (2006 1 2p)	**1,955**	1,833
	6,085	5,754
Proposed for approval at AGM (not recognised as a liability as at 30 June)		
Equity dividend on Ordinary shares		
Final dividend for 2007 2 8p (2006 2 7p)	**4,393**	4,130

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Notes to the financial statements for the year ended 30 June 2007 (continued)

10 Goodwill and other intangible fixed assets

	Intellectual property £'000	Research and development £,000	Customer relationship backlog £'000	Maintenance contracts £'000	Follow-on consulting £'000	Trade names £'000	Software £'000	Intangibles £'000	Goodwill £'000
Cost									
At 1 July 2005	-	-	376	399	5,521	1,847	-	8,143	55,018
Reclassified to assets held for sale	-	-	-	-	-	-	-	-	(3,850)
Acquisitions	445	-	-	-	-	-	-	445	-
At 1 July 2006	445	-	376	399	5,521	1,847	-	8,588	51,168
Demerger (note 25)	(445)	(438)	-	-	-	-	-	(883)	-
Additions	-	438	-	-	589	-	498	1,525	454
At 30 June 2007	**-**	**-**	**376**	**399**	**6,110**	**1,847**	**498**	**9,230**	**51,622**
Amortisation									
At 1 July 2005	-	-	313	57	574	155	-	1,099	-
Charge for the year	-	-	63	66	690	186	-	1,005	2,293
Impairment charge	-	-	-	-	-	-	-	-	(2,293)
At 1 July 2006	-	-	376	123	1,264	341	-	2,104	-
Charge for the year	48	66	-	65	690	185	88	1,142	-
Demerger (note 25)	(48)	(66)	-	-	-	-	-	(114)	-
At 30 June 2007	**-**	**-**	**376**	**188**	**1,954**	**526**	**88**	**3,132**	**-**
Net book value									
At 30 June 2007	**-**	**-**	**-**	**211**	**4,156**	**1,321**	**410**	**6,098**	**51,622**
At 30 June 2006	445	-	-	276	4,257	1,506	-	6,484	51,168
At 1 July 2005	-	-	63	342	4,947	1,692	-	7,044	55,018

10 Goodwill and other intangible fixed assets (continued)

Other intangible assets total £6,908,000 (2006 £6,484,000) Other intangible assets acquired in the year ended 30 June 2007 totalled £1,525,000 (2006 £445,000)

Additions to goodwill and follow on consultancy represent amounts arising on acquisition of SkillsHub and CSTIM France As required by IFRS 3, management have made a provisional estimate of the allocation between intangible assets and goodwill acquired, allocating £589,000 to follow on consultancy The estimate is based on an assessment of the ongoing value added to the Group

Impairment testing of indefinite lived goodwill

Goodwill acquired through business combinations has been allocated to the cash-generating units of Morse Spain, Morse Ireland, Infrastructure Consulting, Application Consulting and Management Consulting for impairment testing These are the lowest level of cash-generating units (CGU) that can be reliably and separately identified

The recoverable amounts of these cash-generating units have been determined based on a value in use calculation Senior management have based these calculations on current approved budgeted cashflows in perpetuity The growth rates are based on management estimates of the industry growth rates for the activities being undertake by each CGU The discount rate applied to cash flow projections is a pre-tax rate of 13% (2006 13%) The pre-tax discount rate is based on management assessment of the weighted average cost of capital post-tax of 10% Management estimates the discount rate reflecting current market assessment of the time value of money and risks specific to the business

No impairment is required in the year ended 30 June 2007 The impairment charge of £2,293,000 for the year ended 30 June 2006 related to Morse GmbH, which was sold on 24 July 2006

The following segments have significant carrying amounts of goodwill

	2007	2006
	£'000	£'000
Application Consulting	**29,625**	29,625
Management Consulting	**13,559**	13,105
Infrastructure Consulting	**5,717**	5,717
Morse Ireland	**2,169**	2,169
Morse Spain	**552**	552
	51,622	51,168

The remaining amortisation periods of the intangible assets held as at 30 June 2007 are as follows

Maintenance contracts	three years, two months
Follow on consulting	five years, two months
Trade names	seven years, two months
Intellectual property	six years
Software	three years

Goodwill is not being amortised

Amortisation is charged to distribution expenses

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Notes to the financial statements for the year ended 30 June 2007 (continued)

