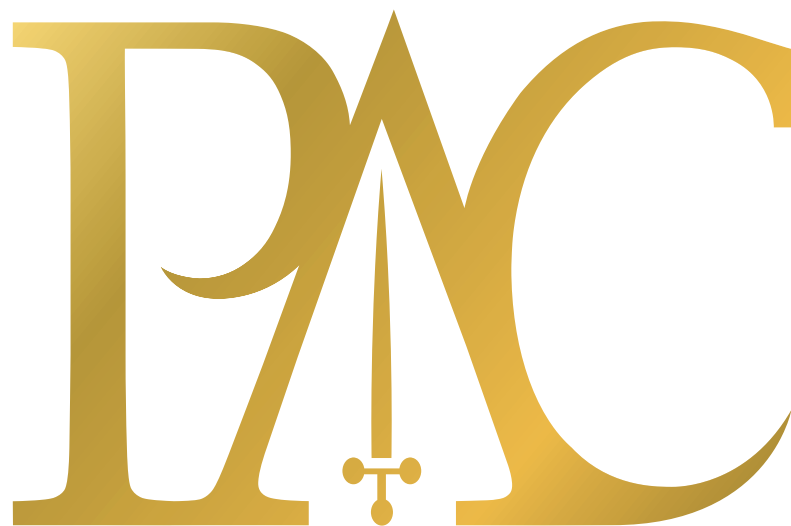


# 2008

## ANNUAL REPORT AND ACCOUNTS

Prime Active Capital plc

CONTENTS

Financial summary 2

Chairman's statement 3

Financial review 8

Board of Directors 12

Directors' report 13

Statement of Directors' responsibilities 20

Independent Auditors' report 21

Consolidated financial statements

- Consolidated income statement 23
- Consolidated balance sheet 24
- Consolidated statement of recognised income and expense 25
- Consolidated cash flow statement 26
- Notes to the consolidated financial statements 27

Company financial statements

- Company balance sheet 71
- Accounting policies 72
- Notes to the Company balance sheet 73

Other information 75

Group financial summary 76

| | 2008 | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| **Revenue** | | |
| PAC Digimedia - continuing operations | **11,284** | 13,087 |
| PAC Telemedia - continuing operations | **8,816** | 144 |
| | **20,100** | 13,231 |
| PAC Digimedia - discontinued operations(1) | **13,685** | 21,401 |
| | **33,785** | 34,632 |
| **Group (loss) for the year** | | |
| PAC Digimedia operating (loss)/profit - continuing operations | **(94)** | 1,019 |
| PAC Telemedia operating (loss)/profit - continuing operations | **(4,959)** | (158) |
| Centre costs - continuing operations(2) | **(721)** | (1,062) |
| Operating (loss)/profit(2) | **(5,774)** | (201) |
| Exceptional items, interest, tax and other charges(3) | **(6,509)** | (2,639) |
| (Loss) after tax and exceptional items - continuing operations | **(12,283)** | (2,840) |
| Profit after tax and exceptional items - discontinued operations(1) | **7,387** | 639 |
| | **(4,896)** | (2,201) |
| | **€ cent** | € cent |
| **Basic earnings/(loss) per share** | | |
| (Loss) per share (cent) - continuing operations | **(50.65)** | (16.69) |
| Earnings per share (cent) - discontinued operations(1) | **32.57** | 3.80 |
| | **(18.08)** | (12.89) |
| **Adjusted (loss)/earnings per share** | | |
| Adjusted (loss)/earnings per share (cent) - continuing operations(4) | **(21.73)** | 3.65 |
| Adjusted earnings per share (cent) - discontinued operations(5) | **0.94** | 3.80 |
| | **(20.79)** | 7.45 |
| | **€'000** | €'000 |
| **Net cash** | | |
| Net cash - continuing operations | **2,171** | 10,230 |
| Net (debt) - discontinued operations(1) | **-** | (2,425) |
| | **2,171** | 7,805 |
| **Equity** | | |
| Equity - continuing operations | **16,172** | 19,025 |
| Equity - discontinued operations(1) | **-** | 3,549 |
| | **16,172** | 22,574 |

(1) the results of the plastic cards operations, within the PAC Digimedia division, discontinued in the current year, have been disclosed separately, with prior year disclosures for these entities also re-presented
(2) before exceptional items of €6.560 million in 2008 and €3.423 million in 2007
(3) includes exceptional items per note (2), net interest received of €0.037 million and income tax credit of €0.014 million in 2008 and net interest paid of €0.170 million, income tax credit of €0.922 million and share of loss of joint venture of €0.308 million in 2007
(4) adjusted earnings per share excludes exceptional costs in 2008 relating to the fair value of warrants, restructuring costs in the PAC Telemedia division, a mark-to-market loss arising on the acquisition of quoted equity securities and an impairment charge on these quoted equity securities totalling €6.560 million and corporate restructuring costs in 2007 of €3.423 million
(5) adjusted earnings per share excludes the gain on disposal of discontinued operations

**Overview**

This was a more difficult year in which to reposition the Group from manufacturing to a retail orientation. Our significant investments in PAC Telemedia to build out the US based cell phone chain, and in Media Square plc both faced severe pressure on performance, revenue and cash. That is reflected in these accounts in marking our investment in Media Square plc to market, and in start up losses in the US greater than expected as new organic stores in particular took longer to establish their profitability.

We made the disposal of the plastic card business unit earlier in the year for a net consideration of €10.8 million. This helped fund the expansion of the Telemedia chain and provided cash for follow on investment for that and for Media Square plc. In the second half of the year we acquired a further 6.5% of Media Square plc for €1.7 million to bring our shareholding to just over 21.5% and our investment in the year to €6.8 million. We do not account for Media Square plc as an associate.

We completed the acquisition of In2Wireless of Alabama for €3.1 million including costs, as part of an investment in our US subsidiary of €7.8 million in 2008 and provided working capital for it and for our Cellular Center business. This took our US cell phone chain to 71 stores, split equally between new organic stores and acquired stores with an established trade. We also invested €3.1 million in capital expenditure across the Group in the continuing business, €2.1 million in PAC Digimedia, €1.6 million gross (€1.0 million net of grants) in PAC Telemedia and the rest in group.

**PAC Digimedia**

After the disposal of the plastic card business last August this division consists of the Bell & Bain business printing books and technical journals in Scotland, and Top Copy, the small jobbing printer in the midlands.

*Business overview*

Both Bell & Bain and Top Copy came under greater margin pressure last year as recession began to hit customer's budgets, particularly in the second half. On a constant currency basis, Bell & Bain reported a small increase in revenue, however its operating profit decreased significantly, reflecting the intense competitiveness of the market and the continuing pressure on margins. This is an ongoing feature of the industry where marginal players struggle to survive, and their pricing impacts the rest of the market until they find their feet or go out of business. Three of Bell & Bain's direct competitors have gone into administration in the last year.

*Performance for the year ended 31 December 2008*

Financial information

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| **Continuing operations** | | |
| Revenue | **11,284** | 13,087 |
| EBITDA[(1).] | **879** | 2,038 |
| EBITDA margin % | **7.8** | 15.6 |
| Operating (loss)/profit | **(94)** | 1,019 |
| Operating margin % | **-** | 7.8 |
| Net interest[(2)] | **(192)** | (216) |
| Capital expenditure | **2,097** | 627 |

| | 2008 €'000 | 2007 €'000 |
|---|---|---|
| **Discontinued operations** | | |
| Revenue | **13,685** | 21,401 |
| EBITDA[1] | **1,148** | 2,531 |
| EBITDA margin % | **8.4** | 11.8 |
| Operating profit | **429** | 1,556 |
| Operating margin % | **3.1** | 7.3 |
| Net interest[3] | **(188)** | (448) |
| Capital expenditure | **787** | 865 |
| | | |
| **Total continuing and discontinued operations** | | |
| Revenue | **24,969** | 34,488 |
| EBITDA[1] | **2,027** | 4,569 |
| EBITDA margin % | **8.1** | 13.2 |
| Operating profit | **335** | 2,575 |
| Operating margin % | **1.3** | 7.5 |
| Net interest | **(380)** | (664) |
| Capital expenditure | **2,884** | 1,492 |

(1) earnings before interest, tax, depreciation and amortisation
(2) net interest comprises total finance income of €0.004 million less total finance costs of €0.196 million in 2008 and total finance income of €0.006 million less total finance costs of €0.222 million in 2007
(3) net interest comprises total finance income of €0.006 million less total finance costs of €0.194 million in 2008 and total finance income of €0.005 million less total finance costs of €0.453 million in 2007

During the year to end of December 2008, PAC Digimedia's revenue declined by approximately 28%. This is due predominately to the sale of the plastic cards business unit in August 2008. Underlying revenue for continuing operations was up marginally on a constant currency basis.

Our capital investment in Bell & Bain over the last two years has improved that business's positioning vis-a-vis competitors and to a degree has protected it from a significant cyclical downturn in the print sector in the UK. There is really nowhere substantial for us to go with this business although it is in a sector we know well. We came to the conclusion last year that manufacturing was not where the Group should be positioned in this sector unless we had significant barriers to competition. The debt of the Group sits in Bell & Bain and comprises mainly the asset finance of their €2.1 million capital expenditure programme last year and a small seasonal overdraft.

Top Copy's overall performance deteriorated compared with the year ending 31 December 2007. Top Copy is a loss making, sub-scale operation generating sales of €1.3 million in 2008 and selling into a highly competitive market where supply continues to outweigh demand.

*Current trading*

Top Copy is not a material business and continues to struggle in an over supplied market. Bell & Bain had a slow start to the current year in the initial months, but since then has caught up and exceeded budget for sales, EBITDA and operating profit in the year to date. This is a good performance by the management team in difficult circumstances and while we do not anticipate that these are the green shoots indicating the end of recession, it confirms that this is a well specified factory with a professional management team and a resilient customer base. We have been approached by a potential buyer for this business and discussions are ongoing.

**Media Square plc**

We have invested €6.8 million in total in a 21.5% shareholding in Media Square plc, a UK listed entity with sales of c. £121 million for the year ended 28 February, 2009. Media Square plc describes itself as a leading marketing communications group and experts in advertising, design, marketing, public relations and research. As such it can be expected that their revenue and margins would be sensitive to the budget cut backs of clients and this is certainly an element of their current severe share price drop.

The management team there are entering their third year of a turnaround, and in their recent profit warning of June 2009 are forecasting breakeven at best for its first six months in the 2009/2010 year. In this context it seems sensible to write down this investment in keeping with the general diminution of quoted markets and in compliance with IAS 39. We are in a point in a market cycle where share values have been crushed, and this company is placed at the front end of retail business. We have decided to write this investment down to its market value at the end of the accounts year. This is also approximately the current market price for the shares in June 2009.

While we write down this investment this should not be taken as reflective of our view of the business the company is in, or even substantially of the management of the company. Our investment and interest is for the long term in this business where we are the largest shareholder by a considerable degree. Occasionally we get approaches about this holding from other people wanting to use it as a jumping off point for a sector roll-up, but we would intend to help solve the problems with this company by working with the company and the other shareholders.

IAS 28 – Investments in Associates – requires that a holding of more than 20% of the voting power in an investee is accounted for as an associate where the investor has significant influence. Although we have a 21.5% interest in Media Square plc, with no representation on the board and no participation in policy-making process, we do not have significant influence over the business. As such the investment is treated as an available-for-sale financial asset and the income statement does not include the Group's share of profit or losses of Media Square plc.

**PAC Telemedia**

PAC Telemedia currently comprises our majority stake in two operating subsidiaries – Cellular Center, LLC and Cellular Center GA-AL, LLC. Both of these are premium retailers of mobile phones and accessories and are authorised agents for Verizon Wireless offering its pre and post paid mobile telecommunication subscription services and wireless data products.

*Business overview*

PAC Telemedia started 2008 with 22 stores and finished the year with 71 stores. The year ended 31 December 2008 was the first year of a development phase for the business. The start up costs, the capital expenditure required to fit out the stores, the initial losses incurred on opening new stores, and the acquisition of the In2Wireless business required investment by PAC Telemedia of €7.8 million during the year. The business grew substantially during 2008 with total revenues of €8.8 million up from €144,000 booked as Group revenue in 2007.

The business committed to leases for 24 new organic stores in Texas, to open in the second half of last year, and in November 2008 made an acquisition of In2Wireless with 26 stores in Alabama. The launching of the Texas group coincided with sharp reversals in US retail from July 2008, and the organic stores in Georgia and Texas began to deviate from the US management plan. Mall units were particularly hard hit.

While we budgeted that building up this business would have starting losses for a couple of years and had flagged this to the shareholders, the size of these losses in the second half of the year deviated considerably from budget as costs ramped up and revenues and margins were softer than projected. We worked closely with the US management to mitigate this situation from the last quarter of the year.

We concluded that the trading environment had deteriorated markedly, that this undermined the organic model and that the business should retrench. Through the last quarter we reduced headcount, closed out some unprofitable units, pulled out of some committed stores where we could and stabilised the business at its current size.

*Performance for the year ended 31 December 2008*

Financial information

| | **2008(1)** | 2007(2) |
|---|---|---|
| | **€'000** | €'000 |
| **Continuing operations** | | |
| Revenue | **8,816** | 144 |
| EBITDA(3) | **(4,754)** | (156) |
| Operating loss | **(4,959)** | (158) |
| Net interest(4) | **7** | 2 |
| Capital expenditure | **1,649** | - |

(1) 2008 performance reflects the results of Cellular Center, LLC for the full year plus the results of Cellular Center GA-AL, LLC from the date it was formed on the acquisition of the In2Wireless business on 25 November 2008 to 31 December 2008
(2) 2007 performance reflects the results of this division for the period 21 December 2007 to 31 December 2007. This is the date on which Cellular Center became a subsidiary
(3) earnings before interest, tax, depreciation and amortisation
(4) net interest comprises total finance income of €0.007 million in 2008 and €0.002 million in 2007

*Current trading*

We have taken the Group down to 67 stores, of which 51 are under one management team in Georgia/Alabama and 16 are co-ordinated but separately managed under the same corporate policies and principles in Texas. We have consolidated purchasing and all back-office responsibilities in a new, modest, office based in Athens, Alabama.

There are knock on effects of sorting out the Cellular Center business into the first half of the current year, particularly since we could not move the headquarters until the Alabama acquisition had been bedded down. However there has been a marked improvement in the performance of the consolidated 51 store chain in Georgia/Alabama in recent months and overall the business continues to improve. There is some residual work in relocating the occasional store to a better location or adding an organic store or small acquisition but in general the business here is stable and on a good base. The Alabama acquisition has proven to be an excellent addition to the Group, not least because of their performance, but also in the quality and commitment of that management team.

We have pulled back the Texas chain to some 16 stores and have a new management team there that is more in keeping with its scale. It has a lot of work ahead of it and is still sub-scale at that number of stores with revenue build up that is slower than originally expected. However, it has now a good model to follow with the Georgia/Alabama chain and the teams are working increasingly closely as we evolve the business model. We are seeking additional small groups and stores in Texas but we are only in initial discussions at present. Ideally we would be able to assemble a network there of 25 to 50 stores.

We have made a conditional offer for another chain of up to 48 established stores in another state in the US and are engaged in due diligence. This acquisition process is tending to be slower than would be expected since most businesses we come across do not have audited accounts and we are tending to prefer asset and business purchases rather than corporate acquisitions. Our experience of this recession has also made us cautious. We have now tracked this business for over a year and while it had significant pressure to the end of calendar 2008, it too is trading better this year.

In a recession we have found in the past that it is cheaper and safer to make acquisitions of established businesses with trading histories and repeat customers rather than to build organically. This is a change of focus for the US group and as a consequence in December 2008 we closed the corporate headquarters of the original Cellular Center business and we let go virtually all the staff. In all we reduced pay and non-pay costs by some 35% across the US group while the store count reduced by 4%.

It is likely that our activity here will be primarily adding to the Group by acquisition of established chains and stores and that it would be a rare start up we would now consider. The product set of what we sell in the stores is excellent, and Verizon, for whom we are agents, is the largest mobile phone player in the US and hugely successful even in this recession. We believe we have the right products in the right market with the right partner, and that our model has improved significantly in the last months.

**Corporate overhead**

We have taken steps to reduce overhead costs to reflect the environment that we all find ourselves in. To that end we have removed a layer of group management in Digimedia and overall reduced headcount at Group by 40% to match the pay and non-pay reductions in the Telemedia business. In addition I have taken a 12% pay cut and backdated it to the date of joining in May 2007.

**Strategy**

We have been changing this Group from a manufacturing focus to a retail focus over the last couple of years. The worldwide recession has taken its toll on all business whether manufacturing, distribution or retail. We suffered a setback in our business last year, but where we have direct line management control we have been able to work through the difficulties by improving management and attending closely to our business. We have confidence in the management teams that run our businesses and we are engaged with them to help them succeed. We continue to be optimistic about PAC Telemedia, our US business, particularly if we can acquire to grow. Our manufacturing business Bell & Bain, is weathering the recession reasonably well to date, and the underperforming investment, Media Square plc, is one where we will continue to offer support to the line management.

Peter E. Lynch
Executive Chairman
29 June 2008

**Overview of results**

*Summary financial information*

| | 2008 €'000 | 2007 €'000 |
|---|---|---|
| **Continuing and discontinued operations** | | |
| Revenue | **33,785** | 34,632 |
| Operating expenses (excluding exceptional costs, depreciation, amortisation and other gains) | **(37,217)** | (31,489) |
| **Earnings before interest, tax, depreciation and amortisation expense (EBITDA), exceptional costs and other gains** | **(3,432)** | 3,143 |
| Depreciation and amortisation | **(1,913)** | (2,004) |
| **Adjusted earnings before interest, tax (EBIT) and exceptional costs** | **(5,345)** | 1,139 |
| Exceptional costs(1) | **(6,560)** | (3,423) |
| Other gains | **-** | 216 |
| Net finance costs | **(151)** | (278) |
| Share of net (losses) of joint ventures accounted for using the equity method | **-** | (308) |
| **(Loss) before tax** | **(12,056)** | (2,654) |
| Income tax (expense)/credit | **(13)** | 453 |
| **(Loss) for the year** | **(12,069)** | (2,201) |
| Profit on disposal of subsidiary | **7,173** | - |
| Loss attributable to minority interest | **796** | 31 |
| **(Loss) for the year attributable to members** | **(4,100)** | (2,170) |
| | **€ cent** | € cent |
| Basic and diluted (loss) per share | **(18.08)** | (12.89) |

(1) the Group has adopted an income statement which seeks to highlight significant and one off items within the Group results for the year

*Revenue*

Group revenue in 2008 amounted to €33.785 million including €13.685 million from the plastic cards business unit which was disposed of in August 2008. While total Group revenue decreased 2.4% primarily due to the disposal of the plastic cards business unit, revenue from continuing operations grew substantially due to a full year's contribution from the Group's investment in Cellular Center and the ongoing expansion of that business. Group revenue also includes a small contribution from the In2Wireless business which was acquired on 25 November 2008.

