

## The changing face of UK broadcast entertainment

The Klondike rush to independent producers in early 2000 went the same way as everything else associated with the hype surrounding new millennium, new technology, new paradigm.

More recently however we have seen changes in three areas which re-awaken some of that early promise – albeit from a more chastened but realistic perspective.

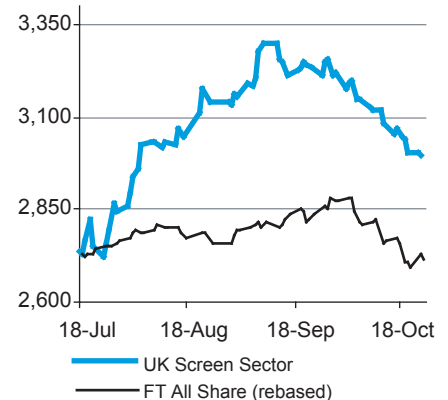
The UK regulatory environment is undergoing major change as the country switches from analogue to digital by 2012 at the latest. The change throws into question the funding of public service broadcasting and heralds a significant increase in budgets allocated to independent producers

Technology is finally catching up on some of the promises made in the late 1990s. 3G roll-out is finally underway, broadband speeds are rising and costs are falling. The combination is finally attractive to a growing number of households and individuals.

That greater attraction is evident now in the accelerating penetration of new, higher bandwidth delivery systems for entertainment. That in turn both reflects and drives a demographic trend now evident towards home and personal entertainment taking a rising share of household disposable income at the expense of more traditional forms of entertainment such as cinema and the theatre.

In the following pages we rehearse the data and arguments which underpin this sea change and we provide brief “thumbnail” sketches of some of the companies involved in developing this brave new world of opportunity. As the demographics evolve further we expect to see both organic growth and consolidation as small companies seek economies of scale while others succumb to the almost inevitable attentions of their larger, more traditional counterparts.

UK Screen sector v. FT All share (rebased)



### Companies included in this sector

| Company                  | Symbol | Recent Price (p) |
|--------------------------|--------|------------------|
| Apace Media              | APA    | 0.8              |
| Bango                    | BGO    | 198.0            |
| 198.0Cellcast TV         | CLTV   | 60.5             |
| Chorion                  | COR    | 316.4            |
| Content Film             | CFL    | 2.3              |
| Coolabi                  | COO    | 3.5              |
| Digital Classics         | DTC    | 0.7              |
| Elcom                    | EIC    | 0.5              |
| Entertainment Rights     | ERT    | 25.0             |
| Intandem Films           | IFM    | 3.3              |
| Investinmedia            | IVM    | 80.3             |
| Maverick Entertainment   | MVK    | 0.3              |
| Metrodome                | MRM    | 3.0              |
| Monsternob               | MOB    | 374.0            |
| Motive Television        | MTV    | 2.0              |
| Optimistic Entertainment | OEP    | 67.0             |
| Parallel Media Grp       | PAA    | 3.0              |
| Pilat Media Global       | PGB    | 44.6             |
| Pinewood-Shepperton      | PWS    | 156.5            |
| RDF Media                | RDF    | 157.0            |
| Seven Arts               | SVA    | 14.3             |
| Talent Group             | TTV    | 18.0             |
| Television Corp          | TCP    | 67.0             |
| Ten Alps                 | TAL    | 45.3             |
| Tinopolis                | TIN    | 52.5             |
| TV Commerce              | TVC    | 4.5              |
| Works Media Grp          | WKS    | 7.5              |
| Yoomedia                 | YOO    | 7.3              |

**Analyst:** Andy Hartwill

**Email:** andy@objectivecapital.co.uk

### Objective Capital Limited

2nd floor, 145 St. John St.  
London EC1V 4PY

Tel: +44-(0)870-080-2965

Fax: +44-(0)870-116-0839

editor@objectivecapital.com

Corporate: [www.ObjectiveCapital.com](http://www.ObjectiveCapital.com)

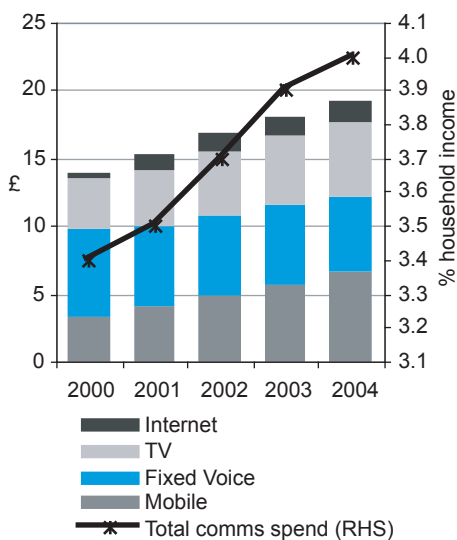
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## The changing face of UK broadcast entertainment.

In the beginning was the word. And the word was BBC. In fact it was the sound of Duke Ellington in August 1936 which heralded the dawn of public service broadcasting (PSB) in the UK. Since that first transmission the number of national terrestrial channels (with PSB obligations) has risen to five, satellite channels have proliferated and digital TV is projected to replace analogue TV by around the end of the decade. Add to that the arrival of broadband services and advances in mobile technology and it is not hard to understand the revolution underway in the opportunities for “content delivery”.

With those opportunities however come significant challenges for programme makers, broadcasters and other distributors of content. In the UK, the Communications Act of 2003 established OFCOM as the single regulatory body with responsibility to determine and implement changes in the regulatory framework governing the industry. In July 2005 it published “The Ofcom Broadcast Code” following extensive consultation. In addition the BBC Charter Review is underway. The combination will bring significant change to the shape of the broadcast industry in general and to the origination of content in particular. It is the latter on which we wish briefly to focus this month.

### Avg. weekly household com. spend



Source: OFCOM

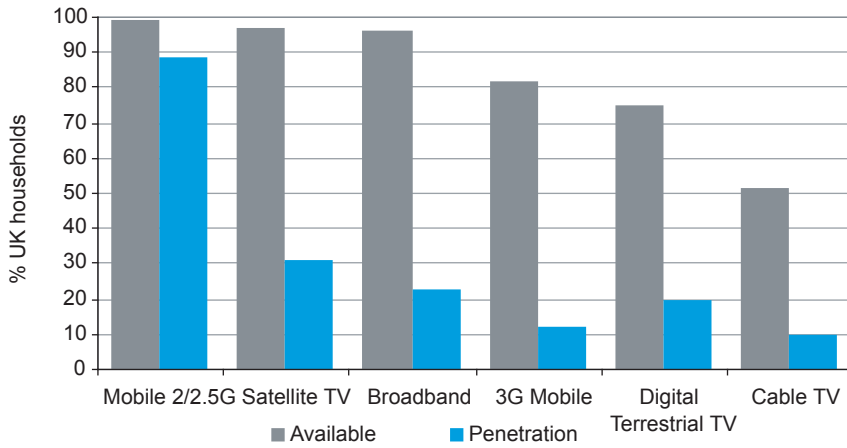
## The shifting dynamics of demand and delivery.

UK households have been accelerating their spend on communication services in recent years. The growth in demand for all communication services, including TV, rose to some 4% of household income in 2004 – roughly a 20% increase since 2000. Over the same period, gross disposable income rose by some 19%. In other words the annualised growth in spend on all communications was, we estimate, almost 9% taking the annual total to some £20bn. We expect recent data to confirm the trend albeit at a slower rate.