11 Property, plant and equipment

	Leasehold improvements £'000	Office equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 July 2005	2,276	11,559	7,774	276	21,885
Additions	1	1,134	1,189	22	2,346
Exchange differences	14	83	23	-	120
Reclassified to assets held for sale	-	(2,004)	(723)	(9)	(2,736)
Disposals	(363)	(1,187)	(3,054)	(134)	(4,738)
At 1 July 2006	1,928	9,585	5,209	155	16,877
Additions	17	847	349	48	1,261
Write-off of fully depreciated fixed assets	(117)	(380)	(32)	-	(529)
Disposals	(1,496)	(5,442)	(1,705)	(64)	(8,707)
Exchange differences	(9)	(56)	(37)	(2)	(104)
Demerger of Monitise (note 25)	-	(131)	-	-	(131)
At 30 June 2007	**323**	**4,423**	**3,784**	**137**	**8,667**
Depreciation					
At 1 July 2005	1,548	8,937	6,780	229	17,494
Disposals	(332)	(1,109)	(2,871)	(121)	(4,433)
Charge for the year	201	2,120	405	38	2,764
Exchange differences	11	70	16	-	97
Reclassified to assets held for sale	-	(2,004)	(647)	(9)	(2,660)
At 1 July 2006	1,428	8,014	3,683	137	13,262
Disposals	(1,211)	(5,115)	(1,658)	(66)	(8,050)
Write-off of fully depreciated fixed assets	(117)	(380)	(32)	-	(529)
Charge for the year	82	1,016	267	16	1,381
Exchange differences	(5)	(43)	(20)	(3)	(71)
Demerger of Monitise (note 25)	-	(26)	-	-	(26)
At 30 June 2007	**177**	**3,466**	**2,240**	**84**	**5,967**
Net book value					
At 30 June 2007	**146**	**957**	**1,545**	**52**	**2,700**
At 30 June 2006	500	1,571	1,526	18	3,615
At 1 July 2005	728	2,622	994	47	4,391

In relation to the year ended 30 June 2007 the difference between the additions above of £1,261,000 and capital expenditure per the cash flow statement of £1,142,000 is capital accruals of £119,000

12 Investments

	£'000
Interests in joint ventures	
Cost at 1 July 2005	401
Share of retained loss	(401)
Additions in the year	700
Reclassification of investment to intellectual property	(445)
Cost at 1 July 2006	255
Share of retained loss	(709)
Additions in the year	1,000
Tax relief transfer from JV	(791)
Demerger	296
Net book value at 30 June 2007	**51**
Investment in associates	
Cost at 1 July 2005	113
Interest on loan	6
Disposal in the year	(119)
Cost at 1 July 2006	-
Interest on loan	-
Disposal in the year	-
Net book value at 30 June 2007	**-**
Total net book value of investments at 30 June 2007	**51**
Total net book value of investments at 30 June 2006	255
Total net book value of investments at 1 July 2005	514

A list of principal Group companies can be found in note (iv) of the Company financial statements

The movements during the year ended 30 June 2007 are in relation to Mobile ATM Ltd, which was disposed of as part of the demerger of Monitise (note 25)

The £1,000,000 of additions in the year represents cash payments of £656,000 and the write-off of balances due from the joint ventures of £344,000

13 Other financial assets

	2007 £'000	2006 £'000
Non-current		
Loan at fair value	-	119

The financial asset in the year ending 30 June 2006 of £119,000 relates to an outstanding loan to a third party
The loan was repaid in the year ended 30 June 2007

14 Deferred tax

	Provision for losses £'000	Share options £'000	Holiday pay accrual £'000	Depreciation in excess of capital allowances £'000	Total £'000
Assets					
At 1 July 2005	75	31	327	947	1,380
(Charge)/credit for the year (note 8)	(75)	96	-	(118)	(97)
At 1 July 2006	-	127	327	829	1,283
(Charge)/credit for the year (note 8)	176	98	21	(133)	162
Restatement at 28% (note 8)	-	(8)	-	(55)	(63)
Credit to P&L reserve	-	264	-	-	264
At 30 June 2007	**176**	**481**	**348**	**641**	**1,646**

	Customer backlog £'000	Maintenance contracts £'000	Follow on consulting £'000	Trade names £'000	Other £'000	Total £'000
Liabilities						
At 1 July 2005	18	76	1,005	409	-	1,508
(Credit) for the year (note 8)	(18)	(14)	(140)	(46)	-	(218)
At 1 July 2006	-	62	865	363	-	1,290
Additions	-	-	136	-	-	136
Charge/(credit) for the year (note 8)	-	(10)	(82)	(22)	200	86
Restatement at 28% (note 8)	-	(4)	(58)	(24)	-	(86)
At 30 June 2007	**-**	**48**	**861**	**317**	**200**	**1,426**

Deferred tax that relates to the same jurisdictions can be offset and has been presented on the balance sheet as a deferred tax liability of £200,000 (2006 £57,000) Other deferred tax balances are reflected on the balance sheet as an asset of £420,000 (2006 £50,000) The net deferred tax liability is £220,000 (2006 £7,000)
There is an unrecognised deferred tax asset of £nil (2006 £4,260,000) in respect of trading losses as at 30 June 2007

Notes to the financial statements for the year ended 30 June 2007 (continued)

14 Deferred tax (continued)

The Group has an unrecognised deferred tax liability of £nil (2006 £1,123,000) in relation to unremitted overseas profits

The Group anticipates sufficient profits to be made in the relevant geographic locations in order to utilise the deferred tax assets

15 Inventories

	2007 £'000	2006 £'000
Finished goods and goods for resale	4,287	7,123

Cost of goods sold during the year amount to £94,387,000 (2006 £157,830,000)

16 Trade and other receivables

	2007 £'000	2006 £'000
Trade receivables	57,665	58,911
Other receivables and prepayments	19,688	24,673
	77,353	83,584

