BKN INTERNATIONAL AG
2007 ANNUAL REPORT

Financial Calendar

Publication of Annual Report 2007	**27 November 2007**
Annual General Meeting 2007	**14 February 2008**
Publication of Results - 1st half 2008	**15 May 2008**

Contents

Consolidated Management Board Report including Chairman and Chief Executive Statement

We are pleased to present the financial results of BKN International AG ("BKN" or the "Company"), a global animation production and distribution company that is listed on the Frankfurt Stock Exchange and quoted on the AIM Market of the London Stock Exchange ("AIM"). We license our product in approximately 95 countries and dub in about 30 languages. This Consolidated Report of the Management Board will cover audited financial statements under IAS accounting rules for the period ended 30 September 2007 and compared to the similar period in fiscal 2006.

The Company had a very strong year during which we have launched new products and increased our client base, expanded into North America and Europe especially in our Home Entertainment segment, increased our profitability and significantly strengthened our balance sheet.

A. Group Structure

- The Group consists of BKN International AG, the parent company in Germany, with active operating trading subsidiaries in the United Kingdom ("BKN New Media Ltd." and "BKN Home Entertainment Ltd."), the United States ("BKN New Media Inc." and "BKN Home Entertainment Inc.") and Spain ("BKN New Media S.L.").

- The Group creates, produces, distributes and markets animated properties for television and DVD distribution, as well as licenses its characters for licensing and merchandising and the internet.

- The Company reports in Euro and trades in Euro, UK Sterling, and US Dollars.

- The Company is listed on the General Standard of the Frankfurt Stock Exchange (March 2000) and quoted on the AIM (December 2003).

B. Film Catalogue and New Properties

- We have successfully expanded the Company's film catalogue, at 30 September 2007, to 82 titles and 2,035 episodes compared to 76 titles and 1,909 episodes as published in our 2006 Annual Report. BKN owns the 6th largest film library of global animation (based on last year's statistics).

- The Company commissioned the production and distribution of the property entitled *Zorro – Generation Z®* (26 episodes) along with the film entitled *Zorro – Return to the Future®* (62 minutes). At the end of the fiscal year, the Company delivered 13 episodes and the film and will deliver the second 13 episodes in the first half of our fiscal 2008.

- The Company also commissioned the production and distribution of the property entitled *Dork Hunters from Outer Space®* (36 episodes) along with the film entitled *Dork Hunters®: The Movie* (62 minutes). At the end of the fiscal year, the Company delivered 18 episodes and will deliver the second 18 episodes plus the film in the first half of our fiscal 2008.

- The *Legend of the Dragon* (39 episodes) continues to contribute to overall revenues. In fiscal 2007, we added €2.8 million bringing the total to date to €11.9 million.

- The *Kong* franchise (40 episodes plus 2 films) continues to expand. In fiscal 2007, we added €1.1 million bringing the total to date to €14.0 million.

- The film catalogue continues to deliver strong earnings on a steady pace as the Company finds new markets for its products.

C. Financial Highlights

- Total Sales increased 29% to €16.3 million (prior year: €12.6 million). Total Gross Income increased 29.5% to €18.0 million (prior year: €13.9 million).

- Total Expenses increased 21% to €11.1 million (prior year: €9.2 million). Salaries and Other Expenses up 9%, amortisation up 53%.

- Earnings or Profit Before Tax increased 33% to €5.5 million (prior year: €4.1 million). Margin remains strong at approximately one-third.

- Net Income increased 12% to €5.0 million (prior year: €4.5 million), even after allowance for tax of €450 thousand versus a tax credit in 2006 of €377 thousand.

- EPS increased 7% to €0.305 (prior year: €0.286), after dilution from July 2007 capital increase.

- EBITDA increased 47% to €9.1 million (prior year: €6.2 million).

- Programming rights asset value increased to €53.7 million from €36.6 million in 2006.

- Share price performance on XETRA electronic exchange for 1 year return, as of 30 September 2007, was +18.48% versus the Prime Media Performance Index of +16.97% or a 109 index to the comparable market. (Source: Close Brothers Seydler AG, Frankfurt)

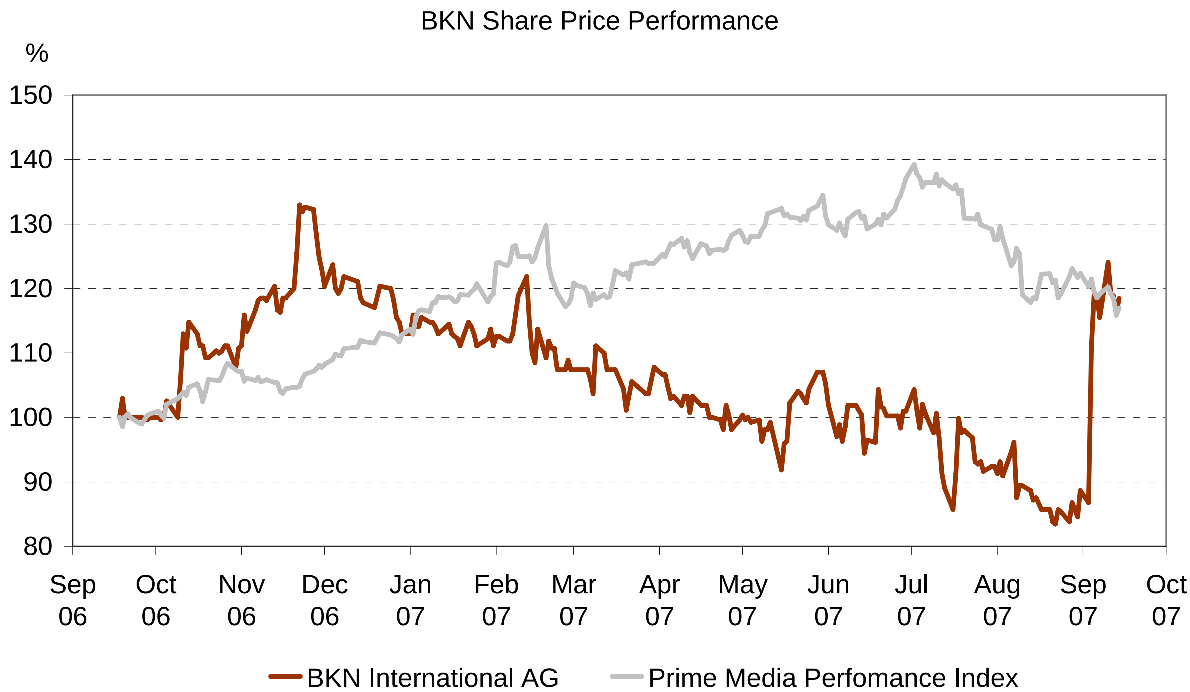
- Cash on hand totals €1.4 million versus €1.6 million last year. At 30 September 2007, the Company owned 246,143 of its own shares valued on that day at €772,889.

- The Company has made heavy investments in new television and film properties (€19.2 million), many of which will be delivered in 2008 – 2010, thereby positively impacting earnings for the next several years. The Company has identified all new product through 2010.

- Financial results reflect only 13 episodes of *Zorro - Generation Z*® and 18 episodes of *Dork Hunters from Outer Space*®. This is only 50% of the episodes in production for those two important series with the balance of the income phased into 2008.

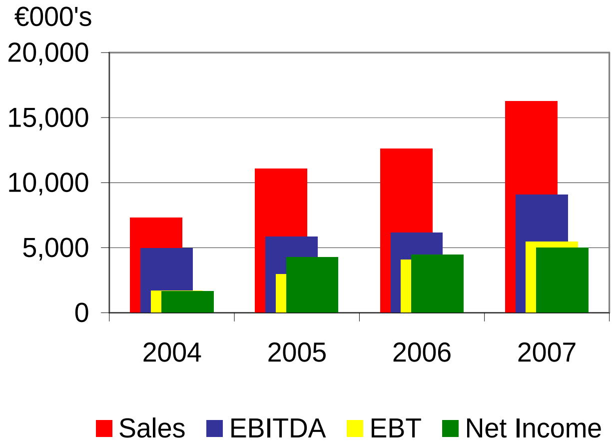
- The Company employs at the year end 36 full-time employees and consultants versus 36 at the end of 2006. The Company estimates that more than 100 people work on the production of its shows at various locations and for various vendors.

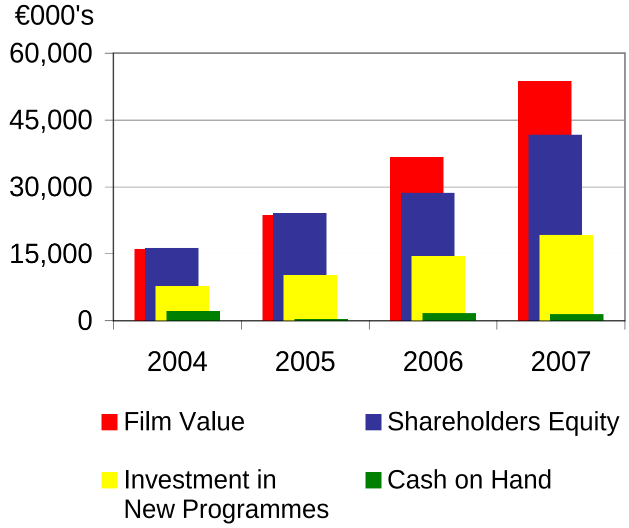
	FY 2004	FY 2005	FY 2006	FY 2007
Total Sales	7,306	11,098	12,610	16,267
Sales Growth	63%	52%	14%	29%
EBT	1,692	2,971	4,118	5,470
EBT Margin	23%	27%	33%	34%

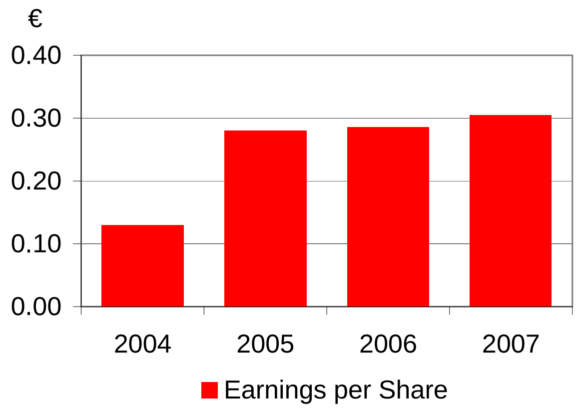


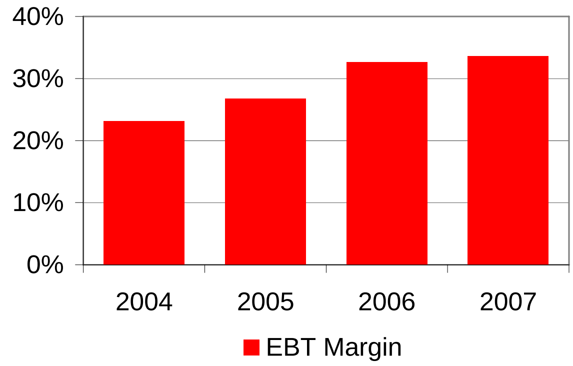
Source: Close Brothers Seydler AG, Frankfurt

D. Additional Financial Data









E. The New Animation Studio and the Digital Plan

- The market is dramatically changing from analog or standard definition to digital or high definition. The Company recognizes that conversion from analog to digital television will require significant changes in how we execute the production of our television programmes, especially as more TV channels convert to High Definition (in the USA, the HD spectrum will expand from 30 to over 100 channels in December 2007). Animation producers will be required to migrate away from the traditional 2D animation process and become proficient in new production systems consistent with the requirements of the HD format.