While the growth in and size of total spend is impressive, of at least equal importance is the changing composition of that spend. The chart to the left shows that the proportion of household income spent on Internet and Mobile services grew at 41% and 18% pa respectively over the same period. Spend on TV averaged 10% and the loser was fixed line telephony, shrinking at 3% pa. We believe that the acceleration in growth for such services is likely to continue, not least given the still relatively low penetration rates.

The availability of digital services in general is already high throughout the UK. Digital TV availability and penetration will trend towards 100% between now and 2012 as the UK broadcast system switches over to purely digital transmission. Penetration otherwise, with the exception of mobile 2G/ 2.5G, remain low reflecting, for the most part, the relative youth of the technologies. We expect penetration rates to increase generally as the technologies advance and prices ease.

## Digital service adoption (Q1 2005)



The obvious exception is Satellite TV where penetration rates appear to have hit something of a ceiling at around 30% over the last three years. That number may be considered low and vulnerable given the time that the service has been available. It is significant in our opinion that SKY has recently joined the “free to air” offerings of digital TV, albeit that it may view the development as an opportunity to migrate subscribers onto its full service.

The three charts to the right provide details of the recent growth in what we believe to be the most critical components of the communications revolution.

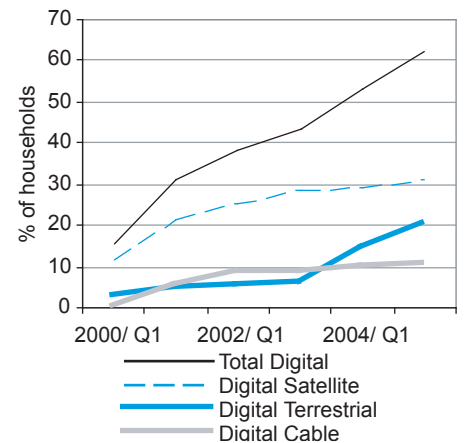
The rapid rise in the penetration of digital TV was driven initially by Satellite and Cable systems. Since 2003 however the acceleration has come principally from Digital Terrestrial TV (“Freeview”). In the future we expect digital TV over broadband to become a more significant component in the mix.

Latest data shows that Broadband has overtaken Narrowband (dial-up) in the number of UK internet subscriptions (see chart to the right). As bandwidth expands and costs fall further we expect Broadband to represent the driving force behind increasing internet.

The last chart shows the growth in retail revenues – probably the most reliable indicator of industry prospects given the already high availability and penetration rates (see above). Mobile telephony overtook Fixed revenues in 2003 and, again, we expect that pattern to continue. After a halting start we also expect growth in 3G services.

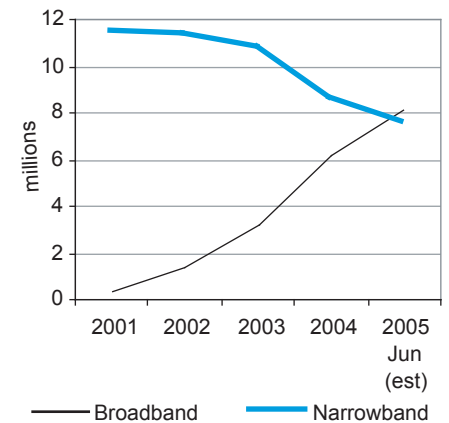
This evidence suggests to us that demand for communication services is set to track at least the growth in household incomes. More likely will be inclusion of a substitution multiplier as consumers choose these media for the delivery of their entertainment and lifestyle choices in preference to more traditional methods – such as going to the theatre/ cinema. Anecdotal evidence suggests that the com-

## Digital TV household penetration



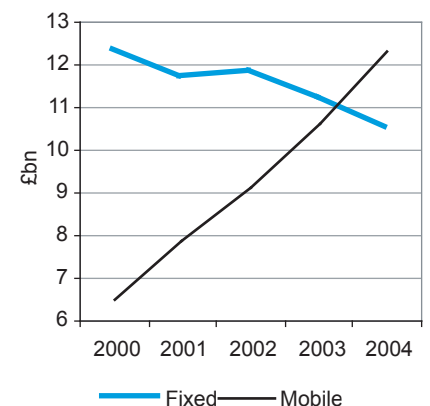
Source: OFCOM

## UK Internet subscriptions



Source: OFCOM

## UK telecoms industry retail revenues



Source: OFCOM

bination of high speed broadband and 3G mobile telephony, where available, has already “spoiled” the box office takings of at least one major film release. Such challenges are only going to increase and lead to changes in the shape of content origination, as well as the distribution mechanisms we have discussed here.

### **The changing shape of content origination**

The main thrust of regulatory changes, for the purposes of this article, is the acceleration of the trend away from in-house production by the broadcasters and towards independent production.

OFCOM has estimated that the major UK TV channels spent a total of £4.7bn on programming (content) in 2004. Of that, some £3bn was spent on Commissions (productions, whether in-house or by independents). Both numbers have grown annually by around 3% since 1999. Within the numbers there has been a shift to network production (+3% annually) i.e., for national broadcast, as opposed to regional production (down 4% annually).

Perhaps of most interest for the independent (“indie”) sector is the total budget for and growth of “first run originations” (new productions). The major UK TV channels spent some £2.6bn on such in 2004 (OFCOM est), a budget which has grown at some 4% annually over the last five years. But over the same period the growth rates for BBC digital and other “multi-channel” spend was 40% and 18% respectively. Another reflection of the response to new technologies.

The real prize for the indie sector however lies in the split currently between internal and external commissions. Across the major UK channels “indie” productions accounted for 42% of 2004 originations spend (OFCOM est). But that conceals major imbalances between the channels. Channels 4 and 5 and the multi-channels (excluding the BBC) devote 100% of their budget to the indies – as required by their charters. However they represents only some 28% of the total (about £750m, OC estimates).

By far the greatest opportunity for indies lies in expanding the proportion of external commissions at BBC1, BBC2, ITV1 and BBC digital. In 2004 indies represented less than 30% of the production budgets of these majors who, between them, spent almost £2bn on original productions with less than one third going to external commissions. Many observers expect that proportion to rise as the recently published OFCOM Broadcasting Code takes increasing effect and directly with the conclusion of the BBC Charter Review. One possible growth scenario for the indie sector revenues is shown in the table on the next page. Note that this is not a forecast.

We have used approximate numbers for the 2004 breakdowns and applied the 1999/ 2004 CAGRs for the period 2004/ 2010. The exception is BBC “multi” (ie digital) where we believe that historic growth rates are unlikely to obtain. On those illustrations, revenues to the “indie” sector could rise to £2.5bn in 2010 (CAGR of 11%) driven by the increasing penetration of indies into BBC1/ BB2, ITV1 and BBC multi.

The final feature of note which characterises the “indie” sector is the high degree of fragmentation. In a recent survey of the sector, OFCOM had responses from almost 160 production houses around the UK. Of those, and unsurprisingly, the majority by number were inside the M25 and represented some 85% of reported turnover for the “indie” sector. Of much greater interest is the dispersal in size. Of the 160 respondents only 3 had production turnover in excess of £50m and 13 had over £20m. Fully 110 had turnover of less than £4m.

As with other industries, it seems to us reasonable to anticipate a consolidation, if only as protection against the chill winds blowing from the East. After all if Hollywood blockbusters can be streamed to cell-phones in Korea, why not the next production of *Jane Eyre*?

### How to play the “indie” game?

So far we believe that we have demonstrated the significant opportunities for the “indie” sector. They arise from a combination of technological and regulatory change. Those changes in turn are intimately associated with the changing demographics of UK society, in particular the way we use our increasingly pressured leisure time.

