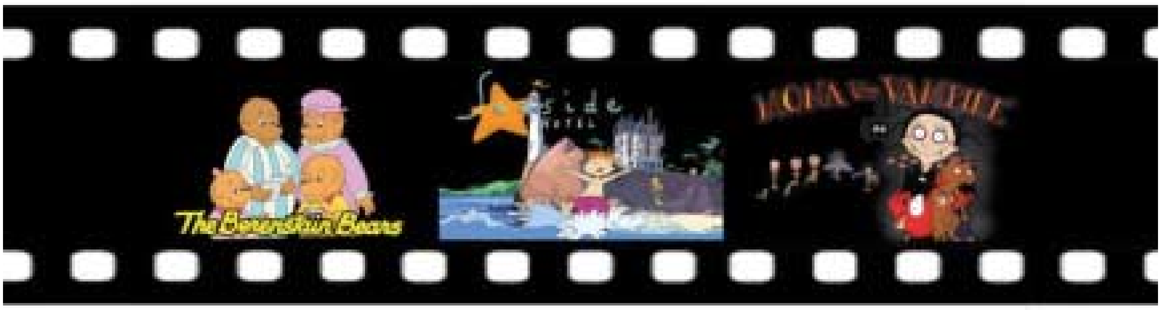
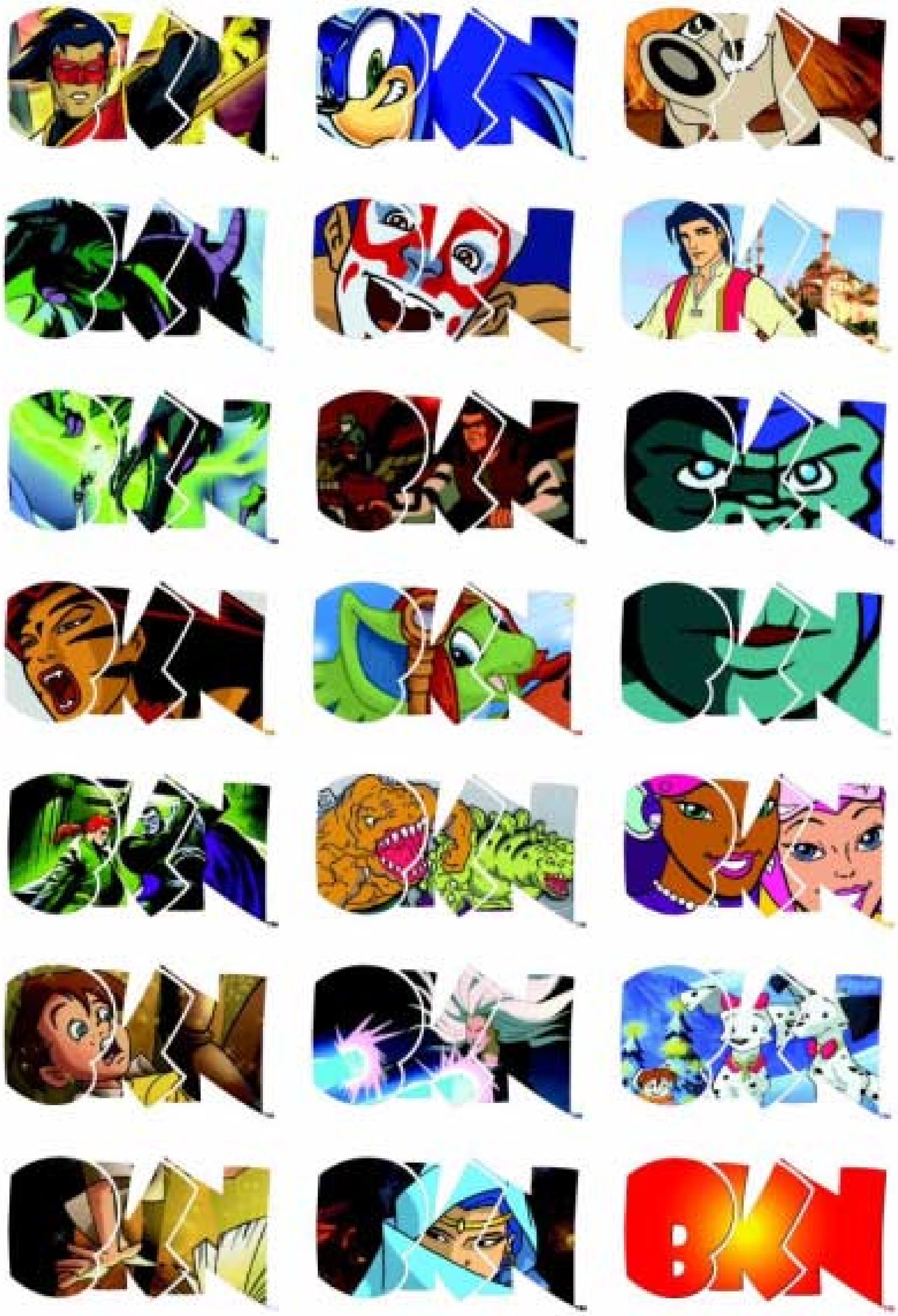
BKN International AG

2004 ANNUAL RESULTS



New York **London** **Cologne** **Singapore**



financial calendar

Publication of Annual Report 2004	23 November 2004
Annual General Meeting 2004	17 March 2005
Publication of Results - 1st half 2005	24 May 2005
Publication of Annual Report 2005	22 November 2005

Contents

Consolidated Management Report& Chairman and Chief Executive Statement

We are pleased to present the financial results of BKN International AG, a global animation production and distribution company ("BKN" or the "Company") that is listed on the Frankfurt and London Stock Exchanges. We license our product in approximately 95 countries, dub in about 30 languages and report under U.S. GAAP. This Consolidated Report of the Management Board will cover audited financial statements for the period ended 30 September 2004.

The Company had a very strong year during which we have enhanced our team, launched several new products, increased our client base, successfully expanded into Asia, dramatically 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"), the United States ("BKN New Media Inc") and Singapore ("BKN New Media Pte. Ltd").

- The Company reports in Euro and trades in Euro, UK Sterling, Singapore Dollars and United States Dollars.

- The Company is listed on the General Standard of the Frankfurt Stock Exchange (March 2000) and on the Alternative Investment Market of the London Stock Exchange (December 2003).

B. Film Catalogue and New Properties

- We have successfully expanded the Company's film catalogue, at 30 September 2004, to 54 titles and 1,573 episodes compared to 22 titles and 862 episodes as published in our 2003 Annual Report.

- The Company launched the property entitled Legend of the Dragon this year and is quite pleased with the initial results. Revenues of €3.5 million exceeded management's expectations of €2.6 million and the property has the potential to be the best performer ever on a per episode basis. The marketing launch is planned for the autumn 2005 and the Company is already developing the next series in the franchise for launch in the autumn 2006.

- We are launching a new direct-to-DVD animated film next year entitled Kong- King of Atlantis. This movie, containing all original music, will be launched in the autumn 2005. The Company has already secured DVD releases in North America with distributor GoodTimes Entertainment and other major markets including but not limited to Spain, Italy, France, the United Kingdom, Germany, Australia, New Zealand, Asia and Latin America through Warner Home Video.

