

## **INTERIM REPORT FOR THE SIX MONTHS TO 30 SEPTEMBER 2006**

### **Financial Highlights**

UBC is maintaining a strong trading position whilst developing ground breaking digital radio revenue models.

The main financial highlights for UBC Media Group for the six months to 30 September 2006 are as follows:

- Operating profit in the period of £21,000 (2005: loss of £58,000) before goodwill amortisation;
- Operating loss pre- exceptional items improved to -£250,000 (2005: -£329,000)
- Retained loss -£347,000 (2005: profit £182,000)
- Gross profit maintained at £2.4 million (2005: £2.4 million);
- EBITA losses improved to -£262,000 (2005: -£287,000)
- Group turnover of £9.1 million (2005: £9.4 million). Billings in the period of £9.4 million (2005: £9.4 million);
- Digital software turnover in the period up 96.1% at £659,000 (2005: £336,000);
- Investment in music downloading in the period totalled £552,000 (2005: £175,000);
- At 30 September 2006 UBC had cash in the bank of £4.2 million (2005: £2.5 million).

## Strategic Highlights

- Results of successful consumer trials of the digital radio music downloading service exceeded UBC's projections;
- Development funded by successful placing of 15 million new ordinary shares raising £3 million;
- Confirmation of digital music download service launch with support of the major radio groups, record companies and Virgin Mobile in Q1 2007
- Major US software contract worth US\$750,000 in full year – US\$530,000 (£279,000) taken in H1.
- Software trials underway in Australia and New Zealand.
- Classic Gold Digital sees 15% increase in digital listeners

Commenting on the performance of UBC Media Group in the six months to 30 September 2006, Simon Cole, Chief Executive, said,

“The UK radio industry is in a period of structural change. Radio listening remains strong and radio is being consumed more on new digital platforms. It is clear, however, that the future of the industry relies on the development of new revenue models. These are the models that we at UBC have been developing – like the direct sale of music via digital radio stations - and they are now bearing fruit. I'm proud that our skilled staff are managing a period of rapid and exciting development whilst maintaining strong cash-generative business models to fund it”

## **Strong New Digital Radio Business Models Emerge**

Today's results and accompanying announcements show what a transforming period the last six months has been for UBC Media Group.

The model of profitable and cash generative businesses funding investments in new digital radio business models has placed the Company in a strong position. UBC is now seeing revenues and profits from those new businesses. UBC's investment is focused on creating what the Company believes to be the digital radio 'killer application' – its music downloading system that allows listeners to buy music directly from digital radio stations as they listen to it.

As digital radio replaces analogue radio around the world, UBC has benefited from both the UK's lead in digital radio and its own careful investments over the last four years. Our software business, Unique Interactive, has doubled in both turnover and profits. In this period, the company has agreed a contract which will be worth US\$750,000 in the full year with a major US radio company; US\$530,000 (£279,000) of this revenue has been taken in the period. Full details of the contract can only be released when the work is completed for reasons of commercial confidentiality.

As announced in July, future investment is concentrated on our digital radio music downloading service, to be launched in 2007. Progress to date has been very encouraging, with the completion of successful consumer trials, securing the support of major record companies, radio groups and a partnership with Virgin Mobile.

UBC's development strategy continues to be funded by our profitable networked programming business which, despite a harsh commercial climate, has outperformed the industry and which we are continuing to grow through investment in the creation of a new national radio news service in partnership with BSkyB.

## **Operating Review by Division**

### **DIGITAL DIVISION**

**2006**

2005

	£m	£m	% Change
<b>Turnover</b>	<b>0.659</b>	0.336	<b>+96.1</b>

### **Music Downloading**

We have made good progress in developing a service allowing listeners to purchase digital music from DAB radio stations. In the six months to 30 September 2006 UBC invested £552,000 (2005: £175,000) in developing the service. The results of the consumer trials held over the summer were very encouraging. The response of consumers supported our view that the capability to download music tracks from the radio as they are played has significant appeal, particularly with listeners that have not so far embraced the music downloading culture. Consumers in the trial were given a balance of credit on a suitably equipped mobile phone and allowed to spend that credit purchasing digital music files from Heart 100.7 in Birmingham. Trialists purchased on average seven tracks per week, which is more than six times the number required to fulfil UBC's revenue projections for the service when launched.

Research by Universal Music shows that 66% of music is purchased by consumers as a result of hearing it played on the radio. The capability to download music tracks as you listen to them has the potential to become a substantial new revenue model for the radio industry, and builds on the radio industry's great strength of being the place where consumers discover music.

