Morse Limited (previously Morse plc)

Report and Financial Statements

18 month period ended 31 December 2010

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COMPANIES HOUSE

Directors
N Grossman
T W Burt
S Burt

Secretary
N Grossman

Auditors
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Forbury Road
Reading
Berkshire RG1 1YE

Bankers
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Solicitors
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Directors' report

The directors present their report and financial statements for the 18 months period ended 31 December 2010 Comparative figures are for the 12 month period ended 30 June 2009

Results and dividends

The loss for the period after taxation amounted to £41 4 million (2009 – loss of £88 1 million) The directors do not recommend the payment of a dividend (2009 - £1 6 million)

Principal activities and review of the business

The company's principal activities during the year continued to be that of an intermediate holding company

In June 2010, the entire share capital of the company was acquired by 2e2 Group Ltd The principal activities of the 2e2 group of companies are the delivery of outsourced computer services focussing on the maintenance, networking and managed services sectors of the market

As a result of the takeover of Morse plc was delisted from the London Stock Exchange on 21 June 2010 and its name changed to Morse Ltd on 21 June 2010

In November 2009 a Court Approved Capital Reduction process was completed and £47,882,000 of the share premium account was transferred to retained reserves

As part of simplifying and rationalising the 2e2 group structure, the investment in Morse Group Ltd was sold to 2e2 Ltd on 22 December 2010 (see note 10)

Future developments

The company continues to be an intermediate holding company with limited activity It is likely to become dormant or liquidated in the foreseeable future

Principal risks and uncertainties

As a holding company there are limited market and operational risks Discussed below are the company's major business risks, together with systems and initiatives in place to address them

Liquidity risk

This relates to the risk that the company is unable to fund its requirements because of insufficient banking facilities The group manages liquidity risk via revolving credit facilities and long term debt

Credit risk

This relates to the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation Group policies are aimed at minimising such losses and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures

Directors' report (Continued)

Directors

The directors who served the company during the period and appointed subsequently were as follows

M Phillips (resigned 21 June 2010)
S Chase (resigned 21 June 2010)
G Millward (appointed 1 July 2009, resigned 21 June 2010)
R Atkins (resigned 21 June 2010)
K Loosemore (resigned 21 June 2010)
R Shelton (resigned 21 June 2010)
N Grossman (appointed 21 June 2010)
T W Burt (appointed 21 June 2010)
S Burt (appointed 21 June 2010)

Political and charitable donations

The company made no political or charitable donations or incurred any political expenditure during the year (2009 – £nil)

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she are obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information

Auditors

KPMG LLP resigned as auditors on 23 August 2010 and Ernst & Young LLP were appointed in their place

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

By order of the Board

Simon Burt
Director
28 April 2011

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Independent auditors' report

to the members of Morse Limited

We have audited the financial statements of Morse Limited for the 18 month period ended 31 December 2010 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 22 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report (Continued)

to the members of Morse Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or

- the financial statements are not in agreement with the accounting records and returns, or

- certain disclosures of directors' remuneration specified by law are not made, or

- we have not received all the information and explanations we require for our audit

Ernst + Young LLP

Kevin Harkin (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
Reading
28 April 2011

Profit and loss account

for the 18 month period ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Administrative (expense)/income		(1,795)	(509)
Exceptional item – restructuring	5	(2,370)	(230)
Exceptional item – impairment of investment	5	(18,664)	(95,411)
Exceptional item – loss on sale of investment	5	(26,327)	-
Operating loss	4	(49,156)	(96,150)
Interest payable	6	(19)	(54)
Interest receivable	7	-	43
Income from group undertakings	8	7,836	7,796
Loss on ordinary activities before taxation		(41,339)	(88,365)
Tax	9	(69)	255
Loss for the financial period	17	(41,408)	(88,110)

Statement of total recognised gains and losses

for the period ended 31 December 2010

There are no recognised gains or losses other than the loss attributable to the shareholders of the company of £41 4 million in the period ended 31 December 2010 (2009 – loss of £88 1 million)

Balance sheet

at 31 December 2010 and 30 June 2009

	Notes	2010 £'000	2009 £'000
Fixed assets			
Investments	10	15,385	71,712
Current assets			
Debtors	11	11,375	168
Cash at bank and in hand		11	0
		11,386	168
Interest bearing loans	12	-	(1,916)
Creditors amounts falling due within one year	13	(29,229)	(30,700)
Deferred consideration	14	-	(524)
Provisions	15	-	(230)
Net current liabilities		(29,229)	(33,370)
Total assets less current liabilities		(2,458)	38,510
Non-current deferred consideration	14	-	(484)
Net (liabilities)/assets		(2,458)	38,026
Capital and reserves			
Called up share capital	16	16,749	15,935
Share premium account	17	22,964	70,790
Other reserves	17	168	168
Own share reserve	17	-	(984)
Profit and loss account	17	(42,339)	(47,883)
Shareholders' funds		(2,458)	38,026