17 Cash and cash equivalents

	2007 £'000	2006 £'000
Cash and cash equivalents disclosed as such on the balance sheet	15,345	17,800
Cash and cash equivalents included within assets and liabilities classified as held for sale (note 26)	-	9,463
Cash and cash equivalents per cash flow statement	15,345	27,263

18 Trade and other payables

	2007 £'000	2006 £'000
Trade payables due to associates	-	7
Trade payables	43,035	47,402
Other payables	44,544	51,212
	87,579	98,621

Employer pension contributions payable to the pension scheme of £115,550 (2006 £76,285) are included within other payables

Notes to the financial statements for the year ended 30 June 2007 (continued)

19 Provisions

	Other £'000	Property £'000	Total £'000
Balance at 1 July 2006	216	4,057	4,273
Provisions made during the year	-	1,048	1,048
Provisions used during the year	(182)	(1,762)	(1,944)
Unwinding of a discount	-	176	176
Released in the period	-	(2,132)	(2,132)
Balance at 30 June 2007	**34**	**1,387**	**1,421**
Current 2007	**34**	**438**	**472**
Non-current 2007	**-**	**949**	**949**
Balance at 30 June 2007	**34**	**1,387**	**1,421**
Current 2006	167	1,454	1,621
Non-current 2006	49	2,603	2,652
Balance at 30 June 2006	216	4,057	4,273

The property provision brought forward relates to the properties previously vacated in the UK in prior periods The provision is being utilised over the length of the lease The property provision charged in the year relates to properties vacated in the UK The property provision is based on discounting future cash flows over the remaining term of the lease There is a minimal degree of uncertainty in the projections given the fixed term nature of the leases

Provisions have been discounted at a pre tax rate of 13% (2006 13%)

Other provisions relate to headcount reductions in the UK

20 Financial risk management

The Group has a committed borrowing facility of £10,000,000 (2006 £10,000,000) which had not been used at the year end

The Group does not trade in financial instruments

Interest rate risk

The Group finances its operations through a mixture of retained profits, cash and the availability of a borrowing facility The Group's cash, other facilities and deposits are at floating rates Management manage the interest rate risk on borrowing by using a combination of fixed and floating rates Other current and non-current loans incur interest at a fixed rate, while other loan notes incur interest on a floating rate basis No interest rate derivative contracts have been entered into Management will continue to monitor this position to ensure that the interest rate profile is appropriate for the Group

Morse plc

Notes to the financial statements for the year ended 30 June 2007 (continued)

20 Financial risk management (continued)

Credit risk

There are no significant concentrations of credit risk within the Group The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date

Sensitivity analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings Over the long-term however, permanent changes in foreign exchange and interest rates would have an impact on the consolidated results

A decrease of 1% in the currencies that the Group has exposure to would not have a significant impact on the results for the period

Net financial assets

The summarised net financial asset position of the Group is shown below

	2007 £'000	2006 £'000
Other current loans	-	(350)
Other non-current loans	-	(625)
Loan notes	**(266)**	(380)
Trade creditors	**(43,035)**	(47,402)
Trade debtors	**57,665**	58,911
Other financial liabilities	-	(206)
	14,364	9,948
Cash (note 17)	**15,345**	27,263
Net financial assets	**29,709**	37,211

The loan notes are all denominated in Sterling and represent part of the consideration arising as a result of the acquisition of Relational Concepts Limited, Hughes Rae Limited and Delphis (Holdings) Limited The loan notes bear interest based on LIBOR These amounts are repayable over a fixed term to coincide with receipt from customers and are secured on these receipts Loan notes are disclosed with other payables

The other loans as at 30 June 2006 represented amounts borrowed against sales made on extended credit terms

Other financial liabilities represent the fair valued amount of any outstanding forward contracts in place as at 30 June 2006

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Notes to the financial statements for the year ended 30 June 2007 (continued)

20 Financial risk management (continued)

Financial liabilities
The Group's financial liabilities and analysis of ageing are as follows

	2007 £'000	2006 £'000
In one year or on demand	**43,301**	48,338
Between one and two years	-	275
Between two and five years	-	350
	43,301	48,963

The book value of financial liabilities is not significantly different from the fair value, considering the current terms of repayment

Interest rate profile

The effective interest rate of cash balances and loans and their maturity periods are as follows

	Effective Interest Rate	Total £'000	0-1 Year £'000	1-2 Years £'000
For the year ended 30 June 2007				
Cash and cash equivalents	**5.1%**	**15,345**	**15,345**	-
Borrowings				
Loan notes	**4 45%**	**266**	**266**	-

Interest rate management
Financial liabilities accrue interest on the following basis

	Fixed rate £'000	Floating rate £'000	2007 Total £'000	Fixed rate £,000	Floating rate £'000	2006 Total £'000
Currency						
Sterling	-	**266**	**266**	-	380	380
Euros	-	-	-	975	-	975
	-	**266**	**266**	975	380	1,355

Notes to the financial statements for the year ended 30 June 2007 (continued)