- The Company will soon begin production on a feature film entitled Ali Baba and the Forty Thieves - The Lost Scimitar of Arabia. This animated direct-to-DVD film will star Oscar winner Omar Sharif, who will provide voice services in English, French and some Arabic, as well as English newcomer Matthew Goode. This feature will be the Company's second feature following the Kong-King of Atlantis film and the Company's strategy is to deliver one new animated film annually.

- The film catalogue continues to deliver strong earnings on a steady pace as the Company finds new markets for its products. Kong - The Animated Series, Scruff, UBOS, Roswell Conspiracies and Capertown Cops all made significant contributions to revenues.

- The Company has recently signed a €1.3 million representation agreement with Agogo Media Corporation in Hong Kong which will allow the Company to offer more than 600 films to its Asian customers, including such well known titles as The Berenstain Bears and Mona the Vampire. The deal is for ten years and includes all new properties to be produced by Agogo over the next five years.

C. Financial Highlights

- Turnover for the full year increased 63% to €7.3 million from €4.5 million in 2003.

- Revenues were impacted by the currency impact of the falling USD. In real terms, since 75% of our turnover is in USD denominated contracts, revenues would have been €755,000 higher or €8.1 million if the USD had remained constant with fiscal 2003 against the Euro.

- Revenues from Television license fees increased 128% to €4.0 million from €1.8 million in 2003 and revenues from Consumer Brands increased 20% to €3.3 million from €2.7 million last year.

- Total costs remained virtually flat at €6.0 million versus €6.0 million last year. This is a result of the cost cutting efforts undertaken in fiscal 2002 and 2003, and the closure of certain non-strategic entities in the UK, France and the US. Management's decisions in prior years are bearing fruit today and will continue into the next few years.

- Profit Before Tax ("PBT") increased 234% to €1.7 million from a loss of €1.3 million in 2003.

- Net Income increased 234% to €1.7 million from a loss of €1.3 million in 2003.

- Earnings Per Share ("EPS") increased 193% to €0.13 from a loss of €0.14 per share. It should be noted that the revenues affected by the currency impact would have added an additional €0.06 cents to the results.

- Operating cash flow or EBITDA increased 152% to €5.0 million from €2.0 million last year.

- Cash and cash equivalents on hand increased to €2.2 million versus €26,000 last year.

- The Company has no short-term debt or short-term lending obligations versus €4.4 million in fiscal 2003.

- Shareholder's Equity increased 228% to €16.3 million from €5.0 million in 2003.

- Working capital increased 236% to €4.6 million from a negative €3.4 million in 2003.

- Film library asset value increased to €16.1 million from €11.5 million in 2003 and to 1,573 episodes from 862 episodes in the prior year.

- The Company employs 20 full-time employees and consultants versus 10 in 2003. The Company estimates that approximately 400 people work on the production of its shows at various locations and for various vendors.

Operating Statement Summary

All data in thousand € except per share data	Twelve Months Ended 30 September 2004	Twelve Months Ended 30 September 2003
Revenue	7,306	4,491
Operating Expenses	2,779	2,440
Depreciation, amortisation and goodwill	3,245	3,579
Extraordinary income	0	671
Operating Income	1,282	(856)
Miscellaneous income/(expense)	568	(84)
Interest expense	(158)	(320)
Profit Before Tax	1,692	(1,260)
Taxation	2	2
Net Income	1,690	(1,262)
EBITDA	4,970	1,968
EPS	0.13	(0.14)

D. Performance

- The Company achieved 55% of turnover from television versus 40% last year and 45% from Consumer Brands versus 60%.

- The Company achieved 10% of turnover from Europe versus 46% in 2003, 40% from North America versus 12%, 39% from Asia versus 6% and 11% from the rest of the world versus 36%.

Sales By Region

	Fiscal	
	2004	2003
Europe	10%	46%
North America	40%	12%
Latin America	0%	19%
Asia	39%	6%
Rest of World	11%	17%
	100%	100%

E. Share Equity and Debt

- The Company held two successful capital increases in the year ended 30 September 2004. First in December 2003, the Company issued 4.2 million new shares at €1.50 per share and in June 2004, a capital increase of 1,506,003 at €3.25 per share was implemented. The Company has a share capital of 15,012,487 shares.

- In September 2004, the Company issued a €5.0 million convertible bond to a group of investors led from the United Kingdom. The note is convertible into common shares at a premium to the then trading price and carries a 5% interest coupon. The coupon may be cancelled if the share price achieves certain pre-determined levels and the note is collaterised by the Company's film library. The principal use of the proceeds was to pay-off all outstanding debt, including to Dresdner Bank, as well as working capital.

- The Company has no short-term debt or short-term obligations.

- The Company has many shareholders throughout the world including Germany, the UK and the US. The Company is pleased that large institutions in the United States ("Gordon Group" and "Fortis Bank"), United Kingdom ("Gartmore", "Merrill Lynch" and "Capital Research") and Switzerland ("Credit Suisse" and "Prudential") are holders of its stock either on their own accounts or on behalf of customers. In Germany, the Company is aware that thousands of shareholders own shares in the Company as follows:

Bank Name	**Located in**	**# of Shareholders**
Rhenus	Frankfurt	90
T-Systems CDS	Dusseldorf	135
DiBa	Nürnberg	80
Consors	Nürnberg	165
Landesbank B-W	Stuttgart	120
Bay. Hypo	München	420
Financial Market Service	Puchheim	115
DB Print Projektges.	Frankfurt	135
Commerzbank	Frankfurt	280
dwp Bank	Berlin	331
Financial Market Service	Hamburg	90
Financial Market Service	Puchheim	270
Financial Market Service	Puchheim	190
HSH Nordbank	Hamburg	60
		2,481

- The Company uses Westhouse Securities as Broker. We use Jefferies International and Winterflood as market makers in London and Seydler in Germany. DZ Bank in Frankfurt handles corporate banking and stock exchange listing matters while HV Boss is charged with all matters related to Annual General Meetings and shareholder proxies. The Company shares are Bearer and not managed by a Registrar.

F. Asian Expansion

- The Company believes that it has a real opportunity to expand its business operations in Asia. Management is of the opinion that the strength and quality of its intellectual properties, coupled with its management expertise, will allow it to create meaningful revenues and new properties for global consumption. Management further believes that the Asian markets have been underserved by large Western media companies and wants to be at the forefront of what will be an industry expansion in the near term.

  The Company has chosen Singapore as its hub because it is most likely the best place for copyright protection of intellectual properties and for its pro-Western approach. The Company believes that Hong Kong will be a major market for its product, and within 12-24 months, mainland China.

  It is important to note that the Company delivered 39% of its 2004 turn-over from Asia and this validates our growth plans for this important region.

