BKN INTERNATIONAL AG
2008 ANNUAL REPORT

Financial Calendar

Publication of Annual Report 2008	**25 November 2008**
Annual General Meeting 2008	**02 April 2009**
Publication of Results - 1st half 2009	**14 May 2009**

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 2008 and compared to the similar period in fiscal 2007.

The Company had a good year during which we have launched new products and increased our client base and 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."), the United States ("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 2008, to 92 titles and 2,098 episodes compared to 82 titles and 2,035 episodes as published in our 2007 Annual Report. BKN owns the 6th largest film library of global animation (based on industry sources).

- The Company delivered the property entitled *Zorro – Generation Z®* (26 episodes) along with two films entitled *Zorro – Return to the Future®* (62 minutes) and *Zorro and Scarlet Whip Revealed!®* (80 minutes). The Company is planning on delivering the second season of this property (26 additional episodes), half in fiscal 2009 and half in fiscal 2010. The new production will be in all digital, all high definition animation with 2D and 3D effects. To date, we have achieved sales for this property of €6.4 million in its first full year.

- The Company delivered the property entitled *Dork Hunters from Outer Space®* (36 episodes) along with the film entitled *Dork Hunters and The Pirates of Tortuga Island®* (63 minutes). To date, we have achieved sales for this property of €7.2 million in its first full year.

- The *Legend of the Dragon* (39 episodes) property continues to contribute to overall revenues. In fiscal 2008, we added €2.4 million bringing the total to date to €14.3 million.

- The *Kong* franchise (40 episodes plus 2 films) continues to expand. In fiscal 2008, we added €1.0 million bringing the total to date to €15.0 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 15% to €18.7 million (prior year: €16.3 million). Total Gross Income increased 11% to €20.0 million (prior year: €18.0 million).

- Operating expenses decreased 8% to €8.1 million (prior year: €8.8 million) and amortisation increased 161% to €5.8 million (prior year: €2.2 million). Total expenses increased 26% to €14.0 million (prior year: €11.1 million) principally due to a one-time €2.2 million provision for a potential litigation matter that dates back to the 2002 restructuring (see Notes for more details). Excluding this one-time charge, total expenses increased 6% to €11.8 million (prior year: €11.1 million).

- Earnings or Profit Before Interest and Tax (EBIT), excluding the one-time charge, increased 19% to €8.2 million (prior year: €6.9 million). Including the one-time charge, EBIT decreased 13% to €6.0 million. Margin, excluding the one-time charge, is consistent at 44% (prior year: 42%).

- Net Income, excluding the one-time charge, increased 18% to €5.9 million assuming a theoretical tax charge of €0.3 million (prior year: €5.0 million). However, due to principally higher interest expense (+13%) and the one-time charge, net income fell 20% to €4.0 million.

- EPS, excluding the one-time charge, increased 1% to €0.308 (prior year: €0.305). However, after the charge, EPS fell 32% to €0.208 due to capital increase dilutions in July 2007 and 2008.

- EBITDA increased 30% to €11.9 million (prior year: €9.1 million) and Net cash generated by operating activities increased 56% to €10.9 million from €7.0 million in 2007.

- Programming rights asset value increased 26% to €68.3 million from €54.2 million in 2007 and the Company has made steady investments in new television and film properties of €19.9 million versus €19.7 million last year.

- Cash on hand increased 150% to €3.5 million versus €1.4 million last year. At 30 September 2008, the Company owned 318,582 of its own shares valued on that day at €669,022 giving it cash and liquid securities of €4.2 million or an increase of 92% over 2007 (€2.2 million).

- The Company employs at the year end 36 full-time employees which is the same as the prior year, but the Company has also added 46 freelancers primarily in its production studios. In total, 82 professionals work for the Company.

D. Additional Financial Data

	FY 2005	FY 2006	FY 2007	FY 2008
Total Sales	11,098	12,610	16,267	18,731
Growth	52%	14%	29%	15%
EBIT	3,196	4,743	6,900	6,017
EBIT Margin	29%	38%	42%	32%
EBIT (before one-time charge)	3,196	4,743	6,900	8,207
EBIT Margin	29%	38%	42%	44%
EBITDA	5,875	6,173	9,138	11,863
EBITDA Margin	53%	49%	56%	63%
Film Value	23,602	36,563	54,133	68,304
Growth	47%	55%	48%	26%
Shareholders Equity	24,076	28,635	40,938	45,958
Growth	48%	19%	43%	12%
Investment in New Programs	10,206	14,341	19,739	19,835
Growth	30%	41%	38%	0%
Cash Position	384	1,648	1,413	3,541
Growth	(83%)	329%	(14.3%)	151%
Cash & Liquid Securities	384	1,648	2,191	4,210
Growth	(83%)	329%	33%	92%

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 has recognized that conversion requirement and has made significant changes in how we execute the production of our television programmes, especially as more TV channels convert to High Definition. 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.

- We have successfully accomplished this conversion and are a market leader and one of the premier supplier of HD children's programming.

F. New Product

- The Company has identified several exciting new properties that will be produced in HD, each budgeted at €5.2 million.

- *Stone Age*™, a modern day comedy set in prehistoric times, initially consists of 52 episodes of 11 minutes each (Season I). 32 episodes were delivered in fiscal 2008 and 20 additional episodes will be delivered in the first half of fiscal 2009.

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

- The first season of *Zorro: Generation Z*® (26 episodes) was produced in traditional animation and standard definition. The second season (26 episodes) will be produced in computer animation and high definition with a mixture of 2D and 3D elements.

- 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 these new products will be produced in our new in-house hi-tech facilities in London and Barcelona.

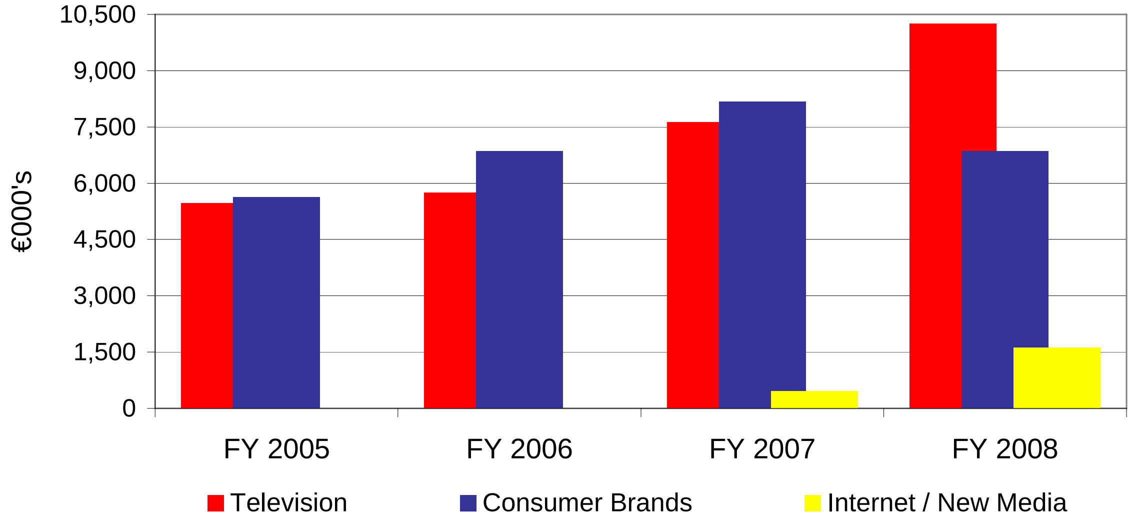
G. Internet and New Media

- 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 US 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.