Simon Burt
Director
28 April 2011

Notes to the financial statements

at 31 December 2010

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

Statement of cash flows

The company has taken advantage of the exemption available under FRS 1 not to prepare a statement of cash flows

Going concern

The directors, after making appropriate enquiries, have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future

Based on this undertaking the directors believe that it remains appropriate to prepare financial statements on a going concern basis

Investments

The carrying values of fixed asset investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with following exceptions

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

In June 2010 the Morse group was acquired by the 2e2 Group A deferred tax asset has not been recognised in respect of timing differences as there is insufficient evidence that the asset will be recovered

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Notes to the financial statements

at 31 December 2010

1. Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date

All differences are taken to the profit and loss account

Group Financial Statements

No consolidated group financial statements have been prepared because at 31 December 2010, the company was a wholly owned subsidiary of 2e2 Group Limited (incorporated in the United Kingdom) and thus satisfies the conditions for exemption under section 400 of the Companies Act 2006 These financial statements contain information about the Company an individual undertaking, and not its group

2. Dividends paid and proposed

	2010 *£'000*	*2009* *£'000*
Declared and paid during the year		
Equity dividend on ordinary shares		
Final dividend for 2010 0p (2009 1 30p)	-	1,665

No dividend proposed for approval by the directors

3. Information regarding employees, directors and their interests

(a) Directors' remuneration

	Basic Salary £'000	NI ER £'000	Benefits and allowances £'000	Shares £'000	Bonus £'000	Total £'000	Redundancy £'000	Pension cont £'000	Total £'000
M Phillips	268	45	11	1,031	100	1,455	-	35	1,490
P Shelton	39	4	-	-	-	43	3	-	46
S Chase	146	23	10	419	35	633	-	13	646
G Millward	175	22	11	357	-	565	-	11	576
K Loosemore	117	21	-	-	-	138	60	-	198
R Atkins	41	5	-	-	-	46	11	-	57
	786	**120**	**32**	**1,807**	**135**	**2,880**	**74**	**59**	**3,013**

Three directors (including the highest paid director) exercised share options during the period

Notes to the financial statements

at 31 December 2010

3. Information regarding employees, directors and their interests (continued)

(b) Employees

	2010	2009
	Number	Number
Average monthly number of persons employed (including directors) by the Company during the year		
Management and administration	12	6

(c) Staff costs (including directors)

	2010	*2009*
	£'000	*£'000*
Wages and salaries	1,263	-
Social security costs	256	-
Other pension costs	89	-
Share based payments	774	483
Redundancy	635	-
	3,017	483

4. Operating loss

This is stated after charging/(crediting)

	2010	*2009*
	£'000	*£'000*
Foreign exchange loss/(gain)	55	(83)
Bank charges	71	1
Exceptional item impairment of investment (see note 5)	26,327	95,411
Exceptional item loss on sale of investment (see note 5)	18,664	-
Exceptional item restructuring (see note 5)	2,370	230

Notes to the financial statements

at 31 December 2010

5. Exceptional items

	2010	*2009*
	£'000	*£'000*
Impairment of investment	26,327	95,411
Loss on sale of investment	18,664	-
Restructuring	2,370	230
	47,361	95,641

In the period ended 31 December 2010 the impairment of the investment carrying value relates to investments in the Business Applications Services division (£15,900 thousand) and in the Infrastructure Services and Technology division (£10,427 thousand) In the year ended 30 June 2009 the impairment represents write downs of investments in the Infrastructure Services & Technology UK business unit, Infrastructure Services & Technology Europe business units, Business Applications Services business unit, Investment Management Consulting business unit

Morse Group Ltd was sold to 2e2 Ltd on 22 December 2010 for a consideration of £11,336 thousand The sale resulted in a loss of £18,664 thousand as the carrying value of the investment in Morse Group Ltd was £30,000 thousand

In the period ended 31 December 2010 restructuring costs represent legal and professional fees relating to the disposal of the business to 2e2 Ltd in June 2010 In the year ended 30 June 2009 the restructuring spend related to the costs of restructuring undertaken in the year and for the capital reduction process

