

9 September 2009

## Morse plc

### Preliminary results for the year ended 30 June 2009

Morse plc (“Morse”, “the Group” or “the Company” - LSE: MOR.L), the IT services and technology company, announces its preliminary results for the year ended 30 June 2009.

Morse is structured as four independent business units:

- Infrastructure Services & Technology – UK;
- Infrastructure Services & Technology – Spain;
- Infrastructure Services & Technology – Ireland; and
- Business Applications Services.

#### Financial Highlights

- Net cash at 30 June 2009 of £12.0 million (2008: £11.1 million)
  - Cash at period end of £12.7 million (2008: £11.1 million) of which £0.6 million held in Assets held for resale
  - Customer specific financing of £0.7 million (2008: £nil)
- Cash generated from operations of £6.8 million (2008: £7.3 million) all of which was generated from continuing operations (2008: £3.6 million) representing 89% of Adjusted EBITDA (2008: 47%).

#### Continuing operations

- Revenue £211.9 million (2008: £235.3 million)
- Adjusted EBITDA\* £7.6 million (2008: £7.8 million) at a margin of 3.6% (2008: 3.3%)
- Adjusted EBIT\* £4.2 million (2008: £4.5 million) at a margin of 2.0% (2008: 1.9%)
- Trading balance releases of £4.1 million (2008: £4.2 million)
- Operating profit before exceptional items £8.3 million (2008: £8.7 million) at a margin of 3.9% (2008: 3.7%)
- Profit before tax and exceptional items £7.8 million (2008 restated: £8.2 million)
- Net exceptional items of £8.16 million (2008: £13.40 million)
  - restructuring charges in the period of £8.64 million (2008: £nil), cash costs of £5.9 million
  - dilapidation charges of £0.70 million (2008: £nil)
  - credits of £1.18 million relating to forfeiture of share based payments and reversal of fair value adjustments (2008: £nil)
  - Impairment of Goodwill and Intangible assets £nil (2008: £13.4 million)
- Adjusted basic earnings per share (before exceptional items and trading balance releases and with a normalised tax charge) 2.0p (2008 restated: 2.2p)
- The distributable reserves position means that a final dividend cannot be declared (2008: 1.3p per share). The Board has reviewed options to enable future dividend declarations and recommends a Court Approved Capital Reduction process.

#### Statutory results

##### Continuing operations

- Revenue £211.9 million (2008: £235.3 million)
- Operating profit £0.2 million (2008: operating loss £4.7 million)
- Net exceptional charges of £8.16 million (2008: £13.4 million).
- Loss before tax £0.4 million (2008 restated: £5.2 million)
- Tax credit for the year £1.7 million (2008: Tax charge £1.3 million) arising from resolution of prior year tax items
- Profit for the period £1.35 million (2008 restated: Loss £6.5 million)
- Basic earnings per share 1.0p (2008 restated: loss per share 5.1p)

**Discontinued operations**

- Sale of the UK and Jersey Investment Management Consulting (“IMC”) business, formerly known as CSTIM for cash consideration of £1.3 million
- Goodwill and Intangibles Impairment charge of £13.7 million
- With the exception of France, other Geographic parts of IMC business either closed down or now sold
- Sale of shareholding in France to management agreed subject to shareholder approval
- IMC classified as discontinued operations
- Net assets held for resale of £0.2 million
- Loss after tax £13.4 million (2008 restated: profit after tax £1.8 million) including exceptional items of £15.0 million (2008: £nil)

\*In assessing the performance of the business the Directors use “Adjusted EBIT” and “Adjusted EBITDA”. Adjusted EBIT is Earnings Before Interest, Tax, Trading Balance Releases and Exceptional Items whilst Adjusted EBITDA is Earnings Before Interest, Tax, Depreciation, Amortisation, Share Based Payments, Trading Balance Releases and Exceptional Items.

**Commenting on the results, Mike Phillips, Chief Executive Officer of Morse plc, said:**

“The year under review has seen significant improvements in Morse as a business and a strengthening of the senior management team. The revised operational structure makes the products and services we offer clear to our clients, suppliers, staff and shareholders. All our businesses have made significant progress in reducing their cost bases, the benefits of which were seen in the fourth quarter, resulting in a creditable financial performance for the year in difficult market conditions.

We expect the market for IT services and technology to remain difficult and we will have to continue to be vigilant on costs whilst keeping the businesses focused on their propositions. We believe that changes to Morse's operating model and focus, together with its continuing strong client relationships, have delivered improved underlying profitability and cash generation in the current year and position the Group to continue such delivery in future.”

**Contacts:****Morse plc**

Mike Phillips, Chief Executive Officer  
Guy Millward, Group Finance Director

**Tel: 020 8380 8000****Financial Dynamics**

Giles Sanderson/Haya Herbert-Burns/Nicola Biles

**Tel: 020 7831 3113**

## Chairman's statement

This has been a year of significant change for Morse and this has been undertaken against a backdrop of unprecedented economic turmoil. At the beginning of the financial year 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's continuing operations are four independent business units each reporting to the Chief Executive Officer:

- Infrastructure Services & Technology – UK;
- Infrastructure Services & Technology – Spain;
- Infrastructure Services & Technology – Ireland; and
- Business Applications Services.

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 to the business unit's profitability.

The Group's discontinued operations comprise Investment Management Consulting. During the year the largest part of this business unit was sold and since the year end we have announced the disposal of the remaining parts to management.

In July 2008 the Group commenced a significant restructuring process which has helped streamline the business operations and align the cost base with the anticipated revenues. The benefit of this restructuring in each of the business units was demonstrated in the fourth quarter, traditionally the Group's strongest financial quarter, resulting in operating profit before exceptional items for the full year of £8.3 million (2008: £8.7 million). Once the impact of trading balance releases is removed the Adjusted EBIT was £4.2 million (2008: £4.5 million).

A key focus during the year was the improvement of the cash position of the Group. At the end of the year the cash balance was £12.7 million (2008: £11.1 million) and after taking account of Customer Specific Financing the net cash balance was £12.0 million (2008: £11.1 million). Compared to the low point during the year at 30 September 2008, when the Group had debt of £4.9 million and after taking account of Customer Specific Financing net debt of £8.9 million, the year end position is a creditable performance.

As highlighted at the Interim Results, the Company is currently not in a position to declare dividends due to a lack of distributable reserves. The Board has reviewed the available options to allow dividends to be declared in future and has concluded that a Court Approved Capital Reduction scheme should be pursued. This process will first need to be approved by shareholders and the appropriate information and resolutions will be proposed at the forthcoming Annual General Meeting on 22 October 2009. If approved by shareholders, then it is anticipated that Court approval will be obtained by the end of November and will enable the Company to declare dividends out of future profits. The Board will then adopt an appropriate dividend policy.

The Group is now in an improved financial position and has achieved a creditable financial performance in difficult market conditions. The Board would like to thank all of our employees for their continued hard work and commitment.

The Board anticipates that the changes that have been made to Morse's operating model and focus, together with its ongoing strong client relationships, position the Group to deliver improved underlying profitability and cash generation in future.

Kevin Loosemore  
Non-Executive Chairman  
9 September 2009

## Chief Executive Officer's Statement

This has been a difficult year for Morse and one of considerable change. The restructuring of the business that has been undertaken was necessary in order to align the cost base of the business with the anticipated revenues. The result is that the underlying quality of the earnings in the business has improved when compared to FY2008.

We exited the year with business units refocused to deliver improved cash generative profitability. Each of the business units now has a clearly defined set of propositions to offer to existing and future customers and is focused on delivering those propositions.

Trading performance for the business units, prior to exceptional items, for the year ended 30 June 2009 is shown below:-

|  | Revenue              |                      | Operating profit/(loss) before exceptional items |                      | Margin %             |                      |
|--|----------------------|----------------------|--|----------------------|----------------------|----------------------|
|  | Year ended June 2009 | Year ended June 2008 | Year ended June 2009                             | Year ended June 2008 | Year ended June 2009 | Year ended June 2008 |
|  | £m                   | £m                   | £m   | £m                   |                      |                      |
| <b>Infrastructure Services and Technology:</b> |                      |                      |  |                      |                      |                      |
| • UK   | 114.2                | 131.4                | 7.2  | 6.4                  | 6.3%                 | 4.9%                 |
| • Europe (Spain & Ireland)                     | 57.4                 | 57.8                 | 0.2  | 2.9                  | 0.3%                 | 5.0%                 |
| <b>Business Applications Services</b>          | 40.3                 | 46.1                 | 2.4  | 0.3                  | 6.0%                 | 0.7%                 |
| <b>Continuing operations</b>                   | 211.9                | 235.3                | 9.8  | 9.6                  | 4.6%                 | 4.1%                 |
| Group and Central Costs                        |                      |                      | (5.6)  | (5.1)                |                      |                      |
| Adjusted EBIT                                  |                      |                      | 4.2  | 4.5                  | 2.0%                 | 1.9%                 |
| Trading balance releases                       |                      |                      | 4.1  | 4.2                  |                      |                      |
| <b>Continuing operations</b>                   | 211.9                | 235.3                | 8.3  | 8.7                  | 3.9%                 | 3.7%                 |
| <b>Discontinued operations</b>                 |                      |                      |  |                      |                      |                      |
| • Investment Management Consulting             | 10.4                 | 18.0                 | 0.1  | 2.4                  | 0.1%                 | 13.3%                |
| <b>Total</b>                                   | 222.3                | 253.3                | 8.4  | 11.1                 | 3.8%                 | 4.4%                 |

The business unit revenues are derived from Resale (of third party hardware & software product and maintenance), Maintenance and Support (where the business units have ongoing obligations and includes sale of Morse's Wisdom software application), and Services. Gross Profit margins on revenues from continuing operations in the year ended 30 June 2009 were 20.8% (2008: 22.1%). Gross Profit margins in the second half of the year were slightly better than the first half of the year with the decline from 2008 being driven largely by the impact of the global economic slowdown and change in customer mix.

As the management team is focused on delivering cash generative operating profit, a key performance indicator is Adjusted EBITDA. In the year ended 30 June 2009 Group Adjusted EBITDA was £7.6 million (2008: £7.8 million).

The Group is committed to improving the operational efficiency of the business and has undertaken a restructuring programme during the year intended to reduce the overheads of the Group without impacting upon sales and delivery capability. The total cost of restructuring in the current financial year was £9.6 million of which £8.6 million was incurred on continuing operations. As a result of this restructuring, and the disposal of the UK and

Jersey Investment Management Consulting (“IMC”) business, formerly known as CSTIM, the total number of Group employees reduced from 1,420 at 30 June 2008 to 1,010 at 30 June 2009 of which 973 were employed in the continuing operations (2008: 1,304).