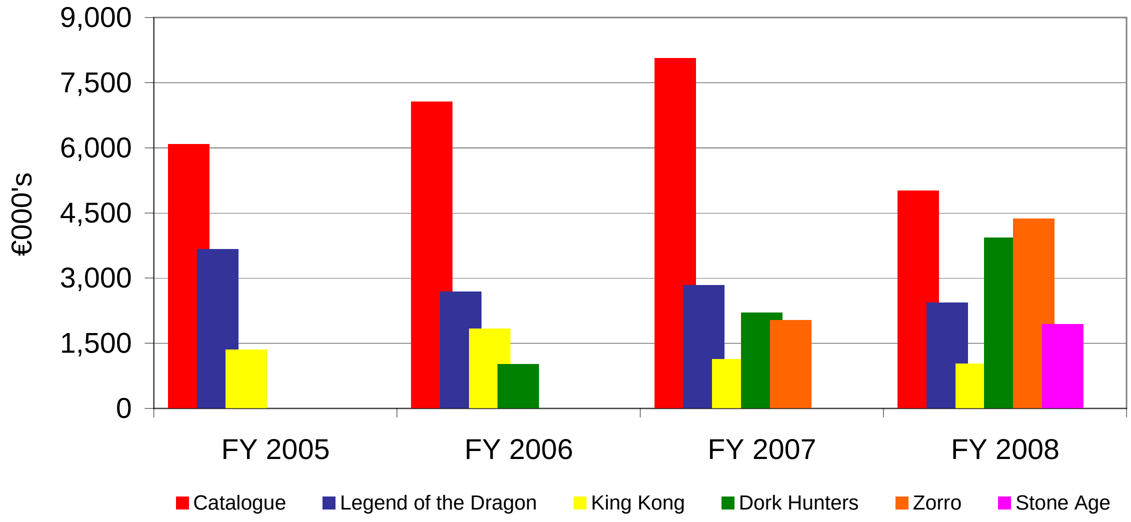
- In fiscal 2008, the Company reported revenues of €1.6 million or 9% of sales compared to €468 thousand or 3% of sales in 2007, which was the first year we reported any revenue from this segment.

H. Segment Reporting

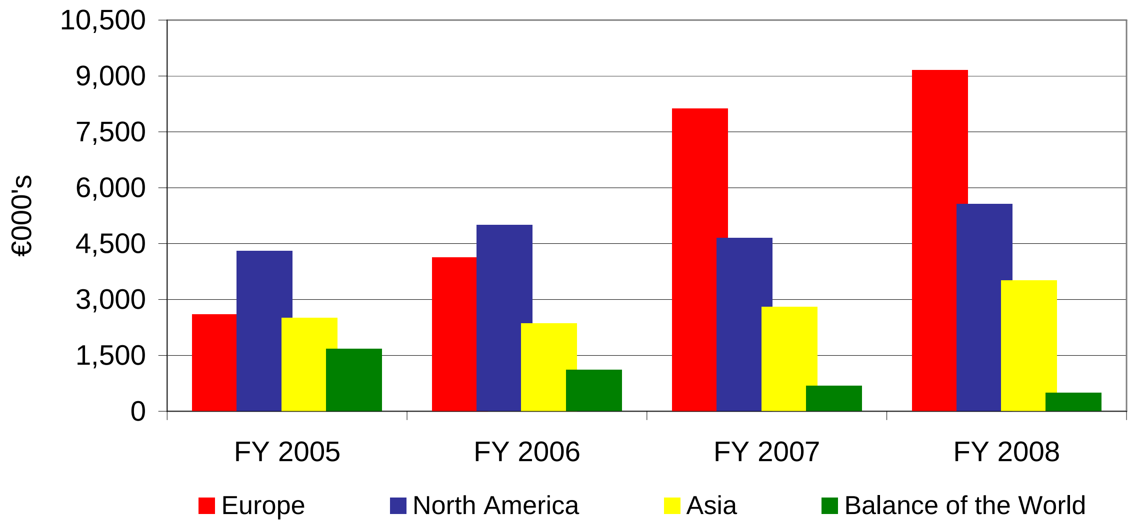
i. Sales by Segment (in €000's)



ii. Sales by Property (in €000's)



iii. Sales by Region (in €000's)



I. Financing

- In 2008, the Company entered into a general five-year facility with Commerzbank AG ("Commerzbank") in the amount of €16.0 million with a fixed interest rate of 6.6%. The Company pledged several film assets to support this loan facility including *Stone Age*™, *Legend of the Dragon* and *Dork Hunters from Outer Space*®. Of this total €16.0 million, €7.5 million is due to be paid in full at the end of five years, €7.5 million will be repaid in equal instalments throughout the five years and €1.0 million is an overdraft facility with no specific repayment timetable.

- In July 2008, the Company issued 730,120 new shares to new shareholders at a price of €2.10 per share and total proceeds of €1,533,252 before fees and expenses.

- In April 2008, the Company repaid the convertible note of €990 thousand due to Tail Wind Fund Ltd. ("Tail Wind"). The Company no longer has any convertible bonds in issue to any party but still retains €60 thousand in cash bonds with warrants attached totalling 295,455 shares at €4.01 per share exercise price.

J. Stock Options and Warrants

- At 30 September 2008, the Company still has outstanding 45,455 warrants to Tail Wind at an exercise price of €5.211 per share.

- At 30 September 2008, the Company still has outstanding 250,000 warrants to Laurus Master Fund Ltd. ("Laurus") at an exercise price of €3.776 per share.

- At 30 September 2008, the Management Board holds a combined 1,522,269 stock options at an average €3.41 strike price.

As we expand further in 2009, 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.

K. 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.

L. Shareholders' Structure

As of 30 September 2008, the Company believes that its significant shareholders, based on a share capital of 20.1 million shares, are as follows:

Shareholder	Holding
Charleville Investments	18.7%
Gordon Group Investments	15.7%
SAREK Holdings	15.6%
Allianz Global Investors	8.6%
Jack Kugler (Director)	7.9%
Newedge Group	6.8%
Allen Bohbot (Director)	6.6%
Cominvest Asset Management	2.9%

M. 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 2008, the subscribed capital is divided in 20,130,290 no-par value registered ordinary shares including 318,582 owned 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 L. Shareholders' Structure) for direct or indirect holdings as per notifications received by the Company.

No further compulsory disclosures are required.

N. 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 material aspects of the German Corporate Governance Code of Good Conduct, with regards to a company our size and complexity. Reference is made to Corporate Governance Disclosure Reporting.

- The Management and Supervisory Boards met either in person or telephonically on 13 separate occasions during the fiscal year. 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. There is also 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.

O. Programme Assets (film rights).

- These are capitalised at purchase cost.

- The amortisation of these assets in previous years has been done using a method based on 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 was less than the corresponding book value, additional depreciation of the asset is carried out (impairment test).

- This year, however, the Company has decided to change its policy to ensure both greater visibility of its policies in this area and also to ensure a more objective and less fluctuating approach is taken in this area.

- The Company from now will write down its film assets under a 12 year straight line method but in addition will adopt an impairment test against individual films in cases where future income streams are not expected to cover the net book value as determined by the 12 year straight line method. This double policy ensures the Company's film assets are valued in an appropriately prudent manner.

- For this financial year 2008, the straight line amortisation charge is €4.5 million and an additional charge of €1.1 million has been taken based on impairment testing.

P. Business Risks

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

- At this time, the Company does not hedge against currency fluctuations. In fiscal 2007, we had a loss on sales from currency movement of €552,000 offset by a production and overhead cost savings of €919,000 leading to an overall gain of €367,000. In fiscal 2008, in a similar fashion, our sales loss was €325,000 and our production and overhead cost gain was €735,000 leading to an overall gain of €410,000.

- 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.

- We have been engaged in a single litigation matter with a US company since 2003 due to our 2002 restructuring. We have lost certain elements of the claim in the US and now those matters have moved to Germany where it is before a District Court in Cologne who will decide as to jurisdiction and enforceability. While the Management Board continues to believe, in part based on opinions from counsel in both the US and Germany and in part on the basis that the Company is right in this matter, that it has a fair chance to prevail in this matter, we have decided after six years to take a reserve for this potential issue in the amount of €2.2 million.