In our opinion the opportunities for investors fall broadly into two areas, the potential organic growth in demand and the possible consolidation of a heavily fragmented sector: We have compiled a list (see over) of companies currently listed on the LSE and which are active in different aspects of the business space. They range from indies through the generators/ facilitators of mobile content to suppliers of software to the broadcast industry. We have also included those with ownership of intellectual property (libraries of titles) as one of the ingredients to the mix. And we have included speciality investment companies targeting TV and film production as a potential proxy for the activity we anticipate. That activity should also include new listings at various levels of the LSE as private companies seek new sources of funding to stay in the game. We have excluded companies with market caps over £200m and most fall below £20m.

### Poss. growth scenario for indie sector

| £m                      | 2004     | CAGR | 2010    |
|-------------------------|----------|------|---------|
|                         | 1999/ 04 |      |         |
| <b>100% penetration</b> |          |      |         |
| Ch4                     | 390      | 1    | 414.0   |
| Five                    | 120      | 2    | 135.1   |
| S4C                     | 110      | 0    | 110.0   |
| Multi-ch (ex BBC)       | 130      | 18   | 350.9   |
|                         | 750      | 5%   | 1010    |
| <b>BBC1</b>             |          |      |         |
| Total £m                | 780      | 4    | 987     |
| Pen'n %                 | 25       |      | 50      |
| Indie £m                | 195      | 17%  | 493.5   |
| <b>BBC2</b>             |          |      |         |
| Total £m                | 350      | 4    | 443     |
| Pen'n %                 | 25       |      | 50      |
| Indie £m                | 87.5     | 17%  | 221.4   |
| <b>ITV1</b>             |          |      |         |
| Total £m                | 780      | 0    | 780     |
| Pen'n %                 | 27       |      | 50      |
| Indie £m                | 210.6    | 11%  | 390.0   |
| <b>BBC multi</b>        |          |      |         |
| Total £m                | 280      | 20   | 836     |
| Pen'n %                 | 27       |      | 50      |
| Indie £m                | 75.6     | 33%  | 418.0   |
| <b>Indie totals</b>     |          |      |         |
| Already 100%            | 750      | 5%   | 1,010.1 |
| Exp'g pen'n             | 568.7    | 18%  | 1,522.9 |
|                         | 1318.7   | 11%  | 2,533.0 |

Source: Object Capital estimates

## LSE-listed companies operating in entertainment content provision market

| Principal business area                              | Company             | Code | Recent Price (p) | Mkt cap (£m) | Comment  |
|--|---------------------|------|------------------|--------------|--|
| <b>Intellectual Property Ownership/ Exploitation</b> | Apace Media         | APA  | 0.8              | 6.3          | Creation/ distribution/ exploitation of intellectual property. Planning expansion in Central and Eastern Europe.         |
|  | Entertnmnt. Rights  | ERT  | 25.0             | 104.4        | Properties incl. <i>Postman Pat &amp; Basil Brush</i> . Has animation studio.  |
|  | Content Film        | CFL  | 2.3              | 3.7          | Stopped production. Focus on film/ TV sales, exploitation of library   |
|  | Maverick Ent.       | MVK  | 0.3              | 1.5          | Specialises in children's IPR. Properties include <i>Muffin the Mule</i> .   |
| <b>Indie Film/ TV production/ distribution</b>       | Pinewood-Shepperton | PWS  | 156.5            | 72.6         | Based on UK film studios.  |
|  | Television Corp     | TCP  | 67.0             | 28.1         | Productions include <i>Question Time</i> and <i>Channel5 Football</i> . Children's drama series soon to screen on CBBC   |
|  | Talent Group        | TTV  | 18.0             | 3.2          | Productions include <i>Test The Nation</i> - BBC quiz show.  |
|  | Coolabi             | COO  | 3.5              | 2.0          | Formerly Alibi Communications. Productions include <i>The Safe House</i> and <i>The Inspector Banks Mysteries</i> .      |
|  | Elcom               | EIC  | 0.5              | 2.5          | Previously the Einstein Group. Science and Technology channel in Germany/ Switzerland.                                   |
|  | Metrodome           | MRM  | 3.0              | 2.5          | Productions include <i>Death of Richard Nixon; My Little Pony</i>  |
|  | Parallel Media Grp  | PAA  | 3.0              | 1.4          | Specialises in golf tournaments. Provides golf coverage for CNBC   |
|  | Seven Arts          | SVA  | 14.3             | 2.0          | Own label video distribution. Recent results "disappointing".  |
|  | Tinopolis           | TIN  | 52.5             | 12.6         | Productions for S4C, the Welsh version of Channel4.  |
|  | TV Commerce         | TVC  | 4.5              | 2.9          | Provides two Sky channels including The Advert Channel. Moving into mobile content.                                      |
|  | Chorion             | COR  | 316.4            | 81.2         | IPR-based programming. Properties include <i>Noddy, Mr Men, Agatha Christie</i> and <i>Raymond Chandler</i> .            |
|  | RDF Media           | RDF  | 157.0            | 53.6         | Productions include <i>Wife Swap</i> and <i>Holiday Showdown</i> .   |
|  | Ten Alps            | TAL  | 45.3             | 20.3         | Factual TV productions. Formed from ex-Planet 24 personnel. Reliance on Bob Geldof <2% turnover.                         |
|  | Digital Classics    | DTC  | 0.7              | 5.9          | Web-distributor of opera/ ballet (Online classics.com). Also has production company, Iambic                              |
| <b>Mobile Content</b>                                | Optimistic Ent.     | OEP  | 67.0             | 19.8         | Participation TV   |
|  | Yoomeia             | YOO  | 7.3              | 33.0         | Interactive TV and mobile content. Sony Pictures has 10% stake .   |
| <b>Investment Co's</b>                               | Monsternob          | MOB  | 374.0            | 183.7        | Mobile content. Chairman = Hans Snook (ex Orange)  |
|  | Cellcast TV         | CLTV | 71.5             | 20.3         | Interactive mobile content   |
| <b>Software and Services</b>                         | Motive Television   | MTV  | 2.0              | 1.3          | Focus on TV production and licensing businesses. WKS holds significant stake. Significant share deals recently           |
|  | Works Media Grp     | WKS  | 7.5              | 3.6          | Finance, sale and distribution of feature films  |
|  | Intandem Films      | IFM  | 3.3              | 2.8          | Film finance in partnership with bodies such as Number9 Films, Channel 4 Films, Irish Film Board                         |
|  | Investinmedia       | IVM  | 80.3             | 13.2         | Investments are in Complete Communication (products include <i>Who Wants to be a Millionaire</i> and <i>MEM</i> )        |
| <b>Software and Services</b>                         | Pilat Media Global  | PGB  | 44.6             | 22.0         | Supplies business management software to broadcasters. Recent US\$15m contract with Fox                                  |
|  | Bango               | BGO  | 198              | 51.0         | Provides technology and services to companies developing/ selling mobile content. Recent contract with Sun Microsystems. |

## Intellectual Property Ownership/ Exploitation

**Apace Media**      APA

The company has had a torrid time, as measured by its share price, since late 2000. It has been in its present form since April 2005 when the FTV Group changed its name to Apace Media and acquired the Apace Group Ltd.

It has three principal business activities: content ownership and creation, distribution and content exploitation. It has a specialisation in sports TV, under the ProActive label and Sports and Entertainment Television. It also has a music label, Apace Music. It recently acquired a 66% holding in MM Televizia OOD of Bulgaria and has plans to expand further in Eastern Europe. MMTV is the leading music TV Company in Bulgaria.