The Adjusted EBIT of £4.2 million (2008: £4.5 million) reflects the strong performance of the Group in the final quarter of the year as, after the first nine months of the year, the Adjusted EBIT was only £0.6 million (2008: £1.9 million). Infrastructure Services & Technology represented 81% of reported revenues from continuing operations (2008: 80%) and the delivery of these revenues is weighted towards the end of each calendar quarter. This is in line with the revenue profile for the product partners for those business units. Traditionally, our second and fourth financial quarters have a stronger financial performance than our first and third financial quarters. This was reflected in the current year with Adjusted Losses Before Interest and Tax being incurred in the first and third quarters, whilst in the second and fourth quarters continuing operations delivered Adjusted EBIT. As we progress in the new financial year a key performance indicator will be the trailing 12 month financial performance which will provide an indication of the improvement in operating performance of the business.

The breakdown of the revenues of the continuing operations and a reconciliation of Adjusted EBITDA and Adjusted EBIT to operating profit before exceptional items is shown below:

|   | 2009<br>£m   | 2008<br>£m   |
|---|--------------|--------------|
| <b>Revenues from continuing operations</b>              |              |              |
| Resale (third party hardware, software and maintenance) | 105.1        | 120.7        |
| Maintenance and Support (including Wisdom)              | 29.1         | 26.2         |
| Services  | 77.7         | 88.4         |
|   | <u>211.9</u> | <u>235.3</u> |
| <b>Adjusted EBITDA</b>                                  | 7.6          | 7.8          |
| Depreciation and Amortisation                           | (2.3)        | (3.0)        |
| Share based payments                                    | (1.1)        | (0.3)        |
| Adjusted EBIT   | <u>4.2</u>   | <u>4.5</u>   |
| Trading balance releases                                | 4.1          | 4.2          |
| <b>Operating profit before exceptional items</b>        | <u>8.3</u>   | <u>8.7</u>   |

Group and Central costs have increased to £5.6 million (2008: £5.1 million), however, the underlying cash costs have reduced significantly as the breakdown below shows:

|                                | 2009<br>£m | 2008<br>£m |
|--------------------------------|------------|------------|
| <b>Group and Central costs</b> |            |            |
| Cash costs                     | 2.9        | 3.6        |
| Depreciation and Amortisation  | 1.3        | 1.9        |
| Share based payments           | 1.1        | 0.3        |
| Sub-total                      | <u>5.3</u> | <u>5.8</u> |
| Forex loss/(gain)              | 0.3        | (0.7)      |
|                                | <u>5.6</u> | <u>5.1</u> |

## Operational and financial review

### Infrastructure Services & Technology – UK

This is the largest business unit in the Group and generated revenues of £114.2 million (2008: £131.4 million) and an operating profit before exceptional items of £7.2 million (2008: £6.4 million). This improved operating margin percentage of 6.3% (2008: 4.9%) 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 and the £1.0 million of losses recognised on the South Tyneside and Gateshead (“STaG”) Building Schools for the Future (“BSF”) project. The second half of the year saw an improved operating margin on revenues that were marginally down on the first half of the year.

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; and
- Providing the ICT expertise, technology and infrastructure services for STaG BSF.

The Technology business had revenues of £78.3 million (2008: £87.8 million) with the second half of the year maintained at the same level as the first half. We have maintained our existing customer relationships whilst applying additional focus towards new customer acquisition and the development of higher value propositions. We will continue to develop our operational processes and level of proposition focus during the current financial year.

The Infrastructure Services business had revenues of £34.2 million (2008: £41.1 million) reflecting the impact of a number of major programmes of work that came to completion in the second half of the year ended 30 June 2008, together with a tighter market for discretionary services spend and the impact of Lehman's. Revenues in the second half of the year ended 30 June 2009 were in line with the first half of that year. The operating structure of the services business is being re-evaluated to ensure continued flexibility and business agility. We are further enhancing our technology transformation skills and higher-end data centre capabilities aimed at helping our clients simplify and optimise their environments.

The STaG BSF project is all that remains from the Morse in Education business. Revenues in the year were £1.7 million (2008: £2.5 million). At the end of the first half of the year the Board concluded that the significant time period over which the STaG BSF contract will be implemented and the difficulty of winning further projects was 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 BSF project is now being managed as a stand alone project. Following a review of the progress on the contract in the third quarter of the financial year, operating profit of £0.5 million that had been taken in year ended 30 June 2008 was reversed. This contributed to the loss recognised on the contract during this year of £1.0 million. Good progress has been made on the contract since then and contract documentation has been signed for the next schools in the programme.

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 such as Symantec and Oracle.

Our focus for the business unit 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; and
- 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, demonstrated by Return on Investment payback, are essential. We believe that our structural and cost changes over the year enables us to be well positioned to support this requirement for our existing customers as well as extending our customer and service reach in the future.

### **Infrastructure Services & Technology Europe (Spain and Ireland)**

For Spain and Ireland, in the year ended 30 June 2009, revenue was £57.4 million (2008: £57.8 million) with an operating profit before exceptional items of £0.2 million (2008: £2.9 million). The operating profit before exceptional items for the full year reverses the losses that were suffered in the first nine months of the year. This improvement in financial performance is predominantly due to improved performance in Spain following the restructuring programme undertaken in January 2009. The reported results benefited from the strengthening of the Euro against Sterling and under constant currency, revenues declined by 14.5%.

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

In Spain, following the difficult year ended 30 June 2008 action was taken to reduce costs in July 2008. During the first half of the current financial year the business maintained revenues but suffered margin decline due to a change in mix of customers. Consequently, a further review of the structure of the business was undertaken in January 2009 and as a result the overhead cost base was reduced significantly. As part of this restructuring the business re-engaged with its key vendor partner, IBM, and the benefits of this relationship are starting to be seen.

It is expected that the economic environment in Spain will remain challenging in the current calendar year, but with a leaner overhead base and a clearer go-to-market approach the business is well positioned to take advantage of any economic upturn.

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 continues to build a reputation as the technology partner of choice and is consolidating this position by working with its key vendors in providing coordinated propositions to the market.

In the year to 30 June 2009 the business has suffered from the economic difficulties in Ireland and experienced significant revenue decline. This made the business loss-making in the first quarter of the year. However, swift action by the management team to restructure the business led to the business being marginally profitable for the full year. The management team remains committed to delivering the optimal result in difficult times, such as these.

### **Business Applications Services**

Business Applications Services is organised around three separate businesses

- Diagonal – SAP implementation and support services;
- Portals and Collaboration (including Wisdom); and
- Xayce – Business Change and Transformation Consultancy.

Diagonal operates in three main territories: the UK, Asia Pacific and the USA whilst the other businesses are UK based.

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 have been 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.

In the year ended 30 June 2009 revenue was £40.3 million (2008: £46.1 million). Operating profit before exceptional items was £2.4 million (2008: £0.3 million). Revenues in the six months ended 30 June 2009 were lower than the six months to 31 December 2008 but generated a higher operating margin. This trend is anticipated to continue in the current financial year.

### **Diagonal – SAP implementation and support services**

Revenue for the year ended 30 June 2009 was £28.4 million (2008: £34.4 million). This line of business has suffered historically from problems with a number of fixed price projects, allied to poor planning and execution, which have significantly impacted the 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. In the second half of the year a second problem contract was resolved satisfactorily and outstanding amounts due on the third problem contract are fully provided.

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 enabled solid growth in the USA in the first half of the year, but proved more difficult in the second half of the year. In Asia Pacific a new client implementation was followed by an ongoing support contract.

Diagonal has developed strong propositions targeting the Construction and Facilities Management Industries, in addition to strong experience in the Chemicals and Manufacturing Industries, and the ability to deliver application support using both onshore and offshore consultants is also proving to be of significant value to clients.

### **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 and Vignette technology platforms, electronic Document and Records Management (eDRM) solutions based upon our own software product, Wisdom, and the associated services and annuity based support revenue that is an integral part of such propositions. This business had revenues of £8.8 million in the period (2008: £8.8 million).

### **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 £3.1 million in revenue in the year to 30 June 2009 (2008: £2.9 million from date of acquisition in September 2007).

### **Disposal of Investment Management Consulting**

On 9 February 2009, the Company announced the exchange of contracts on the disposal of the business and assets of the UK and Jersey IMC business, formerly known as 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.

The initial consideration was £1.3 million which was paid in cash at completion. The financial performance of the business in the year to 30 June 2009 meant that no deferred consideration was payable. The gross assets transferred were £13,000 and the book value of net liabilities transferred was £0.42 million. Morse retained and was responsible for the collection of the outstanding trade receivables all of which were collected. The proceeds of the sale were used for general corporate purposes.

CSTIM formed the largest part of Morse's IMC business unit. Small IMC operations in South Africa and Luxembourg have been closed down and a flexible resourcing business in the UK called SkillsHub has been sold to management for a nominal sum. The remaining parts of the IMC business held at the year end were operated through majority owned subsidiary undertakings in France and Australia. On 4 September Morse announced the sale of its stake in the Australian business to management. The sale proceeds were A\$ 50,000 and an intercompany loan and interest of A\$280,000 was repaid to Morse. Terms have been agreed with the management of the French subsidiary to sell Morse's stake to them for Euros 150,000. This is a related party transaction which requires shareholder approval and a circular will be sent to shareholders in due course. Consequently, the entire IMC business unit is considered to be discontinued for Financial Reporting purposes.

As a result of the sale, disposals and closure there is impairment to goodwill and intangibles on Morse's consolidated balance sheet, relating to the IMC business unit, of £13.7 million.

## **Risks and Risk Management**

Following the changes in Board membership over the past year, risk management processes have been re-assessed to ensure a framework of prudent and effective controls is in place to assess effectively and manage risk within the Group. The business units in the Group have primary responsibility for managing risk on a day-to-day basis and regular reporting to the Board of risk registers and material contracts is now in place. All identified risks are quantified, prioritised and appropriate mitigations developed for each. For the UK businesses we have established a separate management board (Morse Executive Board) and risk is a standing item on the agenda for its meetings. Risk management of the Spanish and Irish businesses is reviewed at the monthly performance reviews for those businesses. The Board regularly reviews the cost and benefits of the risk and control activity undertaken and comprehensive business insurances are maintained. The principal risks and uncertainties associated with the Group's activities are discussed below.

### **Strategic risks**

The continuation of the current recession may further reduce demand for the Group's services and therefore reduce revenue and profits. Significant restructuring and cost reductions have been carried out during the year and while this action should benefit future profits, further reductions in revenue may offset the cost reductions already achieved.

Certain parts of the Group's businesses rely on a small number of strategic customers for a significant part of their revenue and profits. The businesses seek to increase the number of customers to reduce this reliance, however the loss of a strategic customer would impact the profitability of the business in the short term.

Key partner relationships are required in order to undertake the sale of their products and services. The loss of a key partner relationship would lead to a loss of revenue and profit. The business units seek to maintain and improve their partner relationships in order to mitigate this risk.