- It is our intention to make this conversion in the immediate future and to lead this production revolution with an eye towards becoming the premier supplier of HD children's programming.

- Accordingly, beginning with fiscal 2008, BKN intends to expand and produce entirely in Digital High Definition. We are organizing state-of-the-art facilities in London and Barcelona to take advantage of the wealth of talent in these locations. Both studios will be linked by high speed internet lines allowing the artists to communicate freely and openly so as to maximize quality and delivery time. Each location will have state-of-the-art computers and servers as well as the new WACOM tablets for artists.

- Opening day is 2 January 2008.

F. New Product

- The Company has identified two exciting new properties that will be produced in HD, each budgeted at €5.2 million. The properties will be delivered in part in fiscal 2008, but as well in fiscal 2009 and the first half of fiscal 2010 as follows:

- *Stone Age*™, a modern day comedy set in prehistoric times, initially consists of 52 episodes of 11 minutes each (Season I). Half of the episodes will be delivered in fiscal 2008 and the second half in the first half of fiscal 2009. Season II will consist of 26 episodes and will be delivered in the first half of fiscal 2010.

- *Pocket Penguin Adventures™*, set in Penguin Park on Chilly Bird Island, will initially consist of 52 episodes of 11 minutes each (Season I). Half of the episodes will be delivered in fiscal 2008 and the second half in the first half of fiscal 2009. Season II will consist of 26 episodes and will be delivered in the first half of fiscal 2010.

- The Company has identified all of the new product required to take it through the first half of 2010, all in Digital High Definition, just when the market is starving for this technological new breakthrough.

- All of this new product will be produced in our new in-house hi-tech facilities in London and Barcelona.

G. Business & Operating Environment

The children's market sector has experienced a number of changes in the last five years. In 2002 and 2003, most content suppliers struggled as broadcasters experienced reduced advertising income and therefore cut their acquisition budgets. A modest rebound was experienced in 2004 and 2005 and it seems like the current environment is more buoyant. While prices for animation have not increased, and in most cases remain flat, there are a number of dedicated 24-hour animation channels in the world (by some estimates, as many as 700) that require children's content, both from catalogues as well as new productions.

There have been a number of M&A transactions in the past few years in this space and it is expected that the market will continue to consolidate. Some examples include:

- Apax purchased Hit Entertainment in the U.K.
- Disney purchased Pixar in the U.S.
- 3i has purchased Chorion in the U.K.
- Liberty Media/Starz purchased IDT Entertainment in the U.S.
- Entertainment Rights in the U.K. purchased Classic Media in the U.S.
- Entertainment One in Canada purchased Contender Group in the U.K.
- The Orchard Group purchased Digital Media Group in the U.S.
- DeAgostini in Italy purchased Marathon in France
- EM.TV in Germany recently announced that it will sell all of its kids' entertainment holdings
- Chorion acquired The Copyrights Group
- Warner Bros. Home Entertainment Group acquired TT Games, maker of Lego Star Wars titles

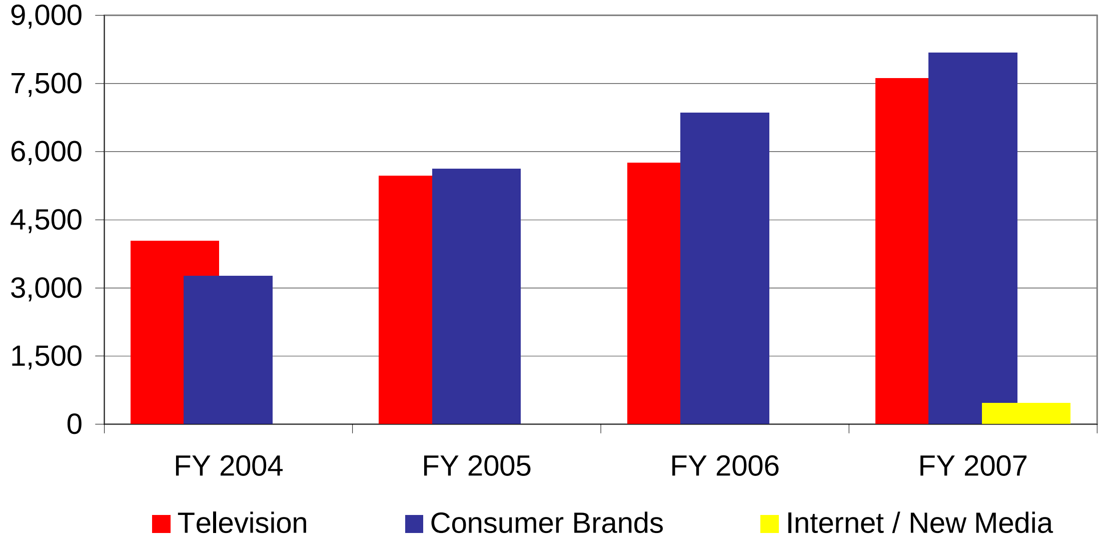
H. Internet and New Media

In this past fiscal year, the value of the internet for video streaming has truly expanded. BKN has a philosophy of carefully choosing its partners in this new space and has entered into deals only in the more mature U.S. market. Unlike many of our local competitors who own selected rights and therefore do not often control the internet streaming rights, BKN does hold these rights in perpetuity to all of its key titles.

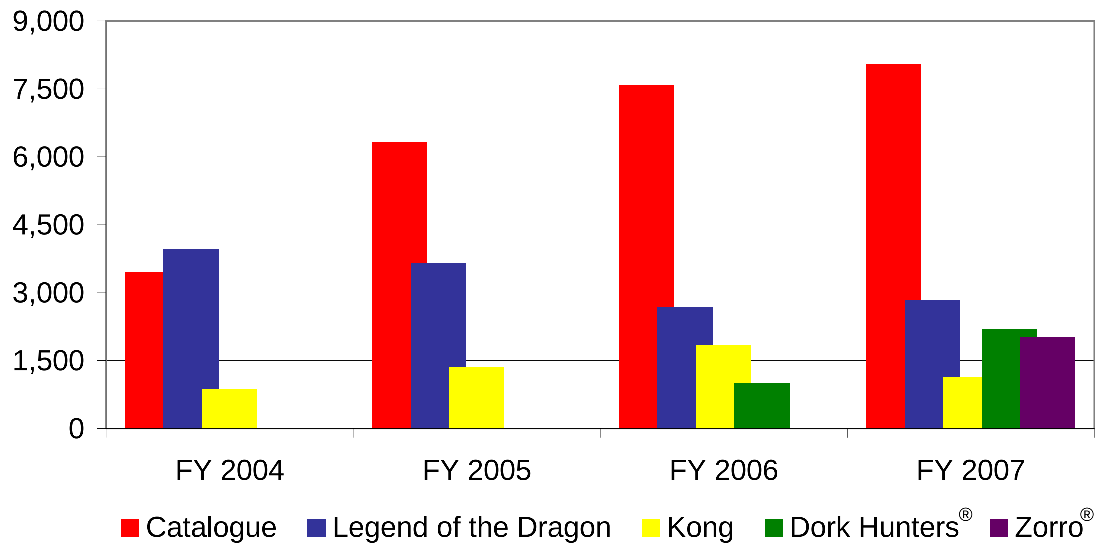
For the first time in fiscal 2007, the Company reported revenue from this segment of €468 thousand (3% of turnover). This is up to strictly from the U.S. and we expect that this segment will grow over the next several years.

I. Segment Reporting

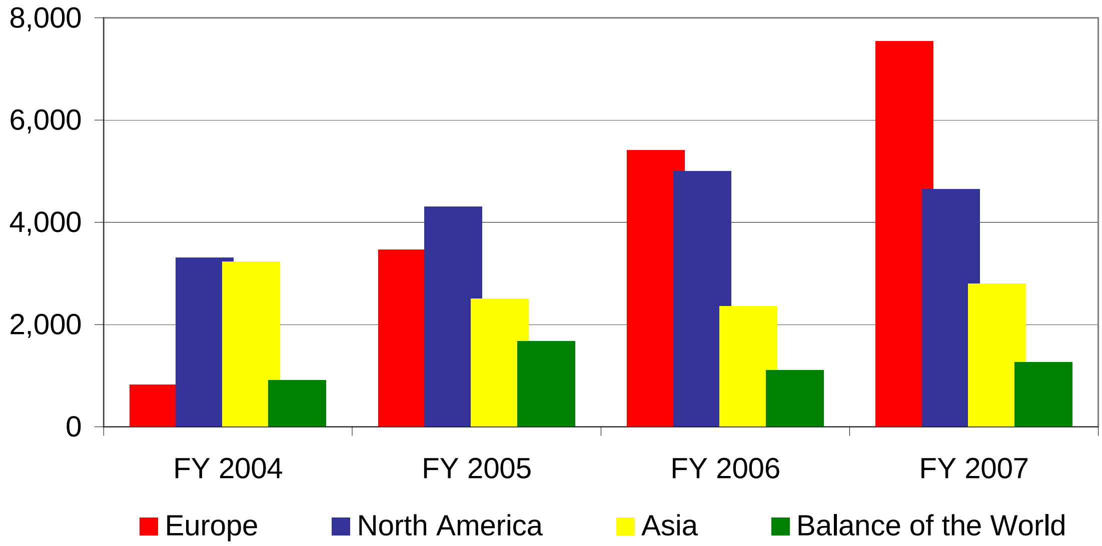
i. Sales by Segment (in €000's)