G. The Management and Supervisory Boards and Key Talent

- The Company has dramatically expanded its management and creative teams in the past 12 months, as well as Directors. The group consists of experienced and talented individuals including:

  a) Allen Bohbot as Chairman of the Management Board has been in the media and entertainment business specialising in the children's market for over 25 years and has overseen the production and distribution of more than a dozen properties.

  b) Wayne Mowat serves as Chief Financial Officer and member of the Management Board. Mr. Mowat has been in the media and music business for nearly 20 years most recently, with various divisions of Universal Music. Mr. Mowat is a qualified member of the Chartered Institute of Certified Accountants in the UK.

  c) Ben Heng serves as Managing Director of BKN Asia and member of the Management Board. Mr. Heng has been in the media business both in Singapore and Indonesia for more than a decade.

  d) Rick Ungar serves as Executive Producer on Legend of the Dragon, Kong - King of Atlantis and Ali Baba and the Forty Thieves – The Lost Scimitar of Arabia. Mr. Ungar has been involved with BKN since December 2003 and previously served as President of Marvel Character Group where he produced such series as X-Men: Evolution and Spiderman, the Animated Series. Mr. Ungar does not serve on the Management Board.

  e) Nicola Andrews has joined from Carlton Entertainment as Vice President - Sales and Marketing for Europe, Africa and the Middle East, Laura Tapias from D'Ocon Films has been named Vice President - Sales and Marketing for Spanish and Portuguese Markets and Karen McNally has joined the firm from Granada to handle Global Licensing and Merchandising. None of these ladies is on the Management Board.

f) Jeff “Swampy” Marsh serves as Head of Global Production in London and joined the Company in December 2003. Mr. Marsh is not on the Management Board.

g) Karl Benetz serves as Chairman of the Supervisory Board and has been an executive and a member of the Management Board to Altec Industries in the U.S., as well as Martin Machinenbau in Offenburg, Germany.

h) Michael Jack Kugler is a member of the Supervisory Board and has served as Executive Vice President of Government Securities at Daiwa Securities America, Inc., Chairman of Government Securities at Merrill Lynch, General Partner in Fixed Income at Salomon Brothers and a member of the Washington Quarterly Roundtable of the Center for Strategic and International Studies in Washington, DC.

i) Robert Paff is a member of the Supervisory Board and has been engaged as a Director of various sports organisations and runs his own company.

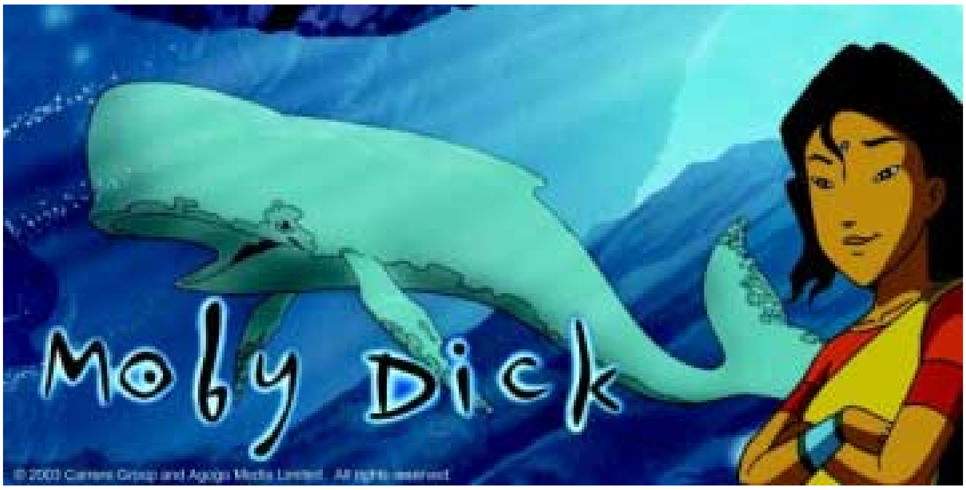
H. Corporate Governance

- The company strives to achieve the highest level of corporate governance and transparency. The Supervisory Board has recently created an audit committee to assure that the financial accounts stand up to the greatest scrutiny.

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



I. Risks and Subsequent Events

Management believes that business risks are well under control. We are not aware of any specific risks that exceed the normal business or product related levels.

There are no subsequent events after the balance sheet date, which require consideration.

J. Outlook

During this year, the Company entered into valuable transactions with key customers such as Agogo Media Corp. and Asian World Enterprises in Hong Kong, Tom T. Animation in the United States, Colorchips in India and the BBC in the United Kingdom. All five major customers are new and show our diversity and lack of dependence on any single customer.

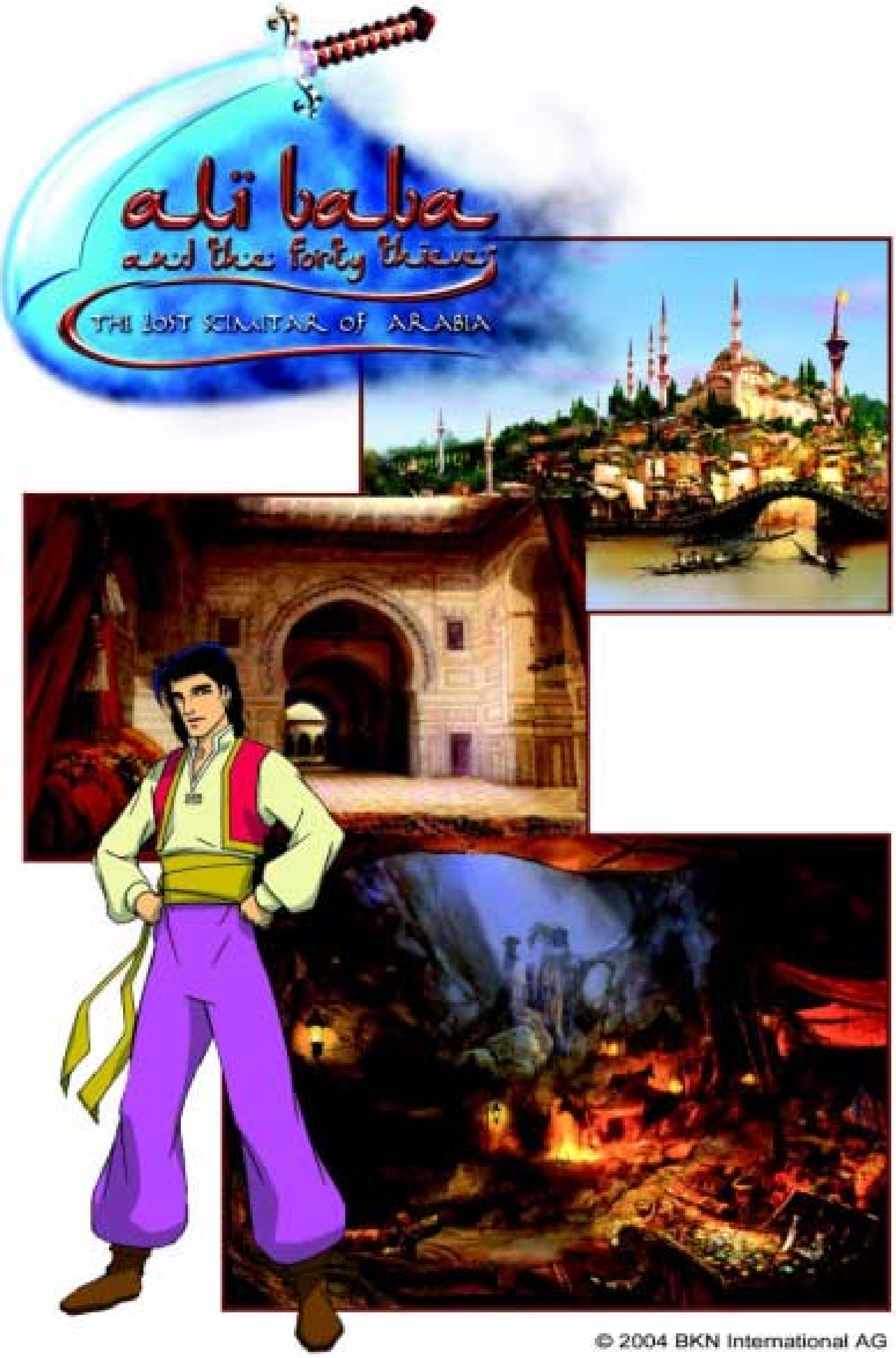
2004 was a very good year. We exceeded all management expectations and the market seems to be steadily improving. The Company is well positioned via its operations in Europe, North America and Asia. Our new products are being well received with visibility good for the next two years. Management is optimistic.

