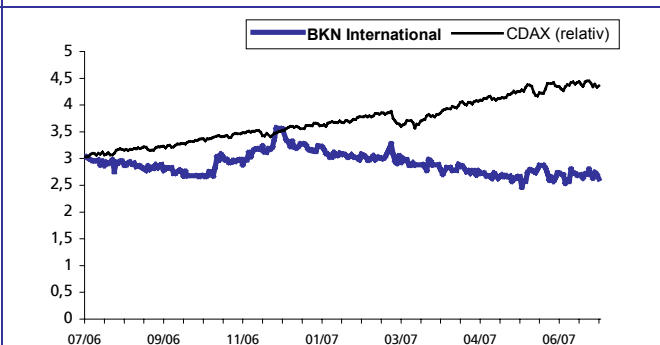


Buy Risk: Price target: **EUR 3.35**
(old: Buy) high

Capital increase secures further growth

Bloomberg: BKQ GY Price: EUR 2.62
Reuters: BKQG.DE CDAX: 715,89
ISIN: DE0005290704
Internet: www.bknkids.com
Segment: General Standard
Sector: Entertainment/Media



Share data: Bloomberg 23.07.2007 / Closing price

High / Low 52 W: EUR 3.68/ 2.35
Market cap.: EUR 41.18 m.
No. of shares: 15.72 m.

Sharehold- Streubesitz 63.35%
Gordon Group Holding LLC 20.05%
Allen Bohbot 8.05%
Jack Kugler 8.55%

Calendar:

Analysis: SES Research

Date of publication: 24.07.2007
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On July 13, 2007, BKN, the media and entertainment company specialising in the children's market has placed 3.68 new shares. Each new share has been placed at an issue price of EUR 2.45. Thus, the originally planned 5.24 m shares were not completely placed. By the capital increase the company will have a cash inflow of roughly EUR 8.5 m.

The income is invested in the repayment of convertible bonds (EUR 5.2 m) and in the development of a digital production studio (EUR 4.9 m). The missing EUR 1.6 m will be raised from the liquid funds of the company (EUR 6.23 m as of March 31, 2007).

Own production studio in London

The foundation of the production studios will be realised in close vicinity of the London subsidiary. Until 2002 BKN International had own production studios in France and the USA. These studios were closed within the restructuring. Due to the low cost level BKN International continued to produce mainly in India. It is planned to produce one film per year in the planned animation studio. Thus, there will be no capacity problem as in the past. The extension of the value added chain will have no positive impact on the income due to the higher production costs. With this investment BKN International primarily wants to launch higher quality productions (the new studio will produce in the latest HD-quality) and to increase the future revenues. However, it remains to be seen to what extent the distribution of HD technology will lead to a sales effect in the upcoming years.

In the development phase all productions have to be assigned to service provider. The own production studio will be not execute first orders before 2008. These start-up costs have a negative impact on the cash-flows.

Fiscal year ending	09/06	09/07e	09/08e	09/09e
Per Share figures in EUR, other figures in EURm, price: EUR 2.62				
Sales	13.9	17.7	22.1	24.8
<i>Gross margin</i>	92.9%	92.8%	99.5%	98.8%
EBITDA	6.2	9.1	12.0	13.4
<i>EBITDA-margin</i>	44.4%	51.5%	54.0%	54.0%
EBIT	4.7	5.6	6.9	7.2
<i>EBIT-margin</i>	34.1%	31.5%	31.0%	29.0%
Net Income	4.5	4.1	5.0	5.1
EpS	0.29	0.21	0.25	0.26
DPS	0.00	0.00	0.00	0.00
<i>Dividend Yield</i>	0.0%	0.0%	0.0%	0.0%
EV/Sales	4.51	3.53	2.83	2.52
EV/EBITDA	10.14	6.87	5.24	4.67
EV/EBIT	13.20	11.24	9.12	8.70
PER	9.03	12.48	10.48	10.08
ROCE	11.2%	9.2%	10.1%	9.4%
Adj. Free Cash Flow Yield	9.9%	11.9%	16.3%	20.9%



Repayment of the convertible bond secures the future investment in the program assets

The funds from the issue of the convertible bonds served for the financing of the extension of production activity and the development of the area Home Entertainment. A repayment of the convertible bond would not have been possible from operating funds at continuation of the growth strategy. Additionally, the possible dilution effect is reduced by the repayment of the bonds before due date. In our estimates we assumed a complete conversion of the convertible bond to be due in March 2008 as well as an option bond to be due on the same date. By the early, almost complete repayment the threatening dilution effect from the possible conversion of bonds will be reduced (183.000 outstanding shares).

Our sales estimates remain unchanged. Against the background of increased investments in the program assets and the development of Home Entertainment we expect clear sales potential for the next years. At the earnings estimate we have trimmed the cost structure and made adjustments due to the changed financing structure.

A clear dilution effect results from the difference between fair value and placement price. Accordingly, the price target is decreased to EUR 3.35. The BUY rating is reiterated.