The credit crisis has led to reduced availability of funding as well as tighter credit terms and this may lead to future reductions in credit available to run the Group's operations. The Group is not currently using its committed banking facilities of £7.5 million and has increased focus on cash management in the last year to reduce the impact of this risk.

Increased competition in an already crowded market place may have a negative impact on the Group's position, whilst efforts to improve the Group's delivery and range of services will help to mitigate this risk.

### **Operational risks**

The Group's revenue and profit projections depend heavily upon the delivery of large contracts to customers. In the past, issues with delivery have led to significant project overruns and unbudgeted costs which have reduced the Group's profitability. During the year, management and internal processes have been strengthened in this area in order to minimise this risk for the future.

The management of the Group's businesses and the delivery of its contracts rely heavily on staff and loss of key staff is a significant risk to the businesses. Remuneration and people management processes are in place to minimise attrition and the Group's rate of attrition is within industry averages.

Seasonality of the Group's revenue and profits does not change much from year-to-year, but profits tend to be weighted towards the end of each six month period and there is a greater weighting towards the second half of the financial year due to customer buying patterns.

The Group's businesses are exposed to the risk to business continuity posed by a pandemic, including the current influenza virus, terrorist incident or other external event. During the year our office in Madrid was damaged due to a terrorist bomb, although it was not the target. Whilst such events are outside of the Group's control, measures are taken to mitigate these risks wherever possible. The Group has a detailed Business Continuity Plan which was reviewed during the year to cover a wide range of risks such as IT systems failure and possible pandemics.

### **Financial risks**

In the current recession, increased credit risk remains a potential issue and during the year Lehman Brothers, a significant customer, suffered financial failure. The Group's increased focus on cash management in the year has helped to improve collection times from customers and this focus will continue.

The main external factors affecting financial measures are discussed above and to these can be added changes in assumptions underlying the carrying value of certain Group assets. These assumptions are discussed in note 9 and include discount rates, long-term growth rates and timing and quantum of future expenditure, the revision of any of which could lead to an impairment in the carrying value of certain assets in the Group which would reduce profits and distributable reserves.

### **Other Financial items**

#### **Dividends and Capital Reduction process**

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.

At the time of the Interim Results the Board made a write down of £13.8 million in Morse plc's company balance sheet in respect of this investment. As a consequence of this write down Morse plc had negative distributable reserves and was unable to declare an interim dividend. In light of this and the current economic environment, the Board has undertaken a review of the remaining Fixed Asset Investments and the recoverability of inter company receivables owed to Morse plc. The impact of this review is to reduce the net book value of Fixed Assets Investments to £71.7 million and results in negative distributable reserves on the Morse plc Company balance sheet of £47.9 million and net assets of £38.0 million.

The Board has reviewed the available options for the Company in order to enable dividends to be declared out of future profits. The Board has concluded that, subject to shareholders' approval, a Court Approved Capital Reduction process should be undertaken in order to use part of the share premium account, standing at £70.8 million at 30 June 2009, to extinguish the negative distributable reserves. The Board believes that this is in the best interests of shareholders. Details of the Capital Reduction process will be included in the Notice of Annual General Meeting scheduled for 22 October 2009 together with the resolutions to be proposed to shareholders. If shareholders approve the resolution then it is anticipated that the Court process will be completed in November 2009 and that the first dividend that could be declared out of future profits would be a final dividend for the year ending 30 June 2010.

Consequently, no final dividend will be paid for the last financial year (2008: 1.30p per share) giving a total dividend for the year of nil p per share (2008: 2.6p per share).

## **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 on what is used to manage and report on the business, the new Executive Management team publishes 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](http://www.morse.com).

Since 30 September 2008 the relationship between cash on the balance sheet and cash per bank statements 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 multi currency Revolving Credit Facility (“RCF”) and a multi-currency overdraft facility. The RCF has covenants that relate to:

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

We have now extended the period of the committed RCF from 28 March 2010 to 30 March 2011 and based on the improved cash position within the Group and internal cash flow projections we have reduced the RCF to £6.5 million and the overdraft to £1 million. The Board believes that these facilities are sufficient for the Group requirements for the foreseeable future.

## **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.

## **Trading balance releases**

Trading balances are a normal part of our business and have built up significantly over a period of time. These relate to unallocated cash payments from customers; credit notes issued and not claimed; supplier credit balances that may not be enforced and goods received not yet invoiced. The nature of the uncertainty surrounding them is that while they represent present obligations, it is uncertain whether the counterparties will enforce settlement. However, the changing shape of the business, particularly the reduced volume and level of infrastructure business (a reduction of approximately £300 million per annum since its peak in 2002), means that trading balances are no longer being created at the same level as they are being released.

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

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

At 30 June 2008 there were £10.2 million Trading Balance credits on the balance sheet. During the year £4.1 million of Trading Balances were released to the income statement in line with the policy, £1.7 million of the liability was either crystallised or settled with £4.4 million remaining on the balance sheet at 30 June 2009. Reductions in the trading balance credits are driven by a number of factors and it is difficult to predict with

certainty the levels of releases that will flow through the income statement in the years ahead. However, we currently anticipate that trading balance releases will continue at the following approximate levels in the years ending 30 June 2010: £0.9 million; 2011: £0.8 million; and 2012: £1.2 million, with any increase in these levels being driven by action by the Company. The actual amounts will be disclosed in our future financial statements.

### **Exceptional items**

During the year there was a net exceptional charge before tax on continuing operations of £8.16 million (2008: £13.40 million). This total is analysed in more detail in Note 3. The major items considered to be exceptional and included in this category are noted below:

#### Year ended 30 June 2009: Restructuring costs, Dilapidation provision and exceptional credits

Restructuring costs accounted for £8.64 million of the costs with dilapidation provisions adding a further £0.70 million. Offsetting these costs were exceptional credits of £1.18 million consisting of £0.62 million relating to the forfeiture of share based payments and £0.56 million of reversal of fair value adjustments.

#### Year ended 30 June 2008: Goodwill and Intangibles impairment

Following the decline in profitability within the Business Applications Services business unit and annual impairment review, a goodwill impairment charge of £12.26 million and intangibles impairment charge of £1.14 million were recognised in the 2008 accounts.

### **Interest**

Net interest expense during the year was £0.5 million (2008: £0.4 million). Details of these costs are provided in the notes to the accounts.

### **Taxation**

For continuing operations there was a tax credit for the year of £1.7 million (2008: tax charge of £1.3 million) consisting of a current tax charge of £1.5 million (2008: £2.5 million) offset by adjustments to prior year tax provisions of £2.4 million (2008: £0.5 million) and deferred tax of £0.8 million (2008: £0.6 million).

During the year a number of open HMRC enquiries on UK corporation tax years dating back to the year ending 30 June 2005 were settled and the provisions for tax were adjusted in line with the agreed position. Further details appear in note 7.

### **Earnings/Loss per share**

Basic loss per share including discontinued operations declined from 3.7p last year to a loss of 9.3p in the year ended 30 June 2009. Details can be found in Note 4.

On continuing operations, Adjusted basic earnings per share (before trading balance releases and exceptional items and with a normalised tax charge) were 2.0p (2008: 2.2p).

### **Cash flow**

Cash in the Group at the year-end amounted to £12.7 million compared to £11.1 million last year. The principal outflows during the year were dividend payments of £1.7 million and tax payments of £3.7 million. At the year end Customer Specific Financing of £0.7 million (2008: £nil) reduced the net cash number to £12.0 million (2008: £11.1 million). Of the total cash balance £0.6 million is held in assets held for resale as part of the discontinued operations.

Cash generated from operations for the year ended 30 June 2009 was £6.8 million (2008: £7.3 million), all of which was generated from continuing operations (2008: £3.6 million). This represented 89% of Adjusted EBITDA from continuing operations (2008: 47%).

## Key Performance Indicators (“KPIs”)

As noted in this statement, the Company uses several KPIs to monitor the performance of the business. A summary of the more important KPIs that are used together with a description of how they are calculated follows:

| KPI                          | Metrics                                      | Description   |
|------------------------------|--|---|
| Gross Margin percentage      | 2009<br>20.8%<br>2008<br>22.1%               | Gross Profit divided by Revenue   |
| Adjusted EBITDA              | 2009<br>£7.6 million<br>2008<br>£7.8 million | Adjusted EBITDA are Earnings Before Interest, Tax, Depreciation, Amortisation, Share Based Payments, Trading Balance Releases and Exceptional Items                       |
| Adjusted EBIT                | 2009<br>£4.2 million<br>2008<br>£4.5 million | Adjusted EBIT are Earnings Before Interest, Tax, Trading Balance Releases and Exceptional Items.  |
| Days Sales Outstanding (DSO) | 2009<br>57 days<br>2008<br>68 days           | The number of days invoicing represented by the period trade receivables outstanding. This provides an indication of how quickly our customers are paying their invoices. |
| Average Weekly Bank Balance  | 2009<br>£5.8 million<br>2008<br>£4.0 million | An average of the weekly bank balance during the year as included in the chart published on the Morse website.  |
| Cash conversion              | 2009<br>89%<br>2008<br>47%                   | Cash generated from continuing operations divided by Adjusted EBITDA  |

## 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, but [we believe that 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 business units Infrastructure Services & Technology in the UK, Spain and Ireland and Business Applications Services. Significant cost reductions have been achieved. In addition, we have started to establish a niche focus in each of these businesses.

The improvement in Adjusted EBIT and Adjusted EBITDA on a trailing 12 month basis will be the key performance indicator of the improved financial performance of the business in the coming year. Adjusted EBIT and Adjusted EBITDA in the current financial year are ahead of the same period last year.

While we expect the market for IT services and technology to remain difficult we believe that the changes to Morse's operating model, together with its ongoing strong client relationships, have delivered improved underlying profitability and cash generation in the year to 30 June 2009 and can continue to do so in future.