*Operating profit before interest, taxation and exceptional costs*

One of the Group's key performance measures for its overall business is adjusted EBIT defined as operating profit before interest, taxation and exceptional costs. Adjusted EBIT amounted to a loss of €5.345 million in 2008, compared to a profit of €1.139 million in the previous year. The loss arose mainly due to the costs associated with developing and growing the Cellular Center business through 2008. In addition, PAC Digimedia's UK based operations incurred losses reflecting the increasing competitiveness of the markets that these businesses operate in.

*Exceptional costs*
During the year, the Group incurred a total charge of €6.560 million comprising of:

- a non-cash amount of €0.813 million in respect of warrants issued in May 2007 in connection with the corporate reorganisation the fair value of which, as per IFRS 2 – Share-based Payment, are recognised as an expense over the vesting period resulting in a charge to the income statement in 2008;
- a charge of €2.220 million in respect of the mark-to-market loss arising on the acquisition of the Group's interest in Media Square plc, part of which was acquired through the use of derivatives in place at 31 December 2007, and which includes associated costs related to these derivates;
- an impairment charge of €3.123 million arising on the Group's interest in Media Square plc in accordance with the requirements of IAS 39 – Financial Instruments: Recognition and Measurement – which determines that a significant decline in the fair value of an investment is objective evidence of impairment thus requiring a charge to the income statement; and
- reorganisation and redundancy costs of €0.404 million arising as a result of the restructuring of Cellular Center's business including the closure of its corporate office in Fort Lauderdale, Florida and the payment of redundancy payments to UK based former employees.

These charges are summarised below.

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| Warrants | **813** | 2,258 |
| Loss on financial instruments | **2,220** | - |
| Impairment charge on available-for-sale financial asset | **3,123** | - |
| Reorganisation and redundancy costs | **404** | 1,165 |
| | **6,560** | 3,423 |

*Net financial expense*
The net financial expense for 2008 was €0.151 million compared to €0.278 million in 2007. The term debt of the Group's continuing UK-based operations was fully repaid during 2008. Finance costs also decreased as term debt and asset finance balances were disposed of as part of the plastic cards business unit in August 2008.

*Minority interest*
The minority share of loss after tax for 2008 amounted to €0.796 million (2007: €0.031 million). The minority relates to the shareholdings held by minority interests in Cellular Center Holdings.

*Earnings per share*
The adjusted fully diluted loss per share for 2008 is 20.79 cent as compared with adjusted earnings per share of 7.45 cent in 2007. Adjusted earnings per share excludes exceptional costs in both 2008 and 2007 and the profit on disposal of discontinued operations in 2008. Fully diluted loss per share, before such adjustments, amounted to 18.08 cent compared to a loss of 12.89 cent in 2007.

**Cash flow and net debt**

At the 31 December 2008 the Group had net cash of €2.171 million compared to net cash of €7.805 million at 31 December 2007. The average month end net cash during 2008 was €3.273 million. (2007: net cash €1.174 million.)

Significant outflows in the year included payments totalling €3.901 million in respect of capital expenditure of which €2.884 million was for PAC Digimedia, €1.010 million net of grants received of €0.639 million for PAC Telemedia and the remainder incurred by the UK and Ireland centre. Funding for capital expenditure in PAC Digimedia was partly provided by asset finance agreements. All other capital expenditure was funded from existing resources.

Acquisitions in the year amounted to €3.136 million representing the aggregate consideration and costs of the acquisition of the business and assets of In2Wireless, less the cash acquired as part of that acquisition.

The Group also acquired a 21.5% interest in Media Square plc at a total cost of €6.815 million.

The most significant cash inflow arose from the net consideration received on the disposal of The Plastic Card Company Limited and PCC (Services) Limited which amounted to €10.835 million.

The table below summarises the cash flow for the year.

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| Operating loss | **(11,905)** | (2,068) |
| Depreciation | **1,913** | 2,004 |
| Available-for-sale financial assets impairment charge | **3,123** | - |
| Exceptional costs-warrants | **813** | 2,258 |
| Fair value loss on financial instruments | **2,060** | - |
| Other financial assets at fair value through profit or loss | **-** | (261) |
| Curtailment gain on defined benefit pension scheme | **-** | (125) |
| Net working capital including pension and loss on disposal | **(168)** | (1,055) |
| **Cash generated from operations[(2)]** | **(4,164)** | 753 |
| | | |
| Tax paid[(2)] | **(14)** | (11) |
| Capital expenditure net of grants received[(3)] | **(3,901)** | (1,383) |
| Net interest paid[(4)] | **(170)** | (294) |
| Purchase of available-for-sale financial assets[(2)] | **(6,815)** | - |
| Disposal of subsidiary, net of cash disposed of[(2)] | **10,835** | - |
| Acquisition of subsidiary, net of cash acquired[(2)] | **(3,136)** | (3,423) |
| Acquisition of minority interest, direct costs incurred [(2)] | **(173)** | - |
| Proceeds from issue of shares[(2)] | **-** | 16,190 |
| Proceeds from issue of shares to minority interest[(2)] | **340** | - |
| Borrowings disposed off[(5)] | **2,341** | - |
| | **(4,857)** | 11,832 |
| | | |
| Opening net cash/(debt) | **7,805** | (3,826) |
| Effect of exchange rate changes | **(777)** | (201) |
| | | |
| **Closing net cash** | **2,171** | 7,805 |

(1) the Group has adopted a cash flow summary which seeks to highlight the movement in net cash balances during the year and does not take account of the movements in asset financing or borrowings other than borrowings disposed of with discontinued operations
(2) as per the consolidated cash flow statement on page 26 of the consolidated financial statements
(3) capital expenditure net of grants received comprises purchase of property, plant and equipment of €4.540 less other grants of €0.639 million
(4) net interest paid comprises interest received of €0.220 million, interest paid of €0.131 and finance lease interest paid of €0.259 million
(5) term debt and asset finance disposed of in August 2008 as part of the plastic cards business unit

Net debt as at 31 December 2008 is analysed as follows:

| | PAC Digimedia €'000 | PAC Telemedia €'000 | Centre €'000 | Group €'000 |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Cash | **36** | **881** | **3,585** | **4,502** |
| Overdraft | **(356)** | **-** | **-** | **(356)** |
| Asset finance | **(1,975)** | **-** | **-** | **(1,975)** |
| | **(2,295)** | **881** | **3,585** | **2,171** |

At 31 December 2008 there were committed borrowing facilities available for drawdown of €0.169 million (2007:€1.704 million) in the digital media division.

The term debt of the continuing operations within the digital media division was fully repaid during 2008.

**Treasury policy and management**

The Group has a central treasury function which manages financial risk and is governed by policies and guidelines approved by the Board of Directors. The principal objective of these policies and guidelines is the minimisation of financial risk at reasonable cost. It is Group policy to manage currency and interest rate risk on a non-speculative basis.

The Group's reporting currency is the euro. Exposures, primarily to sterling and the US dollar, arise in the course of ordinary trading. The Group's policy is to reduce balance sheet exposure by matching common currency assets with common currency borrowings in so far as this is practicable and to hedge significant foreign currency transaction exposures arising from trading or capital investment where appropriate. The Group does not hedge accounting translation exposure.

The Group uses interest rate swaps, options and collars from time to time to reduce interest rate risks, but did not do so in 2008.

BOARD OF DIRECTORS

**Peter E. Lynch**
Executive Chairman (aged 51)
Peter E. Lynch has been Executive Chairman of Prime Active Capital plc since May 2007. Prior to joining Prime Active Capital plc, Peter was chief financial officer of Eircom, group finance director of Adare Printing Group plc and managing director of ABN AMRO Hoare Govett Stockbrokers. He is a Fellow of the Institute of Chartered Accountants in Ireland and a member of the Securities Institute.

**John Doris**
Non-executive Director (aged 62)
John Doris is principal of Meridian Business Advisors Limited, a Dublin based consultancy firm. He is a director of a number of companies in the manufacturing, distribution and technology sectors. He joined the board in May 2007.

**Anne Keogh**
Non-executive Director (aged 43)
Anne Keogh is a management consultant and was previously managing director of NeedaHotel.com. She joined the board in December 2007.

BOARD COMMITTEES

**Audit committee**
Anne Keogh (Chairman)
John Doris

**Nominations committee**
Peter E. Lynch (Chairman)
John Doris

**Remuneration committee**
John Doris (Chairman)
Peter E. Lynch
Anne Keogh

The Directors present their report and the financial statements of the Company and the Group for the year ended 31 December 2008.

**Principal activities**

The Group principally derives its income from a small portfolio of companies operating within the digital media and telecommunications industries. The primary goal of the Company is to achieve value for shareholders by improving the financial performance of investee companies by growing them through the provision of operational expertise either organically or through continued bolt on acquisition.

During the year, the Group acquired the business and assets of In2Wireless, an Alabama, USA based chain of retail stores engaged in the sale of mobile phones and related products and services. The Group also acquired 21.5% of the issued share capital in Media Square plc an AIM listed marketing communications group. Further details of these investments are set out in the Chairman's Statement on pages 3 to 7, the Financial Review on pages 8 to 11 and in notes 18, 19 and 35 on pages 52, 53 and 67 of the consolidated financial statements.

The Group is continuing to source additional investments in accordance with statements made previously.

**Review of business**

A review of the business, future developments and key performance indicators of the Group is set out in the Chairman's Statement on pages 3 to 7 and the Financial Review on pages 8 to 11.

**Risks and uncertainties**

The principal risks and uncertainties faced by the Group's businesses relate to increasingly competitive markets, continuing downward price pressures and the macroeconomic environment in Britain and the USA where the Group's trading activities take place. The Group is sensitive to economic conditions in these markets including economic growth, interest rates, inflation, unemployment and demographic trends. The current economic outlook for markets in which the Group currently operates represents a significant risk to the Group.

**Financial risk management**

Details of the Group's financial risk management policies and risks are addressed in the Financial Review under 'treasury policy and management' on page 11 and in note 3 on pages 35, 36 and 37 of the consolidated financial statements.

**Results and dividend**

The Group's loss for the financial year was €4.896 million, of which a loss of €0.796 million is attributable to minority interest holders and a loss of €4.100 million is attributable to members of the Company as set out in the Consolidated Income Statement on page 23 and in the related notes.

The Directors do not recommend the payment of a final dividend.

**Subsidiaries**

The Company's principal subsidiary undertakings are set out in note 38 on page 69 of the consolidated financial statements.

**Research and development**

The Group is committed to ongoing research and development aimed at improving the quality and competitiveness of products and services provided by the Group. Expenditure on research and development is generally not material and is normally written off when it is incurred.

**Political contributions**

There were no political contributions which require disclosure under the Electoral Act, 1997.

**Taxation status**

The Company is not a close company within the meaning of the Corporation Tax Acts.

**Books and records**

The Directors, through the use of appropriate procedures and systems and the employment of competent persons, have ensured that measures are in place to keep proper books and accounting records in compliance with Section 202 of the Companies Act 1990. The books of accounting records of the Company are maintained at the registered office of the Company.

**Directors**

The current Directors of the Company and their biographical details are set out on page 12. The current Directors served as directors for the entire year.

In accordance with the Articles of Association of the Company one third of the Directors are subject to retirement by rotation or, if their number is not three or a multiple of three, the nearest to one-third shall retire from office. The Directors to retire by rotation shall be those who have been longest in office since their last appointment. For that reason, Mr Peter E. Lynch, if he remains as Director at the time of the next Annual General Meeting, will retire from the Board by rotation and, being eligible, will offer himself for reappointment.

None of the current Directors has a service contract with a notice period of one year or more. The Board confirms that the Director offering himself for reappointment continues to perform effectively and to demonstrate commitment to the role and recommends the reappointment of this Director.

**Directors' and Company Secretary's share interests**

The beneficial interests of the Directors and Company Secretary, including their respective families' interests, in the share capital of the Company were as follows:

| **Ordinary shares** | **At 31 December 2008** | At 31 December 2007 |
|---|---|---|
| **Directors** | | |
| P E Lynch | **2,820,825** | 2,820,825 |
| J Doris | **266,667** | 266,667 |
| A Keogh | **14,200** | 14,200 |
| **Secretary** | | |
| Goodbody Secretarial Limited | **-** | - |

There were no changes in the Directors' or Company Secretary's interests between 31 December 2008 and 29 June 2009.

**Directors' and Secretary's share options**

None of the Executive or Non-executive Directors or the Company Secretary at the year end held share options.

**Warrants**

The Group has issued warrants in respect of new ordinary shares to Directors as follows:

| | At 1 January 2008 | Granted | At 31 December 2008 | Exercise Price € | Exercise period |
|---|---|---|---|---|---|
| P E Lynch | | | | | |
| Series A | **5,000,000** | **-** | **5,000,000** | **0.75** | 15 May 2007 to 15 May 2012 |
| Series B | **5,000,000** | **-** | **5,000,000** | **0.75** | 15 May 2007 to 15 May 2012 |

Further details are provided in note 32 on page 63 of the consolidated financial statements.

**Substantial shareholdings**

At 29 June 2009 the Company had been notified, in addition to Directors' interests, of the following interests in the share capital:

| | No. of shares | % |
|---|---|---|
| Ray McLoughlin | **3,360,280** | **14.82** |
| Anthony Stephen and Jane Gill | **2,268,100** | **10.00** |
| Allied Irish Banks plc and its subsidiaries | **1,569,975** | **6.92** |

**Authority for the Company to make market purchases of its own shares**

At the Company's Annual General Meeting on 28 August 2008, shareholders granted authority to the Company to purchase up to 10% of its own shares. Under this authority, the minimum price which could be paid for the shares was to equal the nominal value of the shares and the maximum price was to be equal to 105% of the market price of the shares on the day of purchase.

The authority granted at the August 2008 Annual General Meeting, has not been exercised and will expire at the earlier of the date of the Annual General Meeting in 2009 and fifteen months after the date of the August 2008 Annual General Meeting.

**Corporate governance**

The Company is committed to the principles of good corporate governance. Under the rules of IEX and AIM the Company is not required to comply with the Combined Code on Corporate Governance 2006. The Company has taken steps to comply with the provisions of the Code in so far as is practical, given the size of the Company and the nature of its operations. Details of the corporate governance procedures in place are set out in this report.

**The Board**

The Board is made up of one Executive and two Non-executive Directors. Biographies of each of the Directors are set out on page 12.

The Board is responsible for the strategy and direction of the Group. A formal schedule of matters reserved for Board approval has been adopted and this includes the approval of the annual financial statements, strategy and budgets, significant capital expenditure and acquisitions and disposals, board appointments and review of the Group's system of internal control. The Board has delegated responsibility for the management of the Group, through the Executive Chairman, to executive management. The Executive Chairman is accountable to the Board for all authority delegated to executive management. The strategies, operating parameters and controls on the business are implemented by the Executive Chairman through a series of formal and informal meetings and reviews involving senior management colleagues and operational management of the PAC Digimedia and PAC Telemedia divisions.

The Directors are empowered to take independent professional advice if necessary at the Company's expense and all Directors have access to the advice and services of the Company Secretary.

All Directors bring an independent judgement to bear on issues of strategy, performance, resources and standard of conduct.

The Board has established a number of committees to assist in carrying out its responsibilities and meeting its obligations. The committees and their members are listed on page 12. All of the committees have written terms of reference which are available from the Company's registered office. Meetings of the Board and its committees are held on a regular basis.

**Executive Chairman and Senior Independent Director**

The Board has delegated managerial responsibility for the running of the Group to the Executive Chairman Mr Peter E. Lynch. He is responsible for the strategic direction and overall performance of the Group.

Mr John Doris is the Senior Independent Director. He is available for contact by shareholders if they have concerns which cannot be addressed through the normal channels of the Executive Chairman.

**Board balance and independence**

A majority of the Board comprises Non-executive Directors. The Combined Code requires boards of directors to identify in the annual report each Non-executive Director whom it considers to be independent and to determine whether a director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement.

The Code identifies a number of relationships and circumstances which may be relevant to determining independence, including if the director has been an employee of the Company or Group within the last five years; has a material business relationship with the Company; holds cross-directorships or has significant links with other directors through involvement in other companies or bodies; represents a significant shareholder; or has served on the board for more than nine years from the date of the first election. In addition, the Code also requires the Chairman to be independent on appointment but that the test of independence is not appropriate thereafter.

In the opinion of the Board all of the Non-executive Directors are independent. In arriving at this conclusion the Board has referred to a number of factors that might appear to affect the independence of some of the Directors. In each case the Board decided that the independence of the relevant Director was not compromised.

**Supply of information and professional development**

The Board receives monthly Group financial information and detailed Board papers are sent to each Director in a timely manner in advance of meetings.

Directors are kept up to date on the latest corporate governance developments and ongoing developments in best practice.

## Appointment to the Board

A Nominations Committee has been established to make recommendations to the Board on all new Board appointments. The members of the Committee are identified on page 12.

All Directors are subject to election by shareholders at the first opportunity after their appointment and to re-election at intervals of not more than three years. Non-executive Directors are appointed for specified terms subject to re-election at the next Annual General Meeting.

The terms of appointment of Non-executive Directors are available for inspection at the Company's registered office.