Cologne, November 2004

Allen J. Bohbot
Chairman & CEO

Wayne Mowat
Chief Financial Officer

Ben Heng
Managing Director- Asia


ali baba
and the forty thieves
THE LOST SCIMITAR OF ARABIA

Auditors’ opinion for the fiscal year ended 30 September 2004

Translated from the German version

We have audited the consolidated financial statements, consisting of balance sheet, statement of operations, statement of cash flow, statement of stockholders’ equity and notes to the consolidated financial statements of BKN International AG (the “Company”) for the year ended 30 September 2004. The preparation of the content of the consolidated financial statements is the responsibility of the Company’s management. Our responsibility is to express an opinion on the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), based on our audit.

We conducted our audit of the consolidated financial statements pursuant to German auditing standards set forth by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The scope of the audit was planned taking into account our understanding of business operations, the Company’s economic and legal situation, and any potential errors anticipated. An audit includes examining evidence supporting the amounts and disclosures in the consolidated financial statements, on the basis of spot checks. The audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements. We are of the opinion that our audit provides a secure basis upon which our assessment is made.

In our opinion, the consolidated financial statements comply with U.S. GAAP and present a true and fair view of the financial position, the results, and cash flows of the Company.

Our audit, which also includes the consolidated management report for the fiscal year 2003/2004, did not give any cause for qualification. In our opinion the management report accurately presents, in all material respects, the situation of the Company and the potential risks arising from future developments. Furthermore, we confirm that the consolidated financial statements and the consolidated management report for the financial year ending 30 September 2004 meet the requirements for exemption from the obligation to present consolidated financial statements and a consolidated management board report according to German law.

NEXIA DEUTSCHLAND GmbH
Wirtschaftsprüfungsgesellschaft

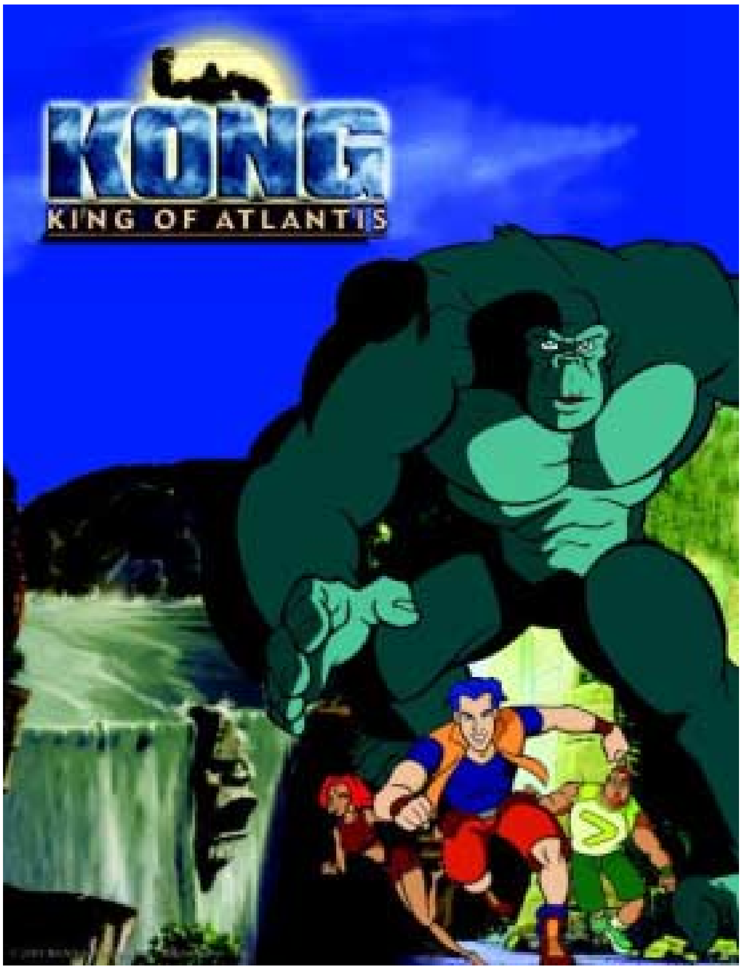
formerly

BTR Beratung und Treuhand Ring GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Weyer
Wirtschaftsprüfer

Pütz
Wirtschaftsprüfer

Düsseldorf, 19 November 2004



Consolidated Balance Sheets for Fiscal 2004

(in thousands of €)

	As at 30 Sept. 2004	As at 30 Sept. 2003
Assets:		
Current Assets:		
Cash and cash equivalents	2,220	26
Accounts receivable, trade	1,870	291
Work in progress	0	100
Taxes receivable	15	105
Other current assets	1,722	174
Total Current Assets	5,827	696
Property, equipment and leasehold improvements, net	70	2
Programming rights, net	16,056	11,460
Other non current assets	218	174
Deferred financial costs	342	0
Total Assets	**22,513**	**12,332**
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	201	995
Accrued expenses	1,012	1,765
Bank overdraft and other loans	0	1,334
Total Current Liabilities	1,213	4,094
Long Term Payables	5,025	3,279
Total Long Term Liabilities	5,025	3,279
Stockholders' Equity:		
Common Stock (20,259,726 authorised shares without par value; 15,012,487 issued and outstanding)	15,012	9,306
Additional paid-in capital	70,148	66,231
Retained earnings	(70,696)	(69,434)
Net income for the period	1,690	(1,262)
Other comprehensive income	121	118
Total Stockholders' Equity	16,275	4,959
Total Liabilities and Stockholders' Equity	**22,513**	**12,332**

Consolidated Statements of Operations for Fiscal 2004

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

	Twelve Months 2004	2003
Revenues		
Television	4,036	1,767
Consumer Brands	3,270	2,724
Total Revenues	**7,306**	**4,491**
Expenses		
Depreciation amortisation and Goodwill	3,245	3,579
Producer fees and other direct operating costs	171	86
Salaries and employee benefits	1,110	1,237
General and administrative	1,914	1,117
Less capitalized costs	(416)	0
Total Expenses	**6,024**	**6,018**
Profit / (Loss) from Business Activities	1,282	(1,527)
Other Income / (Expenses)		
Interest cost	(158)	(320)
Miscellaneous income / (expense)	568	(84)
Extraordinary income	0	671
Profit / (Loss) before provision for income tax	1,692	(1,260)
Provision for income tax	2	2
Net Profit / (Loss)	**1,690**	**(1,262)**
Net Profit / (loss) per share		
Basic	0.13	(0.14)
Diluted	0.13	(0.13)
Weighted average shares in issue		
Basic	13,018,764	8,482,766
Diluted	13,203,264	8,669,516
Number of employees at the end of the year	20	10

