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### UPSTREAM MARKETING & COMMUNICATIONS INC (AIM: UPS)

#### Background to the company and Results for year to December 2006

*(Not yet representative of a group demonstrating 40% organic growth, with plans for rapid expansion)*

Business:	Advertising & Media group focussed on China & SE Asia		
LSE Ticker	UPS	Listing	AIM
Share price	5.25p	Market sector	Media
Shares in issue (m)	133.5m		
Market Cap	£7.0m	Next Results	Oct 2007

Upstream has reported the first results in its new form (for 12 months to end Dec 2006) having in October 2006 reversed Hong Kong based marketing company Upstream Asia (UAL) into cash shell Raven Capital, and at the same time completed a small placing (at 20p/share) for working capital purposes.

Raven did not bring any operating activities, merely cash in its balance sheet amounting to around £28,000, in addition to which were net placing proceeds amounting to some £175,000.

The only operating company at the year end therefore was Upstream Asia, which returned an operating loss for the 12 months of 2006 amounting to US\$52,000, in addition to which US\$10.8m of goodwill on its acquisition (involving consideration in shares at 20p amounting to £15.94m) has been written off, leaving a stated net loss for the year to Dec 2006 of US\$10.9m. The goodwill write-off has left net shareholders' funds amounting to US\$376,000, and net cash in the balance sheet of US\$307,000.

Upstream's stated strategy is to expand by acquisition, as well as by organic growth which was some 30% in the latest year. It has already made one acquisition in March 2007, agreeing to pay up to £800,000 in shares over a three-year earn-out period for its Australian affiliate company Macro Consulting, now renamed Upstream Australia. In its results the company says that it has in addition a 'solid pipeline of boutique and medium-sized acquisition targets in strategic sectors'

While stated turnover for the year just ended, while growing fast still appears modest, it spans a period before Upstream had completed recruiting its present business getting team. We understand in fact that the 'run-rate' of income is now some US\$8m per annum – which should start to show through in the interim results for the current year. In addition will be a first time contribution from Upstream Australia.

## Summary Results

Years to end Dec	2003	2004	2005	2005	2006
	£	£	£	restated US\$	US\$
Total Revenue	749,592	834,223	1,119,913	2,026,000	2,863,000
Operating profit	(967)	21,476	35,638	62,000	(52,000)
Depreciation/impairment/Fx	(37,245)	(13,605)	(15,166)	(25,000)	(37,000)
Pre-tax profit	(38,212)	7,871	20,472	37,000	(89,000)
tax	-	(1,733)	(5,136)	(9,000)	-
Goodwill write-off	-	-	-	-	(10,783,000)
Net loss for the year	(38,212)	6,138	15,336	28,000	(10,872,000)
Year end shares in issue					133,541,670
Average shares in issued during year				79,675,002	94,479,385
Operating earnings per share (US cents)				0.04	(0.09)
Net tangible assets / share (US cents)					0.28

## Background

PR group Upstream Marketing (formerly Upstream Asia) has been building a presence in the burgeoning Chinese and SE Asian economy – just in time for the explosion in corporate PR and communications spending that the 2008 Beijing Olympics, and the 2010 China Expo will engender – not to mention the growth being seen from China’s recent entry into the WTO.

No other quoted media group – in Europe or in the US – has the same focused exposure. And no other has the scope to grow rapidly from what is currently a small base.

Upstream came onto AIM in October 2006 backed among others by AIM quoted Corvus Capital and its associates, via a £16m reverse takeover of offshore cash shell Raven Capital Inc, which had been floated in December 2004 with the intention of investing in a hedge fund.