## Company Secretary

The appointment and removal of the Company Secretary is a matter for the Board.

## Remuneration

The Remuneration Committee consists solely of Non-executive Directors. Membership of the Committee is set out on page 12. The Committee is responsible for determining the remuneration of the Executive Chairman and senior management.

The Company's policy is to ensure that the remuneration of the Executive Chairman and senior management is appropriate to the nature and size of the Group's business and properly rewards and motivates them to perform in the best interests of shareholders. In framing the remuneration policy, the Remuneration Committee has given full consideration to Section B of the Best Practice Provisions annexed to the Irish Stock Exchange Listing Particulars. The main elements of the remuneration package for the Executive Chairman are basic salary, annual performance related bonus, pension benefits and share warrants. Pension entitlements are based on basic salary.

The Committee is responsible for making recommendations to the Board regarding remuneration for Non-executive Directors. The remuneration of Non-executive Directors is determined by the Board within the limits set by the Articles of Association.

Details of Directors' remuneration are set out in note 15 on page 49 of the consolidated financial statements. The interests of Directors in shares are set out on page 14. Details of the warrants granted to the Executive Chairman during 2007 are set out in note 32 on page 63 of the consolidated financial statements. It is the policy to grant warrants to senior executives to encourage identification with shareholders' interests.

## Accountability and audit

An Audit Committee has been established with written terms of reference setting out its role and responsibilities. Membership of the Committee is set out on page 12.

The Committee discharges its responsibilities through meetings and receipt and review of reports from the external Auditors and management and review of preliminary announcements and annual reports.

The Committee reviews the accounting policies and practices used in the preparation of the financial statements and is responsible for reviewing the scope and effectiveness of the annual external audit. It reviews and monitors the external Auditors' independence and objectivity and the supply of non-audit services taking account of the relevant regulatory requirements and ethical guidance. Details of fees paid to the Auditors for audit and other services are set out in note 11 on page 47 of the consolidated financial statements. Non-audit services are mainly related to the provision of tax related services. It is more practical and efficient for these services to be provided by the Auditors. The nature of the non-audit services and the value of them are reviewed by the Committee so that it can be satisfied that auditor objectivity and independence is safeguarded. The Committee meets the Auditors in the absence of the Executive Chairman and management at least once each year.

The Committee has reviewed the arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, and is satisfied that these arrangements are adequate.

The Board is satisfied that at all times at least one member of the Audit Committee has sufficient recent and relevant financial experience.

The Directors have overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Group operates through an organisation structure with clearly defined levels of responsibility and authority and appropriate procedures.

Annual budgets are prepared for all business units and these identify key risks and opportunities. The Board approves the Group budget. Performance is measured against budget and prior years and Group performance is reported to the Directors on a monthly basis.

The operating companies maintain controls and procedures which are appropriate to their size and the environment in which they operate. There are regular visits to the operating companies by the Executive Chairman and senior management at which a detailed review of operating and financial matters, including business risk and internal control issues, takes place. The Board receives regular updates on the key risks at Group level and in the individual business units and the steps taken to manage such risks.

The Group does not have an internal audit function as it is not considered necessary because of the nature and size of the Group's activities and the ongoing operating and financial reviews carried out by Group management. The need for an internal audit function is reviewed on an annual basis.

The Directors have, through the Audit Committee, reviewed the effectiveness of the Group's system of internal control.

**Corporate responsibility**

The Group has a Code of Business Conduct aimed at ensuring high standards of conduct are maintained within the Group and activities are carried out in a responsible and ethical manner.

A whistle-blowing policy is in place whereby staff may, in confidence, raise concerns about possible improprieties in financial reporting or other matters.

Group companies have prepared safety statements and the policies set out in these statements are kept under review.

**Employees**

The Group is committed to the principle of equality and complies with all relevant and anti-discrimination legislation.

The average number employed by the Group during 2008 was 435 (2007: 314).

**Relations with shareholders**

It is the Company's policy to enter into dialogue with shareholders in so far as is permissible having regard to the rules of the Stock Exchange, the Companies Acts and other legal and regulatory requirements. All Directors are encouraged to participate in this process. The Board is kept advised of any material matters arising.

The Company's Annual General Meeting affords individual shareholders the opportunity to question the Board. In addition, the Company responds throughout the year to communications from shareholders.

The Annual Report and Notice of Meeting are posted to shareholders at least twenty one working days before the Annual General Meeting. The level of proxy votes cast on each resolution, and the numbers for and against, are announced at the general meetings. Details of the resolutions passed at the Annual General Meeting are included on the Company's website.

**Directors' responsibilities**

The Directors' responsibilities are contained within the Statement of Directors' Responsibilities on page 20.

**Annual general meeting**

The notice of the meeting will give details of any matters which are special business to be considered at the meeting.

**Going concern**

The Directors, after making enquiries, have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. In particular, in making such enquires the Directors have had regard to the current economic environment and the Group's plans for the next year. For that reason, they continue to adopt the going concern basis in preparing the financial statements.

Nonetheless the Directors are cognisant of the current economic conditions in the markets that the Group operates in and in particular the uncertainty that these conditions create over the level of demand for the Group's products. The Group's forecasts and projections, taking account of possible changes in trading performance, show that the Group should be able to continue to operate its existing businesses without the need for additional finance which, in any case, may not be forthcoming on acceptable terms.

**Future developments**

Details of the future developments of the Group are set out in the Chairman's Statement on pages 3 to 7.

**Post balance sheet event**

There have been no significant events affecting the Company since the year end.

**Auditors**

The Auditors, PricewaterhouseCoopers will continue in office in accordance with the provisions of Section 160(2) of the Companies Act, 1963.

On behalf of the Board

P E Lynch Executive Chairman
J Doris Director
29 June 2009

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements are prepared in accordance with generally accepted accounting practice in Ireland. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Acts 1963 to 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the web site. Legislation in the Republic of Ireland concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We have audited the group and parent company financial statements of Prime Active Capital plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

The Directors' responsibilities for preparing the Annual Report and the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent company financial statements in accordance with applicable Irish law and the accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland), are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, and have been properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2006. We report to you our opinion as to whether the parent company financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, and have been properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2006. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit, and whether the parent company balance sheet is in agreement with the books of account. We also report to you our opinion as to:

- whether the company has kept proper books of account;
- whether the directors' report is consistent with the financial statements;
- whether at the balance sheet date there existed a financial situation which may require the company to convene an extraordinary general meeting of the company; such a financial situation may exist if the net assets of the company, as stated in the company balance sheet, are not more than half of its called-up share capital; and
- whether any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and where practicable, include such information in our report.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, Financial Review, Financial Summary and Group Financial Summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**
In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its loss and cash flows for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2006;
- the parent company financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the parent company's affairs as at 31 December 2008; and
- the parent company financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2006.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The company balance sheet is in agreement with the books of account.

In our opinion the information given in the directors' report is consistent with the financial statements.

The net assets of the company, as stated in the company balance sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2008 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
One Spencer Dock
Dublin 1
29 June 2009

## CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

| | Notes | **Pre-exceptionals 2008 €'000** | **Exceptionals (note 7) 2008 €'000** | **Total 2008 €'000** | Pre-exceptionals 2007 €'000 | Exceptionals 2007 €'000 | Total 2007 €'000 |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| Revenue | 5 | **20,100** | **-** | **20,100** | 13,231 | - | 13,231 |
| Cost of sales | | **(14,970)** | **-** | **(14,970)** | (10,614) | - | (10,614) |
| Gross profit | | **5,130** | **-** | **5,130** | 2,617 | - | 2,617 |
| Selling and distribution costs | | **(4,519)** | **-** | **(4,519)** | (594) | - | (594) |
| Administration expenses | | **(6,385)** | **(1,206)** | **(7,591)** | (2,440) | (2,289) | (4,729) |
| Other operating expenses | | **-** | **(11)** | **(11)** | - | (1,134) | (1,134) |
| Other (losses)/gains | 8 | **-** | **(5,343)** | **(5,343)** | 216 | - | 216 |
| Operating (loss)/profit | 5 | **(5,774)** | **(6,560)** | **(12,334)** | (201) | (3,423) | (3,624) |
| Share of loss of joint venture | | **-** | **-** | **-** | (308) | - | (308) |
| Finance costs | 9 | **(245)** | **-** | **(245)** | (274) | - | (274) |
| Finance income | 9 | **282** | **-** | **282** | 444 | - | 444 |
| (Loss)/profit before tax | | **(5,737)** | **(6,560)** | **(12,297)** | (339) | (3,423) | (3,762) |
| Income tax credit | 14 | **14** | **-** | **14** | 922 | - | 922 |
| (Loss)/profit for the year from continuing operations | 5 | **(5,723)** | **(6,560)** | **(12,283)** | 583 | (3,423) | (2,840) |
| **Discontinued operations** | | | | | | | |
| Profit for the year from discontinued operations after tax | 6 | | | **7,387** | | | 639 |
| (Loss) for the year | | | | **(4,896)** | | | (2,201) |
| Attributable to: | | | | | | | |
| Equity shareholders | | | | **(4,100)** | | | (2,170) |
| Minority interest | | | | **(796)** | | | (31) |
| | | | | **(4,896)** | | | (2,201) |
| | | | | **2008 € cent** | | | 2007 € cent |
| (Loss) per share From continuing operations - Basic and diluted | 16 | | | **(50.65)** | | | (16.69) |
| Earnings per share From discontinued operations - Basic and diluted | 16 | | | **32.57** | | | 3.80 |
| (Loss) per share From continuing and discontinued operations - Basic and diluted | 16 | | | **(18.08)** | | | (12.89) |

P E Lynch Executive Chairman
J Doris Director

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2008

| | Notes | **2008 €'000** | 2007 €'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 17 | **7,244** | 10,578 |
| Intangible assets | 18 | **6,472** | 3,149 |
| Available-for-sale financial assets | 19 | **1,057** | - |
| | | **14,773** | 13,727 |
| **Current assets** | | | |
| Inventories | 20 | **1,779** | 2,349 |
| Trade and other receivables | 21 | **4,587** | 8,586 |
| Financial assets at fair value through profit or loss | 22 | **-** | 261 |
| Cash and cash equivalents | 23 | **4,146** | 13,191 |
| | | **10,512** | 24,387 |
| Total assets | | **25,285** | 38,114 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 24 | **4,708** | 7,985 |
| Current income tax liabilities | | **216** | 275 |
| Borrowings | 25 | **712** | 2,581 |
| Provisions for other liabilities and charges | 26 | **590** | 69 |
| | | **6,226** | 10,910 |
| **Non-current liabilities** | | | |
| Trade and other payables | 24 | **527** | 173 |
| Borrowings | 25 | **1,263** | 2,805 |
| Deferred income tax liabilities | 27 | **529** | 601 |
| Retirement benefit obligations | 28 | **240** | - |
| Provisions for other liabilities and charges | 26 | **328** | 1,051 |
| | | **2,887** | 4,630 |
| Total liabilities | | **9,113** | 15,540 |
| Net assets | | **16,172** | 22,574 |
| **Equity** | | | |
| Ordinary shares | 29 | **11,341** | 11,341 |
| Share premium | 29 | **16,444** | 16,444 |
| Other reserves | 30 | **(1,701)** | 342 |
| Retained earnings | 31 | **(10,187)** | (5,828) |
| Minority interest in equity | 31 | **275** | 275 |
| Total equity | | **16,172** | 22,574 |

P E Lynch Executive Chairman
J Doris Director

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED 31 DECEMBER 2008

| | Notes | **2008** €'000 | 2007 €'000 |
|---|---|---|---|
| Actuarial (loss) on defined benefit pension plan | 28 | **(259)** | (3) |
| Exchange movement | 30 | **(4,051)** | (1,307) |
| Net (loss) recognised directly within equity | | **(4,310)** | (1,310) |
| (Loss) for the year | | **(4,896)** | (2,201) |
| Total recognised (expense) for the year | | **(9,206)** | (3,511) |
| | | | |
| Attributable to: | | | |
| Equity holders of the Company | | **(8,410)** | (3,480) |
| Minority interest | | **(796)** | (31) |
| | | **(9,206)** | (3,511) |

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

| | Notes | **2008** **€'000** | 2007 €'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 33 (a) | **(4,164)** | 753 |
| Tax paid | | **(14)** | (11) |
| **Net cash (outflow)/inflow from operating activities** | | **(4,178)** | 742 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | **(4,540)** | (1,537) |
| Proceeds from sale of property, plant and equipment | | **-** | 154 |
| Interest received | | **220** | 381 |
| Purchase of available-for-sale financial assets | | **(6,815)** | - |
| Disposal of subsidiary, net of cash disposed of | 6 | **10,835** | - |
| Acquisition of subsidiary, net of cash acquired | 35 | **(3,136)** | (3,423) |
| Acquisition of minority interest, direct costs incurred | | **(173)** | - |
| **Net cash (outflow) from investing activities** | | **(3,609)** | (4,425) |
| **Financing activities** | | | |
| Proceeds from issue of shares | | **-** | 16,190 |
| Proceeds from issue of shares to minority interest | | **340** | - |
| Repayments of borrowings | | **(840)** | (2,220) |
| Proceeds from asset finance obligations | | **1,887** | - |
| Capital element of asset finance payments | | **(1,295)** | (1,345) |
| Interest paid | | **(131)** | (395) |
| Finance lease interest | | **(259)** | (280) |
| Other grants | | **639** | - |
| **Net cash inflow from financing activities** | | **341** | 11,950 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(7,446)** | 8,267 |
| Cash and cash equivalents at 1 January | | **13,191** | 5,661 |
| Effect of exchange rate changes | | **(1,599)** | (737) |
| **Cash and cash equivalents at 31 December** | 23 | **4,146** | 13,191 |

**1. General information**

The Company is a public limited company listed on the Irish Enterprise Exchange (IEX) in Dublin and on the Alternative Investment Market (AIM) in London.

The Company is organised into two main divisions: PAC Digimedia and PAC Telemedia. PAC Digimedia invests in and acquires companies operating in the digital media, marketing and communications sectors and currently has operational subsidiaries and investments in the United Kingdom. PAC Telemedia is the telecommunications division with operating subsidiaries in the United States.

**2. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**2.1 Basis of preparation**

These consolidated financial statements, which are presented in euro thousands, have been prepared under the historical cost convention as modified by the measurement at fair value of certain financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss and available-for-sale financial assets.

There is a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future despite the current economic conditions in the markets that the Group operates in and the uncertainty these conditions create over the level of demand for the Group's products. The Group's forecasts and projections, taking account of possible changes in trading performance, show that the Group should be able to continue to operate its existing businesses without the need for additional finance. For that reason, the consolidated financial statements have been prepared on the going concern basis.

The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union (EU) and with those parts of the Companies Acts, 1963 to 2006 applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4 on pages 37 and 38 of the consolidated financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following standards and interpretations became effective for the 2008 financial statements but these were either not relevant to or did not have material impact on the Group's financial statements:

- IFRS 7 (amendment) – Financial Instruments: Disclosures;
- IAS 39 (amendment) – Financial Instruments: Recognition and Measurement;
- IFRIC 11 – Group and Treasury Share Transactions;
- IFRIC 12 – Service Concession Arrangements; and
- IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements.

The Group has not applied the following IFRS's, amendments to IFRS's and IFRIC interpretations which have been issued and become effective for the Group's accounting period commencing 1 January 2009 but either have no impact or are not expected to have a material impact on the Group's financial statements:

- IFRS 1 (amendment) – First-time Adoption of International Financial Reporting Standards;
- IFRS 2 (amendment) – Share-based Payments: Vesting Conditions and Cancellations;
- IFRS 5 (amendment) – Non-current Assets Held for Sale and Discontinued Operations;
- IFRS 7 (amendment) – Financial Instruments: Disclosure;

- IFRS 8 – Operating Segment;
- IAS 1 (revision) – Presentation of Financial Statements;
- IAS 16 (amendment) – Property, Plant and Equipment;
- IAS 19 (amendment) – Employee Benefits;
- IAS 20 (amendment) – Accounting for Government Grants and Disclosure of Government Assistance;
- IAS 23 (amendment) – Borrowing Costs;
- IAS 27 (amendment) – Consolidated and Separate Financial Statements;
- IAS 31 (amendment) – Interests in Joint Ventures;
- IAS 32 (amendment) – Financial Instruments: Presentation;
- IAS 38 (amendment) – Intangible Assets;
- IFRIC 13 – Customer Loyalty Programmes;
- IFRIC 15 – Agreements for Construction of Real Estate; and
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation.

The Group has not applied the following standards and interpretations which have been issued and become effective for accounting periods beginning after the commencement of the Group's next financial year but either have no impact or are not expected to have a material impact on the Group's financial statements:

- IAS 27 (revised) – Consolidated and Separate Financial Statements;
- IAS 39 (amendment) – Financial Instruments: Recognition and Measurement;
- IFRIC 9 – Embedded Derivatives;
- IFRIC 17 – Distribution of Non-cash Assets to Owners; and
- IFRIC 18 - Transfers of Assets from Customers.

The Group has not applied the following revised standard which has been issued and becomes effective for accounting periods beginning on or after 1 July 2009 and may have a material impact on the Group's financial statements and is therefore currently under review:

- IFRS 3 (revision) – Business Combinations
  The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply the revised standard prospectively to all business combinations from 1 January 2010, subject to EU endorsement, and the impact on the Group's financial statements will be dependent on future acquisitions.

The standards and interpretations addressed above will be applied for the purposes of the Group financial statements with effect from the date they become effective.

**2.2 Basis of consolidation**
The consolidated financial statements include the financial statements of the Company and its subsidiaries, drawn up to 31 December each year. The share capital of Bell & Bain Limited and Top Copy Image Centres Limited is 100% owned by the Group. The Group has a membership interest of 95% in Cellular Center Holdings, LLC the parent company of Cellular Center, LLC and Cellular Center GA-AL, LLC. The Group disposed of its interest in the Plastic Card Company Limited and PCC (Services) Limited in August 2008.