- 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. To date, the Company has not received 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. Subsequent Events

There are no material matters to mention between the balance sheet date and the reporting date which would have impact on the financial position or income situation of the Company.

R. Outlook

The markets for children's animation throughout the world are challenged, much like the traditional economy. There is empirical evidence, however, that parents will continue to make acquisition of products for their children a priority in difficult times versus investing in products for themselves. In addition, there is a consolidation in our industry whereby main competitors like DIC Entertainment in the US, Decode in Canada, EM Entertainment in Germany, Alphanim in France and others have been sold in the past year. We expect that many smaller competitors, especially the local versus global companies, will need to be sold or liquidated in the upcoming business cycle. The Management Board sees opportunity for good acquisitions in strategic locations and is open to pursuing such endeavors to strengthen our assets and grow our market share.

In 2009 and 2010, we expect revenue contributions from a number of announced products such as *Dork Hunters from Outer Space*®, *Zorro: Generation Z*® seasons I and II, *Stone Age*™ and *Pocket Penguin Adventures*™. We are already developing a number of other projects that will come in late 2010 and give us visibility even later. Our earnings are good and our margins on operating income are steady at approximately 42%. We begin fiscal 2009 with €4.2 million in cash and liquid securities and are well positioned to take advantage of business opportunities.

We expect to keep growing at a 10% rate for the foreseeable future and to maintain our margins. We will look to acquire competitors at great value and expand in our position as a premier supplier of high definition animation. We recognize the difficult markets and the uncertainty that prevails, but we believe that the outlook for the Company is good.

Cologne, November 2008
The Management Board

Allen J. Bohbot
Chairman & CEO

Wayne Mowat
Chief Financial Officer

Auditors’ Opinion for the Fiscal Year Ended 30 September 2008

(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 2007 to 30 September 2008. 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, 7 November 2008

Consolidated Balance Sheet for Fiscal 2008

(in thousands of €)

		30 Sept. 2008		30 Sept. 2007	Notes
ASSETS					
A. Fixed and intangible assets					
1. Intangible Assets					
i. Programme assets and other	45,353			42,323	II, VII.A, App.1
ii. Work in progress	22,969			11,831	VII.A, App.1
2. Fixed assets	341			108	II, Appendix 1
		68,663		54,262	
B. Other long term assets					
1. Other assets	199			213	VII.B.1
2. Deferred taxes	2,086			2,500	II, VII.B.2
		2,285		2,713	
C. Current assets					
1. Stocks	11			12	VII.C.1
2. Accounts receivable, trade	4,658			2,196	II, VII.C.2
3. Other current assets	258			309	VII.C.3
4. Cash and cash equivalents	3,541			1,413	II, VII.C.4
		8,468		3,930	
		79,416		60,905	
LIABILITIES					
A. Shareholders equity					VII.D
1. Common stock	19,811			19,154	
2. Additional paid in capital	13,037			12,297	
3. Other comprehensive income	(235)			(28)	
4. Retained earnings	13,345			9,515	
		45,958		40,938	
B. Long term liabilities					
1. Bank loans	25,750			15,500	II, VII.E.1
2. Deferred tax liability	424			605	II, VII.E.2
3. Deferred long term liabilities	0			7	
		26,174		16,112	
C. Short term liabilities					
1. Bonds	60			1,050	VII.F.1
2. Loans and finance liabilities	2,250			1,000	II, VII.E.1
3 Accrued expenses	3,460			629	II, VII.F.2
4. Tax liabilities	676			560	VII.F.3
5. Accounts payable, trade	838			581	II, VII.F.4
6. Other liabilities	0			35	
		7,284		3,855	
		79,416		60,905	

Consolidated Statements of Operations for Fiscal 2008

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

	30 Sept. 2008	30 Sept. 2007	Notes
Revenues			
Television	10,248	7,623	II, VI, VIII.1
Consumer brands	8,483	8,644	VI, VIII.1
Total Sales	**18,731**	**16,267**	
Other income	1,271	1,720	VIII.2
Total Gross Income	**20,002**	**17,987**	
Expenses			
Depreciation, amortisation and goodwill	5,846	2,238	II, VIII.6
Direct operating costs and other expenses	2,263	1,585	VIII.3
Salaries and employee benefits	2,845	3,071	VIII.4
Other operating expenses	3,031	4,193	VIII.7
Total Expenses	**13,985**	**11,087**	
Income Before Provision for Interest & Income Taxes	**6,017**	**6,900**	
Interest expense	1,616	1,430	VIII.8
Income Before Provision for Income Taxes	**4,401**	**5,470**	
Provision for income taxes	399	450	VIII.9
Net Income Current Year	**4,002**	**5,020**	
EBITDA	11,863	9,138	
Earnings per share	0.208	0.305	X
Fully diluted EPS	0.190	0.287	X
Basic average number of shares	19,233,198	16,464,176	
Diluted average number of shares	21,059,422	17,663,780	
Number of employees including directors at the end of the year	36	36	VIII.5

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

Consolidated Statements of Cash Flows for Fiscal 2008

(in thousands of €)

	30 Sept. 2008	30 Sept. 2007
Cash flow from operations		
- Net income	4,002	5,020
- Depreciation in value of long term property		
Intangible assets	5,720	2,175
Plant and Equipment	126	63
- Income from disposal of fixed and financial assets	0	(355)
- Other non-cash (income)/expenses		
Deferred taxes	233	(127)
	10,081	6,776
Changes in operating assets and liabilities		
- Accounts receivable, trade	(2,462)	(700)
- Stocks	1	(12)
- Other short term assets	51	480
- Other long term assets	14	10
- Accounts payable, trade	257	(585)
- Accruals	2,831	(317)
- Tax liabilities	116	545
- Others	(42)	767
Net cash generated from operating activities	**10,847**	**6,964**
Cash flow from investing activities		
- Intangible assets / Programme rights	(19,839)	(19,739)
- Property, equipment and leasehold improvement	(398)	(44)
- Foreign exchange difference	(10)	0
- Cash from disposals of financial assets	0	355
Net cash used in investing activities	**(20,247)**	**(19,428)**
Cash flow from financing activities		
- Bank overdraft and other loans	11,500	16,500
- Convertible bond	(990)	(11,554)
- Proceeds from issuance of share capital	1,342	8,220
- Foreign exchange difference	(207)	(164)
- Purchase of own shares	(117)	(773)
Net cash provided by financing activities	**11,528**	**12,229**
Net increase / (decrease) in cash and cash equivalents	**2,128**	**(235)**
Cash and cash equivalents at beginning of period	1,413	1,648
Cash and cash equivalents at end of period	**3,541**	**1,413**

Consolidated Statements of Stockholders’ Equity for Fiscal 2008

(in thousands of €)

	Common Stock	Additiona l 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 Sept. 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**
Reclassification concerning own shares						
Less own shares	(246)	(527)	(773)	773		(773)
Balance at 30 September 2007 (after reclassification)	**19,154**	**12,297**	**0**	**9,515**	**(28)**	**40,938**
Net profit for the period from 1 Oct. to 30 Sept. 2008				4,002		4,002
Shares issuance July 2008 (net of expenses)	730	612				1,342
Currency difference					(207)	(207)
Capital loss own shares	(73)	128		(172)		(117)
Balance at 30 September 2008	**19,811**	**13,037**	**0**	**13,345**	**(235)**	**45,958**

See Notes, Section I.3

Notes to the Consolidated Financial Statements for the year from 1 October 2007 to 30 September 2008

I. General Notes

1. Accounting Standards

The consolidated financial statements of BKN International AG, Cologne, Germany for the year ending 30 September 2008 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. The accounting is under IFRS reporting.

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 is prepared in accordance with §315a HGB (German Commercial code), which is the legal foundation for the international accounting standards for consolidated accounting.

The Company is registered under ref B32514 of the commercial register in Cologne. The consolidated financial statements and consolidated Management Board report for the year ended 30 September 2008 will be published in the Federal Gazette and will also be posted on the Company's website at www.bknkids.com.