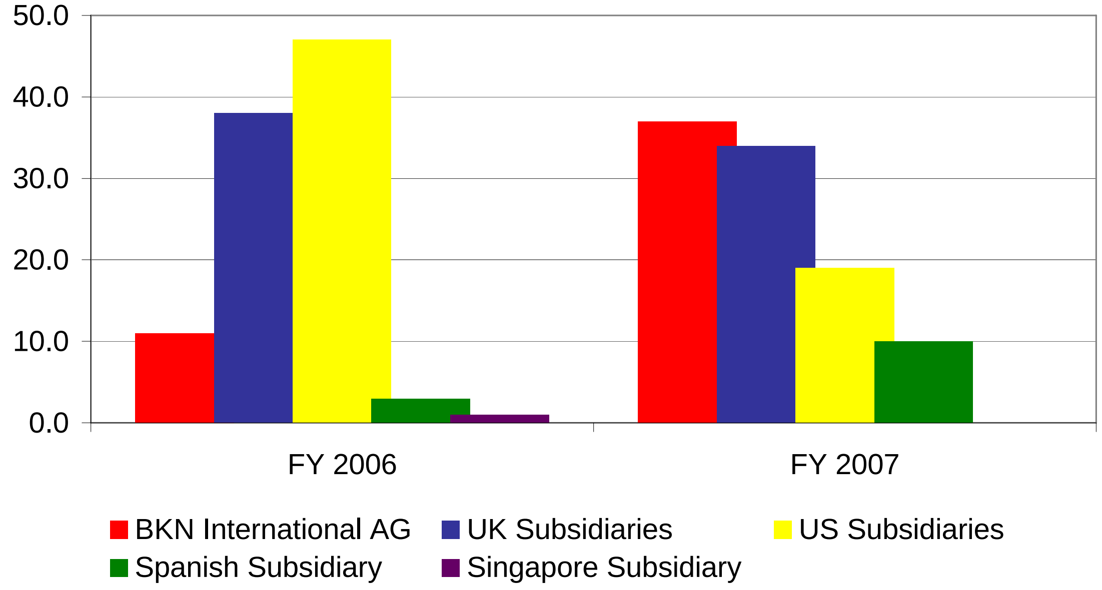
ii. Turnover by Property (in €000's)



iii. Turnover by Region (in €000's)



iii. Turnover by Company (in %'s)



J. Financing

- In January 2007, the Company entered into a general five-year facility with Commerzbank AG ("Commerzbank") in the amount of €5.0 million with a fixed interest rate of 6.3%. At 30 September 2007, the Company had repaid €500 thousand and has an open balance of €4.5 million repayable at a rate of €250 thousand quarterly.

- In January 2007, the Company repaid Anacapa Funding 1 LLC ("Anacapa") the full amount of the pending convertible note. The total repaid was €3.6 million which included €3.2 million in principal plus €100 thousand in interest plus a €300 thousand for early repayment. As this note accrued interest at over 10% annually, the Management Board felt that this was the correct approach.

- In February 2007, the Company secured a seven-year long term loan from H.E.A.T. Mezzanine S.A., initiated by HSBC Trinkaus & Burkhardt AG ("HSBC"), in the amount of €12.0 million at an interest rate of 8.25%. At 30 September 2007, the full amount was still due.

- In March 2007, the Company repaid convertible bonds issued in September 2004 to SDS Capital Group SPC Ltd. ("SDS Capital"). The total repaid was €2.9 million which was essentially all principal (interest was only €27 thousand).

- In July 2007, the Company issued 3,682,604 new shares to existing and new shareholders at a price of €2.45 per share and total proceeds of €9,022,380 before fees and expenses.

- In July 2007, the Company repaid Laurus Master Fund Ltd. ("Laurus") the full amount of the pending convertible note. The total repaid was €5.2 million which included €5.1 million in principal plus €100 thousand in interest.

- In September 2007, the Company entered into a new working capital facility with Commerzbank in the amount of €1.0 million for an unlimited term carrying a 6.5% interest rate. This facility is currently unused.

- In September 2007, the Company entered into an additional facility with Commerzbank to fund potential acquisition activity. The facility is for €3.0 million with an interest rate of 5.5% and a term ending 30 December 2008. This facility is currently unused.

In all, the Company paid €728 thousand in interests and early repayment fees in fiscal 2007 to refinance all of the expensive convertible notes. This amount is not expected to recur in fiscal 2008.

The only convertible note still on our balance sheet is the €1.0 million due to Tail Wind Fund Ltd. ("Tail Wind") in March 2008 with an exercise price of €5.211 per share.

K. Stock Options and Warrants

- At 30 September 2007, the Company still has outstanding 45,455 warrants to Tail Wind at an exercise price of €5.211 per share.

- At 30 September 2007, the Company still has outstanding 250,000 warrants to Laurus at an exercise price of €3.776 per share.

- At 30 September 2007, the Management Board holds a combined 895,649 stock options at an average €3.82 strike price. There are 8,500 options issued to employees at a €3.86 strike price.

As we expand further in 2008, it is likely that the stock option plan will be made available to a greater amount of executives to ensure key staff retention and to incentivise delivery of stronger Company performance.

L. The Management and Supervisory Boards, Key Talent

- The management team is well experienced and seasoned in the industry. Allen Bohbot (CEO) and Wayne Mowat (CFO) make up the Management Board and oversee the Company on a daily basis.

- Nicola Andrews is Managing Director for English and German-speaking markets.

- Laura Tapias is Managing Director for Spanish, Portuguese, French and Italian-speaking markets.

- Matthew Graham-Clare is Managing Director of all Home Entertainment activities.

- Richard Ungar is Executive Producer on all titles.

- There are three seasoned non-executive Directors that comprise the Supervisory Board including Karl Benetz as Chairman with Robert Paff and Michael Jack Kugler.

M. Shareholders' Structure

As of 30 September 2007, the Company believes that its significant shareholders, based on a share capital of 19.4 million shares, are as follows:

Shareholder	Holding
Charleville Investments	19.4%
Gordon Group Investments	16.2%
Allianz Global Investors	8.9%
Jack Kugler (Director)	8.2%
Crédit Agricole	7.0%
Allen Bohbot (Director)	6.5%
Dalton	6.2%
Carmignac	4.2%
Cominvest Asset Management	3.1%
DWS Investments GmbH	2.9%

N. Other Disclosures pursuant § 315 HGB (German Commercial Code)

- The remuneration policy allows for an annual fix payment to each member of the Supervisory Board of the Company. The remuneration of the Management Board mainly consists of a fix monthly payment as well as a Company-performance related remuneration. In addition, the members of the Management Board can participate at stock options plans on the basis of the pertinent resolutions at the Annual General Meetings. The assignment and the conditions are defined by the Supervisory Board.

- As per 30 September 2007, the subscribed capital is divided in 19,400,170 no-par value registered ordinary shares.

- In accordance with the Articles of Association, the Management Board is appointed by the Supervisory Board; furthermore, the legal requirements of § 84 AktG (German Securities Trading Act) are applicable. Any changes of the Articles of Association are subject to the statutory provisions. In accordance with the Articles of Association, changes pursuant § 179 Section 1 Sentence 2 AktG can be implemented by the Supervisory Board.

- In accordance with the Articles of Association, the Management Board is authorised, with the consent of the Supervisory Board, to issue shares in the limits of the authorised capital. In addition, according to the resolution of the Annual General Meeting, the Management Board is authorised to acquire own shares up to 10% of the share capital.

- Please compare the shareholders' structure (section M. Shareholders' Structure) for direct or indirect holdings of more than 10% of the Company's share capital.

No further compulsory disclosures are required.

O. Corporate Governance

- The Company is in good standing with the Frankfurt and London Stock Exchanges and complies with all rules and regulations.

- The Company has met all of the recommendations of the German Corporate Governance Code of Good Conduct, with regards to a company our size and complexity, with the exception of incentive based compensation for the Supervisory Board members who earn a flat annual compensation.

- The Management and Supervisory Boards met either in person or telephonically on fifteen separate occasions during the fiscal year and in addition, numerous telephone conversations took place between members of both boards to ensure full and accurate communication. The Management Board supplied the Supervisory Board with sufficient and comprehensive information throughout the year. In addition, there is an audit committee of directors to ensure proper transparency and control of the companies' activities. The Boards cooperated closely for the benefit of the enterprise.

- The Company has no borrowing or lending relationship with any of its Directors.

P. Business Risks

As with any business, there are variable risks such as:

- At this time, the Company does not hedge against currency fluctuation. While we report in Euro and maintain accounts in Euro, Sterling and US Dollars, a majority of our sales are in US Dollars and this is matched by a majority of our costs. The Company engages vendors throughout the world for its productions (Los Angeles, China, India, and Manila) and such contracts are typically in US Dollars. The Company believes that it is properly managing this currency fluctuation and has no need at this time to create hedging instruments whose cost would outweigh the benefit. The 2007 exchange position was immaterial (less than €10,000).

- Our major suppliers, as noted above, are in foreign locations as typical of the animation industry. We believe that all are credible, well funded and professional. The global nature of the industry allows the Company to source the best producers in cost and quality regardless of territory. We have not experienced any significant delays in production but this is always possible.

- We are expanding at a rapid pace. We believe that our creative and production staffs are well in control of all productions and budgets with local control at all locations.

- The children's market has historically been cyclical. At various points in the past two decades, the market has been over-supplied and at other points, it has starved for intellectual content. While we believe that the market is in a good place at this time, and will be for the near term, this is likely to change but only over the longer term. Although delivery platforms are expanding from solely TV and DVD towards the internet, BKN as an IP owner is well positioned to transition accordingly.

- Prices for children's content have been mostly flat in the last few years and it is not expected that the industry has any real pricing power. This is mitigated by the expansion of new channels dedicated to the sector.

- There are a number of producers, primarily in France and Canada, that have access to government subsidies and the broadcasters in those markets favor local producers. The Company does not receive any subsidies from any source although some of our partners may. It does not appear that other jurisdictions will expand government involvement in the sector and this seems in hand at this time. BKN's lack of dependence on governmental subsidies means that we have full control of the quality of our products which assures delivery of global rather than local content in all forms and venues.

- We trade in multiple jurisdictions throughout the world and the possibility of litigation to protect our assets and rights is increased by the increased turnover. We always protect our properties with filings with the US Copyright and Trademark Office and the European Union Trademark Office, but there is always a chance that vendors and/or licensees cause us to litigate to protect our assets.

Q. Annual General Meeting

The next meeting is set for Thursday, 14 February 2008 in Cologne.

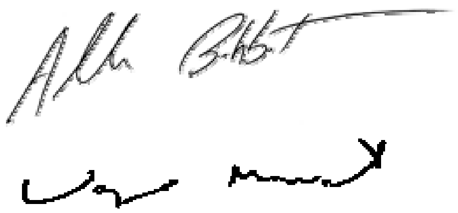
R. Outlook

The markets look healthy for children's animation in the near term with hundreds of dedicated animated children's channels operating throughout the world. The Company is strategically well placed to take advantage with our London office handling Continental Europe and Asia, our New York office handling North America and our Barcelona office handling the important markets of Spain, France, Portugal, Italy and Latin America.