All Group subsidiaries have financial year ends which are co-terminus with that of the Group and Group accounting policies are applied consistently in subsidiary financial information which forms part of the consolidated financial statements.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group and are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant shares acquired of the carrying value of net assets of the subsidiary.

**2.3 Business combination**
Subsidiaries are those entities over which the Group has the power to control the financial and operating policies so as to obtain economic benefit from their activities. The purchase method of accounting is employed in accounting for the acquisition of subsidiaries by the Group. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The Group elected to avail of the exemption under IFRS 1 – First time Adoption of International Financial Reporting Standards – whereby business combinations prior to the transition date (1 January 2004) are not restated. IFRS 3 – Business Combinations – has been applied with effect from the transition date and goodwill amortisation ceased from that date.

On the acquisition of a subsidiary, fair values are attributed to the net identifiable assets acquired. The cost of a business combination is measured as the aggregate of the fair values at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued in exchange for control together with any directly attributable expenses. Any excess of the fair value of the consideration over the fair value of the Group's share of the assets acquired is treated as goodwill.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The Group's interests in joint ventures are recognised using the equity method of accounting. Under the equity method, the Group's share of the post-acquisition profits or losses after taxation of joint ventures is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Minority interests represent the proportion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the Group.

All intra-group transactions, balances, income and expenses are eliminated in preparing the consolidated financial statements.

**2.4 Segment reporting**
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment which is subject to risks and returns that are different from those of segments operating in other economic environments.

Prime Active Capital plc is organised into two main business segments: digital media and telecommunications. This structure reflects the dominant source and nature of the Group's operational risks and returns. These divisions are therefore used as the primary format for segment reporting.

**2.5 Revenue**
Revenue is measured at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, net of discounts, sales taxes, rebates and returns, after eliminating sales within the Group.

Revenue is recognised for the Group's business activities as follows:

*PAC Digimedia*
Revenue from the sale of goods is recognised when a Group entity has delivered products to the customer and the significant risks and rewards of ownership have been transferred to the buyer. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved.

*PAC Telemedia*
Revenue from the sale of goods is recognised when the relevant goods are provided and is limited to the amount payable by the customer for the goods. Commission revenue is receivable on sales of third party wireless subscription services and is contractually committed by the provider of the wireless subscription services and for which there are ongoing performance criteria. Commission is repayable in the event that a subscriber cancels a subscription service within a defined period of time. Accumulated experience is used to estimate and provide for commission repayments. Commission revenue is recognised net of provision for cancellations when the sales related to the commission are made.

**2.6 Share-based payments**

*Warrants*

In accordance with IFRS 2- Share-based Payment, the fair value of the warrants at grant date excluding the impact of non-market conditions is recognised as an expense in the income statement over the vesting period. A corresponding amount is recognised in shareholders' equity as the warrant scheme is designated as an equity-settled share based payment transaction. The fair value of each warrant granted during the year is determined using an option pricing model with assumptions appropriate to each award at the time of grant. A detailed description is outlined in note 32 on page 63 of the consolidated financial statements.

*Share options*

Employees (including Directors) of the Group may be entitled to remuneration in the form of share – based payment transactions, whereby employees render service in exchange for shares or rights over shares. Details of the Group's share option scheme are set out in note 37 on page 68 of the consolidated financial statements.

In line with the transitional provisions applicable to a first-time adopter of IFRS, as contained in IFRS 2 – Share-based Payment, the recognition and measurement principles of this standard have been applied only in respect of share options granted after 7 November 2002 that had not vested at the date of transition to IFRS. In accordance with the standard, the disclosure requirements of IFRS 2 – Share-based Payment – are applied to all outstanding share-based payments regardless of their grant date.

For any share options granted after 7 November 2002, the fair value of the option is recognised as an expense in the income statement with a corresponding increase in equity. The fair value is measured at grant date excluding the impact of non-market conditions and spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that are expected to vest where vesting conditions are non-market conditions. When the options are exercised, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

**2.7 Retirement benefit obligations**

The Group operates a number of defined contribution schemes and a defined benefit scheme.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Payments to defined contribution schemes are charged to the income statement in the period in which they fall due.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

The Group accounts for the post-employment defined benefit scheme through full recognition of the scheme's surplus (unless restricted under IAS19) or deficit on the balance sheet at the end of each year. Actuarial gains and losses are included in the statement of recognised income and expense. Current costs, curtailments and settlements are recognised within operating profit. Past service costs are recognised within operating profit unless the changes to the pension plan are conditional on the employees remaining service for a specified period of time (vesting period). In this case, the past service costs are amortised over the vesting period. Expected return on scheme assets and interest on obligations are recognised as components of finance income and finance costs.

**2.8 Finance income and finance costs**
Finance income consists of income from interest earning deposits and expected returns on defined benefit pension plan assets. Deposit interest income is accrued on a time basis by reference to the principal balance and the applicable effective interest rate.

Finance costs consist of interest payable on borrowings and the interest cost on defined benefit pension plan liabilities. Interest payable on borrowings is accrued on a time basis by reference to the outstanding principal and the effective interest rate of the borrowing.

**2.9 Exceptional items**
The Group has adopted an income statement format, which seeks to highlight significant items within the Group results for the year. Such items may include restructuring costs, reorganisation costs, impairment of assets, profit or loss on disposal or termination of operations, litigation settlements, profit or loss on disposal of investments or other significant expenses. Judgement is used by the Group in assessing the particular items, which by virtue of their scale and nature, should be disclosed in the income statement and notes as exceptional items.

**2.10 Taxation**
Taxation on the profit or loss for the period comprises current and deferred tax. Taxation is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case the related tax is recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates and laws that have been enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on the basis of the liability method on temporary differences at the balance sheet date. Temporary differences are defined as the difference between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, or where, in respect of taxable temporary differences associated with investments in subsidiaries, joint ventures and associates, the timing and reversal of the temporary differences is subject to control by the Group and it is probable that reversal will not occur in the foreseeable future. Deferred tax assets and liabilities are not subject to discounting and are measured at the tax rates that are anticipated to apply in the period in which the asset is realised or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. The carrying amounts of deferred tax assets are subject to review at each balance sheet date and are reduced to the extent that future taxable profits are considered to be inadequate to allow all or part of any deferred tax asset to be utilised.

**2.11 Currency translation**
*Functional and presentation currency*
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in euro, which is the presentation currency of the Group. The functional currency of the Group parent company is sterling. Presenting the financial statements in euro is considered to be more meaningful for shareholders because the Group parent company is incorporated in Ireland, its shares are quoted on the Irish Enterprise Exchange (IEX), the Irish Stock Exchange market which is designed for small to mid-sized companies, and the majority of its shareholders are Irish.

*Transactions and balances*
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

*Group companies*
Results and cash flows of subsidiaries are translated into euro at average exchange rates for the period, where average exchange rates approximate the exchange rates applying at the dates of the underlying transactions, and the related balance sheets are translated at the exchange rates applying at the balance sheet date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rates applying at the balance sheet date. Exchange differences arising on translation of the results of foreign currency subsidiaries and on restatement of the opening net assets at closing rates, on both the translation to the functional currency of the parent and to the reporting currency, are dealt with in a separate currency translation reserve within equity, net of any differences on related currency borrowings. On disposal of a foreign operation, accumulated currency translation differences are recognised in the income statement as part of the overall gain or loss on disposal. Cumulative currency translation differences arising prior to 1 January 2004 (the transition date to IFRS) have been set to zero.

**2.12 Property, plant and equipment**
Property, plant and equipment are recorded at original cost less accumulated depreciation (for those assets which are depreciated) and any impairment loss. Cost includes the purchase price plus costs directly incurred in bringing the asset into use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

**2.13 Depreciation and impairment of property, plant and equipment**
Depreciation is charged, on a straight-line basis, so as to write down the cost of property, plant and equipment to residual value, including those assets held under finance lease. Land is not depreciated. Depreciation charges are commenced from the dates the assets are available for their intended use and are spread over the following estimated useful economic lives (or the lease term, if shorter):

- property 50 years;
- fixtures, fittings, plant and equipment 3 to 12 years; and
- vehicles and office equipment 2 to 5 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

In accordance with IAS 36 – Impairment of Assets – the carrying values of items of property, plant and equipment are reviewed for indicators of impairment at each reporting date and are subject to impairment testing when events or changes in circumstances indicate that the carrying values may not be recoverable. If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised. Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is assessed by discounting the estimated future cash flows that the asset is expected to generate. For this purpose assets are grouped into cash generating units representing the lowest levels for which there are separately identifiable cash flows. Impairment is then determined by assessing the recoverable amount of the cash-generating unit to which the assets relates. Reversals of impairment losses are recognised in income when they arise.

**2.14 Intangible assets – goodwill**
Goodwill is recognised as an asset and represents the excess of the cost of an acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of the acquisition. As at the acquisition date, goodwill is allocated to cash-generating units for the purpose of impairment testing. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is reviewed for impairment annually and whenever there is a possible indicator of impairment. Impairment is determined by assessing the recoverable amount, being the higher of fair value less costs to sell and value in use, of the cash-generating unit to which the goodwill relates. If the recoverable amount of goodwill is less than its carrying amount, an impairment loss is recognised. Impairment losses for goodwill are not reversed in subsequent periods.

Where a subsidiary is sold, any goodwill arising on acquisition, net of any impairment, is included in determining the profit or loss arising on disposal.

### 2.15 Available-for-sale financial assets

The Group's investments in equity securities, that are not accounted for as a subsidiary, associate or joint venture, are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, including translation differences, are recognised directly in equity. The fair value of investments classified as available-for-sale is their quoted market price at the balance sheet date. When such an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

### 2.16 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

Inventory is measured for the Group's business activities as follows:

*PAC Digimedia*

The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

*PAC Telemedia*

Cost comprises invoiced costs. Net realisable value takes account of cost, which comprises invoiced costs, and expected revenues arising from the sale of packages comprising a phone and a wireless subscription service for which the Company receives a commission. Where necessary, write downs in the carrying value of inventories are made for obsolete, damaged, deteriorated and unusable items on the basis of a review of individual items included in inventory.

### 2.17 Trade and other receivables

Trade and other receivables are recognised initially at fair value. Given the short-dated nature of these assets the original invoice value equates to initial fair value. Trade receivables are subsequently measured at amortised cost using the effective interest method, less an impairment provision when there is objective evidence that it will not be possible to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original rate of interest. The amount of the provision is recognised in the income statement in selling and distribution costs.

### 2.18 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and include derivatives other than those designated as hedges. A financial asset is classified as a current asset in this category if acquired principally for the purposes of selling in the short-term. Financial assets in this category are initially recognised at fair value and transaction costs are expenses in the income statement. The fair values of quoted investments and equity traded derivatives are based on current bid prices.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category , are presented in the income statement within other (losses)/gains – net in the period in which they arise.

**2.19 Cash and cash equivalents**
Cash and cash equivalents comprise cash balances and call deposits, including bank deposits of less than three months maturity. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**2.20 Share capital**
Ordinary shares are classified as equity. Equity capital issued by the Group is recorded at the value of the proceeds received, net of direct issue costs. The only equity instruments of the Group are ordinary share capital and warrants.

**2.21 Trade payables**
Trade payables are initially stated at cost which, given the short-dated nature of these liabilities equates to initial fair value and are subsequently measured at amortised cost, using the effective interest rate method, when the age or payment terms of the liability indicates that initial cost no longer equates to fair value.

**2.22 Provisions**
A provision is recognised in the balance sheet when the Group has a present obligation (either legal or constructive) as a result of a past event; it is probable that a transfer of economic benefits would be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

**2.23 Borrowings**
Borrowings are initially recorded at the fair value of the consideration received net of attributable transaction costs. Borrowings are subsequently stated at amortised cost. Any difference between the consideration received (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**2.24 Leases**
Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in borrowings.

The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Asset finance agreements are legal agreements entered into with a provider of finance to enable Group entities to finance the purchase of plant and equipment. The substance of these agreements is equivalent to that of a finance lease and accordingly these transactions are accounted for as finance leases. The term asset finance agreement is used in the financial statements to describe both finance lease agreements and any other agreements which are equivalent to finance leases in substance.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease. Benefits received as an incentive to enter into an operating lease are spread on a straight line basis over the period of the lease.

**2.25 Derivative financial instruments and hedging activities**
Derivative financial instruments may be employed by the Group from time to time to match an existing foreign currency asset or liability or to hedge a forecasted transaction. Derivative financial instruments are initially measured at fair value and remeasured at fair value at each reporting date and the movement in fair value is recognised in the income statement unless they are designated as cash flow hedges under IAS 39 – Financial Instruments: Recognition and Measurement. Where such instruments are classified as cash flow hedges, and subject to the satisfaction of certain criteria relating to documentation at inception of the relationship between the hedging instrument and the hedged item, risk management objectives and strategy, and the ongoing measurement of its effectiveness, they are accounted for under hedge accounting rules.

In such cases, any gain or loss arising on the effective portion of the derivative instrument is recognised in the hedging reserve, a separate component of equity. Gains or losses on any ineffective portion of the derivative are recognised in the income statement. When a forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

**2.26 Government and other grants**
Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and that the Group will comply with all attached conditions.

Grants related to certain expenditures incurred in respect of the opening of new mobile phone shops are receivable subject to various conditions. When there is reasonable assurance that the grant will be received, by the Group's subsidiary Cellular Center, LLC, and all conditions will be complied with, the grant is recognised as a reduction of the associated expense at its fair value in the period in which the related expense is incurred.

Government and other grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government and other grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred grants and are credited to the income statement on a straight line basis over the expected lives of the related assets.

**3. Financial risk management**
The main financial instruments used by the Group throughout its businesses are interest-bearing loans and borrowings, cash and cash equivalents, trade receivables and payables and finance leases. The Group also has available-for-sale quoted equities in a company listed on AIM. The main risks attaching to the Group's financial instruments are interest rate, currency, credit, price and liquidity risk.

*Interest rate risk*
Group borrowings consist of sterling cash flow finance and asset finance facilities within the UK based operations. At 31 December 2008, the greater proportion of these borrowings was subject to floating rates of interest based on LIBOR. The risk associated with significant increases in UK interest rates in the future is kept under ongoing review by management.

At 31 December 2008, if interest rates on sterling-denominated borrowings had been 0.5% higher/lower with all other variables held constant, post-tax profit for the year and equity would have been €0.032 million/€0.032 million (2007: €0.045 million/€0.045 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

*Currency risk*
The Group's trading activities are conducted in sterling and US dollar, the functional currencies of the Group's main subsidiaries. The Group's UK and USA based operating companies incur transactional currency exposures arising from sales and purchases in currencies other than sterling or US dollar. Local management monitor such transactions on an individual basis to ensure that the currency risk on each transaction is mitigated. These currency risks are not significant.

The translation of the Group's net investment in its subsidiaries to the Group presentation currency (euro) gives rise to an exchange movement which is recognised in the consolidated statement of recognised income and expense.

*Credit risk*
Credit risk arises in the context of the Group's trading with customers. Credit risk is managed by maintaining and applying appropriate credit control policies with both new and continuing customer relationships. There were no significant concentrations of credit risk at the year end.

The Group is also exposed to credit risk relating to cash and cash equivalents. The Group places cash/deals with highly rated financial institutions and seeks to diversify funds between a number of such institutions to minimise the amount of credit exposure to any financial institution.

*Price risk*
The Group is exposed to underlying equity securities price risk in respect of investments held by the Group and classified as on the balance sheet as available-for-sale. The Group does not hedge against this exposure.

At 31 December 2008, if the underlying equity securities price in respect of investments held by the Group and classified on the balance sheet as available-for-sale had strengthened/weakened by 12% with all other variables held constant, other components of equity would have been €0.127 million/€0.127 million (2007: €nil/€nil) lower/higher, mainly as a result of changes in fair values of available-for-sale financial assets.

*Liquidity risk*
The Group is exposed to liquidity risk which arises primarily from the maturing of short-term and long term debt obligations and the requirement to pay other short term financial liabilities. The Group's policy is to ensure that sufficient resources are available either from cash balances, cash flows or undrawn committed bank facilities, to ensure all obligations can be met as they fall due. To achieve this objective, the Group:

- continuously monitors and controls forecast and actual cash flows;
- maintains cash balances and liquid investments with highly-rated counterparties;
- limits the maturity of cash balances; and
- funds its debt needs under committed bank lines or other term financing.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the earliest date on which the Group can be required to pay. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due equal their carrying balances as the impact of discounting is not significant.

| **At 31 December 2008** | **Less than 1 year €'000** | **Between 1 and 2 years €'000** | **Between 2 and 5 years €'000** |
|---|---|---|---|
| Borrowings | **729** | **556** | **804** |
| Trade and other payables | **4,535** | **-** | **-** |
| | **5,264** | **556** | **804** |

| At 31 December 2007 | Less than 1 year €'000 | Between 1 and 2 years €'000 | Between 2 and 5 years €'000 |
|---|---|---|---|
| Borrowings | 2,774 | 2,445 | 829 |
| Trade and other payables | 8,158 | - | - |
| | 10,932 | 2,445 | 829 |

*Capital risk*
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may pay dividends to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

## 4. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future in preparing the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. By definition, estimates cannot be expected to predict future results with certainty. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### 4.1 Goodwill

On 24 November 2008, the Group's interest in Cellular Center, LLC was assigned to Cellular Center Holdings, LLC in exchange for an equivalent membership interest in Cellular Center Holdings. Simultaneously the Group invested an additional €2.740 million in Cellular Center Holdings. On 25 November 2008, the Group made a further investment of €5.089 million in Cellular Center Holdings coinciding with acquisition of the business and assets of In2Wireless. As a result of these additional investments, the Group capitalised total goodwill of €3.323 million.

Goodwill is required to be tested for impairment at least annually or more frequently if changes in circumstances or the occurrence of events indicating potential impairment exist. In accordance with accounting policy note 2.14 on page 32 of the consolidated financial statements, the Group assesses the recoverable amount of the cash generating unit to which goodwill relates to determine if goodwill has been impaired. In calculating the recoverable amount, management judgment is required to determine either the fair value less costs to sell of the cash generating unit or to determine the discounted present value of the cash flows expected to arise from the continuing use of the cash generating unit and its disposal and the end of its useful life. In testing for impairment at 31 December 2008, management assessed the value in use of the cash generating units to which goodwill related and determined that no impairment arose.