Latest interims covering the period to end-June 2005 are difficult to compare on any meaningful basis to prior periods given the significant degree of corporate change including to the reporting period. However period-end Net Assets stood at almost £6m including over £2m of Cash. Some £500,000 of that will have been used in the MMTV transaction.

### Entertainment Rights ERT

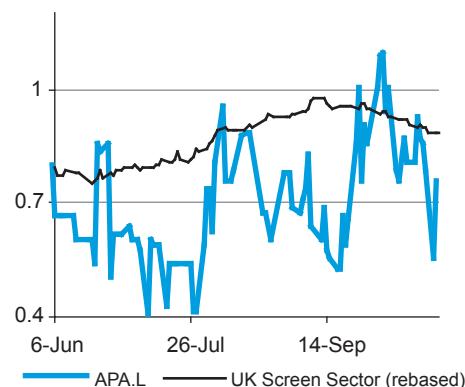
The last year has seen a transformation in the perception of the company after the dismal performance between March 2000 and August 2002. Since the third-quarter of 2004 the share price has more than doubled. Even so, on consensus estimates, its PEG ratio lags well behind that of the sector average despite operating margins which appear to be somewhat ahead of the sector.

Entertainment Rights plc ("ER") is one of the UK's leading specialist media groups focused on the ownership of high quality children's and family programming, characters and brands. It owns or controls the rights to many classic characters including Basil Brush®, Postman Pat®, Little Red Tractor™, He-Man and Ghostbusters. It has selected rights to global brands such as Barbie™, Clifford™, and Transformers™. It has recently won a contract securing from Mattel the home entertainment and TV rights for the next three Barbie feature-length movies. ER already has the rights to six other Barbie titles.

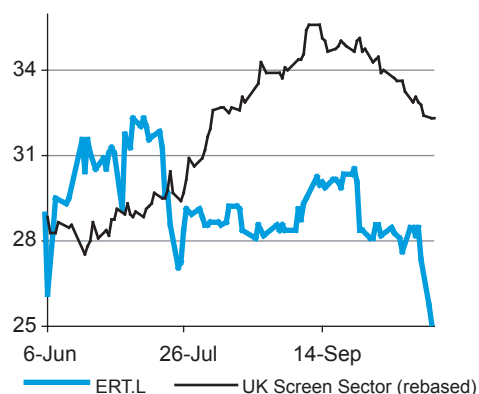
Interim results covering the period to end-June 2005 showed turnover up 37% and a 46% increase in EBITDA to £3.3m. Operating cash inflow for the first half was £4.5m (£3.6m) and net debt stood at £19.6m (unchanged); net assets were reported at £52.8m (£50.1m)

## Company Thumbnails

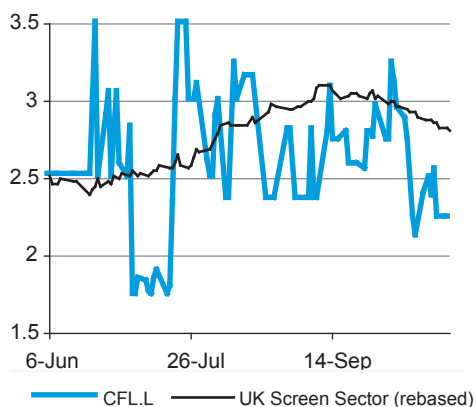
APA v. UK Screen sector (rebased)



ERT v. UK Screen sector (rebased)



### CFL v. UK Screen sector (rebased)



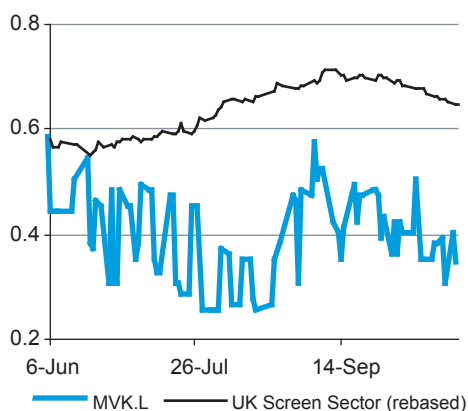
### Content Film CFL

The share price has made a modest recovery since hitting new lows in the early summer. Despite that it has essentially “flatlined” since April around its current level.

ContentFilm plc is a London-based film and television company, formed in March 2004. The acquisition of the Fireworks Film and TV library in July of 2005 has created a Film and TV sales and library management company with over 240 TV titles and 100 feature films. The library contains over 2,000 hours of programming. Since taking ownership CFL has generated over \$2m of new sales of rights in the Library.

Final results to March 2005 showed a reduction in the operating loss from £15m to £6.5m. Net assets stood at £11m, down from £17.7m. Since then it has exited from film production to focus on content ownership and distribution.

### MVK v. UK Screen sector (rebased)



### Maverick Entertainment MVK

The precipitous fall in the share price from the heights of July 2001, appears to have arrested about a year ago around current levels.

MVK is a company specialising in the creation, acquisition and development of intellectual property rights in children’s films, television programmes, characters and related entertainment products. Titles include *Muffin the Mule*, a new series which began broadcasting on BBC2 in September. Associated merchandise will be at the Toy Fair in 2006 timed to build brand awareness for the 60th anniversary of the character in October 2006. Other titles include *Bananas in Pyjamas* and, for DVD distribution, *64 Zoo Lane*.

Interim results for the 6-months to June 2005 showed a significantly reduced operating loss of £165,000 (£2.7m loss). Net assets stood at £900,000 (£1.0m).

## Indie Film/ TV production/ distribution

### Pinewood-Shepperton PWS

The share price has staged a significant comeback since the lows of 120p earlier this year. On consensus estimates its above average operating margin is now valued in-line with the sector on traditional valuation measures. The rally came despite a negative trading statement issued by PWS in June citing the continuing uncertainty surrounding government fiscal initiatives with regard to film financing.

Evidently investors anticipate that significant corporate changes, as suggested by the Company at the time, will have a positive effect. Since that time PWS has completed the acquisition of Teddington studios, to add to its existing portfolio of the studios at Pinewood and Shepperton.

Interim results to end-June 2005 showed a fall in the operating profit from continuing operations to £1.4m (£5.1m). By far the largest contributor to the fall was the Film Stage Services division, hit by the uncertainties over UK government tax incentives. We note that the Chairman of PWS is Michael Grade who was appointed by the government to be the Governor of the BBC following the resignation of Gavyn Davis last year.

Despite the problems, during the period PWS had *Basic Instinct II* at set-building stage, and the *Da Vinci Code* in production. It also secured a number of medium size television film drama productions including: *Elizabeth*, *Miss Marple*, *Poirot* and *Extras*. The Television and Sound services division mixed a number of major and medium sized films including *Batman Begins*, *Doom*, *Nanny McPhee*, *Kingdom of Heaven*, *Goal!* and *Valiant*.

### Television Corp TCP

TCP is trading close to its two-year low having fallen from 120p at the start of this year. The fall started shortly after the Chairman warned of delays in the commissioning process and the negative impact of the weak dollar. The latter has strengthened somewhat over the course of this year.

On October 14 2005, Tinopolis (see later) announced that it had entered discussions with TCP which may or may not lead to a full bid. Tinopolis plc (TIN) is one of the UK's leading independent television and new media producers. TIN is based in Wales.

TCP's portfolio includes factual programming such as *Vote for Me* and *The Last Word*; returning series including Channel Five's *Britain's Worst*, and *Morgan and Platell*. Drama productions included *A Very Social Secretary*, used to launch the new digital Channel 4 station. Sports programming includes football coverage for Channel Five, and the *European Poker Tour*.