6. Interest payable

	2010	*2009*
	£'000	*£'000*
Interest payable on group balances	-	7
Bank interest	19	47
	19	54

7. Interest receivable

	2010	*2009*
	£'000£	*£'000*
Interest receivable on group balances	-	12
Bank interest	-	31
	-	43

Notes to the financial statements

at 31 December 2010

8. Dividends receivable

	2010	*2009*
	£'000£	*£'000*
Dıvıdends from Morse Overseas Holdıngs Ltd	5,448	4,246
Dıvıdends from ASMMC Ltd	-	3,550
Dıvıdends from Xayce Ltd	2,388	-
	7,836	7,796

9. Tax

(a) Tax on loss on ordınary actıvıtıes

The tax charge ıs made up as follows

	2010	*2009*
	£'000	*£'000*
Current tax		
UK corporatıon tax (credıt) on the loss for the perıod	-	(69)
Adjustment ın respect of prevıous perıods	69	(187)
Total current tax charge/(credıt) (note 6(b))	69	(256)

(b) Factors affectıng current tax charge for the perıod

The tax assessed for the year ıs hıgher than the standard rate of corporatıon tax ın the UK of 28% (2009 – 28%) The dıfferences are explaıned below

	2010	*2009*
	£'000	*£'000*
Loss on ordınary actıvıtıes before tax	(41,339)	96,161
Tax credıt on ordınary actıvıtıes multıplıed by standard rate of corporatıon tax ın the UK of 28% (2009 – 28%)	(11,575)	(26,925)
Effects of		
Expenses not deductıble for tax purposes	9,596	26,856
Other tımıng dıfferences	9	-
Group relıef surrendered/(receıved) for nıl payment	1,970	-
Adjustment ın respect of prevıous perıods	69	(187)
Current tax charge/(credıt) for the perıod (note 6(a))	69	(256)

Factors affectıng future tax charge

The company has tax losses of £1,983,000 (2009 – £1,983,000) that are avaılable ındefınıtely for offset agaınst future taxable profits Deferred tax asset of £535,000 (2009 - £555,000) has not been recognısed as they are not consıdered recoverable at thıs tıme

Notes to the financial statements (Continued)

at 31 December 2010

Finance Act 2010, which included a reduction in the UK corporate tax rate to 27% was substantially enacted on 21 July 2010 Therefore the deferred tax assets and liabilities of the company have been calculated at this rate

In his budget of 23 March 2011, the Chancellor of the Exchequer announced Budget tax changes, which, if enacted in the proposed manner, will have an effect on the company's future tax position The Budget proposed a decrease in the rate of UK corporation tax from 27% to 26% in April 2011 and by a further 1% each year until 2014 This reduction will affect any future and current tax charge of the company The effect of the reduction in the tax rate to 23% would be to reduce the unrecognised deferred tax asset by a maximum of £79,000

The effect on the Company of these proposed changes to the UK tax system will be reflected in the Company's financial statements in future years, as appropriate, once the proposals have been substantively enacted

10 Investments

	Subsidiary undertakings £'000
Cost	
At 1 July 2008	153,658
Additions	49,310
Share based payments	617
Reduction in investment costs	(3,050)
At 30 June 2009	200,535
Disposals	(30,000)
At 31 December 2010	170,535
Provision at 1 July 2008	28,629
Provision against additions in the year	4,783
Impairment	95,411
Provision at 30 June 2009	128,823
Impairment	26,327
At 31 December 2010	155,150
Net book value	
At 31 December 2010	**15,385**
At 1 July 2009	71,712

The disposals in the period relate to the sale of Morse Group Ltd on 22 December 2010

Notes to the financial statements (Continued)

at 31 December 2010

10. Investments (continued)

The impairment provision of £26,327 was made in the current year against the investment in the Business Applications Services division (£15,900 thousand) and in the Infrastructure Services and Technology division (£10,427 thousand)

The additions in the year ended 30 June 2009, represent the investment in Morse Overseas Holdings Ltd of £49,308,000 and the investment in D&C Financial Consultants Ltd of £2,000 The investment in Morse Overseas Holdings Ltd resulted from the conversion of the intercompany balance at 30 June 2009 into investments The intercompany balance converted was made up of a gross amount of £49,308,000 and a provision of £4,783,000 Accordingly, when the investment was recognised in the accounts of the company a provision of £4,783,000 was also booked

Share based payments reflect the costs of share based payments which have been charged to the business units The cost is allocated on the basis of the business unit which gets the benefit of the services of the employee for which share costs are incurred by the company