### 4.2 Post-retirement benefits

The Group operates a defined benefit pension plan. The Group's total obligation in respect of this pension plan is based on the advice of independent, qualified actuaries and updated at least annually. At 31 December 2008 the total obligation of the plan was €0.874 million and the plan assets totalled €0.634 million.

The size of the pension deficit is sensitive to the assumptions which underlie the calculations performed by the independent actuaries. These include demographic assumptions covering mortality and longevity, and economic assumptions covering price inflation and benefit and salary increases together with the discount rate used. The size of the plan assets is also sensitive to asset return levels.

**4.3 Income taxes**

Significant judgement is required in determining the provision for income taxes as the taxation rules are constantly evolving and are subject to changes in legal and practical interpretation from time to time. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

**4.4 Business combinations**

The Group uses the purchase method of accounting for acquisitions which requires that the assets and liabilities assumed are recorded at their respective fair values at the date of acquisition. The application of the purchase method requires certain estimates and assumptions particularly concerning the determination of the fair values of the acquired assets and liabilities assumed at the date of acquisition.

**4.5 Exceptional items**

In accordance with accounting policy note 2.9 on page 31 of the consolidated financial statements, the Group has adopted an income statement format which highlights as exceptional any significant and one off items within the Group's results for the year. Judgement is used by the Group in assessing the particular items, which by virtue of their materiality and/or nature, are presented in the income statement and related notes as exceptional items.

**4.6 Valuation of warrants**

The determination of the fair value of warrants involves the use of judgements and estimates. The fair value has been estimated using Monte Carlo simulation model in accordance with the judgemental assumptions set out in note 32 on page 63 of the consolidated financial statements.

**4.7 Available-for-sale financial assets**

Available-for-sale financial assets consist of quoted equity securities. Available-for-sale financial assets are considered for impairment if there is a significant decline in the market value of these equity securities. The Group policy is to assess such declines and if considered significant to charge an impairment loss to the income statement in accordance with the requirement of IAS 39 – Financial Instruments: Recognition and Measurement – and in accordance with note 2.15 on page 33 of the consolidated financial statements.

**4.9 Deferred tax assets**

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, significant judgement is used when assessing the extent to which deferred tax assets should be recognised, with consideration given to the timing and level of future taxable income in the relevant tax jurisdiction.

**4.10 Commissions repayable**

Commission revenue is receivable within the PAC Telemedia division on sales of third party wireless subscription services and is contractually committed by the provider of the wireless subscription services and for which there are ongoing performance criteria. Commission is repayable in the event that a subscriber cancels a subscription service within a defined period of time. Accumulated experience is used to estimate and provide for such commission repayments.

## 5. Segment information

**(a) Primary reporting format - business segments**
At 31 December 2008, the Group was organised into two business divisions as follows:

*PAC Digimedia.* PAC Digimedia is the digital media division, with business units operating in plastic cards, books and journals production and on-demand digital print and finishing. The results of the plastic cards operations, discontinued in the current year, have been disclosed separately, with prior year disclosures for these entities also re-presented.

*PAC Telemedia.* PAC Telemedia is the telecommunications division and comprises operating subsidiaries that are premium retailers of mobile phones and accessories and are authorised agents for Verizon Wireless offering its pre and post paid mobile telecommunication subscription services and wireless data products.

The segment results for the years ended 31 December 2008 and 31 December 2007 are as follows:

| | Continuing | | | | Discontinued | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2008** | **PAC Digimedia €'000** | **PAC Telemedia €'000** | **Unallocated[(1)] €'000** | **Total €'000** | **PAC Digimedia €'000** | **PAC Telemedia €'000** | **Unallocated[(1)] €'000** | **Total €'000** | **Group €'000** |
| Revenue | 11,284 | 8,816 | - | 20,100 | 13,685 | - | - | 13,685 | 33,785 |
| Cost of sales | (9,321) | (5,649) | - | (14,970) | (11,055) | - | - | (11,055) | (26,025) |
| Gross Profit | 1,963 | 3,167 | - | 5,130 | 2,630 | - | - | 2,630 | 7,760 |
| Selling and distribution costs | (478) | (4,041) | - | (4,519) | (985) | - | - | (985) | (5,504) |
| Administration expenses | (1,568) | (4,085) | (1,938) | (7,591) | (1,216) | - | - | (1,216) | (8,807) |
| Other operating expenses | (11) | - | - | (11) | - | - | - | - | (11) |
| Other (losses) | - | - | (5,343) | (5,343) | - | - | - | - | (5,343) |
| Operating (loss)/profit | (94) | (4,959) | (7,281) | (12,334) | 429 | - | - | 429 | (11,905) |
| Finance costs | (196) | - | (49) | (245) | (194) | - | - | (194) | (439) |
| Finance income | 4 | 7 | 271 | 282 | 6 | - | - | 6 | 288 |
| (Loss)/ profit before tax | (286) | (4,952) | (7,059) | (12,297) | 241 | - | - | 241 | (12,056) |
| Income tax expense (credit) | (58) | - | 72 | 14 | (27) | - | - | (27) | (13) |
| Profit on disposal of subsidiary | - | - | - | - | 7,173 | - | - | 7,173 | 7,173 |
| (Loss)/profit for the year | (344) | (4,952) | (6,987) | (12,283) | 7,387 | - | - | 7,387 | (4,896) |

(1) unallocated costs represent corporate costs of the Group including exceptional items

| | Continuing | | | | Discontinued | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year ended 31 December 2007 | PAC Digimedia €'000 | PAC Telemedia €'000 | Unallocated €'000 | Total €'000 | PAC Digimedia €'000 | PAC Telemedia €'000 | Unallocated €'000 | Total €'000 | Group €'000 |
| Revenue | 13,087 | 144 | - | 13,231 | 21,401 | - | - | 21,401 | 34,632 |
| Cost of sales | (10,495) | (119) | - | (10,614) | (16,745) | - | - | (16,745) | (27,359) |
| Gross Profit | 2,592 | 25 | - | 2,617 | 4,656 | - | - | 4,656 | 7,273 |
| Selling and distribution costs | (594) | - | - | (594) | (1,350) | - | - | (1,350) | (1,944) |
| Administration expenses | (979) | (183) | (3,567) | (4,729) | (1,750) | - | - | (1,750) | (6,479) |
| Other operating expenses | - | - | (1,134) | (1,134) | - | - | - | - | (1,134) |
| Other gains | - | - | 216 | 216 | - | - | - | - | 216 |
| Operating (loss)/profit | 1,019 | (158) | (4,485) | (3,624) | 1,556 | - | - | 1,556 | (2,068) |
| Share of loss of joint venture | - | (308) | - | (308) | - | - | - | - | (308) |
| Finance costs | (222) | - | (52) | (274) | (453) | - | - | (453) | (727) |
| Finance income | 6 | 2 | 436 | 444 | 5 | - | - | 5 | 449 |
| (Loss)/profit before tax | 803 | (464) | (4,101) | (3,762) | 1,108 | - | - | 1,108 | (2,654) |
| Income tax expense (credit) | (240) | - | 1,162 | 922 | (469) | - | - | (469) | 453 |
| Profit on disposal of subsidiary | - | - | - | - | - | - | - | - | - |
| (Loss)/profit for the year | 563 | (464) | (2,939) | (2,840) | 639 | - | - | 639 | (2,201) |

Segment assets and liabilities at 31 December 2008 and other segment items in 2008 are as follows:

| | **Continuing** | | | | **Discontinued** | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **PAC Digimedia €'000** | **PAC Telemedia €'000** | **Unallocated €'000** | **Total €'000** | **PAC Digimedia €'000** | **PAC Telemedia €'000** | **Unallocated[1] €'000** | **Total €'000** | **Group €'000** |
| Segment assets | **8,078** | **12,412** | **4,795** | **25,285** | **-** | **-** | **-** | **-** | **25,285** |
| Segment liabilities | **(3,938)** | **(4,231)** | **(944)** | **(9,113)** | **-** | **-** | **-** | **-** | **(9,113)** |
| **Other segment items** | | | | | | | | | |
| Depreciation | **973** | **205** | **16** | **1,194** | **719** | **-** | **-** | **719** | **1,913** |
| Capital expenditure[1] | **2,097** | **1,649** | **7** | **3,753** | **787** | **-** | **-** | **787** | **4,540** |
| Bad debts | **77** | **-** | **-** | **77** | **-** | **-** | **-** | **-** | **77** |
| Inventory provision | **14** | **198** | **-** | **212** | **-** | **-** | **-** | **-** | **212** |

Segment assets and liabilities at 31 December 2007 and other segment items in 2007 are as follows:

| | Continuing | | | | Discontinued | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | PAC Digimedia €'000 | PAC Telemedia €'000 | Unallocated €'000 | Total €'000 | PAC Digimedia €'000 | PAC Telemedia €'000 | Unallocated €'000 | Total €'000 | Group €'000 |
| Segment assets | 10,170 | 5,973 | 10,754 | 26,897 | 11,217 | - | - | 11,217 | 38,114 |
| Segment liabilities | (4,755) | (2,355) | (762) | (7,872) | (7,668) | - | - | (7,668) | (15,540) |
| **Other segment items** | | | | | | | | | |
| Depreciation | 1,019 | 2 | 8 | 1,029 | 975 | - | - | 975 | 2,004 |
| Capital expenditure | 627 | - | 45 | 672 | 865 | - | - | 865 | 1,537 |
| Bad debts | 11 | - | - | 11 | 5 | - | - | 5 | 16 |
| Inventory provision | 14 | 19 | - | 33 | 44 | - | - | 44 | 77 |

(1) in addition to capital expenditure noted above, see business combinations at note 35 on page 67 of the consolidated financial statements

**(b) Secondary reporting format - geographical segments**

The Group's two business segments and their assets are located in the UK and the USA. The table below shows revenue by customer location, assets by location and capital expenditure by location.

| | **Continuing** | | | | | **Discontinued** | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2008** | **UK €'000** | **USA €'000** | **Other €'000** | **Unallocated €'000** | **Total €'000** | **UK €'000** | **USA €'000** | **Other €'000** | **Unallocated €'000** | **Total €'000** | **Group €'000** |
| Revenue | **11,243** | **8,816** | **41** | **-** | **20,100**(1) | **10,325** | **1,294** | **2,066** | **-** | **13,685** | **33,785**(2) |
| Segment assets | **8,078** | **12,412** | **-** | **4,795** | **25,285** | **-** | **-** | **-** | **-** | **-** | **25,285** |
| Capital expenditure | **2,097** | **1,649** | **-** | **7** | **3,753** | **787** | **-** | **-** | **-** | **787** | **4,540** |

| | Continuing | | | | | Discontinued | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Year ended 31 December 2007 | UK €'000 | USA €'000 | Other €'000 | Unallocated €'000 | Total €'000 | UK €'000 | USA €'000 | Other €'000 | Unallocated €'000 | Total €'000 | Group €'000 |
| Revenue | 13,032 | 144 | 55 | - | 13,231 | 15,570 | 2,556 | 3,275 | - | 21,401 | 34,632 |
| Segment assets | 10,170 | 5,973 | - | 10,754 | 26,897 | 11,217 | - | - | - | 11,217 | 38,114 |
| Capital expenditure | 627 | - | - | 45 | 672 | 865 | - | - | - | 865 | 1,537 |

(1) total revenue from continuing operations comprises €14.206 million from sale of goods and €5.894 million from supply of services (2007: €13.131 million from sale of goods plus €0.100 million from supply of services)

(2) total revenue from discontinued operations comprises €13.685 million from sale of goods and €NIL from supply of services (2007: €21.401 million from sale of goods and €NIL from supply of services)

## 6. Discontinued operations

In August 2008 the Group sold The Plastic Card Company Limited and PCC (Services) Limited. These companies together comprised the plastic cards, design, production and distribution business unit of PAC Digimedia, the digital media division of the Group. These companies were not a discontinued operation or classified as held for sale as at 31 December 2007 and the comparative income statement has been re-presented to show the discontinued operation separately from continuing operations. The Directors committed to a plan to sell these companies earlier in 2008, with the intention of using the proceeds to fund acquisitions and new investment opportunities in the Group's current portfolio.

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| **Results of discontinued operations** | | |
| Revenue | **13,685** | 21,401 |
| Cost of sales | **(11,055)** | (16,745) |
| Gross profit | **2,630** | 4,656 |
| Selling and distribution costs | **(985)** | (1,350) |
| Administration expenses | **(1,216)** | (1,750) |
| Operating profit | **429** | 1,556 |
| Finance costs | **(194)** | (453) |
| Finance income | **6** | 5 |
| Profit before tax | **241** | 1,108 |
| Income tax charge | **(27)** | (469) |
| Gain on disposal of discontinued operations | **7,173** | - |
| Income tax on gain on disposal of discontinued operations | **-** | - |
| Profit after tax from discontinued operations | **7,387** | 639 |
| Basic and diluted earnings per share (cent) | **32.57** | 3.80 |
| **Cash flows from (used in) discontinued operations** | | |
| Net cash used in operating activities | **1,072** | 2,165 |
| Net cash from investing activities | **10,054** | (708) |
| Net cash from financing activities | **(1,110)** | (2,178) |
| Net cash from (used in) discontinued operations | **10,016** | (721) |

| **Effect of disposal on the financial position of the Group** | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| Property, plant and equipment | **4,131** | - |
| Inventories | **1,312** | - |
| Trade receivables | **4,610** | - |
| Cash and cash equivalents | **(271)** | - |
| Borrowings | **(2,341)** | - |
| Trade payables | **(4,522)** | - |
| Net assets disposed of | **2,919** | - |
| | | - |
| Total gain on disposal | **7,173** | - |
| Accumulated currency translation differences included in gain on disposal | **472** | - |
| Total consideration (net of attributable expenses) | **10,564** | - |
| | | - |
| Consideration received, satisfied in cash (net of attributable expenses) | **10,564** | - |
| Cash and cash equivalents disposed of | **271** | - |
| Net cash inflow | **10,835** | - |

## 7. Exceptional items

| Continuing operations | **2008**<br>**€'000** | 2007<br>€'000 |
|---|---|---|
| Redundancy payments | **11** | 1,134 |
| Professional and other fees | **-** | 31 |
| Warrants[(1)] | **813** | 2,258 |
| Loss on financial instruments[(2)] | **2,220** | - |
| Impairment charge on available-for-sale financial asset[(3)] | **3,123** | - |
| Reorganisation provision[(4)] | **393** | - |
| | **6,560** | 3,423 |

(1) the charge of €0.813 million represents the fair value of the warrants issued in connection with the May 2007 corporate reorganisation as calculated by independent valuers

(2) the loss on financial instruments represents a charge in respect of the mark-to-market loss arising on the acquisition of the Group's interest in Media Square plc, part of which was acquired through the use of derivatives in place at 31 December 2007 and related costs associated with these derivatives.

(3) the impairment charge arises as a result of a significant decline in the fair value of the Group's interest in Media Square plc

(4) the reorganisation provision relates to the restructuring of Cellular Center's business in the USA and includes provisions for redundancy payments and onerous leases

## 8. Other (losses)/gains

| Continuing operations | **2008**<br>**€'000** | 2007<br>€'000 |
|---|---|---|
| Fair value gain on financial assets held at fair value through profit or loss | **-** | 261 |
| Loss on financial instruments (note 7) | **(2,220)** | - |
| Impairment charge on available-for-sale financial asset (note 7) | **(3,123)** | - |
| Transaction costs | **-** | (45) |
| | **(5,343)** | 216 |

## 9. Finance costs and finance income

| | **2008** | 2007 |
|---|---|---|
| **Continuing operations** | **€'000** | €'000 |
| Finance costs: | | |
| Bank borrowings | **(22)** | (90) |
| Asset finance | **(174)** | (132) |
| Defined benefit pension plan - interest cost on plan liabilities | **(49)** | (52) |
| | **(245)** | (274) |
| **Discontinued operations** | | |
| Finance costs: | | |
| Bank borrowings | **(109)** | (305) |
| Asset finance | **(85)** | (148) |
| Defined benefit pension plan - interest cost on plan liabilities | **-** | - |
| | **(194)** | (453) |
| **Total finance costs continuing and discontinued operations** | **(439)** | (727) |
| **Continuing operations** | | |
| Finance income: | | |
| Bank deposit interest | **214** | 375 |
| Defined benefit pension plan - expected return on plan assets | **68** | 69 |
| | **282** | 444 |
| **Discontinued operations** | | |
| Finance income: | | |
| Bank deposit interest | **6** | 5 |
| Defined benefit pension plan - expected return on plan assets | **-** | - |
| | **6** | 5 |
| **Total finance income continuing and discontinued operations** | **288** | 449 |
| Finance costs (net) | **(151)** | (278) |

**10. Expenses**

| | **2008** | 2007 |
|---|---|---|
| **Continuing operations** | **€'000** | €'000 |
| Employee benefit expense (note 12) | **9,928** | 8,474 |
| Material cost of inventories consumed (included within cost of sales) | **10,481** | 5,639 |
| Depreciation of property, plant and equipment | | |
| - Included in cost of sales | **931** | 955 |
| - Included in selling and distribution costs | **-** | 1 |
| - Included in administration expenses | **263** | 74 |
| Services provided by the Group's Auditors (note 11) | **281** | 205 |
| Operating lease rentals | | |
| - Property | **1,131** | 88 |
| - Plant and machinery | **4** | 4 |
| Inventory provision | **212** | 33 |
| Other (losses)/gains | **5,343** | (216) |
| Other selling and distribution and administrative expenses | **3,860** | 1,598 |
| | **32,434** | 16,855 |
| | | |
| **Discontinued operations** | | |
| Employee benefit expense (note 12) | **4,958** | 7,782 |
| Material cost of inventories consumed (included within cost of sales) | **5,608** | 8,281 |
| Depreciation of property, plant and equipment | | |
| - Included in cost of sales | **606** | 763 |
| - Included in selling and distribution costs | **-** | 1 |
| - Included in administration expenses | **113** | 210 |
| Services provided by the Group's Auditors (note 11) | **11** | 48 |
| Operating lease rentals | | |
| - Property | **132** | 228 |
| - Plant and machinery | **17** | 152 |
| Inventory provision | **-** | 44 |
| Other selling and distribution and administrative expenses | **1,811** | 2,336 |
| | **13,256** | 19,845 |
| | | |
| **Total continuing and discontinued operations** | **45,690** | 36,700 |