Key figures (BKN)

P&L (EUR m)					Price Data				
	2006	2007e	2008e	2009e					
Sales	13.9	17.7	22.1	24.8	Share Price (EUR)				2.62
Total Sales	13.9	17.7	25.5	28.3	Market Cap. (EUR m)				51
COGS	1.0	1.3	3.4	3.8	Enterprise Value (EUR m)				63
Gross Profit	12.9	16.4	22.0	24.5					
Personnel Expenses	3.0	3.3	4.6	5.1	Share Key Data	2006	2007e	2008e	2009e
Other Operating Expenses	3.7	4.0	5.4	6.0	Earnings per Share (EUR)	0.29	0.21	0.25	0.26
EBITDA	6.2	9.1	12.0	13.4	Sales per Share (EUR)	0.88	0.91	1.13	1.27
Depreciation and Amortisation	1.4	3.5	5.1	6.2	Free Cash Flow per Share (EUR)	-0.48	-0.54	-0.35	-0.20
- thereof Goodwill Amortisation	0.0	0.0	0.0	0.0	Dividend per Share (EUR)	0.00	0.00	0.00	0.00
EBIT	4.7	5.6	6.9	7.2					
Financial Result	-0.6	-1.0	-0.9	-0.8	Valuation Key Data	2006	2007e	2008e	2009e
Extraordinary Result	0.0	0.0	0.0	0.0	P/E	9.16	12.44	10.34	10.06
EBT	4.1	4.5	6.0	6.4	P/Sales	2.96	2.87	2.32	2.07
Taxes	-0.4	0.5	1.0	1.3	EV/Sales	4.51	3.53	2.83	2.52
Net Profit before Minorities	4.5	4.1	5.0	5.1	EV/EBITDA	10.14	6.87	5.24	4.67
Net Profit	4.5	4.1	5.0	5.1	EV/EBIT	13.20	11.24	9.12	8.70
Dividend Payout	0.0	0.0	0.0	0.0	P/Book	1.78	1.22	1.09	0.98
					Dividend Yield	0.0%	0.0%	0.0%	0.0%
Cash-Flow	2006	2007e	2008e	2009e	No. of shares (million)	2006	2007e	2008e	2009e
Cash Flow from Operations	5.9	7.6	10.1	11.3	Ordinary shares out	15.72	19.40	19.59	19.59
Free Cash Flow	-7.6	-10.4	-6.9	-3.9					
Capex	14.5	16.4	16.5	14.9					
Balance sheet (EUR m)	2006	2007e	2008e	2009e	Profitability	2006	2007e	2008e	2009e
Fixed Assets	0.1	1.6	2.9	2.0	EBITDA-margin	44.4%	51.5%	54.0%	54.0%
Intangible Assets	36.6	47.9	58.1	67.7	EBIT-margin	34.1%	31.5%	31.0%	29.0%
Net Working Capital	0.3	1.9	2.4	2.7	EBT-margin	29.6%	25.7%	26.9%	25.8%
Current Assets	7.1	11.7	7.2	7.7	Net Profit-margin	32.4%	23.1%	22.4%	20.6%
Cash and Cash Equivalents	1.6	5.3	0.2	0.3	ROE	15.7%	9.8%	10.6%	9.8%
Equity	28.6	41.7	46.7	51.8	ROA	12.5%	9.0%	9.6%	9.0%
Provisions	1.0	1.0	1.0	1.0	ROCE	11.2%	9.2%	10.1%	9.4%
Financial Liabilities	12.6	18.1	20.0	24.0					
Net Cash	-11.0	-12.8	-19.8	-23.7	Company profile				
Total	43.8	61.2	68.2	77.4	BKN develops and markets animated entertainment programmes for children. Furthermore, the company has an own film library consisting of titles for children entertainment at its disposal. Based on this catalogue of rights BKN licences merchandising rights for consumer products. BKN is marketing the broadcasting and merchandising rights on a worldwide scale.				
Reporting standard	IFRS	IFRS	IFRS	IFRS					
Fiscal year ending	30.09.2006	30.09.2007	30.09.2008	30.09.2009					
Growth rates	2006	2007e	2008e	2009e	Management				
Sales	16.1%	27.5%	25.0%	12.0%	Allen Bohbot (CEO), Wayne Mowat (CFO)				
EBITDA	5.1%	47.6%	31.2%	12.0%					
EBIT	48.4%	17.5%	23.2%	4.8%					
EBT	38.6%	10.4%	31.2%	7.3%					
Net profit	4.8%	-9.1%	21.5%	2.8%					
Dividend	n.a.	n.a.	n.a.	n.a.					
					Shareholders				
Cost intensities	2006	2007e	2008e	2009e	Free Float				63.35%
COGS / Sales	7.1%	7.3%	15.5%	15.3%	Gordon Group Holding LLC				20.05%
Personnel Expenses / Sales	21.5%	18.8%	21.0%	20.5%	Allen Bohbot				8.05%
					Jack Kugler				8.55%
Segments									

Source: Company (reported figures), SES Research (estimates and key figures), Bloomberg (share data)

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