

## **Prime Active Capital plc**

### **Statement on investment in Media Square PLC and updated trading statement**

**15 December, 2011**

#### **Board of Media Square plc puts company into administration.**

Prime Active Capital plc has been a holder of 10,290,400 ordinary shares in Media Square plc representing 28.5% of the ordinary share capital of the company. This investment was held for resale and was not consolidated in the accounts as the group did not have significant influence over the company nor did it participate in the policy decisions of its board. It has been announced that Media Square plc has been put into administration by its board, and the business has been acquired by its management team.

The guidance from Media Square plc in its pre-closing update on 4<sup>th</sup> October, 2011, was that results for 2011 would be broadly in line with the previous year.

The interim results for Media Square plc, released on 30<sup>th</sup> November, 2011 confirmed that trading for the period had been in line with the previous year, but it had booked some exceptional costs. It also indicated that the performance for the current year period would be below the level reported for the prior year and the results showed that debt had increased at a time when it would have been expected to fall or remain stable.

On 8<sup>th</sup> December, 2011 the board of Media Square plc requested that its shares be suspended on AIM due to uncertainty around working capital facilities as it traded into its seasonally higher requirement. It stated that its bank had informed the board that it “cannot” commit to amending the Company’s banking covenants and would not extend the facilities available to Media Square plc.

On the same day that the board of Media Square plc asked for the shares to be suspended on AIM, it appointed PricewaterhouseCoopers LLP as administrators, who immediately sold the business and assets of the company for £11 million to a management buy-out group. The proceeds of the disposal are to be paid to the secured creditor, the bank, which will suffer a shortfall in excess of £11 million. All other creditors are to be paid in full, and all employees are being transferred into the new company. The announcement of the administration was made on 9<sup>th</sup> December, 2011.

The investment in Media Square plc was valued at €657,534 at 31<sup>st</sup> December, 2010 and this amount will be written off in the profit and loss account for 2011. An adjustment will also be made in the reserves for previously recognised foreign currency changes in other comprehensive income. These are non-cash items.

## **2. Trading update on Prime Active Capital plc.**

For the half year to 30<sup>th</sup> June, 2011 Prime Active Capital plc showed an improved performance compared to the H1 for 2010, and an operating profit at its trading subsidiary PAC Telemedia on slightly improved revenue. At that time I indicated that there had been a slow down since that trading period and that the “back-to-school” trading of July and August had not materialized to the extent budgeted. The unit trading was tracking last year, a considerable slow down from the early part of the year and margins were under pressure.

There have been two significant changes in the second half of the year. The first element is the step up in Smartphone sales from c. 30% of unit sales last year to a target of 80% this year by Verizon. The advent of an aggressive roll out of Smartphones by the networks in H2 has significantly reduced the gross margin as Smartphones are higher priced but give lower margins to retailers. The increased handset price has met consumer resistance on volumes, even with subsidies, and as alternatives to Smartphones are being phased out by the networks, the customer is having little option but to take the more expensive handset even with lower value contracts. These contracts and phones pay less to the retailer and thus have lead to reduced margins.

Consumers, other than the technologically literate and early adopters, are not yet educated sufficiently on the value of 4G and the facilities available on the Smartphones, but the pace of this is picking up as investment continues to be poured in by the networks and the next generation handsets become the default. The pressures among the handset manufacturers are such that some brand name companies from last year are being obliterated in the marketplace.

The second element is that PAC budgeted to improve systems and support in our store network, adding overhead in training, telesales and more expensive and experienced local management. This took time to implement and came into place as the gross margin began to fall, so we have had both a gross margin squeeze and a rise in overhead in the operating subsidiaries. While this cost increase was planned and budgeted for, the squeeze in the gross margin has meant that this is not supportable and we are rolling that back while continuing to consolidate our operations as planned.

That trading trend has continued, with units tracking last year at the end of October but at a reduced gross margin as the expensive Smartphones are sold into the customer base. The company is now tracking some 14% behind last year at operating loss, and 20% at the loss attributable to shareholders. If this trend continues through the end of the year the performance of the group will be behind 2010 .The company is under pressure to capture the profitability of the seasonally important fourth quarter in line with last year.

The Group is finalising its budget for 2012, and is engaged on an exercise of overhead reduction across all business headings and to rebuild the gross margin again towards the level with which we started 2011.

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