20 Financial risk management (continued)

Fair values of financial assets and financial liabilities

	2007 Book Value £'000	2007 Fair Value £'000	2006 Book Value £'000	2006 Fair Value £'000
Financial asset				
Trade debtors	**57,665**	**57,665**	58,911	58,911
Cash and cash equivalents	**15,345**	**15,345**	27,263	27,263
	73,010	**73,010**	86,174	86,174
Financial liabilities				
Loan notes	**266**	**266**	380	380
Trade creditors	**43,035**	**43,035**	47,402	47,402
Other loans	**-**	**-**	975	975
	43,301	**43,301**	48,757	48,757
Derivatives				
Foreign exchange contracts	**-**	**-**	206	206

Cash and cash equivalents

The carrying value approximates to fair value because of the short maturity of the instruments

Loan notes and other loans

The fair value is based on estimated likely cash payments

Derivatives

Foreign exchange in 2006, contracts were valued at the spot rate of exchange on 30 June 2006 There were no foreign exchange contracts as at 30 June 2007

Fixed asset investments

The net book value of the Group's fixed asset investments per note 12 approximates their fair value

Financial liabilities

The net book value of financial liabilities is not significantly different from the fair value, considering the current terms of repayment

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Notes to the financial statements for the year ended 30 June 2007 (continued)

20 Financial risk management (continued)

Financial assets

The Group's cash deposits at the year end attract interest at a floating rate They are denominated in the following currencies

	2007 £'000	2006 £'000
Sterling	**5,260**	10,028
US Dollars	**377**	2,631
Euros	**8,721**	13,060
South African Rand	**440**	310
Australian Dollars	**363**	282
Malaysian Ringitts	**114**	92
Singapore Dollars	**70**	860
Cash	**15,345**	27,263

The majority of cash has been invested during the year in a number of Open Ended Investment Companies' funds which usually offer rates of return in excess of those that can be earned on the money market but which are considered by the Group to have a sound credit rating and therefore constitute a low risk The remaining cash earns interest at market interest rates

On 1 July 2007 the Group invested £6,672,911 70 of their surplus funds in Open Ended Investment Companies The Group has same day access to these funds

Currency and exchange rate risk management

A proportion of the Group's revenues and costs are denominated in currencies other than Sterling (principally in Euros and US Dollars) In order to reduce the exposure to foreign currency exchange rate fluctuations, the Group will try to purchase both goods and services in foreign currency to match the projected revenues in that trading currency The Group also enters into forward contracts up to four months forward to reduce the exposure that arises on sales and purchases denominated in foreign currency There are no forward contracts as at 30 June 2007

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Notes to the financial statements for the year ended 30 June 2007 (continued)

20 Financial risk management (continued)

The table below shows the Group's principal currency exposures that give rise to the net currency gains and losses recognised in the profit and loss account Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating currency of the operating company involved

These exposures were as follows

Functional currency of Group's major operations	Net foreign currency monetary assets/(liabilities) 30 June 2007			30 June 2006		
	Sterling £'000	Euro £'000	US Dollar £'000	Sterling £'000	Euro £'000	US Dollar £'000
Sterling	-	468	2,185	-	(3,689)	2,450
Euro	45	-	89	1	-	-
US Dollars	(2)	-	-	-	-	-
Singapore Dollars	-	-	13	-	-	-
Malaysian Ringitts	-	-	481	-	-	-
South African Rand	23	-	-	-	-	-

21 Called up share capital

	2007 Number	2007 £'000	2006 Number	2006 £'000
Authorised				
10p Ordinary shares	**175,000,000**	**17,500**	175,000,000	17,500
Allotted and fully paid				
10p Ordinary shares	**156,914,167**	**15,692**	153,380,176	15,338

See note 22 for the movements in allocated and fully paid share capital

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Notes to the financial statements for the year ended 30 June 2007 (continued)

22 Capital and reserves

Group	Share Capital £000	Share capital to be issued £000	Share premium account £000	Capital redemption reserve £000	Other £000	Foreign currency translation reserve £000	Merger reserve £000	Total other reserves £000	Retained earnings £000	Minority interest £000	Total £000
At 1 July 2005	15 106	6 229	69 786	168	209	(85)	24 796	25 088	(51 750)	16	64 475
Profit for the year	-	-		-	-	-	-		3 982	-	3 982
Premium on issue of shares	-	-	599	-		-	-		-	-	599
Issue of shares on acquisition of subsidiaries	167	(2 426)		-	-	-	2 208	2 208	-	-	(51)
Exercise of share options	65	-		-		-	-		(82)	-	(17)
Loss on translation of foreign subsidiaries	-	-	-			267	-	267	-	-	267
Share options charge	-	-	-		-	-	-	-	828	-	828
Dividends paid	-	-	-		-	-	-	-	(5 754)	-	(5 754)
Dividend paid to minority interest	-	-	-		-	-	-	-	-	(60)	(60)
Share of profit of minority interest		-	-		-		-	-	-	189	189
At 1 July 2006	15 338	3 803	70 385	168	209	182	27 004	27 563	(52 776)	145	64 458
Profit for the year		-	-		-		-	-	1 605	-	1 605
Issue of shares on acquisition of subsidiaries	313	(3 455)	-		-		3 900	3 900	-	-	758
Exercise of share options	41	-	382	-	-			-	(257)	-	166
Deferred tax on share options		-	-	-	-			-	264	-	264
Demerger		-	-	-	-			-	(708)	-	(708)
(Profit) on translation of foreign subsidiaries		-		-	-	(595)		(595)	137	9	(449)
Share options charge		-		-	-	-	-	-	796	-	796
Dividends paid		-		-	-	-	-		(6 085)	-	(6 085)
Dividend paid to minority interest		-		-	-	-	-		-	(27)	(27)
Share of profit of minority interest		-		-	-	-	-		-	102	102
At 30 June 2007	**15,692**	**348**	**70,767**	**168**	**209**	**(413)**	**30,904**	**30,868**	**(57,024)**	**229**	**60,880**