The reductions to investment cost reflect the repayment of capital of £2,000,000 from ASMMC Limited (formerly CSTIM Limited) which has been treated as a deduction in the cost of the investment, £888,000 due to changes in deferred consideration on the acquisition of Xayce Limited (formerly Xayce plc) and £172k due to changes in the deferred consideration in D&C Financial Consulting Limited

A detailed impairment review was carried out at the end of the year to assess the carrying value of the investments held by the company In the year ended 30 June 2009 the provision for impairment increased by £100,194,000 and represents the write down of the investment in the Infrastructure Services & Technology UK business unit, Infrastructure Services & Technology Europe business units, Business Applications Services business unit, Investment Management Consulting business unit and the share based payments investment made during the year

Notes to the financial statements (Continued)

at 31 December 2010

10. 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
ASMMC Limited	Provision of advisory services to companies engaged in investment management	100%	England and Wales

Notes to the financial statements (Continued)

at 31 December 2010

10. Investments (continued)

Subsidiary undertakings	Principal activity	Percentage of Ordinary shares and voting rights held	Country of registration and incorporation
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
Xayce Limited	Sale of IT solutions and professional services	100%	England and Wales
Morse Overseas holdings Ltd	Investment holding	100%	England and Wales
MFT Computer Holdings Ltd*	Investment holding	100%	England and Wales
Diagonal Ltd	Investment holding	100%	England and Wales

* Indirectly held through subsidiary companies

Notes to the financial statements (Continued)

at 31 December 2010

11. Debtors

	2010 *£'000*	*2009* *£'000*
Amounts due from group companies	11 375	97
Other	-	2
Current tax receivable	-	69
	11,375	168

12. Interest bearing loans and borrowings

	2010 *£'000*	*2009* *£'000*
Bank	-	1,916

At 30 June 2009 the company had a credit balance of £1 9m in its bank accounts This balance formed part of the Group pooling balances with Royal Bank of Scotland and so no interest is payable

13. Creditors: amounts falling due within one year

	2010 *£'000*	*2009* *£'000*
Trade creditors	193	7
Amounts owed to other group companies	28,720	30,675
Accruals and deferred income	316	18
	29,229	30,700

14. Deferred consideration

The deferred consideration payable related to the amounts due to vendors of Xayce plc, acquired by Morse in September 2007 The amount of the deferred consideration at 30 June 2009 was £1,008,000 of which £524,000 was payable within one year and £484,000 was payable after more than one year The deferred consideration for Xayce plc was settled in 2010 and the balance as at 31 December 2010 is nil

15. Provisions

The provisions balance at 30 June 2009 represented legal and professional costs relating to restructuring and the capital reduction process There are no provisions required as at 31 December 2010

Notes to the financial statements (Continued)

at 31 December 2010

16. Issued share capital

		2010		*2009*
Authorised	*No*	*£'000*	*No*	*£'000*
Ordinary shares of 12 27p each	203,748,981	25,000	203,748,981	25,000
Allotted and fully paid	*No*	*£'000*	*No*	*£'000*
Ordinary shares of 12 27p each	136,504,251	16,749	129,867,538	15,935

Notes to the financial statements (Continued)

at 31 December 2010

17. Reconciliation of shareholders' funds and movements on reserves

	Share capital	Share capital to be issued	Share premium account	Capital redemption reserve	Other	Merger reserve	Total other reserves	Retained earnings	Own shares	Total
	£'000	£ 000	£ 000	£'000	£'000	£'000	£'000	£'000	£'000	£ 000
At 1 July 2008	**15,825**	**3,022**	**70,790**	**168**	**200**	**32,023**	**32,391**	**7,866**	**-**	**129,894**
Loss for the year	-	-	-	-	-	-	-	(88 110)	-	(88,110)
Purchase of own shares	-	-	-	-	-	-	-	55	(984)	(929)
Share options charge	-	-	-	-	-	-	-	1,412	-	1 412
Issue of shares relating to acquisition of subsidiaries	110	(446)	-	-	-	336	336	-	-	-
Shares to be issued for deferred consideration now to be settled in cash	-	(1,250)	-	-	-	-	-	-	-	(1,250)
Revaluation of contingent consideration	-	(1,326)	-	-	-	-	-	-	-	(1 326)
Dividends paid	-	-	-	-	-	-	-	(1 665)	-	(1 665)
Release of merger and other reserve	-	-	-	-	(200)	(32,359)	(32,559)	32,559	-	-
At 30 June 2009	**15,935**	**-**	**70,790**	**168**	**-**	**-**	**168**	**(47,883)**	**(984)**	**38,026**
Loss for the year	-	-	-	-	-	-	-	(41,408)	-	(41 408)
Purchase of own shares	-	-	-	-	-	-	-	-	(720)	(720)
Share options charge	-	-	-	-	-	-	-	774	-	774
Issue of shares	814	-	56	-	-	-	-	-	-	870
Transfer	-	-	-	-	-	-	-	(1,704)	1,704	-
Capital reduction	-	-	(47,882)	-	-	-	-	47,882	-	-
At 31 December 2010	**16,749**	**-**	**22,964**	**168**	**-**	**-**	**168**	**(42,339)**	**-**	**(2,458)**

