

# Morse Limited

## Report and Financial Statements

31 December 2011

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COMPANIES HOUSE

**Directors**

N Grossman  
T W Burt  
S Burt

**Secretary**

N Grossman

**Auditors**

Ernst & Young LLP  
Apex Plaza  
Forbury Road  
Reading  
Berkshire RG1 1YE

**Bankers**

HSBC Bank plc  
70 Pall Mall  
London SW1Y 5EZ

**Solicitors**

DLA Piper UK LLP  
3 Noble Street  
London EC2V 7EE

**Registered Office**

The Mansion House  
Benham Valence  
Speen  
Newbury  
Berks RG20 8LU

Registered No 3108179

## **Directors' report**

The directors present their report and financial statements for the year ended 31 December 2011  
Comparative figures are for the 18 month period ended 31 December 2010

### **Results and dividends**

The profit for the year after taxation amounted to £8.2million (18 months ended 31 December 2010: loss of £41.4million). The directors approved and paid a dividend of £5.7 million (2010: £nil).

### **Principal activities and review of the business**

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

### **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 group is unable to fund its requirements because of insufficient banking facilities. The group manages liquidity risk via revolving credit facilities, long term debt and invoice factoring facilities. The group maintains and reviews short term and long term cash flow forecasts on a regular basis to identify on-going cash requirements.

#### **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)

### Political and charitable contributions

The company made no political or charitable donations or incurred any political expenditure during the year (2010 £nil)

### Directors

The directors who served the company during the year were as follows

N Grossman

T W Burt

S Burt

### 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 is 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

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

On behalf of the Board



Simon Burt

Director

30 April 2012

## 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 Group and 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 judgments 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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **Independent auditors' report**

## **to the members of Morse Limited**

We have audited the financial statements of Morse Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 17. 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 auditor**

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. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on the 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 2011 and of its profit for the year 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

30 April 2012

## Profit and loss account

for the year ended 31 December 2011

		<i>Year ended 31 December 2011</i>	<i>18 months ended 31 December 2010</i>
	<i>Notes</i>	<i>£000</i>	<i>£000</i>
Administrative income/(expenses)		10	(1,795)
Exceptional item – restructuring	4	-	(2,370)
– impairment of investment	4	(6,500)	(26,327)
– loss on sale of investment	4	-	(18,664)
<b>Operating Loss</b>	3	(6,490)	(49,156)
Interest payable and similar charges	5	(1)	(19)
Income from group undertakings	6	14,563	7,836
<b>Profit/(Loss) on ordinary activities before taxation</b>		8,072	(41,339)
Tax	7	108	(69)
<b>Profit/(Loss) for the financial year</b>	12	8,180	(41,408)

All amounts relate to continuing activities

## Statement of total recognised gains and losses

for the year ended 31 December 2011

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £8.2 million in the year ended 31 December 2011 (18 months ended 31 December 2010 loss of £41.4 million)



## Balance sheet

at 31 December 2011

		31 December 2011	31 December 2010
	Notes	£000	£000
<b>Fixed assets</b>			
Investments	8	-	15,385
<b>Current assets</b>			
Debtors	9	9	11,375
Cash at bank and in hand		70	11
		79	11,386
<b>Creditors</b> amounts falling due within one year	10	(79)	(29,229)
<b>Net current Assets/(Liabilities)</b>		-	(29,229)
<b>Net Assets/(Liabilities)</b>		-	(2,458)
<b>Capital and Reserves</b>			
Called up share capital	11	-	16,749
Share premium account	12	-	22,964
Other reserves	12	-	168
Own share reserve	12	-	-
Profit and loss account	12	-	(42,339)
<b>Shareholders' Funds</b>		-	(2,458)



Simon Burt  
Director  
30 April 2012

## Notes to the financial statements

at 31 December 2011

### 1. Accounting policies

#### *Basis of preparation*

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

#### *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

#### *Group financial statements*

No consolidated group financial statements have been prepared because at 31 December 2011, 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