2. Appliance of recent and modified standards

In comparison to the consolidated financial statements and consolidated Management Board report for the year ended 30 September 2008, the following standards have changed or were used due to the adoption of EU-law or due to coming into effect for the first time:

IFRS 7	"Financial Instruments: Disclosures"
IAS 1	"Presentation of Financial Statements - Additional information about the companies equity"
IAS 32	"Financial Instruments: Information and Presentation - Information requirement replaced with IFRS 7"
IFRIC 10	"Interim Financial Reporting and Impairment"
IFRIC 11	"IFRS 2 – Group and Treasury Share Transactions"

As IFRS 7, IAS 1 and IAS 32 are regulations which solely apply to presentation issues and disclosures to the notes to the financial statement, there are no effects to the financial results by the first time use of these rules.

The following standards and interpretations were published by the closing date by IASB rather IFRIC, but are only binding for future reporting periods. The Company has not used the possibility of early exercise:

IFRS 2	"Share-based Payment - Changes regarding Exercise terms and Cancellation"
IFRS 3	"Business Combinations - comprehensive revision regarding the application of the acquisition method"
IFRS 8	"Operating Segments"
IAS 1	"Presentation of Financial Statements - comprehensive revision including a requirement of a list covering the complete income"

IAS 1	"Presentation of Financial Statements - changes regarding the data to subject to callable financing instruments and with liquidation developing obligations"
IAS 23	"Borrowing Costs - comprehensive revision to prohibit an immediate entry as expenses"
IAS 27	"Consolidated and Separate Financial Statements according to IFRS - subsequent adjustments to the changes of IFRS 3"
IAS 28	"Investments in Associates - subsequent adjustments to the changes of IFRS 3"
IAS 31	"Interests in Joint Venture – subsequent adjustments to the changes of IFRS 3"
IAS 32	"Financial Instruments: Presentation – changes regarding the data to subject to callable financing instruments and with liquidation developing obligations"
IFRIC 12	"Service Concession Arrangements"
IFRIC 13	"Customer Loyalty Programmes"
IFRIC 14	"IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

The Company expected no significant impact to the financial situation due to the standards and interpretations published at closing date but not yet adopted to EU-law.

3. Prior Year End Closing

The following reclassifications regarding the prior year figures (year-end-closing 30. September 2007) were made by the Company - without any profit impact:

- Deferred financing costs of €486 thousand (in previous year shown separately under long term assets) were reclassified to assets (Programming Rights) - see fixed assets movement schedule
- Own shares (in previous year shown separately as current assets) were offset with equity (see statement of equity)
- The short-term part of the bonds and loans (in previous year shown in the total of long term liabilities) were reclassified to short-term liabilities
- The Cash Flow Statement was adjusted accordingly

The above-mentioned adjustments of prior-year figures were duly approved by the Supervisory Board.

II. Accounting Policies

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

The Company has changed the amortisation method during the reporting period. This had no significant impact on the group financials. For details please see the corresponding explanations for that balance sheet item.

According to IAS 1.51 the balance sheet distinguish between **long- and short-term assets** as well as **short- and long-term liabilities**.

It is essential for the preparation of the consolidated financial statements in accordance to IFRS to make **use of estimates and assumptions** which have impact on the balanced assets and liabilities as well as income and outgoings.

Significant assumptions are made for:

- Achievable future revenues from programming rights
- Liquidability of accounts receivables
- Accounting and valuation of accruals
- Liquidity of deferred taxes from loss carry forward

The use of estimates and assumptions are based on premises, which are founded on the current available knowledge. Variations in the development of these general regulations can cause differences between the assumptions and the actual figures.

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 production cost. The amortisation of these assets in previous years has been done using a method 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 was less than the corresponding book value, additional depreciation of the asset was carried out (impairment test).

This year, however, the Company has decided to change its policy to ensure both greater visibility of its policies in this area and also to ensure a more objective and less fluctuating approach is taken in this area. The Company from now on will write down its film assets under a 12 year straight-line method, but in addition will adopt an extra impairment test against individual films in cases where future income streams are not expected to cover the new book value as determined by the 12 year straight-line method. This double policy ensures the Company’s film assets are valued in an appropriately prudent manner.

The change of the valuation method compared to the past method caused an additional amortisation of approximately €213 thousand (previous year: €2,211 thousand).

The right of election pursuant to IAS 23 will be used as follows: traceable capital procurement costs in relation with the production of assets will be capitalised.

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.

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 were required to establish deferred tax on different valuations of assets and liabilities in IFRS and tax accounts and in consolidation procedures, as well as on realisable loss carryforwards. This included the establishment of asset-side tax accruals insofar as the use of the tax loss carryforwards are currently regarded as probable and foreseeable. The calculation of deferred tax based on the balance sheet item oriented policy. Deferred taxes will be checked in regular intervals regarding their recoverability, and if required, appropriately adjusted. For the tax calculation, the future tax rate will be used based on the legal status at closing date. An offset of accrued and deferred taxes will only be made if the requirements of IAS 12 are fulfilled.

Loan and 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.

With regards to the existing loss carryforward in Germany, t**ax liabilities** are only accrued under the scheme of minimum taxation. The calculation for the tax liabilities is based on country-specific regulations. With regard to **other accruals**, 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.

Convertible Bonds are considered as a composed financial instrument which consists of a liability and an equity part. As far as an equity component is ascertainable, it will be taken into account under shareholders equity.

According to IFRS unrealised foreign exchange gain and loss from **Foreign Currency Receivables and Liabilities** are not affecting current-period result. The imparity principle does not apply.

The associated costs related to the share issue will be offset with the proceeds of the public offering (capital reserves) without affecting current-period result.

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 statement dates from the point at which this controlling share is obtained and ends when this is no longer the case.

As at 30 September 2008, the following companies were included in the consolidation:

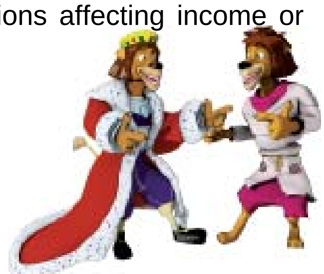
- BKN International AG, Cologne
- BKN New Media Ltd., London
- BKN Home Entertainment Ltd., London (inactive)
- BKN New Media Inc., New York (inactive)
- BKN Home Entertainment Inc., New York
- BKN New Media SL, Barcelona

A breakdown of share property is attached as Appendix 3.

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	30.09.2008	2006/2007	2007/2008
	€	€	€	€
1 USD	0.7012	0.6923	0.7509	0.6632
1 GBP	1.4359	1.2582	1.4809	1.3148

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.

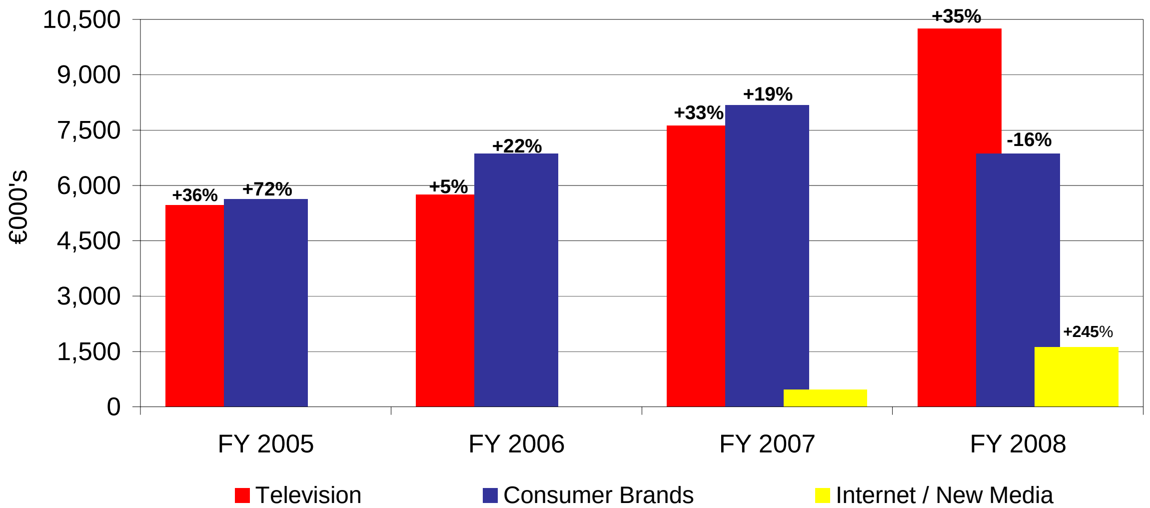
VI. Segment Report

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.