### **Digital Software**

UBC reported digital software revenues in the six months to 30 September 2006 up 96.1% at £659,000 (2005: £336,000). Digital radio continues to grow worldwide and there is increasing interest in UBC's digital software products from a number of countries that have either launched or plan to launch digital radio services. UBC's software was originally developed for the DAB technical standard used in the UK. However, in last 12 months UBC has undertaken significant development work to extend its software to meet many of the other digital radio standards around the world. This investment is now beginning to deliver results.

In the six months to 30 September 2006 UBC delivered strong growth from the sale of its digital software into North America, driven by significant contracts, which, in the full year will be worth £390,000; £279,000 has been taken in this period. In addition, trials of UBC's Electronic Programme Guide and ManDLS software have commenced or have been extended in Australia and New Zealand. UBC intends to continue to develop its software to maintain its lead in these developing markets. The Board believes that prospects for the sale of digital software products are positive, and the Company is actively pursuing opportunities to grow its software sales in a number of major international markets.

## BROADCAST DIVISION

	2006	2005	
	£m	£m	% Change
<b>Turnover</b>	<b>8.39</b>	9.06	-7.4

### Networked Programming

UBC's networked programming business traditionally has a second-half bias. This trend was compounded in the first six months of the year by the negative impact the World Cup had on overall radio advertising. Revenues from UBC's networked programming business in the period were £4.81 million (2005: £5.21 million). However, total billings in the six months to 30 September 2006 were flat at £5.16 million (2005: £5.21 million), against a market that declined overall. An albeit slow recovery in radio advertising since September leaves the Company confident that it will continue to outperform the industry average for the remainder of the year.

During the first half of the financial year UBC has continued to invest in the future growth of its networked programming business - with the continuing roll out of the Network News service across a growing number of radio groups. Despite the current investment required to build the service, prospects for the new service remain good; we expect shortly to announce contract wins in this area. We believe that as the number of stations taking the service increases, Network News has the potential to deliver significant growth for UBC's networked programming business in the future.

### Digital Stations

UBC's digital stations continue to trade in line with expectations. Revenues for Classic Gold Digital in the first six-month period were £2.16 million (2005: £2.1 million). Over the last six months UBC has focused on marketing Classic Gold Digital to potential new digital listeners. The latest audience figures show that this marketing is having an effect, with digital listening showing a significant impact on the overall audience figures for the network. Classic Gold Digital's audience has grown overall by 8% in the last three months. This increase is strongest in the areas where Classic Gold Digital is transmitted exclusively on digital, where it is showing a 15% increase. Even in those areas where Classic Gold Digital's audience is partially delivered by declining analogue Medium Wave, listening increased by 6% in the same period, which indicates that the increase in digital listening in these areas is faster than the decline in analogue listening. We will continue our investment in strategies to reduce the rate of decline of listeners to the analogue service and to migrate audiences across to digital platforms. Classic Gold Digital also

benefited in the first half of the year from an improved market for Sponsorship & Promotions activities. In the period Classic Gold Digital also recorded its first text-driven interactive revenues.

### **Digital Content**

UBC's production businesses continue to lessen their reliance on the BBC. In the first six months Unique increased its revenues from podcasting, while Smooth Operations recorded its first revenues from record sales. Overall, The BBC's policy of increasing its programming from the regions continues to benefit our Cambridge and Manchester production businesses. In response to changes in the BBC's commissioning policies our London production business is increasingly focused on securing a smaller number of higher margin commissions. In the first half of the year both Unique and Smooth Operations were re-commissioned by the BBC to produce flagship programmes for the network, and this provides the digital content business with valuable forward visibility for the year ahead. In addition, both Unique and Smooth Operations have been successful in winning new commissions from the BBC's new digital stations.

Following the closure last year of a studio operation that predominantly served external clients, UBC's studio business has been absorbed into the digital content business, reflecting its increasing role as a provider of studio services to the Group. In the six months to 30 September 2006 UBC's digital content business, including studios, reported turnover in the period of £1.43 million (2005: £1.76 million).

### **Board of Directors**

Sadly the Company announced the death on 16 July 2006 of the non-executive director, Prof. Roger Silverstone. Roger had been a non-executive director of UBC Media Group since the Company's flotation in June 2000. During that time Roger made a significant and valuable contribution to the deliberations of the Board.