The share capital issued at nominal value in the year relates to the exercise of share options (401,132 shares, £41,000) and to previously deferred consideration on the acquisition of CSTIM Limited (2,863,716 shares, £286,000) and of SkillsHub Limited (269,143 shares £27,000)

22 Capital and reserves (continued)

In the year ended 30 June 2007 share capital to be issued decreased by £3,803,000 due to the issue of 2,863,716 shares for the acquisition of CSTIM Limited During the same period share capital to be issued increased by £625,000 (585,096 shares) in relation to deferred consideration on the acquisition of Skillshub Limited, of which £277,000 (269,143 shares) were issued by the year end Share capital to be issued of £348,000 (362,760 shares) as at June 2007 relates to the deferred consideration on the acquisition of SkillsHub Limited and is based on the business acquired achieving certain financial targets £174,000 of the total share capital is to be issued within one year, the relevant targets having been settled, and £174,000 is to be issued after one year up to June 2009

The premium arising on the exercise of share options was £382,000 (2006 £599,000) On the exercise of share options, £166,000 (2006 £407,000) was received from employees

The capital redemption reserve is used to maintain the Company's capital following the purchase and cancellation of its own shares

When share options are exercised using the Morse Employee Benefit Trust, the difference between the market value of the shares and the exercise price of the options is charged to profit and loss account reserve Simultaneously a transfer from other reserves to the profit and loss account reserve is made for the related charge recorded when the options were granted under the Morse Group company share option plan, or the Diagonal employee share plans

The foreign currency translation reserve is used to record exchange difference arising from the translation of financial statements of foreign subsidiaries

The increase in the merger reserve of £3,900,000 is the share premium arising on the 3,130,000 shares issued as consideration on acquisitions, which has been recognised in accordance with s131 of Companies Act 1985 £3,650,000 of the share premium on 2,863,716 shares relates to the prior year acquisition of CSTIM Limited and £250,000 share premium on the 269,143 shares relates to the current year acquisition of Skillshub

The share of profit of minority interest of £102,000 consists of a share of a current year profit of £197,000 offset by £95,000, which represents the decrease in minority interest resulting from the acquisition of the remaining 49% of SkillsHub Limited

23 Capital commitments

The Group does not have any capital commitments as at 30 June 2007 Morse Group Ltd, a subsidiary entity, had a capital commitment of £200,000 as at 30 June 2006

24 Operating lease commitments

	Land and buildings 2007 £'000	**Other 2007 £'000**	Land and buildings 2006 £'000	Other 2006 £'000
Annual non-cancellable commitments for operating leases which expire				
Within one year	**2,080**	**448**	3,512	1,384
Between 2 and 5 years	**4,276**	**407**	8,040	1,018
After 5 years	**1,574**	**-**	2,484	-
	7,930	**855**	14,036	2,402

Notes to the financial statements
for the year ended 30 June 2007 (continued)

25 Demerger of a subsidiary

On 28 June 2007 Monitise group demerged from Morse plc The demerger was effected by Morse declaring a special dividend, equal to the book value of its shareholding in Monitise group at that time This was satisfied by the issue by Monitise of demerger shares, credited as fully paid, to qualifying shareholders in consideration for the transfer by Morse to Monitise of the entire issued share capital of Monitise group

The aggregate of all debts owed by Monitise group to Morse plc prior to the demerger was £9,200,000 All intercompany debts were settled by the issue of one additional ordinary share in Monitise group, in consideration for an undertaking to pay £9,200,000 to Monitise group in respect of the share

The demerger costs amount to £2,455,000 and represent legal and professional fees in carrying out the demerger transaction Net assets demerged are as follows

	£'000
Investments	**(296)**
Intangibles	**768**
Property, plant and equipment	**105**
Trade receivables	**226**
Other receivables and prepayments	**939**
Cash and cash equivalents	**1**
Trade payables	**(186)**
Other payables	**(849)**
Net assets on demerger	**(708)**
Costs of demerger	**(2,455)**

26 Assets and liabilities held for sale

On 24 July 2006 Morse plc announced the disposal of its business in Germany and Austria, Morse GmbH and Morse IT Solutions Austria GmbH (note 27) As such the following assets and liabilities were classified as held for sale in the balance sheet as at 30 June 2007

	2007 £'000	2006 £'000
Goodwill	-	1,557
Property, plant and equipment	-	76
Inventories	-	505
Trade receivables	-	14,102
Other receivables and prepayments	-	8,697
Cash and cash equivalents	-	9,463
Assets held for sale	-	34,400
Trade payables	-	(14,935)
Other payables	-	(13,148)
Cash and cash equivalents	-	-
Tax payable	-	(93)
Liabilities held for sale	-	(28,176)
Net assets held for sale	-	6,224