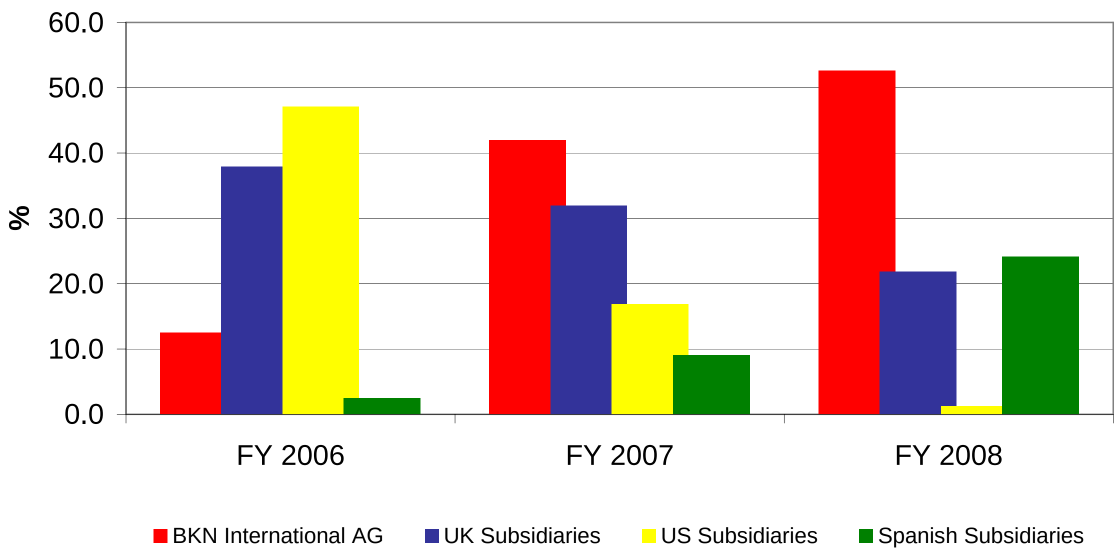
1. Segmentation of Revenues

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



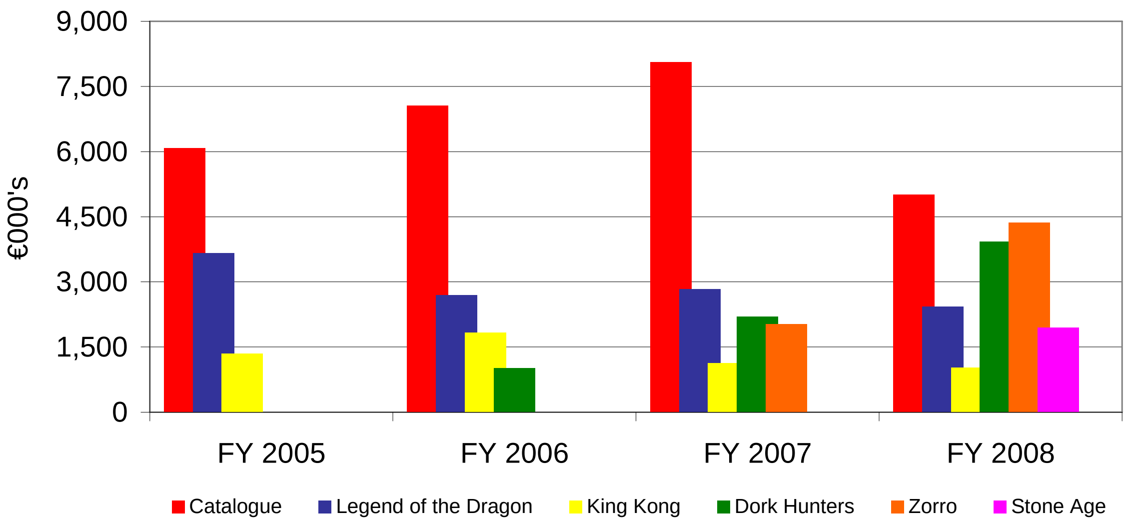
Segmentation by the costs and investments linked to the sales areas or by employees is not possible as divisional sales are based on the same economic and personnel resources. A purely percentage-based distribution has not been undertaken as it would provide little useful information.

2. Revenues by Company (in %'s)



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



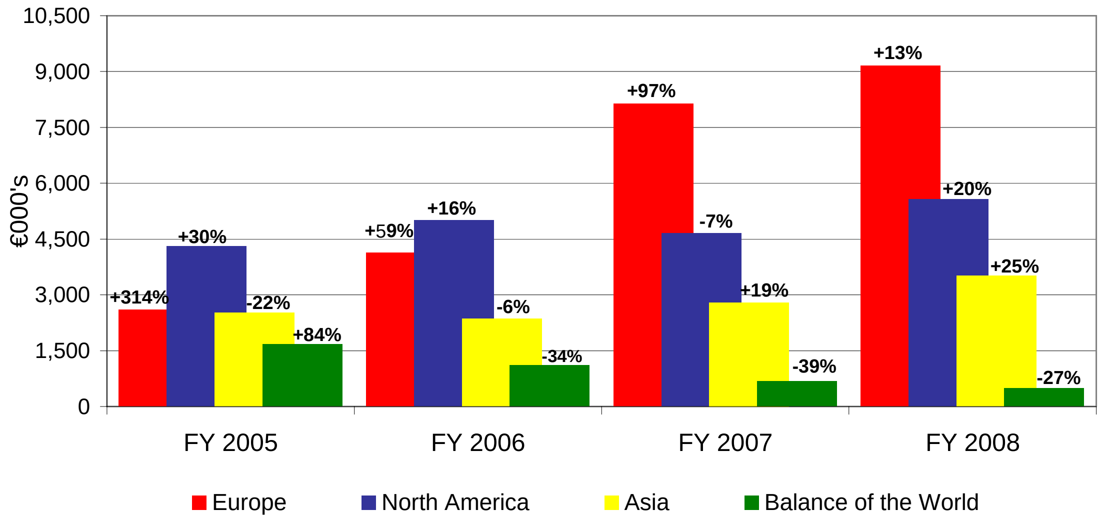
The principal segment asset is made up of the programme rights whose book values are shown below:

	000 €
Dork Hunters from Outer Space® (Season I)	8,738
Zorro® (Season I)	8,427
Legend of the Dragon (Season I + II)	4,947
Kong (Various titles)	2,719
Stone Age™	3,954
Classic Collection	3,315
Remaining programme catalogue/ acquired rights/finance costs	13,235
	45,335
Titles in progress with no contribution to turnover	22,969
Total programme assets	68,304

The business is primarily financed through the issue of share capital (58%) and long term loans (35%). 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.

VII. 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 €68,304 thousand (previous year: €54,133 thousand) includes programme assets including work in progress totalling €22,969 thousand (previous year: €11,831 thousand) which has not yet been depreciated.

Borrowing costs of €250 thousand (previous year: €250 thousand) were capitalised as related production costs to programme.

The programme assets were used in part as security for loans.

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 carryforward of the companies included in the consolidation.

