Morse plc

(Registered no. 3108179)

Annual Report and Accounts
for the year ended 30 June 2008

Morse plc

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Company Overview

Highlights

In the year ended 30 June 2008 Morse plc focused on three business units; Morse Management Consulting, Applications Consulting and Infrastructure Consulting operating under a single Morse brand and strategy as an integrated advisory and execution professional services firm.

This strategy has been revised to simplify our structure and allow the individual businesses to focus on their core capabilities. Morse is an IT services and technology company and will operate as five independent business units; Infrastructure Services & Technology in the UK, Spain and Ireland, Business Applications Services and Investment Management Consulting.

Financial Highlights

- Revenue £253.3 million (2007: £256.5 million*)
- Operating profit before exceptional⁺ items £11.1 million (2007: £12.2 million*)
- Operating profit has been impacted by trading balance credits of £4.2 million (2007: £4.4 million)
- Operating margin percentage before exceptional⁺ items 4.4% (2007: 4.8%*)
- Profit before tax before exceptional⁺ items £11.1 million (2007: £12.5 million*)
- Cash at year end of £11.1 million (2007: £15.3 million)
- Pro-forma basic earnings per share** before exceptional⁺ items of 6.0p (2007: 6.8p*)
- Proposed final dividend of 1.30p per share (2007: 2.80p per share) resulting in a total dividend for the year of 2.60p per share (2007: 4.05p per share)

** Excludes discontinued operations in 2007*

*** The proforma earnings per share figure is based on profit before tax from continuing operations before goodwill impairment (2008: £11.1 million, 2007: £12.5 million) less tax at a normalised effective group rate of 29.5% (2007: 30%), less profit attributed to minority interests. The calculated profit after tax and minority interests is then divided by the weighted average number of shares (2008: 128,742,000; 2007: 125,976,000)*

⁺ Refer to exceptional items section of the Financial Review

Statutory results

- Revenue £253.3 million (2007: £257.3 million)
- Operating loss £2.3 million (2007: profit £4.3 million)
- Loss before tax £2.3 million (2007: profit £3.8 million)
- Basic loss per share 3.5p (2007: earnings per share 1.3p)
- Exceptional charge before tax of £13.4 million (2007: £1.4m net charge)

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Operational highlights

- Progress against the medium term operating margin target of 7.2% was disappointing
- Operating profit and margin has been impacted by continuing project issues in Business Applications Services, and a weaker performance in Spain
- The expected growth in services was not achieved in the period. As a result, the balance between the technology and services businesses has remained consistent
- UK Infrastructure Services and Technology
    - The Technology business grew revenue by 10% with growth primarily from product sales
    - Morse in Education has implemented the initial phases of the South Tyneside and Gateshead (STaG) 'Building Schools for the Future' (BSF) project
- Business Applications Services
    - The Enterprise Content Management (ECM) and Global Support Services (GSS) practices continue to deliver good growth
    - The Business Change and Transformation (BC&T) consultancy, formerly the Xayce business acquired in September 2007, performed in-line with management expectations
- Investment Management Consulting
    - Consulting services in Investment Management achieved modest growth in a tightening market

Review of the business structure completed

- Simplified structure and re-focused resources to:
    - Allow the individual business units to concentrate on their core competencies
    - Improve profitability
    - Improve operational management

Cost reduction programme implemented

- Designed to improve overall returns while maintaining the fabric of the business and its sales and delivery capability
- Announced 25 July 2008 and is expected to result in a charge of approximately £4m - £4.5m which will be recorded in the financial year ending 30 June 2009

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About Morse

Our business
Morse is an IT services and technology company, with proven expertise in Investment management, business applications and infrastructure technology. We operate principally in the UK, USA, Asia Pacific, Spain and Ireland.

Our values
Morse is client-focused and delivers maximum value by working in true **partnership**. We aim to deliver our services in a way that is different and **refreshing**. We always act with **integrity** – in our words and actions and with everyone we come into contact with. We provide deep, **specialist** knowledge to support our clients with thought leadership and our employees with interesting and challenging careers. We are **passionate** about what we do which is key to our and our clients' success.

Our approach
Morse's reputation has been earned over many years through combining essential market knowledge with a flexible and pragmatic approach to the solutions and services we deliver. The breadth and depth of expertise in our specialist business domains, key technologies and partnerships inspires confidence with our clients for a close, effective and trust-based relationship.

Our differentiators
Our people provide business and technology experience, a commercial mindset, responsiveness to change, the desire to partner and total professionalism.
Our relationships are based on a collaborative style, delivering sustainable benefits, with open and honest communications and the value of short term success combined with long term partnerships
Our commitment to deliver demonstrable value, trusted advice to innovate and grow, to manage change and complexity, to take responsibility for implementing our ideas and provide outstanding talent.

Our focus

Infrastructure Services & Technology
Designing, provisioning, managing and operating current and emerging technologies, providing the skills and resources for project success.
Our markets – technical and operational strategy and implementation expertise across financial, telco and media, commercial and public sectors.
Our solutions – data centre optimisation, technology lifecycle management, technology skills resourcing, technology consulting, technology in education.

Focus on Spain
Morse is well established in the Spanish market and provides a comprehensive range of infrastructure and managed services together with technology products and support services. We have a strong enterprise client base and reputation for successful data centre optimisation projects.

Focus on Ireland
Morse is a leading infrastructure services and technology company in Ireland and holds the highest level of accreditation with all the major infrastructure and software vendors, together with executive level relationships in many of Ireland's blue chip companies.

Business Applications Services
Delivering business applications that optimise our clients' operations through our specialist skills and strong partnerships with SAP, Microsoft and Vignette.
Our markets – specialist knowledge and experience for retail, consumer products, engineering, financial and public sector clients.
Our solutions – Microsoft, SAP, business change & transformation.

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Investment Management Consulting

Identifying and addressing business opportunities and enabling the delivery of transformational change to improve business performance.

Our markets – reputation for demonstrating consulting value in the investment management sector.

Our solutions – operating model strategy and design, technology architecture, sourcing, product and business development, financial services resourcing.

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Executive Chairman's statement

Overview

During the year Morse plc consisted of three business units, Morse Management Consulting, Applications Consulting and Infrastructure Consulting, operating under a single Morse brand and strategy as an integrated advisory & execution professional services firm.

Over the past few months, in a deteriorating business climate the Group has undertaken a review of its operations. The Board concluded that the structure of the Group needed to be simplified to allow the individual business units to concentrate on their core competencies and to improve the levels of profitability and operational management in the business. Morse is an IT services & technology company and will operate as five independent business units:

- Infrastructure Services & Technology – UK
- Infrastructure Services & Technology – Spain
- Infrastructure Services & Technology – Ireland
- Business Applications Services
- Investment Management Consulting

Each business unit will prioritise activity in the markets in which it has specialist knowledge and capabilities. Cooperation will be encouraged where it adds value to the client engagement and business unit profitability.

The five business units report directly to the Executive Chairman, effective 8 July 2008. Additionally Mike Phillips becomes Group Finance Director on 9 September 2008.
The Board would like to thank all the Group's employees for their continued hard work and commitment throughout the past year. We have and will continue to experience significant change and we believe we will emerge a much stronger organisation with clear opportunities ahead.

Performance in the year

In 2006 the Company set a target of 7.2% operating profit margin in the medium term and a strategy to achieve a more integrated business with growth in consulting and services. Progress against these objectives has been disappointing. Operating margin before exceptionals+ in 2008 was 4.4% (2007: 4.8%*).

Revenue at £129.5 million in the second half was higher than the first half but full year revenue performance was marginally below last year's at £253.3 million (2007: £256.5 million*).

In the fourth quarter we experienced some deterioration in short term services as clients have reduced discretionary spend in-line with a more cautious market for IT services. This has resulted in the balance between our technology and services revenue remaining fairly consistent over FY07 and FY08. The split of the overall business was 53% product and 47% services. This together with some continued project issues and weaker performance in Spain has impacted our growth in operating margins. As a result our operating profit before exceptionals+ was lower in the second half and for the full year was £11.1 million (2007: £12.2 million*). At a statutory level there was an operating loss of £2.3 million (2007: profit £4.3 million) due to an impairment charge of £13.4 million.

The company's cash position at 30 June 2008 was £11.1 million (2007: £15.3 million). Principal outflows were dividends, tax, acquisition of Xayce and the Monitise demerger costs.

Within the Infrastructure Services & Technology division in the UK, the Technology business had a solid year with revenue of £87.9 million showing 10% growth on last year (2007: £79.6 million), with existing and new client relationships developing well and ongoing strong partnerships with the leading vendors.

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Our Investment Management Consulting business continued to show good differentiation in its chosen markets and delivered marginally improved revenue and profit in a tightening market.

The applications and IT services lines of business continue to go through a period of simplification and re-focus as we focus on developing the specialist skills, capabilities and operational management to deliver a performance in-line with our profitability goals.

In the 'Building Schools for the Future' (BSF) programme we have completed the initial phases of the implementation at South Tyneside and Gateshead (STaG). We are bidding for additional projects and are currently part of the only remaining consortium for the Durham BSF project.

Our international businesses in Spain and Ireland remain focused in the infrastructure services and technology markets. Spain has experienced a difficult period after several years of strong growth and we have taken action to increase profitability of the business going forward. Ireland has performed in-line with management expectations.

Outlook

We have completed our initial review of the Morse business and implemented the changes to simplify the structure and focus on five business units – Infrastructure Services & Technology in the UK, Spain and Ireland, Business Applications Services and Investment Management Consulting. We have identified areas to significantly reduce our cost base whilst still supporting our future prospects.

While we expect the market for IT services and technology to remain difficult we anticipate that changes to Morse's operating model, together with its ongoing strong client relationships, will deliver an improved underlying profitability and cash conversion in the current year.

We continue to believe that once operational issues are fixed, strong execution of our current combination of business should be able to produce our target of 7.2% operating margin in the medium term.

Kevin Loosemore
Executive Chairman
9 September 2008

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Operating review

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

Infrastructure Services & Technology UK

Infrastructure Services & Technology UK (formerly referred to as Infrastructure Consulting) consists of three main lines of business:

- **Technology** – helping our clients with the sourcing, management and support of their IT estates utilising a Technology Lifecycle Management (TLM) approach
- **Infrastructure Services –** supporting our clients with technology transformation, project implementation and operations & resourcing services that help them optimise their data centres
- **Morse in Education** – providing the ICT expertise and technology and infrastructure services required for the Government's 'Building Schools for the Future' (BSF) programme

In the twelve months ended 30 June 2008 revenue increased by 11% to £131.4 million (2007: £118.1 million). Operating margin before exceptionals was £6.4 million (2007: £5.1 million). The split of the business was 70% product and 30% services.

The **Technology** business (principally product sales) had a particularly strong period with revenue of £87.9 million (2007: £79.6 million) and good year-on-year growth reflecting the value we are able to add to the provisioning of products and implementation services. We have been able to increase the focus of the business while developing a more comprehensive and higher-value proposition approach. We will continue to develop our operational processes and level of proposition focus during FY09.

The **Infrastructure Services** business saw good growth in the first half of the year. A number of major programmes of work came to completion in the second half that, together with a tighter market for discretionary services spend, led to a slower period. The first half saw revenue of £21.0 million while half two was £20.1 million, leading to revenue for the year of £41.1 million (2007: £38.1 million). The proposition structure for the services business is being re-developed, adding technology transformation skills and higher-end data centre capabilities aimed at helping our clients simplify and optimise their environments.

In FY07 **Morse in Education** and our work related to 'Building Schools for the Future' was focused on the implementation of the South Tyneside and Gateshead (STaG) project during the initial phases and carefully selecting additional projects on which to bid. The STaG project delivered the first revenue stream of £2.5 million in June 2008. Morse is part of the only remaining consortium bidding at Durham and is currently undertaking the due diligence process and expects to be awarded preferred bidder status later this year. We continue to participate in a number of selected bid processes to capture additional projects.

In Infrastructure Services & Technology we continue to have excellent ongoing partnerships with our key technology vendors – HP, IBM and Sun as well as relationships with key software providers like Symantec and Oracle.

Our focus for the current financial year includes:

- Maintaining our Technology business based on the value of our Technology Lifecycle Management approach
- Continuing to improve our systems and service delivery processes to offer a cost effective, but superior level of client engagement
- Developing and delivering data centre optimisation, operations and resourcing services to provide our clients with the IT simplification and project-based return on investment they require
- Delivering a profitable revenue stream from the BSF programme

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The market for infrastructure services and technology will remain very focused on business critical IT projects where a high degree of flexibility and shorter-term success are essential. We believe we are well structured and positioned to support this requirement.

Infrastructure Services & Technology Europe (Spain and Ireland)

For Spain and Ireland, in the year ended 30 June 2008, revenue was £57.8 million (2007: £66.5 million) and operating profit was £2.9 million (2007: £3.5 million).

In **Spain**, after a period of six years of significant growth, Morse has experienced a difficult period in FY08, particularly in the technology business, mainly due to increased investment caution in key clients and the challenging economic environment. The market for infrastructure services continued to see growth but not enough to compensate for the decline in the product area. The split of the business was 70% product and 30% services.

It is expected that the economic environment in Spain will remain challenging in the current period and several cost management strategies have been implemented for FY09. Our go-to-market approach has been improved and adapted to better meet the expectations and operational requirements of our clients and we anticipate growth in the markets for managed and global support services.

In FY09 we are focused on increasing the level of profitability of the business, stabilising the technology business combined with growth in infrastructure services and recurring consultancy services.

In **Ireland**, Morse is a leading IT Infrastructure Services and Technology company and holds the highest level of accreditation with all of the major infrastructure and software vendors, together with executive level relationships in many of Ireland's blue chip companies.

In the year to 30 June 2008 we saw an increase in operating profit, however there was a small decline in revenue. This resulted from a number of transactions being on an agency basis where a fee was paid rather than revenue recognised. The split of the business was 85% product and 15% services.

Our Irish business is a client-centric organisation and responding to our client's requirements we started to scale up our services offerings during FY08. Building on our existing annuity support base we now offer a wide range of infrastructure and managed services and we will continue this process during the coming year. However, product sales still remain an important part of our business and our services offerings underpin these sales, allowing us to deliver high quality end-to-end technology solutions in a timely and efficient manner.

Morse Ireland is continuing to build a reputation as the technology partner of choice and is consolidating this position with a Morse-led and vendor integrated go-to-market approach.

Business Applications Services

Business Applications Services (formally known as Applications Consulting) consisted of five key lines of business:

- **Business Change and Transformation** (BC&T, formally Xayce, acquired in September 2007) is a business change consultancy
- **Application Services** delivers management and enterprise wide systems integration in support of technologies including SAP and Microsoft
- **Enterprise Content Management** (ECM) provides solution implementation skills in support of technologies including Stellent, Vignette, Autonomy and Wisdom
- **Global Support Services** (GSS) provides a 24x7 managed service, business process optimisation and offshore delivery and support
- **Strand** is an IT placement business for contractor staff aligned to our application services capabilities

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

In the year ended 30 June 2008 revenue was £46.1 million (2007: £54.1 million). Operating profit before exceptional+ items was £0.3 million (2007: £2.6 million). It should be noted that this includes a positive impact from Xayce (acquisition September 2007) and that excluding the results for Xayce there would have been a loss in the period of £0.6 million. Xayce contributed £3.2 million in revenue in 2008. Additionally, an exceptional goodwill and intangibles impairment charge of £13.4 million was recognised in the year.

Business Change and Transformation, Enterprise Content Management and Global Support Services all performed well during the last 12 months.

The **BC&T** consultancy specialises in the Financial Services and Local Government markets and clients include leading banks, insurance companies and several large local authorities. The existing Xayce management team formed the basis of the Business Change and Transformation practice and it continues to perform strongly in its core markets. Revenue for the year was £3.2 million.

Application Services with revenue of £16.9 million (2007: £26.4 million), continues to suffer from the delivery challenges of a number of fixed-price projects which have significantly impacted the revenue and profit performance of the business. The sales pipeline has also suffered over the period and further action is needed to improve the project delivery processes and focus, and quality of the sales team in order to re-build a robust pipeline.

The **ECM** business is focused on a set of core propositions: information portals and information collaboration solutions based upon Microsoft, Vignette and Oracle technology platforms, electronic Document and Records Management (eDRM) solutions based upon Wisdom and the associated services and annuity based support revenue that is an integral part of such propositions.

Revenue was £9.2 million (2007: £8.0 million) which represented a growth of 15%. This performance reflects both continued delivery against existing contracts as well as some important new wins. The services associated with our solutions propositions together with annuity based support have contributed significantly to the overall performance.

GSS has continued to grow with revenue of £16.2 million (2007: £13.7 million). We continue to expand our offshore centre in Kuala Lumpur creating a new 24x7 Service Desk managing over 95% of global customer calls and extending support capabilities to cover Vignette, Java and Microsoft in addition to SAP.

SAP integration with Sky Mobility and Blackberry has enabled solid growth in the USA, a trend that is extending to Asia Pacific.

UK Support Services has gained ISO 9001 Certification and continues to drive process and system efficiencies.