27 Disposal of a subsidiary

On 24 July 2006 Morse plc announced the disposal of its business in Germany and Austria Morse GmbH and Morse IT Solutions Austria GmbH were sold for a consideration of €9,500,000 (£6,552,000) As such the results of these operations have been classified as discontinued in the income statements for the year ended 30 June 2006 and its assets and liabilities classified as held for sale on the balance sheet as at 30 June 2006

	£'000
Assets	
Goodwill	**1,557**
Property, plant and equipment	**76**
Inventories	**505**
Trade receivables	**14,102**
Other receivables and prepayments	**8,697**
Cash and cash equivalents	**9,463**
Trade payables	**(14,935)**
Other payables	**(13,148)**
Tax payable	**(93)**
Net assets on disposal	**6,224**
Costs of disposal	**328**
Sale proceeds received	**6,552**
Profit on disposal of Germany and Austria	**-**

The disposal of subsidiary, net of cash disposed of £3,239,000, per the consolidated cash flow statement for the year ended 30 June 2007 comprises, prior costs of disposal of £328,000, cash and cash equivalents of £9,463,000, offset by consideration received of £6,552,000

Morse plc

Notes to the financial statements for the year ended 30 June 2007 (continued)

28 Acquisitions

In January 2007, the Group acquired the outstanding 49 % of the issued share capital not already owned by Morse of SkillsHub Ltd, a resource placement business which serves the financial services sector The transaction is to be satisfied by a net consideration of £823,838 over a period of three years The Group acquired CSTIM France in December 2006, a start-up consulting company for a total consideration of £178,000

	Skillshub Fair value £'000	CSTIM France Fair value £'000	Total Fair value £'000
Property, plant and equipment	2	-	2
Current assets	867	-	867
Current liabilities	(676)	-	(676)
Net assets	193	-	193
Net assets acquired (49%/100%)	94	-	94
Goodwill	365	89	454
Intangibles	364	89	453
Consideration	823	178	1,001
Consideration satisfied by			
Cash	180	123	303
Share capital issued	118	55	173
Share capital to be issued	521	-	521
Cost of acquisition	4	-	4
	823	178	1,001

The book value of the assets and liabilities has been taken from the management accounts of SkillsHub Ltd as of 31 January 2007

There are no fair value adjustments made to the book value of acquired businesses

29 Related party transactions

During the year ended 30 June 2007 the Group made sales of £nil (2006 £93,062) to its associate companies and made purchases of £nil (2006 £28,344) from them As at 30 June 2007, this had resulted in outstanding trade debtor and trade creditor balances of £nil (2006 £69,899) and £nil (2006 £6,956) respectively An interest charge of £nil (£2006 £6,000) was charged in the year to 30 June 2007

During the year ended 30 June 2007 the Group made sales of £nil (2006 £923,000) to its joint ventures As at 30 June 2007, this had resulted in an outstanding trade debtor of £nil (2006 £127,000)

Morse Group Limited has borne the costs of the Directors of Morse plc during the year

Compensation of key management personnel is as follows

	2007 £'000	2006 £'000
Short term employee benefits	**1,460**	2,939
Share based payment	**-**	174
	1,460	3,113

Morse plc

Notes to the financial statements for the year ended 30 June 2007 (continued)

30 Accounting estimates and judgements

Details of significant accounting estimates and judgements have been disclosed under the relevant note or accounting policy for each area where disclosure is required Principally, these are the valuation of share based payments (note 5), acquired intangible assets (note 10), goodwill impairment testing (note 10) and provisions (note 19)

31 Analysis of changes in net funds

	At 1 July 2006 £'000	Cash Flows £'000	Exchange rate fluctuations £'000	Other movements £'000	At 30 June 2007 £'000
Cash at bank	27,263	(11,871)	(47)	-	15,345
Other loans	(975)	-	-	975	-
Loan notes	(380)	114	-	-	(266)
Other financial liabilities	(206)	-	-	206	-
Net funds	25,702	(11,757)	(47)	1,181	15,079

Morse plc

Notes to the financial statements for the year ended 30 June 2007 (continued)

Company balance sheet as at 30 June 2007

	Note	Company 2007 £'000	Company 2006 £'000
Fixed assets			
Investments	*iv*	**147,021**	147,021
		147,021	147,021
Current assets			
Debtors	*v*	**19,617**	25,218
Cash at bank and in hand		**263**	-
Total current assets		**19,880**	25,218
Creditors – amounts falling due within one year	*vi*	**(39,152)**	(42,229)
Net current liabilities		**(19,272)**	(17,011)
Total net assets		**127,749**	130,010
Capital and reserves			
Called up share capital	*vii*	**15,692**	15,338
Share capital to be issued	*ix*	**348**	3,803
Share premium account	*ix*	**70,767**	70,385
Other reserves	*ix*	**31,272**	27,372
Profit and loss account	*ix*	**9,670**	13,112
Total equity shareholders' funds	*viii*	**127,749**	130,010

The financial statements were approved by the Board of Directors on 4 September 2007 and signed on its behalf by