Notes to the financial statements (Continued)

at 31 December 2010

17. Reconciliation of shareholders' funds and movements on reserves (continued)

In the period ended 31 December 2010, the share capital issued at nominal value in the period relates to the exercise of share options (6,636,713 shares)

The premium arising on the exercise of share options was £55 thousand (2009 nil) On the exercise of share options, £869 thousand (2009 £nil) 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

Own shares reserve represents shares held by the various Employee Benefit Trusts During the year EBT purchased own shares for £720 thousand These were reclassified to retained earnings in the statement of equity in the period resulting in the movement between reserves

Following shareholder and court approval of the capital reduction in November 2009, £47,882 thousand has been transferred from the share premium account to retained earnings

18. Contingent liabilities

At 31 December 2010 the company had no contingent liabilities (2009 – £nil)

19. Financial commitments

Following the acquisition of Morse plc by 2e2 Ltd on 21 June 2010, the company entered into a cross guarantee on 21 June 2010 for the amount of £85,000,000, in favour of certain investors

20. Ultimate parent company and controlling party

The immediate parent company of Morse Limited is 2e2 Group Limited, a company incorporated in the United Kingdom The ultimate holding company and controlling party is 2e2 Holdings Limited, a company incorporated in the United Kingdom

The smallest undertaking into which the results of the company are consolidated is 2e2 Group Limited The largest undertaking into which the results of the company are consolidated is 2e2 Holdings Limited Copies of financial statements for 2e2 Group Limited can be obtained from the company's registered office at The Mansion House, Benham Valence, Newbury, Berkshire RG20 8LU

The company has taken advantage of FRS 8 "Related Party Disclosures" and has not disclosed transactions within group undertakings

21. Post balance sheet events

There are no post balance sheet events

Notes to the financial statements (Continued)

at 31 December 2010

22. Share-based payments

The group share option programme allowed employees of subsidiaries to acquire shares of the company These awards were granted by the Company

Long Term Incentive Plan

Under the Long Term Incentive Plan the exercise price is £nil The options vest if the group earnings per share and shareholder return increase in real terms during the vesting period A failure to meet this target within three years from the date of grant causes the options to lapse The contractual life of each option granted is four years There are no cash settlement alternatives

Employee Share Scheme 2000

Share options are granted to senior executives The exercise price is equal to the estimated market price on the date of the grant The options vest if the group earnings per share amount increases by RPI +5% at the end of the vesting period A failure to meet this target within three years from the date of grant causes the options to lapse The contractual life of each option granted is ten years There are no cash settlement alternatives

Save as You Earn Scheme

The save as you earn scheme is open to all staff The exercise price is equal to the estimated market price on the date of the grant Shares vest after 3 years from the date of grant The contractual life of each option is 3½ years There are no cash settlement alternatives

The expense recognised for equity-settled share-based payment transactions in respect of employee services received during the 18 month period to 31 December 2010 is £774,332 (2009 £483,000)

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year

	2010	*2010*	*2009*	*2009*
	No	*WAEP*	*No*	*WAEP*
	('000)	(pence)	('000)	(pence)
Outstanding at 1 July	9,821	12 38	10,322	40 22
Granted during the period – other	–	–	2,030	19 50
Granted during the period – nil price	2,000	0 00	5,990	0 00
Exercised during the year	7,836	48 35	1,050	0 00
Expired / Lapsed during the year	3,985	26 63	7 471	44 58
Outstanding at 31 December/30June	–	–	9 821	12 38
Exercisable at 31 December/30 June	–	–	426	98 52

The weighted average fair value of options granted during the 18 month period to 31 December 2010 was £nil (2009 £0 049) There were no options outstanding at the end of the year The range of exercise prices for options outstanding at 31 June 2009 was £0 00 - £2 50

The fair value of equity-settled share options granted is estimated as at the date of grant using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted The following table lists the inputs to the model used for the period ended 31 December 2010 and the year ended 30 June 2009