We expect major revenue contributors in 2008 to come from *Zorro - Generation Z*® and *Dork Hunters from Outer Space*® as we only delivered 50% of those episodes in fiscal 2007. In addition, we expect to see revenues from the new 2008 projects which will begin delivery in the second half entitled *Stone Age*™ and *Pocket Penguin Adventures*™.

We delivered record net earnings for the Group in fiscal 2007 of €5.0 million (€0.305 EPS), and we feel that fiscal 2008 will reflect further expansion on both turnover and earnings. The outlook for the Group is strong.

Cologne, November 2007
The Management Board



Allen J. Bohbot
Chairman & CEO

Wayne Mowat
Chief Financial Officer

Auditors’ Opinion for the Fiscal Year Ended 30 September 2007

(Translation of the original German version)

We have audited the consolidated financial statements of BKN International AG, Cologne, including the balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the consolidated financial statement, together with the group management report for the financial year from 1 October 2006 to 30 September 2007. The preparation of the consolidated financial statements and the group management report according to the IFRS as applicable in the EU and the supplementary provisions of Section 315a Par. 1 HGB (German Commercial Code) as well as the supplementary provisions of the articles of association are the responsibility of the Company's legal representatives. Our responsibility is to express an opinion on the consolidated financial statements and the management report based on our audit. In addition, we were asked to assess whether, on the whole, the consolidated financial statements conform with the IFRS.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements and violations materially affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements in accordance with the applicable accounting principles and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual accounts of the companies included in the consolidated financial statements, the definition of the consolidated entity, accounting and consolidation principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

According to our assessment based on the knowledge attained from the audit, we are satisfied that the consolidated financial statements conform with the IFRS as applicable in the EU and with the supplementary provisions under Section 315a Par. 1 HGB as well as the supplementary provisions of the articles of association and, on the whole, the IFRS, and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with the above provisions. The management report is consistent with the consolidated financial statements, provides a suitable understanding of the group’s position and suitably presents the opportunities and risks concomitant with future development.

NEXIA DEUTSCHLAND GMBH
Wirtschaftsprüfungsgesellschaft

Signed by	Signed by
Dr. Weyer Wirtschaftsprüfer	Pütz Wirtschaftsprüfer

Bonn, 9 November 2007

Consolidated Balance Sheet for Fiscal 2007

(in thousands of €)

ASSETS

		30 Sept. 2007		30 Sept. 2006	Notes
A. Fixed and intangible assets					
1. Intangible assets	53,668		36,591		II, VI, VIII.A, App.1
2. Fixed assets	108		127		II, Appendix 1
		53,776		36,718	
B. Other long term assets					
1. Other assets	213		223		VIII. B.1
2. Deferred taxes	2,500		2,209		II, VI, VIII. B. 2
3. Deferred financing costs	486		738		VI, VIII.B.3
		3,199		3,170	
C. Current assets					
1. Stocks	12		0		VIII.C.1
2. Accounts receivable, trade	2,196		1,496		II, VIII.C.2
3. Other current assets	309		789		VIII.C.3
4. Own shares	773		0		VI, VIII.C.4
5. Cash and cash equivalents	1,413		1,648		II, VIII.C.5
		4,703		3,933	
		61,678		43,821	

LIABILITIES

		30 Sept. 2007		30 Sept. 2006	Notes
A. Shareholders equity					VIII.D
1. Common stock	19,400		15,718		
2. Additional paid in capital	12,824		8,286		
3. Reserve for own shares	773		0		
4. Other comprehensive income	(28)		136		
5. Retained earnings	8,742		4,495		
		41,711		28,635	
B. Long term liabilities					
1. Bonds	1,050		12,604		VI, VIII.E.1
2. Loans	16,500		0		II, VIII.E.2
3. Deferred tax liability	605		441		II, VI, VIII.E.3
4. Deferred long term liabilities	7		14		
		18,162		13,059	
C. Short term liabilities					
1. Accrued expenses	1,189		961		II, VI, VIII.F.1
2. Accounts payable, trade	581		1,166		II, VI, VIII.F.2
3. Other liabilities	35		0		
		1,805		2,127	
		61,678		43,821	

Consolidated Statements of Operations for Fiscal 2007

(in thousands of € - except share data and number of employees)

	30 Sept. 2007	30 Sept. 2006	Notes
Revenues			
Television	7,623	5,740	II, VII, IX.1
Consumer brands	8,644	6,870	VII, IX.1
Total Sales	**16,267**	**12,610**	
Other income	1,720	1,283	IX.2
Total Gross Income	**17,987**	**13,893**	
Expenses			
Depreciation, amortization and goodwill	2,185	1,430	II, IX.6
Producer fees and other direct operating costs	1,585	985	IX.3
Salaries and employee benefits	3,071	2,993	IX.4
Other expenses	4,246	3,742	IX.7
Total Expenses	**11,087**	**9,150**	
Interest expenses	1,430	625	IX.8
Income Before Provision for Income Taxes	**5,470**	**4,118**	
Provision for income taxes (prior year: income)	450	(377)	IX.9
Net Income Current Year	**5,020**	**4,495**	
EBITDA	9,085	6,173	
Earnings per share	0.305	0.286	XI
Fully diluted EPS	0.287	0.260	XI
Basic average number of shares	16,464,176	15,717,566	
Diluted average number of shares	17,663,780	19,875,809	
Number of employees including directors at the end of the year	36	36	IX.5

The retained earnings statement is included as a separate paragraph in the Notes to the Consolidated Statements. VIII. D

Consolidated Statements of Cash Flows for Fiscal 2007

(in thousands of €)

	30 Sept. 2007	30 Sept. 2006
	€000's	**€000's**
Cash flow from operations		
- Net income	5,020	4,495
- Depreciation and amortization	2,185	1,430
- Deferred taxes	(127)	(438)
	7,078	5,487
Changes in operating assets and liabilities		
- Accounts receivable, trade	(700)	552
- Stocks	(12)	0
- Other current assets	480	483
- Other long term assets	10	(3)
- Deferred financing costs	252	(550)
- Accounts payable, trade	(585)	905
- Accruals	228	58
- Others	(136)	(69)
Net cash generated from operating activities	**6,615**	**6,863**
Cash flow from investing activities		
- Intangible assets / Programme rights	(19,199)	(14,370)
- Property, equipment and leasehold improvement	(44)	(107)
Net cash used in investing activities	**(19,243)**	**(14,477)**
Cash flow from financing activities		
- Bank overdraft and other loans	16,500	0
- Convertible bond	(11,554)	8,753
- Proceeds from issuance of share capital	8,220	125
- Purchase of own shares	(773)	0
Net cash provided by financing activities	**12,393**	**8,878**
Net increase / (decrease) in cash and cash equivalents	**(235)**	**1,264**
Cash and cash equivalents at beginning of period	1,648	384
Cash and cash equivalents at end of period	**1,413**	**1,648**

Consolidated Statements of Stockholders' Equity for Fiscal 2007

(in thousands of €)

	Common Stock	Additional Paid-In Capital	Reserve for Own Shares	Retained Earnings	Other Compre-hensive Income/ (Loss)	Total Stock-holders' Equity
Balance at 30 September 2006	**15,718**	**8,286**	**0**	**4,495**	**136**	**28,635**
Net profit for the period from 1 Oct. to 30 Sep. 2007				5,020		5,020
Shares issuance July 2007 (net of expenses)	3,682	4,538				8,220
Reserve for own shares			773	(773)		0
Foreign currency translation adjustment					(164)	(164)
Balance at 30 September 2007	**19,400**	**12,824**	**773**	**8,742**	**(28)**	**41,711**

Notes to the Consolidated Financial Statements for the year from 1 October 2006 to 30 September 2007

I. General Notes

The consolidated financial statements of BKN International AG, Cologne, Germany for the year ending 30 September 2007 have been prepared subject to all the International Financial Reporting Standards (IFRS) in force at the closing date, as published by the International Accounting Standards Board (IASB) and to all binding interpretations of the International Financial Reporting Interpretations Committee (IFRIC) relating to the last accounting year. This is the 3rd year of IFRS reporting with periods before 1 October 2004 being reported under US-Gaap.

The income statement has been prepared using the total cost format. With a view to improving clarity of presentation, some items from the balance sheet and income statement have been combined. These items are shown separately and explained in the appendix.

The Group's functional currency is the euro (€).

The consolidated financial statements and consolidated Management Board report for BKN International AG, Cologne for the year ended 30 September 2007, prepared in accordance with §292a HGB (German Commercial code), will be published in the Federal Gazette and deposited with the Companies Register for the District Court of Cologne under ref. B32514. They will also be posted on the Company's website at www.bknkids.com.

II. Accounting Policies

All companies included in this consolidation apply the same accounting and valuation methods.

Cash and Cash Equivalents. These include bank cash balances and credits with a maturity date of three months or less at the date of purchase or investment.

Accounts Receivable and other assets. On initial valuation, these are shown in the balance sheet at face value. Subsequent valuations will be recognised at fair value. Where the recoverable sum of accounts receivable or other assets is lower than the amortised costs on the balance sheet date, then this sum is used as the basis. Identifiable risks are taken into account by means of suitable value adjustments.

Sales. These are realised at the point at which the service is provided.

Intangible assets acquired for consideration and with a limited operational life. These are valued at purchase cost where it is probable that the BKN Group will benefit from a future economic use of these intangible assets, and where the purchase costs can be reliably determined. The assets are subject to regular straight-line depreciation during their estimated economic life.

Programme assets (cartoons and film rights). These are capitalised at purchase cost. It is strictly not possible to determine the operational life of programme assets with sufficient accuracy. The book value is subject each year to a loss of value test. This involves using discounting methods to establish the expected cash surpluses for the next three years on the basis of anticipated potential sales revenue for the programme assets. Where the sum achievable is less than the corresponding book value, additional depreciation of the asset is carried out (impairment test). In all cases, programme titles are fully depreciated after nine years.

Property, plant and equipment. These are capitalised at either purchase or production cost and subject to regular straight-line depreciation corresponding to their expected life. Expenditure on maintenance and repairs is entered as ongoing expenditure. Borrowed capital costs are not included in the purchase or production costs.