Calculation of this item is based on the following assumptions:

	2007/2008	2006/2007
	000 €	000 €
Tax loss carryforwards in the Group on balance sheet date approximately	59,000	62,000
Thereof included in the deferred tax calculation	6,829	7,802
This figure takes into account both the forecast results of the Group companies for 2009 – 2011 less an appropriate valuation allowance and the offsettable loss carryforwards in the individual companies in each case with the applicable tax rate.		
Tax asset at a weighted tax rate in the Group of 30.55% (previous year: 32.0%)	2,086	2,500

The impact based on the lower applying tax rate amounts to approx. €99 thousand.

C. Current assets

1. Stock

€11 thousand (2007: €12 thousand) relates to DVD's for sale at lower of cost or realisable value.

2. Accounts receivable

This item includes receivables from sales made and provided that are to be recognised at fair value. Bad debt allowances were not required.

Age structure of receivables (without provisions) at closing date:

	2007/2008	2006/2007
	000€	000€
1 to 90 days:	2,079	718
> 90 days:	2,579	1,478
	4,658	2,196

3. Other current assets

This item includes advance payments for running costs of €127.0 thousand (previous year: €135.0 thousand) and VAT receivables of €116.0 thousand (previous year: €174.0 thousand) as well as receivables from trade income tax of €15.0 thousand (previous year: €0 thousand)

4. 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:

	30.09.2008	30.09.2007
	000 €	000 €
Shares issued	20,130,290	19,400,170
./. own shares	-318,582	-246,143
	19,811,708	19,154,027
Option rights	1,530,769	904,149
Convertible rights (including warrants):	295,455	295,455

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

	30.09.2008	30.09.2007
	000 €	000 €
Consolidated net profit	4,002	5,020
Profit carryforward	9,515	4,495
Change in value (own shares)	-172	0
Retained earnings	13,345	9,515

The Change in value of the amount of €172 thousand relates to the previous year's considered net income and its effect on the increase in equity.

E. Non-current liabilities

1. Loans

In February 2007, the Company secured a seven-year long term loan from H.E.A.T. Mezzanine S.A., initiated by HSBC, in the amount of €12.0 million at an interest rate of 8.25%. At 30 September 2008, the full amount of €12.0 million (previous year: €12.0 million) was still due.

In February 2008, the Company entered into a general five-year facility with Commerzbank in the amount of €16.0 million at an interest rate of 6.6%. €7.5 million of that loan is repayable at the end of the five-year term, another €7.5 million are repayable in equal quarterly installments within the five-year term. The remaining €1.0 million is a flexible general credit facility. At balance sheet date, the full loan amount was drawn.

€2.25 million (previous year: €1.0 million) of the total amount of the loans with a term up to one year, are shown under short-term liabilities.

The loans from Commerzbank are secured by the pledging of three properties (book value: €22.3 million).

2. 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 (if relevant for tax):

	2007/2008	2006/2007
	000 €	000 €
Intangible assets	1,428	601
Deferred financing costs	-	487
Deferred revaluation gains	-	174
Consolidation entries	-	795
Other	-13	-41
	1,415	2,016
30 % deferred tax burden	424	605

F. Current liabilities

1. Convertible and Cash Bonds

The development of the convertible bonds are as follows:

Opening Balance 30.09.2007	50	1,000
Repayment	---	-990
Closing Balance 30.09.2008	50	10

Repayments are made at par value.

The attributed value of the liability component of the remaining loan amount is accounted by the Management Board with the book value (par value).

The remaining bonds are entitled to subscribe to a maximum of 295,455 shares at €4.01.

2. Provisions / Accrued Expenses

Provisions were established on the basis of reasonable commercial principles.

The most important items are:

	01.10.07	Used	Written back	New	30.09.08
	000 €	000 €	000 €	000 €	000 €
Personnel: ancillary costs	80	80	0	73	73
Bonus and salary payments	213	198	15	100	100
Legal, consultancy and audit costs	138	138	0	100	100
Supervisory Board remuneration	60	60	0	60	60
Costs of general meeting	50	50	0	53	53
Sales returns	65	65	0	0	0
Litigation incl. fees	0	0	0	2,190	2,190
Other outstanding invoices	0	0	0	640	640
Other	23	23	0	244	244
	629	614	15	3,460	3,460

3. Tax liabilities

This item includes the corporate income tax (including solidarity surcharge) as well as trade income tax of €676 thousand (previous year: €560 thousand).

4. 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.

VIII. 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 covers internally produced and capitalised assets (personnel and non-personnel costs) in connection with the production of intangible assets based on direct cost price of €1,213 thousand (previous year: €1,191 thousand).

Furthermore, this item includes the profit achieved from the sale of the US studio company of €0 thousand (previous year: €355 thousand), deferred stock price gains from own shares of €0 thousand (previous year: €174 thousand) as well as currency profit of €58 thousand (previous year: €0 thousand).

3. Producer charges and direct operating costs

This item includes:

	2007/2008	2006/2007
	000 €	000 €
Marketing costs	0	495
Production and rights-related third party claims	2,190	762
Other revenue-related costs	73	328
	2,263	1,585

4. Salaries and social security expenses

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

	2007/2008	2006/2007
	000 €	000 €
Payroll	2,590	2,839
Social security contributions and related salary costs	255	232
	2,845	3,071

Expenses linked to voluntary retirement benefit schemes were €17 thousand (previous year: €16 thousand).

5. Number of employees

For the accounting year 2007/2008, the Group employed an average of 31 persons excluding directors in total (previous year: 34).

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

With respect to scheduled depreciation, €175 thousand (previous year: €63 thousand) apply to Fixed assets, €7 thousand to Software (previous year: €7 thousand) as well as €4,605 thousand to Programming Rights (previous year: € 0 thousand).

€1,059 thousand (previous year: € 2,110 thousand) apply to extraordinary depreciation due to the Impairment Test.

For details regarding the depreciation method, please see explanation under numeral II.

7. Other operating expenses

This item primarily includes:

	2007/2008	2006/2007
	000 €	000 €
Rents and equipment	601	632
Advertising costs	212	429
Legal and consultancy costs	551	803
Accounting costs	168	193
Travel, etc.	206	265
Corporate administration and insurance	332	337
Supervisory Board remuneration	60	60
Office costs	309	309
Currency losses	0	8
Bad debt	0	126
Bond financing costs	0	1,031
Other	592	0
	3,031	4,193

8. Net interest income

This item is made up as follows:

	2007/2008	2006/2007
	000 €	000 €
Interest expense	1,619	1,482
Interest income	3	52
	1,616	1,430

9. Income taxes

This item is made up as follows:

	2007/2008	2006/2007
	000 €	000 €
Misc. revenue and withholding taxes	13	32
Trade tax on income	--	279
Corporate income tax (including solidarity tax surcharge)	140	266
	153	577
Deferred tax expenses	427	164
Deferred tax benefit	-181	-291
	399	450

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:

	2007/2008	2006/2007
	000 €	000 €
Theoretical tax charge	1,345	1,750
Tax relief	-942	397
Tax relief from use of loss carryforwards	-270	-1,602
Misc. non allowable withholding tax and others	20	32
Actual tax expenditure	153	577
Deferred taxes (net)	246	-127
Reported Tax expenditure	399	450

IX. Notes on Cash Flow Statement

The cash flow statement shows the origin and use of payment streams in the accounting years 2007/2008 and 2006/2007. According to IAS 7, 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.

According to IAS 7.31 and IAS 7.35, the net cash generated from operating activities includes the following cash inflow and outflow:

- Interest received: €3 thousand (previous year: €52 thousand)
- Interest paid: €619 thousand (previous year: €1,482 thousand)
- Paid taxes on income: €153 thousand (previous year: €32.0 thousand)

According to IAS 7.31, the net cash generated from investing activities includes the following cash inflow and outflow:

- Interest paid / financing costs €250 thousand (previous year: €540 thousand)

X. Earnings per share

Undiluted earnings per share for the accounting year 2007/2008 are €0.208 (previous year: €0.305).