(1) fair value of warrants are included in employee benefit expense

The amount that was recognised in respect of government and other grants in the income statement was €0.323 million (2007: €0.004 million)

## 11. Services provided by the Group's Auditors

During the year the Group (including its UK and USA subsidiaries) obtained the following services from the Group's Auditors at costs as detailed below:

| | 2008 | 2007 |
|---|---|---|
| **Continuing operations** | **€'000** | €'000 |
| Audit services - statutory audit | **222** | 87 |
| Tax services | | |
| - Compliance services | **42** | 84 |
| - Advisory services | **9** | 6 |
| Other services[(1)] | **8** | 28 |
| | **281** | 205 |
| **Discontinued operations** | | |
| Audit services - statutory audit | **11** | 44 |
| Tax services | | |
| - Compliance services | **-** | - |
| - Advisory services | **-** | 4 |
| Other services | **-** | - |
| | **11** | 48 |
| **Total continuing and discontinued operations** | **292** | 253 |

(1) other services relate to payroll services in 2008 while in 2007 other services included payroll services and advisory services in relation to the Group's share placing

## 12. Employment information

| | 2008 | 2007 |
|---|---|---|
| **Continuing operations** | **€'000** | €'000 |
| Employment costs: | | |
| Wages and salaries | **8,171** | 5,651 |
| Social welfare costs | **740** | 503 |
| Other pension costs net | **204** | 62 |
| Fair valuation of warrants (note 32) | **813** | 2,258 |
| Employee benefit expense | **9,928** | 8,474 |
| **Discontinued operations** | **€'000** | €'000 |
| Employment costs: | | |
| Wages and salaries | **4,521** | 7,086 |
| Social welfare costs | **428** | 677 |
| Other pension costs net | **9** | 19 |
| Employee benefit expense | **4,958** | 7,782 |
| **Total continuing and discontinued operations** | **14,886** | 16,256 |

| Average number of employees | 2008 | 2007 |
|---|---|---|
| PAC Digimedia – continuing operations | **107** | 109 |
| PAC Digimedia – discontinued operations | **204** | 197 |
| PAC Telemedia – continuing operations | **117** | 3 |
| Centre – continuing operations | **7** | 5 |
| Average number of employees for the year | **435** | 314 |

## 13. Foreign currency

The income statement and cash flows of the Group's operations are translated into euro based on the average exchange rate for the year. The balance sheets are translated using the year end exchange rate.

| | **2008** | 2007 |
|---|---|---|
| **Average rate** | | |
| Sterling | **0.7946** | 0.6846 |
| Sterling(1) | **0.7797** | - |
| US dollar | **1.4732** | 1.4541 |
| US dollar(2) | **1.3330** | - |
| | | |
| **Year end rate** | | |
| Sterling | **0.9525** | 0.7334 |
| US dollar | **1.3917** | 1.4721 |

(1) average rate for the period to the date of disposal of The Plastic Card Company Limited and PCC (Services) Limited on 29 August 2008
(2) average rate for the period from the date of acquisition of the business and assets of In2Wireless on 25 November 2008 to 31 December 2008

## 14. Income tax credit

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| Current tax credit | **4** | 26 |
| Adjustments in respect of previous years | **50** | 950 |
| | **54** | 976 |
| | | |
| Deferred tax | | |
| Temporary differences | **(40)** | 55 |
| Adjustments in respect of previous years | **-** | (109) |
| | **(40)** | (54) |
| | | |
| Taxation | **14** | 922 |

| **Relationship between tax expense and accounting profit** | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| (Loss)/profit on ordinary activities before tax | **(12,297)** | (3,762) |
| (Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in Ireland of 12.5% (2007: 12.5%) | **1,537** | 470 |
| Effects of: | | |
| Differences in effective tax rates on overseas earnings and interest income | **-** | (11) |
| Other items (mainly expenses not deductible for tax purposes and non taxable income) | **(834)** | (186) |
| Loss carried forward for which no deferred tax asset is recognised | **(739)** | (192) |
| Adjustments in respect of previous years | **50** | 841 |
| Current tax credit for the year | **14** | 922 |

## 15. Directors' remuneration

| **Year ended 31 December 2008** | **Salary** | **Fees** | **Pension contributions** | **Termination payment** | **Other benefits** | **Total** |
|---|---|---|---|---|---|---|
| | **€'000** | **€'000** | **€'000** | **€'000** | **€'000** | **€'000** |
| **Executive Directors** | | | | | | |
| P E Lynch | **250** | **-** | **-** | **-** | **11** | **261** |
| | **250** | **-** | **-** | **-** | **11** | **261** |
| **Non-executive Directors** | | | | | | |
| J Doris | **-** | **25** | **-** | **-** | **-** | **25** |
| A Keogh | **-** | **25** | **-** | **-** | **-** | **25** |
| | **-** | **50** | **-** | **-** | **-** | **50** |
| | **250** | **50** | **-** | **-** | **11** | **311** |

| Year ended 31 December 2007 | Salary | Fees | Pension contributions | Termination payment | Other benefits | Total |
|---|---|---|---|---|---|---|
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| Executive Directors | | | | | | |
| A Jordan(1) | 101 | - | 7 | 438 | 19 | 565 |
| P E Lynch | 146 | - | - | - | - | 146 |
| | 247 | - | 7 | 438 | 19 | 711 |
| Non-executive Directors | | | | | | |
| M Delany(2) | - | 6 | - | - | - | 6 |
| A McGuckian(2) | - | 7 | - | - | - | 7 |
| R McLoughlin(2) | - | 7 | - | - | - | 7 |
| D O'Brien(2) | - | 6 | - | - | - | 6 |
| D O'Donohoe(3) | - | 9 | - | - | - | 9 |
| J Doris | - | 16 | - | - | - | 16 |
| A Keogh | - | 1 | - | - | - | 1 |
| | - | 52 | - | - | - | 52 |
| | 247 | 52 | 7 | 438 | 19 | 763 |

(1) Mr A Jordan resigned as a Director on 15 May 2007
(2) Mr M Delany, Mr A McGuckian, Mr R McLoughlin and Mr D O' Brien resigned as Non-executive Directors on 15 May 2007
(3) Mr D O'Donohoe resigned as Non-executive Chairman on 15 May 2007

Details of Directors' interests in shares, share options and warrants are set out on pages 14 and 15.

**16. (Loss)/earnings per share from continuing and discontinued operations**

Basic earnings per share is calculated by dividing the (loss)/earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of shares in issue to assume conversion of all potential dilutive ordinary shares. The Group has one category of potential dilutive ordinary shares: warrants. The calculation is performed for the warrants to determine the number of shares that could have been acquired at fair value, determined as the average annual market share price of the Group's shares based on the monetary value of the subscription rights attached to outstanding warrants. The weighted average number of ordinary shares is compared with the number of shares that would have been issued assuming the exercise of warrants to give the number of shares deemed to be issued at nil consideration.

The basic loss per share and the diluted loss per share are the same, as the effect of the outstanding warrants is anti-dilutive. The basic and diluted earnings per share as disclosed in the 2007 annual report have been re-presented to show the discontinued operations separately from continuing operations.

Reconciliations of the earnings and the weighted average number of shares used in the calculations are set out below.

| **(Loss)/earnings** | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| (Loss) for the year | **(4,100)** | (2,170) |
| Less: Profit for the year from discontinued operations | **7,387** | (639) |
| (Loss) for the year from continuing operations | **(11,487)** | (2,809) |
| Exceptional costs | **6,560** | 3,423 |
| Adjusted (loss)/profit for the year | **(4,927)** | 614 |

| **Basic and diluted (loss)/earnings per share – continuing operations** | **2008** | 2007 |
|---|---|---|
| | **€ cent** | € cent |
| (Loss) per share for the year | **(50.65)** | (16.69) |
| Exceptional costs | **28.92** | 20.34 |
| Adjusted (loss)/earnings per share for the year | **(21.73)** | 3.65 |

| **Basic and diluted earnings per share – discontinued operations** | **2008** | 2007 |
|---|---|---|
| | **€ cent** | € cent |
| Earnings per share for the year | **32.57** | 3.80 |
| Gain on disposal of discontinued operations | **(31.63)** | - |
| Adjusted earnings per share for the year | **0.94** | 3.80 |

| **Basic and diluted earnings per share – continuing and discontinued operations** | **2008** | 2007 |
|---|---|---|
| | **€ cent** | € cent |
| (Loss) per share for the year | **(18.08)** | (12.89) |
| Exceptional costs | **28.92** | 20.34 |
| Gain on disposal of discontinued operations | **(31.63)** | - |
| Adjusted (loss)/earnings per share for the year | **(20.79)** | 7.45 |

| **Weighted average number of shares ('000)** | **22,681** | 16,831 |
|---|---|---|

## 17. Property, plant and equipment

| **Year ended 31 December 2008** | **Land and buildings** | **Fixtures, fittings, plant and equipment** | **Vehicles and office equipment** | **Total** |
|---|---|---|---|---|
| | **€'000** | **€'000** | **€'000** | **€'000** |
| Cost | | | | |
| At 1 January 2008 | **2,736** | **21,355** | **2,742** | **26,833** |
| Additions at cost | **644** | **3,609** | **226** | **4,479** |
| Acquisition of subsidiary (note 35) | **-** | **61** | **-** | **61** |
| Disposal of subsidiary | **(1,959)** | **(10,796)** | **(474)** | **(13,229)** |
| Disposals | **(28)** | **(566)** | **(6)** | **(600)** |
| Currency adjustments | **(278)** | **(3,494)** | **(524)** | **(4,296)** |
| At 31 December 2008 | **1,115** | **10,169** | **1,964** | **13,248** |
| | | | | |
| Accumulated depreciation | | | | |
| At 1 January 2008 | **841** | **13,226** | **2,188** | **16,255** |
| Charge for the year | **106** | **1,553** | **254** | **1,913** |
| Disposal of subsidiary | **(639)** | **(8,088)** | **(371)** | **(9,098)** |
| Disposals | **-** | **(566)** | **(1)** | **(567)** |
| Currency adjustments | **(101)** | **(1,949)** | **(449)** | **(2,499)** |
| At 31 December 2008 | **207** | **4,176** | **1,621** | **6,004** |
| | | | | |
| Net book amount at 31 December 2008 | **908** | **5,993** | **343** | **7,244** |

| Year ended 31 December 2007 | Land and buildings | Fixtures, fittings, plant and equipment | Vehicles and office equipment | Total |
|---|---|---|---|---|
| | €'000 | €'000 | €'000 | €'000 |
| Cost | | | | |
| At 1 January 2007 | 2,870 | 26,465 | 2,924 | 32,259 |
| Additions at cost | 19 | 1,285 | 233 | 1,537 |
| Acquisition of subsidiary | 84 | 306 | - | 390 |
| Disposals | - | (4,766) | (183) | (4,949) |
| Currency adjustments | (237) | (1,935) | (232) | (2,404) |
| At 31 December 2007 | 2,736 | 21,355 | 2,742 | 26,833 |
| | | | | |
| Accumulated depreciation | | | | |
| At 1 January 2007 | 833 | 17,482 | 2,237 | 20,552 |
| Charge for the year | 82 | 1,620 | 302 | 2,004 |
| Disposals | - | (4,639) | (170) | (4,809) |
| Currency adjustments | (74) | (1,237) | (181) | (1,492) |
| At 31 December 2007 | 841 | 13,226 | 2,188 | 16,255 |
| | | | | |
| Net book amount at 31 December 2007 | 1,895 | 8,129 | 554 | 10,578 |

The net book amount and the depreciation charge during the year in respect of assets (plant and equipment) purchased under asset finance agreements, are as follows:

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| Cost | **4,824** | 7,666 |
| Accumulated depreciation | **(1,093)** | (2,574) |
| Net book amount | **3,731** | 5,092 |
| | | |
| Depreciation charge for the year | **803** | 1,129 |

**18. Intangible Assets**

| Goodwill | 2008<br>€'000 | 2007<br>€'000 |
|---|---|---|
| At 1 January | **3,149** | - |
| Additions relating to current year acquisitions (note 35) | **2,804** | 3,149 |
| Additions relating to acquisition of minority interest | **519** | - |
| At 31 December 2008 | **6,472** | 3,149 |

During the year ended 31 December 2008, Cellular Center's business was reorganised. On 24 November 2008, PAC Telemedia's membership interest in Cellular Center, LLC was assigned to Cellular Center Holdings, LLC in exchange for an equivalent membership interest in Cellular Center Holdings. At the same time, PAC Telemedia invested an additional €2.740 million in Cellular Center Holdings increasing its percentage interest to 82.56%.

On 25 November 2008, PAC Telemedia made a further investment of €5.089 million in Cellular Center Holdings and increased its percentage interest in Cellular Center Holdings to 95%. These investments were made to fund the ongoing losses arising as the business expanded its operations and to provide finance to fund the acquisition of the business and assets of In2Wireless formerly a division of Railroad Bazaar, LLC.

Goodwill of €0.519 million was recognised on the acquisition of the additional interest in Cellular Center Holdings and is attributed to the anticipated increased future profitability of the underlying business and certain intangible assets that cannot be individually and reliably measured due to their nature.

On 25 November 2008, the acquisition of the In2Wireless business was completed by Cellular Center GA-AL, LLC a wholly owned subsidiary of Cellular Center Holdings formed to complete this acquisition. Goodwill of €2.804 million was recognised on the acquisition of this business and is again attributed to the anticipated future profitability of the underlying business and certain intangible assets that cannot be individually and reliably measured due to their nature.

Goodwill acquired in business combinations is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. The CGUs represent the lowest level within the Group at which the associated goodwill is monitored for management purposes and are not larger than the primary and secondary segments determined in accordance with IAS 14 – Segment Reporting.

A summary of the allocation of the carrying value of goodwill by CGU is as follows:

| Cash generating unit | 2008<br>€'000 | 2007<br>€'000 |
|---|---|---|
| PAC Digimedia | **-** | - |
| PAC Telemedia | **6,472** | 3,149 |
| At 31 December 2008 | **6,472** | 3,149 |

**Impairment testing of goodwill**

Impairment is determined by assessing the recoverable amount, being the higher of the fair value less costs to sell or the value in use of the CGU to which the goodwill relates.

For the year ending 31 December 2008, management assessed the value in use of the CGU to which goodwill related. The cash flow forecasts employed for this computation were extracted from a two year plan and are based on revenue growth rates averaging approximately 5% per annum including the impact of a full year's revenue of stores opened during 2008 but exclude future acquisition activity. Cash flows for a further three years are based on revenue growth rates of approximately 3% per annum. A terminal value reflecting long term GDP growth (2.5%) in the market in which the CGU operates is applied to the five year cash flows. A present value of the future cash flows is calculated using a discount rate representing management's estimated weighted average cost of capital (9.5%) for the market in which the CGU operates. Applying these assumptions, no impairment arose in 2008.

Key assumptions include management's estimates of revenue growth, future profitability, capital expenditure requirements and working capital investment. Forecasts are generally based on historical performance together with management's expectation of future trends affecting the industry and other developments and initiatives in the business along with management's plans for the future.

A sensitivity analysis was applied using different growth and discount rates. If estimated revenue growth for all of the years assessed had been a constant 2.5% per annum, representing the long term GDP growth rate in the market in which the CGU operates, then the Group would have recognised an impairment of goodwill of €3.090 million. If the discount rate used to determine the present values of the future cash flows was 50% higher than management estimates, the Group would recognised an impairment of goodwill of €0.683 million.

For the year ending 31 December 2007, management assessed the fair value less costs to sell of the cash generating units to which goodwill related and determined that no impairment arose. Management based the fair value less costs to sell on the price paid for the interest acquired in Cellular Center on 21 December 2007 as this transaction was on an arms length basis between knowledgeable and willing parties.

### 19. Available-for-sale financial assets

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| At 1 January 2008 | **-** | - |
| Additions | **6,815** | - |
| Loss on initial recognition | **(1,798)** | - |
| Impairment charge[1] | **(3,123)** | - |
| Exchange movement | **(837)** | - |
| At 31 December 2008 | **1,057** | - |

Available-for-sale financial assets include the following:

| | | |
|---|---|---|
| Quoted equity securities | **1,057** | - |

Quoted equity securities consist of the Group's investment in 6.940 million ordinary shares in Media Square plc, representing 21.5% of the issued share capital in that company. Media Square plc is an AIM listed marketing communications group. It has not been accounted for as an associate as Prime Active Capital plc does not have significant influence over it and does not have the power to participate in the financial and operating policy decisions of the entity.

Available-for-sale financial assets are denominated in the following currencies:

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| Sterling | **1,057** | - |

(1) the impairment charge of €3.123 million arose due to a significant decline in the fair value of the quoted equity securities. This charge is included within exceptional costs as detailed in note 7 on page 44 of the consolidated financial statements

**20. Inventories**

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| Materials | **486** | 1,140 |
| Work in progress | **68** | 560 |
| Finished goods | **1,225** | 649 |
| | **1,779** | 2,349 |

The Group consumed €16.089 million (2007: €13.920 million) of inventories during this year. This expense has been recognised in the income statement within cost of sales and within cost of sales of discontinued operations.
The Group recognised €0.212 million (2007:€0.077 million) of inventory write down expense.

