

11 February 2009

Morse plc

Interim results for the six months ended 31 December 2008

Morse plc ("Morse", 'the Group' or 'the Company', LSE: MOR.L), the IT services and technology company, announces its interim results for the six months ended 31 December 2008.

Following the announcement on 9 February 2009 of the disposal of the UK and Jersey Investment Management Consulting business and the classification of the whole business unit as discontinued ("IMC"), Morse will now be structured as four independent business units:

- Infrastructure Services & Technology – UK
- Infrastructure Services & Technology – Spain
- Infrastructure Services & Technology – Ireland
- Business Applications Services

As it enters the next phase of the restructuring and turnaround, Morse announces the appointment of Mike Phillips as Chief Executive Officer with effect from today. The four remaining business units will report into the Chief Executive Officer. As a result of this appointment, a search has commenced for a Group Finance Director. Upon this appointment Kevin Loosemore will revert to non executive Chairman.

Financial Highlights

Statutory results

- Revenue £114.4 million (2008: £123.8 million)
- Operating loss £17.3 million (2008: profit £6.4 million)
- Loss before tax £17.7 million (2008 restated: profit £6.2 million)
- Basic loss per share 13.5p (2008 restated: earnings per share 3.4p)
- Exceptional items of £20.0 million (2008: £Nil) comprising restructuring charges of £6.2 million and Goodwill Impairment of £13.8 million

Continuing operations

- Revenue £107.5 million (2008: £114.7 million)
- Operating profit before exceptional items and trading balance releases £1.0 million (2008: £1.5 million)
- Operating margin percentage before exceptional items and trading balance releases 1.0% (2008: 1.3%)
- Trading balance releases of £1.7 million (2008: £3.6 million) in the period
- Operating profit before exceptional items £2.7 million (2008: £5.1 million)
- Operating margin percentage before exceptional items 2.5% (2008: 4.4%)
- Profit before tax before exceptional items £2.2 million (2008 restated: £4.8 million)
- Exceptional restructuring charge in the period of £5.4 million (2008: £Nil), cash costs of £4.1 million
- Net cash at 31 December 2008 of £3.8 million (2008: £11.4 million)
 - Cash at period end of £5.9 million (2008: £11.4 million)
 - Customer specific financing of £2.1 million (2008: £nil)
- Adjusted basic loss per share before exceptional items and trading balance releases of 0.2p (2008 restated: Earnings per share 0.7p)
- The distributable reserves position means that no interim dividend can be declared (2008: 1.3p per share). Board will review options to enable possible future dividend declarations which may include a capital reduction process

Operational highlights

- Banking facilities with Royal Bank of Scotland plc reviewed and confirmed at £10 million multi currency Revolving Credit Facility and £2.5 million multi currency overdraft
- Covenants amended to take account of ongoing restructuring

Infrastructure Services and Technology - UK

- Good progress made on restructuring the overhead cost base of the division
- Clearly defined sales proposition identified and launched
- Morse in Education performed below expectations resulting in a review of the business
 - South Tyneside and Gateshead (STaG) 'Building Schools for the Future' (BSF) project will now be managed as a stand alone project reporting into the Managing Director of the Division
 - Sales and management team of the division have been made redundant, additional restructuring charge of £0.1 million in the second half of the financial year

Infrastructure Services and Technology – Europe

- Irish and Spanish economies have been hard hit by the global economic slow down
- Businesses operating around break even
- Inherently good businesses with committed management teams
- Review of structure of Spanish business will lead to further restructuring charge in second half of the financial year of between £1.5 million and £1.7 million

Business Applications Services

- Focus on three niche areas:
 - Diagonal – SAP implementation and support services
 - Xayce – Business Change and Transformation Consultancy
 - Portals and Collaboration
- Settlement reached for one of the fixed price contract disputes utilising £0.3 million of a £1.0 million project and bad debt provision set up at 30 June 2008. Good progress made on resolving the other fixed price projects. Provision of £0.7 million against problem project remains at 31 December 2008.

Discontinued operations

- On 9 February 2009 Morse announced that it had exchanged contracts on the sale of the UK and Jersey Investment Management Consulting business, formerly known as CSTIM for a maximum consideration of £1.7 million
- Completion of sale conditional upon the conclusion of TUPE transfers of staff
- Goodwill Impairment charge of £13.8 million taken at the half year
- Options being considered for the remaining businesses
- IMC classified as discontinued for the purposes of these interims statements

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

- Total restructuring costs of £6.2 million taken in the period of which £4.6 million is cash restructuring (see note 3)
- Full year charge will be between £8.0 million and £8.5 million as a result of further cost reduction opportunities
- Anticipate recouping restructuring costs in less than one year.

Dividends

- The sale of the CSTIM business will result in a write down of the fixed asset investments in Morse plc that will mean there are insufficient distributable reserves for Morse plc to declare an interim dividend
- In light of the global economic situation a review of the carrying values of all fixed asset investments and intercompany balances in the Morse plc company balance sheet is likely to lead to a further significant write down in the value of those assets
- The Board is undertaking work to determine the amount of the write downs
- Once this work is finalised the Board will review the options to enable declaration of future dividends that may include a capital reduction process
- An update on this process will be provided to shareholders in due course

Interest on Tax on open HMRC enquiries – Prior Year Adjustment

- The comparative results for the six months ended 31 December 2007 and the year ended 30 June 2008 have been restated to reflect an accrual for interest on UK corporation tax exposures which had not been recognised previously in those results. Further details of this restatement are included in note 1 to this Interim Results statement.

Commenting on the results, Kevin Loosemore, Executive Chairman of Morse plc, said:

“The period under review has seen significant change in Morse as a business. The revised operational structure makes the products and services we offer clear to our shareholders, clients, suppliers and staff. Our UK based businesses have made significant improvements in their cost base whilst the European based businesses, particularly Spain, have further restructuring to do.

Whilst we expected the market for IT services and technology to remain difficult, we did not fully anticipate the extent to which the credit crunch would impact businesses globally. This means that we have to continue to remain vigilant on costs whilst keeping the businesses focused on their new propositions. However, we still anticipate that changes to Morse's operating model and focus, together with its ongoing strong client relationships, will deliver improved underlying profitability and cash generation in the current year and into the future.”

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Morse plc

Interim results for the six months ended 31 December 2008

Executive Chairman's statement

Overview

During the period under review there have been significant changes in Morse's business structure, management and operation. In July 2008 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 began to 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 prioritises activity in the markets in which it has specialist knowledge and capabilities. Cooperation between business units is encouraged where it adds value to the client engagement and business unit profitability.

Disposal of Investment Management Consultancy

As part of this review in structure the Board commissioned a confidential sale process for the Investment Management Consulting business. In Morse's Interim Management Statement issued on 17 October 2008 we highlighted the disappointing performance of the business in the three months ended 30 September 2008.