*As a result of Raven’s initial stated focus on a different sector, and with little cash raised at the flotation, Upstream has practically no shareholders as yet who would have invested in the media sector, where it is still little known. With acquisitions to be funded by share placings however, it will come, for the first time, onto the radar of institutions more familiar with the sector’s – and China’s - attractions.*

Funded with venture backing and from retained earnings, Upstream Asia had spent 5 years since it was established in Hong Kong in 2001 building a network of 6 offices and 70 business-getting staff, of whom 2/3rds are now in China and Singapore. With affiliates, Upstream is now represented in 15 locations across SE Asia including India and Thailand, and following the achievement of a US\$2m turnover in 2005, with positive EBTDA since mid 2003, turnover growth was 41% in 2006 and is continuing the momentum in the current year before the benefit from the March acquisition of Upstream Australia.

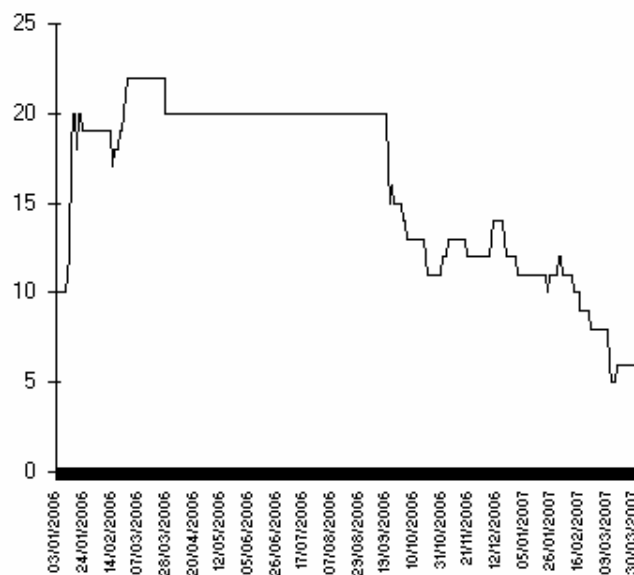
2006 bore the costs of further expansion and listing, so that a small operating loss was made. However, with the team and its offices now in place, the rapid growth in revenue being seen should result in more substantial profits growth in the financial year just starting, as well as a first time contribution from Upstream Australia, which made a pre-tax profit in 2006 of £48,000.

However, without knowing what other up-front costs might still be incurred, we are reluctant to make a profit forecast. A better indication of progress should be available with the interim results.

Nevertheless, we think that now presents an excellent opportunity to invest in an ambitious group, whose toe-hold in China (where it was recently recognised by Fortune Times magazine as ‘one of China’s 10 most prominent PR firms’) has already (we believe) attracted the attentions of some large international media groups.

**SHARE PERFORMANCE - apparent weakness is illusory.**

*The Share Price History of Raven Capital to Oct 2006 and Upstream.*



Upstream Communications : Share price since October 2006  
 Raven Capital : Share price up to October 2006

The reverse into Raven Capital (RVN) at the latter’s 20p share price put a value of almost £26m on Upstream – which, for a company only just breaking even in a competitive sector with a turnover of only £1m seemed a little high – even though turnover is increasing rapidly now.

That high pricing was an legacy of Raven’s history, having been floated in December 004 as a cash shell with net assets of £260,000, or 3.25p per share, its shares rose to around 20p in early 2006 after it announced a tie-up with investment and venture capital company EP (Singapore) who invested a further £150,000 (at 1.1p) and proposed to bring opportunities to Raven. The subsequent strength in Raven’s shares was a consequence of EP’s successful track record under local entrepreneur and ex CSFB and Nomura merchant banker Stephan Ludwig.

Following EP's introduction of Upstream and the reverse into Raven the newly listed UPS shares fell to 12p when trading resumed in October 2006, although since then have drifted (on very thin volume) to what we think represents good value at around 5.5p, where Upstream is valued at £7m compared with what we estimate is its current annualised turnover of around £4-5m.

## **PR AND CORPORATE COMMUNICATIONS IN CHINA**

China represents an extremely attractive new and fast growing market – at all levels - for corporate communications and marketing. This is also the case throughout the whole SE Asian economy, which excluding China's 10% pa, has seen and has been forecast to experience, growth at least of 5% annually in 2004 to 2007.