The following periods of use apply across the Group and essentially form the basis of regular depreciation of intangible assets and property, plant and equipment:

Other intangible assets	3 years
Property, plant and equipment	
Operating and business equipment	3-7 years

Deferred tax. Under the terms of IAS 12, we are required to establish deferred tax on different valuations of assets and liabilities in IFRS and tax accounts and on consolidation procedures as well as on realisable loss carryforwards. This included the establishment of asset-side tax accruals in so far as the use of the tax loss carryforwards are currently regarded as probable and foreseeable.

Financial liabilities. These are recognised initially at purchase cost and in subsequent years at amortised cost.

Accounts payable and other liabilities. These are capitalised initially at repayment cost. In subsequent years all liabilities are valued at amortised repayment cost.

Tax provisions. Except for deferred tax, income tax provisions were made only in Germany where there was a taxable profit that could not be fully utilised against tax losses brought forward under the scheme of minimum taxation. With regard to **other provisions**, foreseeable risks and uncertain obligations are taken into account to the value of their likely occurrence. The values recognised are the best estimate of the expenditure required to fulfil the current obligation as at the balance sheet date. Long-term provisions are to be recorded in the form of deferred tax liabilities.

Preparation of the consolidated financial statements requires that the Management Board make certain estimates and assumptions that may affect the reported figures for revenue, expenditure, assets, liabilities and contingent liabilities when drawing up the balance sheet. The actual figures may differ from the estimates given and based on the information available.

III. Consolidated companies

The consolidated financial statements cover all subsidiaries in which BKN International AG is entitled, either directly or indirectly, to a majority of the voting rights. Inclusion in the consolidated financial statements dates from the point at which this controlling share is obtained and ends when this is no longer the case.

As at 30 September 2007, the following companies were included in the consolidation:

- BKN International AG, Cologne
- BKN New Media Ltd., London
- BKN Home Entertainment Ltd., London
- BKN New Media Inc., New York
- BKN Home Entertainment Inc., New York (formerly BKN International Inc.)
- BKN Studios Inc., New York (inactive, sold during the fiscal year)
- BKN New Media SL, Barcelona

IV. Consolidation policy

The capital consolidation of fully consolidated companies is carried out using the revaluation method. Goodwill or value adjustments were not applicable.

Internal Group sales, expenditure and revenue, all receivables and payables between the consolidated companies and the results of internal group transactions affecting income or expenses (where present) are eliminated.

V. Currency translation

The translation of overseas companies' year-end figures into euros was carried out as per IAS 21 in accordance with the 'functional currency' principle. Since the Group companies operate their own businesses independently, the functional currency is basically identical to the national currency of each company. Translation of asset-side and liability-side items was therefore carried out on the basis of the middle rate on the closing date. Items included in the income statement were valued at the annual average rate. Currency differences arising from the translation of net assets with rates that have changed since the previous year are recognised directly in equity. Capital is consolidated on the basis of historic translation rates.

The rates of exchange employed for translation have changed as follows over the last year with respect to the euro:

	Middle rate on closing date		Annual average rate	
	30.09.2007	30.09.2006	2006/2007	2005/2006
	€	€	€	€
1 USD	0.7012	0.7883	0.7509	0.8139
1 GBP	1.4359	1.4761	1.4809	1.4603

Foreign currency monetary items in the year-end accounts of the individual Group companies are translated at the rate applicable on the closing date. Any resulting currency profits or losses are recorded directly with effect on net income.

VI. Notes on §292a HGB

The conditions for exemption from the preparation of consolidated financial statements according to German accounting regulations (§292a HGB) are met. This report has therefore been supplemented with the details required for exemption from the obligation to prepare a Group financial statement and management report in accordance with German law. The assessment of these conditions is based on German Accounting Standard no. 1 (DRS 1), published by the German Standardisation Council, entitled 'Exempt consolidated financial statements under §292a HGB of the German Accounting Standards Committee (DRSC)'.

Essentially, the accounting and consolidation methods used by the Company under IASB rules applied by the Company differ from German accounting rules in the following respects:

Financial instruments
Under both German accounting and IFRS rules, financial instruments (securities, receivables, derivatives) are initially valued at purchase cost. Under HGB, subsequent valuations must strictly adhere to the lowest value principle. Under IFRS rules, however, subsequent valuations are made according to fair value or amortised cost as per IAS 39 depending on their classification. As a result, unrealised profits and losses are also shown. Changes in the fair value of financial instruments that are attributable to the 'Available for sale' category are recognised directly in equity up to the point of realisation. Under IFRS, derivative financial instruments must always be recognised at fair value either as an asset or liability. Changes in fair value are recorded with immediate effect on net income.

Intangible assets
Under IFRS, internally generated intangible assets must be capitalised, whereas under German accounting rules, the inclusion of internally generated intangible assets on the assets side is not permitted.

Deferred tax
The determination of deferred tax is based on the balance sheet-oriented liability method. For tax accruals on the assets side, the requirement for recognition is comprehensive. This applies equally to loss carryforwards where there is a sufficient probability that they can be used. Deferred tax accruals on the assets side must be subject to regular impairment review and be reduced by a suitable amount where required. In calculating tax, the rate used is that applicable with future effect on the basis of the legislation as it stands on the balance sheet date. Offsetting of deferred tax assets and liabilities is only permitted under the conditions imposed by IAS 12. Under German accounting rules, only deferred tax assets and liabilities need be formed on consolidating entries. The inclusion of other deferred tax assets is optional, whereas, under HGB, tax loss carryforwards are not permitted. The calculation of tax is based on current tax rates.

Other provisions
Under IFRS, some HGB provisions are shown as liabilities. Moreover, in contrast with the German accounting rules, provisions for expenditure are not permitted. Under IFRS, provisions are always included at their most likely value. Under German accounting rules, however, the principle of caution generally leads to higher provisions.

Liabilities
Under IFRS, liabilities represent financial instruments in the sense of IAS 39 and must therefore be classified and accounted for in the balance sheet as such. Under German accounting rules, liabilities are reported in the balance sheet at repayment value in accordance with the strict lowest value principle.

Foreign currency translation
Under IFRS, unrealised currency exchange profits and losses in relation to foreign currency receivables and liabilities must be included with effect on net income. The imparity principle does not apply.

Convertible bonds
Under IFRS, convertible bonds are regarded as compound financial instruments made up of liability and equity components.

Issue costs are divided between the liability and equity components of the convertible bond in the ratio of their book values on the issue date. The proportion allocated to the equity component is recognised directly in equity.

IPO costs
Under IFRS the direct costs of issuing shares are recognised directly in equity with the revenue from the flotation (share premium), whereas under German accounting rules these costs are recorded as expenditure in the income statement.

Financing Costs
Under IFRS, transactions linked to the increase in borrowed capital are capitalised costs and must be amortised over the financing term.

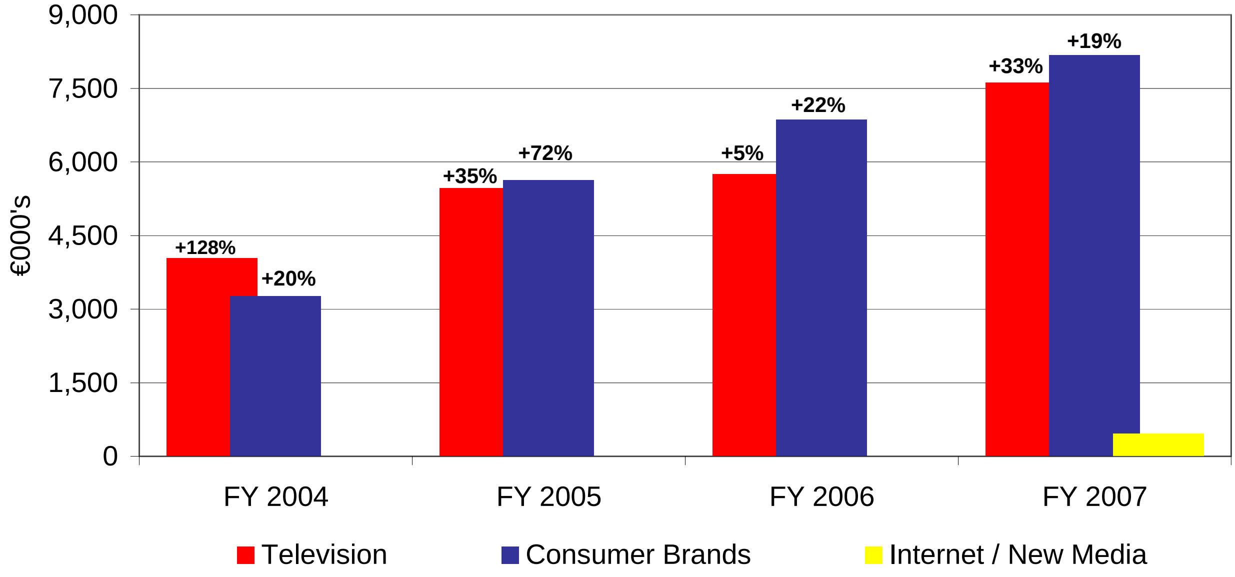
VII. Segment Report

BKN International AG is a global enterprise that produces children’s animated cartoon films and markets the rights to these films worldwide.

In addition to the head office in Cologne, the Company is represented by subsidiaries in London, New York and Barcelona.

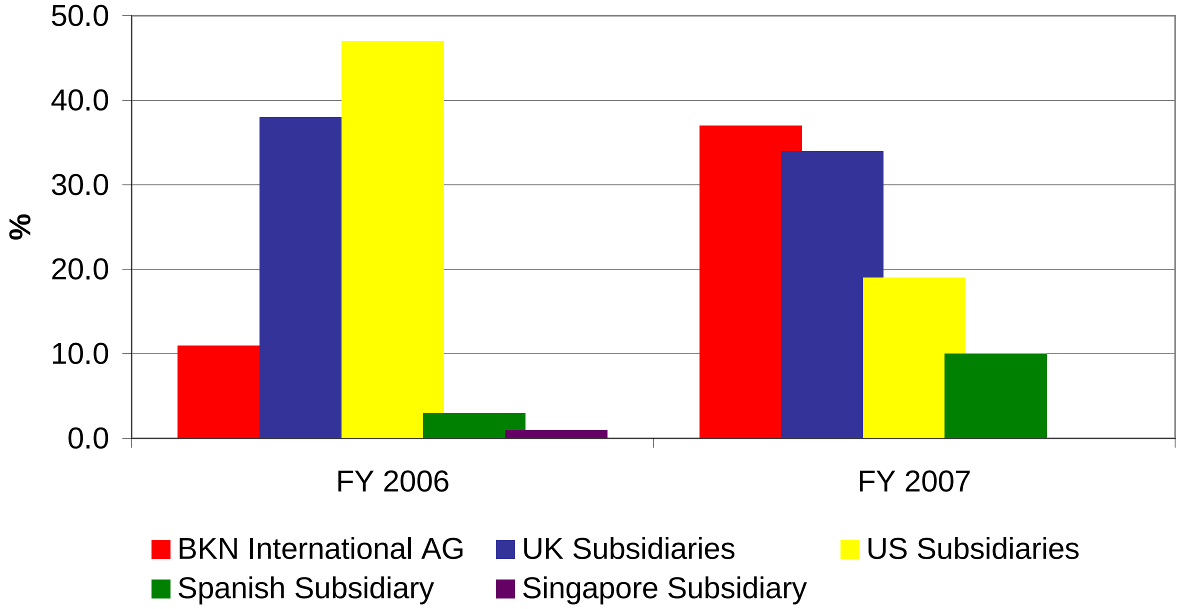
1. Segmentation of Revenues

The primary segmentation of sales follows from the income statement and shows the following development:



Segmentation by the costs and investments linked to the sales areas or by employees is not possible as divisional sales are based on the same economic and personnel resources. A purely percentage-based distribution has not been undertaken as it would provide little useful information.

