

splendid medien AG

Annual report 2000



Splendid Medien AG at a glance

<i>Key figures (IAS)</i>	<i>DM Million 2000</i>	<i>DM Million 1999</i>	<i>Euro Million 2000</i>	<i>Euro Million 1999</i>	<i>Changes 1999/2000 in %</i>
Total sales	52.6	37.7	26.9	19.3	39.5%
Total licence fees	38.0	22.4	19.4	11.5	69.6%
- of which Germany	5.8	22.4	3.0	11.5	-74.1%
- of which international	32.2	-	16.5	-	
Total video/DVD	10.5	13.1	5.4	6.7	-19.8%
- of which video rental	4.4	9.0	2.2	4.6	-51.1%
- of which sales through video/DVD	6.1	4.3	3.1	2.2	41.9%
Total post-production	4.4	2.2	2.2	1.1	100.0%
- of which dubbing	3.6	2.2	1.8	1.1	63.6%
- of which premastering	0.8	-	0.4	-	
Revenue reductions	-0.3	-0.3	-0.2	-0.2	0.0%
EBITDA	36.6	23.2	18.7	11.9	57.8%
- % of sales	69.6%	61.5%	69.6%	61.5%	
EBIT	1.3	5.3	0.7	2.7	-75.5%
- % of sales	2.5%	14.1%	2.5%	14.1%	
Financial result	3.8	0.9	1.9	0.5	322.2%
Result of associated companies	4.7	-1.9	2.4	-1.0	
Result of ordinary activities	9.9	4.3	5.1	2.2	130.2%
- % of sales	18.8%	11.4%	18.8%	11.4%	
Net profit	6.7	1.0	3.4	0.5	570.0%
- % of sales	12.7%	2.7%	12.7%	2.7%	
DVFA earnings	7.2	2.1	3.7	1.1	242.9%
- % of sales	13.7%	5.6%	13.7%	5.6%	
Gross Cash flow	37.5	20.9	19.3	10.7	79.4%
Balance sheet total	198.4	170.6	101.4	87.2	16.3%
Shareholders' equity	156.1	149.6	79.8	76.5	4.3%
Equity ratio	78.7%	87.7%	78.7%	87.7%	
Equity return (from DVFA-Ergebnis)	4.7%	1.4%	4.7%	1.4%	
Liquid funds as at 31.12.	2.6	48.8	1.3	25.0	-94.7%
Fixed assets	189.5	111.4	96.9	57.0	70.2%
of which screen rights (incl. advance payments)	167.1	94.3	85.4	48.2	77.2%
- % of balance sheet total	84.2%	55.3%	84.2%	55.3%	
Investments in screen rights	107.0	93.1	54.7	47.6	14.9%
Investment ratio (as % of balance sheet total)	53.9%	54.6%	53.9%	54.6%	
Amortisation on screen rights	34.1	17.1	17.4	8.8	98.9%
Amortisation rate (% of sales)	64.8%	45.5%	64.8%	45.5%	
Taxes	2.5	-1.6*	1.3	-0.8*	
DVFA earnings per share in DM/EUR	0.81	0.24	0.41	0.12	237.5%
Number of employees (at year's end)	38	19			100%
Number of shares (EURO 1.00) in millions	8.9	8.9			0.0%

* Tax credit 1999

Highlights 2000

January 2000

Cooperation contract with the production company owned by the Hollywood star, Catherine Zeta-Jones.

February 2000

Decision on film project "Traffic" together with USA Films.
Film project with Oscar-winning actress Jodie Foster: "Dangerous Lives of Altar Boys".

August 2000

85 per cent share in the newly founded company Enteractive GmbH of Hamburg. Entry into digital production and post-production.

September 2000

The Chase Manhattan Bank increases credit facilities for Initial Entertainment Group, Inc. (IEG) of Santa Monica, USA, from US\$21 million to \$135 million.
The Splendid co-production "Dr. T and the Women" with Richard Gere premieres at the Biennale in Venice.

Filming starts on "Gangs of New York", directed by Martin Scorsese, with Leonardo DiCaprio in the leading role.