Consolidated Statements of Cash flows for Fiscal 2004

(in thousands of €)

	30 September 2004	30 September 2003
Cash flows from operating activities:		
Net Income	+1,690	-1,262
Depreciation and amortization	+3,245	+3,579
Accounts receivable	-1,579	+233
Work in Progress	+100	-100
Tax receivable	+90	0
Other current assets	-1,548	+131
Other non-current assets	0	-34
Accounts payable	-794	-324
Reserves & accrued expenses	-753	+357
Taxes payable	0	-128
Other current liabilities	0	-936
Net cash generated by operating activities	**451**	**1,516**
Investing activities:		
Cash flow from investing activities		
Programming rights	-7,827	-2,035
Property, equipment and leasehold improvement	-81	0
Deferred financing costs	-342	0
Other non-current assets	-44	0
Net cash used in investing activities	**-8,295**	**-2,035**
Financing activities:		
Cash flow from financing activities		
Proceeds from issuance of share capital	+9,623	+839
Short term debt	-4,584	-601
Long term payable	+4,996	+29
Comprehensive income/(loss)	+3	+273
Net cash provided by financing activities	**+10,038**	**+540**
Net increase/(decrease) in cash and cash equivalents	+2,194	+21
Cash and cash equivalents at beginning of period	+26	+5
Cash and cash equivalents at end of period	**+2,220**	**+26**

Consolidated Statements of Stockholder's Equity for Fiscal 2004

(in thousands of €)

	Common Stock	Additional Paid-In Capital	Retained/ Earnings/ (Accumulated Deficit)	Other Comprehensive Income/(Loss)	Total Stockholders' Equity
Balance at 30 September 2002	**8,467**	**66,231**	**(69,434)**	**(155)**	**5,109**
Net Loss for the period from 1 October to 30 September 2003			(1,262)		(1,262)
Net proceeds from share capital increase July 2003	839				839
Foreign Currency Translation Adjustment				273	273
Balance at 30 September 2003	**9,306**	**66,231**	**(70,696)**	**118**	**4,959**
Net profit for the period from 1 October to 30 September 2004			1,690		1,690
Net proceeds from share capital increase in December 2003	4,200	1,094			5,294
Net proceeds from share capital increase in June 2004	1,506	2,709			4,329
Convertible Bond Warrant proceed		114			114
Foreign Currency Translation Adjustment				3	3
Balance at 30 September 2004	**15,012**	**70,148**	**(69,006)**	**121**	**16,275**

Notes to the Consolidated Financial Statements for the years ended 30 September 2004

I. The Company

BKN International AG was founded on 15 October 1999 and registered in Cologne on 26 November 1999. BKN International AG and its consolidated subsidiaries ("BKN" or the "Company") are engaged in the production, distribution, and marketing of animated children's television programs and the distribution and marketing of related consumer products (licensing and merchandising) in all forms.

The accompanying financial statements, presented in accordance with U.S. generally accepted accounting principles, reflect the actual results of operations, financial position and cash flows of the Company for the year ended 30 September 2004.

The Company is quoted on the Deutsche Boerse of the Frankfurt Stock Exchange since March 2000 and on the AIM segment of the London Stock Exchange since December 2003.

The consolidated financial statements of the Company include the accounts of BKN International AG and the following subsidiaries for all periods respectively from the later of their foundation or acquisition.

Company	Location	Capital Share	Acquired / Founded	Status
BKN New Media PTE LTD	Singapore	100%	July '04	Actively Trading
BKN New Media LTD	London, U.K.	100%	July '00	Actively Trading
BKN New Media Inc.	New York, U.S.	100%	July '00	Actively Trading
BKN International Inc.	New York, U.S.	100%	July '00	Inactive
BKN Studios Inc.	New York, U.S.	100%	July '00	Inactive

II. Summary of Significant Accounting Policies

Basis of Presentation

All amounts in the consolidated financial statements are shown in thousand Euro.

The financial statements have been prepared according to accounting principles generally accepted in the United States ("U.S. GAAP").

The assets, liabilities, and results of operation of entities in which the Company has a controlling interest have been consolidated. All significant inter company accounts and transactions have been eliminated in consolidation.

Variations Between German GAAP and U.S. GAAP

As a quoted enterprise, the Company takes the opportunity of preparing the consolidated financial statements releasing group companies from presenting consolidated financial statements according to Section 292a of the German GAAP (HGB). The main differences that may be relevant to an evaluation of the net worth, financial position and the results of the Company are described below.

- U.S. GAAP offsets the costs of an initial public offering against the proceeds from this offering whereas German GAAP treats these costs as expenses in the statement of operations.

- U.S. GAAP capitalises taxes on losses carried forward as a deferred tax asset, if the realization of such asset is more likely than not. The anticipation of these tax credits is not capitalised in German GAAP.

- U.S. GAAP translates the receivables and payables existing at the balance sheet using the exchange rate at the balance sheet date whereas German GAAP applies the historical exchange rate except to the extend losses from applying the rate would have to be realised at the balance sheet date.

- U.S. GAAP allows the capitalization of self-manufactured intangible assets if these assets are identified and the useful life can be determined. Costs occurred for the production of film rights belong to this category of assets.

- Costs in connection with raising funds have to be spread over the term period of the funds under U.S. GAAP.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the day of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates for BKN relate to the recognition of the future revenues from programming rights that drive the amortization of these rights.

Foreign Currency Translations and Transactions

The German Company keeps its books in Euro. The functional currency of the Company's subsidiaries located in the U.K., the U.S. and Singapore is their local currency. Gains and losses on foreign currency transactions are reflected in the consolidated statement of operations as a component of miscellaneous income. The results and balance sheets of foreign entities are translated from their functional currency into Euro, the Company's reporting currency, using the current rate method. Accordingly, monetary assets and liabilities recorded in foreign currencies in the balance sheets of the Company's foreign subsidiaries are translated at the exchange rate between such foreign currency and Euro on the balance sheet date. Revenues and expenses are translated at average rates of exchange prevailing during the year. Translation adjustments resulting from this process are charged or credited to shareholders' equity.

Cash and Cash Equivalents

Cash and cash equivalents include cash and bank deposits with a maturity date of less than three months at the date of purchase. The carrying amounts of other cash and cash equivalents approximate fair value due to the short maturity of these investments.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company performs on-going credit evaluations of its customer's financial condition.

Accounts Receivable

Receivables reflect gross billings net of estimated reserve for bad debts, which may in the case of properties licensed from third party producers, include amounts due to them as producer fees, and unbilled accounts receivable, which represent contracted amounts that have been recognised as revenue but not yet invoiced to customers. The amount of reserves for bad debts is €895,754 and €968,170 as of 30 September 2004 and 2003 respectively. Customers are invoiced in accordance with the payment terms of their contracts throughout the license period.

Programming Rights

The Company acquires the television, cable, home video, DVD, licensing, Internet and all other rights for a variety of animated children's properties, principally a half-hour television program on a worldwide basis and, historically, has produced some of these properties in its own studios. Capitalised costs include acquisition costs or owned production costs respectively. Production costs include participation costs, exploitation costs and manufacturing costs as well as production overhead allocated.