For obvious historic and political reasons Chinese corporations (and those in some nearby countries) have up to now been slow to recognise a need to promote themselves. But with China's opening up to International Business through its relatively recent entry into the WTO; and with the Beijing Olympics next year 2008 and the China Expo in 2010, the requirement for Chinese corporates to promote themselves and their products both within and outside China, and for externally based internationals to promote themselves within China, will expand even further. The public relations industry in China as a result has been measured as growing currently at more than 30% annually.

Upstream has been building a network of offices and individuals with the necessary expertise to facilitate its participation in this market. This year it has been recognised (by the Beijing based China Fortune Magazine) as 'One of China's 10 most prominent PR firms'. Yincheng Zhao, President of Fortune Times, said:

'The judges' panel is deeply impressed by Upstream's rapid growth during its brief five-year history in China. Upstream has a good corporate image and culture, has delivered excellent client service and has earned an outstanding reputation, winning respect and recognition from the media and clients alike.'

This is being reflected in Upstream's turnover, which is, we understand, currently (early 2007) running at an annualised US\$8m, compared with a mere £1.1m for the whole of 2005.

### **Trends within China which will underpin Upstream's growth include:**

The opening up, through China's admission to the WTO in 2001, of its consumer and corporate market to overseas companies, and the deregulation of its banking, insurance, and telecoms industries.

Multinational companies entering China need the assistance of local media companies in order to achieve their marketing aims.

With corporate financial markets still expanding in Hong Kong and Singapore and developing within China, there is a large new market for the financial sector to promote itself to other corporates and to the consumer.

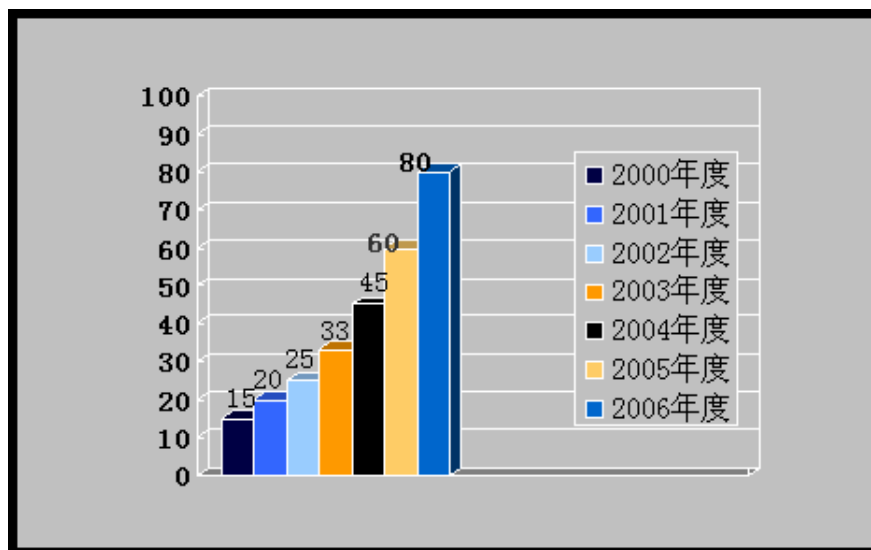
The consumer market, while accessible to a much smaller proportion (around 20% currently) of the population than in developed economies, has enormous scope to extend to the rest, and even so is already the 3<sup>rd</sup> largest in the world – accounting for 12% of total world consumer demand.

This potentially strong consumer growth is encouraging overseas suppliers to spend more than average on promotion in order to obtain an early stage advantage in their markets.

Chinese citizens are now free to travel worldwide, opening up a large new market for internal and external transport and hotel groups. In line with its focus on the fastest growing business sectors, Upstream was appointed by Qantas to help establish its Beijing-Sydney service in 2006, and already has client work with Hilton and Mandarin Hotels in China.