### **Prospects**

The first six months of the year have been a transitional period for the Company. Despite a difficult trading environment, UBC has continued to trade strongly whilst at the same time taking a number of significant steps in its strategy of developing new business streams. Recent improvements in trading conditions for radio advertising give the Board confidence that UBC's performance for the full year will be in line with expectations.

## **Financial Review**

### **Fundraising**

In June 2006 UBC raised £3 million before expenses through a placing of 15,000,000 new Ordinary Shares at 20p per share. The shares were placed with existing and new institutional investors and certain directors and the proceeds will be used to further the Company's investment in its digital music downloading technology.

### **Smooth Operations deferred consideration**

The acquisition of the business of Smooth Operations in August 2004 included a maximum deferred consideration of £1.9 million depending upon the profit growth achieved by Smooth Operations in each of the two years following the acquisition. The final part of the deferred consideration of £1,235,000 became payable in September 2006, comprising a cash payment of £741,000 and the issue of approximately 2.44 million new UBC ordinary shares. The final part of the deferred consideration was paid in October 2006.

### **Investment in Digital Music Downloading & digital radio**

In the six-months to 30 September 2006 UBC invested the following amounts in digital radio and the development of digital music downloading:

- Expenditure on Classic Gold Digital licences of £494,000 (2005: £483,000), which related to transmission of Classic Gold Digital on digital multiplexes primarily covering Northern England and London;
- Investment of £552,000 (2005: £175,000) in Digital Music Downloading, of which £470,000 was capitalised;
- Joint Venture Investment of £321,000 (2005: £231,000) in Oneworld Radio.

### **Capitalisation of investment in Digital Radio Music Downloading**

The Board has decided to capitalise £470,000 of its total investment of £552,000 in the period in the development of digital radio music downloading. Capitalising part of the Company's investment is a requirement under IFRS. It is UBC's intention to comply in full with IFRS by September 2007.

### Sale of investment in DNN

In July 2006 UBC received cash proceeds of £66,000 from the sale of its 28.05% shareholding in the digital radio station DNN. UBC's investment in DNN was a non-core investment by the Company.

### Cash

At 30 September 2006, UBC had cash in the bank of £4.2 million (2005: £2.5 million).

### Payment of dividend

The Board is not recommending the payment of a dividend for the interim period.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

	Unaudited Six months ended 30 September 2006 £'000	Unaudited Six months ended 30 September 2005 £'000	Audited Full year ended 31 March 2006 £'000
<b>Turnover (including share of joint ventures)</b>	<b>9,100</b>	9,451	19,484
Less: Share of turnover of joint ventures	(48)	(56)	(49)
<b>Group turnover</b>	<b>9,052</b>	9,395	19,435
Cost of sales	(6,619)	(6,952)	(14,352)
<b>Gross profit</b>	<b>2,433</b>	2,443	5,083
Administrative expenses before digital licence costs, development costs and goodwill amortisation	(1,836)	(1,754)	(3,519)
Digital licence costs	(494)	(572)	(1,145)
Development costs	(82)	(175)	(70)

Goodwill amortisation	(271)	(271)	(542)
<b>Total administrative expenses</b>	<b>(2,683)</b>	<b>(2,772)</b>	<b>(5,276)</b>
<b>Operating loss</b>	<b>(250)</b>	<b>(329)</b>	<b>(193)</b>
Share of operating loss in joint ventures	(283)	(229)	(522)
<b>Total operating loss: Group and share of joint ventures</b>	<b>(533)</b>	<b>(558)</b>	<b>(715)</b>
Exceptional non-operating items	66	629	363
Interest receivable	52	62	119
Interest payable	-	(1)	(1)
(Loss)/profit on ordinary activities before taxation	(415)	132	(234)
Tax charge	-	-	(10)
(Loss)/profit on ordinary activities after taxation	(415)	132	(244)
Equity minority interest	68	50	117
<b>Retained (loss)/profit for the financial year</b>	<b>(347)</b>	<b>182</b>	<b>(127)</b>
<b>(Loss)/profit per share</b>			
Basic-pence	(0.20)	0.11	(0.07)
Diluted-pence	(0.19)	0.10	(0.07)