**21. Trade and other receivables - current**

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| Trade receivables | **3,114** | 7,827 |
| Less: provision for impairment of trade receivables | **(77)** | (19) |
| | **3,037** | 7,808 |
| Prepayments and accrued income | **1,363** | 420 |
| Value added tax | **187** | 358 |
| | **4,587** | 8,586 |

The fair value of trade and other receivables approximates book value.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

| | **2008** | 2007 |
|---|---|---|
| Currency | **€'000** | €'000 |
| Sterling | **2,610** | 8,052 |
| US dollar | **1,929** | 504 |
| Other currencies | **48** | 30 |
| | **4,587** | 8,586 |

Movements on the Group provision for impairment of trade receivables are as follows:

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| At 1 January | **(19)** | (189) |
| Receivables written off during the year as uncollectible | **77** | 181 |
| Provision for receivables impairment | **3** | (16) |
| Exchange movement | **16** | 5 |
| | **(77)** | (19) |

Individually impaired receivables are assessed to be so, based on age profile, and in some cases, on a dispute as to the customer's contractual obligation to pay. Impaired receivables were aged between 6 and 12 months overdue.

The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any security as collateral.

As at 31 December 2008, trade receivables of €0.915 million (2007: €0.406 million) were past due but not impaired. These relate to a number of independent customers from whom there is no history of default. The ageing analysis from invoice date of these trade receivables is as follows:

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| Up to 3 months | **838** | 406 |
| 3 to 6 months | **77** | - |
| | **915** | 406 |

## 22. Financial assets at fair value through profit or loss

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| Equity traded derivatives | **-** | 261 |

## 23. Cash and cash equivalents

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| Cash at bank and in hand | **672** | 2,916 |
| Short-term deposits | **3,474** | 6,844 |
| Restricted cash | **-** | 3,431 |
| | **4,146** | 13,191 |

Short-term deposits represent funds held on deposit with banks with a maturity of less than one month. The average maturity of these deposits was 0.6 days (2007: 24 days). The effective interest rate on the deposits was 4.9% (2007: 4.8%).

## 24. Trade and other payables

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| Trade payables | **3,232** | 5,320 |
| Payroll tax and social security | **146** | 354 |
| Value added tax | **67** | 526 |
| Accrued expenses and other payables | **1,090** | 1,735 |
| Deferred income(1) | **700** | 223 |
| | **5,235** | 8,158 |

| Analysis of trade and other payables: | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| Current | **4,708** | 7,985 |
| Non-current | **527** | 173 |
| | **5,235** | 8,158 |

(1) deferred income was included within accrued expenses and other payables in 2007 and has been re-classed in 2008 for comparative purposes

The fair value of trade and other payables approximates book value.

**25. Borrowings**

| | **2008** | 2007 |
|---|---|---|
| **Current** | **€'000** | €'000 |
| Term debt | **-** | 1,253 |
| Asset finance | **712** | 1,328 |
| | **712** | 2,581 |
| | | |
| **Non-current** | | |
| Term debt | **-** | 1,087 |
| Asset finance | **1,263** | 1,718 |
| | **1,263** | 2,805 |
| | | |
| **Total borrowings** | **1,975** | 5,386 |

All borrowings are denominated in sterling and are used to finance the activities of the Group's UK-based businesses. The term debt of the Group's continuing UK-based operations was fully repaid during 2008. Asset finance is bank borrowings used to finance the purchase of items of plant and equipment. Asset finance obligations may bear a fixed or a floating rate of interest and are secured against the value of the asset being acquired.

The maturity of borrowings is as follows:

| | | | | **2008** | | | | 2007 |
|---|---|---|---|---|---|---|---|---|
| | **No later than 1 year** | **Between 1 and 2 years** | **Between 2 and 5 years** | **Total** | No later than 1 year | Between 1 and 2 years | Between 2 and 5 years | Total |
| | **€'000** | **€'000** | **€'000** | **€'000** | €'000 | €'000 | €'000 | €'000 |
| Bank borrowings - floating rate | **-** | **-** | **-** | **-** | 1,253 | 1,087 | - | 2,340 |
| Asset finance - floating rate | **616** | **436** | **496** | **1,548** | 698 | 547 | 303 | 1,548 |
| Asset finance - fixed rate | **96** | **93** | **238** | **427** | 630 | 493 | 375 | 1,498 |
| | **712** | **529** | **734** | **1,975** | 2,581 | 2,127 | 678 | 5,386 |

The effective interest rates at the balance sheet date were as follows:

| | **2008** | 2007 |
|---|---|---|
| Bank borrowings - floating rate | **0.0%** | 7.5% |
| Asset finance - floating rate | **1.7%** | 7.5% |
| Asset finance - fixed rate | **6.3%** | 7.4% |

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rates above.

The carrying amounts and fair value of the non-current borrowings are as follows:

| | **Carrying amount** | | **Fair value** | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **€'000** | €'000 | **€'000** | €'000 |
| Bank borrowings | **-** | 1,087 | **-** | 1,011 |
| Asset finance liabilities | **1,263** | 1,718 | **1,192** | 1,553 |
| | **1,263** | 2,805 | **1,192** | 2,564 |

### 26. Provisions for other liabilities and charges

| | Reorganisation €'000 | Other €'000 | Put liability €'000 | Total €'000 |
|---|---|---|---|---|
| At 1 January 2008 | - | 69 | 1,051 | 1,120 |
| Additional provisions charged to the income statement | **393** | **-** | **-** | **393** |
| Acquisition | **-** | **132** | **-** | **132** |
| Utilised during the year | **-** | **(23)** | **(723)** | **(746)** |
| Exchange movement | **23** | **(4)** | **-** | **19** |
| At 31 December 2008 | **416** | **174** | **328** | **918** |

| Analysis of total provisions for other liabilities and charges: | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| Current | **590** | 69 |
| Non-current | **328** | 1,051 |
| | **918** | 1,120 |

*Reorganisation*
This provision relates to expected severance payments under a redundancy plan put in place in 2008 for employees who are to be made redundant in Cellular Center, LLC during the first half of 2009.

*Other provisions*
Other provisions consist primarily of probable obligations for Cellular Center, LLC and Cellular Center GA-AL LLC to repay Verizon Wireless for financial support received in respect of customer mobile phone activations and property leases if certain conditions are not met.

*Put Liability*
This amount relates to the fair value of the liability arising if the put option on the shares held by the minority interest in Cellular Center Holdings, LLC is exercised after 20 December 2010, in accordance with the requirements of IAS 32 – Financial Instruments: Presentation.

### 27. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method. The movement on the deferred tax liability is as shown below:

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| At 1 January | **601** | 563 |
| Income statement charge – continuing operations | **40** | 54 |
| Income statement (credit) – discontinued operations(1) | **(15)** | (12) |
| Deferred tax liabilities disposed of - discontinued operations | **(51)** | - |
| Exchange difference (charged to equity) | **(46)** | (4) |
| At 31 December | **529** | 601 |

(1) the income tax charge of €0.027 million included within the results of the discontinued operations in note 6 on page 43 of the consolidated financial statements comprises a current tax charge of €0.042 million and a deferred tax credit of €0.015 million

The deferred tax provision is principally attributable to accelerated tax depreciation.

The Group did not recognise deferred tax assets of €2.041 million (2007:€0.246 million) in respect of losses amounting to €7.119 million (2007: €1.972 million) that can be carried forward against future taxable income.

## 28. Retirement benefit obligations

The Group operates a number of defined contribution schemes and a defined benefit scheme which are funded and are independent of its assets.

**Defined contribution plans**
Pension costs for defined contribution plans are as follows:

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| Expense for defined contribution plans | **213** | 187 |

**Defined benefit plan**
The Group operates a defined benefit plan in Ireland. The disclosures relating to the defined benefit plan have been based on a valuation carried out by independent and qualified actuaries to take account of the requirements of IAS 19 – Employee Benefits – in order to assess the liabilities of the scheme at 31 December 2008. The valuation has been completed using the Projected Unit Credit Method.

The principal assumptions used by the actuaries to evaluate the plan liabilities were:

| | **2008** | 2007 |
|---|---|---|
| | **%** | % |
| Inflation assumption | **2.00** | 2.25 |
| Rate of increase in pensionable salaries | **n/a** | n/a |
| Rate of increase in pensions in payment and deferred pensions | **-** | - |
| Discount rate | **5.75** | 5.50 |
| Expected return on plan assets | **6.93** | 7.02 |

The expected return on plan assets assumption was determined by considering the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio of assets is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the current asset allocation to determine the expected long-term rate of return on assets assumption for the portfolio.

The weighted average life expectancies which were used to determine the benefit obligation are as follows:

| | **2008** | 2007 |
|---|---|---|
| Member aged 65 (current life expectancy) | **years** | years |
| - male | **21.8** | 21.8 |
| - female | **24.8** | 24.8 |
| Member aged 45 (life expectancy at 65) | | |
| - male | **21.8** | 21.8 |
| - female | **24.8** | 24.8 |

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| Present value of plan obligations | **(874)** | (889) |
| Fair value of plan assets | **634** | 974 |
| Restriction of surplus | **-** | (85) |
| Net liability recognised in the balance sheet | **(240)** | - |

The composition of plan assets is as follows:

| | **2008** | 2007 |
|---|---|---|
| | **%** | % |
| Equities | **65.0** | 79.2 |
| Bonds | **20.0** | 15.8 |
| Real estate | **6.5** | 2.3 |
| Other | **8.5** | 2.7 |
| | **100.0** | 100.0 |

The movement in the fair value of plan assets during the year is as follows:

| | 2008 | 2007 |
|---|---|---|
| | €'000 | €'000 |
| Fair value of plan assets at 1 January | **974** | 1,016 |
| Expected return on plan assets | **68** | 69 |
| Actuarial (loss) | **(408)** | (132) |
| Employer contributions | **-** | 17 |
| Employee contributions | **-** | 4 |
| Fair value of plan assets at 31 December | **634** | 974 |

The movement in plan obligations during the year is as follows:

| | 2008 | 2007 |
|---|---|---|
| | €'000 | €'000 |
| Present value of plan obligations at 1 January | **889** | 1,155 |
| Current service cost | **-** | 15 |
| Interest cost | **49** | 52 |
| Actuarial gain | **(64)** | (214) |
| Curtailment gain recognised | **-** | (123) |
| Employee contributions | **-** | 4 |
| Plan obligations at 31 December | **874** | 889 |

The amounts recognised in the income statement are as follows:

| | 2008 | 2007 |
|---|---|---|
| | €'000 | €'000 |
| Current service cost | **-** | (15) |
| Curtailment gain recognised | **-** | 123 |
| Interest cost | **(49)** | (52) |
| Expected return on plan assets | **68** | 69 |
| Total expense recognised in the income statement | **19** | 125 |

There were no current service costs in 2008. The current service costs were included in administration expenses in the income statement in 2007. Interest cost and expected return on plan assets have been included within finance costs and finance income, respectively. The Group currently estimates that it will contribute €Nil (2007: €Nil) to the plan during 2009 as the last active member left active membership during 2007.

The actual return on plan assets was (€340,000) (2007: (€63,000)).

The amounts recognised in the statement of recognised income and expense (SORIE) are as follows:

| | 2008 | 2007 |
|---|---|---|
| | €'000 | €'000 |
| Difference between the expected and actual return on plan assets | **(408)** | (132) |
| Experience gain on plan liabilities | **(16)** | 15 |
| Gain due to changes in assumptions | **80** | 199 |
| Restriction of surplus | **85** | (85) |
| Actuarial (loss) recognised in the SORIE | **(259)** | (3) |

Following transition to IFRS on 1 January 2004, the cumulative actuarial loss recognised in the SORIE is:

| | €'000 |
|---|---|
| Recognised in 2004 financial year | 36 |
| Recognised in 2005 financial year | (132) |
| Recognised in 2006 financial year | 179 |
| Recognised in 2007 financial year | (3) |
| Recognised in 2008 financial year | **(259)** |
| | **(179)** |

**Summary of plan assets and liabilities**

| | **2008** | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| | **€'000** | €'000 | €'000 | €'000 | €'000 |
| Present value of defined benefit obligation | **(874)** | (889) | (1,155) | (1,221) | (925) |
| Fair value of plan assets | **634** | 974 | 1,016 | 890 | 726 |
| Restriction of surplus | **-** | (85) | - | - | - |
| Deficit | **(240)** | - | (139) | (331) | (199) |
| | | | | | |
| Experience adjustments on plan assets | **(408)** | (132) | 15 | 84 | 14 |
| Experience adjustments on plan liabilities | **(16)** | 15 | 21 | 2 | 30 |

In accordance with the transitional provisions for IAS 19 – Employee Benefits – as amended in December 2004, the disclosures above are determined prospectively from the date of transition to IFRS and therefore cover the five year period from 1 January 2004 to 31 December 2008.

**29. Share capital and premium**

| | **Number of shares 000's** | **Ordinary Shares €'000** | **Share Premium €'000** | **Total €'000** |
|---|---|---|---|---|
| At 1 January 2008 | 22,681 | 11,341 | 16,444 | 27,785 |
| At 31 December 2008 | **22,681** | **11,341** | **16,444** | **27,785** |

The total authorised number of ordinary shares is 100,000,000 (2007: 100,000,000) with a par value of €0.50 (2007: €0.50) per share.

**30. Other reserves**

| | Share based payments reserve €'000 | Currency translation reserve €'000 | Other reserves €'000 | Total €'000 |
|---|---|---|---|---|
| At 1 January 2007 | - | 442 | - | 442 |
| Fair valuation of warrants | 2,258 | - | - | 2,258 |
| Put liability | - | - | (1,051) | (1,051) |
| Exchange movement | - | (1,307) | - | (1,307) |
| At 31 December 2007 | 2,258 | (865) | (1,051) | 342 |
| | | | | |
| Fair valuation of warrants | **813** | **-** | **-** | **813** |
| Put liability extinguished | **-** | **-** | **723** | **723** |
| Eliminated on disposal of subsidiary companies | **-** | **472** | **-** | **472** |
| Exchange movement | **-** | **(4,051)** | **-** | **(4,051)** |
| At 31 December 2008 | **3,071** | **(4,444)** | **(328)** | **(1,701)** |

*Available-for-sale investments reserve*
This reserve comprises the mark-to-market adjustments and the transactions costs in connection with the available-for-sale financial assets.

*Share based payments reserve*
This reserve comprises amounts credited to reserves in connection with warrants issued.

*Foreign currency translation reserve*
The translation reserve comprises all foreign exchange differences, arising from the translation of the net assets of the Group's non-euro functional currency operations, including the translation of the results of such operations from the average exchange rate for the year to the exchange rate at the balance sheet date.

*Other reserves*
The other reserve is in respect of the fair value of the liability arising if the put option on the shares held by the minority interest in Cellular Center Holdings, LLC was exercised after 20 December 2010, in accordance with the requirements of IAS 32 – Financial Instruments: Presentation.

## 31. Retained earnings and minority interest

| **Retained earnings** | **€'000** |
|---|---|
| At 1 January 2007 | (3,655) |
| Loss for the year | (2,170) |
| Actuarial loss on defined benefit pension plans | (3) |
| At 31 December 2007 | (5,828) |
| | |
| Loss for the year | **(4,100)** |
| Actuarial loss on defined benefit pension plans | **(259)** |
| At 31 December 2008 | **(10,187)** |
| | |
| **Minority interest** | |
| At 1 January 2007 | - |
| Loss for the year | (31) |
| Arising on acquisition | 306 |
| Translation adjustment | - |
| At 31 December 2007 | 275 |
| | |
| Loss for the year | **(796)** |
| Acquisition[1] | **519** |
| Proceeds from issue of shares | **340** |
| Translation adjustment | **(63)** |
| At 31 December 2008 | **275** |

(1) during the year, the Group acquired an additional interest of 15% in Cellular Center Holdings, LLC through the issue of additional units by the company for cash consideration

## 32. Warrants

The Group has 5,000,000 (2007: 5,000,000) Series A warrants and 5,000,000 (2007: 5,000,000) Series B warrants in issue. These warrants were issued as part of a corporate reorganisation in May 2007 which resulted in a change to the executive management team.

The holder of the series A warrants may subscribe for one ordinary share, per warrant, in the Group at a price of €0.75. These warrants may be exercised at any time before 15 May 2012.

The Series B warrants become exercisable at the holders discretion if, within, the exercise period, the Prime Active Capital plc share price as quoted on the IEX exceeds or equals €1.75 for 30 trading days of any preceding 180 trading days. This condition was satisfied on 26 June 2007 and the warrants are now exercisable anytime up to 15 May 2012.

The fair value of the Series A warrants at 31 December 2008 is €Nil (2007:€1.750 million). As these warrants vested immediately from date of grant, this charge was expensed in 2007.

The total fair value of the Series B warrants, which cannot be exercised until the market performance condition above is satisfied, is being expensed over the expected vesting period of these warrants as follows:

2007: €0.508 million, 2008: €0.813 million and 2009: €0.304 million.

**Assumptions**

The fair value of the Series A and Series B warrants granted has been calculated using the Monte Carlo simulation model with the following assumptions:

| | |
|---|---|
| Share price | **€0.14** |
| Exercise price | **€0.15** |
| Expected dividend yield | **0%** |
| Expected stock price volatility | **60%** |
| Risk-free interest rate | **4.30%** |
| Expected life of warrants | **5 years** |
| Minimum gain for voluntary early exercise | **100% of exercise** |
| Probability of voluntary early exercise at minimum gain | **50%** |

As the warrants are priced in euro, the risk free interest rate is based on the 5 year Eurozone zero coupon gilts yield curve, taken from Bloomberg.

The expected stock price volatility has been determined based on the historical average of monthly and weekly volatility of Prime Active Capital’s stock price over a five year period up to the date the options were granted.