On 9 February 2009, the Company announced the exchange of contracts on the disposal of the business and assets of the UK and Jersey Investment Management Consultancy business, formerly known as CSTIM ("CSTIM"), to Navigant Consulting (Europe) Limited. ("Navigant Consulting").

In the year to 30 June 2008 the CSTIM business generated an operating profit of £1.6 million on revenue of £9.3 million. The business has reduced in size considerably since then. In the six months ended 31 December 2008 revenues were £3.2 million and there was a small operating loss of £44,000.

As result of the deterioration in the financial performance of the business Morse restructured CSTIM in November and December 2008 with two rounds of redundancies at a cost of c £0.25 million.

The transfer of the business to Navigant Consulting concludes a long sale process which commenced last summer before the full onset of the credit crunch and deterioration in financial performance of CSTIM. The Board of Morse concluded that it had only two options for the business:

- (i) pursue the immediate closure of the business, at an approximate cost to Morse of £0.75 million, which would not need shareholder approval; or
- (ii) the sale of the business without shareholder approval on the terms agreed with Navigant Consulting.

No other party remained interested in CSTIM and Navigant Consulting confirmed to Morse that they would not proceed on the agreed terms if there were a delay to obtain shareholder approval. In these circumstances there was no prospect of shareholder approval being acquired prior to the disposal of the

business. As a consequence the UKLA agreed to waive the technical requirement for shareholder approval in order to avoid the closure of the business and the consequent cost to the company.

The Board had concluded that it was acting in the best interests of shareholders and CSTIM management and employees by pursuing the agreed transaction with Navigant Consulting without obtaining shareholder approval due to the disposal proceeds exceeding the loss the business will suffer through a closure of CSTIM.

The business and assets transfer will be effected through a Transfer of Undertakings (Protection of Employment) regulations 2006 ("TUPE") consultation process and is conditional upon this transfer to Navigant Consulting being completed satisfactorily. A two week TUPE consultation period commenced on 9 February for the management and staff of the CSTIM business.

The maximum consideration for the transaction receivable by Morse is £1.7 million. The initial consideration is £1.3 million payable in cash at completion. Deferred consideration of up to £0.4 million is payable in cash and is dependent upon the operating profit performance of CSTIM in the 12 months ending on 30 June 2009. The gross assets being transferred are £13,000 and the book value of net liabilities being transferred is £0.42 million and Morse will retain and be responsible for the collection of the outstanding trade debtors. The proceeds of the sale will be used for general corporate purposes.

CSTIM forms the largest part of Morse's IMC business unit. The remaining parts of IMC are operated through majority owned subsidiary undertakings in France and Australia, small operations in South Africa and Luxembourg and a flexible resourcing business in the UK called SkillsHub. The South African and Luxembourg businesses are being closed down and options for the French, Australian and SkillsHub businesses are being considered. Consequently, the IMC business unit is considered to be discontinued for Financial Reporting purposes.

As a result of the sale there will be an impairment to goodwill on Morse's consolidated balance sheet, relating to the IMC business units, of £13.8 million arising from the sale and there will also be a write down of the same amount in the carrying value of the investment in Morse plc's company balance sheet.

Board changes

As it enters the next phase of the restructuring and turnaround, Morse announced today that Mike Phillips will become Chief Executive Officer with immediate effect and the four business units will report to him. As a result of this appointment a search for a Group Finance Director has commenced and Kevin Loosemore will remain in his role as Executive Chairman until a Group Finance Director is appointed. At that time he will revert to non executive Chairman.

As also announced today, Michael Benson has stepped down from the Board. Richard Atkins has been appointed Senior Independent Director and Chairman of the Nomination Committee with immediate effect.

Continuing Operations performance in the period

Overall the Continuing Operations of the Group delivered revenues of £107.5 million (2008: £114.7 million) and an operating profit before exceptional items of £2.7 million (2008: £5.1 million) at an operating margin of 2.5% (2008: 4.4%) Once the effect of trading balance releases is removed the operating profit before trading balance releases and exceptional items is £1.0 million (2008: £1.5 million) and the operating margin falls to 1.0% (2008: 1.3%).

The Group is committed to improving the operational efficiency of the business. The first steps towards this target were taken in the first half of the year with a restructuring programme intended to reduce the

overheads of the Group without impacting the sales and delivery capability of the group. This cost reduction exercise was started in July 2008 prior to the full impact of the global economic slowdown taking effect in the autumn. Management increased the level of restructuring in October 2008 and after the period end have commenced further restructuring of the overhead cost base, particularly in IS&T Spain. The total estimated cost of the restructuring programme in the current financial year is £8.0 million to £8.5 million of which £6.2 million was incurred in the first half, £5.4 million on continuing operations and £0.8 million on discontinued operations. It is anticipated that the Group will recoup these restructuring costs in less than one year. Total Group employees at 30 June 2008 was 1,420 and by 31 December 2008 this had reduced to 1,179.

Infrastructure Services & Technology – UK

This is the largest business unit in the Group and generated revenues of £57.2 million (2008: £62.5 million) and an operating profit before exceptional items of £3.0 million (2008: £2.2 million). This improved operating margin percentage of 5.2% (2008: 3.5%) was achieved despite the impact of the bad debt provision of £0.5 million arising from Lehman Brothers filing for Chapter 11 on 15 September 2008.

Infrastructure Services & Technology UK 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 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

The Technology business (principally product sales) had revenue of £39.1 million (2008: £41.5 million). 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 had revenues of £17.3 million (2008 £21.0 million) reflecting the impact of a number major programmes of work that came to completion in the second half of FY 2008, together with a tighter market for discretionary services spend and the summer months together with an impact from Lehmans. The proposed 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.

The Morse in Education business had a disappointing period with revenue of only £0.8 million (2008: £nil). The Board has concluded that the significant time period over which the South Tyneside and Gateshead contract will be implemented and the difficulty of winning further projects is not the best use of Morse's resources. Consequently in January 2009 the management and sales team of Morse in Education was made redundant and the STaG project is now being managed as a stand alone project.

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

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 six months ended 31 December 2008, revenue was £29.3 million (2008: £29.0 million) and breakeven at operating profit level (2008: £1.2 million). The reported results benefited from the strengthening of the Euro against the Sterling and under constant currency, revenues declined by 15%.

Both our Spanish and Irish businesses have been hit hard by the weakness in their respective economies.

In Spain, after a period of six years of significant growth, Morse has experienced a difficult period in FY 2008, particularly in the technology business, mainly due to increased investment caution in key clients and the challenging economic environment. Consequently, action was taken to reduce costs in July 2008. Following a review of the Spanish business in January 2009 a further restructuring programme has commenced. The cost of this restructuring programme will be between Euro 1.5 million and Euro 1.7 million and will be incurred in the second half of the current financial year.