Mike Phillips  
Chief Executive Officer  
9 September 2009

**Consolidated income statement  
for the year ended 30 June 2009**

|  |             | Year ended<br>30 June<br>2009 | Year ended<br>30 June<br>2008<br><br>Restated<br>(Note 1) |
|--|-------------|-------------------------------|---|
| <b>Continuing Operations</b>   | <i>Note</i> | <b>£'000</b>                  | <b>£'000</b>  |
| Group revenue  | 2           | 211,910                       | 235,258   |
| Cost of sales  |             | <b>(167,882)</b>              | (183,286)   |
| Gross profit   |             | <b>44,028</b>                 | 51,972  |
| Distribution expenses  |             | <b>(15,903)</b>               | (21,767)  |
| Administrative expenses  |             | <b>(27,953)</b>               | (34,948)  |
| Operating profit/(loss)  | 2           | <b>172</b>                    | (4,743)   |
| Analysed as:   |             |                               |   |
| Operating profit before amortisation, share based payments, trading balance releases and exceptional items | 2           | <b>6,736</b>                  | 6,783   |
| Amortisation of intangible assets  |             | <b>(1,443)</b>                | (1,954)   |
| Share based payments   |             | <b>(1,100)</b>                | (346)   |
| Operating profit before trading balance releases and exceptional items                                     |             | <b>4,193</b>                  | 4,483   |
| Trading balance releases   | 5           | <b>4,139</b>                  | 4,174   |
| Operating profit before exceptional items  |             | <b>8,332</b>                  | 8,657   |
| Exceptional items  | 3           | <b>(8,160)</b>                | (13,400)  |
|  |             | <b>172</b>                    | (4,743)   |
| Financial income   | 6           | <b>195</b>                    | 572   |
| Financial expenses   | 6           | <b>(741)</b>                  | (1,013)   |
| Net financing expense  |             | <b>(546)</b>                  | (441)   |
| Loss before taxation   |             | <b>(374)</b>                  | (5,184)   |
| Taxation   | 7           | <b>1,725</b>                  | (1,320)   |
| Profit/(loss) for the period from continuing operations  | 2           | <b>1,351</b>                  | (6,504)   |
| <b>Discontinued operations</b>   |             |                               |   |
| (Loss) /Profit for the period from discontinued operations   | 8           | <b>(13,442)</b>               | 1,833   |
| Loss for the period  | 2           | <b>(12,091)</b>               | (4,671)   |
| Attributable to:   |             |                               |   |
| Equity holders of the parent   |             | <b>(12,098)</b>               | (4,795)   |
| Minority interests   |             | <b>7</b>                      | 124   |
| Loss for the period  |             | <b>(12,091)</b>               | (4,671)   |
| Dividends  |             | <b>1,665</b>                  | 6,091   |
| Basic loss per share   | 4           | <b>(9.3)p</b>                 | (3.7p)  |
| Diluted loss per share   | 4           | <b>(9.3)p</b>                 | (3.7p)  |
| <b>Continuing operations</b>   |             |                               |   |
| Basic earnings/(loss) per share  | 4           | <b>1.0p</b>                   | (5.1)p  |
| Diluted earnings/(loss) per share  | 4           | <b>1.0p</b>                   | (5.1)p  |

**Consolidated statement of recognised income and expense  
for the year ended 30 June 2009**

|  | Year ended<br>30 June<br>2009 | Year ended<br><b>30 June</b><br><b>2008</b> |
|--|-------------------------------|---|
|  | <b>£'000</b>                  | Restated<br>(Note1)<br>£'000                |
| Foreign exchange translation differences                               | <b>1,632</b>                  | 1,472                                       |
| Net income recognised directly in equity                               | <b>1,632</b>                  | 1,472                                       |
| Loss for the period  | <b>(12,091)</b>               | (4,671)                                     |
| Total recognised income and expense                                    | <b>(10,459)</b>               | (3,199)                                     |
| Prior year adjustment  | <b>(1,736)</b>                |   |
| Total recognised income and expense for the period is attributable to: |                               |   |
| Equity holders of the parent   | <b>(10,466)</b>               | (3,323)                                     |
| Minority interest  | <b>7</b>                      | 124   |
| Total recognised income and expense                                    | <b>(10,459)</b>               | (3,199)                                     |

The prior year adjustment affects retained earnings. For further details see note 1.

**Consolidated balance sheet  
as at 30 June 2009**

|   |             | <b>30 June<br/>2009</b> | 30 June<br>2008<br>Restated<br>(Note 1) |
|---|-------------|-------------------------|---|
|   | <i>Note</i> | <b>£'000</b>            | <b>£'000</b>                            |
| <b>Assets</b>   |             |                         |   |
| <b>Non-current assets</b>                               |             |                         |   |
| Property, plant and equipment                           |             | 982                     | 2,203                                   |
| Goodwill  | 9           | 28,603                  | 43,530                                  |
| Other intangibles                                       | 9           | 3,229                   | 4,788                                   |
| Deferred tax assets                                     |             | 1,119                   | 1,005                                   |
| Other receivables                                       |             | 2,415                   | 1,937                                   |
| <b>Total non-current assets</b>                         |             | <b>36,348</b>           | <b>53,463</b>                           |
| <b>Current assets</b>                                   |             |                         |   |
| Inventories   |             | 2,575                   | 1,396                                   |
| Trade and other receivables                             | 10          | 53,661                  | 77,907                                  |
| Cash and cash equivalents                               |             | 12,140                  | 11,078                                  |
|   |             | <b>68,376</b>           | <b>90,381</b>                           |
| Assets classified as held for sale                      | 8           | 1,931                   | -                                       |
| <b>Total current assets</b>                             |             | <b>70,307</b>           | <b>90,381</b>                           |
| <b>Total assets</b>                                     |             | <b>106,655</b>          | <b>143,844</b>                          |
| <b>Liabilities</b>                                      |             |                         |   |
| <b>Current liabilities</b>                              |             |                         |   |
| Borrowings  | 11          | (455)                   | (122)                                   |
| Trade and other payables                                | 12          | (39,255)                | (61,724)                                |
| Tax payable   |             | (3,182)                 | (8,084)                                 |
| Deferred consideration                                  | 13          | (524)                   | -                                       |
| Interest creditor                                       |             | (1,978)                 | (1,736)                                 |
| Deferred income   |             | (13,025)                | (13,736)                                |
| Provisions  |             | (2,475)                 | (1,025)                                 |
|   |             | <b>(60,894)</b>         | <b>(86,427)</b>                         |
| Liabilities classified as held for sale                 | 8           | (1,752)                 | -                                       |
| <b>Total current liabilities</b>                        |             | <b>(62,646)</b>         | <b>(86,427)</b>                         |
| <b>Non-current liabilities</b>                          |             |                         |   |
| Borrowings  | 11          | (293)                   | -                                       |
| Deferred consideration                                  | 13          | (484)                   | -                                       |
| Deferred tax liability                                  |             | -                       | (347)                                   |
| Deferred Income   |             | (2,643)                 | (2,424)                                 |
| Provisions  |             | (384)                   | (412)                                   |
| <b>Total non-current liabilities</b>                    |             | <b>(3,804)</b>          | <b>(3,183)</b>                          |
| <b>Net assets</b>                                       |             | <b>40,205</b>           | <b>54,234</b>                           |
| <b>Capital and reserves</b>                             |             |                         |   |
| Called up share capital                                 | 14          | 15,935                  | 15,825                                  |
| Share capital to be issued                              | 14          | -                       | 3,022                                   |
| Share premium account                                   | 14          | 70,790                  | 70,790                                  |
| Other reserves  | 14          | 2,817                   | 33,424                                  |
| Own shares  | 14          | (984)                   | -                                       |
| Retained earnings                                       | 14          | (48,649)                | (69,106)                                |
| <b>Total equity attributable to equity shareholders</b> |             | <b>39,909</b>           | <b>53,955</b>                           |
| Minority interest                                       | 14          | 296                     | 279                                     |
| <b>Total equity</b>                                     |             | <b>40,205</b>           | <b>54,234</b>                           |

**Consolidated cash flow statement  
for the year ended 30 June 2009**

|   |             | Year ended<br>30 June<br>2009 | Year ended<br>30 June<br>2008<br><br>Restated<br>(Note 1) |
|---|-------------|-------------------------------|---|
|   | <i>Note</i> | £'000                         | £'000   |
| <b>Cash generated from operations</b>                             | 15          | <b>6,761</b>                  | 7,307   |
| Interest received   |             | 237                           | 615   |
| Interest paid   |             | (280)                         | (594)   |
| Tax paid  |             | (3,719)                       | (2,445)   |
| <b>Net cash generated from operating activities</b>               |             | <b>2,999</b>                  | 4,883   |
| <b>Cash flows from investing activities</b>                       |             |                               |   |
| Acquisition of property, plant and equipment                      |             | (466)                         | (571)   |
| Proceeds from sale of property, plant and equipment               |             | -                             | 8   |
| Acquisition of intangibles (software and development)             |             | (119)                         | (183)   |
| Acquisitions of subsidiary in the period, net of cash acquired    |             | -                             | (1,733)   |
| Purchase of own shares for the EBT                                |             | (494)                         | (435)   |
| Disposal of businesses, net of disposal costs                     | 8           | 652                           | -   |
| <b>Net cash from investing activities</b>                         |             | <b>(427)</b>                  | (2,914)   |
| <b>Cash flow from financing activities</b>                        |             |                               |   |
| Proceeds from issue of shares                                     | 14          | -                             | 10  |
| Repayment of loan notes on previous acquisitions                  |             | (122)                         | (144)   |
| Proceeds from customer specific financing                         |             | 4,532                         | -   |
| Repayment of customer specific financing                          |             | (3,784)                       | -   |
| Payment of dividend to minority interest                          |             | -                             | (109)   |
| Dividends paid  |             | (1,665)                       | (6,091)   |
| <b>Net cash from financing activities</b>                         |             | <b>(1,039)</b>                | (6,334)   |
| Net increase/(decrease) in cash and cash equivalents              |             | 1,533                         | (4,365)   |
| Opening cash and cash equivalents                                 |             | 11,078                        | 15,345  |
| Effect of exchange rate fluctuations on cash held                 |             | 143                           | 98  |
| <b>Closing cash and cash equivalents</b>                          |             | <b>12,754</b>                 | 11,078  |
| Cash and cash equivalents attributable to continuing operations   |             | 12,140                        | 11,078  |
| Cash and cash equivalents attributable to discontinued operations | 8           | 614                           | -   |
| <b>Closing cash and cash equivalents</b>                          |             | <b>12,754</b>                 | 11,078  |

## Notes to the financial statements for the year ended 30 June 2009

### 1 Basis of Preparation

The Group's results incorporated in the preliminary announcement have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), IFRIC interpretations and the Companies Act 2006 as applicable to companies reporting under IFRS.

The preliminary announcement for the year ended 30 June 2009 was approved by the Board of Directors on 8 September 2009. The figures for the year ended 30 June 2009 included in this announcement have been extracted from the audited financial statements for the year ended 30 June 2009. The figures for the years ended 30 June 2009 and 2008 do not constitute statutory accounts within the meaning of section 240(5) of the Companies Act 1985. The figures for the year ended 30 June 2008 have been extracted from the financial statements filed with the Register of Companies and contain an unqualified audit report and no statements under sections 237(2) or 237(3) of the Companies Act 1985.

The Annual Report and Accounts for the year ended 30 June 2009 will be sent to shareholders in September 2009.

#### 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 gave rise to interest on overdue tax of £0.8 million, which had not been previously provided for. At the half year, based on this review, the directors considered it appropriate to also record the interest on the remaining open enquiries within this provision which amounted to a further £1.1 million being provided at 31 December 2008. Updated for movements in the second half of the year the interest creditor provision at 30 June 2009 is £2.0 million.