Undiluted earnings per share are calculated by dividing the figure for consolidated profit by the weighted number of shares issued. For the accounting year 2007/2008, the weighted number of shares issued was 19,233,198 (previous year: 16,464,176).

The change in the weighted number of shares issued compared with the previous year is a result of the capital increase in the fiscal year and the exercise in part of the convertible bond.

Diluted earnings per share for the accounting year 2007/2008 are €0.190 (previous year: €0.287). 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 live warrants, 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 2008 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.

XI. 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:

	30.09.2008	30.09.2007
	000 €	000 €
Under one year	484	426
Between two and five years	974	737
	1.458	1,163

XII. 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.

XIII. Stock option plan

1. The Company has adopted on 17 March 2005 a new stock option plan with the following content:

   - The Company can issue a first tranche 1,492,748 options.
   - The option rights cannot be exercised within the first two years after issue.
   - The option rights have a term of five years and expire after that term if not exercised.
   - One option right is entitled to a subscription of one share. The average exercise price is €3.37.
   - The option rights can only be exercised if the share price has reached the exercise price before the exercise date.

   As per 30 September 2008, the Company had granted a total of 1,522,269 option rights. 725,000 of these option rights were allocated on 17 March 2007 and could not 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. 513,310 options were granted to the Management Board on 19 February 2008; these options cannot be exercised until 19 February 2010. 113,310 options were granted to the Management Board on 19 March 2008; these options cannot be exercised until 19 March 2010

2. No compensation charge was recorded in the Income Statement as under given circumstances an attributed value was unascertainable. No option was exercised during the fiscal year.

3. As at 30 September 2008, members of the Management Board held a total of 1,522,269 options

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

XIV. Litigation

We have been engaged in a single litigation matter with a US company since 2003 due to our 2002 restructuring. We have lost certain elements of the claim in the US and now those matters have moved to Germany where it is before a District Court in Cologne who will decide as to jurisdiction and enforceability. While the Management Board continues to believe, in part based on opinions from counsel in both the US and Germany and in part on the basis that the Company is right in this matter, that it has a fair chance to prevail in this matter, we have decided after six years to take a reserve for this potential issue in the amount of €2.2 million.

XV. Subsequent events

There are no material events after the closing date of the financial year.

XVI. Impact and risks of financial instruments

What is most important for the Company and its respective financial reports are the financial instruments in the following areas in the balance sheet: accounts receivables, convertible bonds, loans and accounts payables.

Regarding valuation and maturity, one refers to the explanation item of the relevant balance sheet item rather than the accounts payables ageing report. There are no specific risks within the financial instruments which have an impact upon the financial situation of the Company.

XVII. Information according to § 160 para. 1 No. 8 Stock Corporation Act (AktG)

Duty of notification pursuant § 21 Security Trading Act (WpHG)

Gordon Group Investments LLC, New Jersey, USA announced on 16 October 2007 that their amount of voting rights has exceeded the threshold of 20%.

Sheldon M. Gordon, Atlantic City, USA, announced on 16 October 2007 that their amount of voting rights has exceeded the threshold of 5% and 10%.

Credit Agricole Cheuvreux International Ltd., London, United Kingdom, announced on 09 July 2008 that their amount of voting rights has fell short of the threshold of 3%.

Credit Agricole Cheuvreux S.A. (Cedex – France), announced on 09 July 2008 that their amount of voting rights has fell short of the threshold of 5% and 3%.

Calyon (Cedex – France), announced on 09 July 2008 that their amount of voting rights has fell short of the threshold of 5% and 3%.

Credit Agricole S.A. (Paris – France), announced on 09 July 2008 that their amount of voting rights has felt short of the threshold of 5% and 3%.

Newedge Group (UK) Branch, London, Grossbritannien announced on 09 July 2008 that their amount of voting rights has exceeded the threshold of 3% and 5%.

Cominvest Asset Management GmbH, Frankfurt am Main, Germany, announced on 21 July 2008 that their amount of voting rights has fell short of the threshold of 3%.

Die Newedge Group Paris, France, announced on 08 September 2008 that their amount of voting rights has exceeded the threshold of 3% and 5%.

Die Sarek Holdings Ltd. Turks and Caicos, British West Indies, announced on 09 September 2008 that their amount of voting rights has exceeded the threshold of 3%, 5%, 10% and 15%.

XVIII. Information according to § 160 para. 1 No. 2 Stock Corporation Act (AktG)

The development of own shares are as follows:

	Par value/share
30.9.07	246,143
Disposal	-59,335
Purchase	131,774
30.9.08	318,582

The par value of the own shares (approximately 1.6% of the share capital, previous year: approximately 1.3%) will be deducted from the subscribed capital whereas the difference to the purchase price and the changes in value will be allocated with the capital surplus (cf. Development of consolidated share capital).

The own shares were purchased on the basis of the shareholders resolution dated 22 February 2007. The purpose of the purchase is to acquire companies or shareholdings out of this stock. The Management Board is further authorised to use the own shares within the scope of the share option plan for the Management Board and other entitled employees, as well as to offer the shares for purchase to the issuer of the convertible bonds.

XIX. 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 2008, 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 K Paff, businessman, Creedmoor, USA; Member (since 17 January 2003)

Mr. Benetz and Mr. Paff are neither members of other supervisory boards nor members of other supervisory committees pursuant to § 125 para. 1 sentence 3 Stock Corporation Act (AktG). Mr. Kugler is a member of the Board of Directors of Mirror Image Inc. USA.

The composition of the Management Board for the accounting year 2007/2008 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 is neither a member of other supervisory boards nor a member of other supervisory committees pursuant to § 125 para. 1 sentence 3 Stock Corporation Act (AktG). Mr. Mowat is a member of the Board of Directors of Drink Organic Ltd., London, United Kingdom.

The total remunerations of the members of the Management Board for the accounting year 2007/2008 were €881,480. This figure includes performance-related remuneration of €0 (previous year: €1,084,233, of which performance related: €187,500). Full details are not published due to the relating shareholders resolution dated 16 February 2006 according to §286 para. 5 HGB.

The total remunerations of the Supervisory Board for the accounting year 2007/2008 were €60,000 (previous year: €60,000).

2. Auditors Fees

The auditors have charged for the Group a total of €179,479 (previous year: €157,332) for audit services €106,124 (previous year: €124,707) and €73,355 (previous year: €32,625) for tax and other consulting services.

3. Income / Expenses relating to other periods

The item income / expenses includes income relating to other periods of €0 thousand (previous year: €355 thousand) and expenses relating to other periods of €2,190 thousand (previous year: € 320 thousand).

The expenses apply to a several year old litigation (cf. Section XIV.)

4. 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 2008. This declaration was made permanently available to shareholders on the Company's website.

5. 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.