The internet in China, while penetration is still relatively low, is nevertheless more than half the size that in the USA, with scope to grow much larger. Web based selling and promotion is therefore becoming a vital part of the marketing industry. In fact, Asia Pacific according to observers and described in the Asia Digital Marketing Association 2007 year book (see appendix for web site) is now at the leading edge of digital marketing techniques.

The chart is taken from the 2007 China Institute of Public Relation report on growth trends in Public Relations in China. The 80 figure for 2006 equates to US\$1bn.



## UPSTREAM'S SERVICES OFFERED AND STRATEGY FOR GROWTH

To position itself to tap this growth, Upstream has been concentrating on marketing disciplines, and clients in subsectors, which it thinks have potential for the fastest and most profitable growth.

It is important to realise that Upstream, while a 'full service' provider, is not a fulfilment house (except for creative web development) but is more a consultancy and strategic adviser. It therefore does not 'pass through' outsourced costs as do some other media groups (who usually do not separate out such sources of their stated income) and its stated turnover is therefore a genuine measure of the fees it is earning for its own creative work. Gross margins accordingly are high, but offset by a larger proportion of staff costs than in a 'full service' provider and, until now, by the heavy up-front costs of recruiting staff and developing its business. From its clients' perspective it is an 'above-the-line' marketing expense.

### *Upstream describes the services it offers as*

- Strategic branding, and public relations consultancy
- Corporate and marketing communications services - on-and off-line.
- Arranging promotions, and supporting corporates with entry into China

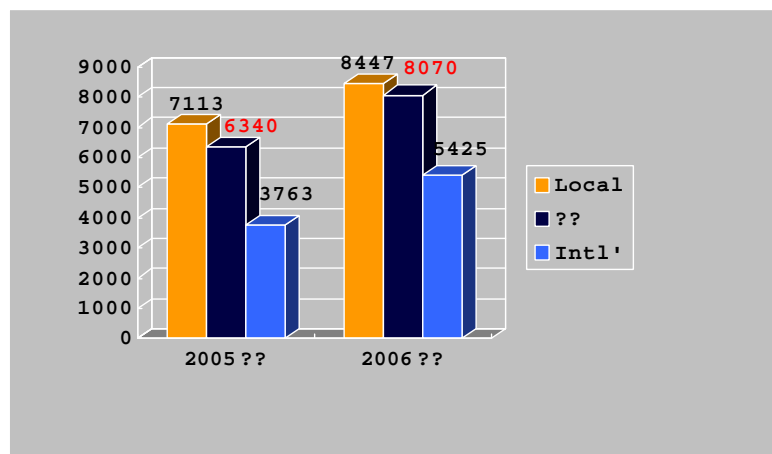
All of which, together, enable Upstream to create and manage multi-disciplinary marketing campaigns.

### *And the sectors on which it is concentrating are*

- Corporate and Financial
- Consumer (including retail) and Travel (including hotels)
- Telecoms and Technology (TMT)

*Specific services offered include Web design and digital marketing campaigns, and access to the media via Upstream's own distribution platform 'Asia Release'.*

The table is taken from the 2007 China Institute of Public Relations report and shows the average turnover, by source of business, for the top 20 PR agencies in 2005 and 2006.



## *Acquisitions*

Complementary to this growth strategy will be acquisitions. The PR industry in Asia still has many small operators, who would benefit from joining a group such as Upstream within whom they can cross-sell their own expertise and benefit from its infrastructure. This process has already got under way with the acquisition in March 2007 of the Australian PR firm **Macro Consulting** (founded in 1985 and an affiliate of Upstream since 2003) and now renamed Upstream Australia, for an initial 1m Upstream shares and another 3m contingent on profits in 2007 to 2009. Macro made a pre-tax profit of £48,000 in 2006 and had Dec 2006 net assets of £40,500.