It is expected that the economic environment in Spain will remain challenging in the current financial year. 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. It is a client-centric organisation and responds to our client's requirements. It continues 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.

However, in the six months to 31 December 2008 the business has suffered from the economic difficulties in Ireland. The management team has restructured the business and is committed to delivering the best result in difficult times.

Business Applications Services

Business Applications Services is organised around three separate businesses

- Diagonal – SAP implementation and support services
- Xayce – Business Change and Transformation Consultancy
- Portals and Collaboration

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

In the six month ended 31 December 2008 revenue was £21.0 million (2008: £23.2 million). Operating profit before exceptional items was £0.9 million (2008: £0.4 million).

Diagonal – SAP implementation and support services

Revenue during the six months ended 31 December 2008 was £13.9 million (2008: £17.9 million). This line of business has historically suffered from delivery challenges of a number of fixed price projects which have significantly impacted the revenue and profit performance of the business. In the year ended June 2008 a provision of £0.7 million was made for these problem projects and a bad debt provision of £0.3 million was also made. During the period to December 2008 one of these problem projects was resolved and the bad debt provision was utilised. The business unit continues to work to resolve the remaining problem projects.

The issue on fixed price projects has led to a more robust project management process and an increased focus on contract profitability reviews

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.

Xayce – Business Change and Transformation Consultancy

Xayce specialises in the Financial Services and Local Government markets and clients include leading banks, insurance companies and several large local authorities. Xayce contributed £2.7 million in revenue in the six months to 31 December 2008 (2008: £1.3 million from date of acquisition in September 2007). The former principals of Xayce remain with the business and are committed to delivering a strong operational performance.

Portals and Collaboration

The Portals and Collaboration 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. This business line had revenues of £4.4 million in the period (2008: £ 4.0 million)

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 has been implemented allowing better deployment and management of our skills and resources, providing improved utilisation.

Dividends

The carrying value of the investment in CSTIM Limited, the company acquired in April 2004, in the company balance sheet of Morse plc as at 30 June 2008 was £16 million. This was part of total Fixed Asset Investments of £125 million held on the balance sheet of Morse plc at that date. The Board has concluded that the net realisable value of the investment in CSTIM Limited is a minimum of £2.2 million with the result that there will be a write down of up to £13.8 million in Morse plc's company balance sheet in respect of this investment.

As a consequence of this write down Morse plc will have negative distributable reserves and will be unable to declare an interim dividend. In light of this and the current economic environment, the Board is undertaking a review of the remaining Fixed Asset Investments and the recoverability of inter company debtors owed to Morse plc. When this work is finalised the Board will review options to enable the possible declaration of future dividends which may include a capital reduction process. The Board will provide an update to shareholders in due course.

Cash and Banking Facilities

Morse has historically operated a policy of seeking to maximise the reported cash balance at financial reporting period ends. To ensure an appropriate (high) level of focus on cash and a more conservative view in what is used to manage and report on the business, the new Executive Management team published a chart showing the weekly balances as shown on bank statements for the period from 1 July 2006. This chart is published again today and is available at www.morse.com and in the analyst presentation to be given later today.

Since 30 September 2008 the relationship between cash on the balance sheet and cash per the bank has reverted to a more normal position where the bank position shows a higher cash balance than the balance sheet position. Net cash/debt position is reduced further by the Customer Specific Funding arrangements entered into by the Group.

The principal banking facilities of the Group are with the Royal Bank of Scotland plc. These facilities consist of a committed £10 million multi currency Revolving Credit Facility ("RCF") and a £2.5 million multi currency overdraft facility. The RCF is committed to 28 March 2010 and has covenants that relate to:

- Gearing (Gross Borrowings to shareholder funds);
- Interest cover (PBIT to Borrowing costs); and
- Leverage (Gross Borrowings to EBITDA)

In light of the net debt position of the Group at 30 September 2008 and the costs associated with the restructuring announced in July 2008, the Company commenced discussions with the Royal Bank of Scotland plc over the changes in the covenant calculations to take account of a maximum of £6 million of cash restructuring costs during the current financial year and a reduction in shareholders funds that could arise from the restructuring programme and disposal of IMC.

These discussions were concluded satisfactorily in late December with the amendments to the covenant calculations providing the company with sufficient access to funds for the foreseeable future. During these negotiations the Royal Bank of Scotland plc were extremely supportive of the actions being taken by management and the Group is in the process of consolidating all of its UK banking arrangements with the bank.

Deferred consideration

Xayce was acquired in September 2007 and had an earnout period to 30 June 2008 which was successfully completed. As a result deferred consideration of £2.5 million was payable to be settled by the issue of new ordinary shares at an issue price of 95.45 pence. 711,236 shares were issued in July 2008 which settled £678,875 of deferred consideration. Morse and the vendors have negotiated settlement of the remaining deferred consideration at a value £1.25 million which will now be settled in cash over the period to 31 July 2011.

Outlook

The Board would like to thank all the Group's employees for their continued hard work and commitment throughout the period under review. It has been a difficult time for the business compounded by the downturn in the economic environment. We have and will continue to experience significant change and we believe we will emerge a much stronger organisation with clear opportunities ahead.

We have completed the execution of the revised business strategy for the Morse business and implemented the changes to simplify the structure and focus on the four remaining business units Infrastructure Services & Technology in the UK, Spain and Ireland and Business Applications Services. Significant cost reductions have either been implemented or are in plan. In addition, we have started to establish a niche focus in each of these businesses.

Whilst the risks to the business outlined in the Annual Report for the year ended 30 June 2008 still apply the revised strategy does not envisage any acquisitions in the foreseeable future. The maintenance of liquidity is of prime importance and the renewed banking facilities mitigate that risk. The risk of our counterparties suffering the effects of the economic environment means that we must continue to be vigilant on cost control and cash collections.

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 and into the future.