The **Strand** business had a solid year with revenue of £0.6 million (2007: £0.7 million).
The IT Performance & Transformation and Marshall Wilkins businesses contributed £5.3 million of revenue in FY07 but have been discontinued in FY08.

As a result of the weak forward pipeline in Business Applications Services, action has been taken to further reduce the breakeven point of this business. A number of new key proposition areas have been identified and the business will be simplified to focus the business development and sales activities on our Microsoft, SAP and business change & transformation capabilities in the UK, USA and Asia Pacific.

Stronger governance processes and procedures for both sales and delivery management are being implemented across the business, resulting in stronger sales qualification and improved project delivery. A new resourcing framework is being implemented allowing improved deployment and management of our skills and resources, providing improved utilisation.

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Investment Management Consulting

In a tougher trading environment the Investment Management Consulting business achieved results for the year which were marginally ahead of those achieved in 2007.

The business continued to develop its range of services aligned with the new investment strategies deployed by its clients. This involved helping clients with operating model and technology architecture redesigns to support an ever more complex set of investment instruments. As the tougher economic conditions began to affect clients, the business was also able to help clients with cost reduction initiatives such as outsourcing.

Revenue for the year increased to £18.0 million (2007: £17.8 million), operating profit increased to £2.5 million (2007: £2.4 million) and the operating margin increased to 13.9% (2007: 13.5%).

Throughout the year the consulting business continued to operate in the same markets of the UK, Channel Islands, France, Luxembourg, South Africa, Australia and Singapore. Performance across these markets varied according to local trading conditions.

The consulting business in the UK and the Channel Islands continued to perform well with operating profit increasing.

The consulting business in France also continued to perform strongly in its second full year of operation.

The out-performance in these markets was however, largely offset by tougher trading conditions in Luxembourg, South Africa, Australia and Singapore.

Skillshub, our specialist financial services resourcing and contractor placement business performed in line with the previous year.

Kevin Loosemore
Executive Chairman
9 September 2008

NOTE:

- *In 2007 the 'flexible resourcing' business, revenue £20.8 million (2008: £23.6 million), had been reported in Application Consulting and is now reported in Infrastructure Services & Technology UK.*

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Geographical review

Morse operates in the UK, Spain, Ireland, USA, Asia Pacific, Channel Islands, France, Luxembourg, South Africa, Australia, Singapore.

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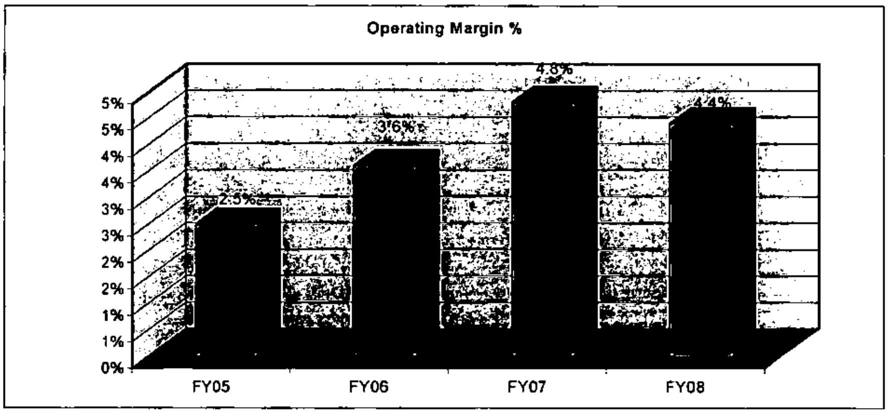
Key performance indicators

The Board and Executive Team have put in place a set of focused strategic objectives and key performance indicators (KPIs) to underpin Morse as an IT services and technology company. The KPIs are designed to allow the Board, Executive and shareholders to monitor operating performance and progress against strategic goals.

The board concluded that the structure of the Group needed to be simplified to allow the individual business units to concentrate in their core competencies and to improve the levels of profitability and operational management in the business.

As the five business units progress, 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.

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 profit and overheads and excludes exceptional† items
The lower operating margin in FY08 reflects weaker profits from continued project issues in Business Applications Services and difficulties in Spain
The Group's objective is to double the operating margin to 7.2% in the medium term (from June 2006)

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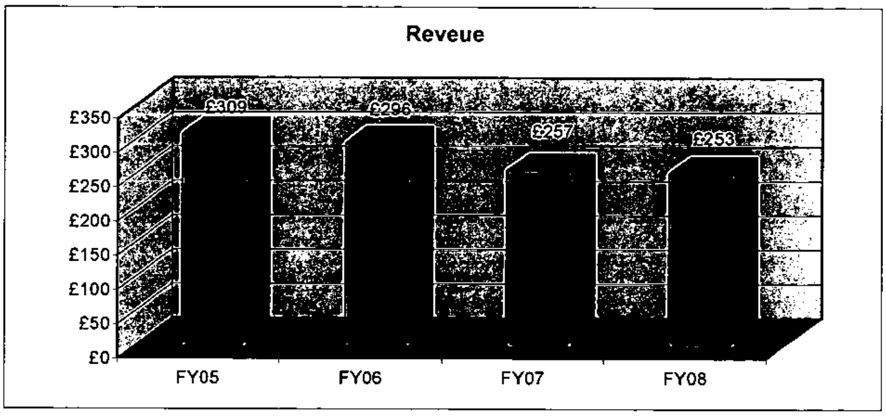
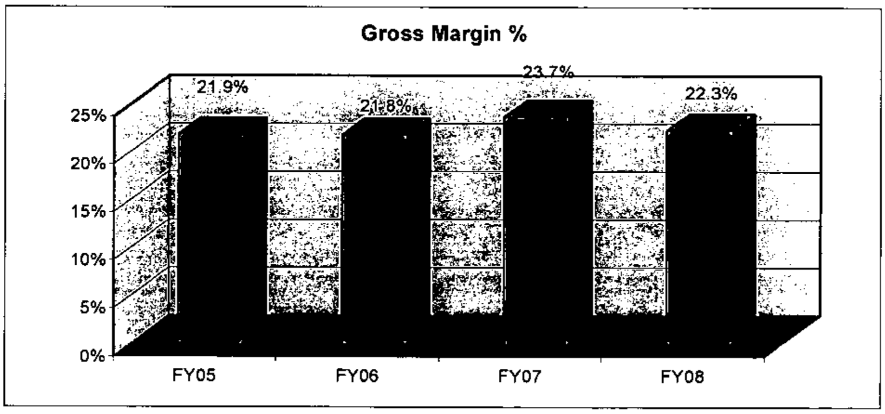
Revenue from continuing operations



Comments

Revenue represents third party revenues generated from Morse's business units
The decline in revenue was consistent with the transition of the Group from a reseller to an IT services and technology company
There was a marginal decline in revenue in FY08 due to the impact of a more cautious market for IT services

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 revenue and cost of sales and excludes exceptional† items
The GM% in FY08 has been affected in our second half by the more cautious market for IT services and some specific issues in Spain and Business Applications Services
The Group's objective is to improve gross margin to between 27% and 30% in the medium term

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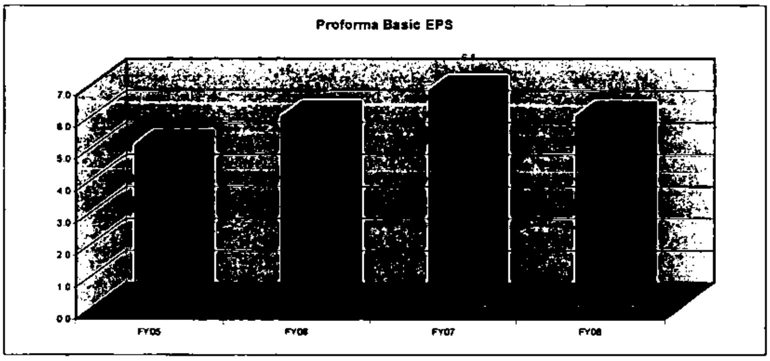
Pro forma basic EPS from continuing operations



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
See the note in the Financial Review on page 24 for the basis of the calculation
The fall in EPS in FY08 is consistent with the decline in profit during the year
Note: the prior years have been restated to reflect the share consolidation in November 2007

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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 business units (BU). Each BU head reported to the Morse Executive Chairman, 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 BUs 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.

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 identifies as being of core importance to its business, and hence, merit specific focus:

<u>Delivering against client contracts</u>
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.

The business and the Board continually review the governance risk programme and regularly place additional checks and balances, especially in the consultancy business, to ensure that over-runs are detected at the earliest stages. This helps to ensure that over-runs are quickly highlighted and adequately addressed to ensure such situations do not continue and are not repeated. High risk projects are reviewed on a regular basis by the executive team, with the assistance of a Board member.

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<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 loses 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.

<u>Reputation with clients</u>

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.
- Fluctuations in demand and project phasing for an IT services and technology 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 an IT services and technology 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 processes.
- 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 Directors and Executive team, and the legal department as appropriate.

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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

Throughout FY08 Morse has continued to support a range of charitable activities including a number of company led initiatives. Over the last few years Great Ormond Street Hospital, Cancer Research UK, Clic Sargent, Cancer Research and Research Trust have all benefitted from our annual charity Christmas card programme.

Morse continues to participate in the 'girl-child' in Afrika project which we have supported since 2005. 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 also support the charitable activities of our staff, clients and partners; participating in a range of events from The Wooden Spoon 4 Peaks Challenge, Race For Life, The Flora London Marathon through to The Great Wall of China Trek, making over 35 financial donations to various charities including Breast Cancer Care, Sport Relief, Juvenile Diabetes and Save The Children.

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.

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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.

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 datacentres 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 present 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 change. Health and safety has positive benefits to the organization, 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 recognises 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

Revenue and Profit

In the year to 30 June 2008, Group revenue from continuing operations was broadly flat year-on-year at £253.3 million (2007: £256.5 million).

Operating profit before exceptional+ items from continuing operations was £11.1 million (2007: £12.2 million). This includes a number of credit and debit items which are detailed in table 2 below. The profit performance was impacted by losses recorded on a number of fixed-price contracts in Business Applications Services, reduced gross margins across most of the business and a poor performance in Spain. The growth in consulting and services revenue that had been planned was not achieved.

The Group reported an operating loss before tax of £2.3 million (2007: profit £3.8 million) due to an impairment charge of £13.4 million (2007: £2.5 million demerger costs and £1.1 million property income).

Revenue and operating profit from continuing operations and before exceptional+ items by business unit is shown in the table below:

Revenue and Operating Profit before exceptional items by business unit – Table 1

£'m	FY08		FY07	
	Revenue	Operating profit	Revenue	Operating profit
Infrastructure Services & Technology – UK	131.4	6.4	118.1	5.1
Infrastructure Services & Technology – Spain and Ireland	57.8	2.9	66.5	3.5
Business Applications Services	46.1	0.3	54.1	2.6
Investment Management Consulting	18.0	2.5	17.8	2.4
Trading balance releases		4.2		4.4
Group costs		(5.2)		(5.8)
	253.3	11.1	256.5	12.2

Trading balance credit releases and other income statement items

The operating profit for the years ended 30 June 2006, 2007 and 2008 include credit and debit items that arise in the normal course of business which have been highlighted to aid understanding and are detailed in table 2 below.

Morse plc

Table 2

	FY08 Unaudited			FY07 Unaudited			FY06 Unaudited		
	H1	H2	FY	H1	H2	FY	H1	H2	FY
Statutory reported operating Profit/(Loss)	**6.4**	**(8.7)**	**(2.3)**	**6.6**	**6.7**	**13.3***	**13.5**	**6.3**	**19.8***
Disclosed exceptional items:									
Trading balance release							(13.1)		(13.1)
Restructuring and impairment		13.4	13.4	(0.8)	(0.3)	(1.1)	3.9		3.9
Reported operating profit	**6.4**	**4.7**	**11.1**	**5.8**	**6.4**	**12.2**	**4.3**	**6.3**	**10.6**
Reported OP %	**5.2%**	**3.6%**	**4.4%**	**4.4%**	**5.1%**	**4.8%**			**3.6%**
Sales	**123.8**	**129.5**	**253.3**	**131.6**	**124.9**	**256.5**			**297.0**
Other items:									
Credits:									
Forex gains	(0.5)	(0.3)	(0.8)						
Release of over-provided VAT				(1.3)	0.1	(1.2)			
Accruals no longer required				(0.5)	(0.7)	(1.2)	(1.0)	(1.0)	(2.0)
Write back of unpresented cheques				(0.5)	(0.1)	(0.6)			
Maintenance accruals not required								(0.5)	(0.5)
Bad debt provision movement	(0.6)		(0.6)						
Property provision not required	(0.2)	(0.1)	(0.3)				(0.2)		(0.2)
Faster cleardown of open items		(2.1)	(2.1)						
Fair value acquisition adjustments							(0.5)	(0.5)	(1.0)
Profit on disposal							(0.4)	(0.2)	(0.6)
Loss making contract provision releases	(0.6)		(0.6)				(0.3)		(0.3)
Other							(0.3)		(0.3)
	(1.9)	(2.5)	(4.4)	(2.3)	(0.7)	(3.0)	(2.7)	(2.2)	(4.9)
Debits:									
Closure of Heston warehouse				0.3		0.3			
Redundancy costs		0.6	0.6	1.0	0.5	1.5			
Development costs (Diagonal Solutions)							0.3		0.3
Bad debt provision movement					0.6	0.6			
Contract losses	1.0	1.9	2.9		0.6	0.6	0.3	0.4	0.7
Legacy Monitise legal costs		0.1	0.1						
	1.0	2.6	3.6	1.3	1.7	3.0	0.6	0.4	1.0
	5.5	**4.8**	**10.3**	**4.8**	**7.4**	**12.2**	**2.2**	**4.5**	**6.7**
Trading balance releases	(3.0)	(1.2)	(4.2)	(2.4)	(2.0)	(4.4)			
Total	**2.5**	**3.6**	**6.1**	**2.4**	**5.4**	**7.8**	**2.2**	**4.5**	**6.7**
Total %	**2.1%**	**2.8%**	**2.4%**	**1.8%**	**4.3%**	**3.0%**			**2.3%**

Note:
* FY06 and FY07 are for continuing businesses only (Germany and Monitise have been excluded)

Trading balance credits are a normal part of our business however, the changing shape of the business, particularly the reduced volume and level of infrastructure business (a reduction of approximately £300 million per annum since its peak in 2002), means that credit balances are no longer being created at the same level as they are being released.

Trading balances are reviewed on a regular basis. If not used in the ordinary course of trade, consistent with established operating policies, they are released in line with our accounting policy when a liability is judged to no longer exist.

Given the lower volumes and improved controls and processes implemented over the last two years, the level of build up of short term trading balances is reducing.

As reductions in the trading balance credits are driven by a number of factors it is difficult to predict with certainty the levels of releases that will flow through the income statement in the years ahead. However, we anticipate trading balance credit releases will continue at the following approximate maximum levels; FY09: £3.6 million, FY10: £1.0 million, FY11: £1.8 million. The actual amounts will be disclosed in our future financial statements.

Acquisitions

Xayce, a business and IT consultancy was acquired in September 2007 for a total consideration of £6.4 million, including acquisition costs. The total consideration was made up of an initial consideration of £3.9 million (£2.6 million of cash and £1.3 million shares in Morse plc) and a further consideration of up to £2.5 million payable in Morse plc shares, conditional upon the achievement by Xayce of agreed profitability and other targets over the period to 30 June 2010. On acquisition, Xayce had net assets of approximately £1.3 million.

Xayce has been integrated into the Business Applications Services business unit.

Exceptional items

During the year there was an exceptional charge before tax of £13.4 million (2007: £1.4million net charge). This total is analysed in more detail in Note 3 to the accounts. The major items considered to be exceptional and included in this category are noted below:

<u>Year ended 30 June 2008: Goodwill and Intangibles impairment</u>
Following the decline in profitability within the Business Applications Services segment and annual impairment review, a goodwill impairment charge of £12.3 million and intangibles impairment charge of £1.1 million have been recognised in the 2008 accounts.

<u>Year ended 30 June 2007: Demerger costs and Restructuring income</u>
£2.5 million was highlighted as exceptional in respect of legal and professional fees incurred as a result of the demerger of Monitise in June 2007.

This charge was partly offset by £1.1 million of restructuring income related to the release of vacant property provisions as the Group exited properties in Chineham, Manchester, Hanwell and Brentford.

Interest

Net interest income during the year was nil (2007: £0.3 million). While interest income is broadly flat, there has been an increase in interest expense as banking facilities have been more utilised than in the prior year.

Taxation

A tax expense of £2.1 million represents an effective rate of 19.0% (based on profit before the impairment charge) which compares to a rate of 53% for the full year in 2006/07. The rate in 2008 is lower than the UK tax rate of 29.5% due to profits arising in lower tax rate jurisdictions and a prior year credit release of specific tax liabilities no longer required.

The high underlying tax rate in 2007 was due to disallowable costs relating to the demerger of Monitise. The expected tax rate in 2009 is 28%.

Earnings per share

Basic earnings per share including discontinued operations declined from 1.3p last year to a loss of 3.5p in the year ended 30 June 2008. Details can be found in Note 4 to the accounts.