Take-over of Polyband Ges. für Bild- und Tonträger mbH & Co. KG in Munich.

October 2000

80 per cent share in the newly founded company Splendid Television, LLC in New York, USA. Entry into the co-production of TV films.

November 2000

Cooperation contract with 20th Century Fox International of Los Angeles, USA, for the distribution of Splendid films for cinema and pay-TV in the German-speaking regions.

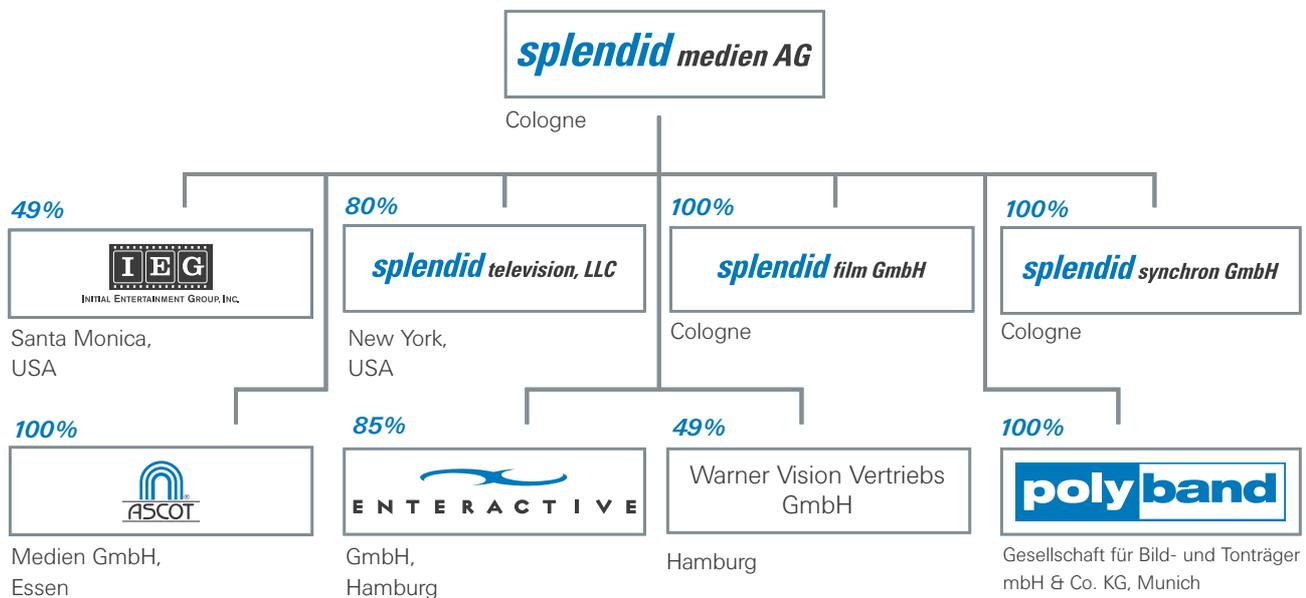
December 2000

The Splendid co-production "Traffic" is nominated for five Golden Globe awards and later wins two.

The majority holding in Initial Entertainment Group (IEG) of Santa Monica is to remain in USA.

New founding of Warner Vision Vertriebs GmbH of Hamburg to sales through videos and DVDs. Splendid holds 49 per cent of this joint venture.

Organisation structure



Investor Relations Diary

30 March 2001	Publication of annual figures for 2000 Year end press conference Meeting of analysts
May 2001	Report for 1 st quarter 2001
20 June 2001	AGM
August 2001	Half-year report 2001
November 2001	Nine-month report 2001

Andreas R. Klein
Chief Executive Officer
Licences and Strategy



Graham King
Executive Director
Production and Worldwide Sales/
Distribution



Alexander Welzhofer
Executive Director
Marketing and Sales/Distribution



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1. Foreword by Managing Board

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Ladies and Gentlemen,

Splendid Medien AG has become established as a recognised major player both as co-producer of films and in screen rights trading on the international market in the last financial year and has reduced its dependence on the German market. In the meantime, we are a full-service company in the German speaking countries which covers the complete value chain in the film sector. This means that Splendid has an excellent basis for a successful future. The cooperation agreement signed with 20th Century Fox in the cinema film and pay TV marketing and the joint venture with AOL/Time Warner in the video and DVD sectors testify to the fact that we are an interesting partner for the major players in the film industry.