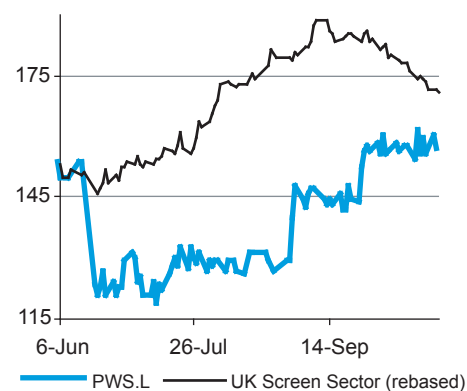
Interim results for the period ended June 2005 showed revenues from continuing operations up to £21.9m (£17.4m). The balance sheet recorded net assets of £22m (£20.3m at year-end) including cash of £12.4m (£17.5m) and borrowings of £2.7m (£12.5m). Note that the company disposed of its outside broadcast unit, Visions, at the start of the year.

### Talent Group TTV

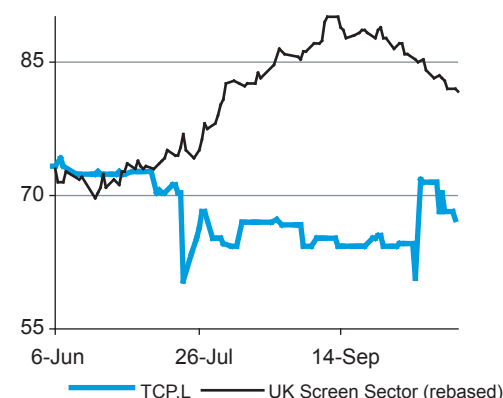
Since the collapse to around 1p at the end of 2002, the share price recovered abruptly to some 20p at the start of 2003. Since then it has drifted around that level. Consensus estimates suggest that operating margins are in-line with the sector.

TTV produces a wide range of television, video and interactive programming for all of the major UK broadcasters. Programming includes such titles as *Test the*

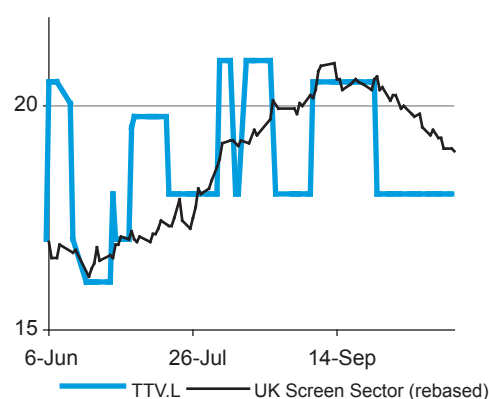
### PWS v. UK Screen sector (rebased)



### TCP v. UK Screen sector (rebased)



### TTV v. UK Screen sector (rebased)



*Nation* and *Best of Friends* (children's programming). It has launched the *Test the Nation* format in Japan and has recently completed three half-hour documentaries on life in Tuscany for broadcast in Japan.

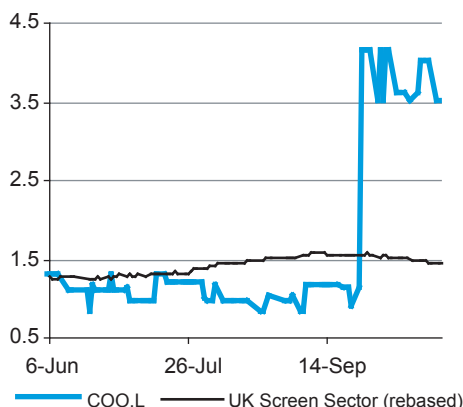
The interim results (to 31 March 2005) showed turnover flat at £3.2m and a modest increase in gross profit. The operating loss was broadly unchanged at some £90,000. Net assets were £1.3m of which cash (not associated directly with productions) was some £300,000.

### Coolabi COO

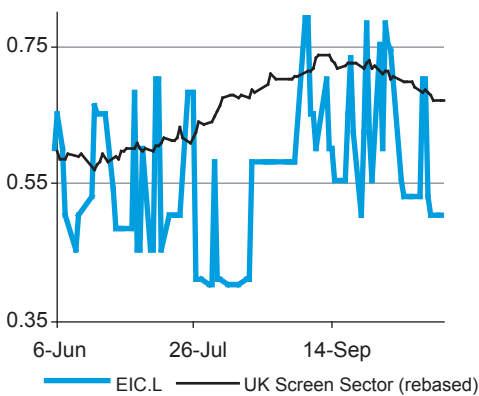
The share price decline continues and has recently hit new lows. The August announcement of finals for the year-ended June showed a widening pre-tax loss to £600,000 (£400,000 loss) on revenue which fell from £200,000 to just £80,000 in the period. Net assets of £883,000 (£344,000) included cash of £595,000 (£88,000).

Properties include *iloveegg* created in South Korea and featuring animated egg characters, *Somebunny To Love*, *Hammer Films* and *DreamMakers* (animated sitcom for 6-to 9 year olds). Coolabi also owns a library of productions including *Safe House* and *Goodbye Mr Steadman*.

COO v. UK Screen sector (rebased)



EIC v. UK Screen sector (rebased)

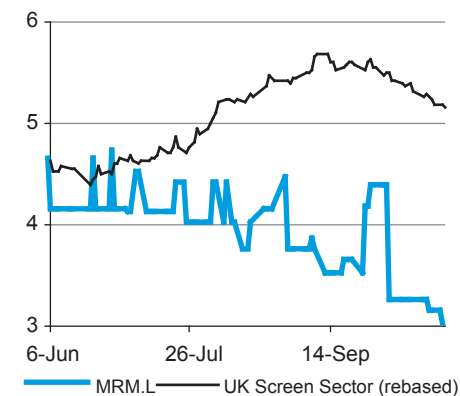


### Elcom EIC

EIC is a digital TV management company whose share price has gone nowhere in the last three years after the falls at the start of the century. Full year results for the period ended June 2005 showed turnover of £365,000 (against only £53,000 for the whole of the previous eighteen month period) producing an operating loss on continuing operations of some £400,000. Total assets of £345,000 (£574,000 liability) included cash of £260,000 (£432,000).

In the period the company acquired two TV channels, acquired full rights in its library of science titles and licensed 100 classic films for distribution as a broadband channel.

MRM v. UK Screen sector (rebased)



### Metrodome MRM

The fall in the share price continues. Interim results were hit by poor box office receipts and a squeeze on DVD margins. Turnover fell to £1.7m (£2.4m) producing an operating loss of £154,000 (£57,000 profit).

Forthcoming theatrical productions include *Mad Hot Ballroom* (joint venture with Paramount Classics) and, for DVD sell-through, *The Assassination of Richard Nixon* and *Transformers*. MRM also has rights over *My Little Pony*.

## Parallel Media Grp PAA

A strong performance since the interim results in August. Nonetheless the accounts, although not qualified, drew attention to a number of assumptions made by the directors to justify the “going concern” basis.

PAA specialises in producing major golf tournaments and provides golf coverage for CNBC. During the period it launched, with its partner Parallel Media Asia (2003), two new PGA European Tour golf events in China and Indonesia and two new Ladies European Tour events in Singapore and Thailand. The period also saw the Company, together with PMA, successfully stage PGA European Tour events in Malaysia, Singapore and China.

## Seven Arts SVA

The maiden results after the reverse takeover of Cabouchon plc, failed to impress. Since the end of September the share price has fallen by over 20%.