Proforma basic earnings per share before exceptional items decreased from 6.8p last year to 6.0p in the current year.

Morse plc
Dividend

A final dividend of 1.30p per share (2007: 2.80p per share) will, subject to approval at the AGM, be paid on 11 November 2008 to all shareholders on the register at the close of business on 26 September 2008. This gives a total dividend for the year of 2.60p per share (2007: 4.05p per share).

Cash flow

Cash generated from operations for the year ended 30 June 2008 was £7.3 million (2007: £1.1 million). The cash figures for the year ended 30 June 2007 included an approximate £6.5 million cash outflow for Monitise, which was demerged from the Group in June 2007.

Net funds at the year-end amounted to £11.1 million compared to £15.3 million last year. The principal outflows during the year were dividend payments of £6.2 million, tax payments of £2.4 million, £1.7 million cash paid for the acquisition of Xayce (net of cash acquired) and £1.8 million of Monitise demerger costs.

Post balance sheet events – restructuring

In the new financial year, a cost reduction programme has been implemented and is designed to improve overall returns, while maintaining the fabric of the business and the Company's sales and delivery capability.

The cost reduction programme which was announced and launched on 25 July 2008 is expected to result in a charge of approximately £4m - £4.5m which will be recorded in the financial year ending 30 June 2009. The Company anticipates recouping these costs from the cost reductions achieved through the programme in less than one year from the launch of the programme.

Note: The proforma earnings per share figure is based on profit before tax from continuing operations before goodwill impairment (2008: £11.1 million, 2007: £12.5 million) less tax at a normalised effective group rate of 29.5% (2007: 30%), less profit attributed to minority interests. The calculated profit after tax and minority interests is then divided by the weighted average number of shares (2008: 128,742,000; 2007: 125,976,000).

Eric Dodd
Group Finance Director
9 September 2008

ED Eric Dodd.

Morse plc

Governance

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.

Kevin Loosemore
Executive Chairman
Kevin joined Morse as Non-Executive Chairman in 2008 and became Executive Chairman in July 2008. He is currently Non-Executive Chairman of Micro Focus Plc and a Director of Farnham Castle. He has previously held positions as Executive Director and Chief Operating Officer of Cable & Wireless Plc, President of Motorola Europe Middle East and Africa and President, Motorola Professional Services Group, Chief Executive of IBM UK and Non-Executive Director of The Big Food Group plc.

Derrick Nicholson
Senior 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.

Mike Phillips
Group Finance Director
Mike joined Morse as Group Finance Director in 2008. Before his appointment to the Board in September 2008, Mike was interim Finance Director at Data Explorers Limited. Before that he was Finance Director of Microgen plc from 1998 until 2007. He qualified as a Chartered Accountant with KPMG, and then specialised in corporate finance advisory work with Smith & Williamson and PricewaterhouseCoopers prior to his appointment at Microgen.

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.

Paul Shelton
Non-Executive Director
Paul joined Morse in 2007. He was a Managing Partner of the Rose Partnership for 2 years and a Partner with PwC Consulting for 18 years, where he held a number of roles, including Head of the Financial Services Practice, European Board Member responsible for People and Knowledge and Global Head of the Insurance practice. He also spent three years with IBM, where he was responsible for business development across Europe for their business process outsourcing practice. Paul is a Fellow of the Institute of Chartered Accountants in England and Wales.

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.

Martin Hobbs

General Council and Company Secretary

Martin joined Morse in 2002. He is General Counsel to the Morse group of companies and manages the Group's legal department. Martin advises and provides support on legal, business and compliance matters to the Group. He was appointed Company Secretary in 2008.

Morse plc

Advisers

Financial advisers and stockbrokers
Investec Investment Banking
2 Gresham Street
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EC2V 7QP

Independent auditors
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W1A 1SN

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Equiniti
Aspect House
Spencer Road
Lancing
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BN99 6DA

Financial calendar

Ex-dividend date	24 September 2008
Record date	26 September 2008
Annual General Meeting	28 October 2008
Dividend payment date	11 November 2008

Morse plc

Registered in England No. 3108179

Registered office
Profile West
950 Great West Road
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TW8 9EE

Morse plc

Directors' report
for the year ended 30 June 2008

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 2008.

Principal activity

Morse is an IT services and technology company, with proven expertise in Investment Management Consulting, Business Applications Services and Infrastructure Services and Technology. It operates principally in the UK, USA, Asia Pacific, Spain and Ireland.

Results

The results of the Group are set out on page 54.

Review of the Group

To meet the requirements of the enhanced business review, the Directors have presented the necessary information on pages 9 to 12 of the business review.

Dividends

The Directors propose the payment of a final dividend of 1.30p per Ordinary share (2007: 2.80p), which in addition to the interim dividend of 1.30p per Ordinary share (2007: 1.25p), amounts to a total dividend for the full year of 2.6p per Ordinary share (2007: 4.05p).

Research and development

During the year the Group spent £257,000 (2007: £2,477,000) on research and development which was primarily in relation to its Wisdom software application.

Directors and their interests

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

K Loosemore	(Executive Chairman – appointed 14 February 2008)
R Lapthorne	(Non-Executive Chairman – retired 14 February 2008)
K Alcock	(Chief Executive Officer - resigned 7 July 2008)
D McIntyre	(Executive Deputy Chairman - retired 8 August 2008)
M Phillips	(Group Finance Director – appointed 9 September 2008)
E Dodd	(Group Finance Director – resigned 9 September 2008)
D Nicholson	(Senior Independent Non-Executive Director)
N Whitehead	(Independent Non-Executive Director)
The Hon.M Benson	(Independent Non-Executive Director)
Paul Shelton	(Independent Non-Executive Director – appointed 30 October 2007)

Directors' beneficial interests in the share capital (including share options) of the Company are given in the Directors' Remuneration Report on page 39. 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 9 September 2008 other than Kevin Loosemore who purchased 300,000 shares on 10 July 2008 as a condition of being granted an award over 1,050,000 shares on 9 July 2008 (further details of which are set out on pages 42 to 45). The Register of Directors' Interests, which is open to shareholders' inspection, contains full details of Directors' shareholdings.

Kevin Loosemore, Paul Shelton and Mike Phillips were appointed to the Board on 14 February 2008, 30 October 2007 and 9 September 2008 respectively and will retire and offer themselves for election at the Annual General Meeting. Kevin Alcock and Eric Dodd resigned on 7 July 2008 and 9 September 2008 respectively and Duncan McIntyre retired from the Board on 8 August 2008.

Morse plc

Political and charitable contributions

During the year the Group made various charitable contributions totalling £9,414 (2007: £23,003). The Group made no political donations (2007: £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 68 (2007: 76).

Substantial shareholdings

The Company has been notified that the following shareholders held 3% or more of the Company's Ordinary shares as at 9 September 2008:

Shareholder	Number of shares held	% of the issued share capital
3i Investments	20,185,329	15.54
UBS Global Asset Management	15,568,453	11.99
Aberforth Partners	13,568,418	10.44
AXA Rosenberg	6,312,960	4.86
Legal & General Investment Management	6,213,136	4.78
Standard Life Investments	5,911,716	4.55
Liontrust Asset Management	5,596,789	4.31

See Directors' Remuneration report for the table of Directors' shareholdings on page 47.

Interests in own shares

The Company acquired 582,999 of its own shares for the Employee Benefit Trusts during the year. The Company held a balance of 1,799,584 shares in respect of shares held in its Employee Benefit Trusts (2007: 1,380,293 12.27p Ordinary shares – the Company consolidated its 1,693,620 10p shares after its 2007 AGM).

Capital structure

Under its Articles of Association, the Company has authority to issue 203,748,981 Ordinary 12.27p shares. At 9 September 2008, the Company had allotted 129,867,456 fully paid Ordinary 12.27p shares. Of these shares, 81 have no voting rights and the remainder have full voting rights. There are no restrictions on the transfer of securities. At the 2008 Annual General Meeting, the Directors will request, via special resolution, the authority to buy back shares pursuant to section 166 of the Companies Act 1985.

Annual General Meeting

The Annual General Meeting of the Company will be held on 28 October 2008.

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 9 September 2008 and signed on its behalf.

Martin Hobbs
General Counsel and Company Secretary

Morse plc

Corporate governance statement

Combined Code on Corporate Governance Compliance Statement

The Board is committed to the main provisions of the June 2006 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 and regularly reviews 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 and human resources to ensure the Company can meet its objectives, material acquisitions and disposals, investments and capital projects. Such matters are subject to a formal approvals matrix.

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.

On 30 June 2008 the Board consisted of three Executive Directors and four 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. As a result, the Company complies with Code's recommendation for smaller companies that the Board should contain at least two independent Non-Executive Directors. Until the announcement on 8 July 2008 of his appointment as Executive Chairman, Kevin Loosemore was also considered by the Board to be independent. Prior to the appointment of Kevin Loosemore as Chairman and subsequent retirement of Richard Lapthorne on 14 February 2008, Richard Lapthorne had been a Non-Executive Director of the Company for more than nine years. Richard Lapthorne's range of other directorships and wide previous experience 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 transition of the Company, especially whilst the Company was searching for his successor thus ensuring continuity of cover.

As a result of Kevin Loosemore's appointment as Executive Chairman on 8 July 2008, Kevin Alcock stepped down from the Board as Chief Executive Officer with immediate effect. In addition, as part of a broader restructuring of the Board, it was also announced on 8 August 2008 that Duncan McIntyre had retired as a Director and on 9 September that Eric Dodd would also be stepping down from the Board as Group Finance Director with immediate effect to be replaced by Mike Phillips.

The balance between Executive and Non-Executive Directors is the subject of on-going review by the Nomination Committee and the Board.

During the year ending 30 June 2008, the posts of Chairman and Chief Executive Officer were held by different Directors and their differing responsibilities defined. The situation changed on 8 July 2008 when Kevin Loosemore assumed the role of Executive Chairman. Prior to the appointment of an Executive Chairman, the Chairman's role was to lead the Board in determining strategy, take responsibility for achievement of its objectives and the organisation of the business of the Board. During the year, the Chairman had no involvement in the day-to-day business of the Group. The Chief Executive Officer was responsible for formulating the Group's strategy and for the Group's day-to-day business and was accountable to the Board for the financial and operational performance of the Group.

The appointment of Kevin Loosemore as Executive Chairman took place as a result of a strategic review of the Company's operations that was undertaken during the year under review. A key conclusion of this review, as highlighted in the Executive Chairman's statement, was that the current Group structure should be simplified to allow each business unit to concentrate on their core competencies and to improve the levels of profitability and operational management in the business. During the review, the Board determined that Kevin Loosemore's breadth of experience resulted in him being best placed to drive the changes required to the Company's strategy and operations and lead Morse through the current challenging economic climate.

The Board is aware that the revised Board structure does not meet the Code's recommendation that the roles of Chief Executive and Chairman should be separated. However, given the above factors and following discussions with some of the Company's major shareholders, the Board decided that it was in the best interests of the Company to revise its structure until the revised strategy has been successfully implemented. The role of Executive Chairman, as defined in Kevin Loosemore's Service Agreement, is indefinite but after two years the notice period from the Company and Kevin Loosemore falls away to one month from either party.

The Company understands and fully appreciates the creation of the role of Executive Chairman, without a Chief Executive Officer reporting to the role, is uncommon and is aware of the potential risks associated with a concentration of power vested in one individual. The Board has therefore strengthened the role of Senior Independent Director such that a number of additional responsibilities will be undertaken while the role of Executive Chairman operates. These enhanced responsibilities are set out below with the intention being to ensure a sound control environment will remain in place and shareholders' interests will remain protected. Going forward, the role of Senior Independent Director will include:

- Chairmanship of the Nomination Committee;
- Ensuring the Board includes a strong presence of Non-Executive Directors;
- Ensuring that the Non-Executive Directors meet regularly (at least twice per annum) without the Executive Chairman present;
- Responsibility for sign-off of the Board agenda following discussions with the Non-Executive Directors (as appropriate) with the agenda normally being proposed by the Executive Chairman;
- Joint approval of Board minutes in conjunction with the Executive Chairman;
- Working with the Executive Chairman in conducting the annual appraisal process and, additionally, retaining responsibility for appraising the Executive Chairman's performance; and
- Reporting to shareholders in a newly created Senior Independent Director's report in the Annual Report and Accounts.

These additional responsibilities will form part of a revised formal job description and the Senior Independent Director is to remain available to shareholders to discuss any relevant matters regarding the management of the Company at any time. In the 2009 Annual Report and Accounts, the Senior Independent Director will provide a separate report.

Furthermore, the following changes have already or will shortly be introduced:

- The Executive Chairman will not be a member of any of the sub-committees of the Board, though he may be invited to attend;
- Within the formal job description for the role of Executive Chairman his powers are clearly defined as are those matters which are reserved for Board approval; and
- The Non-Executive Directors, who already have unfettered access to senior managers in the business, will be provided with formal channels of communication with business unit Managing Directors to ensure they can gain relevant information in relation to each divisional business unit's performance.

The Board anticipates the above changes, allied to a strong presence of Non-Executive Directors on the Board, will result in sufficient checks and balances operating while the role of Executive Chairman is retained. It is intended that the current Board structure will be reviewed on an ongoing basis with the roles of Non-Executive Chairman and Chief Executive being restored once the Company's revised strategy is considered to have been effectively implemented.

The Executive Chairman does not have other significant commitments that prevent him from devoting sufficient time to the role.

Board Procedures

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 is also responsible for ensuring that there is good information flow to and within the entire 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 has historically ensured the effective contribution of the Non-Executive Directors and ensures the maintenance of good and constructive relations by them with the Executive Directors. As a result of recent changes to the Board structure, the Executive Chairman will continue to ensure effective contribution of the Non-Executive Directors, albeit with an enhanced role for the Senior Independent Director.

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.

All new Non-Executive Directors are appointed for specified terms. 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 Company has a policy of ensuring that any Non-Executive Director who holds office in excess of nine years will be subject to annual re-election.

Notice periods for all Directors are set at six months or less, other than for Kevin Loosemore and Mike Phillips (whose notice periods are as detailed on page 46 of the Directors' Remuneration Report).

During the year the Board adopted a formal performance evaluation of the Board, its Sub-Committees and its members, thus becoming compliant with the requirement of Code provision A.6 by 30 June 2008.

The performance of the Executive Directors (excluding the Chief Executive Officer) was evaluated by the Chairman in consultation with the other Non-Executive Directors and the Chief Executive Officer during the year under review. The Non-Executive Directors, led by the Senior Independent Director, were 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 were used when considering the re-election of Board members. The results were also used by the Chairman and Senior Independent Director to ensure the strengths and weaknesses of the Board were understood and that appropriate actions were taken both in the short term and, over the longer term, that there is planned and progressive refreshing of the Board.

The results of the evaluation that took place during the year were that the Chairman and the Board believed that the Board and each Committee of the Board were operating appropriately and effectively. The review focused on operational issues and concluded that business was generally conducted in an atmosphere of openness with the Non-Executives robustly challenging executive management and, indeed, instigating the current strategic review. Papers are usually produced in advance to support agenda items. In addition, the Executive Directors, as managers, always endeavoured to provide appropriate answers to all questions asked by the Non-Executive Directors.

As a result of the appointment of an Executive Chairman, the Senior Independent Director is to take a significantly greater roll in the performance evaluation process. Full details are set out in this report.

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):

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Board structure and attendance between 1 July 2007 and 30 June 2008

	Status	Audit Committee member	Nomination Committee member	Remuneration Committee Member	Board meetings attended	Audit Committee attended	Nomination Committee attended	Remuneration Committee attended
No. of meetings held					7	4	4	4
R Lapthorne [1]	Non-Executive	No	Yes [2]	No	5	-	2	-
D McIntyre	Executive	No	No	No	6	-	-	-
K Loosemore[3]	Non-Executive	No	Yes [3]	Yes	2	-	2	1
K Alcock	Executive	No	No	No	7	-	-	-
E Dodd	Executive	No	No	No	7	-	-	-
P Shelton [4]	Non-Executive	Yes	Yes	Yes	4	3	3	-
D Nicholson [5]	Non-Executive	Yes [6]	Yes	Yes	7	4	4	4
N Whitehead	Non-Executive	Yes	Yes	Yes [7]	7	4	4	4
The Hon.M Benson	Non-Executive	Yes	Yes	Yes	7	4	4	4
N Sandison	Company Secretary	No	No	No	6	-	-	-

1, 2 R Lapthorne retired from the Company and his role as Chairman of the Nomination Committee on 14 February 2008
3 K Loosemore was appointed as Chairman of the Company and Nomination Committee on 14 February 2008
4 P Shelton was appointed to the Board as Non-Executive Director on 30 October 2007
5, 6 D Nicholson is the Senior Independent Director and Chairman of the Audit Committee
7 N Whitehead is Chairman of the Remuneration Committee

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.

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 on four occasions to fulfill 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 these 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 and at www.morse.com.

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 minimise 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 are not appointed to undertake management consultancy work.

The members of the Audit Committee (all of whom are Non-Executive Directors) were Derrick Nicholson (who chairs the Committee), Nigel Whitehead, the Hon. Michael Benson and Paul Shelton. 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 Executive Chairman (although not directly in relation to his own remuneration). 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 incentive schemes and the grant of incentives.