Kevin Loosemore
Executive Chairman
11 February 2009

Morse plc
Consolidated income statement
for the six months ended 31 December 2008

		Unaudited six months ended 31 December 2008			Total, including discontinued operations*	Unaudited six months ended 31 December 2007	Audited Year ended 30 June 2008
	Note	Continuing £'000	Discontinued £'000	Total £'000	Restated (Note 1) Total £'000	Restated (Note 1) Total £'000	
Group revenue	2	107,517	6,835	114,352	123,801	253,259	
Total cost of sales		(85,885)	(5,533)	(91,418)	(95,005)	(195,666)	
Gross profit		21,632	1,302	22,934	28,796	57,593	
Distribution expenses		(9,394)	-	(9,394)	(8,810)	(21,767)	
Administrative expenses before impairment charge and exceptional restructuring costs		(9,584)	(1,255)	(10,839)	(13,595)	(24,702)	
Impairment charge	3	-	(13,795)	(13,795)	-	(13,400)	
Exceptional restructuring costs	3	(5,389)	(815)	(6,204)	-	-	
Administrative expenses		(14,973)	(15,865)	(30,838)	(13,595)	(38,102)	
Group operating profit before impairment charge and exceptional restructuring costs	2	2,654	47	2,701	6,391	11,124	
Impairment charge	3	-	(13,795)	(13,795)	-	(13,400)	
Exceptional restructuring costs	3	(5,389)	(815)	(6,204)	-	-	
Group operating (loss) / profit	2	(2,735)	(14,563)	(17,298)	6,391	(2,276)	
Financial income	4	142	28	170	311	615	
Financial expenses	4	(615)	-	(615)	(537)	(1,015)	
Net financing (expense) / income		(473)	28	(445)	(226)	(400)	
(Loss)/Profit before taxation		(3,208)	(14,535)	(17,743)	6,165	(2,676)	
UK taxation		(40)	(5)	(45)	(1,554)	(1,375)	
Overseas taxation		235	-	235	(164)	(620)	
Taxation	5	195	(5)	190	(1,718)	(1,995)	
(Loss) / profit for the period	2	(3,013)	(14,540)	(17,553)	4,447	(4,671)	
Attributable to:							
Equity holders of the parent		(3,013)	(14,568)	(17,581)	4,355	(4,795)	
Minority interests		-	28	28	92	124	
(Loss) / Profit for the period		(3,013)	(14,540)	(17,553)	4,447	(4,671)	
Dividends		1,665	-	1,665	4,428	6,091	
Basic (loss) / earnings per share	6	(2.3)p	(11.2)p	(13.5)p	3.4p	(3.7)p	
Diluted (loss) / earnings per share	6	(2.3)p	(11.2)p	(13.5)p	3.2p	(3.7)p	

* Refer to the following pages for the analysis of continuing and discontinued operations

Morse plc
Consolidated income statements
for the six months ended 31 December 2007
and the year ended 30 June 2008

	Note	Unaudited six months ended 31 December 2007			Audited year ended 30 June 2008		
		Restated (Note 1)			Restated (Note 1)		
		Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Group revenue	2	114,723	9,078	123,801	235,258	18,001	253,259
Total cost of sales		(89,004)	(6,001)	(95,005)	(183,286)	(12,380)	(195,666)
Gross profit		25,719	3,077	28,796	51,972	5,621	57,593
Distribution expenses		(8,810)	-	(8,810)	(21,767)	-	(21,767)
Administrative expenses before impairment charge		(11,814)	(1,781)	(13,595)	(21,548)	(3,154)	(24,702)
Impairment charge	3	-	-	-	(13,400)	-	(13,400)
Administrative expenses		(11,814)	(1,781)	(13,595)	(34,948)	(3,154)	(38,102)
Group operating profit/(loss) before impairment charge	2	5,095	1,296	6,391	8,657	2,467	11,124
Impairment charge	3	-	-	-	(13,400)	-	(13,400)
Group operating profit/(loss)	2	5,095	1,296	6,391	(4,743)	2,467	(2,276)
Financial income	4	269	42	311	572	43	615
Financial expenses	4	(538)	1	(537)	(1,013)	(2)	(1,015)
Net financing		(269)	43	(226)	(441)	41	(400)
Profit/(loss) before taxation		4,826	1,339	6,165	(5,184)	2,508	(2,676)
UK taxation		(1,152)	(402)	(1,554)	(700)	(675)	(1,375)
Overseas taxation		(164)	-	(164)	(620)	-	(620)
Taxation	5	(1,316)	(402)	(1,718)	(1,320)	(675)	(1,995)
Profit/(loss) for the period	2	3,510	937	4,447	(6,504)	1,833	(4,671)
Attributable to:							
Equity holders of the parent		3,510	845	4,355	(6,504)	1,709	(4,795)
Minority interests		-	92	92	-	124	124
Profit/(loss) for the period		3,510	937	4,447	(6,504)	1,833	(4,671)

Morse plc
Consolidated statement of recognised income and expense
for the six months ended 31 December 2008

	Unaudited Six months ended 31 December 2008	Unaudited Six months ended 31 December 2007	Audited Year ended 30 June 2008
	£'000	Restated (Note 1) £'000	Restated (Note 1) £'000
Foreign exchange translation differences	3,702	885	1,472
Net income and expense recognised directly in equity	3,702	885	1,472
Profit/(loss) for the period, as previously reported	-	4,602	(4,376)
Financial expense	-	(222)	(421)
Taxation	-	67	126
(Loss)/profit for the period (restated)	(17,553)	4,447	(4,671)
Total recognised income and expense	(13,851)	5,332	(3,199)
Total recognised income and expense for the period is attributable to:			
Equity holders of the parent	(13,879)	5,240	(3,323)
Minority interest	28	92	124
Total recognised income and expense	(13,851)	5,332	(3,199)

Morse plc
Consolidated balance sheet as at 31 December 2008

	Note	Unaudited 31 December 2008	Unaudited 31 December 2007	Audited 30 June 2008
			Restated (Note 1)	Restated (Note 1)
Assets		£'000	£'000	£'000
Non-current assets				
Property, plant and equipment		1,842	2,290	2,203
Goodwill	7	28,603	55,850	43,530
Other intangibles		4,029	6,662	4,788
Investments		-	51	-
Deferred tax assets		1,183	992	1,005
Total non-current assets		35,657	65,845	51,526
Current assets				
Inventory		1,935	2,654	1,396
Assets classified as held for sale	8	1,430	-	-
Trade and other receivables	9	72,229	79,571	79,844
Cash and cash equivalents		5,891	11,363	11,078
Total current assets		81,485	93,588	92,318
Total assets		117,142	159,433	143,844
Liabilities				
Current liabilities				
Interest bearing loans and borrowings		(2,115)	-	-
Trade and other payables	10	(64,248)	(82,224)	(78,006)
Tax payable		(7,547)	(9,319)	(8,084)
Liabilities classified as held for sale	8	(1,384)	-	-
Deferred consideration	11	(606)	-	-
Interest creditor		(1,924)	(1,537)	(1,736)
Provisions		(1,307)	(843)	(1,026)
Total current liabilities		(79,131)	(93,923)	(88,852)
Non-current liabilities				
Deferred consideration	11	(660)	-	-
Deferred tax liability		(426)	(214)	(347)
Provisions		(593)	(174)	(411)
Total non-current liabilities		(1,679)	(388)	(758)
Net assets		36,332	65,122	54,234
Capital and reserves				
Called up share capital	12	15,935	15,824	15,825
Share capital to be issued	12	194	2,848	3,022
Share premium account	12	70,790	71,968	70,790
Other reserves	12	37,428	31,753	33,424
Retained earnings	12	(88,357)	(57,487)	(69,106)
Total equity attributable to equity shareholders		35,990	64,906	53,955
Minority interest	12	342	216	279
Total equity		36,332	65,122	54,234