SVA is engaged in the production and distribution of films in the UK and overseas. The finals showed turnover of £2.2m from continuing operations, producing a £4.1m loss (£616,000 loss). Assets of £2.8m included £30,000 cash, £1.4m in debtors and £7.1m of short-term creditors.

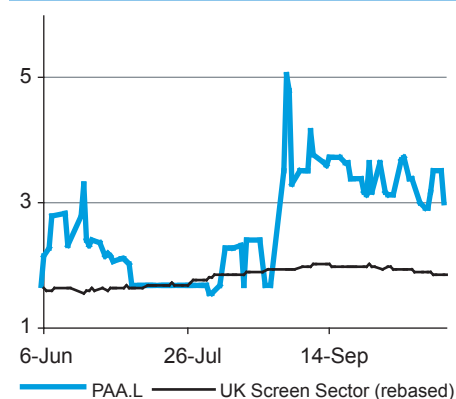
SVA has “successfully” completed its strategy of establishing DVD and video distribution agreements in the United States and other territories for its label, Seven Arts Video. It expects to release through this distribution system six to eight films in the current financial year ended 31 March 2006. These will include *Boo*, *Popstar*, *Cemetery Gates*, *Red Riding Hood*, *Silent Partner* and *Back in the Day*, all completed pictures now being delivered by the Group to its distributors.

## Tinopolis TIN

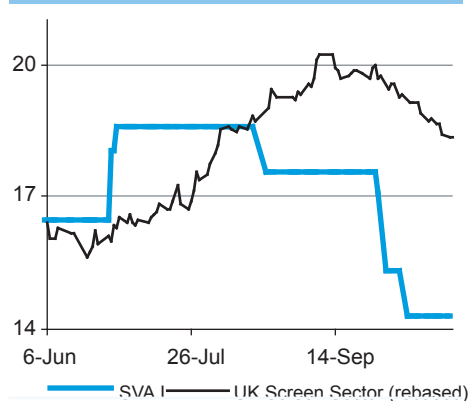
TIN is an independent production company principally known for its daily programming for S4C, the Welsh language fourth channel, and for its coverage of the World Rally Championships. At the beginning of October it confirmed that it was in discussions with Television Corp (TCP – see above) that may or may not lead to a bid. Were the acquisition to go ahead TIN would acquire factual programming, drama production and football coverage to complement its existing sports portfolio. It would also augment its own balance sheet (£3.3m net assets) with TCPs £12m+ of cash.

TIN's recent results showed turnover up 46% to £5.2m and EBITDA of £631,000, up 75%.

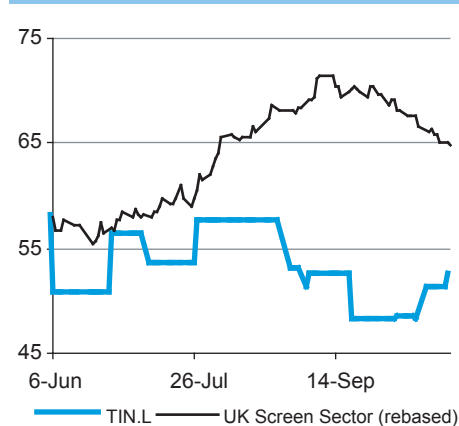
### PAA v. UK Screen sector (rebased)



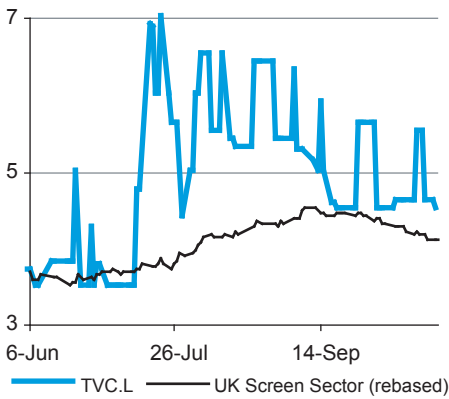
### SVA v. UK Screen sector (rebased)



### TIN v. UK Screen sector (rebased)



### TVC v. UK Screen sector (rebased)

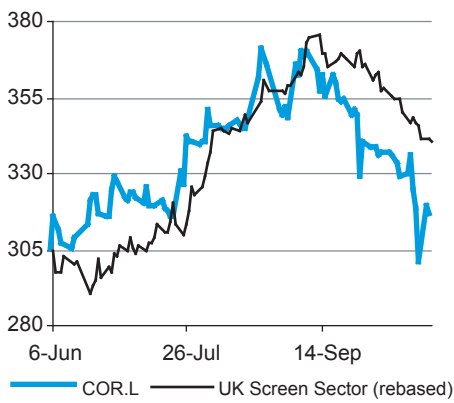


### TV Commerce TVC

TVC operates a number of Sky TV channels, notably *Your Destiny TV* and *The Advert Channel*. Its niche programming is used to drive viewer interaction through Premium Rate telephone calls or Premium Billed text messaging. In May 2005 it started live broadcasts to subscribers of "3" Mobile.

Interim results to 30 June 2005 showed turnover of £310,000 producing a pre-tax loss of £267,000. The accompanying statement (dated July) said that the Group "was now trading profitably". Net assets of £580,000 include £490,000 in cash.

### COR v. UK Screen sector (rebased)

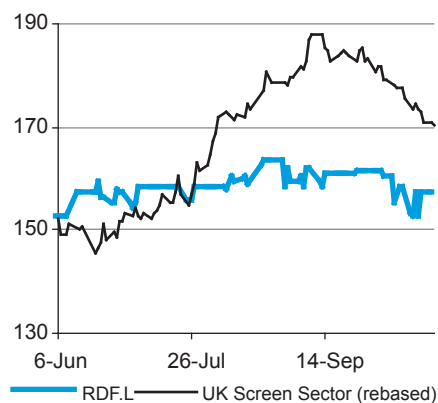


### Chorion COR

Chorion is one of the UK's leading owner/ managers of literary-based children's brands including *Noddy* and the *Mr Men*. It has just announced an extension to its contract with Channel 5 for the pre-school programme *Make Way for Noddy*. Under the new contract Channel 5 agrees to air the programme for a minimum of 30 weeks a year until 2012. The programme has also been selected for the new American pre-school network known as Sprout. Other properties include *The Famous Five*, *Miss Marple*, *Poirot* and *Raymond Chandler*.

The last set of results, interims for the period to June 2005, showed turnover largely unchanged but an almost 50% increase in gross profit to £6.2m (£4.4m) and an almost 70% increase in operating profit from continuing operations to £1.7m (£1.1m). Results are typically weighted towards the second half and this year that period is expected to see good prospects for *Noddy* and *Mr Men* in the run up to Christmas and the delivery of six films in production at the time of the interims.

### RDF v. UK Screen sector (rebased)



### RDF Media RDF

RDF continues to exploit what it believes are opportunities that have arisen as a result of structural and regulatory change in the UK television supply market. In the first half to July 2005, it completed its first acquisition, Touchpaper TV. RDF now owns, controls and exploits a record number of rights and is a significant supplier of programming to a number of UK and US broadcasters.

Most recently it has confirmed press speculation that it is in discussions which may or may not lead to a bid for IWC Media. IWC is a private company formed in 2004 out of merger of two of Scotland's most successful "indies" - Ideal World and Wark Clements. IWC makes programmes for the main UK terrestrial channels plus Sky and digital platforms.

RDF interims showed turnover up 14% to £26.3m and pre-tax profit up 9% to £1.5m. Major programmes have been re-ordered including *Wife Swap*, *Scrapheap Challenge*, *Shipwrecked* and *Rock School*. Net assets of £7.8m included £5.2m of cash.