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 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:

|                                   | As previously<br>reported<br>£'000 | Impact of prior year<br>adjustment<br>£'000 | As restated<br>£'000 |
|-----------------------------------|------------------------------------|---|----------------------|
| <b>Year ended 30 June 2008</b>    |                                    |   |                      |
| <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)                           | (920)                                       | (57,944)             |
| <i>Earnings per share</i>         |                                    |   |                      |
| EPS – Basic (pence)               | (3.5)                              | (0.2)                                       | (3.7)                |

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

The impact on basic and diluted EPS of this adjustment is to increase the loss per share by 0.2p, from 3.5p per share to 3.7p per share, for the year ended 30 June 2008.

At 1 July 2007 the comparative for Deferred tax asset, previously reported at £420,000 has been adjusted by £395,000 and restated at £815,000 to reflect the deferred tax impact of the HMRC interest.

## 2 Segmental reporting

### Segmental analysis

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

### Business segments

The following tables present revenue and expenditure information regarding the Group's business segments for the years ended 30 June 2009 and 2008. These are determined by the source of the sales.

#### Year ended 30 June 2009

|   | Infrastructure<br>Services &<br>Technology UK<br>£'000 | Infrastructure<br>Services &<br>Technology<br>Europe<br>£'000 | Business<br>Applications<br>Services<br>£'000 | Central<br>£'000 | Total<br>Continuing<br>£'000 | Discontinued<br>Operations<br>(Investment<br>Management<br>Consulting)<br>£'000 | Total<br>£'000  |
|---|--|---|---|------------------|------------------------------|---|-----------------|
| <b>Revenue</b>  |  |   |   |                  |                              |   |                 |
| Sales to external customers   | 114,239  | 57,399  | 40,272  | -                | 211,910                      | 10,417  | 222,327         |
| Inter-segment sales   | 1,559  | 10  | 508   | -                | 2,077                        | 927   | 3,004           |
| Segmental revenue   | 115,798  | 57,409  | 40,780  | -                | 213,987                      | 11,344  | 225,331         |
| Operating profit before amortisation,<br>share based payments, trading<br>balance releases and exceptional<br>items | 7,205  | 229   | 2,637   | (3,335)          | 6,736                        | 61  | 6,797           |
| Amortisation of intangible assets   | -  | (39)  | (240)   | (1,164)          | (1,443)                      | -   | (1,443)         |
| Share based payments  | -  | -   | -   | (1,100)          | (1,100)                      | -   | (1,100)         |
| Operating profit before trading<br>balance releases and exceptional<br>items  | 7,205  | 190   | 2,397   | (5,599)          | 4,193                        | 61  | 4,254           |
| Trading balance releases  | -  | -   | -   | 4,139            | 4,139                        | -   | 4,139           |
| Operating profit before exceptional<br>items  | 7,205  | 190   | 2,397   | (1,460)          | 8,332                        | 61  | 8,393           |
| Exceptional items   | (2,320)  | (1,785)   | (2,843)                                       | (1,212)          | (8,160)                      | (14,962)  | (23,122)        |
| <b>Operating profit/(loss)</b>  | <b>4,885</b>   | <b>(1,595)</b>  | <b>(446)</b>                                  | <b>(2,672)</b>   | <b>172</b>                   | <b>(14,901)</b>   | <b>(14,729)</b> |
| Net financing (expense)/income  |  |   |   |                  | (546)                        | 29  | (517)           |
| Exceptional profit on disposal of<br>discontinued operations  |  |   |   |                  | -                            | 652   | 652             |
| Taxation  |  |   |   |                  | 1,725                        | 778   | 2,503           |
| Profit/(loss) for the period  |  |   |   |                  | 1,351                        | (13,442)  | (12,091)        |

## 2 Segmental reporting (continued)

Year ended 30 June 2008 (Restated)

|   | Infrastructure<br>Services &<br>Technology UK<br>£'000 | Infrastructure<br>Services &<br>Technology<br>Europe<br>£'000 | Business<br>Applications<br>Services<br>£'000 | Central<br>£'000 | Total<br>Continuing<br>£'000 | Discontinued<br>Operations<br>(Investment<br>Management<br>Consulting)<br>£'000 | Total<br>£'000 |
|---|--|---|---|------------------|------------------------------|---|----------------|
| <b>Revenue</b>  |  |   |   |                  |                              |   |                |
| 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 amortisation,<br>share based payments, trading<br>balance releases and exceptional<br>items | 6,407  | 2,945   | 542   | (3,111)          | 6,783                        | 2,467   | 9,250          |
| Amortisation of intangible assets   | -  | (28)  | (285)   | (1,641)          | (1,954)                      | -   | (1,954)        |
| Share based payments  | -  | -   | -   | (346)            | (346)                        | -   | (346)          |
| Operating profit before trading<br>balance releases and exceptional<br>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 before exceptional<br>items  | 6,407  | 2,917   | 257   | (924)            | 8,657                        | 2,467   | 11,124         |
| Exceptional items   | -  | -   | (13,400)                                      | -                | (13,400)                     | -   | (13,400)       |
| Operating profit/(loss)   | 6,407  | 2,917   | (13,143)                                      | (924)            | (4,743)                      | 2,467   | (2,276)        |
| Net financing (expense)/income  |  |   |   |                  | (441)                        | 41  | (400)          |
| Taxation  |  |   |   |                  | (1,320)                      | (675)   | (1,995)        |
| (Loss)/profit for the period  |  |   |   |                  | (6,504)                      | 1,833   | (4,671)        |

### Geographic segments

The following table presents revenue information for the geographical segments for the years ended 30 June 2009 and 2008.

| Year ended 30 June 2009     | UK<br>£'000    | Europe<br>£'000 | Rest of world<br>£'000 | Total<br>continuing<br>£'000 | Discontinued<br>operations<br>£'000 | Total<br>£'000 |
|-----------------------------|----------------|-----------------|------------------------|------------------------------|-------------------------------------|----------------|
| <b>Revenue</b>              |                |                 |                        |                              |                                     |                |
| Sales to external customers | 147,903        | 57,399          | 6,608                  | 211,910                      | 10,417                              | 222,327        |
| Inter-segment sales         | 2,067          | 10              | -                      | 2,077                        | 927                                 | 3,004          |
| <b>Total</b>                | <b>149,970</b> | <b>57,409</b>   | <b>6,608</b>           | <b>213,987</b>               | <b>11,344</b>                       | <b>225,331</b> |

Year ended 30 June 2008

Revenue

|                             |                |               |              |                |               |                |
|-----------------------------|----------------|---------------|--------------|----------------|---------------|----------------|
| Sales to external customers | 171,649        | 57,778        | 5,831        | 235,258        | 18,001        | 253,259        |
| Inter-segment sales         | 2,008          | 15            | -            | 2,023          | 187           | 2,210          |
| <b>Total</b>                | <b>173,657</b> | <b>57,793</b> | <b>5,831</b> | <b>237,281</b> | <b>18,188</b> | <b>255,469</b> |

Revenue for discontinued operations relating to the Investment Management Consulting division is derived mainly in the UK.

### 3 Exceptional items

|  | Year ended<br>30 June<br>2009<br>£'000 | Year ended<br>30 June<br>2009<br>£'000 | Year ended<br>30 June<br>2009<br>£'000 | Year ended<br>30 June<br>2008<br>£'000 | Year ended<br>30 June<br>2008<br>£'000 | Year ended<br>30 June<br>2008<br>£'000 |
|--|--|--|--|--|--|--|
|  | Continuing                             | Discontinued                           | Total                                  | Continuing                             | Discontinued                           | Total                                  |
| Dilapidation provision                       | (700)                                  | (8)                                    | (708)                                  | -                                      | -                                      | -                                      |
| Provision for loss on disposal of businesses | -                                      | (254)                                  | (254)                                  | -                                      | -                                      | -                                      |
| Director's share options charge write back   | 615                                    | -                                      | 615                                    | -                                      | -                                      | -                                      |
| Reversal of fair value adjustments           | 565                                    | -                                      | 565                                    | -                                      | -                                      | -                                      |
| Restructuring costs:                         |  |  |  |  |  |  |
| -Headcount                                   | (5,221)                                | (758)                                  | (5,979)                                | -                                      | -                                      | -                                      |
| -Property and IT                             | (1,776)                                | (191)                                  | (1,967)                                | -                                      | -                                      | -                                      |
| -Legal and professional                      | (1,027)                                | (30)                                   | (1,057)                                | -                                      | -                                      | -                                      |
| -Share options                               | (616)                                  | -                                      | (616)                                  | -                                      | -                                      | -                                      |
|  | (8,640)                                | (979)                                  | (9,619)                                | -                                      | -                                      | -                                      |
| Impairment of goodwill and intangibles       | -                                      | (13,721)                               | (13,721)                               | (13,400)                               | -                                      | (13,400)                               |
| Total  | (8,160)                                | (14,962)                               | (23,122)                               | (13,400)                               | -                                      | (13,400)                               |

All of the items above are recognised within Administrative expenses for both years.

#### 2009 items

The dilapidations provision charge reflects a liability at 30 June 2009 for potential costs that the businesses are likely to incur to bring all properties to the same state as required by the lease contract. The change in estimate during the year has led to a charge of £0.7 million being recognised in 2009.

The provision for loss on disposal of businesses relates to the Australian and French business units of the Investment Management Consulting division (discontinued operations). The majority stake held in the Australian business was sold to management on 3 September 2009. The majority stake held in the French business has been sold, subject to shareholder approval, to the management of that business. A circular will be sent to shareholders in due course relating to the French business which is classified as a related party transaction. The provision is for the proceeds receivable versus the carrying value of the net assets.

The lapsing of share options relating to a former director of the Group has resulted in a write back of previously incurred share options charges. The forfeiture has resulted in a credit of £0.6 million in the year ended 30 June 2009.

The reversal of fair value adjustments of £0.6 million primarily relates to the crystallising of fair value adjustments for mainly bad debt provisions and accruals from previous acquisitions.

Restructuring costs in the year ended 30 June 2009 amount to £9.6 million and relate to the cost reduction programme announced on 25th July 2008. As part of restructuring a £0.6 million share options charge was reflected representing accelerated charges resulting from employees who left the company as part of the restructuring.

The goodwill and intangibles impairment charge in the year ended 30 June 2009 relates to the impairment of goodwill (£13.6 million) and intangible assets (£0.1million) in the Investment Management Consulting division (discontinued operations). The carrying value of goodwill and intangible relating to this division is nil at 30 June 2009.

#### 2008 items

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

#### Tax effect

The tax effect of the exceptional items in the year ended 30 June 2009 is a credit of £2.4 million (2008: nil).

#### 4 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.

As there was a loss in the period there is no dilution and so the basic and diluted EPS figures are the same.