E Dodd

Director

Morse plc

Notes to the financial statements for the year ended 30 June 2007 (continued)

(i) Accounting policies

Accounting convention

The financial statements are prepared under the historical cost convention where appropriate, and in accordance with the Companies Act 1985 and applicable accounting standards, using the following principal accounting policies which have been consistently applied The accounting policies below cover items which are considered material in relation to the Company's financial statements

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of these financial statements The loss after taxation attributable to Morse plc for the year and dealt with in the financial statements of the Company was £3,656,000 (2006 profit of £3,011,000)

Investments

Investments in subsidiary undertakings are stated at cost less provision for any impairment in value Trade investments are held at cost less provision for any impairment in value

Associates and joint ventures

An associate is an undertaking in which the Company has a long-term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence A joint venture is an undertaking in which the Company has a long-term interest and over which it exercises joint control

Cash flow statement

The cash flows of the Company are included within the consolidated Group cash flow statement of Morse plc

Borrowings

Borrowings are recognised initially at fair value and subsequently at amortised cost

Notes to the financial statements for the year ended 30 June 2007 (continued)

(i) Accounting policies (continued)

Interests in own shares

Interests in own shares are accounted for in accordance with UITF abstract 38 'Accounting for ESOP trusts' which requires the assets and liabilities of the Group's ESOP trust to be recognised in the financial statements where there is defacto control of those assets and liabilities The Company's own shares held in the ESOP trust are deducted from shareholders' funds until they are transferred to employees

Deferred taxation

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 all 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

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Differed tax is recognized, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Dividends

Dividends receivable are recognised when the Group's right to receive payment is established Dividends payable to the Company's shareholders are recognised as a liability and deducted from shareholders' equity in the period in which the shareholders' right to receive payment is established

Morse plc

Notes to the financial statements for the year ended 30 June 2007 (continued)

(i) Accounting policies (continued)

Foreign exchange

Transactions denominated in foreign currencies are translated to Sterling at the actual exchange rate at the time of the transaction or, where forward foreign currency contracts have been taken out, at contracted rates Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date

Cash

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand

(ii) Dividends paid and proposed

	2007 £'000	2006 £'000
Declared and paid during the year		
Equity dividend on ordinary shares		
Final dividend for 2006 2 7p (2005 2 6p)	**4,130**	3,921
Interim dividend for 2007 1 25p (2006 1 2p)	**1,955**	1,833
	6,085	5,754
Proposed for approval at AGM (not recognised as a liability as at 30 June)		
Equity dividend on ordinary shares		
Final dividend for 2007 2 8p (2006 2 7p)	**4,393**	4,130

(iii) Information regarding employees, Directors and their interests

(a) Directors' remuneration

Details of directors' emoluments are given in note 5 to the consolidated financial statements

Notes to the financial statements for the year ended 30 June 2007 (continued)

(iii) Information regarding employees, Directors and their interests (continued)

(b) Employees

	2007 Number	2006 Number
Average monthly number of persons employed (including Directors) by the Company during the year·		
Management and administration	1	2

Information regarding Directors is included in note 5

(c) Staff costs (including Directors)

	2007 £'000	2006 £'000
Wages and salaries	10	54

The Company has no pension costs Information regarding Directors is included in note 5 Information on share options is included in note 5d of the consolidated financial statements

(iv) Fixed asset investments

Cost and net book amount	**£'000**
Interests in subsidiary undertakings	
Cost at 30 June 2005 and 1 July 2006	147,021
Additions	9,200
Demerger	(9,200)
Cost at 30 June 2007	147,021
Total net book value of investments at 30 June 2007	**147,021**
Total net book value of investments at 30 June 2006	147,021

The aggregate of all debts owed by Monitise group of £9,200,000 increased the value of investment in Monitise prior to the demerger The decrease of £9,200,000 represents the write off of the above investment, post the demerger (note ix)

Morse plc

Notes to the financial statements for the year ended 30 June 2007 (continued)

(iv) Fixed asset investments (continued)

The Company's principal undertakings are as follows

Subsidiary undertakings	Principal activity	Percentage of Ordinary shares and voting rights held	Country of registration and incorporation
Morse Group Limited	Sale of IT solutions and professional services	100%	England and Wales
Morse Spain SL *	Sale of IT solutions and professional services	100%	Spain
Morse Computer Group Limited *	Sale of IT solutions and professional services	100%	Ireland
Morse Engineering Limited *	Sale of IT solutions and professional services	100%	Ireland
Morse Solutions Limited *	Sale of IT solutions and professional services	100%	Ireland
Appliance Technology Limited *	Sale of IT solutions and professional services	100%	Ireland
CSTIM Limited	Provision of advisory services to companies engaged in investment management	100%	England and Wales
Diagonal Consulting Limited*	Sale of IT solutions and professional services	100%	England and Wales
Diagonal Solutions Limited*	Sale of IT solutions and professional services	100%	England and Wales
Morse Service Holdings Limited	Sale of IT solutions and professional services	100%	England and Wales
Morse Consulting Inc	Sale of IT solutions and professional services	100%	USA
Morse Consulting Sdu Bhd	Sale of IT solutions and professional services	100%	Malaysia
Skillshub Limited*	Placement of external consultants in the financial services industry	100%	England and Wales
Morse Consultancy (PTY) Limited**	Supply of management consultancy services	100%	South Africa