## Ten Alps TAL

TAL is an independent TV production company producing for the BBC, Channel 4, Five, Sky One and other digital channels across the UK and Europe. The share price has hovered around its present level for several months. A planned trading update later in October may change the perception of fair value.

A trading statement issued in August said that revenues “are set to rise... by 65%” in the six months ending September 30 2005. The company had previously indicated a 50% increase.

At the final results stage, announced in June, EBITDA had doubled to £1.5m on similarly increased revenues of £35m. Net assets of £7.2m (£6.8m) included cash of £7.5m (£4m).

## Digital Classics DTC

Recent finals confirmed the news of delays in certain revenue streams. Despite increases in turnover and gross margin the share price has continued to fall. Delayed revenues include the sale of broadcast rights to the Michael Jackson documentary. The trial ended close to the end of the company’s financial period. DTC believes that the revenues are “likely to materialise” in the current financial year.

One of DTCs operating divisions, Iambic, has recently set up a new division, IP Entertainment headed by a producer with credits including *I’m a Celebrity*, *Get Me Out of Here* and *Celebrity Love Island*. It hopes that the combination can form a low-cost entry to the early evening entertainment slot.

## Optimistic Entertainment OEP

OEP produces participation TV programming for the Sky Digital platform and for Channel 4, Paramount and MTV’s TMF channel. Its flagship product is *QuizNation*, first launched on Sky in 2003 to 7.8m subscribers.

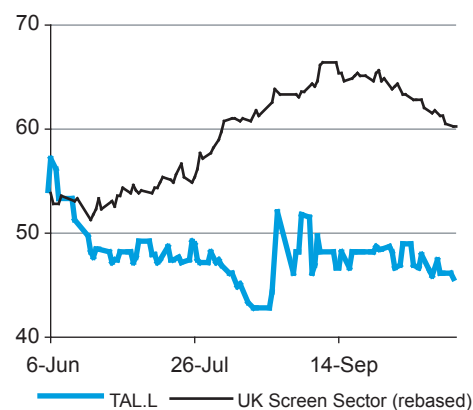
The OEP share price however appears to ignore a series of recently optimistic trading updates issued by the company. Most recently it announced the launch of *QuizNation* across the Nordic region.

Its maiden interim results for the six months ended June 2005 showed turnover of £2.1m (£365,000) and an operating loss reduced to £583,000 (£1.4m). Net assets of £17m included £800,000 of cash.

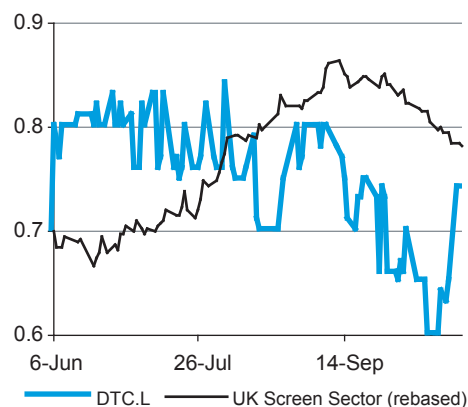
## Yoomeia YOO

YOO is an interactive media and games provider. It delivers content and services via TV, the web, telephony and mobile phones. Most recently it has announced a partnership agreement with Electra Entertainment to supply a range of free and premium rate interactive services on Freeview, the UKs free-to-air digital TV

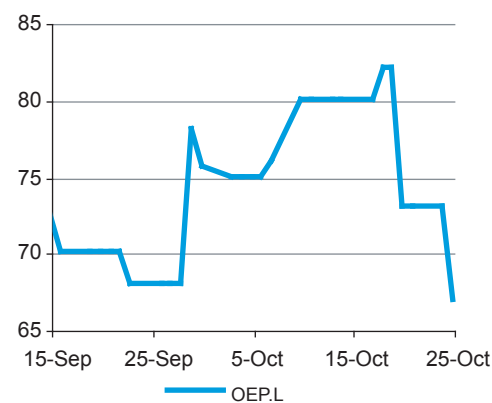
### TAL v. UK Screen sector (rebased)



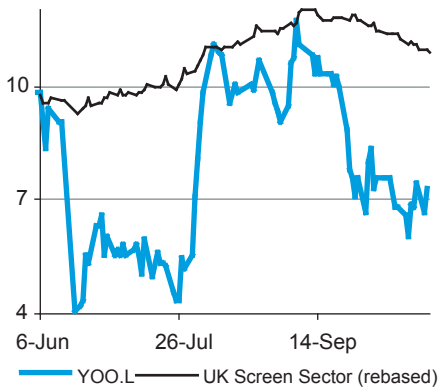
### DTC v. UK Screen sector (rebased)



### OEP share price



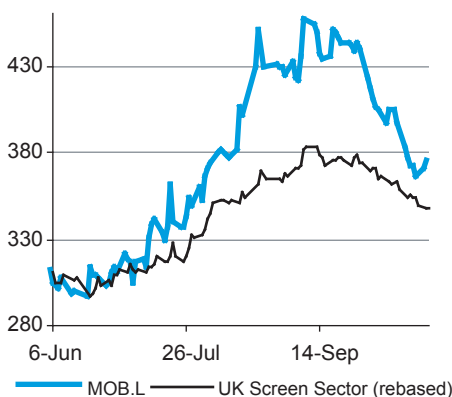
### YOO v. UK Screen sector (rebased)



service. The two companies will collaborate also in the areas of fixed odds gaming and dating services for the Freeview platform.

Interim results for the period ending June 2005, announced at the end of September, showed the operating loss expanding to £4.6m (£3.8m loss) but, perhaps more indicatively, the loss per share contracting to 1p against 2.8p loss last time. The company is in a phase of rapid top-line growth. Net assets of £41m included only £500k of cash.

### MOB v. UK Screen sector (rebased)



## Mobile Content

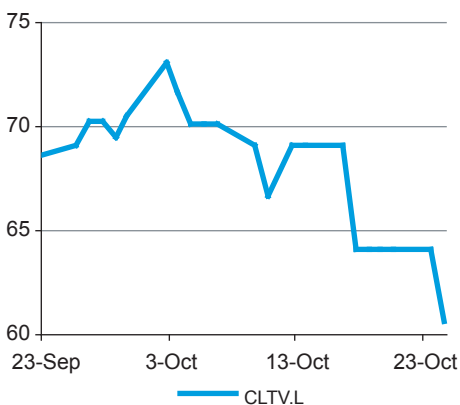
### Monsternob MOB

MOB has a global presence in generating and delivering mobile content. Its Chairman, Hans Snook, was previously the Chief Executive of Orange. Its historic operations include ring tones and other SMS response generators. It is now developing applications for video on demand and java-based games.

The majority of its revenue arises in Europe and the USA (some £12m in aggregate at the interim stage from a total of £14m) but Asia, entered via acquisition, is by far the most important in terms of EBITDA margin – some 50% against 25%. The company has signalled its intent to make further selective acquisitions in China to complement its 2.5G positioning acquired through ATOP.

The interim balance sheet showed net assets of some £44m including cash of £9m.

### CLTV share price



### Cellcast TV CLTV

CLTV is a producer of interactive content for the global mobile market. It was launched in 2002 and now produces over 50 hours of live TV daily across 7 Sky channels. It also produces and distributes content for Canal+, Future TV, LBC and several Middle East and Asian channels.

In September it announced its maiden interims following its AIM listing earlier that month and a share placing which raised £5m of new money (before expenses). The interims announced agreement with Top Up TV under which Cellcast content will be broadcast overnight to FreeView users who subscribe to Top Up TV. The interim balance sheet (struck at end June, i.e., pre IPO) showed negative shareholders funds.