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

The Remuneration Committee's terms of reference are available for public inspection at the Company's registered office and at www.morse.com.

The members of the Remuneration Committee (all of whom were Non-Executive Directors) were Nigel Whitehead (who chairs the Committee), Derrick Nicholson, the Hon. Michael Benson and Paul Shelton. Kevin Loosemore was a member of the Committee from his appointment to the Board as Chairman until he became Executive Chairman on 8 July 2008, at which point he retired from the Committee.

Nomination 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 fulfill 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 are 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 that 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 Nomination Committee were the Chairman (Richard Lapthorne) and the Non-Executive Directors until Richard Lapthorne's retirement on 14 February 2008, at which point Kevin Loosemore became Chairman of the Committee. Kevin Loosemore resigned his Chairmanship and membership of the Committee on 8 July 2008 when he became the Executive Chairman of the Company, at which point Derrick Nicholson took over as Chairman of the Committee as part of the expanded role of the Senior Independent Director.

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 and at www.morse.com.

Paul Shelton and Kevin Loosemore were appointed to the Board on 30 October 2007 and 14 February 2008 respectively. 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 Nomination Committees are also available to answer shareholders' questions.

Notice of the 2008 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 Independent Director. The Senior Independent Director 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 (when such post exists) 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 comprised of the Executive Directors, strategic business unit managing directors and other senior executives to discuss strategic and operational matters. Executive Directors also attend subsidiary Board meetings where necessary and appropriate.

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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 controls 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 business unit, the relevant managing director meets with senior executives of businesses within that business unit to discuss issues particular to that business;
- The Audit Committee meets at least three times 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; and
- 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 2007 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.

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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 28 October 2008 and has been produced in accordance with the Directors' Remuneration Report Regulations 2002.

The Remuneration Committee (the "Committee") section, Remuneration Policy section, Kevin Loosemore's and Mike Phillips's Special Awards, total shareholder return performance graph and service contracts section below are not subject to audit.

Remuneration Committee

The Committee reviews and determines on behalf of the Board the overall remuneration package of the Executive Directors and the Chairman. Since the resignation of Kevin Alcock as Chief Executive Officer on 7 July 2008, the Executive Chairman 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 on the Company's website at www.morse.com.

Its members, all independent Non-Executive Directors, are currently Nigel Whitehead (Chairman), Derrick Nicholson, the Hon. Michael Benson and Paul Shelton. Kevin Loosemore was a member of the Committee until his appointment as Executive Chairman on 8 July 2008 and he may, upon the Committee's invitation, also attend its meetings. The Executive Chairman does not attend where his own remuneration is being directly considered.

During the year, advice has been sought from Hewitt New Bridge Street ("HNBS") (who were appointed by the Committee) in relation to current market trends and best practice with regard to Directors' remuneration. No other services are provided by HNBS 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 based on the following broad principles:

- to provide Executive Directors' with rewards that are competitive when compared to similar sized companies;
- to align remuneration with delivery of strategy;
- to take into account pay levels across the Group when setting Executive Directors' pay; and
- to align the interests of Executive Directors with shareholders.

The remuneration packages comprise one or more of the following: 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 (with account taken of competitive levels for similar roles in comparably sized companies), which the Company believes is vital for creating shareholder value. Strong emphasis is then placed on the variable performance-related aspects of the overall package with a significant proportion of pay linked to short and/or long term corporate performance targets.

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.

Subject to Board approval, the Company's policy is normally to allow Executive Directors to accept outside appointments provided these are not considered to interfere with their ability to fulfill their duties to the Company. Whether a Director may retain any related fees will be considered on a case-by-case basis.

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

Base salary

Directors' salaries are reviewed in September by the Remuneration Committee in accordance with the terms above. When reviewing base salary levels, the Group results for the previous trading year, individual performance, market rates and (in particular) the particular circumstances faced by the Company are considered. In addition, other elements of the package are also taken into account (for example, Kevin Loosemore's lack of benefits in kind and pension provision as explained below).

Kevin Loosemore's (Executive Chairman) salary is currently £350,000 per annum.

Until their departures, Kevin Alcock's (Chief Executive Officer) and Eric Dodd's (Group Finance Director) salary levels (effective 1 September 2007) were £300,000 and £175,000 per annum respectively.

Until his retirement, Duncan McIntyre's (Executive Deputy Chairman) salary was £170,000 per annum.

Mike Phillips' (Group Finance Director) salary is £200,000 per annum, effective from 9 September 2008.

Benefits

With the exception of the Executive Chairman (who receives no benefits in kind), Executive Directors' benefits include the provision of a car allowance, private medical insurance, life insurance (4 times basic salary) and personal accident and travel insurance.

Annual performance-related bonus

The maximum potential bonuses payable to Kevin Alcock and Eric Dodd for the financial year under review were 92% and 50% of base salary respectively, with target bonus levels set at 50% of the maximum level. Bonus payments are determined based on actual performance against a sliding scale/range of challenging Group performance objectives set at the start of the financial year. 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 2008, no bonuses were awarded to the Executive Directors of the Company (2007: £175,550). During the year under review the size of the available bonus for an Executive Director was driven by operating profit. The percentage an Executive Director was awarded was then driven by personal performance.

For the year ending 30 June 2009, the maximum potential bonuses will be capped at 75% of salary for all Executive Directors (except Kevin Loosemore) based on similar sliding scale/range of Group performance objectives. Kevin Loosemore will not be eligible to receive any annual bonus, with his interests instead aligned with shareholders through the share award and related co-investment which is described more fully below.

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Committee will ensure that the incentive structure for Executive Directors and senior management will not raise environmental, social or governance ("ESG") risks by inadvertently motivating irresponsible behaviour. More generally, with regard to the overall remuneration structure, there is no restriction on the Committee which prevents it from taking into account ESG matters.

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 (except Kevin Loosemore who receives no pension). For the financial year under review, Duncan McIntyre's rate was set at £35,000, Kevin Alcock's rate was set at £42,000 and Eric Dodd's rate was set at £20,000 effective from 1 September 2007. The average contribution across these Executive Directors is around 15% of base salary.

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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 Executive Directors to perform at high levels and to align their interests with those of shareholders.

The 2004 Morse Long Term Incentive Plan ("the LTIP") was approved by shareholders at the 2004 Annual General Meeting and operates as the Company's primary long term incentive arrangement.

Prior to the introduction of the LTIP, the Company operated an options-based long-term incentive policy with awards of unapproved and approved options being made under the Executive Share Option Schemes 2000 (the "ESOS"). At the time of introducing the LTIP, flexibility was retained to make further awards under the ESOS at the Committee's discretion albeit with the Committees intention being to operate the LTIP as the sole type of long term incentive plan in future years.

During the year under review, awards were made to the Executive Directors under the LTIP. A summary of the main features of the LTIP is set out below, with details of all historic share awards made to Executive Directors in service during the year under review set out in the relevant tables.

In addition, as part of individual agreements reached with Kevin Loosemore to facilitate his appointment as Executive Chairman and with Mike Phillips to facilitate his appointment as Group Finance Director, the Committee considered it necessary to structure special share awards to these individuals under the provisions of paragraph 9.4.2 (2) of the Listing Rules. Full details of the terms of these awards are also set out below.

The 2004 LTIP

Maximum award limit

The maximum award that may be made in any financial year (save in exceptional circumstances) is restricted to shares with a market value on grant of 150% of annual base salary.

Performance conditions

Awards 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.

During the year under review, the Committee undertook a review of the performance condition applying to LTIP awards. Historically, the performance condition attached to awards granted under the LTIP to Executive Directors had been a measure of Morse's relative total shareholder return ("TSR") performance against the FTSE All-Share Software and Computer Services Sector constituents. In addition a real earnings per share growth underpin condition also applied (unless the Committee believed that it would be inappropriate to apply this underpin). The conclusion of the review was that, for future awards, a greater emphasis on EPS growth should be included in the performance condition.

As a result, following consultation with Morse's major shareholders, the following revised performance condition was introduced and applied to awards made during the year under review to Executive Directors.

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50% of an award: TSR

The percentage of shares subject to this portion of awards that may vest is as follows:

Rank of the Company's TSR against FTSE All-Share Software and Computer Services Sector	Percentage of total award that vests
Below median	0%
Median	12.5%
Upper quartile	50%
Between median and upper quartile	12.5% - 50% on a straight-line basis

The real EPS growth performance underpin was retained for this part of an award.

50% of an award: EPS

The percentage of shares subject to this portion of awards that may vest is as follows:

Average Annual Compound Growth In Adjusted Basic EPS	Percentage of total award that vests
Below RPI + 4%	0%
RPI + 4%	12.5%
RPI + 13%	50%
Between RPI + 4% and RPI + 13%	12.5% - 50% on a straight-line basis

The EPS figure used for awards made in the financial year ending 30 June 2008 is based on the EPS method detailed on page 24.

There is no provision for re-testing either of the above conditions.

The Committee believes the revised performance conditions provide an appropriate balance between a key internal financial performance measure and generating superior returns for shareholders. The extent to which the performance conditions are satisfied will be determined by the Committee, having taken independent advice where necessary.

The Committee will regularly review the operation of the Company's incentive arrangements to ensure they take due account of market/best practice and reflect the Company's particular circumstances and strategic goals.

Co-Investment Requirement

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.

Kevin Loosemore's Special Award

On appointment as Executive Chairman on 8 July 2008, the Committee considered the circumstances to be sufficiently unusual to necessitate the grant of a special share incentive award to Kevin Loosemore under provision 9.4.2 (2) of the Listing Rules to facilitate his appointment.

The key terms of the award are as follows:

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Quantum

A nil cost option over 1,050,000 shares was awarded on 9 July 2008. The award carries the right to dividends on vested shares.

Vesting period

The option shall, subject normally to continued employment, become exercisable on the second anniversary of his appointment as Executive Chairman and shall remain exercisable for a period of six months after that date.

There are no performance conditions attached to the vesting of the award. Instead, a close alignment of Kevin Loosemore's interests with those of shareholders is provided through the award being contingent upon him increasing his holding in Morse shares to 619,500 (i.e. the net of tax number of award shares) and retaining such shares for the two year vesting period.

The Committee considers that a significant personal investment in shares provides a better alignment with shareholders given the recipient holds the position of Chairman albeit in an Executive capacity.

Leaving employment

The award will normally lapse if Kevin Loosemore's employment ceases prior to the second anniversary of his appointment if he has left service through (a) voluntary resignation or (b) dismissal for cause. In other circumstances the award will vest on his cessation. If the award vests on his cessation, the award will remain exerciseable for six months following vesting.

Corporate Event

The award will vest in full in the event of a takeover, scheme of arrangement, demerger or sale of part(s) of the business (with an aggregate turnover of at least £200 million) out of the Group or a winding up of the Company (not being an internal corporate reorganisation).

Variation of share capital

If there is a variation of share capital of the Company or there is a demerger then the Company may make such adjustments to the award as it feels necessary to deliver the value originally contemplated.

Amendments

The Committee does not intend to make amendments to the advantage of Kevin Loosemore to the provisions governing the basis for determining his entitlement to, and the terms of, shares or cash under this award or adjustments to the award without shareholder approval other than any minor alteration to (i) benefit the administration of the award, (ii) to take account of a change in legislation or (iii) to obtain or maintain favourable tax, exchange control or regulatory treatment for Kevin Loosemore or any member of the Company.

Rights of Kevin Loosemore in relation to the award

The award is not transferable (save on death) or pensionable. No rights may be asserted in relation to compensation in the event that the award lapses on termination of employment.

Satisfaction of award

The award may only be satisfied by market purchased shares. A cash equivalent payment may be made in lieu of shares.

Mike Phillips's Special Award

The Committee considers the circumstances of the appointment of Mike Phillips as Group Finance Director on 9 September to be sufficiently unusual and so, to facilitate that appointment, it intends to grant a special share incentive award over 647,249 shares to Mike Phillips under provision 9.4.2(2) of the Listing Rules.

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The key terms of the award are as follows:

Quantum
A nil cost option over shares with a market value as at the commencement of Mike Phillips's appointment of £300,000. The award carries the right to dividends on vested shares.

Vesting period & performance conditions
The option shall, subject normally to continued employment, become exercisable on the third anniversary of the date of award and shall remain exercisable for a period of 12 months after that date.

The performance condition attached to the award is as per the revised LTIP performance condition set out above i.e. 50% TSR and 50% EPS.

Leaving employment

The award will lapse if Mike Phillips leaves service other than in certain defined good leaver situations (e.g. death or disability). In good leaver situations vesting will normally take place subject to performance and time pro-rating (although the Committee may consider it appropriate not to pro-rate for time).

Corporate Event

The award will vest in full in the event of a takeover, scheme of arrangement, demerger or sale of part of the business out of the Group or a winding up of the Company (not being an internal corporate reorganisation) on or before the second anniversary of the award provided that the average share price of Morse over the week immediately preceding the corporate event is 46.35p or more.

If such a corporate event occurs after the second anniversary of grant, the award will vest to the extent the TSR and EPS performance conditions are satisfied at that time and time pro-rating (although the Committee may consider it appropriate not to pro-rate for time).

Variation of share capital

If there is a variation of share capital of the Company or there is a demerger then the Company may make such adjustments to the award as it feels appropriate.

Amendments

No amendments to the advantage of Mike Phillips will be made to the provisions governing the basis for determining his entitlement to, and the terms of, shares or cash under this award or adjustments to the award without shareholder approval other than any minor alteration to (i) benefit the administration of the award, (ii) to take account of a change in legislation or (iii) to obtain or maintain favourable tax, exchange control or regulatory treatment for Mike Phillips or any member of the Company.

The Remuneration Committee may also vary the performance conditions if an event has occurred which causes it to consider that it would be appropriate to amend the performance conditions, provided the Committee considers the varied conditions are fair and reasonable and not materially less challenging than the original conditions would have been but for the event in question.

Rights of Mike Phillips in relation to the award

The award is not transferable (save on death) or pensionable. No rights may be asserted in relation to compensation in the event that the award lapses on termination of employment.

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Satisfaction of award

The award may only be satisfied by market purchased shares (excluding shares held in Treasury). A cash equivalent payment may be made in lieu of shares.

Dilution

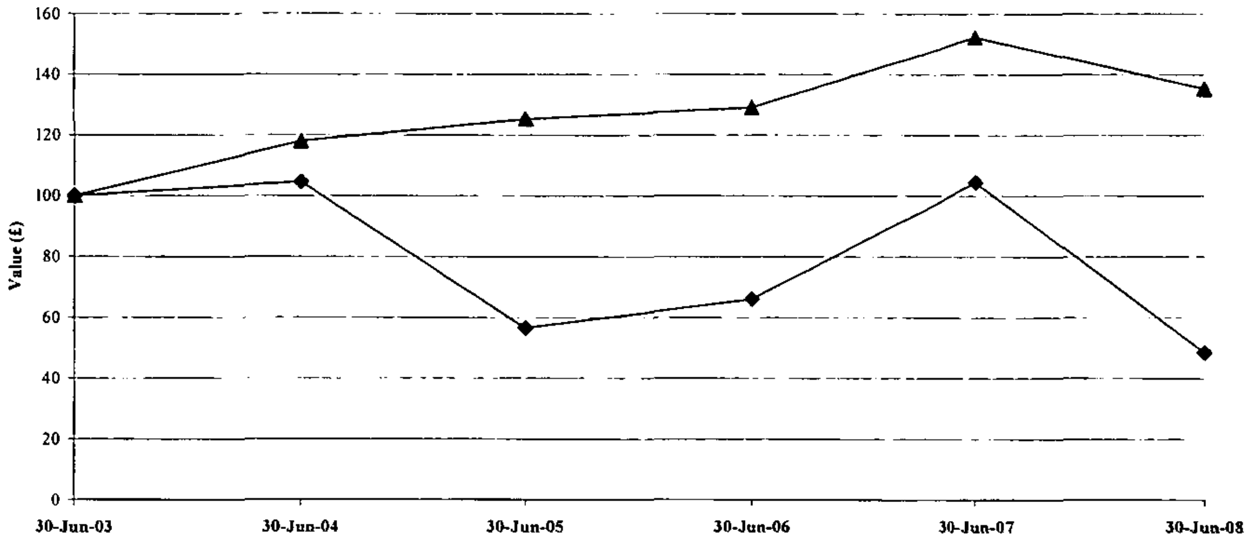
As a result of the reduction in the Company's share capital that was effected as a result of the demerger of Monitise, shareholder approval was received at the 2007 AGM to operate the LTIP (and Morse's other share plans) within a 12.5% in ten years dilution limit.

It remains the Committee's intention to return to operating within a 10% in ten years dilution limit as soon as it is considered practicable to do so. For information, the current dilution position as at 30 June 2008 was 8.77% of the then current issued share capital of the Company.

Total Shareholder Return

The following graph shows the value of £100 invested in Morse plc on 30 June 2003 compared with the value of £100 invested in the FTSE All-Share Software and Computer Services Index, which the Committee 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.

