Prime Active Capital plc

Preliminary Results

Year ended 31 December 2012

CHAIRMAN'S STATEMENT

In 2012 we saw the full impact of the advent of the latest generation of smartphones. While they deliver tremendous functionality for customers and their utility is remarkable, they are expensive to buy, expensive to hold in inventory, and have required greatly increased subsidies from networks to customers.

The full year impact of this on the company was to see sales revenue increase by 11% on unit sales that fell by over 10%, but to see the cost of sales increase by 28% as gross margin was squeezed from 37% in 2011 to just over 28% in 2012. This took over ”3.7 million out of gross margin, profitability and cash in the year and led directly to the losses in 2012.

At the same time the cost of handsets on average increased by some 30% as the mix continued to develop away from basic phones to the 3G and 4G devices which drove up the investment requirement in inventory.

This was standard across the agent channel and many agents, some our size or larger, were forced out of business, sold into consolidation plays, or collapsed. Where we operate we saw agent doors closing in large numbers, and indeed with some of our less competitive stores, we ourselves closed doors. If customer volumes recover then there should be more business for the agent doors that have survived, but it is still a recovery period so it is difficult to perceive this other than in locations where our better stores have clearly driven competition away.

This was also a year where the cost of upgrades to customers was increased by the networks to encourage them to move onto smartphones or keep their current handsets. The longer that a network customer continues to use their device without receiving a handset subsidy, the more profitable it is for the network to have that customer. If the customer is to upgrade their device, then the objective is to move the customer onto the latest generation smartphone that comes with the greatest data plan opportunity for the network.

This was the year when customers substantially accepted the previous generation of 3G devices as their basic phones, and the networks and early adopter customers moved enthusiastically into 4G devices. We are seeing smartphones as the standard device now, and doubtless 4G will come to be as common in the coming years as 3G is now.

As we commented last year, it is a market where even brand names that were industry standards disappear, and where bringing out a comparable phone to market leaders at a comparable price means nothing to the end-user unless it has some technical advantage or utility that addresses a new multimedia function for the customer.

Having said that, the market is stabilising around a few devices as the technical step change of the last two years becomes the standard customer requirement. This has not led to any particular improvement in gross margin on the handsets, but it has led to volumes recovering to some degree.

We are seeing the gross margin stabilising, albeit at the lower level and we do not expect to see much development in this on the mainstream handsets.

The agents are caught between the networks and a few very large manufacturers with proprietorial operating systems and it is the networks and manufacturers that have the commercial advantage. Other brands, like the Nokia, Blackberry and Microsoft platform handsets are making very little headway in our customer base in the USA.

There was a massive credit squeeze in the market from suppliers who found they had supplied agents that could not pay them and they were hit with bad debts as agents were unable to survive on the margins they earned. This had a knock-on effect to all agents, including ourselves, and supplier credit just about halved in the year, with some large suppliers also disappearing. This led to a severe squeeze on inventory and agents got to a position that they could not even supply customer demand as they were unable to pay for devices. This is now stabilising and supplier credit is building back in to the market. The upshot of these pressures has been to make the surviving agents much more efficient in their handling and management of inventory.

We launched new activities towards the end of 2012 and these have improved gross margin since their inception, though they came into place too late in 2012 to make any material difference in that year. One business buys and sells recycled devices, partly through the internet, and we are increasing our trade-in business across the counters in our stores. This allows us to give customers a relatively inexpensive way into an upgraded handset, increases customer loyalty, and gives us a sales opportunity on the disposal of the acquired device. Another activity is to provide replacement devices and ancillary activities for customers that have had their handsets lost, broken or stolen.

Both activities are trading profitably, are increasing in scale and are helping rebuild gross margin to a sustainable level. While the new business activities also have working capital requirements these are relatively minor compared to the needs of the stores, though it may be that trade-ins become much more of a core activity.

The Board considered the working capital requirements of the Group and available finance lines and concluded that the interests of shareholders were best served by contracting a short term working capital loan to facilitate the business trading through its current period. To that end the Group was facilitated with loans from the current directors, as announced on the 8th May, 2013, primarily to provide working capital. As part of the loan agreement the Board was strengthened by additional members with additional experience in marketing and trading.