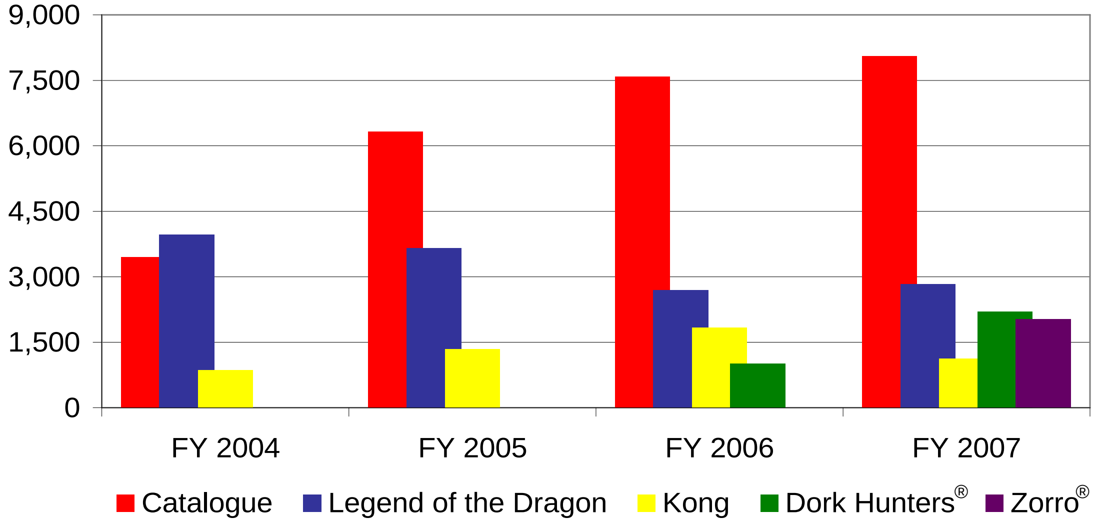
2. Revenues by Company (in %'s)



* The Singapore subsidiary closed October 2006

As the sales-generating assets (programme assets) are held exclusively by the parent company, and as the parent company represents the entire Group financing, the subsidiaries have no segment assets or segment liabilities relevant to the report.

3. Segmentation by Sources of Revenue



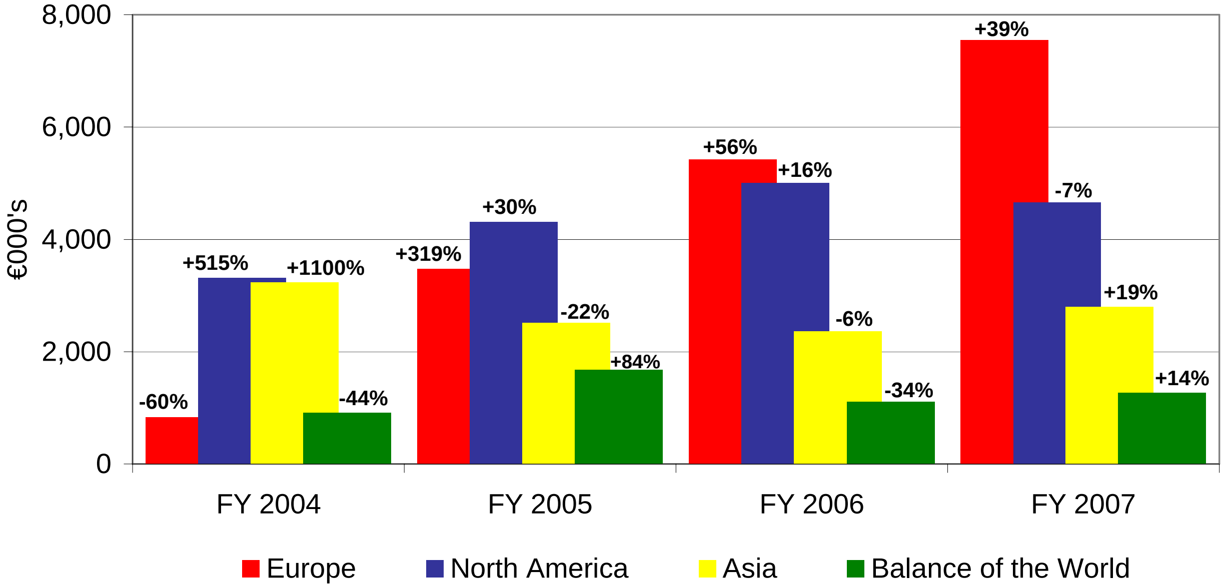
The principal segment asset is made up of the programme rights whose book values are shown below:

	€ 000's
Dork Hunters from Outer Space® (Season I + II)	11,461
Zorro® (Season I + II)	10,929
Legend of the Dragon (Season I + II)	5,500
Kong (Various titles)	3,144
Classic Collection	2,934
Remaining programme catalogue	7,847
	41,816
Titles in progress with no contribution to turnover	11,831
Total programme assets	53,647

The business is primarily financed through the issue of share capital (68%) and long term loans (28%). A segment-related allocation of financing is not possible.

4. Segmentation by Geographical Area

Sales revenue was generated in the following regions:



Neither segment assets and segment liabilities nor costs and employees can be usefully allocated on the basis of geographical criteria.

VIII. Notes on the balance sheet

A. Fixed and intangible assets

The development of intangible assets and property, plant and equipment including the depreciation apportionable to the accounting year as well as the composition of the item can be seen in detail from the attached consolidated statement of changes in fixed assets.

The figure of €53,668 thousand includes programme assets including work in progress totalling €11,831 thousand which has not yet been depreciated, and other intangible assets of €21 thousand.

The programme assets are used as security for the convertible loan up to the repayment day of 31 March 2008.

B. Other long-term assets

1. Other assets

This item primarily relates to the payment of security deposits in connection with the leasing of business premises in Germany and abroad.

2. Deferred tax

This item was established as a result of the tax loss carryforwards of the companies included in the consolidation.

Calculation of this item is based on the following assumptions:

Tax loss carryforwards in the Group on balance sheet date approximately	000's €	51,000
Thereof included in the deferred tax calculation	000's €	7,802
This figure takes into account both the forecast results of the group Companies for 2008 – 2010 less an appropriate valuation allowance and the offsettable loss carryforwards in the individual companies.		
Tax asset at a weighted tax rate in the Group of 32%	000's €	2,500

3. Deferred financing costs

Where they are attributable to the liability component on the balance sheet date, costs in connection with the issue of the convertible loan stock and other loans are deferred and amortised over the term of the financing.

C. Current assets

1. Stock

€12 thousand relates to DVD's for sale at cost value.

2. Accounts receivable

This item includes receivables from sales made and provided that are to be recognised at fair value. Bad debt allowances of €126 thousand (previous year: €366 thousand) were made to cover potentially unrecoverable amounts.

3. Other current assets

This item includes advance part-payments in connection with operations of €0 (previous year: €488 thousand), advance payments for running costs of €135 thousand (previous year: €170 thousand) and VAT receivables of €174 thousand (previous year: €131 thousand).

4. Own shares

From 7 August till 25 September 2007 the Company acquired a total of 246,143 own shares. This equals approx. 1.2% of the common stock. The value of € 772,889 based on the closing price at Frankfurt stock exchange at the end of September 2007 which was €3.14. The Company had no shares at the end of the fiscal year 2006.

5. Cash and cash equivalents

This item primarily covers cash and bank balances of the Group companies. Foreign currency amounts were translated at the balance sheet date. The Management Board may make use of these resources without restriction.

D. Equity

The composition and development of the equity position can be seen in detail in the attached consolidated statement of changes in equity.

As at the closing date, the following shares were issued or contingently issued through option and convertible rights:

Shares issued:	19,400,170
Option rights:	904,149
Convertible rights (including warrants):	295,455

The reconciliation of consolidated net profit for the period to the balance sheet is as follows:

	30.09.2007	30.09.2006
	000's €	000's €
Consolidated net profit	5,020	4,495
Profit carryforward	4,495	0
	9,515	4,495
Reserve for own shares	(773)	0
Retained earnings ending balance	8,742	4,495

E. Non-current liabilities

1. Convertible loan

On 29 September 2004, the Company issued a convertible bond with a total value of €4,950,000.00 at a rate of 5%. The convertible bond expires in March 2008. The convertible bond entitles the creditor to 909,091 individual bearer shares.

The Company also issued an option bond with a value of k€50 at a rate of 5%. The option bond also expires in March 2008. The option bond contains 227,274 subscription warrants entitling the holder to 227,274 individual bearer shares. The price for the subscription warrants is €0.50 each, making a total revenue of €113,637. Revenue from the sale of the subscription warrants was taken to the share premium.

Following exchange declarations made on 13 April 2005, 2 May 2005 and 7 June 2005, the holder of the convertible bond took up a total of 211,000 new individual bearer shares equivalent to a proportionate interest in the capital stock of €1.00 per share. The transfer was effected by the exchange of fractional bonds with a total face value of €1,148,895. By way of assignment, the creditor transferred a partial amount from the fractional bond with a face value of €1,148,895 to BKN International AG, which recognised this amount in its liability from the convertible bond.

In presentation of the convertible bond, the equity component (fair value of the option) was waived on account of its negligible size.

The fair value of the liability component will be recognised by the Management Board to the extent of its reported book value (nominal value).

On 12 October 2005, the Company issued a convertible bond with a total value of €4,500,000 to Laurus Master Fund Ltd. (“Laurus”) at a coupon rate fixed at US prime rate plus 1%.The bond expires in August 2010. The bond entitles the creditor to 1,000,000 individual bearer shares.