Total shareholder return
Source: Thomson financial



This graph looks at the value, by 30 June 2008, of £100 invested in Morse plc on 30 June 2003 compared with the value of £100 invested in the FTSE All-Share Software & Computer Services Index. The other points plotted are the values at intervening financial year-ends.

Morse plc — FTSE All-Share Software & Computer Services Index

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.

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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. Options granted under this and the above option scheme were so granted subject to a performance condition that required that there be an average annual increase in adjusted EPS of at least 5% over RPI over a 3 year performance period (with re-testing in year 4).

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 (with the Unapproved Executive Share Option Scheme amended at the 2007 Annual General Meeting). Details of the options granted under these schemes are given in note 5 to the financial statements. Options were granted subject to a performance condition that required that there be an average annual increase in adjusted EPS of at least 5% over RPI over a 3 year period (with no re-testing).

Sharesave Share Option Schemes

The Company has established an Inland Revenue-approved Sharesave 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.

Service Agreements

On 8 July 2008, Kevin Loosemore signed a new letter of appointment for a two year period. During the first year under this engagement, the Company has a requirement to serve 12 months' notice upon Kevin Loosemore and Kevin Loosemore has a requirement to give 6 months' notice on the Company. During the second year of this engagement, the notice period for the Company reduces by one month for each further month of service beyond the first anniversary such that after 23 months from the commencement date the minimum period of notice the Company shall be obliged to give to terminate his appointment shall be one month. For Kevin Loosemore, after the first anniversary of his appointment, the minimum period of notice required to be given to the Company shall continue at six months, but with effect from eighteen months from the commencement date, the minimum period of notice that he must give shall reduce by one month for each month of service such that after 23 months from the commencement date the minimum period of notice shall also be one month.

Mike Phillips has a notice period on the part of the Company of 12 months during the first year of his appointment, which reduces by one month each month post his first anniversary of appointment until 18 months of employment, at which point the notice period is and remains at 6 months. His notice period to the Company is six months at all times.

The Service Agreements of Duncan McIntyre (during post a Executive Deputy Chairman), Kevin Alcock and Eric Dodd had notice periods of six months both to and from the Company.

The 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.

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.

Morse plc

Until his retirement from the Company on 14 February 2008, Richard Lapthorne had a six month notice period.

Directors during the year:

Director	Date of contract
K Loosemore [1]	July 2008
R Lapthorne [2, 4]	January 1999
K Alcock [2, 4]	September 2007
E Dodd [4]	December 2006
M Phillips [3]	September 2008
D McIntyre [2, 4]	July 2007
D Nicholson	December 2005
N Whitehead	December 2004
M Benson	April 2007
P Shelton [1]	October 2007

1 These Directors were appointed to the Board during the year
2 These Directors ceased to be Directors of the Company by the date of this report
3 M Phillips was appointed to the Board on 9 September 2008
4 R Lapthorne, K Alcock, D McIntyre and E Dodd retired from the Board on 14 February 2008, 8 July 2008, 8 August 2008, and 9 September 2008 respectively

Directors' shareholdings

The Directors' and their families' beneficial interests in the share capital of the Company at 30 June 2008 are shown below:

	30 June 2008		30 June 2007	
	Beneficial Ordinary shares of 12.27p	**Share options Ordinary shares of 12.27p**	Beneficial Ordinary shares of 12.27p	Share options Ordinary shares of 12.27p
K Loosemore	**400,000**	-	- (-)	-
R Lapthorne	**244,498**	-	244,498 (300,000) [4]	-
D McIntyre[1,2]	**4,938,945**	**1,190,117**	4,938,945 (6,060,087) [4]	2,150,117
K Alcock[3]	**1,238,324**	**1,449,567**	1,061,092 (1,301,960) [4]	1,032,901
E Dodd	**30,487**	**375,191**	18,337 (22,500) [4]	275,191
M Benson	**40,749**	-	40,749 (50,000) [4]	-
D Nicholson	**1,569**	-	1,569 (1,926) [4]	-
N Whitehead	-	-	- (-)	-
P Shelton	**9,372**	-	- (-)	-

NB – Figures in brackets for 2007 represent the number of 10p Ordinary shares as represented in last year's Annual Report and Accounts. The Company consolidated its shares on 30 October 2007 to 12.27p Ordinary shares, so post consolidation figures have been provided for ease of comparison.

1 Included in D McIntyre's beneficial shares are 574,138 (2007: 574,138) Ordinary shares held in trust for his minor children
2 D McIntyre's shareholding represents 3.80% (2007: 3.86%) of the total issued share capital as at 9 September 2008
3 Included in K Alcock's beneficial shares are 1,145,399 Ordinary shares held jointly with his wife
4 Number of shares prior to share consolidation

From 30 June 2008 to 9 September 2008, the only change in the Directors' interests was the award over 1,050,000 shares to Kevin Loosemore and his subsequent purchase of 300,000 shares in the Company.

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.

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:

					2008		2007
Summary	**Base salary/ fees**	**Annual bonus**	**Benefits and allowances**	**Total exc pensions**	**Pension cont**	Total exc pensions	Pension cont
	£	**£**	**£**	**£**	**£**	£	£
K Loosemore[1]	**37,948**	-	-	**37,948**	-	-	-
R Lapthorne[2]	**62,179**	-	-	**62,179**	-	100,000	-
D McIntyre	**170,000**	-	**750**	**170,750**	**35,181**	472,750	35,000
K Alcock	**295,833**	-	**15,372**	**311,205**	**40,348**	1,937	163
E Dodd	**170,833**	-	**12,500**	**183,333**	**18,566**	159,597	7,543
M Benson	**30,000**	-	-	**30,000**	-	5,577	-
N Whitehead	**30,000**	-	-	**30,000**	-	30,000	-
D Nicholson	**30,000**	-	-	**30,000**	-	30,000	-
P Shelton[3]	**20,230**	-	-	**20,230**	-	-	-
Total	**847,023**	-	**28,622**	**875,645**	**94,095**	799,861	42,706

1 K Loosemore was appointed to the Board on 14 February 2008
2 R Lapthorne retired from the Board on 14 February 2008
3 P Shelton joined the Board on 30 October 2007. His fees are set at the same level as for other Non-Executive Directors

Morse plc

Interest in share options

Name	Options Held at 1 July 2007	Options Granted During The Year	Options Exercised During The Year	Options Cancelled During The Year	Options Held at 30 June 2008	Earliest Date Of Exercise	Expiry Date
Kevin Alcock							
Morse plc Long Term Incentive Plan	50,000[2,7]	-	-	-	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[2,7]	-	-	-	70,093	Mar 2009	Mar 2010
Morse plc Long Term Incentive Plan	900,000[2,7]	-	-	-	900,000	Oct 2009	Oct 2010
Morse plc Long Term Incentive Plan	-	416,666[2]	-	-	416,666	Nov 2010	Nov 2011
Eric Dodd							
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[2,7]	-	-	-	225,000	Sep 2009	Sep 2010
Morse plc Long Term Incentive Plan	-	100,000[2]	-	-	100,000	Nov 2010	Nov 2011
Duncan McIntyre							
Unapproved Executive Share Option Scheme	98,000[1]	-	-	-	98,000	Mar 2005	Mar 2009
Morse plc Long Term Incentive Plan	250,000[2,7]	-	-	250,000[6]	-	-	-
Sharesave Option Scheme 7	12,808[3]	-	-	-	12,808	Feb 2009	Aug 2009

Morse plc

Name	Options Held at 1 July 2007	Options Granted During The Year	Options Exercised During The Year	Options Cancelled During The Year	Options Held at 30 June 2008	Earliest Date Of Exercise	Expiry Date
Duncan McIntyre Contd.							
Morse plc Long Term Incentive Plan	444,444[2,7]	-	-	-	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[2,7]	-	-	-	480,000	Sep 2009	Sep 2010

	Options Held at 1 July 2007	Options Granted During The Year	Options Exercised During The Year	Options Cancelled During The Year	Options Held at 30 June 2008
Kevin Alcock	1,032,901	416,666	-	-	1,449,567
Eric Dodd	275,191	100,000	-	-	375,191
Duncan McIntyre	2,150,117	-	-	250,000	1,900,117
Total	**3,458,209**	**516,666**	-	**250,000**	**3,724,875**

1	Exercise price	£ 2.50
2	Exercise price	£ nil
3	Exercise price	£ 0.73
4	Exercise price	£ 1.07
5	Exercise price	£ 1.11
6	Options lapsed 24 December 2007	
7	These LTIP awards were made under the old performance conditions which focused solely on TSR, with the vesting schedule described on page 41 applying (together with the EPS growth underpin	

The market price of the Company's shares at the end of the year was £0.51 (2007: £0.95).

During the year the market price ranged between £0.48 and £1.28.

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
9 September 2008

Morse plc

Statement of Directors' responsibilities in respect of the Annual 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 confirm that they have complied with the above requirements in preparing the financial statements.

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

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 2008 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 51.

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 2006 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.

Morse plc

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 2008 and of its loss 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 2008;
- 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

9 September 2008

Morse plc
Consolidated income statement for the year ended 30 June 2008

	Note	2008 Total £'000	Continuing £'000	Discontinued £'000	2007 Total £'000
Group revenue	2	**253,259**	256,510	815	257,325
Cost of sales		**(196,882)**	(195,807)	(657)	(196,464)
Gross profit		**56,377**	60,703	158	60,861
Distribution expenses		**(21,767)**	(19,436)	(912)	(20,348)
Administrative expenses before demerger costs, impairment charge and exceptional restructuring income		**(23,486)**	(29,046)	(5,833)	(34,879)
Demerger costs	3	**-**	-	(2,455)	(2,455)
Impairment charge and exceptional restructuring income	3	**(13,400)**	1,084	-	1,084
Total administrative expenses		**(36,886)**	(27,962)	(8,288)	(36,250)
Operating profit/(loss) before demerger costs, impairment charge and exceptional restructuring income		**11,124**	12,221	(6,587)	5,634
Demerger costs	3	**-**	-	(2,455)	(2,455)
Impairment charge and exceptional restructuring income	3	**(13,400)**	1,084	-	1,084
Operating (loss)/profit	2,6	**(2,276)**	13,305	(9,042)	4,263
Financial income	7	**615**	696	-	696
Financial expenses	7	**(594)**	(404)	-	(404)
Net financing income		**21**	292	-	292
Share of loss of jointly controlled entities and associates which are accounted for under the equity method		**-**	-	(709)	(709)
(Loss)/profit before taxation		**(2,255)**	13,597	(9,751)	3,846
UK taxation		**(1,501)**	(3,484)	2,376	(1,108)
Overseas taxation		**(620)**	(936)	-	(936)
Taxation	8	**(2,121)**	(4,420)	2,376	(2,044)
(Loss)/profit for the year	2	**(4,376)**	9,177	(7,375)	1,802
Attributable to:					
Equity holders of the parent		**(4,500)**	8,980	(7,375)	1,605
Minority interests		**124**	197	-	197
(Loss)/profit for the year	2	**(4,376)**	9,177	(7,375)	1,802
Dividends paid	9	**6,091**			6,085
Basic (loss)/earnings per share	4	**(3.5p)**	7.1p	(5.8p)	1.3p
Diluted (loss)/earnings per share	4	**(3.5p)**	6.7p	(5.5p)	1.2p

All 2008 figures relate to continuing operations.

Morse plc
Consolidated statement of recognised income and expense for the year ended 30 June 2008

	Note	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Foreign exchange translation differences	21	**1,472**	(449)
Net income and expense recognised directly in equity	21	**1,472**	(449)
(Loss)/profit for the year		**(4,376)**	1,802
Total recognised income and expense		**(2,904)**	1,353

Total recognised income and expense for the period is attributable to:

Equity holders of the parent	**(3,028)**	1,156
Minority interest	**124**	197
Total recognised income and expense	**(2,904)**	1,353

Morse plc
Consolidated balance sheet
as at 30 June 2008

	Note	30 June 2008 £'000	30 June 2007 £'000
Assets			
Non-current assets			
Property, plant and equipment	*11*	**2,203**	2,700
Goodwill	*10*	**43,530**	51,622
Other intangibles	*10*	**4,788**	6,098
Investments	*12*	**-**	51
Deferred tax assets	*13*	**484**	420
Total non-current assets		**51,005**	60,891
Current assets			
Inventories	*14*	**1,396**	4,287
Trade and other receivables	*15*	**79,844**	77,353
Cash and cash equivalents	*16*	**11,078**	15,345
Total current assets		**92,318**	96,985
Total assets		**143,323**	157,876
Liabilities			
Current liabilities			
Trade and other payables	*17*	**(78,006)**	(87,579)
Tax payable		**(8,084)**	(7,796)
Provisions	*18*	**(1,026)**	(472)
Total current liabilities		**(87,116)**	(95,847)
Non-current liabilities			
Deferred tax liability	*13*	**(347)**	(200)
Provisions	*18*	**(411)**	(949)
Total non-current liabilities		**(758)**	(1,149)
Net assets		**55,449**	60,880
Capital and reserves			
Called up share capital	*20, 21*	**15,825**	15,692
Share capital to be issued	*21*	**3,022**	348
Share premium account	*21*	**70,790**	70,767
Other reserves	*21*	**33,424**	30,868
Retained earnings	*21*	**(67,891)**	(57,024)
Total equity attributable to equity shareholders		**55,170**	60,651
Minority interest	*21*	**279**	229
Total equity		**55,449**	60,880

The financial statements were approved by the Board of Directors on 9 September 2008 and signed on its behalf by:
E. Dodd
Director

E D Eric Dodd

Morse plc
Consolidated cash flow statement for the year ended 30 June 2008

	Note	Year ended 30 June 2008 £'000	Year ended 30 June 2007 £'000
Cash flows from operating activities			
(Loss)/profit before tax		**(2,255)**	3,846
Adjustments for:			
Depreciation and amortisation		**3,080**	2,523
Financial income		**(615)**	(696)
Financial expenses		**594**	404
Share of loss of jointly controlled entities and associates	12	**-**	709
Impairment of goodwill and intangibles		**13,400**	-
Loss on sale of property, plant and equipment	6	**89**	630
Share options charge		**346**	796
Operating profit before changes in working capital and provisions		**14,639**	8,212
Decrease in inventories		**2,899**	2,824
(Increase)/decrease in trade and other receivables		**(1,051)**	3,854
Decrease in trade and other payables		**(9,196)**	(10,901)
Increase/(decrease) in provisions		**16**	(2,852)
Cash generated from operations		**7,307**	1,137
Interest received		**615**	696
Interest paid		**(594)**	(404)
Tax paid		**(2,445)**	(1,110)
Net cash inflow from operating activities		**4,883**	319
Cash flows from investing activities			
Acquisition of property, plant and equipment	11	**(571)**	(1,142)
Proceeds from sale of property, plant and equipment		**8**	27
Acquisition of intangibles (software and development)		**(183)**	(936)
Acquisitions of subsidiary in the period, net of cash acquired	26	**(1,733)**	(303)
Purchase of own shares for the EBT		**(435)**	-
Investment in joint venture	12	**-**	(656)
Disposal of subsidiary, net of cash disposed	25	**-**	(3,239)
Net cash from investing activities		**(2,914)**	(6,249)
Cash flow from financing activities			
Proceeds from issue of shares	21	**10**	166
Repayment of loan notes on previous acquisitions		**(144)**	(114)
Proceeds from other loans		**-**	119
Payment of dividend to minority interest		**(109)**	(27)
Dividends paid	9	**(6,091)**	(6,085)
Net cash from financing activities		**(6,334)**	(5,941)
Net decrease in cash and cash equivalents		**(4,365)**	(11,871)
Opening cash and cash equivalents	16	**15,345**	27,263
Effect of exchange rate fluctuations on cash held		**98**	(47)
Closing cash and cash equivalents	16	**11,078**	15,345

Notes to the financial statements for the year ended 30 June 2008

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 105 to 112.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements. These financial statements are presented in Pounds Sterling rounded to the nearest thousand.

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 28.

Application of recently issued International Financial Reporting Standards

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

New interpretations and standards effective at 1 July 2007 adopted by the Group that did not have a material impact are as follows:

IFRIC 10 'Interim Financial Reporting and Impairment', IFRIC11 'IFRS 2 – Group and Treasury Share Transactions' and IFRS 7.

New standards effective for the Group from 1 July 2008 are as follows:

IFRS 8 'Operating Segments'. Management have not yet assessed the impact of IFRS8.

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.

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 between 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 and cost of sales

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, risks and rewards have been transferred, the fee is determinable and collectability is probable.

Hardware and installation
Hardware sales are recognised on dispatch, 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 of 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. Costs are fully accrued 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.

Cost of sales and administrative expenses
In the ordinary course of trading, liabilities are recognised in relation to customers and suppliers which ultimately may not crystallise. These are referred to as "trading credit balances". There is an established operating policy for releasing these balances as soon as it is evident that the liability has been extinguished in the ordinary course of trading. To the extent that this does not occur, there is an overriding principle that for all balances greater than six years old and for which there is no longer any trading relationship with the counterparty, such balances are credited to income on the basis this provides clear evidence that the liability does not exist.

Notes to the financial statements for the year ended 30 June 2008 (continued)

1 Accounting policies (continued)

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.