Programming rights are charged to earnings in accordance with SFAS No. 53 on an individual program basis in a ratio that the current year's revenue for each program bears to management's estimate of total ultimate revenue for that program from all sources over the following 3 years. This method of accounting is commonly referred to as the individual film forecast method. All programming rights are amortised over a maximum nine-year period. Management periodically reviews its estimates on a program-by-program basis and, when unamortised costs exceed realisable value for a program, that program's unamortised cost are written down to net realisable value. When estimates of total revenue indicate that a program will result in an ultimate loss, the entire loss is immediately recognised. The Company believes that, as of 30 September 2004, the net realisable value of all its programming rights exceeds the carrying value in the accompanying consolidated financial statements.

Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements are carried at cost less accumulated depreciation. Property and equipment is generally depreciated on a straight-line basis over the estimated useful lives of the assets, maximum 3 years. Leasehold improvements are amortised over the useful life or the term of the related lease, whichever is shorter.

Intangible Assets

Intangible assets, except programming rights, are carried at cost less accumulated amortisation. Intangibles consisting completely of acquired software are depreciated on a straight-line basis over their estimated useful life of between two-five years.

Own costs in connection with the development and production of films were capitalized and amortized together with at-cost values according to SFAS No. 53.

Stock Based Compensation

The FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation" in October 1995. This accounting standard permits the use of either fair value based method of accounting or the method defined in Accounting Principles Board Opinion 25 "Accounting for Stock Issued to Employees" ("APB 25") to account for stock-based compensation arrangements. Companies that elect to employ the method prescribed by APB 25 are required to disclose the pro forma net income (loss) that would have resulted from the fair value method. The Company has elected to continue to account for its stock-based compensation arrangements under the provisions of APB 25 and accordingly it has included in the accompanying Notes the pro forma disclosures required under SFAS No. 123.

Revenue Recognition

Revenues from television programming operations are recognised in accordance with SFAS No. 53 "Financial Reporting by Producers and Distributors of Motion Picture Films". License fees from international television distribution are recognised upon the latter of when the license period begins or when the programs are available for broadcast.

Licensing and merchandising revenues are recognised for the guaranteed amount when the license period begins and all contractual obligations there under have been met; any additional revenues are recorded when earned. Whenever the Company is acting as an agent, the revenues are shown at the net amount of gross revenues billed less cost of sales.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses of €9,747 and € 0 for the year ended 30 September 2004 and 30 September 2003 respectively are included in general and administrative expenses.

Comprehensive Income / (Loss)

SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. The objective of SFAS No. 130 is to report a measure of all changes in equity of an enterprise that result from transactions and other economic events of the period other than transactions with shareholders ("comprehensive income"). Comprehensive income is the total of net income and all other non-owner changes in shareholders' equity.

For the Company, other comprehensive income consists of foreign currency translation adjustments.

Earnings Per Share

Earnings per share are presented in conformity with SFAS No. 128 "Earnings Per Share" for all periods presented. Basic net earnings per share are computed using the weighted-average number of vested outstanding shares of stock. Diluted net earnings per share reflect the potential dilution that could occur from shares issuable through stock based compensation plans using the shares from the conditional capital increase.

Because the share price dropped considerably below the price of the granted shares in connection with the stock based compensation plans during the year ended 30 September 2002, there is no reasonable probability that the options would be exercised; accordingly an effect for potential dilution is not presented on the face of the consolidated statements of operations for the year ended 30 September 2004.

III. Comments to Consolidated Financial Statements

Property, Equipment and Leasehold Improvements

Depreciation expense of €12,856 on property, equipment and leasehold improvements is included in general and administrative expense for the year ended 30 September 2004 and €10,540 for the year ended 30 September 2003.

Programming Rights, Prepaid Programming Rights and Work in Progress

The programming rights include rights created by the Company, rights acquired from third parties, rights transferred on the basis of the Asset Transfer Agreement executed in December 1999 with BKN Entertainment Inc. and BKN, Inc. and programming rights contributed in December 1999 in exchange for common stock with BKN, Inc.

Corporate Income Taxes

Effective 1 January 2001 the corporate income tax rate in Germany has changed to 25%. Trade tax, from the local municipality also applies at 15% of taxable income. In addition, since 1 January 1998, German corporations are subject to a surtax in connection with the reunification of Germany of 5.5% of aggregate income tax liabilities.

The tax rates applicable for subsidiaries located in other countries are as follows: UK 30%, US 42% and Singapore 20%.

The provision for income taxes for the period ended 30 September 2004 and 30 September 2003 are as follows:

	Year ended 30 September 2004	Year ended 30 September 2003
Tax expenses	€	€
Germany	0	0
U.S.	1,944	2,130
U.K.	0	0
Singapore	0	0
Provision for income taxes	1,944	2,130

Commitments and Contingencies

The Company rents office space under non-cancelable agreements at the locations of the various companies that expire through September 2010. Future rental payments under such leases are subject to escalation clauses for the Company's proportionate share of increases in real estate taxes and other building operating expenses. Rent expense for the periods ended 30 September 2004 and 30 September 2003 amount to €332,318 and €285,911.

The future minimum operating lease payments for the fiscal years subsequent to 30 September 2004 are:

	€
2005	448,678
2006	418,534
2007	379,356
2008	380,410

Litigation Matters

Since January 2003, as reasonably expected, various legal actions have been filed against the Company's subsidiaries due to the various closings and restructuring. The Company has successfully settled several issues in the past year on its own terms and properly reserved against remaining claims in these accounts. The management board, following legal advice, believes that the Company has meritorious defenses.

Shareholder's Equity

By resolution of the extraordinary shareholders' meetings on 28 December 1999 and on 10 January 2000, the share capital of the Company was increased against contributions in kind from €5,871,965 by €50,000 to €5,921,965. The shareholders' subscription rights were partly excluded. The contribution in kind was affected by BKN Inc., BKN Entertainment, Inc. and Invesco Management Ltd.