As part of the same deal on 1 January 2006 also issued a 2nd bond to the same company with a value of €1,125,000 as well as on same day a €50,000 option bond. Both of these were at same coupon interest terms of US prime plus 1%. These 2nd bonds expire in January 2011. The option bonds contains 250,000 subscription warrants at a price of €0.50 each.

On 23 August 2006, the Company issued a 3rd convertible bond with a total value of €3,200,000 to Anacapa Funding 1 LLC (“Anacapa”) at a coupon rate fixed as US prime rate plus 2%. The bond expires in December 2010. The bond entitles the creditor to 1,000,000 individual bearer shares.

In January 2007, the Company repaid Anacapa the full amount of the pending convertible note. The total repaid was €3.6 million which included €3.2 million in principal plus €109 thousand in interest plus a €320 thousand for early repayment.

In March 2007, the Company repaid convertible bonds issued in September 2004 to SDS Capital Group SPC Ltd. (“SDS Capital”). The total repaid was €2.9 million which was essentially all principal (interest was only €27 thousand).

In July 2007, the Company repaid Laurus the full amount of the pending convertible note. The total repaid was €5.2 million which included €5.1 million in principal plus €75 thousand in interest.

The only convertible note still on our balance sheet is the €1.0 million due to Tail Wind Fund Ltd. (“Tail Wind”) in March 2008 with an exercise price of €5.211 per share.

This convertible bond is secured by the pledging of programme rights.

2. Loans

In January 2007, the Company entered into a general five-year facility with Commerzbank AG ("Commerzbank") in the amount of €5.0 million with a fixed interest rate of 6.3%. At 30 September 2007, the Company had repaid €500 thousand and has an open balance of €4.5 million repayable at a rate of €250 thousand quarterly.

In February 2007, the Company secured a seven-year long term loan from H.E.A.T. Mezzanine S.A., initiated by HSBC Trinkaus & Burkhardt AG ("HSBC"), in the amount of €12.0 million at an interest rate of 8.25%. At 30 September 2007, the full amount was still due.

3. Deferred tax (liability)

This item is based on different presentations in the financial statements of the group companies and in the consolidated balance sheet and on consolidation entries with respect to the following items:

	Difference	Deferred tax	
	000's €	%	000's €
Intangible assets	601	30	180
Deferred financing costs	487	30	146
Deferred revaluation gains	174	30	52
Consolidation entries	795	30	239
Other	(41)	30	(12)
	2,016		605

A provision has been made of €164 thousand compared to prior year value of €441 thousand which includes a profit of €144 thousand due to a reduced tax rate.

F. Current liabilities

1. Provisions / Accrued Expenses

Provisions were established on the basis of reasonable commercial principles for uncertain liabilities. For the most part, they refer to cost accruals for the last accounting year.

The most important items are:

	30.09.2007	30.09.2006
	000's €	000's €
Personnel: ancillary costs	80	258
Bonus payments	213	260
Legal, consultancy and audit costs	138	160
Supervisory Board remuneration	60	60
Accrued interest	0	78
Costs of general meeting	50	48
Sales returns	65	0
Other	23	82
Taxes on income	560	15
	1,189	961

2. Accounts payable

This item includes outstanding obligations arising from supplies and services. These are recognised at the fulfilment amount. In all cases, payment is due in less than one year. There are no securities relating to these obligations.

Terms and securities of the liabilities are explained in the analysis of payables and debts shown in appendix 2.

IX. Notes on Income Statement

1. Sales revenue

This item covers all external sales of the group after deduction of in-Group supplies and services. The distribution of sales revenue is based on classification as per the income statement and on segment reporting.

2. Other income

This item concerns capitalised services (material and personnel costs) generated internally in the production of intangible assets on the basis of direct costs to the Company of €1,191 thousand (previous year: €1,128 thousand).

In addition, income from the sales of the US studio company have been included with €355 thousand (previous year: €0) along with the revaluation profits on own shares held of €174 thousand (previous year: €0).

3. Producer charges and direct operating costs

This item covers marketing costs and other sales-related costs.

4. Salaries and social security expenses

This item covers payroll including performance-related remuneration and mandatory social security payments divided up as follows:

	2006/2007	2005/2006
	000's €	000's €
Payroll	2,839	2,744
Social security contributions and related salary costs	232	249
	3,071	2,993

Expenses linked to voluntary retirement benefit schemes were €16 thousand (previous year: €15 thousand).

5. Number of employees

For the accounting year 2006/2007, the Group employed an average of 34 persons excluding directors in total (previous year: 30).

6. Depreciation of intangible fixed assets and property, plant and equipment

With respect to depreciation, €75 thousand corresponds to scheduled depreciation (previous year: €50 thousand) and €2,110 thousand to additional unscheduled depreciation as a result of the impairment test (previous year: €1,380 thousand). The difference from the previous year of €755 thousand primarily concerns the larger unscheduled write-downs of programme assets.

7. Other operating expenses

This item primarily includes:

	2006/2007	2005/2006
	000's €	000's €
Rents and equipment	632	677
Advertising costs	429	536
Legal and consultancy costs	803	670
Accounting costs	193	150
Travel, etc.	265	281
Corporate administration and insurance	337	494
Supervisory Board remuneration	60	60
Office costs	309	329
Currency losses	8	0
Bad debt	126	366
Bond financing costs	1,084	179
	4,246	3,742

8. Net interest income

This item is made up as follows:

	2006/2007	2005/2006
	000's €	000's €
Interest expenses	1,482	670
Interest income	52	45
	1,430	625

9. Income taxes

This item is made up as follows:

	2006/2007	2005/2006
	000's €	000's €
Misc. revenue and withholding taxes	32	46
Trade tax on income	279	15
Corporate income tax (incl. solidarity tax surcharge)	266	0
	577	61
Deferred tax expenses	164	269
Deferred tax income	(291)	(707)
	450	(377)

With regard to the deferred taxes, please refer to the corresponding remarks on the balance sheet items in question.

Actual annual tax expenditure is calculated including recognition of loss carryforwards as follows:

	2006/2007	2005/2006
	000's €	000's €
Theoretical tax charge	2,147	1,030
Tax relief from use of loss carryforwards	(1,602)	(1,015)
Misc. local revenue and withholding tax	32	46
Actual tax expenditure	577	61

X. Notes on Cash Flow Statement

The cash flow statement shows the origin and use of payment streams in the accounting years 2006/2007 and 2005/2006. A distinction is made between payment streams from current operations and from investment and financing activities. Cash and cash equivalents cover all bank balances and credits where these are available within three months.

The net change in cash and equivalents from current operations has been adjusted for currency translation effects.

The net change in cash and equivalents from investment and financing activities is calculated on a cash basis.

The net change in cash and equivalents from current operations, however, is calculated indirectly from the accounting profit.

XI. Earnings per share

Undiluted earnings per share for the accounting year 2006/2007 are €0.305 (previous year: €0.286).

Undiluted earnings per share are calculated by dividing the figure for consolidated profit by the weighted number of shares issued. For the accounting year 2006/2007 the weighted number of shares issued was 16,464,176 (previous year: 15,717,566).

The change in the weighted number of shares issued compared with the previous year is a result of the capital increase in the following year.

Diluted earnings per share for the accounting year 2006/2007 are €0.287 (previous year: €0.260). Diluted earnings per share are calculated under the assumption that those outstanding option rights with an exercise price below the market price are exercised and also covers the possible take-up of shares from the convertible loans as well as the interest payments saved in the event of conversion. As the quoted value of BKN International AG shares as at 30 September 2007 was below the exercise price established in the share option programme and the exercise of these options is thus unlikely, no assessment was made of fair value.

XII. Other financial obligations

Except for the liabilities shown in the balance sheet, the only contingent liabilities and securities for third-party liabilities exist in the form of rental obligations as detailed below:

	30.09.2007	30.09.2006
	000's €	000's €
Under one year	426	446
Between two and five years	737	1,152
	1,163	1,598

XIII. Related parties

1. The Management Board and other members of management in key positions as well as members of the Supervisory Board are counted at BKN International AG as related parties in the sense of IAS 24. Their remuneration is detailed fully in the notes on Company bodies.

2. According to information available to the Company as per §21 WpHG, Management Board and Supervisory Board members hold interests in the Company of less than 10% each though with more than 5% of voting rights.

3. Transactions between the Company and its subsidiaries, who are related parties, were eliminated in the course of consolidation and are not set out in this appendix.

4. There are no other relationships or transactions with related parties.

XIV. <u>Stock option plan</u>

1. The Company established a new stock option plan on 17 March 2005. This plan is subject to the following provisions:

- The Company may issue 1,492,748 options in a first tranche.
- The option rights may be exercised no earlier than two years after they are granted.
- The option rights expire, if they are not exercised, after five years, reckoned from the date of allocation.
- Option holders are entitled to subscribe for one share per option right. The exercise price average is €3.82 per share.
- The option may only be exercised if the quoted price on the days prior to exercise of the options has at least reached the minimum price.

As at 30 September 2007, the Company had granted a total of 904,149 option rights. 740,000 of these option rights were allocated on 17 March 2005 and cannot be exercised before 13 January 2008. 170,649 options were granted to the Management Board on 11 December 2006; these options cannot be exercised until 11 December 2008.

No compensation charge was recorded in the Income Statement.

As at 30 September 2007, members of the Management Board held a total of 895,649 options.

2. The 8,500 option rights still existing from a previous option plan are held by Company employees.

3. No option rights are held by members of the Supervisory Board.

XV. <u>Litigation</u>

There is only one claim against the Company in the US related to its 2002 re-structuring having settled the other during the financial year. The Management Board has received a legal opinion that this claim is not of validity for a variety of facts including that neither the Company, nor any of the companies in the BKN Group, ever contracted with the claimant and that German law is not applicable to the claim.

XVI. <u>Notes on transition to IFRS</u>

The consolidated financial statements for the accounting year to 30 September 2007 were prepared under IFRS. Before 30 September 2004 and since the foundation of the Company, all consolidated financial statements were prepared under US-GAAP.

As in this case there have been no material or accounts disclosure-related differences using IFRS accounting as opposed to the previous US-GAAP accounting standards, there is no need for a equity reconciliation statement.

The equity position as at 1 October 2003 as the date of transition to IFRS (the last consolidated financial statements under US-GAAP were presented for the accounting year to 30 September 2004) and equity as at 30 September 2004 as the closing date for the last consolidated financial statements under US-GAAP do not reveal any anomalies related to transition.

The development of equity is therefore based exclusively on the attached statement of change in consolidated equity.