#### *Statement of cash flows*

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

#### *Related Party Transactions*

The company has taken advantage of the exemption available under FRS 8 not to disclose transactions with other members of the 2e2 group

#### *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 the 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

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 2011

### 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

### 2. Dividends paid and proposed

	<i>Year ended 31 December 2011 £000</i>	<i>18 months ended 31 December 2010 £000</i>
Declared and paid during the year	5,722	–

### 3. Operating Loss

This is stated after charging/(crediting)

	<i>Year ended 31 December 2011 £000</i>	<i>18 months ended 31 December 2010 £000</i>
Foreign exchange loss/(gain)	-	55
Bank charges	14	71
Exceptional item impairment of investment (note 4)	6,500	26,327
Exceptional item loss on sale of investment (note 4)	-	18,664
Exceptional item restructuring (note 4)	-	2,370

The company had no employees during the year. No director received remuneration during the year (18 months ended 31 December 2010: £3.0 million). The audit fee was borne by other group companies.

### 4. Directors' remuneration

Directors' remuneration has been borne by fellow group company 2e2 Holdings Limited. It is impractical to apportion directors' salaries to Morse Ltd. Further details of the director remuneration are disclosed in the financial statements of 2e2 Holdings Limited.

# Notes to the financial statements

at 31 December 2011

## 5. Exceptional items

	<i>Year ended 31 December 2011 £000</i>	<i>18 months ended 31 December 2010 £000</i>
Impairment of investment	6,500	26,327
Loss on sale of investment	-	18,664
Restructuring	-	2,370
	<u>6,500</u>	<u>47,361</u>

In the year ended 31 December 2011 the impairment of investment relates to write downs of investments in CSTIM and Xayce Limited

## 6. Interest payable and similar charges

	<i>Year ended 31 December 2011 £000</i>	<i>18 months ended 31 December 2010 £000</i>
Bank interest	1	19
	<u>1</u>	<u>19</u>

## 7. Dividends receivable

	<i>Year ended 31 December 2011 £000</i>	<i>18 months ended 31 December 2010 £000</i>
Dividends from Diagonal Ltd	12,645	-
Dividends from Delphis Holdings Ltd	536	-
Dividends from Morse Overseas Holdings Ltd	-	5,448
Dividends from ASMMC Ltd	1,382	-
Dividends from Xayce Ltd	-	2,388
	<u>14,563</u>	<u>7,836</u>

## Notes to the financial statements

at 31 December 2011

### 8. Tax

#### (a) Tax on profit on ordinary activities

The tax charge is made up as follows

	<i>Year ended 31 December 2011 £000</i>	<i>18 months ended 31 December 2010 £000</i>
<b>Current tax</b>		
UK corporation tax on the profit for the year	-	-
Adjustment in respect of previous periods	(108)	69
Total current tax (note 8(b))	<u>(108)</u>	<u>69</u>

#### (b) Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 26.5% (2010 – 28%). The differences are explained below

	<i>Year ended 31 December 2011 £000</i>	<i>18 months ended 31 December 2010 £000</i>
Profit on ordinary activities before tax	8,072	(41,339)
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010 – 28%)	2,139	(11,575)
<i>Effects of</i>		
Non taxable income	(2,137)	9,596
Other timing differences	(19)	9
Utilisation of brought forward tax losses	(460)	-
Group relief surrendered/(received) for nil payment	477	1,970
Adjustment in respect of previous periods	(108)	69
Current tax for the year (note 8(a))	<u>(108)</u>	<u>69</u>