**CONSOLIDATED BALANCE SHEET**  
**AS AT 30 SEPTEMBER 2006**

<b>Group</b>	<b>Unaudited As at 30 September 2006 £'000</b>	Unaudited As at 30 September 2005 £'000	Audited As at 31 March 2006 £'000
<b>Fixed assets</b>			
Goodwill and intangible assets	3,417	3,470	3,220
Fixed asset investments	306	266	306
Tangible assets	278	197	189
	<b>4,001</b>	<b>3,933</b>	3,715
<b>Current assets</b>			
Work in progress	17	34	36
Debtors	5,024	4,210	3,459
Cash at bank and in hand	4,218	2,519	4,677
	<b>9,259</b>	<b>6,763</b>	8,172
<b>Creditors: amounts falling due within one year</b>	<b>(4,404)</b>	<b>(4,070)</b>	(5,529)
<b>Net current assets</b>	<b>4,855</b>	<b>2,693</b>	2,643
Total assets less current liabilities	<b>8,856</b>	<b>6,626</b>	6,358
<b>Creditors: amounts falling due after more than one year</b>	<b>(337)</b>	<b>(337)</b>	(337)

Investment in joint ventures			
Share of gross assets	176	110	143
Share of gross liabilities	(225)	(175)	(221)
<b>Provisions for liabilities and charges</b>	<b>(49)</b>	<b>(65)</b>	<b>(78)</b>
<b>Net assets</b>	<b>8,470</b>	<b>6,224</b>	<b>5,943</b>

#### Capital and reserves

Called up share capital	1,898	1,717	1,748
Shares to be issued	494	494	494
Share premium account	18,182	15,325	15,389
Other reserves	(801)	(801)	(801)
Profit and loss account	(10,742)	(10,086)	(10,395)
<b>Equity shareholders' funds</b>	<b>9,031</b>	<b>6,649</b>	<b>6,435</b>
Equity minority interest	(561)	(425)	(492)
<b>Capital employed</b>	<b>8,470</b>	<b>6,224</b>	<b>5,943</b>

#### CONSOLIDATED CASH FLOW STATEMENT SIX MONTHS ENDED 30 SEPTEMBER 2006

	Six months ended 30 September 2006 £'000	Six months ended 30 September 2005 £'000	Year ended 31 March 2006 £'000
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(2,576)</b>	<b>(1,352)</b>	<b>1,312</b>

<b>Returns on investments and servicing of finance</b>			
Interest received	52	62	119
Interest paid	-	(1)	(1)
<b>Net cash inflow from returns on investment and servicing of finance</b>	<b>52</b>	<b>61</b>	<b>118</b>
<b>Taxation</b>			
UK Corporation tax received	-	8	8
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets	(163)	(79)	(136)
Purchase of intangible fixed assets	(470)	-	(326)
Sale of tangible fixed assets	-	7	11
Loans to joint ventures	(311)	(231)	(511)
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(944)</b>	<b>(303)</b>	<b>(962)</b>
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings	-	(399)	(399)
Sale of subsidiary undertakings	-	932	932
Sale of interest in joint ventures	66	-	-
Net overdrafts disposed of with subsidiary undertakings	-	39	39
<b>Net cash inflow from acquisitions and disposals</b>	<b>66</b>	<b>572</b>	<b>572</b>
<b>Net cash (outflow)/inflow before financing</b>	<b>(3,402)</b>	<b>(1,014)</b>	<b>1,048</b>
<b>Financing</b>			
Issue of ordinary share capital	3,002	-	96
(Expense)/refund of expense of share issue	(59)	35	35
<b>Net cash inflow from financing</b>	<b>2,943</b>	<b>35</b>	<b>131</b>
<b>(Decrease)/increase in cash in the year</b>	<b>(459)</b>	<b>(979)</b>	<b>1,179</b>

Cash balances at the beginning of the year	4,677	3,498	3,498
<b>Cash balances at the end of the year</b>	<b>4,218</b>	2,519	4,677
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<b>Represented by</b>			
Cash and bank balances	4,218	2,519	4,677
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## NOTES

### 1 **Basis of Preparation**

These financial statements do not constitute statutory accounts within the meaning of the Companies Act 1985 and are unaudited. The figures for the year to 31 March 2006 have been extracted from the statutory accounts for that year that have been delivered to the Register of Companies and contain an unqualified audit report. The financial information contained in this interim statement does not constitute accounts as defined by Section 290 of the Companies Act 1985.

### 2 **Accounting Policies**

The statements have been prepared on the basis of the accounting policies applied at the year ended 31 March 2006.

### 3 **(Loss)/profit per share**

The (loss)/profit per share for the six months ended 30 September 2006 is 0.20 pence (2005: 0.11 pence). The (loss)/profit per share has been calculated based on the (loss)/ profit for the period and the weighted number of shares in issue during the period.

### 4 **Taxation**

The group has trading losses for the period 30 September 2006 and has not provided for taxation for the period.