Morse plc
Consolidated cash flow statement for the six months ended
31 December 2008

		Unaudited Six months ended 31 December 2008	Unaudited Six months ended 31 December 2007	Audited Year ended 30 June 2008
			Restated (Note 1)	Restated (Note 1)
	Note	£'000	£'000	£'000
Cash flows from operating activities				
(Loss)/Profit before tax		(17,743)	6,165	(2,676)
Adjustments for:				
Depreciation and amortisation		1,478	1,229	3,080
Financial income		(170)	(311)	(615)
Financial expenses		615	537	1,015
Impairment of goodwill and intangibles	7	13,795	-	13,400
Loss on sale of property, plant and equipment		-	71	89
Share options charge		751	450	346
Operating profit before changes in working capital and provisions		(1,274)	8,141	14,639
(Increase)/decrease in inventories		(487)	1,644	2,899
Decrease/(increase) in trade and other receivables		8,147	(1,110)	(1,051)
Decrease in trade and other Payables		(10,869)	(5,288)	(9,196)
Increase/(decrease) in provisions		464	(404)	16
Cash (absorbed by)/generated from operations		(4,019)	2,983	7,307
Interest received		170	311	615
Interest paid		(235)	(315)	(594)
Tax paid		(880)	(413)	(2,445)
Net cash (absorbed by)/generated from operating activities		(4,964)	2,566	4,883
Cash flows from investing activities				
Acquisition of property, plant and equipment		(223)	(324)	(571)
Proceeds from sale of property, plant and equipment		26	10	8
Acquisition of intangibles (software and development)		(101)	(25)	(183)
Acquisitions of subsidiary in the period, net of cash acquired		-	(1,677)	(1,733)
Purchase of own shares for the EBT		(494)	-	(435)
Net cash from investing activities		(792)	(2,016)	(2,914)
Cash flow from financing activities				
Proceeds from issue of shares		-	10	10
Repayment of loan notes on previous Acquisitions		(24)	(64)	(144)
Proceeds from other loans		2,115	-	-
Payment of dividend to minority interest		-	(105)	(109)
Dividends paid		(1,665)	(4,428)	(6,091)
Net cash from financing activities		426	(4,587)	(6,334)
Net decrease in cash and cash equivalents		(5,330)	(4,037)	(4,365)
Opening cash and cash equivalents		11,078	15,345	15,345
Effect of exchange rate fluctuations on cash held		143	55	98
Closing cash and cash equivalents		5,891	11,363	11,078

**Notes to the Financial Statements
for the six months ended 31 December 2008**

1 Basis of preparation

Morse plc (“the Company”) is a company domiciled in the United Kingdom. The consolidated unaudited interim financial statements of the Company for the six months ended 31 December 2008 comprise the interim financial statements of the Company and its subsidiaries (together referred to as the “Group”).

These consolidated interim financial statements have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ as adopted by the EU. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 June 2008. Those accounts have been reported on by the Group’s auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under either Section 237(2) or (3) of the Companies Act 1985.

The comparative figures included within these interim financial statements for the six months ended 31 December 2007 and the year ended 30 June 2008 have been restated in order to reflect interest on tax on open HMRC enquiries that had not been recognised previously in the reported results for those periods. Details of this Prior Year Adjustment are set out below.

The interim financial statements for the six months ended 31 December 2008 were approved by the Directors on 11 February 2009.

Accounting policies

The accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 30 June 2008. The Board continues to monitor and review its bad and doubtful debt policy to ensure it remains appropriate for the changing global economic crisis. This may lead to a change in policy in the next six months.

Application of recently issued International Financial Reporting Standards

There are no new standards, amendments to standards or interpretations effective for the Group for the current financial statements.

Seasonality and Cyclicity

There is no significant seasonality or cyclicity affecting the interim results of the operations.

Estimates

The preparation of the consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were based on those that applied to the consolidated financial statements as at and for the year ended 30 June 2008, amended to take account of the global economic crisis that has occurred in the latter part of calendar year 2008.

Prior year adjustment

The directors have reviewed the tax provisions relating to open tax enquiries from HMRC. Some of these enquiries go back as far as the year ended 30 June 2002 and therefore have been the subject of lengthy correspondence with HMRC. The tax provisions have stayed relatively constant for the past 2 years since the level of probability on settling each of these cases has not changed. In prior periods, the tax provisions did not include any interest for overdue payments.

However, in January 2009, an outline agreement was reached with HMRC in respect of open tax enquiries for periods ending after 30 June 2004, which gives rise to interest on overdue tax of £0.8 million, which had not been previously provided for. Based on the review, the directors consider it more appropriate to record the

interest on the remaining open enquiries within the provision which amounts to a further £1.1 million, after accounting for deferred tax.

In light of the materiality of the amounts involved, the directors are of the opinion that it is appropriate to adjust the comparatives for the year ended 30 June 2008 and for the six months ended 31 December 2007 retrospectively and therefore the effect has been treated as a prior year adjustment. The directors believe this will ensure that the results for the current period are not distorted and that the prior periods have the correct amount of interest included.

Impact on comparatives

The effect on prior year comparatives is as follows:

Year ended 30 June 2008	As previously reported £'000	Impact of prior year adjustment £'000	As restated £'000
<i>Income statement</i>			
Financial expenses	(594)	(421)	(1,015)
Taxation	(2,121)	126	(1,995)
Loss for the year	(4,376)	(295)	(4,671)
<i>Balance sheet</i>			
Deferred tax asset	484	521	1,005
Interest creditor	-	(1,736)	(1,736)
Retained earnings brought forward	(57,024)	(921)	(57,945)

The effect of this adjustment is to increase the loss after tax by £0.3m for the year ended 30 June 2008 and reduce net assets by £1.2m as at that date, including a £0.9m reduction to retained earnings brought forward at 1 July 2007.

Period ended 31 December 2007	As previously reported £'000	Impact of prior year adjustment £'000	As restated £'000
<i>Income statement</i>			
Financial expenses	(315)	(222)	(537)
Taxation	(1,785)	67	(1,718)
Profit for the period	4,602	(155)	4,447
<i>Balance sheet</i>			
Deferred tax asset	531	461	992
Interest creditor	-	(1,537)	(1,537)
Retained earnings brought forward	(57,024)	(921)	(57,945)

The effect of this adjustment is to reduce profit for the six months ended 31 December 2007 by £0.2m and reduce net assets by £1.1m as at that date, including a £0.9m reduction to retained earnings brought forward at 1 July 2007.