#### (c) Factors affecting future tax charge

In Budget 2011 on 23 March 2011, the Chancellor of the Exchequer announced a reduction in the UK rate of corporation tax to 26%. This reduced rate applied from 1 April 2011 and was enacted using secondary legislation, called the Provisional Collection of Taxes Act. A further 1% rate reduction to 25% was also announced and it was intended that this would be effective from 1 April 2012. However, in his budget of 21 March 2012, the Chancellor of the Exchequer announced a number of further changes to the UK Corporation Tax rate. These included a reduction in the UK corporation tax rate from 25% to 24% effective from 1 April 2012 (and substantively enacted as of 26 March 2012 and dealt with by Resolution under the Provisional Collection of Taxes Act). The UK government intends to further reduce the UK corporate income tax rate, to 22%, in annual increments of 1% per annum which will be enacted in successive Finance Bills. Consequently, the company will only recognise the impact of the rate change which is substantively enacted at that time in its financial statements.

## Notes to the financial statements

at 31 December 2011

### 9. Investments

	<i>Subsidiary undertakings £000</i>
Cost	
At 1 January 2011	170,535
Disposal	<u>(49,308)</u>
At 31 December 2011	<u>121,227</u>
Provision	
At 1 January 2011	155,150
Disposal	<u>(40,423)</u>
Impairment	<u>6,500</u>
At 31 December 2011	<u>121,227</u>
Net book value	
At 31 December 2011	<u>-</u>
At 1 January 2011	<u>15,385</u>

The disposal represent the investment in Morse Overseas Limited which was transferred to 2e2 Limited during the year. The impairment provision of £6.5million was made in the current year to reflect the carrying value of the remaining investments.

The Company's subsidiary undertakings are as follows

<i>Subsidiary undertakings</i>	<i>Principal activity</i>	<i>Percentage of ordinary shares and voting rights held</i>	<i>Country of registration and incorporation</i>
Diagonal Ltd	Investment holding	100%	England and Wales
Delphis EBT 1999 Ltd	Dormant	100%	England and Wales
Diagonal Quest Ltd*	Dormant	100%	England and Wales

\* Indirectly held through a subsidiary company

### 10. Debtors

	<i>2011 £000</i>	<i>2010 £000</i>
Amounts due from group companies	-	11,375
Other	<u>9</u>	<u>-</u>
	<u>9</u>	<u>11,375</u>

## Notes to the financial statements

at 31 December 2011

### 11. Creditors: amounts falling due within one year

	2011 £000	2010 £000
Trade creditors	-	193
Amounts owed to other group companies	79	28,720
Accruals and deferred income	-	316
	<u>79</u>	<u>29,229</u>

### 12. Issued share capital

		2011 £		2010 £
<i>Allotted, called up and fully paid</i>	<i>No</i>		<i>No</i>	
Ordinary shares of 0 00000001227p/12 27p	136,504,251	<u>2</u>	136,504,251	<u>16,749,072</u>

In 2010 there were 136,504,251 ordinary shares of 12 27p each. As a result of a capital reduction in 2011 the nominal value of shares was reduced to 0 00000001227p per share.

### 13. Reconciliation of shareholders' funds and movements on reserves

	Share Capital £000	Sharepremi- um account £000	Capital Redemption reserve £000	Profit and loss account £000	Total share- holders' fun- ds £000
At 1 January 2011	16,749	22,964	168	(42,339)	(2,458)
Dividends paid	-	-	-	(5,722)	(5,722)
Capital reduction	(16,749)	(22,964)	(168)	39,881	-
Profit for the year	-	-	-	8,180	8,180
At 31 December 2011	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The company paid £5.7 million (2010: £nil) of dividends to 2e2 Ltd during the year.

A capital reduction process was undertaken during the year resulting in a transfer from share capital, share premium and capital redemption reserve to retained earnings.

### 14. Contingent liabilities

At 31 December 2011 the company had no contingent liabilities (2010: £nil).

### 15. 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.

## Notes to the financial statements

at 31 December 2011

### 16 Related party transactions

The company has taken advantage of the exemption available under FRS 8 not to disclose transactions with other members of the group

### 17. Ultimate parent undertaking and controlling party

The immediate parent undertaking of Morse Limited is 2e2 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.