Closing comments

The USA business environment continues to improve and while at times the trading improvements are fitful, and consumers are cautious, there is still a perceptible upward trend. Last year it was noted that consumers were holding onto their devices longer, and that was being encouraged by the networks where there was no value to be derived from an upgrade. This year this is still part of the environment, but a large secondary market has appeared as early adopters come off the initial 3G devices and these become available at reasonable prices in the secondary market.

These customers are still adopting data plans with the networks which is good for that business model, but they are also making a significant investment in their handsets which is a great base for add on activities like accessories, replacement services and a trade-in business.

As described in the Directorsqreport, the current environment where the gross margin remains low, is a challenging one for the Group, and led to the operating loss for the year. The Directors consider that the outlook continues to present considerable challenges on volumes and margins and while the company created new business opportunities still the overall market is one where uncertainty remains over future trading results.

However we have traded through the severe market squeeze now, and we have moved to a situation where we are within terms on all suppliers and they are rebuilding their trade with the Group. It was a difficult year but with sales recovering, overheads considerably reduced, some improvement to the margin and better performance across the stores we are expecting to continue the recovery of the Group.

Peter E. Lynch

Executive Chairman

27 June 2013

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FINANCIAL REVIEW

Overview of results

Summary financial information

	2012	2011
	€’000	”¢000
Continuing and discontinued operations		
Revenue	**41,199**	37,004
Operating expenses (excluding exceptional costs, depreciation, amortisation and other gains)	**(43,355)**	(37,603)
Earnings before interest, tax, depreciation and amortisation expense (EBITDA), exceptional costs, other income and other gains	**(2,154)**	(599)
Depreciation and amortisation	**(537)**	(435)
Adjusted earnings before interest, tax (EBIT) and exceptional costs	**(2,691)**	(1,034)
Other income	**94**	68
Other losses	**(101)**	(145)
Exceptional costs	**-**	(1,507)
Net finance costs	**(60)**	(59)
Loss before tax	**(2,758)**	(2,677)
Income tax credit/(charge)	**(10)**	41
Loss for the year	**(2,768)**	(2,636)
Loss attributable to non-controlling interest	**44**	64
Loss for the year attributable to members	**(2,724)**	(2,572)
	€ cent	” cent
Basic and diluted loss per share	**(12.01)**	(11.34)

Total Group Revenue

The Group¢s operations consist of its PAC Telemedia division operating in the USA. Group revenue in 2012 amounted to ” 41.199 million, an 11.3% increase from the previous year. On a constant currency basis revenue increased 2.8%.

The results of the PAC Telemedia division for the past three years are summarised as follows:

	2012	2011	2010
	€'000	”¢000	”¢000
PAC Telemedia			
Revenue	**41,199**	37,004	36,559
Operating expense[(1)]	**(42,743)**	(36,258)	(35,066)
EBITDA	**(1,544)**	746	1,493
Depreciation, amortisation and other grants[(1)]	**(527)**	(423)	(308)
EBIT	**(2,071)**	323	1,185

(1) excludes unallocated corporate costs of the Group and exceptional costs.

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 ”2.691 million in 2012, compared to a loss of ”1.034 million in the previous year.

Other income

The Group recognised a gain of ”0.094 million (2011: ”0.068 million) as a result of an effective interest adjustment to its other loans and receivables balance. Other loans and receivables consisted of the Group¢s remaining investment in 950 million redeemable shares in Bell & Bain Limited, following the receipt of the first and interim redemption repayments during the year. The shares were issued in settlement of a loan due to another subsidiary in the Group and were redeemable in instalments up to the third anniversary of the sale, which took place on 25 November 2009. These shares were redeemed in full during the year.

Other losses

Other losses of ”0.101million (2011: ”0.145 million loss) consist of foreign exchange losses that have arisen on the retranslation of inter-company loan balances held with foreign subsidiaries and a loan note held in sterling by the parent company.

Net financial expense

The net financial expense for the year was ” 0.060 million compared to ” 0.059 million in 2011. The charge arose mainly in respect of interest costs on a loan note issued by the Group in February 2010 and interest costs on asset finance balances in the US operations.