**Notes to the Financial Statements
for the six months ended 31 December 2008**

2 Segmental reporting

Segmental reporting is presented in the consolidated interim financial statements in respect of the Group's business segments. The business segment reporting format reflects the Group's management and internal reporting structure.

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

The Investment Management Consulting segment has been classified under Discontinued Operations as the disposal of the UK and Jersey business to Navigant Consulting was announced on 9 February 2009 and the Board is now exploring options for the remaining parts of the business units. The results of the Investment Management Consulting segment have been reclassified for prior periods to be also shown under Discontinued Operations.

The business segment data for the six months ended 31 December 2007 and the year ended 30 June 2008 has been restated so that the effect of trading balance releases, in line with the stated accounting policy, are shown separately. In addition, the external reporting of some lines of business has changed and this is now reflected in the segmental reporting.

Trading balance releases which were reflected within Infrastructure Services & Technology UK and Central in the six months ended 31 December 2007 have been separately classified under Central in the six months ended 31 December 2008 and in the year ended 30 June 2008. The comparative figures for the six months ended 31 December 2007 have been restated accordingly.

The 'flexible resourcing' line of business is reported as part of the Infrastructure Services & Technology UK segment, while in the six months ended 31 December 2007 it was reported as part of the Business Applications Services segment.

Xayce, a business acquired in September 2007, is reported as part of the Business Applications Services segment, while in the six months ended 31 December 2007 it was reported as part of the Investment Management Consulting segment.

A provision for contract losses of £0.5 million made during the six months ended 31 December 2007 is now reported as part of the Business Applications Services segment, while in the six months ended 31 December 2007 it was originally reported under Central costs.

	Infrastructure Services & Technology UK £'000	Infrastructure Services & Technology Europe £'000	Business Applications Services £'000	Central £'000	Total Continuing £'000	Discontinued Operations (Investment Management Consulting) £'000	Total £'000
Revenue							
Sales to external customers	57,236	29,305	20,976	-	107,517	6,835	114,352
Inter-segment sales	166	-	390	-	556	727	1,283
Segmental revenue	57,402	29,305	21,366	-	108,073	7,562	115,635
Operating profit/(loss) before exceptional items and trading balance releases	3,011	31	922	(2,930)	1,034	47	1,081
Trading balance releases	-	-	-	1,620	1,620	-	1,620
Operating profit/(loss) before exceptional items	3,011	31	922	(1,310)	2,654	47	2,701
Impairment charge	-	-	-	-	-	(13,795)	(13,795)
Restructuring costs	(1,773)	(497)	(1,341)	(1,778)	(5,389)	(815)	(6,204)
Operating profit/(loss)	1,238	(466)	(419)	(3,088)	(2,735)	(14,563)	(17,298)
Net financing (expense)/income					(473)	28	(445)
Taxation					195	(5)	190
Loss for the period					(3,013)	(14,540)	(17,553)

**Notes to the Financial Statements
for the six months ended 31 December 2008**

2 Segmental reporting (continued)

Period ended 31 December 2007 (restated)

	Infrastructure Services & Technology UK £'000	Infrastructure Services & Technology Europe £'000	Business Applications Services £'000	Central £'000	Total Continuing £'000	Discontinued Operations (Investment Management Consulting) £'000	Total £'000
Revenue							
Sales to external customers	62,546	29,015	23,162	-	114,723	9,078	123,801
Inter-segment sales	166	10	358	-	534	142	676
Segmental revenue	62,712	29,025	23,520	-	115,257	9,220	124,477
Operating profit before exceptional items and trading balance releases	2,157	1,230	368	(2,255)	1,500	1,296	2,796
Trading balance releases	-	-	-	3,595	3,595	-	3,595
Operating profit	2,157	1,230	368	1,340	5,095	1,296	6,391
Net finance income					(269)	43	(226)
Taxation					(1,316)	(402)	(1,718)
Profit for the period					3,510	937	4,447

Year ended 30 June 2008 (restated)

	Infrastructure Services & Technology UK £'000	Infrastructure Services & Technology Europe £'000	Business Applications Services £'000	Central £'000	Total Continuing £'000	Discontinued Operations (Investment Management Consulting) £'000	Total £'000
Revenue							
Sales to external customers	131,358	57,778	46,122	-	235,258	18,001	253,259
Inter-segment sales	647	15	1,361	-	2,023	187	2,210
Segmental revenue	132,005	57,793	47,483	-	237,281	18,188	255,469
Operating Profit before exceptional items	6,407	2,917	257	(5,098)	4,483	2,467	6,950
Trading balance releases	-	-	-	4,174	4,174	-	4,174
Operating profit	6,407	2,917	257	(924)	8,657	2,467	11,124
Impairment charge	-	-	(13,400)	-	(13,400)	-	(13,400)
Operating loss	6,407	2,917	(13,143)	(924)	(4,743)	2,467	(2,276)
Net finance income					(441)	41	(400)
Taxation					(1,320)	(675)	(1,995)
(Loss)/profit for the period					(6,504)	1,833	(4,671)

**Notes to the Financial Statements
for the six months ended 31 December 2008**

3 Exceptional items

	<i>Note</i>	Unaudited Six months ended 31 December 2008 £'000	Unaudited Six months ended 31 December 2007 £'000	Audited Year ended 30 June 2008 £'000
Impairment of goodwill and intangibles	10	(13,795)	-	(13,400)
Restructuring costs:				
- Headcount		(4,446)	-	-
- Property and IT		(661)	-	-
- Legal and professional		(516)	-	-
- Share Options		(581)	-	-
		(6,204)	-	-
		(19,999)	-	(13,400)

The goodwill and intangibles impairment charge in the six months to 31 December 2008 relates to the goodwill impairment charge in the Investment Management Consulting division (discontinued operations).

Restructuring costs in the six months ended 31 December 2008 relate to the cost reduction programme announced on 25th July 2008.

There were no exceptional items in the period ended 31 December 2007.

In the year ended 30 June 2008, the carrying value of the Diagonal business was reviewed (part of the Business Application Services division). Impairment of goodwill (£12.3m) and intangibles (£1.1m) was recognised in this period.

The tax effect of the exceptional items in the six months ended 31 December 2008 is a credit of £1.7m (FY08: nil).