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

|                              | Year ended<br>30 June 2009 |   |                                   | Year ended<br>30 June 2008<br>Restated (Note 1) |   |                                   |
|------------------------------|----------------------------|---|-----------------------------------|---|---|-----------------------------------|
|                              | Earnings<br>£'000          | Weighted<br>average<br>number of<br>shares<br>(thousands) | Per<br>share<br>amount<br>(pence) | Earnings<br>£'000                               | Weighted<br>average<br>number of<br>shares<br>(thousands) | Per<br>share<br>amount<br>(pence) |
| <b>Basic and diluted EPS</b> |                            |   |                                   |   |   |                                   |
| Loss attributable to         |                            |   |                                   |   |   |                                   |
| Ordinary shareholders        | (12,098)                   | 129,829   | (9.3)                             | (4,795)   | 128,742   | (3.7)                             |

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. The Directors consider this is helpful in assisting the reader to understand the underlying performance of the Group.

|  | Year ended<br>30 June 2009 |   |                                   | Year ended<br>30 June 2008<br>Restated (Note 1) |   |                                   |
|--|----------------------------|---|-----------------------------------|---|---|-----------------------------------|
|  | Earnings<br>£'000          | Weighted<br>average<br>number of<br>shares<br>(thousands) | Per<br>share<br>amount<br>(pence) | Earnings<br>£'000                               | Weighted<br>average<br>number of<br>shares<br>(thousands) | Per<br>share<br>amount<br>(pence) |
| <b>Basic and diluted EPS</b>                   | (12,098)                   | 129,829   | (9.3)                             | (4,795)   | 128,742   | (3.7)                             |
| Effect of Trading Credit Balances (net of tax) | (2,980)                    | -   | (2.3)                             | (2,943)   | -   | (2.3)                             |
| Effect of exceptional items (net of tax)       |                            |   |                                   |   |   |                                   |
| - Impairment charge                            | 13,721                     | -   | 10.6                              | 13,400  | -   | 10.4                              |
| - Dilapidations                                | 510                        | -   | 0.4                               | -   | -   | -                                 |
| - Restructuring costs                          | 5,814                      | -   | 4.4                               | -   | -   | -                                 |
| - Other exceptional items                      | (1,180)                    | -   | (0.9)                             | -   | -   | -                                 |
| Normalisation of tax charge                    | (630)                      | -   | (0.5)                             | (1,132)   | -   | (0.9)                             |
| <b>Adjusted basic and diluted EPS</b>          | <b>3,157</b>               | <b>129,829</b>  | <b>2.4</b>                        | <b>4,530</b>                                    | <b>128,742</b>  | <b>3.5</b>                        |

The tax charge used for the adjusted EPS calculations has been adjusted to reflect a full tax charge on the adjusted profit before tax, thus removing the effect of the significant tax adjustments in any one year that relate to prior periods.

#### Continuing operations

Basic and diluted earnings per share of 1.0p (2008: loss of 5.1p) for continuing operations is calculated from the net profit attributable to equity holders of the parent from continuing operations of £1,351,000 (2008: loss of £6,504,000) divided by the weighted average number of Ordinary shares in issue during the period.

## Discontinued operations

Basic loss per share of 10.4p (2008: earnings of 1.3p) for discontinued operations is calculated from the net loss attributable to equity holders of the parent from discontinued operations of £13,450,000 (2008: profit of £1,709,000) 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. The Directors consider this is helpful in assisting the reader to understand the underlying performance of the Group.

| Continuing operations   | Year ended<br>30 June 2009 |   |                                   | Year ended<br>30 June 2008<br>Restated (Note 1) |   |                                   |
|---|----------------------------|---|-----------------------------------|---|---|-----------------------------------|
|   | Earnings<br>£'000          | Weighted<br>average<br>number of<br>shares<br>(thousands) | Per<br>share<br>amount<br>(pence) | Earnings<br>£'000                               | Weighted<br>average<br>number of<br>shares<br>(thousands) | Per<br>share<br>amount<br>(pence) |
| <b>Basic EPS</b>  |                            |   |                                   |   |   |                                   |
| Profit/(Loss) attributable to Ordinary shareholders           | 1,351                      | 129,829   | 1.0                               | (6,504)   | 128,742   | (5.1)                             |
| Effect of deferred consideration to be issued within one year | -                          | 733   | -                                 | -   | -   | -                                 |
| <b>Diluted EPS</b>  | <b>1,351</b>               | <b>130,562</b>  | <b>1.0</b>                        | <b>(6,504)</b>                                  | <b>128,742</b>  | <b>(5.1)</b>                      |

**Continuing operations**

|  | Year ended<br>30 June 2009 |   |                                   | Year ended<br>30 June 2008<br>Restated (Note 1) |   |                                   |
|--|----------------------------|---|-----------------------------------|---|---|-----------------------------------|
|  | Earnings<br>£'000          | Weighted<br>Average<br>number of<br>Shares<br>(thousands) | Per<br>share<br>amount<br>(pence) | Earnings<br>£'000                               | Weighted<br>average<br>number of<br>shares<br>(thousands) | Per<br>share<br>amount<br>(pence) |
| <b>Basic EPS</b>                               | <b>1,351</b>               | <b>129,829</b>  | <b>1.0</b>                        | (6,504)   | 128,742   | (5.1)                             |
| Effect of Trading Credit Balances (net of tax) | (2,980)                    | -   | (2.3)                             | (2,943)   | -   | (2.3)                             |
| Effect of exceptional items (net of tax)       |                            |   |                                   |   |   |                                   |
| - Impairment charge                            | -                          | -   | -                                 | 13,400  | -   | 10.4                              |
| - Dilapidations                                | 504                        | -   | 0.4                               | -   | -   | -                                 |
| - Restructuring costs                          | 5,286                      | -   | 4.1                               | -   | -   | -                                 |
| - Other exceptional items                      | (1,180)                    | -   | (0.9)                             | -   | -   | -                                 |
| Normalisation of tax charge                    | (355)                      | -   | (0.3)                             | (1,104)   | -   | (0.8)                             |
| <b>Adjusted Basic EPS</b>                      | <b>2,626</b>               | <b>129,829</b>  | <b>2.0</b>                        | <b>2,849</b>                                    | <b>128,742</b>  | <b>2.2</b>                        |
| <b>Diluted EPS</b>                             | <b>1,351</b>               | <b>130,562</b>  | <b>1.0</b>                        | (6,504)   | 128,742   | (5.1)                             |
| Effect of Trading Credit Balances (net of tax) | (2,980)                    | -   | (2.3)                             | (2,943)   | -   | (2.3)                             |
| Effect of exceptional items (net of tax)       |                            |   |                                   |   |   |                                   |
| - Impairment charge                            | -                          | -   | -                                 | 13,400  | -   | 10.4                              |
| - Dilapidations                                | 504                        | -   | 0.4                               | -   | -   | -                                 |
| - Restructuring costs                          | 5,286                      | -   | 4.1                               | -   | -   | -                                 |
| - Other exceptional items                      | (1,180)                    | -   | (0.9)                             | -   | -   | -                                 |
| Normalisation of tax charge                    | (355)                      | -   | (0.3)                             | (1,104)   | -   | (0.8)                             |
| <b>Adjusted Diluted EPS</b>                    | <b>2,626</b>               | <b>130,562</b>  | <b>2.0</b>                        | <b>2,849</b>                                    | <b>128,742</b>  | <b>2.2</b>                        |

**5 Trading balance releases**

During the year total trading balance releases of £4,139,000 (2008: £4,174,000) were credited to the income statement, within 'administrative expenses'.

At 30 June 2008 there were £10.2 million of trading balance credits on the balance sheet. During the year £4.1 million of trading balances were released to the income statement in line with the policy, £1.7 million of the liability was either crystallised or settled with £4.4 million remaining on the balance sheet at 30 June 2009.

Of the £4.4 million closing balance, £3.6 million (2008: £8.7million) is included within trade and other payables and £0.8 million (2008: £1.5 million) within deferred income.

As reductions in the trading balance credits are driven by a number of factors it is difficult to predict with certainty the levels of releases that will flow through the income statement in the years ahead. However, we anticipate trading balance releases will continue at the following approximate levels; FY10: £0.9 million, FY11: £0.8 million, FY12: £1.2 million with any increase in these levels being driven by action by the Company.

## 6 Finance income and expense

|  | Year ended<br>30 June<br>2009 | Year ended<br>30 June<br>2008 |
|--|-------------------------------|-------------------------------|
|  |                               | Restated<br>(Note 1)          |
|  | £'000                         | £'000                         |
| Bank interest income                       | 144                           | 504                           |
| Other interest income                      | 51                            | 68                            |
| <b>Financial income</b>                    | <b>195</b>                    | <b>572</b>                    |
| Bank loans and overdrafts interest expense | (210)                         | (500)                         |
| Other loans interest expense               | (79)                          | (43)                          |
| Unwinding of discount on provisions        | (210)                         | (49)                          |
| Interest on overdue tax                    | (242)                         | (421)                         |
| <b>Financial expenses</b>                  | <b>(741)</b>                  | <b>(1,013)</b>                |

## 7 Tax on ordinary activities

### Corporation tax

|  | Year ended<br>30 June<br>2009 | Year ended<br>30 June<br>2008 |
|--|-------------------------------|-------------------------------|
|  |                               | Restated<br>(Note 1)          |
|  | £'000                         | £'000                         |
| United Kingdom corporation tax charge at 28% (2008: 29.5%) | 1,371                         | 2,018                         |
| Adjustment to corporation tax provision from prior years   | (2,371)                       | (549)                         |
| Overseas tax charge on profit for the year                 | 108                           | 409                           |
| Current tax credit   | (892)                         | 1,878                         |
| Deferred tax credit  | (833)                         | (558)                         |
| Tax (credit)/charge from continuing operations             | (1,725)                       | 1,320                         |
| Tax (credit)/charge from discontinued operations           | (778)                         | 675                           |
| <b>Total tax (credit)/charge</b>                           | <b>(2,503)</b>                | <b>1,995</b>                  |

The effective tax rate in the year ended 30 June 2009 differs from the UK tax rate of 28% mainly due to the effect of the prior year tax credit and the loss making position of the group. The adjustment to the corporation tax provision from prior years is higher than in previous years and reflects the finalisation of corporation tax liabilities for 2007 and 2008 and settlement of a number of open HMRC enquiries dating back to the year ended 30 June 2005 which has resulted in the reversal of previously provided amounts.

For the year 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.

Deferred tax of £250,000 (2008: £171,000) was credited directly to the Retained Earnings.

## 8 Discontinued operations and Assets of disposal group classified as held for sale

On 20 February 2009, the Company completed 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”) and on 3 April the sale of CSTIM’s Jersey business was also completed as was the sale of SkillsHub.

CSTIM formed the largest part of Morse’s IMC business unit. The remaining parts of IMC were 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 have been closed down, the SkillsHub business has been sold and the majority stake held in the Australian business was sold to management in September 2009. Terms have been agreed, subject to shareholder approval, for the sale of the majority stake held in the French business. A circular seeking shareholder approval will be sent in due course.