XVII. Other information

1. Details of Company bodies

In accordance with the articles of association, the Supervisory Board is made up of three members. As at 30 September, these members were:

Mr. Karl Benetz, businessman, Durbach/Baden; Chairman (since 17 January 2003)
Mr. Jack Kugler, businessman, Greenwich, USA; Deputy Chairman (since 14 March 2002)
Mr. Robert Paff, businessman, Creedmoor, USA; Member (since 17 January 2003)

The composition of the Management Board for the accounting year 2006/07 was as follows:

Mr. Allen Bohbot, New York, USA; Chairman & CEO (since 1 February 2001)
Mr. Wayne Mowat, London, GB; CFO (since 1 November 2003)

Mr. Bohbot has no further mandates on boards of directors, executive and supervisory boards, or as a partner, for the purpose of § 125 para. 1 no. 3 AktG. Mr. Mowat is the Corporate Director of Drink Organic Ltd., London, U.K.

The total remunerations of the members of the Management Board for the accounting year 2006/2007 were €1,084,233. This figure includes performance-related remuneration of €187,500 (previous year: €1,167,215, of which performance-related: €210,495). Full details are not published due to the relating share holders resolution dated 16 February 2006 according to §286 para. 5 HGB.

The total remunerations of the Supervisory Board for the accounting year 2006/07 were €60,000 (previous year: €60,000).

2. Auditors Fees

The auditors have charged in total €124,707 (previous year: €119,000) for audit services and €32,625 (previous year: €31,000) for tax consulting.

3. Declaration of compliance with the German Corporate Governance Codex

The updated declaration of compliance as per §161 AktG on observation of the German Corporate Governance Codex was presented to BKN International AG by the Management Board and the Supervisory Board of BKN International AG in October 2007. This declaration was made permanently available to shareholders on the Company's website.

4. Information as required by §314 para. 1 no. 10 and 11 HGB

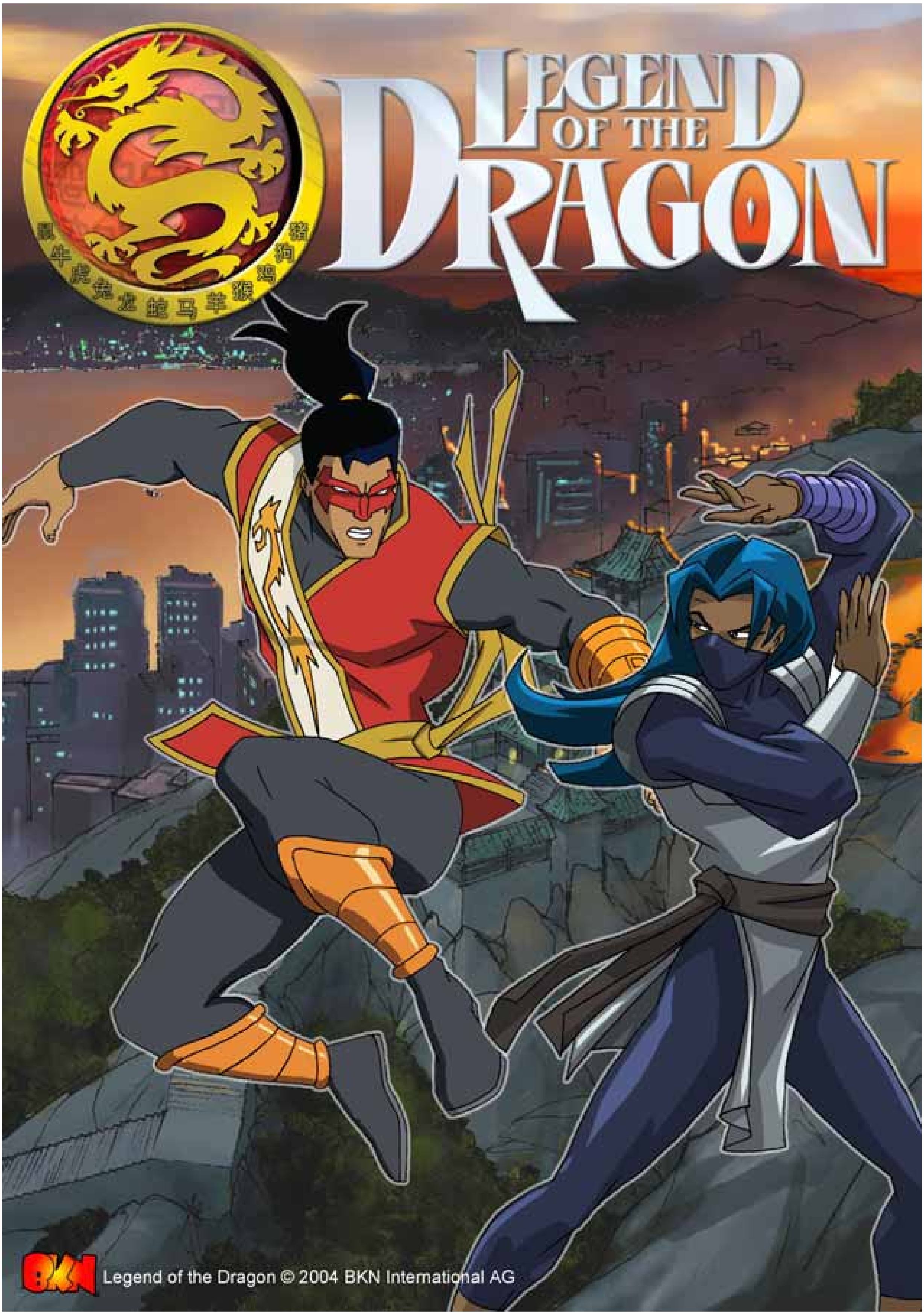
The Group does not make use of any derivative financial instruments in the sense of §314 para. 1 no.10 HGB.

5. Approval of the Consolidated Financial Statements

It is expected that the Consolidated Financial Statements will be approved on 23 November 2007 at a joint meeting of the Supervisory Board and Management Board in the presence of the auditor and subsequently released for publication.

Cologne, November 2007
The Management Board

Allen Bohbot	Wayne Mowat
Chairman & CEO	**Chief Financial Officer**


LEGEND OF THE DRAGON
鼠 牛 虎 兔 龙 蛇 马 羊 猴 鸡 狗 猪
BKN
Legend of the Dragon © 2004 BKN International AG

Appendix 1

Consolidated Statement of Changes in Fixed Assets as at September 2007

	Cost					Depreciation				Net Book Value	
	01/10/2006	Additions	Disposals	Reclassi-fication	30/09/2007	01/10/2006	Additions	Disposals	30/09/2007	30/09/2007	previous year
	k€	k€	k€	k€	k€	k€	k€	k€	k€	k€	k€
I. Intanglible Assets											
1. Software	547	5			552	519	12		531	21	28
2. Programme assets	92,311	19,194			111,505	55,748	2,110		57,858	53,647	36,563
	92,858	19,199			112,057	56,267	2,122		58,389	53,668	36,591
II. Property, plant and equipment											
1. Operating and business equipment	209	44			253	82	63		145	108	127
Total Fixed Assets	93,067	19,243			112,310	56,349	2,185		58,534	53,776	36,718

Appendix 2

Analysis of Payables and Debts as at 30 September 2007

Position of the Balance Sheet	Total	thereof with a remaining term of up to 1 year	thereof with a remaining term of 1 to 5 yrs.	thereof with a remaining term of 5 yrs. and more	Securities
	k€ *(prior year)*	k€ *(prior year)*	k€ *(prior year)*	k€ *(prior year)*	k€ *(prior year)*
Long Term Liabilities					
1. Bonds	1,050 *(12,604)*	1,050 *(11,554)*	0 *(1,050)*	0 *(0)*	1,050 *(12,604)*
2. Loans	16,500 *(0)*	1,000 *(0)*	3,500 *(0)*	12,000 *(0)*	0 *(0)*
3. Deferred Tax Liability	605 *(441)*	325 *(261)*	170 *(102)*	110 *(78)*	0 *(0)*
4. Deferred Long Term Liabilities	7 *(14)*	0 *(0)*	7 *(14)*	0 *(0)*	0 *(0)*
	18,162 *(13,059)*	2,375 *(11,815)*	3,677 *(1,166)*	12,110 *(78)*	1,050 *(12,604)*
Short Term Liabilities					
1. Accrued Expenses	1,189 *(961)*	1,189 *(961)*	0 *(0)*	0 *(0)*	0 *(0)*
2. Accounts Payable, Trade	581 *(1,166)*	581 *(1,166)*	0 *(0)*	0 *(0)*	0 *(0)*
3. Other Liabilities	35 *(0)*	35 *(0)*	0 *(0)*	0 *(0)*	0 *(0)*
	1,805 *(2,127)*	1,805 *(2,127)*	0 *(0)*	0 *(0)*	0 *(0)*
= Total	**19,967** ***(15,186)***	**4,180** ***(13,942)***	**3,677** ***(1,166)***	**12,110** ***(78)***	**1,050** ***(12,604)***

Report of the Supervisory Board for Fiscal 2007

During the year under review, the Supervisory Board oversaw the Management Board regarding the tasks imposed upon it by law and the Articles of Association, and monitored the management activity during the period. Further, the Management Board reported regularly on progress in achieving goals set for the current period and on the prospects for future periods.

The Supervisory Board met nine times throughout the period and was kept informed by the Management Board through regular oral and written reports on the Company's progress, financial situation and all major investments and strategies.

The financial accounts and Management Board report together with the consolidated financial accounts and the consolidated Management Board report were audited and each given an unqualified auditor's report by Nexia Deutschland GmbH Wirtschaftsprüfungsgesellschaft, who were appointed auditors for the year by resolution of the Annual Shareholders Meeting on 22 February 2007 and was instructed by the Chairman of the Supervisory Board. We agree with the auditing results. The Supervisory Board has checked the financial statements and management report as well as the consolidated financial statements and the consolidated Management Board report. No objections have been raised thereby. These financial statements provided by the Management Board were approved today by the Supervisory Board and are thereby finalised.

The Supervisory Board agrees with the Management Board's suggestion as regards the application of the retained earnings for the year.

The Supervisory Board thanks management and the Company's employees at the various locations for the performance that contributed to the outcome of the year under review.

Cologne, November 2007

Karl Benetz
Chairman of the Supervisory Board

The Supervisory Board

Mr. Karl Benetz
Chairman of the Supervisory Board
Businessman, appointed
17 January 2003

Mr. Robert Paff
Businessman, appointed
17 January 2003

Mr. Jack Kugler
Businessman, appointed
14 March 2002

The Management Board

Mr. Allen Bohbot
Chairman & CEO
Appointed 1 February 2001

Mr. Wayne Mowat
Chief Financial Officer
Appointed 1 November 2003

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