* Indirectly held through subsidiary companies
** Previously known as CSTIM Management Consultancy (PTY) Limited

Morse plc

Notes to the financial statements for the year ended 30 June 2007 (continued)

(v) Debtors

	2007 £'000	2006 £'000
Amounts due from Group undertakings	**19,564**	25,173
Other debtors	**53**	45
	19,617	25,218

(vi) Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Loan notes	**266**	380
Trade creditors	**137**	-
Amounts due to Group undertakings	**36,922**	41,234
Other creditors	**24**	471
Corporation tax	**-**	100
Accruals and deferred income	**1,803**	44
	39,152	42,229

(vii) Called up share capital

	2007 Number	2007 £'000	2006 Number	2006 £'000
Authorised				
10p Ordinary shares	**175,000,000**	**17,500**	175,000,000	17,500
Allotted and fully paid				
10p Ordinary shares	**156,914,167**	**15,692**	153,380,176	15,338

See note ix for the movements in allocated and fully paid share capital

Morse plc

Notes to the financial statements for the year ended 30 June 2007 (continued)

(viii) Reconciliation of movements in equity shareholders' funds

	2007 £'000	2006 £'000
Profit/(loss) for the year	**(3,656)**	3,011
Dividends	**8,915**	(5,754)
Dividend in specie	**(9,200)**	-
Share option charge	**499**	-
Retained loss for the year	**(3,442)**	(2,743)
Issue of share capital	**4,636**	3,039
Movement in share capital to be issued	**(3,455)**	(2,426)
Net (reduction)/increase to equity shareholders' funds	**(2,261)**	(2,130)
Opening equity shareholders' funds	**130,010**	132,140
Closing equity shareholders' funds	**127,749**	130,010

(ix) Capital and reserves

	Share capital	Share capital to be issued	Share premium account	Capital redemption reserve	Other	Foreign currency translation reserve	Merger reserve	Total other reserves	Retained earnings	Total
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Company										
At 1 July 2006	15 338	3 803	70 385	168	200	-	27 004	27 372	13 112	130 010
Profit/(loss) for the year		-		-	-	-	-		(3 656)	(3 656)
Dividends received		-	-		-	-	-	-	15 000	15 000
Exercise of share options	41	-	382		-	-		-	-	423
Dividend in specie		-	-		-	-	-		(9 200)	(9 200)
Share options charge		-	-	-	-	-			499	499
Dividends paid		-	-		-	-			(6 085)	(6 085)
Issue of shares on acquisition of subsidiaries	313	(3 455)	-	-	-	-	3 900	3 900	-	758
At 30 June 2007	**15,692**	**348**	**70,767**	**168**	**200**	**-**	**30,904**	**31,272**	**9,670**	**127,749**

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The premium arising on the exercise of share options was £382,000 (2006 £599,000) On the exercise of share options, £166,000 (2006 £407,000) was received from employees

Notes to the financial statements for the year ended 30 June 2007 (continued)

(ix) Capital and reserves (continued)

The capital redemption reserve is used to maintain the Company's capital following the purchase and cancellation of its own shares

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The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of foreign subsidiaries

The increase in the merger reserve of £3,900,000 is the share premium arising on the 3,130,000 shares issued as consideration on acquisitions, which has been recognised in accordance with s131 of Companies Act 1985 £3,650,000 of the share premium on 2,863,716 shares relates to the prior year acquisition of CSTIM Limited and £250,000 share premium on the 269,143 shares relates to the current year acquisition of Skillshub

The decrease of £9,200,000 in retained profits represents an investment in Monitise Group Ltd, which was written off on the demerger (note 25) The Directors have been advised that, at the time of the dividend of Monitise plc shares (which was made on 28 June 2007 following a shareholder resolution passed at the Company's extraordinary general meeting on 25 June 2007) although the management accounts of the Company showed that the Company had sufficient distributable reserves to make this dividend, the Company did not show sufficient distributable reserves in a set of 'relevant accounts' for Companies Act 1985 purposes As a technical matter, it was necessary to show that the Company had sufficient distributable reserves in 'interim accounts' This procedural step was not taken At the 2007 Annual General Meeting, a resolution will be proposed rectifying the position and approving the release of shareholders from any liability to compensate the Company in respect of such dividend

Morse plc

5 year summary
Year ended 30 June 2007

	Prepared under UK GAAP		Prepared under IFRS		
	2003 £'000	2004 £'000	2005 £'000	2006 £'000	2007 £'000
Turnover	351,343	390,008	429,531	367,120	**257,325**
Gross profit	69,568	75,481	87,925	85,040	**60,861**
Adjusted operating profit *	9,165	7,470	8,263	6,527	**5,634**
Operating profit/(loss)	(17,413)	(14,471)	2,191	12,837	**4,263**
Net assets	57,745	47,694	64,475	64,458	**60,880**

* Before goodwill amortisation and exceptional items under UK GAAP

* Before exceptional restructuring costs, impairment, exceptional trading balance releases and demerger costs under IFRS