

To Torex Retail Shareholders

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Torex Retail Plc

The shares of Torex Retail were suspended from trading in January of this year, following a profits warning. The market price when they were suspended was 41 pence. Suspension means that you cannot sell your shares in the stock market. In addition the London Stock Exchange announced an inquiry related to announcements that the company had issued and soon after the Serious Fraud Office (SFO) stated that they were also investigating the affairs of the Company.

Subsequently the Company revealed that they were undertaking a "strategic review" which most commentators interpreted as implying that the directors were looking for a buyer for all or part of the business. With the company having in excess of £200 million of debt, it would seem that the directors might be under some pressure to reduce that figure.

But the UK Shareholders Association (UKSA) believes that it is unlikely to be in the interests of ordinary shareholders to look for a quick disposal – effectively a "fire sale" of the company as that is unlikely to maximise the value that can be obtained. Will shareholders recoup their investment in the shares of this company if that happens? That is the key question.

More recently there have been articles in the national press suggesting that the company has received a number of bids, and the company was confident of selling the business as a whole rather than it being split up. The company has still not published its full year figures (to the end of December 2006) although a number of accounting firms now seem to be involved in the business. But profits are rumoured to be substantially lower than forecast with a number of exceptional write-offs.

Does that give us any hint as to what shareholders might see from any disposal?

A calculation of the possible valuation of the business is as follows:

Last brokers forecasts were (before the problems arose): Revenue of about £300m for 2007, pre-tax profit of about £46m (say post tax £30m, equivalent to eps of 7p on 414m shares in issue).

Debts of £200m (but cash out running at maybe £5m per month)

Possible minimal valuation: £300m if you assume that such businesses are rarely sold for much less than one times revenue even when loss making, so after debt repayment that's £100m or 25p per share (p/e 10, revenue x 1).

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But in reality for a trade sale a p/e of 15 might be achievable for a debt-free, stable and healthy business, ie. £450m giving 60p per share, which demonstrates why any forced or rushed sale is not likely to be in the best interests of shareholders.

If a disposal of the trading assets of the business takes place, any cash received is likely to be used to repay the bank debt and bondholders, and it is possible the company would then be put into liquidation. This would result in an extended period before ordinary shareholders see any return, and clearly the return might well be less than most shareholders paid for their shares and possibly less than that at which they were suspended (41p).

Will shareholders get a vote on any such disposal? It is not clear but we are trying to ensure that you do. UKSA has formed a committee of Torex shareholders to represent your interests and we will be making representations to the board of the company and have already spoken to the Chairman.

We will also try to keep you informed on this matter and updates will be posted on the following page of the UKSA web site: www.uksa.org.uk/Torex.htm

If you have any questions or comments on this matter, please contact me by phone or email (contact addresses given below).

Yours sincerely

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