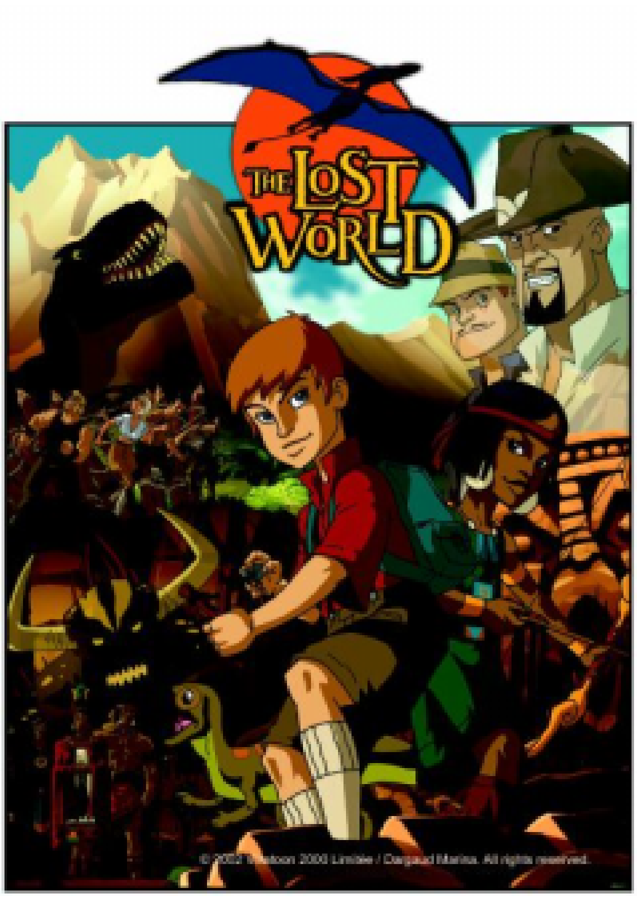
BKN Inc. contributed 4,000 shares of BKN International SAS, Paris, France, with a nominal value of €10.00 each against issuance of 40,000 new shares of the Company for an issue price of €1.00 per share. BKN Entertainment, Inc. assigned a claim to the Company in the amount of €4,355,800.15 against issuance of 4,355,800 shares of the Company for an issue price of €1.00 per share by assignment agreements of 20 December 1999. Furthermore, Invesco Asset Management Ltd. contributed a claim in the amount of €14,986,512.00 to the Company by an assignment agreement as of 20 December 1999. Arthur Andersen confirmed in their report dated 22 December 1999 that the value of the contributions in kind exceeded the issue price (€1.00 per share) of the 5,871,965 newly issued shares.

The Company acquired all licences including the copyrights and trademark rights related to the film production "Roswell" from BKN Inc. and further agreed with BKN Inc. to an advanced payment for the film production "Kong" in the amount of US $ 14,930,086.00. This payment was charged up against the contributed claim.

The Shareholders Meeting agreed upon these contribution and assignment contracts on 28 December 1999; with regard to Invesco's claim on 10 January 2000. The capital increase was registered at the commercial register of Cologne on 16 February 2000.

By resolution of the Extraordinary Shareholders Meeting on 17 February 2000, the share capital of the Company was increased against contribution in cash from €5,921,965 by €1,775,000 to €7,696,965 through the issuance of 1,775,000 new no par value bearer shares with dividend rights as of 1 October 1999. The statutory subscription rights of the shareholders were excluded. J. Henry Schroder & Co. Ltd. subscribed to 1,242,500 shares for their own account and to 532,500 shares as agent for Bayerische Hypo- und Vereinsbank AG. J. Henry Schroder & Co. Ltd. subscribed to all shares against contribution in cash for a price of €1.00 on the proviso that the shares would be sold to investors in the proposed public offering of these shares of 7 March 2000 and that the difference between the issue price of €1.00 per share and the offer price will be remitted to the Company. The capital increase was registered at the commercial register of Cologne on 7 March 2000.

The capital increases were executed to prepare the initial public offering with listing in the regulated market and trading on the *Neuer Markt* on the Frankfurt Stock Exchange. The entire share capital was admitted for listing on 7 March 2002. The shares arising from the capital increase dated 17 February 2000 in the amount of €1,775,000 were initially offered to private and institutional investors in and outside Germany for an offer price in the amount of €30.00. The green shoe shares derived from the shareholdings of BKN Inc. and were sold by it.



The management board of BKN resolved in utilisation of the existing authorised share capital (see resolution of the General Shareholders Meeting on 17 February 2000) on 11 September 2001, with the consent of the supervisory board of the same day, to increase the share capital of the Company from €7,696,965 by €769,695 to €8,466,660 through the issuance of 769,695 new no par value shares each having an imputed share in the Company's share capital of €1.00 against contribution in cash. The shareholders' pre-emptive rights were excluded. Gontard & MetallBank AG subscribed to the new shares against contribution in cash with the obligation to offer them in a private placement to interested institutional investors at an offer price close to the market price and to render the remainder amount between the issue price and the offer price to the Company as subsequent premium. The new shares were admitted for listing in the regulated market with trading on the *Neuer Markt* of the Frankfurt Stock Exchange on 23 October 2001. The new shares were allotted to certain institutional investors by Gontard & MetallBank AG at a price of €6.21 per share.

This capital increase was registered at the commercial register of Cologne on 22 October 2001. The nominal capital then amounted to €8,466,660 divided into 8,466,660 shares.

The management board of BKN, in utilisation of the authorised share capital resolved by the general shareholders' meeting on 17 February 2000, resolved on 21 May 2003 with the consent of the supervisory board of the same day, to increase the registered capital of the Company from €8,466,660 by €839,824 to €9,306,484 through the issuance of 839,824 new no par value shares each having an imputed share in the Company's share capital of €1.00 against contribution in cash. The shareholders' pre-emptive rights were excluded. Mr. Allen Bohbot, chairman of the management board subscribed to the new shares against contribution in kind. Mr. Bohbot assigned claims against the Company to the Company by contribution and assignment contract of 4 July 2003 in the amount of €839,824. Matter of the contract was a claim of Allen Bohbot against the Company for unpaid management compensation in the amount of €125,000, a claim for return of a loan according to the loan contract as of 21 May 2003 in the amount of €173,157, a due partial claim for return of a loan according to a loan contract dated 28 February 2003 of €176,667 and an assigned claim of 30 June 2003 in the amount of €375,000. The capital increase was registered at the commercial register of Cologne on 15 July 2003. The supervisory board approved the contribution agreement signed by Allen Bohbot on behalf of the Company on 21 August 2003. The new shares were admitted for listing in the regulated market of the Frankfurt Stock Exchange on 23 September 2003.

In its meeting of 16 November 2003 the management board resolved to use in part the authorised capital in the amount of EUR 4,233,330.00 and to increase the share capital from EUR 9,306,484.00 by up to EUR 4,200,000.00 to up to EUR 13,506,484.00 by issuing up to 4,200,000 new no-par value bearer shares at a subscription price of at least EUR 1.00 and not exceeding EUR 1.50 per share against contributions in cash. The subscription right for the fractional shares was excluded in accordance with § 4 Para. 3a of the Company's articles of association. The New Shares are vested with full dividend rights for financial year 2003/2004. The supervisory board consented on 16 November 2003 to the above resolution of the management board. The shares were offered for subscription to the BKN shareholders in the period from 27 November 2003 to 11 December 2003 at a ratio of 7:3. The final subscription price for the New Shares was fixed on 5 December 2003 at EUR 1.50 per share.

The shares not subscribed by the shareholders were offered to institutional investors within the scope of a private placement for purchase at the subscription price. DZ BANK underwrote the shares subscribed by the shareholders as well as those acquired by the investors after expiry of the subscription period at the subscription price per share with the obligation to transfer the New Shares to these shareholders and investors against payment of the subscription price.

The capital increase was affected in the amount of EUR 4,200,000.00. The capital increase was registered with the commercial register at the Local Court of Cologne on 19 December 2003. Following the accomplishment of the capital increase, the share capital of the Company amounted to EUR 13,506,484.00.

In its meeting of 26 May 2004 the management board resolved to use in part the new authorised capital resolved in the annual general meeting of 4 March 2004 in the amount of EUR 6,753,242 and to increase the share capital from EUR 13,506,484 by up to EUR 4,502,161 to up to EUR 18,008,645 by issuing up to 4,502,161 new no-par value bearer shares at a subscription price of EUR 3.25 per share against contribution in cash. The subscription right for the fractional shares was excluded in accordance with § 4 para. 3a of the Company's articles of association. The new shares are vested with full dividend rights for the financial year 2003/2004. The supervisory board consented on 26 May 2004 to the above resolution of the management board. The shares were offered for subscription to the BKN shareholders in the period from 4 June to 18 June 2004 at ratio of 3:1.