## Investment Co's

### Motive Television MTV

Motive is the AIM-listed television investment vehicle headed by ex-Chrysalis industry veteran, Mick Pilsworth. The company was established in May 2005 to acquire television production and licensing businesses in the UK, following recent favoura-

ble regulatory changes in the television market. Motive's first acquisition was a TV Production business owned by Setanta, the Irish sports driven broadcaster.

Most recently The Works Media Group (WMK - see below) has announced a 4.3% stake in MTV. In addition, WMK's Chairman and majority shareholder, Crispin Barker announced at the same time a personal stake in MTV of some 3.7%

### Works Media Grp WKS

The company was formerly known as Civilian Content plc before changing its name in August 2005. WKS describes its principal activity as the finance, sale and distribution of films.

In its recent interim statement the Chairman, with refreshing candour, described the "continuing uncertainties" around WKS' historic core activities of film finance and international rights sales where "immediate prospects remain gloomy". The statement went on to list steps taken to diversify WKS activities and it is against this background that we believe the MTV stakes evidently should be viewed.

The interim statement showed revenue from continuing operations halved at £712,000 and a pre-tax loss of £96,000 (£429,000 profit). The balance sheet showed net assets of £4.2m of which some £2.3m was in cash

### Intandem Films IFM

IFM raises film finance in partnership with other bodies including Channel 4 Films. It has recently announced UK distribution rights jointly with Vertigo Films for the film *Stoned* to be released in the UK in November 2005 followed by DVD release in 2006.

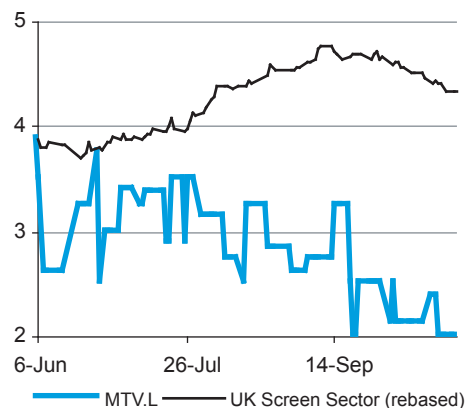
IFM was admitted to AIM on April 22 2005 when it raised £1.15m by way of a placing.

### Investinmedia IVM

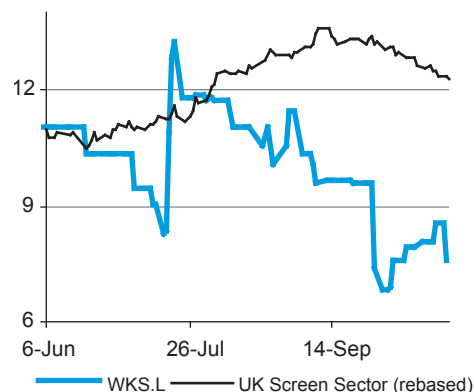
As the name suggests the company invests in others in the entertainment space. Its two principal "associates" are Complete Communications Corporation Ltd ("Complete") and Medal Entertainment and Media plc ("Medal"). Complete owns productions such as *Who Wants to be a Millionaire* and *You Are What You Eat*. Medal has a strategy "to develop a group of companies owning, licensing, creating and marketing audio-visual products, rights and facilities"

IVM interims for the 6 months to end March 2005 showed a modest increase in turnover from continuing operations to £11.2m (£10.1m) but pre-tax down to £1m (£2m). The balance sheet showed net assets of £8m (£8m) of which cash was £2.7m (£1.3m).

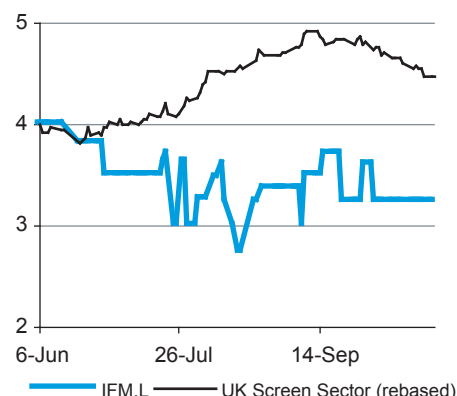
### MTV v. UK Screen sector (rebased)



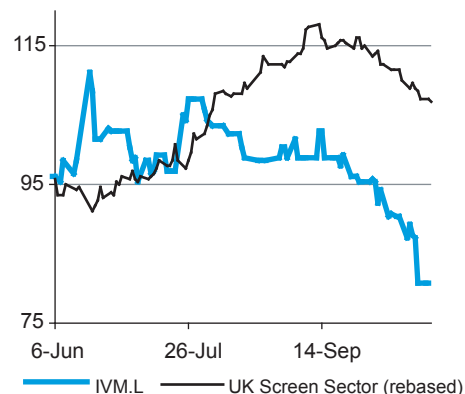
### WKS v. UK Screen sector (rebased)



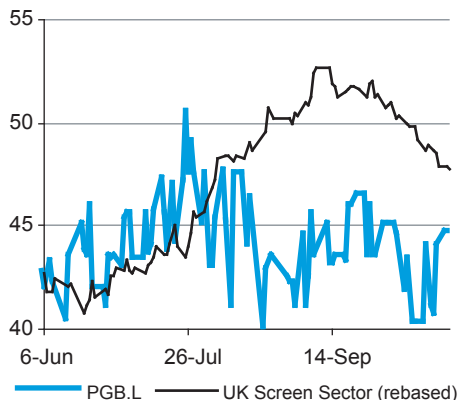
### IFM v. UK Screen sector (rebased)



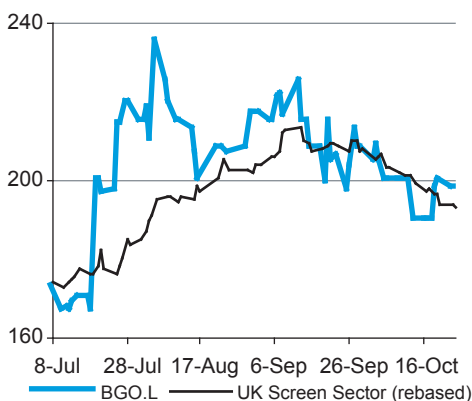
### IVM v. UK Screen sector (rebased)



### PGB v. UK Screen sector (rebased)



### BGO v. UK Screen sector (rebased)



## Software and Services

### Pilat Media Global PGB

PGB is a supplier of business management software and services to broadcasters around the world. Over the summer it signed a \$15m contract with Fox Television Stations. The interim statement in August said that the company expected a major European broadcaster to sign a formal contract with PGB in the current quarter.

At the interim stage turnover fell to £4.7m (£5.6m) but higher interest receivable and a tax credit limited the damage at the EPS level to 1p loss after 0.7p gain last time. The delay in signing the FTS contract meant that planned revenues have been deferred into the current period. Net assets stood at £8.5m of which cash was £3m. R&D spend in the period was £600,000

### Bango BGO

Bango provides technology and services to companies developing and delivering mobile content, including “virals”, cheap but highly targeted adverts. It recently signed a significant contract with Sun Microsystems.

BGO was admitted to AIM in June 2005 and recently produced its maiden set of interims. Those showed significant turnover growth to £3.2m (£1.3m) and gross profits up to £1m (£400,000). The June IPO raised £6.2m net and the September balance sheet showed cash at £6m and net assets at £6.1m.

I certify that this report represents my own opinions.

Andy Hartwill  
Analyst  
0870 080 2965  
andy@objectivecapital.co.uk

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