



12 May 2005

Germany
Media

BKN International AG

Frankfurt Stock Exchange
General Standard
London

Symbol: BKQ
ISIN: DE0005290704
Symbol: BKN

Rating: Buy
2005 Price Target: €7.00
Risk Rating: High

Initial Response to H1 FY 05 Numbers

Company Profile

BKN and its subsidiaries are engaged in the production, distribution and marketing of children's animated television programs and the merchandising and licensing of the rights of those programs. The parent company is located in Cologne, Germany, with headquarters, BKN New Media Ltd., in London. The company has 24 employees.

Key Points

Earlier today BKN International released an impressive set of numbers for the half-year ending 31 March 2005, which were above our expectations at all levels.

Revenues at €5.54m were 101% up year on year (H1 FY 04: €2.76m) and were ahead of our projection of €5.21m. This is largely due to the better than expected success of the *Legend of the Dragon* cartoon series.

Net income at €1.02m was 250% up year on year (H1 FY 04: €0.29m) and was ahead of our estimate of €0.99m.

BKN generated €2.62m in cashflow from operating activities and invested €4.31m in programming rights. As of the 31 March, the company had €0.47m in cash.

The company's balance sheet remains stable with working capital of €3.33m, total assets of €23.79m and shareholders' equity of €17.26m.

Recommendation

We are of the opinion that BKN is right on target to at least match our revenue and earnings estimates for 2005. However, we believe that the releases of *King Kong* and *Ali Baba and the Forty Thieves* in FY 06, as well as the company's expansion into the Chinese market, imply that our FY 06 estimates are beginning to look conservative. We will be speaking to management tomorrow with a view to increasing our 2006 estimates and commencing 2007 estimates. For now, we are maintaining our BUY recommendation and our 2005 price target of €7.00.

Risks

Risks to our price target include decreases in TV programming spending, unsuccessful sales execution and the success of the Hollywood remake, *King Kong*, relative to its influence on sales of BKN's DVD: *Kong - King of Atlantis*.

Financial History & Projections* - US GAAP

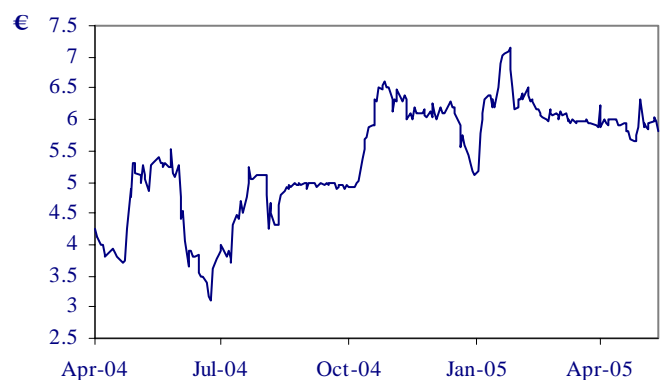
	2003A	2004A	2005E	2006E
Revenue €m	4.49	7.31	9.88	14.03
Yr/Yr Growth	-26.3%	62.7%	35.2%	42.0%
EBIT €m	-1.53	1.28	3.64	5.91
Net Income €m	-1.26	1.69	2.92	4.95
EPS (diluted) €	-0.14	0.13	0.18	0.31

* Financial Year ends 30 September

Company Data (as of 31 March 2005 unless otherwise noted)

Market Capitalisation (11 May 2005)	€89.47m
Shares Outstanding	15,012m
Cash & Cash Equivalents	€0.47m
Current Assets	€1.84m
Intangible Assets (Programming Rights)	€18.66m
Total Assets	€23.79m
Total Shareholders' Equity	€17.26m

Stock Overview



Source: Bloomberg & First Berlin

Closing Price (11 May 2005)	€9.96
52-Week Range	€3.11 / 7.14
Free Float (According to Deutsche Börse)	55.8%
Average Daily Share Volume (year)	28,070

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First Berlin Recommendation and Price Target History

Report No:	Date of Publication	Previous Day Closing Price	Recommendation	Target Price	Interim High	% Change to High
1	3 Feb 2004	€1.84	Strong Buy	€2.75	€5.52	200.0%
2	1 June 2004	€5.26	Reduce	€4.75	€6.62	25.9%
3	23 Nov 2004	€6.10	Buy	UR	€6.25	2.5%
4	8 Dec 2004	€6.10	Buy	€7.00	€7.14	17.1%
5	Today	€5.96	Buy	€7.00	-	-

Source: Bloomberg & First Berlin

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We, Stephen Love and Gerard Reid, certify that the views expressed in this report accurately reflect our personal and professional views about the subject company; and we certify that our compensation is not directly linked to any specific financial transaction including trading revenue or asset management fees; neither is it directly or indirectly related to the specific recommendation or views contained in this research. In addition, we possess no shares in the subject company.

Rating System

First Berlin's investment rating system is five tiered and is a function of our expectation of return (forecast price appreciation and dividend yield) over the next 12 months. Our investment ratings are as follows:

STRONG BUY: Expected return greater than 20%
 BUY: Expected return greater than 10%
 HOLD: Fairly valued
 REDUCE: Expected return between -10% and 0%
 SELL: Expected return to depreciate by more than 15%

In addition, we have a SPECULATIVE BUY recommendation for stocks which we believe have the potential to give a return of 50% or more but which also we expect to be exceptionally volatile (movement up or down of 50% or more).

Risk Rating

Our risk ratings are Low, Medium, High and Speculative and are a reflection of expected price volatility, the strength of the balance sheet and the predictability of earnings.

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