The shares not subscribed by the shareholders were offered to institutional investors within the scope of a private placement for purchase at the subscription price. DZ BANK underwrote the shares subscribed by the shareholders as well as those acquired by the investors after expiry of the subscription period at the subscription price per share with the obligation to transfer the New Shares to these shareholders and investors against payment of the subscription price.

The capital increase was affected in the amount of EUR 1,506,003. The capital increase was registered with the commercial register at the local court of Cologne on 25 June 2004. Following the accomplishment of the capital increase, the share capital of the company amounted to EUR 15,012,487.

Stock Option Plan and Contingent Capital for Convertible Bond

At a General Shareholders Meeting held on 17 February 2000, the Company approved the award of stock option rights to officers and employees of the Company and its subsidiaries. Accordingly, the Company's bylaws provide for conditional capital of up to €592,196 for the issuance of shares in compliance with the stock option plan. As of 30 September 2002, this amount is 846,666 based on the resolution of the 14 March 2002 general shareholder's meeting. Eligible participants in the stock option plan include members of the Management Board and employees of the Company and affiliated companies.

The options may be granted over a period of four years, in annual tranches, with exercise periods of up to six years. The first tranche was granted on the day on which trading in the Company's shares on the *Neuer Markt* commenced on 7 March 2000. Subsequent tranches will be granted within two months of the completion of the Company's financial statements for the preceding financial year. Employees of enterprises that become affiliated companies of the Company through purchases or by other means may be granted options within thirty days of acquisition. These grants will be treated as separate tranches in addition to the annual tranches.

The option holders will be entitled to subscribe for one share per option right. The exercise price for the first tranche of options was the per share offering price of the first offering on 9 March 2000. The exercise price for later tranches will be the average closing trading prices of the Company's shares on the electronic trading system of the Frankfurt Stock Exchange on the ten trading days immediately preceding the grant of the relevant tranche.

The option rights will be exercisable only after the second financial year following the issuance of the option rights, and no sooner than two years after their issuance date.

As of 30 September 2004, the Company had granted options to purchase 184,500 (30 September 2003 – 186,750) shares. These options are exercisable at prices ranging from €3.86 to €28.76 per share depending on the date of grant. No compensation charge has been recorded in the statement of operations.

Information regarding the Stock Option Plan as of 30 September 2004, and changes during the year then ended, are summarised as follows:

	Option Shares	Weighted Average Exercise Price €
Granted	0	0.00
Forfeited	125,098	29.50
Outstanding as of 30 September 2003	186,750	27.33
Granted	0	0.00
Forfeited	2,250	3.76
Outstanding as of 30 September 2004	184,500	27.61

At 30 September 2004, 184,500 options were exercisable. The options outstanding as of 30 September 2004 expire in various years through 2006.

Share Options held by the management board at 30 September 2004 are as follows:

	Number of Options
Allen Bohbot	176,000

No members of the supervisory board hold any share options.

In its meeting of 29 September 2004 the management board resolved to use in part the authorisation of the extraordinary general meeting of the same day to issue convertible bonds and bonds with warrants in the maximum nominal amount of EUR 25,000,000 and to issue 5% EUR 4,950,000 convertible bonds of 2004/2008 and 5% EUR 50,000 bonds with warrants of 2004/2009. The initial conversion price for the convertible bonds and the strike price for the warrants attached to the bonds shall be EUR 5.445. The subscription rights of the shareholders were excluded in accordance with the authorisation of the general meeting. The convertible bonds and the bonds with warrants were offered to a group of institutional investors managed by Tail Wind. The extraordinary general meeting resolved to create a contingent share capital in the amount of EUR 4,000,000 which purpose is to secure the conversion rights and option rights of convertible bonds or bonds with warrants issued in accordance with the authorisation of the general meeting.

Other Incomes

A net credit of €568,000 is recognised in the accounts of 30 Sept, 2004. This arises from 3 sources, an early repayment bonus on a bank loan, the write back of over provisions on settled litigation matters and foreign exchange gains. In the accounts of 30 Sept 2003 a loss of €84,000 was recognised. Such miscellaneous other income includes realised and unrealised exchange gains and losses resulting from the fact that a major portion of the accounts receivable was denominated in U.S. Dollars, and that a number of major sales contracts signed this year were also in U.S. Dollars.

Financing

In September 2004, the Company issued a €5 million convertible bond to a group of investors led from the United Kingdom. The note is convertible into common shares at a premium to the then trading price and carries a 5% interest coupon. The coupon may be cancelled if the share price achieves certain pre-determined levels and the note is collaterised by the Company's film library. The principal use of the proceeds was to pay-off all outstanding debt, including to Dresdner Bank, as well as working capital.

The Company's U.K. subsidiary does not have any overdraft or credit facility with a U.K. bank.

The Company's U.S. subsidiaries do not have any overdraft or credit facility with a U.S. bank.

The Company's Singapore subsidiary does not have any overdraft or credit facility with a Singapore bank.

Business Segments

The Company's activities consist of two business segments: distributing and marketing of children's programming ("Television") and licensing the likeness of its intellectual properties to major firms for distribution in all other media and retail forms ("Licensing & Merchandising"). Please see income statement for breakdown.

The following is a summary of financial information by geographic region:

Sales By Region

	Fiscal	
	2004	2003
Europe	10%	46%
North America	40%	12%
Latin America	0%	19%
Asia	39%	6%
Rest of World	11%	17%
	100%	100%

Number of Employees

As at 30 September 2004, BKN employed 20 employees (prior year: 10). The average during the year was 14. The Company estimates that approximately 400 people work on the production of its shows at various locations and for various suppliers.

Supervisory Board and Management Board Compensation

Supervisory Board Members

Mr. Karl Benetz, Supervisory Board Chairman, Businessman, appointed 17 January 2003
Mr. Robert Paff, Businessman, appointed 17 January 2003
Mr. Jack Kugler, Businessman, appointed 14 March 2002

Management Board Members

Allen Bohbot, Chairman, appointed 1 February 2001
Wayne Mowat, appointed 1 November 2003
Ben Heng, appointed on 8 September 2004

The total compensation of the management board amounts to €500,000 and €500,000 for the period ended 30 September 2004 and 30 September 2003 respectively.

The total compensation of the supervisory board amounts to €60,000 and €60,000 for the period ended 30 September 2003 and 2004.

German Corporate Governance Codex

The representation regarding the compliance with the recommendations of the Codex was issued by the company and made available to the public in accordance with the legal requirements.

Cologne, November 2004
The Management Board

Report of the Supervisory Board for Fiscal 2004

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 ten 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 Wirtschaftsprufungsgesellschaft, formerly BTR Beratung und Treuhand Ring GmbH Wirtschaftsprufungsgesellschaft who were appointed auditors for the year by resolution of the Annual Shareholders Meeting on 4 March 2004 and further received appropriate instructions from 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 net profit 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 2004

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
Appointed 1 November 2003

Mr. Ben Heng
Appointed 8 September 2004

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