Macro Consulting has produced client introductions for the Upstream Group which include Qantas, GMI, and Informatica, while in the other direction it has produced business wins in Australia which include O2 and Skype. But the China connection looks like becoming the most significant element of its prospects, with China, according to Upstream, fast becoming Australia's largest trading partner with many major Australian firms having opened offices there. The Qantas brief, for example, was to market a new air route between Sydney and Beijing.

## *Other Clients*

Clients so far across the group have included Alcatel, Apple, Control Risks, e-Bay, Linksys, Mandarin Oriental Hotels, EDS, O2, Proudfoot Consulting, SKF, Toys 'R' Us, Qantas, and Hewlett Packard. Upstream has also, among others, arranged media relations for the Japanese trade show CEATEC in Beijing and Berlin, and for the 2006 Beijing World Food Program event.

Overall, in five years Upstream has acted for over 50 separate corporate clients, of whom in 2006 the top ten accounted for less than 45 % of revenue.

The group is however still small, and takes only a small part of its clients' marketing spend. So its strategy is to pitch for a higher proportion by offering the reach of the office and affiliate network that it has been building across the China and SE Asia region, and by strategic partnerships signed only recently with – e.g. – IPREX, Eurocom, GFC/Net, and the Constella Network. Helping the process should be the recent nomination Upstream obtained in the 2007 China Fortune Times.

## **PEOPLE**

CEO David Ketchum (now 46) founded Upstream in 2000 after a career at vice-president level in Hill & Knowlton, Burson-Marsteller, and Calvin Klein. Other directors have come from the fund management industry, while senior staff generally have over 10 years experience of the Asian PR and communications markets.

## **CORPORATE HISTORY**

### **Financing and performance**

For a start-up group which has had to finance the up-front costs of getting together a team of high-flying business getters, Upstream Asia's financial performance before the merger with Raven had been excellent. Except for a c £100,000 initial investment in 2000 by the two founder shareholders (David Ketchum and his wife who currently have c 30% between them) and Hong Kong venture capital group Techpacific, it has been self-funding – at least since 2002. At end 2005 Upstream's balance sheet showed £60,000 of cash and no borrowings, against other net current liabilities of £32,000.

Before depreciation and amortisation, operating income had increased every year since 2002, with a net £35,638 (after directors' remuneration) achieved in 2005 on total revenues of £1.1m (up from £0.82m in 2004)

The reverse into Raven Capital in October 2006 to obtain an AIM listing involved the issue of only 2.5m new shares at 20p (to raise £175,000 after expenses) and acquired net cash in Raven of £57,000. Pro-forma net cash after the deal (as at Dec 2005) was therefore £372,000, although we estimate that much will have been used subsequently for listing and other expenses.

Raven Capital (LSE:RVN) was listed on AIM in December 2004 as a £350,000 cash shell intending to invest in the hedge fund sector. When no suitable acquisition could be found, it was approached by Singapore based EP Investments, who invested a further £150,000 (for an initial 30% stake, subsequently increased to 42%) with a proposal to bring other opportunities.

### **Shareholders**

Subsequently EP introduced Upstream Asia, which reversed into Raven (then with 44.4m shares in issue) in October 2006 in exchange for 79.7m new Raven shares, with another 2.5m shares issued (at 20p) to fund listing costs and for working capital purposes. Raven then changed its name to Upstream Marketing & Communications Inc (LSE:UPS)

Upstream Asia had up to then been financed by Hong Kong based and BVI registered Techpacific Investments which held 25.4% of the shares alongside founder David Ketchum and his wife (who works in the business) with 50.8%, and 11 other private investors and funds with the remaining 23.8%.

This – after the merger - left shareholdings in Upstream as follows:

Former Raven Capital shareholders:

EP Singapore Pte Ltd	13.1m shares	=9.8%
Corvus Capital Inc	11.1m shares	=8.3%
Other individuals	27.1m shares	=20.3%
Oct 2006 placing	2.5m shares	=1.9%
Former Upstream Asia shareholders		
Techpacific.com (BVI) Investments	20.3m shares	=15.2%
David & Jane Ketchum	40.5m shares	=30.3%
11 others	18.9m shares	=14.1%

Total initial shares in issue 133.5m

Subsequently 1m shares have been issued as initial consideration for Upstream Australia with a further 3m shares standing to be issued depending on future performance.