Consequently, the results of the IMC business unit have been reported as discontinued for the year ended 30 June 2009.

As a result of the sale there was an impairment to goodwill and other intangible assets on Morse’s consolidated balance sheet, relating to the IMC business units, of £13.7 million arising from the sale and there was also a write down of the carrying value of the investment in Morse plc’s company balance sheet.

| <b>Results of discontinued operations</b>                  | <b>2009</b>     | <b>2008</b>  |
|--|-----------------|--------------|
|  | <b>£'000</b>    | <b>£'000</b> |
| Revenue  | <b>10,417</b>   | 18,001       |
| Expenses   | <b>(25,289)</b> | (15,493)     |
| Net gain on sale of discontinued operations                | <b>652</b>      | -            |
| <b>(Loss)/Profit before tax of discontinued operations</b> | <b>(14,220)</b> | <b>2,508</b> |
| Tax  | <b>778</b>      | (675)        |
| <b>(Loss)/Profit after tax of discontinued operations</b>  | <b>(13,442)</b> | 1,833        |

The Expenses disclosed above, for the year ended 30 June 2009, include the goodwill impairment charge of £13.7 million and exceptional restructuring costs of £1.0 million (See note 3).

## 8 Discontinued operations and Assets of disposal group classified as held for sale (continued)

| <b>Cash flows from/(used in) discontinued operations</b> | <b>2009</b>  | <b>2008</b>  |
|--|--------------|--------------|
|  | <b>£'000</b> | <b>£'000</b> |
| Operating cash flows                                     | (20)         | 3,676        |
| Investing cash flows                                     | 587          | (35)         |
| Financing cash flows                                     | -            | (109)        |
| <b>Total cash flows in discontinued operations</b>       | <b>567</b>   | <b>3,532</b> |

  

| <b>Assets of discontinued operations classified as held for sale</b> | <b>2009</b>  |
|--|--------------|
|  | <b>£'000</b> |
| Property, plant and equipment  | 56           |
| Other current assets   | 1,261        |
| Cash and cash equivalents  | 614          |
| <b>Total</b>   | <b>1,931</b> |

  

| <b>Liabilities of discontinued operations classified as held for sale</b> | <b>2009</b>  |
|---|--------------|
|   | <b>£'000</b> |
| Trade and other payables  | 1,498        |
| Provisions  | 254          |
| <b>Total</b>  | <b>1,752</b> |

  

| <b>Net gain on sale of discontinued operations</b> | <b>£'000</b> |
|--|--------------|
| Net assets/(liabilities) on disposal               | -            |
| Costs of disposal                                  | (648)        |
| Sale proceeds received                             | 1,300        |
| <b>Profit on disposal of businesses</b>            | <b>652</b>   |

## 9 Goodwill and other intangible fixed assets

|  | Consulting<br>Database | Customer<br>relationships | Customer<br>relationship<br>backlog | Maintenance<br>contracts | Follow-on<br>consulting | Trade names  | Software     | Total<br>intangibles | Goodwill      |
|--|------------------------|---------------------------|-------------------------------------|--------------------------|-------------------------|--------------|--------------|----------------------|---------------|
|  | £'000                  | £'000                     | £'000                               | £'000                    | £'000                   | £'000        | £'000        | £'000                | £'000         |
| <b>Cost</b>  |                        |                           |                                     |                          |                         |              |              |                      |               |
| At 1 July 2007   | -                      | -                         | 376                                 | 399                      | 6,110                   | 1,847        | 498          | 9,230                | 51,622        |
| Transfers  | 128                    | -                         | -                                   | 22                       | (474)                   | -            | 934          | 610                  | 247           |
| Additions  | -                      | 1,431                     | -                                   | 406                      | -                       | -            | 183          | 2,020                | 3,925         |
| At 1 July 2008   | 128                    | 1,431                     | 376                                 | 827                      | 5,636                   | 1,847        | 1,615        | 11,860               | 55,794        |
| Additions  | -                      | -                         | -                                   | -                        | -                       | -            | 119          | 119                  | -             |
| Disposals  | -                      | -                         | -                                   | -                        | -                       | -            | (60)         | (60)                 | -             |
| Revaluations   | -                      | -                         | -                                   | -                        | -                       | -            | 14           | 14                   | -             |
| Changes in<br>contingent<br>consideration<br>(note 14) | -                      | -                         | -                                   | -                        | -                       | -            | -            | -                    | (1,326)       |
| <b>At 30 June 2009</b>                                 | <b>128</b>             | <b>1,431</b>              | <b>376</b>                          | <b>827</b>               | <b>5,636</b>            | <b>1,847</b> | <b>1,688</b> | <b>11,933</b>        | <b>54,468</b> |
| <b>Amortisation</b>                                    |                        |                           |                                     |                          |                         |              |              |                      |               |
| At 1 July 2007   | -                      | -                         | 376                                 | 188                      | 1,954                   | 526          | 88           | 3,132                | -             |
| Charge for the year                                    | 43                     | 215                       | -                                   | 494                      | 704                     | 185          | 313          | 1,954                | -             |
| Impairment (note 3)                                    | -                      | -                         | -                                   | -                        | -                       | 1,136        | -            | 1,136                | 12,264        |
| Transfers  | -                      | -                         | -                                   | -                        | -                       | -            | 850          | 850                  | -             |
| At 1 July 2008   | 43                     | 215                       | 376                                 | 682                      | 2,658                   | 1,847        | 1,251        | 7,072                | 12,264        |
| Charge for the year                                    | 42                     | 286                       | -                                   | 134                      | 704                     | -            | 346          | 1,512                | -             |
| Impairment (note 3)                                    | 43                     | -                         | -                                   | -                        | 77                      | -            | -            | 120                  | 13,601        |
| <b>At 30 June 2009</b>                                 | <b>128</b>             | <b>501</b>                | <b>376</b>                          | <b>816</b>               | <b>3,439</b>            | <b>1,847</b> | <b>1,597</b> | <b>8,704</b>         | <b>25,865</b> |
| <b>Net book value</b>                                  |                        |                           |                                     |                          |                         |              |              |                      |               |
| <b>At 30 June 2009</b>                                 | <b>-</b>               | <b>930</b>                | <b>-</b>                            | <b>11</b>                | <b>2,197</b>            | <b>-</b>     | <b>91</b>    | <b>3,229</b>         | <b>28,603</b> |
| At 30 June 2008  | 85                     | 1,216                     | -                                   | 145                      | 2,978                   | -            | 364          | 4,788                | 43,530        |
| At 1 July 2007   | -                      | -                         | -                                   | 211                      | 4,156                   | 1,321        | 410          | 6,098                | 51,622        |

In the year ended 30 June 2008 adjustments were made to the opening cost of intangibles and goodwill to reclassify software assets previously reflected in property, plant and equipment, and to adjust for provisional management valuations of intangibles and goodwill made in the year ended 30 June 2007. The provisional valuations were in respect of the acquisitions of SkillsHub Limited and CSTIM France in that year. External valuations replaced the provisional estimates made by management resulting in an adjustment in the year ended 30 June 2008.

## 9 Goodwill and other intangible fixed assets (continued)

The goodwill and intangibles impairment charge in the year ended 30 June 2009 relates to the impairment of goodwill (£13.6 million) and intangible assets (£0.1million) in the Investment Management Consulting division (discontinued operations) which occurred because the goodwill could not be recouped on the sale of the businesses because of the depressed state of the consulting market and the likelihood of continuing trading losses. On the basis of fair value less costs to sell, the carrying value of goodwill and intangibles relating to this division is nil at 30 June 2009.

Other intangible assets total £3,229,000 (2008: £4,788,000). Other intangible assets acquired in the year ended 30 June 2009 totalled £119,000 (2008: £183,000) and represent amounts arising on purchase of software. In the year ended 30 June 2008 the intangible assets acquired represented mainly amounts arising on the acquisition of Xayce plc (customer relationship and maintenance contracts).

### Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the cash generating units of Infrastructure Services & Technology UK, IS&T Spain, IS&T Ireland, Business Applications Services and IMC for impairment testing. These are the lowest level of cash generating units (CGU) that can be reliably and separately identified and which management use to measure the business. During the year ended 30 June 2009, the carrying value of goodwill relating to the Investment Management Consulting division has been impaired in full because it has been classified as discontinued operations, and has been partly closed and partly sold.

The recoverable amounts of these cash generating units have been determined based on a value in use calculation. The Group has based these calculations on estimated cashflows in line with current market expectations over 10 years (excluding a value in perpetuity) rather than 5 years plus a value to perpetuity as the current economic environment makes visibility of cash flows very problematic into perpetuity. The growth rates are based on management estimates of the industry growth rates for the activities being undertaken by each company represented by the investment, averaging 2.25% per annum for the IS&T businesses and 4% for Business Application Services. The discount rate applied to cash flow projections is based on management assessment of the weighted average cost of capital post-tax of 9.36% (13% pre-tax, 2008: 13% pre-tax) and uses data from external sources. Management estimates the discount rate reflects the current market assessment of the time value of money and risks specific to the business.

Based on the above, all the CGU's generate value in excess of the carrying value of goodwill attributed to them, giving them significant headroom. Accordingly, there is no impairment in any of the CGU's within the continuing operations in the year ended 30 June 2009.

The base case impairment tests are then subjected to a sensitivity analysis varying the growth rates, the WACC and cashflows including reducing growth rates to zero, increasing WACC to 14% (post tax) and reducing cashflows by up to 25%.

The Business Applications Services goodwill would have been impaired by £2.0 million if the cash flows were reduced by 15% and no growth was assumed for the entire 10 year period.

For continuing operations, future performance would have to deteriorate markedly for the value in use to fall below the carrying value.

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

|  | 2009<br>£'000 | 2008<br>£'000 |
|--|---------------|---------------|
| Business Applications Services               | 20,165        | 21,058        |
| Infrastructure Services & Technology UK      | 5,717         | 5,717         |
| Infrastructure Services & Technology Ireland | 2,169         | 2,169         |
| Infrastructure Services & Technology Spain   | 552           | 552           |
| Investment Management Consulting             | -             | 14,034        |
|  | <b>28,603</b> | <b>43,530</b> |

The change in the carrying amounts of goodwill from 2008 to 2009 for the Business Applications Services business unit is due to the movement in deferred consideration during the year relating to the acquisition of Xayce plc.

The change in the carrying amounts of goodwill from 2008 to 2009 for the Investment Management Consulting business unit is due to the impairment during the year and the movement in deferred consideration during the year relating to the acquisition of SkillsHub Limited and D&C Financial Consultants Limited.

The remaining amortisation periods of the intangible assets held as at 30 June 2009 are as follows:

|                        |                           |
|------------------------|---------------------------|
| Maintenance contracts  | one month                 |
| Follow on consulting   | three years, one month    |
| Software               | three years               |
| Customer relationships | three years, three months |

Amortisation is charged to administrative expenses.