Non-controlling interest

The non-controlling interest share of loss after tax for 2012 amounted to ” 0.044 million (2011: (” 0.064 million). The non-controlling interest relates to shareholdings held in Cellular Center Holdings.

Earnings per share

The adjusted fully diluted loss per share for 2012 is 12.01 cent as compared with adjusted loss per share of 4.70 cent in 2011. Adjusted loss per share excludes exceptional costs and the results from discontinued operations in both 2012 and 2011. Fully diluted loss per share, before such adjustments, amounted to 12.01 cent in 2012 compared to a loss of 11.34 cent in 2011.

Cash flow

At the 31 December 2012 the Group had cash and cash equivalents of ” 0.524 million compared to cash and cash equivalents of ” 0.723 million at 31 December 2011.

Outflows in the year included payments totalling ” 0.752 million (2011: ” 0.911 million in respect of capital expenditure of which the entire amount (2011: ” 0.911 million) was for PAC Telemedia. Funding for capital expenditure in PAC Telemedia was partly provided by asset finance agreements, ” 0.413 million (2011: ” 0.018 million). All other capital expenditure was funded from existing resources.

The expected final retention monies of ” 1.172 million (2011: ” 0.463 million) relating to the 2009 disposal of the remaining operating company within the PAC Digimedia division were received in 2012.

The table below summarises the cash flow for the year.[1]

	2012	2011
	€’000	” '000
Operating loss before other losses	**(2,692)**	(2,891)
Depreciation	**537**	435
Available-for-sale financial assets impairment charge	**-**	547
Goodwill impairment charge	**-**	1,310
Loss on disposal of property, plant and equipment	**4**	-
Net working capital including pension movement	**1,591**	(280)

Cash outflow from operations[2]	**(560)**	(879)
Tax paid[2]	**(8)**	(7)
Capital expenditure net of proceeds from disposals[2]	**(752)**	(911)
Net interest paid[3]	**(60)**	(57)
Free cash flow	**(1,380)**	(1,854)
Disposal of subsidiary, net of cash disposed of[2]	**1,172**	463
Net cash outflow	**(208)**	(1,391)
Opening cash and cash equivalents	**723**	2,187
Effect of exchange rate changes	**9**	(73)
Closing cash and cash equivalents	**524**	723

(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

(2) as per the consolidated cash flow statement on page 24 of the consolidated financial statements

(3) net interest paid comprises interest received of ” 0.002 million, interest paid of ” 0.060 million and finance lease interest paid of ” 0.003 million

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Pre-exceptionals	**Exceptionals**	**Total**	Pre-exceptionals	Exceptionals	Total
	2012	**2012**	**2012**	2011	2011	2011
Continuing operations	**€'000**	**€'000**	**€'000**	” ф00	” ф00	” ф00
Revenue	**41,199**	**-**	**41,199**	37,004	-	37,004
Cost of sales	**(29,622)**	**-**	**(29,622)**	(23,220)	-	(23,220)
Gross profit	**11,577**	**-**	**11,577**	13,784	-	13,784
Selling and Distribution costs	**(11,091)**	**-**	**(11,091)**	(10,501)	-	(10,501)
Administration expenses	**(3,177)**	**-**	**(3,177)**	(4,317)	(1,857)	(6,174)
Other (losses)/gains	**(101)**	**-**	**(101)**	(145)	350	205
Operating loss	**(2,792)**	**-**	**(2,792)**	(1,179)	(1,507)	(2,686)
Finance costs	**(62)**	**-**	**(62)**	(115)	-	(115)
Finance income	**2**	**-**	**2**	56	-	56
Loss before tax	**(2,852)**	**-**	**(2,852)**	(1,238)	(1,507)	(2,745)
Income tax (charge)/credit	**(10)**	**-**	**(10)**	41	-	41
Loss for the year from continuing operations	**(2,862)**	**-**	**(2,862)**	(1,197)	(1,507)	(2,704)
Discontinued operations						
Profit for the year from						
discontinued operations						
after tax			**94**			68
Loss for the year			**(2,768)**			(2,636)

Attributable to:

Equity shareholders	**(2,724)**	(2,572)
Non-controlling interest	**(44)**	(64)
	(2,768)	(2,636)