There are also warrants in issue entitling Nomad Strand Partners to subscribe up to Sept 2009 for 1% of then issued ordinaries at 10p per share.

Lock-ins are in force for Techpacific and Corvus up to Sept 2007, and for David and Jane Ketchum up to Sept 2008 (or from Sept 2007 with permission from broker Walker Crips)

Techpacific is a Hong Kong Growth Enterprise Market listed (HKGEM: 8088) merchant banking and venture capital group established in 1998, which also majority owns AIM listed Crosby Capital Partners (AIM:CSB) which is a banking and fund management group focused on SE Asia.

Techpacific, in turn, was originally backed by AIM listed and BVI registered Corvus Capital Inc which sold its stake in 2006. Corvus's still has 11.1m shares in Upstream which represented 5% (at 15p) of its (Corvus's) £33m investment portfolio as at end 2006, and has a director on the board.

### **Web sites**

[www.aboutupstream.com](http://www.aboutupstream.com)

[www.upstreamasia.com](http://www.upstreamasia.com)

**The Asia Digital Marketing Association 2007 year book** can be downloaded from [www.asiadma.com](http://www.asiadma.com)

## Financial Record and latest Results

Years to end Dec £m	2003	2004	2005	Restated in US\$	
				2005	2006
Upstream Asia UAL (PR)	£	£	£	US\$	US\$
Retainers & Project fees	736,224	819,596	1,103,504	1,996,000	2,693,000
Other income	13,368	14,627	16,409	30,000	170,000
Total Revenue	749,592	834,223	1,119,913	2,026,000	2,863,000
Operating costs	(187,315)	(222,619)	(532,398)	(1,964,000)	(2,915,000)
Directors & Staff costs	(563,244)	(590,128)	(551,877)		
Net operating income	(967)	21,476	35,638	62,000	(52,000)
EBTDA margin	(0)	0	0		
Depreciation/impairment/Fx	(37,245)	(13,605)	(15,166)	(25,000)	(37,000)
Pre-tax profit	(38,212)	7,871	20,472	37,000	(89,000)
tax	-	(1,733)	(5,136)	(9,000)	-
Goodwill write-off	-	-	-	-	(10,783,000)
Net loss for the year	(38,212)	6,138	15,336	28,000	(10,872,000)
Year end shares in issue					133,541,670
Average shares in issue during year				79,675,002	94,479,385
Earnings per share (US Cents)				0.04	(0.09)

## Balance Sheets

Balance Sheets	2003	2004	2005	Restated in US\$	
				2005	2006
Goodwill	-	-	-	-	-
Property, plant etc	17,827	13,990	20,178	35,000	88,000
Trade Receivables	185,295	176,895	276,856	562,000	612,000
Pre-payments	19,420	25,411	42,018	-	-
Other receivables	6,736	9,804	7,848	-	-
Cash & Equivalents	63,193	64,904	60,476	104,000	307,000
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	292,471	291,004	407,376	701,000	1,007,000
Trade payables	51,153	65,135	126,217	609,000	602,000
Other accruals	218,026	154,377	202,570	-	26,000
Director loans	2,496	40,894	25,121	-	-
Provisions	-	1,648	5,512	9	3,000
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	271,675	262,054	359,420	609,009	631,000
Share Capital	9,988	9,988	9,988	16,000	667,708
Share Premium	84,701	84,701	84,701	-	-
Reserves (P&L acc)	(73,893)	(65,739)	(46,733)	67,000	(292,000)
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Shareholders' funds	20,796	28,950	47,956	83,000	375,708
Goodwill written off					10,783,000
Year end shares in issue					133,541,670
Net assets / share US cents					0.28
Net assets / share inc goodwill cents				8.36	

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