**Notes to the Financial Statements
for the six months ended 31 December 2008**

4 Financial income and expenses

	Unaudited Six months ended 31 December 2008	Unaudited Six months ended 31 December 2007 Restated (Note 1)	Unaudited Year ended 30 June 2008 Restated (Note 1)
	£'000	£'000	£'000
Bank and other interest income	170	311	615
Total financial income	170	311	615
Loans and overdraft interest expense	(235)	(315)	(545)
Unwinding of discount on provisions	(192)	-	(49)
Interest on overdue tax	(188)	(222)	(421)
Total financial expenses	(615)	(537)	(1,015)

5 Tax on ordinary activities

	Unaudited Six months ended 31 December 2008	Unaudited Six months ended 31 December 2007 Restated (Note 1)	Audited Year ended 30 June 2008 Restated (Note 1)
	£'000	£'000	£'000
United Kingdom corporation tax charge/(credit) at 28% (FY 2008: 29.5%)	-	1,621	2,544
Adjustment to corporation tax provision from prior years	236	-	(598)
Overseas tax charge/(credit) on profit for the year	-	164	620
Current tax	236	1,785	2,566
Deferred tax	(426)	(67)	(571)
Total tax (credit)/charge	(190)	1,718	1,995

The effective tax rate in the six months ended 31 December 2008 differs from the UK tax rate of 28% mainly due to the effect of the prior year tax charge and the loss making position of the group in the first half.

For the six months ended 31 December 2008 the tax charge was based on a UK rate of 28%, which was based on an estimate of the likely effective tax rate for the full year.

For the twelve months ended 30 June 2008 the tax charge was higher than the UK rate of 29.5% because of non-deductible costs, primarily the goodwill and intangibles impairment charge.

**Notes to the Financial Statements
for the six months ended 31 December 2008**

6 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to Ordinary shareholders by the weighted average number of Ordinary shares in issue during the period.

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.

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

	Unaudited Six months ended 31 December 2008			Unaudited Six months ended 31 December 2007 Restated (Note 1)			Audited Year ended 30 June 2008 Restated (Note 1)		
	Earnings £'000	Weighted average number of shares (thousands)	Per share amount (pence)	Earnings £'000	Weighted average number of shares (thousands)	Per share amount (pence)	Earnings £'000	Weighted average number of shares (thousands)	Per share amount (pence)
Basic EPS									
(Loss)/Profit attributable to Ordinary shareholders	(17,581)	129,791	(13.5)	4,355	128,510	3.4	(4,795)	128,742	(3.7)
Effect of dilutive securities options	-	-	-	-	5,972	-	-	-	-
Effect of deferred consideration to be issued within one year	-	-	-	-	873	-	-	-	-
Diluted EPS	(17,581)	129,791	(13.5)	4,355	135,355	3.2	(4,795)	128,742	(3.7)

**Notes to the Financial Statements
for the six months ended 31 December 2008**

6 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:

	Unaudited Six months ended 31 December 2008			Unaudited Six months ended 31 December 2007 Restated (Note 1)			Audited Year ended 30 June 2008 Restated (Note 1)		
	Earnings £'000	Weighted average number of shares (thousands)	Per share amount (pence)	Earnings £'000	Weighted Average number of shares (thousands)	Per share amount (pence)	Earnings £'000	Weighted average number of shares (thousands)	Per share amount (pence)
Basic EPS	(17,581)	129,791	(13.5)	4,355	128,510	3.4	(4,795)	128,742	(3.7)
Effect of Trading Credit Balances (net of tax)	(1,167)	-	(0.9)	(2,589)	-	(2.0)	(3,005)	-	(2.3)
Effect of exceptional items (net of tax)									
- Restructuring costs	4,467	-	3.4	-	-	-	-	-	-
- Impairment charge	13,795	-	10.6	-	-	-	13,400	-	10.4
Adjusted Basic EPS	(486)	129,791	(0.4)	1,766	128,510	1.4	5,600	128,742	4.4
Diluted EPS	(17,581)	129,791	(13.5)	4,355	135,355	3.2	(4,795)	128,742	(3.7)
Effect of Trading Credit Balances (net of tax)	(1,167)		(0.9)	(2,589)	-	(1.9)	(3,005)	-	(2.3)
Effect of exceptional items (net of tax)									
- Restructuring costs	4,467	-	3.4	-	-	-	-	-	-
- Impairment charge	13,795	-	10.6	-	-	-	13,400	-	10.4
Adjusted Diluted EPS	(486)	129,791	(0.4)	1,766	135,355	1.3	5,600	128,742	4.4

**Notes to the Financial Statements
for the six months ended 31 December 2008**

6 Earnings per share (continued)

Continuing operations

Basic loss per share of 2.3p (H1 08: earnings of 2.7p) for continuing operations is calculated from the net loss attributable to equity holders of the parent from continuing operations of £3,013,000 (H1 08: profit of £3,510,000) divided by the weighted average number of Ordinary shares in issue during the period.

Discontinued operations

Basic loss per share of 11.2p (H1 08: earnings of 0.7p) for discontinued operations is calculated from the net loss attributable to equity holders of the parent from discontinued operations of £14,568,000 (H1 08: profit of £845,000) divided by the weighted average number of Ordinary shares in issue during the period.

To provide a comparable measure of performance per share from the continuing 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.

Continuing operations	Unaudited Six months ended 31 December 2008			Unaudited Six months ended 31 December 2007 Restated (Note 1)			Audited Year ended 30 June 2008 Restated (Note 1)		
	Earnings £'000	Weighted average number of shares (thousands)	Per share amount (pence)	Earnings £'000	Weighted Average number of shares (thousands)	Per share amount (pence)	Earnings £'000	Weighted average number of shares (thousands)	Per share amount (pence)
Basic EPS	(3,013)	129,791	(2.3)	3,510	128,510	2.7	(6,504)	128,742	(5.1)
Effect of Trading Credit Balances (net of tax)	(1,167)		(0.9)	(2,589)	-	(2.0)	(3,005)	-	(2.3)
Effect of exceptional items (net of tax)									
- Restructuring costs	3,880	-	3.0	-	-	-	-	-	-
- Impairment charge	-	-	-	-	-	-	13,400	-	10.4
Adjusted Basic EPS	(300)	129,791	(0.2)	921	128,510	0.7	3,891	128,742	3.0
Diluted EPS	(3,013)	129,791	(2.3)	3,510	135,355	2.6	(6,504)	128,742	(5.1)
Effect of Trading Credit Balances (net of tax)	(1,167)		(0.9)	(2,589)	-	(1.9)	(3,005)	-	(2.3)
Effect of exceptional items (net of tax)									
- Restructuring costs	3,880	-	3.0	-	-	-	-	-	-
- Impairment charge	-	-	-	-	-	-	13,400	-	10.4
Adjusted Diluted EPS	(300)	129,791	(0.2)	921	135,355	0.7	3,891	128,742	3.0

**Notes to the Financial Statements
for the six months ended 31 December 2008**

7 Goodwill

The movement in goodwill in the six months to 31 December 2008 is £14.9m, which is attributable to the following items:

- an impairment charge of £13.8m relating to the Investment Management Consulting division which has been classified now as discontinued operations. The full amount of goodwill has been written off as in the opinion of the Board there is no goodwill remaining in the business as at the balance sheet date;
- the confirmation of the settlement of the value of contingent consideration relating to the acquisition of Xayce plc (£0.9m). The remaining contingent consideration is now payable in cash rather than shares and amounts to £1.25m; and,
- the reconciliation of settlement of contingent consideration payable in respect of the acquisition of SkillsHub Limited (£0.2m).