	2012	2011
	€ cent	” cent
Loss per share		
From continuing operations		
- Basic and diluted	**(12.42)**	(11.64)
Earnings per share		
From discontinued operations		
- Basic and diluted	**0.41**	0.30
Loss per share		
From continuing and discontinued operations		
- Basic and diluted	**(12.01)**	(11.34)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	€'000	” '000
Loss for the year	**(2,768)**	(2,636)
Other comprehensive income/(expense):		
Actuarial loss on defined benefit pension plan	**-**	(97)
Exchange movement	**(8)**	233

Total comprehensive expense for the year	**(2,776)**	(2,500)

Attributable to:		
Equity holders of the Company	**(2,732)**	(2,435)
Non-controlling interest	**(44)**	(65)
	(2,776)	(2,500)

Items in the statement above are disclosed net of tax.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	2012	2011
	€'000	" '000
Assets		
Current assets		
Inventories	**1,096**	2,574
Trade and other receivables	**3,797**	4,069
Cash and cash equivalents	**524**	723
Other loans and receivables	**-**	1,043
	5,417	8,409
Non-current assets		
Property, plant and equipment	**2,054**	1,884
Intangible assets	**7,438**	7,585
	9,492	9,469
Total assets	**14,909**	17,878
Liabilities		
Current liabilities		

Trade and other payables	**7,017**	7,157
Current income tax liabilities	**1**	-
Borrowings	**638**	635
Provisions for other liabilities and charges	**624**	705
	8,280	8,497
Non-current liabilities		
Borrowings	**67**	43
	67	43
Total liabilities	**8,347**	8,540
Net assets	**6,562**	9,338
Equity		
Ordinary shares	**11,341**	11,341
Share premium	**16,444**	16,444
Other reserves	**2,523**	2,532
Retained earnings	**(23,777)**	(21,054)
Non-controlling interest	**31**	75
Total equity	**6,562**	9,338

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Share Capital	Share premium reserve	Other Reserves	Retained Earnings	Total attributable to shareholders	Non-controlling Interest	Total Equity
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Balance at 1 January 2012	**11,341**	**16,444**	**2,532**	**(21,054)**	**9,263**	**75**	**9,338**
Comprehensive income:							
Loss for year	**-**	**-**	**-**	**(2,724)**	**(2,724)**	**(44)**	**(2,768)**
Other comprehensive income:							
Exchange movement	**-**	**-**	**(9)**	**1**	**(8)**	**-**	**(8)**
Total comprehensive income	**-**	**-**	**(9)**	**(2,723)**	**(2,732)**	**(44)**	**(2,776)**
Transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2012	**11,341**	**16,444**	**2,523**	**(23,777)**	**6,531**	**31**	**6,562**

	Share Capital	Share premium reserve	Other Reserves	Retained Earnings	Total attributable to shareholders	Non-controlling Interest	Total Equity
	” '000	” '000	” '000	” '000	” '000	” '000	” '000
Balance at 1 January 2011	11,341	16,444	2,298	(18,385)	11,698	140	11,838
Comprehensive income:							
Loss for year	-	-	-	(2,572)	(2,572)	(64)	(2,636)
Other comprehensive income:							
Available-for-sale financial assets							
- reclassification to profit or loss	-	-	-	-	-	-	-
Actuarial loss on defined benefit							
pension plan	-	-	-	(97)	(97)	-	(97)
Exchange movement	-	-	234	-	234	(1)	233
Total comprehensive income	-	-	234	(2,669)	(2,435)	(65)	(2,500)

Transactions with owners	-	-	-	-	-	-	-
Balance at 31 December 2011	11,341	16,444	2,532	(21,054)	9,263	75	9,338

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	€'000	" '000
Operating activities		
Cash absorbed from operations	**(560)**	(879)
Tax paid	**(8)**	(7)
Net cash outflow from operating activities	**(568)**	(886)
Investing activities		
Purchase of property, plant and equipment	**(752)**	(911)
Disposal of subsidiary, net of cash disposed of	**1,172**	463
Net cash inflow/(outflow) from investing activities	**420**	(448)
Financing activities		
Proceeds from borrowings	**570**	-
Repayment of borrowings	**(527)**	-
Capital element of asset finance payments	**(25)**	(21)
Net interest paid	**(57)**	(53)
Finance lease interest	**(3)**	(4)
Net cash outflow from financing activities	**(42)**	(78)