Property, plant and equipment

The cost of 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 after 1 July 2004, goodwill represents the difference between the fair value of the consideration given and the fair value at the net identifiable assets and contingent liabilities 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.

1 Accounting policies (continued)

Intangible assets and goodwill (continued)

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.

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.

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
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 intangible 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.

1 Accounting policies (continued)

Impairment (continued)

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.

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.

1 Accounting policies (continued)

Non-current assets held for sale and discontinued operations (continued)

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 in 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.

Derivatives and other financial instruments

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

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.

1 Accounting policies (continued)

Taxation (continued)

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.

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 income statement 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. 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 non-market based 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. The Group moved to the Monte Carlo simulation model to value market based share options in the year ended 30 June 2008.

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. A provision is recognised for a contract that is onerous (i.e. one in which the unavoidable costs of meeting the obligations under the contract exceed the benefits to be derived).

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.

Morse plc
Notes to the financial statements
for the year ended 30 June 2008 (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 area (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 2008 and 2007. These are determined by the source of the sales.

Year ended 30 June 2008

	Infrastructure Services & Technology UK £'000	Business Applications Services £'000	Investment Management Consulting £'000	Infrastructure Services & Technology Europe £'000	Central £'000	Total £'000
Revenue						
Sales to external customers	131,358	46,122	18,001	57,778	-	253,259
Inter-segment sales	647	1,361	188	14	-	2,210
Segmental revenue	132,005	47,483	18,189	57,792	-	255,469
Operating profit/(loss) before exceptional items	6,409	257	2,468	2,917	(927)	11,124
Impairment charge	-	(13,400)	-	-	-	(13,400)
Operating profit/(loss)	6,409	(13,143)	2,468	2,917	(927)	(2,276)
Net finance income						21
Taxation						(2,121)
Loss for the year						(4,376)

	Business Applications Services	Investment Management Consulting	Infrastructure Services & Technology Europe	Infrastructure Services & Technology UK &1 Central	Total
Assets and liabilities					
Segment assets	39,056	18,327	30,082	55,374	142,839
Segment liabilities	(6,917)	(3,744)	(18,507)	(50,275)	(79,443)
Other segment information					
Capital expenditure:					
Property, plant and equipment	15	35	230	370	650
Intangible fixed assets	1,945	-	75	-	2,020
Non-cash costs					
Depreciation	423	130	216	357	1,126
Amortisation	285	-	28	1,641	1,954

Morse plc
Notes to the financial statements
for the year ended 30 June 2008 (continued)

2 Segmental reporting (continued)

Year ended 30 June 2007

	Infrastructure Services & Technology UK £'000	Business Applications Services £'000	Investment Management Consulting £'000	Infrastructure Services & Technology Europe £'000	Central £'000	Total Continuing £'000	Discontinued Operations £'000	Total £'000
Revenue								
Sales to external customers	118,062	54,110	17,844	66,494	-	256,510	815	257,325
Inter-segment sales	4,313	4,543	-	-	-	8,856	-	8,856
Segmental revenue	122,375	58,653	17,844	66,494	-	265,366	815	266,181
Operating profit/(loss) before exceptional items	5,140	2,610	2,371	3,455	(1,355)	12,221	(6,587)	5,634
Demerger costs	-	-	-	-	-	-	(2,455)	(2,455)
Exceptional restructuring income	1,084	-	-	-	-	1,084	-	1,084
Operating profit/(loss)	6,224	2,610	2,371	3,455	(1,355)	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

	Business Applications Services £'000	Investment Management Consulting £'000	Infrastructure Services & Technology Europe £'000	Infrastructure Services & Technology UK & Central £'000	Total Continuing £'000	Discontinued Operations £'000	Total £'000
Assets and liabilities							
Segment assets	51,349	20,987	25,522	59,547	157,405	-	157,405
Investment in a joint venture	51	-	-	-	51	-	51
Total assets	51,400	20,987	25,522	59,547	157,456	-	157,456
Segment liabilities	(9,703)	(3,690)	(18,243)	(57,364)	(89,000)	-	(89,000)
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

2 Segmental reporting (continued)

Morse operates under four key business segments – Infrastructure Services & Technology UK, Infrastructure Services & Technology Europe, Business Applications Services and Investment Management Consulting.

The Infrastructure Services & Technology UK segment provides technology and integration solutions for clients and operates mainly in the UK.

The Infrastructure Services & Technology Europe segment provides technology and integration solutions for clients and operates in Ireland and Spain.

The Business Applications Services segment has five key lines of business: Consulting, Enterprise Content Management, Business Change and Transformation, Global Support Services and Strand. The business operates in three main territories: UK, Asia and the USA.

The Investment Management Consulting segment provides specialist investment management consulting to the financial services industry. It operates in the following territories: UK, Channel Islands, France, Luxembourg, South Africa, Australia and Singapore.

Central costs reflect group level expenses together with trading balance credits. In the year ended 30 June 2008, group level expenses were £5.1 million (2007: £5.8 million) partly offset by £4.2 million (2007: £4.4 million) of trading balance credits.

In the year ended 30 June 2007 there was another business segment, Monitise, which was demerged from the Group on 28 June 2007. The results of Monitise are included in discontinued operations for the year ended 30 June 2007.

The business segment data for the year ended 30 June 2007 has been restated due to the treatment of Trading balance credits and the change in the reporting of one line of business which changed in the year ended 30 June 2008.

Trading balance credits which were reflected within Infrastructure Services & Technology UK in the year ended 30 June 2007 have been classified under Central in the year ended 30 June 2008.

This year the 'flexible resourcing' line of business is reported as part of the Infrastructure Services & Technology UK segment, while in the prior year it was reported as part of Business Applications Services segment. Flexible resourcing is managed and controlled under Infrastructure Services & Technology UK hence prior year segmental data has been restated to allow for comparison.

The assets and liabilities of Central and Infrastructure Services & Technology UK 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 2008 (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 2008 and 2007.

Year ended 30 June 2008	**UK £'000**	**Europe £'000**	**Rest of world £'000**	**Total continuing £'000**	**Discontinued operations £'000**	**Total £'000**
Revenue						
Sales to external customers	**183,335**	**60,689**	**9,235**	**253,259**	**-**	**253,259**
Inter-segment sales	**2,196**	**14**	**-**	**2,210**	**-**	**2,210**
Total	**185,531**	**60,703**	**9,235**	**255,469**	**-**	**255,469**
Year ended 30 June 2007						
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
As at 30 June 2008						
Segment assets	**105,904**	**32,158**	**4,777**	**142,839**	**-**	**142,839**
Other segmental information						
Capital expenditure:						
Property, plant and equipment	**390**	**243**	**17**	**650**	**-**	**650**
Intangible fixed assets	**1,945**	**75**	**-**	**2,020**	**-**	**2,020**
Depreciation	**773**	**227**	**126**	**1,126**	**-**	**1,126**
Amortisation	**1,926**	**28**	**-**	**1,954**	**-**	**1,954**
As at 30 June 2007						
Segment assets	123,852	27,095	6,458	157,405	-	157,405
Investment in a joint venture	51	-	-	51	-	51
Total assets	123,903	27,095	6,458	157,456	-	157,456
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

In the year ended 30 June 2008 total revenue comprised £113,579,000 (2007: £92,710,000) of goods revenue and £139,680,000 (2007: £164,615,000) of services revenue. In the year ended 30 June 2007 revenue from continuing operations comprised £92,710,000 of goods revenue and £163,800,000 of services revenue.

3 Exceptional items

	Note	2008 £'000	2007 £'000
Demerger costs		-	(2,455)
Impairment of goodwill and intangibles	10	(13,400)	-
Restructuring income		-	1,084
		(13,400)	(1,371)

The goodwill and intangibles impairment charge relates to the Business Applications Services division.

Demerger costs comprised legal and professional fees incurred as a result of the demerger of Monitise on 28 June 2007.

Restructuring income in the year ended 30 June 2007 of £1,084,000 related 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.

The tax effect of the exceptional items is a charge of £nil (2007: charge of £325,000).

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:

	2008 Earnings £'000	2008 Weighted average number of shares (thousands)	2008 Per share amount pence	2007 Earnings £'000	2007 Weighted average number of shares (thousands)	2007 Per share amount pence
Basic EPS						
(Loss)/profit attributable to Ordinary shareholders	**(4,500)**	**128,742**	**(3.5)**	1,605	125,976	1.3
Effect of dilutive securities options				-	5,684	-
Effect of deferred consideration to be issued				-	1,081	-
Diluted EPS	**(4,500)**	**128,742**	**(3.5)**	1,605	132,741	1.2

The number of potentially dilutive options that were non diluting were 7,887,269 as at 30 June 2007.

In the year ended 30 June 2007 basic earnings per share of 7.1p for continuing operations was calculated from the net profit attributable to equity holders of the parent from continuing operations of £8,980,000 divided by the weighted average number of shares. Diluted earnings per share was calculated by dividing the profit of £8,980,000 by the diluted number of shares per the table above. Basic loss per share of 5.8p for discontinued operations was calculated from the net loss attributable to equity holders of the parent from discontinuing operations of £7,375,000 divided by the weighted average number of shares. Diluted loss per share was calculated by dividing the loss of £7,375,000 by the diluted number of shares per the table above.

4 Earnings per share (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.

	2008 Earnings £'000	**2008 Weighted average number of shares (thousands)**	**2008 Per share amount pence**	2007 Earnings £'000	2007 Weighted average number of shares (thousands)	2007 Per share amount pence
Basic EPS	**(4,500)**	**128,742**	**(3.5)**	1,605	125,976	1.3
Exceptional items	**13,400**	**-**	**10.4**	1,371	-	1.1
Tax on exceptional items	**-**	**-**	**-**	325	-	0.2
Adjusted basic EPS	**8,900**	**128,742**	**6.9**	3,301	125,976	2.6

Diluted EPS	**(4,500)**	**128,742**	**(3.5)**	1,605	132,741	1.2
Exceptional items	**-**	**-**	**-**	1,371	-	1.1
Tax on exceptional items	**-**	**-**	**-**	325	-	0.2
Adjusted diluted EPS	**(4,500)**	**128,742**	**(3.5)**	3,301	132,741	2.5

5 Information regarding employees, directors and their interests

(a) Directors' remuneration

	2008 £'000	2007 £'000
Aggregate emoluments	**876**	947
Group contributions to defined contribution schemes	**94**	61
	970	1,008

In 2008 five directors (2007: 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 39.

(b) Employees

Average monthly number of persons employed (including directors) by the Group during the year:

	2008 Number	2007 Number
Management and administration	**219**	284
Sales and technical staff	**1,169**	1,080
	1,388	1,364

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Notes to the financial statements
for the year ended 30 June 2008 (continued)

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

(c) Staff costs (including directors)

	2008 £'000	2007 £'000
Wages and salaries	**74,915**	75,551
Social security costs	**8,927**	9,260
Other pension costs	**1,683**	1,305
	85,525	86,116

(d) Employee share schemes

	Options outstanding over 10p Ordinary shares at 30 June 2007	Exercise price	Period during which options exercisable	Options outstanding over 12.27p Ordinary shares at 30 June 2008
Employee Option Scheme	386,270	£2.50	Apr 2000-Mar 2009	240,458
Unapproved Executive Option Scheme	166,000	£2.50	Mar 2002-Mar 2009	166,000
Unapproved Executive Option Scheme	90,374	£2.275	Sep 2002-Sep 2009	56,088
Delphis EBT Share Option Scheme	138,792	£nil	May 2001-Sep 2008	16,592
Unapproved and Approved Executive Share Option Scheme 2000	19,133	£1.96	Apr 2005-Apr 2012	19,133
Sharesave Option Scheme 5	29,249	£1.028	Jan 2007-Jun 2007	-
Unapproved and Approved Executive Share Option Scheme 2000	231,667	£1.375	Jul 2007-Apr 2014	-
Sharesave Option Scheme 6	250,497	£0.91	Feb 2008-Jul 2008	-
Morse plc Long Term Incentive Plan	775,000	£nil	Dec 2007-Dec 2008	-
Unapproved and Approved Executive Share Option Scheme 2000	346,667	£0.89	Jul 2008-Apr 2015	196,667
Morse LTIP Scheme	282,500	£nil	Sep 2008-Sep 2009	162,500
Morse LTIP Scheme	50,000	£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	150,000	£0.93	Jul 2009-Mar 2016	150,000
Sharesave Option Scheme 7	616,046	£0.73	Feb 2009-Jul 2009	417,784
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	182,243	£nil	Mar 2009-Mar 2010	182,243
Unapproved and Approved Executive Share Option Scheme 2000	93,455	£1.07	Jul 2009-Mar 2016	84,110
Unapproved and Approved Executive Share Option Scheme 2000	864,865	£1.11	Jul 2009-Sep 2016	864,865

Morse plc
Notes to the financial statements
for the year ended 30 June 2008 (continued)

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

(d) Employee Share Schemes (continued)

	Options outstanding over 10p Ordinary shares at 30 June 2007	Exercise price	Period during which options exercisable	Options outstanding over 12.27p Ordinary shares at 30 June 2008
Morse LTIP Scheme	990,000	£nil	Sep 2009-Sep 2010	705,000
Morse LTIP Scheme	3,515,000	£nil	Oct 2009-Oct 2010	3,115,000
Sharesave Option Scheme 8	928,480	£0.78	Feb 2010-Jul 2010	576,906
Morse LTIP Scheme	150,000	£nil	Dec 2009-Dec 2010	-
Unapproved and Approved Executive Share Option Scheme 2000	470,000	£0.95	Jul 2010-Mar 2017	400,000
Morse LTIP Scheme	10,000	£nil	Apr 2010-Apr 2011	10,000
Unapproved and Approved Executive Share Option Scheme 2000	21,797	£0.94	Jul 2010-Apr 2017	21,797
Approved and Unapproved Executive Option Scheme	-	£1.08	Jul 2010-Nov 2017	61,666
Morse plc Long Term Investment Plan	-	£nil	Jun 2010-Mar 2011	200,000
Morse plc Long Term Investment Plan	-	£nil	Mar 2010-Mar 2011	491,803
Morse plc Long Term Investment Plan	-	£nill	Nov 2009-Nov 2010	1,194,437
Sharesave Option Scheme 9	-	£0.84	Feb 2011-Jul 2011	266,720
Diagonal Options				
Diagonal Long Term Incentive Plan	26,378	£nil	Mar 2007-Mar 2014	26,378
Diagonal Employee Share Option Scheme	60,544	£1.26	Mar 2007-Mar 2014	57,701
Diagonal Sharesave Option Scheme 5 Years	8,850	£1.87	May 2007-Oct 2007	-
Diagonal Sharesave Option Scheme 5 Years	74,655	£0.88	May 2008-Oct 2008	74,655
Diagonal Sharesave Option Scheme 3 Years	25,968	£0.90	May 2007-Oct 2007	-
Diagonal Sharesave Option Scheme 5 Years	10,900	£0.90	May 2009-Oct 2009	-

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Notes to the financial statements for the year ended 30 June 2008 (continued)

(d) Employee Share Schemes (continued)

Summary of share options

	2008 Number of options ('000)	2008 Weighted average exercise price (pence)	2007 Number of options ('000)	2007 Weighted average exercise price (pence)
Outstanding 1 July	11,479	48.45	6,589	77.10
Granted during the year – other	372	80.65	2,629	93.63
Granted during the year – nil price	1,942	94.00	5,440	0.00
Exercised during the year	90	0.00	679	18.05
Expired/Lapsed during the year	3,221	50.50	2,500	74.28
Outstanding at 30 June	10,482	57.82	11,479	48.45
Exercisable at 30 June	1,049	57.82	1,519	157.45

The average share price during 2008 was 78.45 pence (2007: 98.68 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 1,435,104 shares (2007:1,195,521) in the Company of which 1,126,516 (2007: 982,102) have share options held over them. The Delphis Employee Benefit Trust holds 297,885 shares (2007: 475,936) in the Company of which 16,592 (2007: 138,792) have share options held over them. The Diagonal Employee Benefit Trust holds 66,595 shares (2007: 81,713) in the Company all of which have share options held over them.