## 10 Trade and other receivables

|                                     | 2009<br>£'000  | 2008<br>£'000 |
|-------------------------------------|----------------|---------------|
| Gross trade receivables             | 40,714         | 61,201        |
| Other receivables                   | 35             | 1,294         |
| Gross trade and other receivables   | <u>40,749</u>  | 62,495        |
| Bad debt provision                  | <u>(1,087)</u> | (858)         |
| Net trade and other receivables     | 39,662         | 61,637        |
| Tax and social security recoverable | 164            | 4             |
| Prepayments and accrued income      | <u>13,835</u>  | 16,266        |
|                                     | <u>53,661</u>  | 77,907        |

Trade receivables includes £0.4 million (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 £7.8 million (Jun 08: £10.0 million) which is recognisable within one year. The Group defers maintenance revenue and the associated maintenance costs and recognises them over the period the service is provided.

## 11 Borrowings

|                | 2009<br>£'000 | 2008<br>£'000 |
|----------------|---------------|---------------|
| Debt factoring | (748)         | -             |
| Loan Notes     | -             | (122)         |
|                | <u>(748)</u>  | (122)         |

During the year ended 30 June 2009, the Spanish business entered into a debt factoring arrangement to fund extended credit terms offered to a customer. Under the terms of the arrangement funds were advanced to the company by the factor and are repayable in line with the customer contract payment terms. At 30 June 2009 the group had liabilities of £748,000 under this debtor factoring arrangement of which £455,000 is payable within one year, and £293,000 is payable in more than one year.

At 30 June 2008, borrowings were represented by loan notes which were paid down in full in the year ended 30 June 2009.

## 12 Trade and other payables

|                                 | Year ended<br>30 June<br>2009<br>£'000 | Year ended<br>30 June<br>2008<br>£'000 |
|---------------------------------|--|--|
| Trade payables                  | 28,286                                 | 40,932                                 |
| Accruals                        | 7,578                                  | 11,927                                 |
| Tax and social security payable | 2,974                                  | 7,475                                  |
| Other payables                  | 417                                    | 1,390                                  |
|                                 | <u>39,255</u>                          | 61,724                                 |

Employer pension contributions payable to the pension scheme of £86,000 (2008: £117,000) are included within other payables.

### 13 Deferred consideration

The deferred consideration payable relates to the amounts due to vendors of Xayce plc, acquired by Morse in September 2007 where the amount payable is now to be settled in cash rather than shares. The amount of the deferred consideration at 30 June 2009 is £1,008,000 of which £524,000 is payable within one year and £484,000 is payable after more than one year.

### 14 Statement of changes in equity

|  | Share<br>Capital | Share<br>capital<br>to be<br>issued | Share<br>premium<br>account | Capital<br>redemption<br>reserve | Other      | Foreign<br>currency<br>translation<br>reserve | Merger<br>reserve | Total<br>Other<br>reserves | Retained<br>earnings | Own<br>shares | Minority<br>interest | Total         |
|--|------------------|-------------------------------------|-----------------------------|----------------------------------|------------|---|-------------------|----------------------------|----------------------|---------------|----------------------|---------------|
|  | £'000            | £'000                               | £'000                       | £'000                            | £'000      | £'000   | £'000             | £'000                      | £'000                | £'000         | £'000                | £'000         |
| <b>Group</b>   |                  |                                     |                             |                                  |            |   |                   |                            |                      |               |                      |               |
| <b>At 1 July 2007 as previously reported</b>                             | <b>15,692</b>    | <b>348</b>                          | <b>70,767</b>               | <b>168</b>                       | <b>209</b> | <b>(413)</b>                                  | <b>30,904</b>     | <b>30,868</b>              | <b>(57,024)</b>      | -             | <b>229</b>           | <b>60,880</b> |
| <b>Prior Year Adjustment (see note 1)</b>                                | -                | -                                   | -                           | -                                | -          | -   | -                 | -                          | (920)                | -             | -                    | (920)         |
| <b>Restated as at 1 July 2007</b>  | <b>15,692</b>    | <b>348</b>                          | <b>70,767</b>               | <b>168</b>                       | <b>209</b> | <b>(413)</b>                                  | <b>30,904</b>     | <b>30,868</b>              | <b>(57,944)</b>      | -             | <b>229</b>           | <b>59,960</b> |
| Loss for the year  | -                | -                                   | -                           | -                                | -          | -   | -                 | -                          | (4,795)              | -             | -                    | (4,795)       |
| Purchase of own shares   | -                | -                                   | -                           | -                                | -          | -   | -                 | -                          | (435)                | -             | -                    | (435)         |
| Issue of shares on acquisition of subsidiaries                           | 130              | 2,674                               | -                           | -                                | -          | -   | 1,119             | 1,119                      | -                    | -             | -                    | 3,923         |
| Exercise of share options  | 3                | -                                   | 23                          | -                                | -          | -   | -                 | -                          | (16)                 | -             | -                    | 10            |
| Deferred tax on share option charge                                      | -                | -                                   | -                           | -                                | -          | -   | -                 | -                          | (171)                | -             | -                    | (171)         |
| Gain on translation of foreign subsidiaries                              | -                | -                                   | -                           | -                                | -          | 1,437   | -                 | 1,437                      | -                    | -             | 35                   | 1,472         |
| Share options charge   | -                | -                                   | -                           | -                                | -          | -   | -                 | -                          | 346                  | -             | -                    | 346           |
| Dividends paid   | -                | -                                   | -                           | -                                | -          | -   | -                 | -                          | (6,091)              | -             | -                    | (6,091)       |
| Dividend paid to minority interest                                       | -                | -                                   | -                           | -                                | -          | -   | -                 | -                          | -                    | -             | (109)                | (109)         |
| Share of profit of minority interest                                     | -                | -                                   | -                           | -                                | -          | -   | -                 | -                          | -                    | -             | 124                  | 124           |
| <b>Reported as at 1 July 2008</b>  | <b>15,825</b>    | <b>3,022</b>                        | <b>70,790</b>               | <b>168</b>                       | <b>209</b> | <b>1,024</b>                                  | <b>32,023</b>     | <b>33,424</b>              | <b>(69,106)</b>      | -             | <b>279</b>           | <b>54,234</b> |
| Loss for the year  | -                | -                                   | -                           | -                                | -          | -   | -                 | -                          | (12,098)             | -             | -                    | (12,098)      |
| Purchase of own shares   | -                | -                                   | -                           | -                                | -          | -   | -                 | -                          | 490                  | (984)         | -                    | (494)         |
| Issue of shares on 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)       |
| Deferred tax on share option charge                                      | -                | -                                   | -                           | -                                | -          | -   | -                 | -                          | (250)                | -             | -                    | (250)         |
| Gain on translation of foreign subsidiaries                              | -                | -                                   | -                           | -                                | -          | 1,625   | -                 | 1,625                      | -                    | -             | 7                    | 1,632         |
| Share option charge  | -                | -                                   | -                           | -                                | -          | -   | -                 | -                          | 1,412                | -             | -                    | 1,412         |
| Dividends paid   | -                | -                                   | -                           | -                                | -          | -   | -                 | -                          | (1,665)              | -             | -                    | (1,665)       |
| Share of profit of minority interest                                     | -                | -                                   | -                           | -                                | -          | -   | -                 | -                          | -                    | -             | 10                   | 10            |
| Release of merger reserve and other reserve                              | -                | -                                   | -                           | -                                | (209)      | -   | (32,359)          | (32,568)                   | 32,568               | -             | -                    | -             |
| <b>At 30 June 2009</b>   | <b>15,935</b>    | <b>-</b>                            | <b>70,790</b>               | <b>168</b>                       | <b>-</b>   | <b>2,649</b>                                  | <b>-</b>          | <b>2,817</b>               | <b>(48,649)</b>      | <b>(984)</b>  | <b>296</b>           | <b>40,205</b> |

## 14 Statement of changes in equity (continued)

The share capital issued at nominal value in the year relates to payment of contingent consideration totalling £0.1million (891,711 shares) relating to previous acquisitions of Xayce plc, SkillsHub Limited and D&C Financial Consultants Ltd.

### Share capital to be issued

In the year ended 30 June 2009, share capital to be issued decreased by £3.0 million, which is made up as follows:

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

£0.4 million revaluation of the remaining deferred consideration payable for the acquisition of SkillsHub Limited and D&C Financial Consultants Ltd and,

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

The premium arising on the exercise of share options was £nil (2008: £23,000). On the exercise of share options, £nil (2008: £10,000) was received from employees.

### Other reserves

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

The Other reserve related to share options and was set up in 1997, prior to the listing of the company. This reserve is no longer required and has been transferred to Retained Earnings.

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

The merger reserve has arisen on the various acquisitions made by the Company over several years. During the year the disposal of the Investment Management Consulting business and the impairment of the parent company's investment in its subsidiaries has triggered the transfer to the profit and loss reserve of a realised profit per section 9.44 of Tech 1/08. Following the transfer, the merger reserve has been fully utilised and the balance at 30 June 2009 is nil.

During the year, shares held by the various Employee Benefit Trusts have been consolidated into the results of the company. These are classified as Own shares in the statement of equity. Own shares were previously held within retained earnings, but have been classified separately in the current year resulting in the movement between reserves.

## 15 Cash generated from operations

|   | Year ended<br>30 June<br>2009 | Year ended<br>30 June<br>2008<br><br>Restated<br>(Note 1) |
|---|-------------------------------|---|
|   | £'000                         | £'000   |
| <b>Cash flows from operating activities</b>                       |                               |   |
| Loss for the period after tax                                     | (12,091)                      | (4,671)   |
| Adjustments for:  |                               |   |
| Depreciation  | 1,268                         | 1,126   |
| Amortisation  | 1,512                         | 1,954   |
| Financial income  | (237)                         | (615)   |
| Financial expenses  | 754                           | 1,015   |
| Profit on sale of discontinued operations                         | (652)                         | -   |
| Impairment of goodwill and intangibles                            | 13,721                        | 13,400  |
| Loss on sale of property, plant and equipment                     | 629                           | 89  |
| Share based payments  | 1,100                         | 346   |
| Taxation  | (2,503)                       | 1,995   |
| Operating profit before changes in working capital and provisions | 3,501                         | 14,639  |
| (Increase)/decrease in inventories                                | (1,145)                       | 2,899   |
| Decrease/(increase) in trade and other receivables                | 23,266                        | (1,051)   |
| Decrease in trade and other payables                              | (20,536)                      | (9,196)   |
| Increase in provisions  | 1,675                         | 16  |
| <b>Cash generated from operations</b>                             | <b>6,761</b>                  | <b>7,307</b>  |

The depreciation charge for the year includes £877,000 (2008: £996,000) reflected within continuing businesses and charged to operating profit before exceptional items.

The amortisation charge for the year includes £1,443,000 (2008: £1,954,000) reflected within continuing businesses and charged to operating profit before exceptional items.