8 Assets and Liabilities Held for Sale

As a result of the disposal of the UK and Jersey Investment Management Consulting business, the options for the remaining businesses in Investment Management Consulting are being considered. Consequently, within these interim financial statements the remaining assets and liabilities have been classified as Held for Sale. As such, the following assets and liabilities are classified as held for sale in the balance sheet as at 31 December 2008:

	31 December 2008
	£'000
Property, plant and equipment	64
Other intangibles	88
Trade and other receivables	1,278
<hr/> Assets held for sale	<hr/> 1,430
Trade and other payables	(1,384)
<hr/> Liabilities held for sale	<hr/> (1,384)
<hr/> Net assets held for sale	<hr/> 46

**Notes to the Financial Statements
for the six months ended 31 December 2008**

9 Trade and other receivables

	Unaudited 31 December 2008	Unaudited 31 December 2007	Audited 30 June 2008
	£'000	£'000	£'000
Trade receivables	54,914	61,173	60,343
Other receivables	2,081	1,580	1,294
Prepayments and accrued income	15,234	16,818	18,207
	72,229	79,571	79,844

Trade receivables includes £0.7m (Dec 07: £nil; Jun 08: £nil) relating to receivable balances falling due after more than one year. Included within prepayments and accrued income are deferred maintenance costs of £8.5m (Dec 07: £8.0m; Jun 08: £10.0m), of which £1.6m are deferred for more than one year (Dec 07: £2.0m; Jun 08: £4.5m). The Group defers maintenance revenue and the associated maintenance costs and recognises them over the period the service is provided.

10 Trade and other payables

	Unaudited 31 December 2008	Unaudited 31 December 2007	Audited 30 June 2008
	£'000	£'000	£'000
Trade payables	34,190	44,525	40,932
Deferred Income	16,390	16,266	16,160
Accruals	7,726	10,647	11,927
Tax and social security payable	4,591	8,898	7,475
Other payables	1,351	1,888	1,512
	64,248	82,224	78,006

Included within deferred income is £1.8m deferred for more than one year (Dec 07: £2.4m; Jun 08: £5.2m).

**Notes to the Financial Statements
for the six months ended 31 December 2008**

11 Deferred consideration

The deferred consideration payable relates to the amounts due to vendors of Xayce plc, acquired by Morse plc in September 2007 where the amount payable is now to be settled in cash rather than shares. The amount of the deferred consideration is £1.25m of which £0.6m is payable within one year and £0.65m is payable after more than one year.

12 Capital and reserves

	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
Group Reported as at 30th June 2008	15,825	3,022	70,790	168	209	1,024	32,023	33,424	(67,891)	279	55,449
Prior Year Adjustment	-	-	-	-	-	-	-	-	(1,215)	-	(1,215)
Restated as at 30th June 2008	15,825	3,022	70,790	168	209	1,024	32,023	33,424	(69,106)	279	54,234
(Loss)/profit for the year	-	-	-	-	-	-	-	-	(17,581)	-	(17,581)
Purchase of own shares	-	-	-	-	-	-	-	-	(494)	-	(494)
Deferred tax on share option charge	-	-	-	-	-	-	-	-	(262)	-	(262)
Profit on translation of foreign subsidiaries	-	-	-	-	-	3,667	-	3,667	-	35	3,702
Issue of shares on acquisition of subsidiaries	110	(359)	-	-	-	-	337	337	-	-	88
Shares to be issued for deferred consideration now to be settled in cash	-	(1,250)	-	-	-	-	-	-	-	-	(1,250)
Revaluation of contingent consideration	-	(1,219)	-	-	-	-	-	-	-	-	(1,219)
Share option charge	-	-	-	-	-	-	-	-	751	-	751
Dividends paid	-	-	-	-	-	-	-	-	(1,665)	-	(1,665)
Share of profit of minority interest	-	-	-	-	-	-	-	-	-	28	28
At 31st December 2008	15,935	194	70,790	168	209	4,691	32,360	37,428	(88,357)	342	36,332

**Notes to the Financial Statements
for the six months ended 31 December 2008**

12 Capital and reserves (continued)

In the six months ended 31 December 2008, share capital to be issued decreased by £2.8m, which is made up as follows:

£2.5m arising from the acquisition of Xayce in September 2007. £0.35 million of shares issued in settlement of consideration due, £1.25 m now to be payable in cash and £0.9 m as a reduction in the value of contingent consideration. (see notes 7 and 11);

£0.2m revaluation of the remaining contingent consideration payable for the acquisition of SkillsHub Limited (see note 7); and,

£0.1m in relation to payment of contingent consideration relating to previous acquisitions SkillsHub Limited and D&C Financial Consultants Ltd.

13 Related Party Transactions

There were no related party transactions with associate companies and joint ventures in the six months ended 31 December 2008 and the year ended 30 June 2008. Morse Group Limited has borne the costs of the Directors of Morse plc in the six months ended 31 December 2008 and the year ended 30 June 2008.

Compensation of key management personnel is as follows:

	Unaudited Six months ended 31 December 2008 £'000	Unaudited Six months ended 31 December 2007 £'000	Audited Year ended 30 June 2008 £'000
Short term employee benefits	820	743	1,481

14 Subsequent Events

As announced on 9 February 2009, contracts were exchanged for the sale of the UK and Jersey IMC business formerly known as CSTIM to Navigant Consulting (Europe) Limited. Further details are disclosed in the Executive Chairman's Statement.

Independent review report to Morse plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2008 which comprises the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

The annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2008 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

KPMG Audit Plc

Chartered Accountants

8 Salisbury Square

London EC4Y 8BB

11 February 2009

Responsibility statement

This half yearly financial report is the responsibility of, and has been approved by, the directors of Morse plc. Accordingly, the directors confirm that to the best of their knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU;
- the interim management report includes a fair view of the information required by:
 - a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The Directors of Morse plc are listed in the Morse plc Annual Report of 30 June 2008. A list of current Directors is also maintained on the Morse plc website: www.morse.com

By order of the Board

Kevin Loosemore
Executive Chairman

Mike Phillips
Chief Executive Officer

11 February 2009