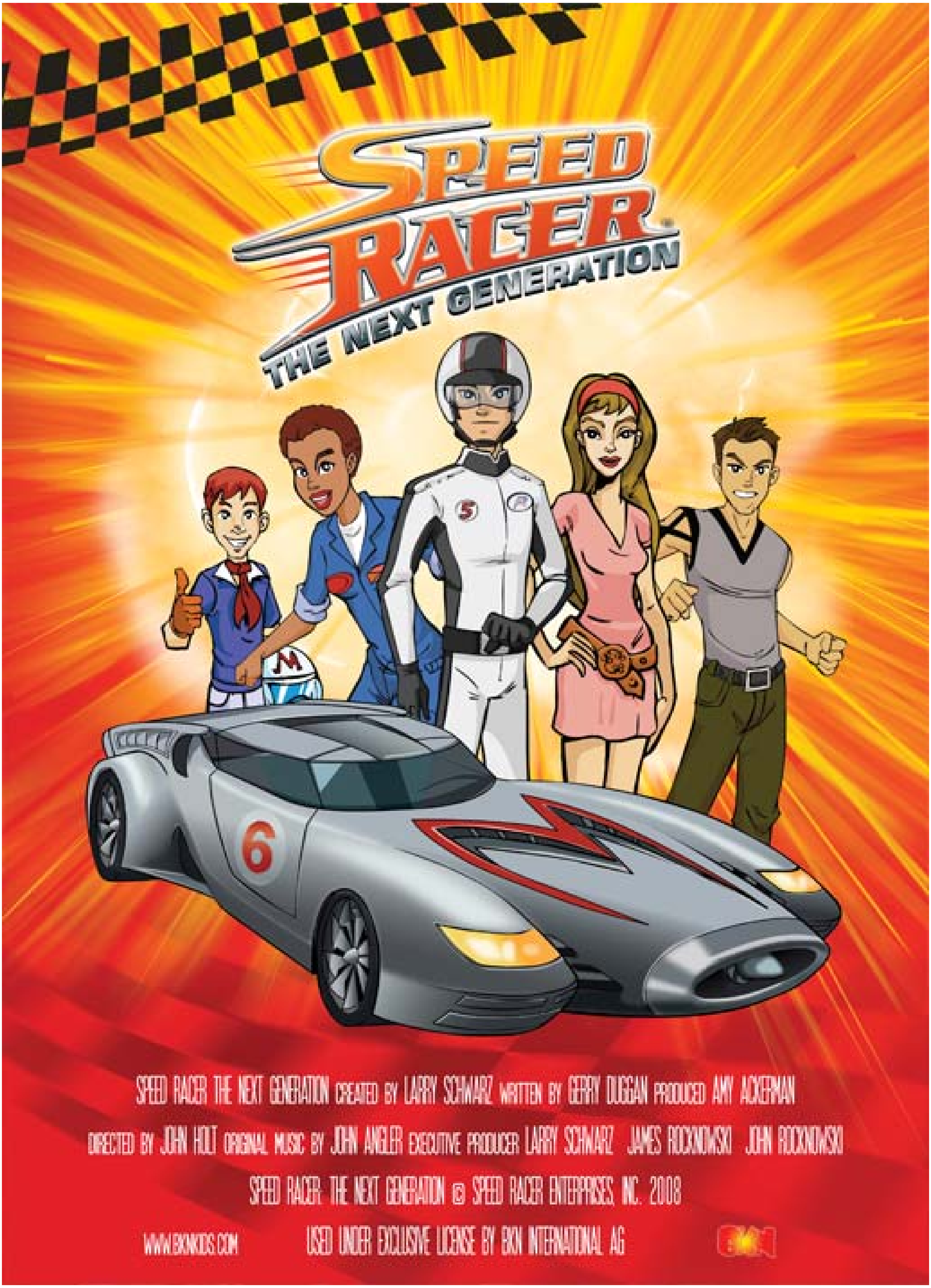
6. Approval of the Consolidated Financial Statements

It is expected that the Consolidated Financial Statements will be approved on 24 November 2008 at a joint meeting of the Supervisory Board and Management Board in the presence of the auditor and subsequently released for publication.

Cologne, November 2008
The Management Board

Allen Bohbot
Chairman & CEO

Wayne Mowat
Chief Financial Officer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Appendix 1

Consolidated Statement of Changes in Fixed Assets as at 30 September 2008

	Cost						Depreciation					Net Book Value	
	01/10/2007	Exchange differences	Additions	Disposals	Reclassification	30/09/2008	01/10/2007	Exchange differences	Additions	Disposals	30/09/2008	30/09/2008	Previous year
	T€		T€	T€	T€	T€	T€		T€	T€	T€	T€	T€
I. Intangible assets													
1. Software	552	0	4	0	0	556	531	0	7	0	538	18	21
2. Programme assets	100,214	0	6,892	10	1,805	108,901	57,912	0	5,664	10	63,566	45,335	42,302
3. Work in progress	11,831	0	12,943		-1,805	22,969	0	0	0		0	22,969	11,831
	112,597	0	19,839	10	0	132,426	58,443	0	5,671	10	64,104	68,322	54,154
II. Property, plant and equipment													
1. Operating and business equipment	253	31	398		0	682	145	21	175		341	341	108
Total fixed assets	112,850	31	20,237	10	0	133,108	58,588	21	5,846	10	64,445	68,663	54,262

Appendix 2

Analysis of Payables and Debts as at 30 September 2008

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	60 *(1,050)*	60 *(1,050)*	0 *(0)*	0 *(0)*	0 *(1,050)*
2. Loans	28,000 *(16,500)*	2,250 *(1,000)*	5,417 *(3,500)*	20,333 *(12,000)*	16,000 *(4,500)*
3. Deferred Tax Liability	424 *(605)*	47 *(325)*	189 *(170)*	188 *(110)*	0 *(0)*
4. Accrued Expenses	3,460 *(629)*	3,460 *(629)*	0 *(0)*	0 *(0)*	0 *(0)*
5. Other Liabilities	676 *(560)*	676 *(560)*	0 *(0)*	0 *(0)*	0 *(0)*
6. Accounts Payable,Trade	838 *(581)*	838 *(581)*	0 *(0)*	0 *(0)*	0 *(0)*
7. Deferred Long Term Liabilities	0 *(42)*	0 *(35)*	0 *(7)*	0 *(0)*	0 *(0)*
= **Total:**	**33,458** ***(19,967)***	**7,331** ***(4,180)***	**5,606** ***(3,677)***	**20,521** ***(12,110)***	**16,000** ***(5,550)***

Statement of Share Property

Name	Share %	Par Value €	Status
BKN New Media Ltd. London, United Kingdom	100	2	Active
BKN Home Entertainment Ltd. London, United Kingdom	100	3	Inactive
BKN Home Entertainment Inc. New York, USA	100	0	Active
BKN New Media Inc. New York, USA	100	0	Inactive
BKN New Media S.L. Barcelona, Spain	99.93	113,006	Active

Further information regarding the share property do not apply according to § 286 para. 3 No. 2 German Commercial Code (HGB).

Responsibility Statement by BKN International AG in accordance with §§ 297 para. 2 sentence 3 and section 315 para. 1 sentence 6 German Commercial Code (HGB)

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the Management Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Cologne, November 2008
The Management Board

Allen Bohbot
Chairman & CEO

Wayne Mowat
Chief Financial Officer

Declaration of Compliance with the German Corporate Governance Code pursuant to § 161 German Stock Corporation Act (AktG)

(Translation of the original German version)

Pursuant to § 161 of the German Stock Corporation Act (AktG), the Management Board and Supervisory Board of BKN International AG declare as follows.

BKN International AG has been at all times and is currently in compliance with the German Corporate Governance Code as amended on 6 July 2008 except for the following:

- There is no stipulated age limit for either the members of the Management Board or for the members of the Supervisory Board as the Boards feel that knowledge, skills and professional experience are in fact the main criteria to apply.

- There is no success-oriented remuneration for the members of the Supervisory Board. The Management Board and Supervisory Board both consider that a remuneration based on the Company's profit is not in line with the legally stipulated function of the Supervisory Board as an independent monitoring institution and the need to remain neutral and completely objective. Members of the Supervisory Board, therefore, receive a fixed remuneration defined in the Company's By-Laws.

- The remuneration of the Management Board members is not individually reported, but instead reported annually as a group into subdivided parts of fixed and success-oriented remuneration in the Notes of the Consolidated Annual Report. A remuneration component of long term incentive is the Stock Option Plan. The abdication of the individual reporting of the Management Board remuneration was approved by a shareholders resolution of the Annual General Meeting dated 16 February 2006.

The Supervisory Board **The Management Board**

Report of the Supervisory Board for Fiscal 2008

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 following key topics were discussed during the fiscal year:

- Approval of the Annual Accounts 2007
- Stock Option Plan
- Agreements with the Management Board, banks and landlords
- Convertible Bond repayments
- Capital Increase

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 14 February 2008 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 2008

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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