Following the demerger of Monitise, as at year ended 30 June 2008 the Morse Employee Benefit Trust held 1,185,104 Monitise shares (2007: 1,195,521) of which nil (2007: nil) have share options held over them. The Diagonal Employee Benefit Trust holds 22,163 Monitise shares (2007: 81,713) 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 the Black-Scholes/Monte Carlo simulation models.
The following table gives the assumptions made during the year ended 30 June 2008:

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 2008 (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	Grant of share options	Grant of share options
Date of grant	September 2006	October 2006	December 2006	April 2007	November 2007	March 2008
Number of instruments granted	990,000	3,765,000	450,000	10,000	1,249,992	491,803
Exercise price	£nil	£nil	£nil	£nil	£nil	£nil
Share price at date of grant	£1.13	£0.97	£0.95	£0.93	£1.06	£0.61
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	45.6%	44.0%	44.0%	44.0%	43.0%	46.0%
Expected option life at grant (years)	3	3	3	2.5	3	3
Risk free interest rate	4.71%	4.93%	5.00%	5.41%	5.01%	3.81%
Dividend yield	3.45%	4.02%	4.11%	4.20%	3.87%	6.72%
Fair value per granted instrument determined at grant date	£0.98	£0.82	£0.80	£0.78	£0.90	£0.46

Nature of the arrangement	Grant of share options
Date of grant	June 2008
Number of instruments granted	200,000
Exercise price	£nil
Share price at date of grant	£0.50
Contractual life (years)	4
Vesting conditions	Shareholder return and EPS growth in real terms
Expected volatility	46.0%
Expected option life at grant (years)	3
Risk free interest rate	4.96%
Dividend yield	8.20%
Fair value per granted instrument determined at grant date	£0.50

Morse plc
Notes to the financial statements
for the year ended 30 June 2008 (continued)

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

(e) Share based payments (continued)

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

Nature of the arrangement	Grant of share options	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	November 2007
Number of instruments granted	864,865	200,000	470,000	21,797	61,666
Exercise price	£1.11	£0.99	£0.95	£0.94	£1.08
Share price at date of grant	£1.13	£0.99	£0.95	£0.93	£1.06
Contractual life (years)	5.85	6	5.85	6	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%	Growth in EPS of RPI plus 5%
Expected volatility	42.1%	42.3%	44.0%	44.0%	43.0%
Expected option life at grant (years)	6	6	6	6	6
Risk free interest rate	4.71%	4.69%	5.08%	5.13%	5.01%
Dividend yield	3.45%	3.94%	4.11%	4.20%	3.87%
Fair value per granted instrument determined at grant date	£0.38	£0.32	£0.31	£0.30	£0.35

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

(e) Share based payments (continued)

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	Grant of share options
Date of grant	November 2003	December 2004	December 2005	November 2006	November 2007
Number of instruments granted	164,626	841,078	1,050,473	1,071,919	310,145
Exercise price	£1.03	£0.91	£0.73	£0.78	£0.84
Share price at date of grant	£1.21	£0.99	£0.95	£0.95	£0.68
Contractual life (years)	3.5	3.5	3.5	3.5	3.5
Vesting conditions	3 years service	3 years service	3 years service	3 years service	3 years service
Expected volatility	61.2%	53.6%	45.3%	45.0%	43.0%
Expected option life at grant (years)	3.5	3.5	3.5	3.5	3.5
Risk free interest rate	4.84%	4.48%	4.42%	4.92%	4.51%
Dividend yield	2.60%	3.43%	3.95%	3.93%	3.93%
Fair value per granted instrument determined at grant date	£0.56	£0.36	£0.35	£0.37	£0.19

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

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.

6 Operating profit

	2008 £'000	2007 £'000
Operating profit is stated after charging/(crediting):		
Auditors' remuneration:		
- Audit of these financial statements	**151**	153
- Audit of subsidiaries' financial statements	**121**	145
- Other services relating to taxation	**189**	447
- Other services	**-**	170
Net foreign currency differences	**(885)**	249
Operating lease rentals:		
- plant and machinery	**83**	463
- other	**1,984**	2,054
Research and development	**257**	2,477
Impairment of goodwill	**12,264**	-
Impairment of intangibles	**1,136**	-
Depreciation of property, plant and equipment	**1,126**	1,381
Amortisation of intangible assets	**1,954**	1,142
Loss on disposal of tangible fixed assets	**89**	630

The auditors do not provide management consultancy services to the Group. Amounts paid to the Company's auditors 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.

Non-audit fees paid to auditors related to transaction costs associated with the demerger of Monitise in the year ended 30 June 2007.

During the year total trading credit balance releases of £4,174,000 (2007: £4,439,000) were credited to the income statement. £4,174,000 (2007: £2,639,000) was credited within 'administrative expenses' and £nil (2007: £1,800,000) within 'cost of sales'.

Morse plc
Notes to the financial statements
for the year ended 30 June 2008 (continued)

7 Finance income and expense

	2008 £'000	2007 £'000
Bank interest income	**547**	424
Other interest income	**68**	272
Financial income	**615**	696
Bank loans and overdrafts interest expense	**(500)**	(206)
Other loans interest expense (loan notes)	**(45)**	(22)
Unwinding of discount on provisions (note 18)	**(49)**	(176)
Financial expenses	**(594)**	(404)

Included within other interest receivable is interest earned from cash invested in Open Ended Investment Companies (further details provided in note 19).

8 Tax on ordinary activities

Corporation tax

	2008 £'000	2007 £'000
United Kingdom corporation tax at 29.5% (2007: 30%)	**2,544**	1,070
Adjustment to corporation tax provision from prior years	**(598)**	137
Overseas tax on profit for the year	**620**	936
Current tax	**2,566**	2,143
Deferred tax (note 13)	**(445)**	(76)
Deferred tax restatement at 28% (note 13)	**-**	(23)
Total tax charge	**2,121**	2,044

In 2008 the tax charge is higher than the UK rate of 29.5% because of non-deductible costs, primarily the impairment charge.

Similarly, in 2007 the tax charge was higher than the UK rate of 30% because of non-deductible costs, primarily the amortisation of goodwill, and certain demerger costs.

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

	2008 £'000	2007 £'000
(Loss)/profit before tax	**(2,255)**	3,846
Tax on profit before tax at 29.5% (2007: 30%)	**(667)**	1,155
Effects of:		
Expenses not deductible for tax purposes including amortisation of intangible assets, demerger costs and exceptional impairment charge	**3,702**	797
Loss of joint venture	**-**	213
Profit and loss items not taxable	**(42)**	-
Difference between UK and overseas standard tax rates	**(274)**	(258)
Adjustments to tax charge in respect of previous periods	**(598)**	137
Total tax charge	**2,121**	2,044

9 Dividends paid and proposed

	2008 £'000	2007 £'000
Declared and paid during the year:		
Equity dividend on ordinary shares:		
Final dividend for 2007: 2.80p (2006: 2.70p)	**4,429**	4,130
Interim dividend for 2008: 1.30p (2007: 1.25p)	**1,662**	1,955
	6,091	6,085
Proposed for approval at AGM (not recognised as a liability as at 30 June)		
Equity dividend on Ordinary shares:		
Final dividend for 2008: 1.30p (2007: 2.80p)	**1,676**	4,393

10 Goodwill and other intangible fixed assets

	Data base £'000	Customer relationships £'000	Intellectual property £'000	Developme nt £'000	Customer relationship backlog £'000	Mainte-nance contracts £'000	Follow-on consulting £'000	Trade names £'000	Software £'000	Total intangibles £'000	Good-will £'000
Cost											
At 1 July 2006	-	-	445	-	376	399	5,521	1,847	-	8,588	51,168
Demerger (note 24)	-	-	(445)	(438)	-	-	-	-	-	(883)	-
Additions	-	-	-	438	-	-	589	-	498	1,525	454
At 1 July 2007	-	-	-	-	376	399	6,110	1,847	498	9,230	51,622
Transfers (note 11)	128	-	-	-	-	22	(474)	-	934	610	247
Additions	-	1,431	-	-	-	406	-	-	183	2,020	3,925
At 30 June 2008	**128**	**1,431**	**-**	**-**	**376**	**827**	**5,636**	**1,847**	**1,615**	**11,860**	**55,794**
Amortisation											
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 24)	-	-	(48)	(66)	-	-	-	-	-	(114)	-
At 1 July 2007	-	-	-	-	376	188	1,954	526	88	3,132	-
Charge for the year	43	215	-	-	-	494	704	185	313	1,954	-
Impairment (note 3)	-	-	-	-	-	-	-	1,136	-	1,136	12,264
Transfers (note 11)	-	-	-	-	-	-	-	-	850	850	-
At 30 June 2008	**43**	**215**	**-**	**-**	**376**	**682**	**2,658**	**1,847**	**1,251**	**7,072**	**12,264**
Net book value											
At 30 June 2008	**85**	**1,216**	**-**	**-**	**-**	**145**	**2,978**	**-**	**364**	**4,788**	**43,530**
At 30 June 2007	-	-	-	-	-	211	4,156	1,321	410	6,098	51,622
At 1 July 2006	-	-	445	-	-	276	4,257	1,506	-	6,484	51,168

An impairment charge of £13,400,000 has been disclosed within exceptional administration expenses and relates to the goodwill and intangibles in the Business Applications Services division.

Morse plc
Notes to the financial statements
for the year ended 30 June 2008 (continued)

10 Goodwill and other intangible fixed assets (continued)

Other intangible assets total £4,788,000 (2007: £6,098,000). Other intangible assets acquired in the year ended 30 June 2008 totalled £2,020,000 (2007: £1,525,000) and represent mainly amounts arising on the acquisition of Xayce (customer relationship and maintenance contracts).

Impairment testing of indefinite lived goodwill

Goodwill acquired through business combinations has been allocated to the cash generating units of Infrastructure Services & Technology UK, Spain and Ireland (Infrastructure Consulting), Business Applications Services (Application Consulting) and Investment Management Consulting (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. The Group has based these calculations on estimated cashflows over 10 years. The growth rates are based on management estimates of the industry growth rates for the activities being undertaken by each CGU. The discount rate applied to cash flow projections 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.

As a result of the impairment testing, the Company impaired goodwill in the Business Applications Services division by £12,264,000 and intangible assets (trade names) by £1,136,000 in the year ended 30 June 2008.

The following cash generating units have significant carrying amounts of goodwill:

	2008 £'000	2007 £'000
Business Applications Services	**21,058**	29,625
Investment Management Consulting	**14,034**	13,559
Infrastructure Services & Technology UK	**5,717**	5,717
Infrastructure Services & Technology Ireland	**2,169**	2,169
Infrastructure Services & Technology Spain	**552**	552
	43,530	51,622

The remaining amortisation periods of the intangible assets held as at 30 June 2008 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
Database	three years
Customer relationships	five years
Existing contracts	five months

Goodwill is not being amortised.
Amortisation is charged to distribution expenses.

11 Property, plant and equipment

	Leasehold improvements £'000	Office equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
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 (note 24)	-	(131)	-	-	(131)
At 1 July 2007	323	4,423	3,784	137	8,667
Additions	5	586	38	21	650
Acquisition of subsidiary	-	4	22	-	26
Disposals	(33)	(475)	(61)	(17)	(586)
Exchange differences	55	182	129	19	385
Transfers to intangibles (note 10)	-	(934)	-	-	(934)
At 30 June 2008	**350**	**3,786**	**3,912**	**160**	**8,208**
Depreciation					
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 24)	-	(26)	-	-	(26)
At 1 July 2007	177	3,466	2,240	84	5,967
Disposals	(28)	(399)	(33)	(9)	(469)
Charge for the year	92	753	265	16	1,126
Exchange differences	40	137	44	10	231
Transfers to intangibles (note 10)	-	(850)	-	-	(850)
At 30 June 2008	**281**	**3,107**	**2,516**	**101**	**6,005**
Net book value					
At 30 June 2008	**69**	**679**	**1,396**	**59**	**2,203**
At 30 June 2007	146	957	1,544	53	2,700
At 1 July 2006	500	1,571	1,526	18	3,615

In relation to the year ended 30 June 2008 the difference between the additions above of £650,000 and capital expenditure per the cash flow statement of £571,000 is capital accruals of £79,000.

12 Investments

	£'000
Interests in joint ventures	
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
Cost at 1 July 2007	51
Investment written off	(51)
Net book value at 30 June 2008	-

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

The Group wrote off an investment in EI Choices LLC of £51,000 in the year ended 30 June 2008.

The movements during the year ended 30 June 2007 were in relation to Mobile ATM Ltd, which was disposed of as part of the demerger of Monitise (note 24).

The £1,000,000 of additions in the year ended 30 June 2007 represented cash payments of £656,000 and the write-off of balances due from the joint ventures of £344,000.

Morse plc
Notes to the financial statements for the year ended 30 June 2008 (continued)

13 Deferred tax

	Provision for losses £'000	Share options £'000	Holiday pay accrual £'000	Depreciation in excess of capital allowances £'000	Other £'000	Total £'000
Assets						
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 1 July 2007	176	481	348	641	-	1,646
(Charge)/credit for the year (note 8)	50	-	(107)	34	23	-
Forex	-	-	8	(5)	2	5
Credit to P&L reserve	-	(171)	-	-	-	(171)
At 30 June 2008	**226**	**310**	**249**	**670**	**25**	**1,480**

Liabilities	Database £'000	Customer relationships £'000	Maintenance contracts £'000	Follow on consulting £'000	Trade names £'000	Other £'000	Total £'000
At 1 July 2006	-	-	62	865	363	-	1,290
Additions	-	-	-	136	-	-	136
(Credit) for the year (note 8)	-	-	(10)	(82)	(22)	200	86
Restatement at 28% (note 8)	-	-	(4)	(58)	(24)	-	(86)
At 1 July 2007	-	-	48	861	317	200	1,426
Additions	28	313	94	(109)	-	-	326
Charge/(credit) for the year (note 8)	(9)	(34)	(102)	(94)	(317)	111	(445)
Forex	-	-	-	-	-	36	36
At 30 June 2008	**19**	**279**	**40**	**658**	**-**	**347**	**1,343**

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 £347,000 (2007: £200,000). Other deferred tax balances are reflected on the balance sheet as an asset of £484,000 (2007: £420,000). The net deferred tax asset is £137,000 (2007: £220,000).

13 Deferred tax (continued)

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

14 Inventories

	2008 £'000	2007 £'000
Finished goods and goods for resale	**1,396**	4,287

Cost of goods sold during the year amount to £93,005,000 (2007: £94,387,000).

15 Trade and other receivables

	2008 £'000	2007 £'000
Trade receivables	**60,343**	57,408
Other receivables	**1,294**	538
Prepayments and accrued income	**18,207**	19,407
	79,844	77,353

An ageing analysis of trade and other debtors and provision for bad debts is presented below:

	2008		2007	
	Trade and other debtors £'000	**Valuation allowance £'000**	Trade and other debtors £'000	Valuation allowance £'000
Not yet due	**50,028**	**(203)**	47,029	(685)
Overdue 30 days or less	**6,986**	**(3)**	5,396	(6)
Overdue 31 to 60 days	**2,001**	**(60)**	3,712	(2)
Overdue 61 to 90 days	**1,581**	**-**	1,052	(113)
Overdue 91 to 120 days	**413**	**(224)**	695	(93)
Overdue 121 days or more	**1,486**	**(368)**	1,350	(389)
	62,495	**(858)**	59,234	(1,288)

Provisions for bad debt are made on a monthly basis, for any doubtful debts where the cost can be reasonably estimated or is known. The management reviews on a monthly basis the level of old debts and receivables which are in dispute. Based on those reviews actions are taken to ensure collection of debt in a timely manner and appropriate provision is set up.

Customer risk procedures include such activities as credit checks, payment history analysis and credit approval limits. Based on these procedures management assess the credit quality of those customers before engaging in transactions.

15 Trade and other receivables (continued)

An analysis of the trade receivables provisions for bad debts for the periods is as follows:

	2008 £'000	2007 £'000
At 1 July	**1,288**	1,812
Bad debts written off	**(125)**	(586)
(Decrease)/increase in allowance	**(300)**	27
Exchange difference	**(5)**	35
At 30 June	**858**	1,288

16 Cash and cash equivalents

	2008 £'000	2007 £'000
Cash and cash equivalents disclosed as such on the balance sheet	**11,078**	15,345
Cash and cash equivalents per cash flow statement	**11,078**	15,345

17 Trade and other payables

	2008 £'000	2007 £'000
Trade payables	**40,932**	43,035
Other payables	**37,074**	44,544
	78,006	87,579

Employer pension contributions payable to the pension scheme of £117,393 (2007: £115,550) are included within other payables.

18 Provisions

	Other £'000	Property £'000	Total £'000
Balance at 1 July 2007	34	1,387	1,421
Provisions made during the year	1,300	-	1,300
Provisions used during the year	(600)	(382)	(982)
Unwinding of a discount	-	(49)	(49)
Released in the period	(34)	(219)	(253)
Balance at 30 June 2008	**700**	**737**	**1,437**
Current 2008	**700**	**326**	**1,026**
Non-current 2008	**-**	**411**	**411**
Balance at 30 June 2008	**700**	**737**	**1,437**
Current 2007	34	438	472
Non-current 2007	-	949	949
Balance at 30 June 2007	34	1,387	1,421

Other provisions made during the year relate to loss making contracts. The provision is expected to be utilised within one year.

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 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% (2007: 13%).

19 Financial risk management

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group has a committed multi-currency borrowing facility of £10,000,000 (2007: £10,000,000) which had not been used at 30 June 2008 and 30 June 2007. The Company has a GBP overdraft within a group pooling arrangement with RBS. The maximum overdraft limit for the pooling is £2,500,000 (2007: £2,500,000).The Company has a EURO overdraft within a group pooling arrangement with Barclays. The maximum overdraft limit for the pooling is €2,500,000 (2007: €2,500,000).

The Group does not trade in financial instruments.

19 Financial risk management (continued)

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. Other current loans and 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. There were no fixed rate loans held during the year ended 30 June 2008 and 30 June 2007.