**33. Notes to the consolidated cash flow statement.**

| (a) Cash generated from operations | 2008 €'000 | 2007 €'000 |
|---|---|---|
| **Continuing operations** | | |
| (Loss) before taxation | **(12,297)** | (3,762) |
| Adjustments for: | | |
| Net finance income | **(37)** | (170) |
| Depreciation | **1,194** | 1,029 |
| Available-for-sale financial assets impairment charge | **3,123** | - |
| Exceptional costs-warrants | **813** | 2,258 |
| Movement in post employment obligations | **19** | 17 |
| Share of loss from joint venture | **-** | 308 |
| Loss on disposal of property, plant and equipment | **32** | 4 |
| (Increase) in inventories | **(26)** | (1,017) |
| (Increase) in trade and other receivables | **(58)** | (221) |
| (Increase)/decrease in trade and other payables | **(59)** | 477 |
| Fair value loss on financial instruments | **2,060** | - |
| Other financial assets at fair value through profit or loss | **-** | (261) |
| Curtailment gain on defined benefit pension scheme | **-** | (125) |
| Cash (outflow) from continuing operations | **(5,236)** | (1,463) |
| | | |
| **Discontinued operations** | | |
| Profit before taxation | **241** | 1,108 |
| Adjustments for: | | |
| Net finance costs | **188** | 448 |
| Depreciation | **719** | 975 |
| (Increase)/decrease in inventories | **(236)** | 190 |
| (Increase) in trade and other receivables | **(468)** | (537) |
| Decrease in trade and other payables | **628** | 32 |
| Cash inflow from discontinued operations | **1,072** | 2,216 |
| | | |
| **Cash (outflow)/inflow generated from operations** | **(4,164)** | 753 |

**(b) Reconciliation of net decrease in cash and bank overdrafts to movement in net debt**

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| **Continuing operations** | | |
| (Decrease)/increase in cash and cash equivalents | **(6,386)** | 7,369 |
| Financing | | |
| Repayment of borrowings | **237** | 1,086 |
| Asset finance repayments | **982** | 754 |
| | **(5,167)** | 9,209 |
| New asset finance obligations | **(1,887)** | - |
| Effect of foreign exchange rate changes | **(1,005)** | (459) |
| Movement in net debt in the year | **(8,059)** | 8,750 |
| Net cash at beginning of year | **10,230** | 1,480 |
| Net cash at end of year from continuing operations | **2,171** | 10,230 |
| **Discontinued operations** | | |
| (Decrease)/increase in cash and cash equivalents | **(1,060)** | 898 |
| Financing | | |
| Repayment of borrowings | **603** | 1,134 |
| Disposal of subsidiary - borrowings | **2,341** | - |
| Asset finance repayments | **312** | 591 |
| | **2,196** | 2,623 |
| Effect of foreign exchange rate changes | **229** | 258 |
| Movement in net debt in the year | **2,425** | 2,881 |
| Net (debt) at beginning of year | **(2,425)** | (5,306) |
| Net (debt) at end of year from discontinued operations | **-** | (2,425) |
| Net cash at end of year | **2,171** | 7,805 |

**(c) Analysis of net cash/(debt)**

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| **Continuing operations** | | |
| Cash and cash equivalents | **4,146** | 12,072 |
| Term debt and other loans | **-** | (257) |
| Asset finance obligations | **(1,975)** | (1,585) |
| | **2,171** | 10,230 |
| **Discontinued operations** | | |
| Cash and cash equivalents | **-** | 1,119 |
| Term debt and other loans | **-** | (2,083) |
| Asset finance obligations | **-** | (1,461) |
| | **-** | (2,425) |
| Net cash at end of year | **2,171** | 7,805 |

**(d) Major non-cash transactions**
The major non-cash transactions within the Group during the year relate to €0.813 million (2007:€2.258 million) in respect of warrants issued in May 2007 and a non-cash charge of €2.060 million (2007:€Nil) in respect of the mark-to-market loss arising on the acquisition of the Group's ordinary shares in Media Square plc (2007:€Nil) and an impairment charge of €3.123 million on these shares.

During the year the Group also entered into asset finance agreements, in respect of items of plant and equipment, with a total capital value at the inception of the finance agreements of €1.887 million (2007:€Nil).

## 34. Commitments

### (a) Capital commitments not provided for

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| Contractual commitments for the acquisition of plant and equipment | **-** | 1,372 |

### (b) Operating lease commitments - minimum lease payments

| | | | **2008** | | | 2007 |
|---|---|---|---|---|---|---|
| | **Property** | **Other** | **Total** | Property | Other | Total |
| | **€'000** | **€'000** | **€'000** | €'000 | €'000 | €'000 |
| No later than one year | **2,017** | **-** | **2,017** | 616 | 39 | 655 |
| Later than one year and no later than five years | **3,976** | **-** | **3,976** | 1,346 | 98 | 1,444 |
| Later than five years | **371** | **-** | **371** | 709 | 4 | 713 |
| | **6,364** | **-** | **6,364** | 2,671 | 141 | 2,812 |

The Group leases various offices, retail outlets and warehouses under non-cancellable operating lease agreements. The lease terms are between one and twenty five years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The Group also leases various plant and machinery under cancellable operating lease agreements. The Group will incur a charge for the termination of these agreements. The lease expenditure charged to the income statement during the year is disclosed in note 10 on page 46 of the consolidated financial statements.

## 35. Business combinations

On 25 November 2008, Cellular Center GA-AL, LLC a newly formed wholly owned subsidiary of Cellular Center Holdings, LLC, acquired the business and assets of In2Wireless formerly a division of Railroad Bazaar. Cellular Center GA-AL, doing business as In2Wireless, is an exclusive agent for Verizon Wireless selling mobile phones and accessories in its 26 retail stores in Alabama.

The acquired business contributed revenues of €0.833 million and a net profit after minority interest of €0.028 million to the Group for the period 25 November to 31 December 2008.

Details of the net assets acquired and goodwill are as follows:

| **Purchase consideration** | **€'000** |
|---|---|
| Cash paid | **3,132** |
| Direct costs related to acquisition | **48** |
| Total purchase consideration | **3,180** |
| Fair value of net identifiable assets acquired | **(376)** |
| **Goodwill (note 18)** | **2,804** |

The above figures are preliminary. Fair values have been determined provisionally as permitted by IFRS 3 – Business Combinations, given the timing of the transaction. The goodwill is attributable to anticipated increased future profitability of Cellular Center GA-AL and certain intangible assets that cannot be individually separated and reliably measured due to their nature.

The assets and liabilities as of 25 November 2008 arising from the acquisition are as follows:

| | **Acquirees carrying amount** | **Fair value(1)** |
|---|---|---|
| | **€'000** | **€'000** |
| Cash and cash equivalents | **44** | **44** |
| Property, plant and equipment (note 17) | **61** | **61** |
| Goodwill | **2,756** | **-** |
| Inventories | **495** | **495** |
| Receivables | **73** | **73** |
| Payables | **(300)** | **(300)** |
| Other non current assets/liabilities | **3** | **3** |
| Net assets | **3,132** | **376** |

(1) fair values have been assessed and it has been determined that there is no significant difference between fair values and book values

| | **€'000** |
|---|---|
| Purchase consideration settled in cash | **3,180** |
| Cash and cash equivalents in subsidiary acquired | **(44)** |
| **Cash outflow on acquisition** | **3,136** |

## 36. Events after the balance sheet date

There have been no significant events affecting the Company since the year end.

**37. Share option scheme**

The Group's share option scheme provides for the granting of options to full time directors and employees of the Group in order to encourage identification with shareholders' interests. Employees of the Group may be granted options at an option price no less than the middle market price of the Company shares on the day prior to the date an employee is invited to accept an option.

The number of options granted under the scheme cannot be more than 10% of the issued share capital of the Company in any ten-year period. No more than 3% of the share capital may be the subject of options in the first year after adoption of the scheme and no more than 4% of the share capital may be the subject of options in the three-year period after such date. An option may not be exercised unless the earnings per share of the Group have increased in the three-year period prior to the date of exercise of the option by an amount equal to the increase in the consumer price index plus 5% compound per annum

There were no options in issue at 31 December 2008.

## 38. Subsidiary undertakings

The principal subsidiary undertakings are:

| Name of subsidiary | % holding | Registered office |
|---|---|---|
| **Incorporated and operating in Ireland** | | |
| Prime Active Capital (Services) Limited | 100% | 2A Sandymount Green<br>Sandymount<br>Dublin 4 |
| **Incorporated and operating in United Kingdom** | | |
| PAC Digimedia Limited | 100% | 1 Angel Court<br>33 Burley Road<br>Leeds LS3 1JT |
| Bell & Bain Limited | 100% | 303 Burnfield Road<br>Thornliebank<br>Glasgow G46 7UQ |
| Top Copy Image Centres Limited | 100% | 1 Angel Court<br>33 Burley Road<br>Leeds LS3 1JT |
| **Incorporated and operating in the United States of America** | | |
| PAC Telemedia, LLC | 100% | C/O The Corporation Service Company<br>2711 Centerville Road<br>Wilmington<br>Delaware 19808<br>USA |
| Cellular Center Holdings, LLC | 95% | C/O National Registered Agents, Inc<br>3675 Crestwood Parkway<br>Duluth<br>Georgia 30096<br>USA |
| Cellular Center, LLC | 95% | C/O National Registered Agents, Inc<br>3675 Crestwood Parkway<br>Duluth<br>Georgia 30096<br>USA |
| Cellular Center GA-AL, LLC | 95% | C/O National Registered Agents, Inc<br>3675 Crestwood Parkway<br>Duluth<br>Georgia 30096<br>USA |

Pursuant to Section 16 of the Companies (Amendment) Act, 1986 a full list of subsidiaries will be annexed to the Company's Annual Return to be filed in the Companies Registration Office in Ireland.

## 39. Related party transactions

Key management personnel are the Board of Directors. Details of the remuneration of Directors are disclosed in note 15 on page 49 of the consolidated financial statements. In addition to Directors remuneration, a charge of €0.813 million has been recognised in the income statement for warrants issued to Mr Peter E. Lynch.

Transactions between Group companies have been eliminated in the consolidated financial statements.

## 40. Approval of financial statements

These financial statements were approved by the Board of Directors on 29 June 2009.

COMPANY BALANCE SHEET
AT 31 DECEMBER 2008

| | Notes | **2008 €'000** | 2007 €'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments in subsidiary undertakings | 1 | **12,803** | 4,829 |
| **Non-current assets** | | | |
| Other investments | 2 | **1,057** | - |
| **Current assets** | | | |
| Trade and other receivables | 3 | **1,040** | 9,522 |
| Cash and cash equivalents | 4 | **32** | 8,193 |
| | | **1,072** | 17,715 |
| **Current liabilities** | | | |
| Trade and other payables | 5 | **62** | 95 |
| Total assets less current liabilities | | **14,870** | 22,449 |
| **Capital and Reserves** | | | |
| Called-up equity share capital | 6 | **11,341** | 11,341 |
| Share premium | 7 | **16,444** | 16,444 |
| Other reserves | 7 | **3,071** | 2,258 |
| Profit and loss account | 7 | **(15,986)** | (7,594) |
| Shareholders' funds | | **14,870** | 22,449 |

P E Lynch Executive Chairman
J Doris Director

**Basis of accounting**
The financial statements are prepared under the historical cost convention. The Company Balance Sheet together with the accompanying notes has been prepared in accordance with accounting standards generally accepted in Ireland and the United Kingdom and with Irish Statute comprising the Companies Acts, 1963 to 2006. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

**Investments**
Investments are initially recognised at the purchase cost of the investment. The carrying value of investments is subsequently adjusted to take account of any impairment which has resulted in the recoverable amount of the investment being lower than the carrying value.

**Foreign currencies**
Transactions in foreign currencies during the year are translated to euro at the rate of exchange ruling at the date of the transaction. Assets and liabilities expressed in foreign currencies are translated to euro at the exchange rate ruling at the balance sheet date except where covered by a forward exchange agreement where the financial rate is used. Differences arising on translation are included in the results for the year.

**Share based payments**
*Warrants*
In accordance with FRS 20, the fair value of the warrants at grant date excluding the impact of non-market conditions is recognised as an expense in the income statement over the vesting period. A corresponding amount is recognised in shareholders' equity as the warrant scheme is designated as an equity-settled share based payment transaction. The fair value of each warrant granted during the year is determined using an option pricing model with assumptions appropriate to each award at the time of grant. A detailed description is outlined in note 32 on page 63 of the consolidated financial statements.

**1. Investments**

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| Investment in subsidiary undertakings at cost. | **12,803** | 4,829 |

The principal subsidiary undertakings are set out in note 38 on page 69 of the consolidated financial statements.

**2. Other investments**

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| At 1 January 2008 | **-** | - |
| Additions | **6,815** | - |
| Impairment | **(5,758)** | - |
| At 31 December 2008 | **1,057** | - |

Other investments consist of the Company's investment in 6.940 million ordinary shares in Media Square plc, representing 21.5% of the issued share capital in that company. Media Square plc is an AIM listed marketing communications group.

**3. Trade and other receivables**

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| (Amounts falling due within one year) | | |
| Amounts owed by subsidiary undertakings | **1,040** | 9,261 |
| Derivative equity instruments | **-** | 261 |
| | **1,040** | 9,522 |

**4. Cash and cash equivalents**

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| Cash at bank and in hand | **24** | 19 |
| Short-term deposits | **8** | 4,743 |
| Restricted cash | **-** | 3,431 |
| | **32** | 8,193 |

Details of short-term deposits are presented in note 23 on page 55 of the consolidated financial statements.

**5. Trade and other payables**

| | **2008** | 2007 |
|---|---|---|
| | **€'000** | €'000 |
| (Amounts falling due within one year) | | |
| Accruals | **62** | 95 |

**6. Called-up share capital**

Details in respect of called-up share capital are presented in note 29 on page 60 of the consolidated financial statements.

**7. Movement on reserves**

| | **2008** | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Share premium €'000** | **Other Reserves €'000** | **Profit and loss account €'000** | Share premium €'000 | Other Reserves €'000 | Profit and loss account €'000 |
| At 1 January | **16,444** | **2,258** | **(7,594)** | 5,950 | - | (4,291) |
| Shares issued during the year | **-** | **-** | **-** | 10,494 | - | - |
| Fair valuation of warrants | **-** | **813** | **-** | - | 2,258 | - |
| Loss for the year | **-** | **-** | **(8,392)** | - | - | (3,303) |
| At 31 December | **16,444** | **3,071** | **(15,986)** | 16,444 | 2,258 | (7,594) |

In accordance with section 148(8) of the Companies Act, 1963 and section 7(1A) of the Companies (Amendment) Act, 1986, the Company is availing of the exemption from presenting its individual profit and loss account to the Annual General Meeting and from filing it with the Registrar of Companies. The Company's loss for the year determined in accordance with Irish GAAP is €8.392 million (2007: €3.303 million).

**8. Approval of financial statements**

These Company financial statements were approved by the Board of Directors on 29 June 2009.

**Registered office**

2A Sandymount Green
Sandymount
Dublin 4

| | |
|---|---|
| Telephone: | 353 1 240 1400 |
| Fax: | 353 1 240 1450 |
| Email: | info@pacplc.ie |
| Website | www.pacplc.ie |

**Registrar and transfer office**

Computershare Investor Services (Ireland) Ltd
Heron House
Corrig Road
Sandyford Industrial Estate
Dublin 18

**Auditors**

PricewaterhouseCoopers
Chartered Accountants
One Spencer Dock
North Wall Quay
Dublin 1

**Stockbrokers**

Davy Stockbrokers
Davy House
49 Dawson Street
Dublin 2

**Solicitors**

Arthur Cox
Earlsfort Centre
Earlsfort Terrace
Dublin 2.

| | IFRS | | | |
|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 |
| | **€'000** | €'000 | €'000 | €'000 |
| **Revenue** | | | | |
| PAC Digimedia – continuing operations | **11,284** | 13,087 | 12,270 | 11,648 |
| PAC Digimedia – discontinued operations | **13,685** | 21,401 | 23,707 | 21,199 |
| PAC Telemedia – continuing operations | **8,816** | 144 | - | - |
| | **33,785** | 34,632 | 35,977 | 32,847 |
| **Operating (loss)/profit** | | | | |
| PAC Digimedia – continuing operations | **(94)** | 1,019 | 1,230 | 1,287 |
| PAC Digimedia – discontinued operations | **429** | 1,556 | 794 | 1,474 |
| PAC Telemedia – continuing operations | **(4,959)** | (158) | - | - |
| | **(4,624)** | 2,417 | 2,024 | 2,761 |
| Centre costs | **(721)** | (1,062) | (1,257) | (1,394) |
| | **(5,345)** | 1,355 | 767 | 1,367 |
| **Group (loss)/profit for the year after tax and exceptional items** | | | | |
| (Loss) after tax - continuing operations | **(12,283)** | (2,840) | 378 | (672) |
| Profit after tax - discontinued operations | **7,387** | 639 | (239) | (6,201) |
| | **(4,896)** | (2,201) | 139 | (6,873) |
| | **€ cent** | € cent | € cent | € cent |
| **(Loss)/earnings per share** | | | | |
| Basic (loss)/earnings per share | **(18.08)** | (12.89) | 0.25 | (12.18) |
| Adjusted (loss)/earnings per share | **(20.79)** | 7.45 | 0.84 | 1.03 |
| | **€'000** | €'000 | €'000 | €'000 |
| **Balance sheet** | | | | |
| Goodwill | **6,472** | 3,149 | - | - |
| Net assets (excluding goodwill and net cash/(debt) | **7,529** | 11,620 | 12,207 | 12,582 |
| Net cash/(debt) | **2,171** | 7,805 | (3,826) | (4,649) |
| Equity interests | **16,172** | 22,574 | 8,381 | 7,933 |
| **Cash flow** | | | | |
| Cash generated from operations | **(4,164)** | 753 | 3,394 | 2,307 |
| Tax paid | **(14)** | (11) | (17) | (91) |
| Net cash flow from operating activities | **(4,178)** | 742 | 3,377 | 2,216 |
| Capital expenditure net of grants received (including leased assets) | **(3,901)** | (1,383) | (1,792) | (4,977) |
| Net interest paid | **(170)** | (294) | (666) | (561) |
| Purchase of available-for-sale financial assets | **(6,815)** | - | - | - |
| Disposal of subsidiary, net of cash disposed | **10,835** | - | - | - |
| Acquisition of subsidiary, net of cash acquired | **(3,136)** | (3,423) | - | - |
| Acquisition of minority interest, direct costs incurred | **(173)** | - | - | - |
| Proceeds from issue of shares | **-** | 16,190 | - | - |
| Proceeds from issue of shares to minority interest | **340** | - | - | - |
| Borrowings disposed of | **2,341** | - | - | - |
| Net cash flow | **(4,857)** | 11,832 | 919 | (3,322) |