Net decrease in cash and cash equivalents	**(190)**	(1,412)
Cash and cash equivalents at 1 January	**723**	2,187
Effect of exchange rate changes	**(9)**	(52)
Cash and cash equivalents at 31 December	**524**	723

1. Basis of preparation

The financial information included in this preliminary result statement has been extracted from the Group's financial statements for the year ended 31 December 2012 2012 and is prepared based on the accounting policies set out therein. As permitted by EU law and in accordance with AIM / ESM rules, the Group financial statements have been prepared in accordance with International Financial Reporting Standards and their interpretations issued by the International Accounting Standards Board as adopted by the EU. The Group Financial Statements were approved by the directors on 27 June 2013 and will be filed with the Irish Registrar of Companies and circulated to shareholders in due course.

2. Exceptional Items

	2012	2011
Continuing operations	**€'000**	" '000
Goodwill impairment[(1)]	**-**	1,310
Impairment charge on available-for-sale financial asset[(2)]	**-**	547
Settlement gain recognised on defined benefit plan[(3)]	**-**	(350)
	-	1,507

(1) the Group recognised an impairment charge of " 1.310 million in 2011 as a result of an impairment review undertaken in accordance with IAS 36 against the goodwill allocated to the Cellular Center Holdings CGU.

(2) the impairment charge represents the write down in full of the remaining value of the Group¢s interest in Media Square plc in 2011 following the announcement that this Group had suspended trading on 8 December 2011. The charge consists of " 0.663 million fair value loss, " 0.005 million foreign currency gain arising in 2011 and " 0.111 million foreign currency gain, previously recognised in other comprehensive income relating to this asset, reclassified from equity to profit or loss.

(3) the Group recognised a settlement gain of " 0.350 million in 2011 as a result of the change in the fair value of plan assets and the present value of the plan obligation on the wind-up of its defined benefit pension plan.

3. Expenses

	2012	2011
Continuing operations	**€'000**	” '000
Employee benefit expense	**8,475**	9,352
Material cost of inventories consumed (included within cost of sales)	**29,622**	23,220
Depreciation of property, plant and equipment		
- Included in administration expenses	**537**	435
Services provided by the Group's Auditors	**78**	118
Operating lease rentals - property	**2,418**	2,237
Inventory provision	**161**	35
Goodwill impairment	**-**	1,310
Impairment of available-for-sale-financial asset	**-**	547
Settlement gain recognised on defined benefit scheme	**-**	(350)
Other selling and distribution and administrative expenses	**2,599**	2,641
Other losses	**101**	145
	43,991	39,690

4. Events after the Reporting Period

The Group announced on 8 May 2013 that it has entered into a £1.000 million Sterling (” 1.225 million) loan facility from Mosaic Print Management Limited ("Mosaic"), a UK company owned by Mr Anthony Gill (a significant shareholder in PAC) and Mr Stephen Smith. The purpose of this loan facility is to provide a short term working capital loan to facilitate the business trading through its current period. The loan from Mosaic is repayable on 2 May 2014 and carries a 15% coupon with monthly interest payments. The loan is secured on certain of the US subsidiaries of PAC. As part of the terms of the New Loan Facility, Mr Anthony Gill and Mr Stephen Smith joined the board as non-executive directors in May 2013. Mr Stephen Smith will step-down from the board upon repayment of the loan facility.

On the 21 March 2013 Mr Peter E. Lynch advanced a further ” 0.025 million taking his loan to the Group to ” 0.125 million. A repayment schedule has been agreed with Mr. Lynch under which the loan will be repaid in monthly instalments from 1 July 2013 with the last repayment in May 2014.

At 31 December 2012 the balance of a separate loan note relating to Mr. Anthony Gill, including accrued interest payable, was ” 0.283 million (2011: ” 0.611 million). Please refer to note 26 on page 49. An amended repayment schedule was agreed with Mr. Gill in June 2013, under which the loan note will be repaid in monthly instalments from 1 June 2013, with the final repayment being made in May 2014.

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