Credit risk

The Group's principal financial assets are trade and other receivables, cash and cash equivalents. The Group's credit risk is primarily attributable to its receivables. The credit risk on cash and cash equivalents is mitigated as the Group places its cash with banks with high credit ratings assigned by international credit rating agencies. There are no significant concentrations of credit risk within the Group, with exposure spread over a large number of customers. The maximum credit risk exposure relating to financial assets is represented by the 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/increase of 1% in interest rates would not have a significant impact on the results for the period. Similarly, a decrease/increase of 10% 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:

	2008	2007
	£'000	£'000
Loan notes	**(122)**	(266)
Trade creditors and other payables	**(77,884)**	(87,313)
Trade debtors and other receivables	**79,844**	77,353
	1,838	(10,226)
Cash (note 16)	**11,078**	15,345
Net financial assets	**12,916**	5,119

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 within other payables (note 17).

19 Financial risk management (continued)

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

	2008 £'000	2007 £'000
In one year or on demand	**78,006**	87,579
Between one and two years	**-**	-
Between two and five years	**-**	-
	78,006	87,579

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 2008				
Cash and cash equivalents	**6.5%**	**11,078**	**11,078**	**-**
Borrowings:				
Loan notes	**6.1%**	**122**	**122**	**-**

Interest rate management
Financial liabilities accrue interest on the following basis:

	Fixed rate £'000	Floating rate £'000	2008 Total £'000	Fixed rate £,000	Floating rate £'000	2007 Total £'000
Currency						
Sterling	**-**	**122**	**122**	-	266	266
	-	**122**	**122**	-	266	266

19 Financial risk management (continued)

Fair values of financial assets and financial liabilities

	2008 Book Value £'000	2008 Fair Value £'000	2007 Book Value £'000	2007 Fair Value £'000
Financial asset				
Trade debtors and other receivables	**79,844**	**79,844**	77,353	77,353
Cash and cash equivalents	**11,078**	**11,078**	15,345	15,345
	90,922	**90,922**	92,698	92,698
Financial liabilities				
Loan notes	**122**	**122**	266	266
Trade creditors and other payables	**77,884**	**77,884**	87,313	87,313
	78,006	**78,006**	87,579	87,579

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.

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.

19 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:

	2008 £'000	2007 £'000
Sterling	**6,336**	5,260
US Dollars	**544**	377
Euros	**3,487**	8,721
South African Rand	**258**	440
Australian Dollars	**165**	363
Malaysian Ringitts	**250**	114
Singapore Dollars	**38**	70
Cash	**11,078**	15,345

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 2008 the Group invested £473,925 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 2008.

Morse plc
Notes to the financial statements
for the year ended 30 June 2008 (continued)

19 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 2008			30 June 2007		
	Sterling £'000	Euro £'000	US Dollar £'000	Sterling £'000	Euro £'000	US Dollar £'000
Sterling	-	(6,198)	496	-	468	2,185
Euro	73	-	(405)	45	-	89
US Dollars	-	-	-	(2)	-	-
Singapore Dollars	-	-	-	-	-	13
Malaysian Ringitts	-	-	-	-	-	481
South African Rand	-	-	-	23	-	-

20 Called up share capital

	2008 Number	2008 £'000	2007 Number	2007 £'000
Authorised				
12.27p/10p Ordinary shares	**203,748,981**	**25,000**	250,000,000	25,000
Allotted and fully paid				
12.27p/10p Ordinary shares	**128,975,745**	**15,825**	156,914,167	15,692

Following the demerger of Monitise, a share consolidation was approved by shareholders on 30 October 2007 at the AGM, and took effect at close of business that day. Every 1,227 old Morse shares that shareholders owned were replaced by 1,000 new shares.

The effect of the consolidation was to decrease the number of Morse plc ordinary shares in issue by 22.7%.

See note 21 for the movements in allocated and fully paid share capital.

Morse plc
Notes to the financial statements
for the year ended 30 June 2008 (continued)

21 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 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)
(Loss) 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 1 July 2007	**15,692**	**348**	**70,767**	**168**	**209**	**(413)**	**30,904**	**30,868**	**(57,024)**	**229**	**60,880**
Loss for the year	-	-	-	-	-	-	-	-	(4,500)	-	(4,500)
Purchase of own shares	-	-	-	-	-	-	-	-	(435)	-	(435)
Issue of shares on acquisition of subsidiaries	130	2,674	-	-	-	-	1,119	1,119	-	-	3,923
Exercise of share options	3	-	23	-	-	-	-	-	(16)	-	10
Deferred tax liability on additions to intangibles	-	-	-	-	-	-	-	-	(171)	-	(171)
Profit on translation of foreign subsidiaries	-	-	-	-	-	1,437	-	1,437	-	35	1,472
Share options charge	-	-	-	-	-	-	-	-	346	-	346
Dividends paid	-	-	-	-	-	-	-	-	(6,091)	-	(6,091)
Dividend paid to minority interest	-	-	-	-	-	-	-	-	-	(109)	(109)
Share of profit of minority interest	-	-	-	-	-	-	-	-	-	124	124
At 30 June 2008	**15,825**	**3,022**	**70,790**	**168**	**209**	**1,024**	**32,023**	**33,424**	**(67,891)**	**279**	**55,449**

The share capital issued at nominal value in the year relates to the exercise of share options (35,535 shares, £3,000) and to the acquisition of Xayce plc (1,309,586 shares, £130,000).

21 Capital and reserves (continued)

In the year ended 30 June 2008 share capital to be issued increased by £2,674,000 due to the deferred consideration on the acquisition of Xayce plc of £2,500,000 and D&C Financial Consultants Ltd of £174,000. Share capital to be issued of £348,000 (362,760 shares) as at 1 July 2007 related to the deferred consideration on the acquisition of SkillsHub Limited.

The premium arising on the exercise of share options was £23,000 (2007: £382,000). On the exercise of share options, £10,000 (2007: £166,000) 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 differences arising from the translation of financial statements of foreign subsidiaries.

The increase in the merger reserve of £1,119,000 is the share premium arising on the 1,309,586 shares issued as consideration on acquisition of Xayce plc, which has been recognised in accordance with s131 of the Companies Act 1985.

22 Capital commitments

The Group did not have any capital commitments as at 30 June 2008 and 30 June 2007.

23 Operating lease commitments

	Land and buildings 2008 £'000	**Other 2008 £'000**	Land and buildings 2007 £'000	Other 2007 £'000
Annual non-cancellable commitments for operating leases which expire:				
Within one year	**1,302**	**263**	2,080	448
Between 2 and 5 years	**2,660**	**206**	4,276	407
After 5 years	**1,788**	**-**	1,574	-
	5,750	**469**	7,930	855

24 Demerger of a subsidiary

In the previous year 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 amounted to £2,455,000 and represented legal and professional fees in carrying out the demerger transaction. Net assets demerged were 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)**

25 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).

	£'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.

There were no subsidiary company disposals during the current year.

26 Acquisitions

In the year ended June 2008:

In September 2007, the Group acquired 100% of the issued share capital of Xayce plc, a business change and transformation company. The transaction is to be satisfied by a net consideration of £6,400,000 over a period of three years.

	Xayce Fair value £'000
Property, plant and equipment	24
Current assets	1,725
Current liabilities	(481)
Net assets	1,268
Net assets acquired (100%)	1,268
Goodwill	3,697
Deferred tax liability	(402)
Intangibles	1,837
Consideration	6,400
Consideration satisfied by:	
Cash	2,350
Share capital issued	1,298
Share capital to be issued	2,500
Cost of acquisition	252
	6,400

The book value of the assets and liabilities has been taken from the management accounts of Xayce plc as at 31 August 2007.

Intangibles and the associated deferred tax liability represent fair value adjustments on acquisition. There are no further fair value adjustments made to the book value of net assets acquired. The cash balance acquired was £617,000.

Xayce plc contributed net profit of £608,000 to the consolidated net profit for the year. If the acquisition had occurred on 1 July 2007, Group revenue and net profit would not have changed materially.

The Group also acquired D&C Financial Consultants Ltd in April 2008, an investment management consulting company, for a total consideration of £237,000.

26 Acquisitions (continued)

In the year ended 30 June 2007:

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	612	89	701
Deferred tax liability	(33)	(27)	(60)
Intangibles	150	116	266
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 at 31 January 2007.

Intangibles and the associated deferred tax liability represent fair value adjustments on acquisition. There are no further fair value adjustments made to the book value of net assets acquired. There was no cash acquired.

In the current year the Group valued externally the intangible assets acquired on the acquisition of SkillsHub. £100,000 was classified under the heading 'Database' and a further £17,000 as 'Existing Contracts'. The external valuation replaced the provisional managerial estimate of £364,000 as 'Follow on consulting' from the previous year.

27 Related party transactions

There were no related party transactions with associate companies and joint ventures in the year ended 30 June 2008 and 30 June 2007.

Morse Group Limited has borne the costs of the Directors of Morse plc during the year ended 30 June 2008 and 30 June 2007.

Compensation of key management personnel is as follows:

	2008 £'000	2007 £'000
Short term employee benefits	**1,481**	1,460

28 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 15 and 18).

29 Analysis of changes in net funds

	At 1 July 2007 £'000	Cash Flows £'000	Exchange rate fluctuations £'000	At 30 June 2008 £'000
Cash at bank	15,345	**(4,365)**	**98**	**11,078**
Loan notes	(266)	**144**	**-**	**(122)**
Net funds	15,079	**(4,221)**	**98**	**10,956**

30 Post balance sheet events

On 25 July 2008 the Group announced a cost reduction programme, which is expected to improve overall returns, while maintaining the fabric of the business and the Company's sales and delivery capability. The programme is expected to result in a charge of approximately £4,000,000 - £4,500,000, which will be recorded in the year ended 30 June 2009.

Morse plc

Company balance sheet
as at 30 June 2008

	Note	Company 2008 £'000	Company 2007 £'000
Fixed assets			
Investments	*iv*	**125,029**	147,021
		125,029	147,021
Current assets			
Debtors	*v*	**20,409**	19,617
Cash at bank and in hand		**126**	263
Total current assets		**20,535**	19,880
Creditors – amounts falling due within one year	*vi*	**(15,670)**	(39,152)
Net current assets/(liabilities)		**4,865**	(19,272)
Total net assets		**129,894**	127,749
Capital and reserves			
Called up share capital	*vii*	**15,825**	15,692
Share capital to be issued	*ix*	**3,022**	348
Share premium account	*ix*	**70,790**	70,767
Other reserves	*ix*	**32,391**	31,272
Profit and loss account	*ix*	**7,866**	9,670
Total equity shareholders' funds	*viii*	**129,894**	127,749

The financial statements were approved by the Board of Directors on 9 September 2007 and signed on its behalf by:

E Dodd

Director

Eve Dodd

ED

Morse plc

Notes to the Company financial statements for the year ended 30 June 2008

(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 profit after taxation attributable to Morse plc for the year and dealt with in the financial statements of the Company was £3,940,000 (2007: profit of £11,344,000).

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.

Morse plc
Notes to the Company financial statements for the year ended 30 June 2008 (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 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.

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.

Deferred tax is recognised, 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 Company financial statements for the year ended 30 June 2008 (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

	2008 £'000	2007 £'000
Declared and paid during the year:		
Equity dividend on ordinary shares:		
Final dividend for 2007: 2.80p (2006: 2.70p)	**4,429**	4,130
Interim dividend for 2008: 1.30p (2007: 1.25p)	**1,662**	1,955
	6,091	6,085
Proposed for approval at AGM (not recognised as a liability as at 30 June):		
Equity dividend on ordinary shares:		
Final dividend for 2008: 1.30p (2007: 2.80p)	**1,676**	4,393

(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.

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

(b) Employees

	2008 Number	2007 Number
Average monthly number of persons employed (including directors) by the Company during the year:		
Management and administration	-	1

Information regarding directors is included in note 5.

(c) Staff costs (including directors)

	2008 £'000	2007 £'000
Wages and salaries	-	10

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 1 July 2006	147,021
Additions	9,200
Demerger	(9,200)
Cost at 30 June 2007	147,021
Additions	6,637
Cost at 30 June 2008	153,658
Provision at 1 July 2007	-
Provision for impairment	28,629
Provision at 30 June 2008	28,629
Total net book value of investments at 30 June 2008	**125,029**
Total net book value of investments at 30 June 2007	147,021

The additions in investments represent the investment in Xayce plc of £6,400,000 and the investment in D&C Financial Consultants Ltd of £237,000.

The impairment charge of £28,629,000 represents the write down of the investment in the Business Applications Services and Infrastructure Services & Technology UK divisions.

In the year ended 30 June 2007 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 represented the write off of the above investment, post the demerger.

(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 Consulting Inc.	Sale of IT solutions and professional services	100%	USA
Morse Consulting Sdu Bhd	Sale of IT solutions and professional services	100%	Malaysia

* Indirectly held through subsidiary companies

Morse plc
Notes to the Company financial statements for the year ended 30 June 2008 (continued)

(v) Debtors

	2008 £'000	2007 £'000
Amounts due from Group undertakings	**20,395**	19,564
Other debtors	**14**	53
	20,409	19,617

(vi) Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Loan notes	**121**	266
Trade creditors	**20**	137
Amounts due to Group undertakings	**15,275**	36,922
Other creditors	**-**	24
Corporation tax	**187**	-
Accruals and deferred income	**67**	1,803
	15,670	39,152

(vii) Called up share capital

	2008 Number	2008 £'000	2007 Number	2007 £'000
Authorised				
12.27p/10p Ordinary shares	**203,748,981**	**25,000**	250,000,000	25,000
Allotted and fully paid				
12.27p/10p Ordinary shares	**128,975,745**	**15,825**	156,914,167	15,692

Following the demerger of Monitise, a share consolidation was approved by shareholders on 30 October 2007 at the AGM, and took effect at close of business that day. Every 1,227 old Morse shares that shareholders owned were replaced by 1,000 new shares.

The effect of the consolidation was to decrease the number of Morse plc ordinary shares in issue by 22.7%.

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

Morse plc
Notes to the Company financial statements for the year ended 30 June 2008 (continued)

(viii) Reconciliation of movements in equity shareholders' funds

	2008 **£'000**	2007 £'000
Profit for the year	**3,940**	11,344
Dividends	**(6,091)**	(6,085)
Dividend in specie	**-**	(9,200)
Share option charge	**347**	499
Retained loss for the year	**(1,804)**	(3,442)
Issue of share capital	**1,275**	4,636
Movement in share capital to be issued	**2,674**	(3,455)
Net increase/(reduction) to equity shareholders' funds	**2,145**	(2,261)
Opening equity shareholders' funds	**127,749**	130,010
Closing equity shareholders' funds	**129,894**	127,749

(ix) Capital and reserves

Company	Share capital £'000	Share capital to be issued £'000	Share premium account £'000	Capital redemption reserve £'000	Other £'000	Merger reserve £'000	Total other reserves £'000	Retained earnings £'000	Total £'000
At 1 July 2006	15,338	3,803	70,385	168	200	27,004	27,372	13,112	130,010
Profit for the year	-	-	-	-	-	-	-	11,344	11,344
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 1 July 2007	**15,692**	**348**	**70,767**	**168**	**200**	**30,904**	**31,272**	**9,670**	**127,749**
Profit for the year	-	-	-	-	-	-	-	3,940	3,940
Exercise of share options	3	-	23	-	-	-	-	-	26
Share options charge	-	-	-	-	-	-	-	347	347
Dividends paid	-	-	-	-	-	-	-	(6,091)	(6,091)
Issue of shares on acquisition of subsidiaries	130	2,674	-	-	-	1,119	1,119	-	3,923
At 30 June 2008	**15,825**	**3,022**	**70,790**	**168**	**200**	**32,023**	**32,391**	**7,866**	**129,894**

The share capital issued at nominal value in the year relates to the exercise of share options (35,535 shares, £3,000) and to the acquisition of Xayce plc (1,309,586 shares, £130,000).

In the year ended 30 June 2008 share capital to be issued increased by £2,674,000 due to the deferred consideration on the acquisition of Xayce plc of £2,500,000 and D&C Financial Consultants Ltd of £174,000. Share capital to be issued of £348,000 (362,760 shares) as at 1 July 2007 related to the deferred consideration on the acquisition of SkillsHub Limited.

The premium arising on the exercise of share options was £23,000 (2007: £382,000). On the exercise of share options, £10,000 (2007: £166,000) was received from employees.

Morse plc
Notes to the Company financial statements for the year ended 30 June 2008 (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.

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 increase in the merger reserve of £1,119,000 is the share premium arising on the 1,309,586 shares issued as consideration on acquisition of Xayce plc, which has been recognised in accordance with s131 of Companies Act 1985.

Morse plc

5 year summary
Year ended 30 June 2008

	Prepared under UK GAAP	Prepared under IFRS			
	2004	**2005**	**2006**	**2007**	**2008**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Turnover	390,008	429,531	367,120	257,325	**253,259**
Gross profit	75,481	87,925	85,040	60,861	**56,377**
Adjusted operating profit *	7,470	8,263	6,527	5,634	**11,124**
Operating (loss)/profit	(14,471)	2,191	12,837	4,263	**(2,276)**
Net assets	47,694	64,475	64,458	60,880	**55,449**

* Before goodwill amortisation and exceptional items under UK GAAP

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