Together with 20th Century Fox we shall be bringing at least eight new films to the cinema including the major production "Gangs of New York" with Leonardo DiCaprio in the leading role and "Traffic" with Michael Douglas and Catherine Zeta-Jones awaited with great expectation and with so much praise in advance. At the beginning of 2001, "Traffic" was not only one of the most successful films in the cinemas in the USA but also received top marks from the critics. It was, therefore, only logical that "Traffic" was awarded an Oscar – in four categories. This thriller had already received two Golden Globes, the second most important film award in the USA after the Oscar.

Such successes show that Splendid's well thought-out investment policies were on target. In the past, we have checked out all projects and cooperation efforts with the greatest possible commercial prudence before signing any contract and more than a few of them were rejected as too uncertain. We are confident of the contracts we did finally sign for this very reason. The risks involved are acceptable from the point of view of the entrepreneur and can be calculated. Just how well they can be calculated is demonstrated by a simple figure: on average we only paid 11.8 per cent of the budget for a co-production for the German-language rights of the film.

Since last year, we also have our own presence in New York with our own subsidiary, Splendid Television, LLC. This company produces high-quality television films and is in consequence specialising in a market segment with a lot of growth internationally. Here we are establishing a second international bastion in addition to the cinema film sector which has a lot of future potential and are also becoming established as co-producers and traders in film rights for television films operating internationally. That is why we have succeeded in further diversifying the group's activities with the foundation of Splendid Television, in safeguarding the general development of Splendid and, at the same time, open up new growth opportunities.



Andreas R. Klein, Chief Executive Officer

1. Foreword by Managing Board

In the long term, the new media sector also offers a great deal of potential. That is why our subsidiary Enteractive will be deliberately concentrating on dealing with such segments as the production of interactive content - thereby making best use for Splendid of the opportunities that the future-oriented media sector has to offer.

In the last months of the year 2000, the positive business trends were not reflected in the share price. The Managing Board expects that this will change as soon as the generally prevailing scepticism against shares on the Neuer Markt and, in particular, against media corporations subsides. Management at Splendid will certainly do what it can in future to assure the confidence of investors.

Kind regards



Andreas R. Klein
Chief Executive Officer

2. Report of Supervisory Board

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Dr. Ralph Drouven, Chairman of the Supervisory Board

The Supervisory Board has executed its duties to which it is committed by law and by the company's articles of constitution in the 2000 financial year. The Supervisory Board was informed at all times by the Managing Board in oral and written form concerning the situation of Splendid Medien AG and its subsidiaries and affiliates. The Supervisory Board audited all relevant business transactions and was advised of the development in overall business, strategy and key business transactions in regular discussions held with the Managing Board. Matters which required the assistance of the Supervisory Board for the Managing Board according to the law, Articles of Association or standing rules were considered and, where necessary, adopted by the Supervisory Board.

In the year under review, the Supervisory Board held four ordinary meetings. Some of the subjects discussed by the Supervisory Board in its meetings were the development of overall business and the situation of Splendid Medien AG and its subsidiaries and affiliates, the intended business policy and corporate planning for future internal and external expansion. The members of the Supervisory Board also repeatedly provided advice to the Managing Board outside the meetings.

BFJM Bachem Fervers Janssen Mehrhoff GmbH Wirtschaftsprüfungsgesellschaft has audited the financial statements of Splendid Medien AG, the consolidated financial statements, the summary management report of the parent company and the group and the notes for the period ending 31 December 2000. The auditor has concluded that the documents are consistent with the accounting records and with the statutory regulations as well as the Articles of Association, also found the documents to be correct. The auditor has provided an unqualified auditor's opinion to both sets of financial statements.

The Supervisory Board has audited the financial statements of Splendid Medien AG, the consolidated financial statements and the summary management report of the parent company and for the Group and did not identify any reason for complaint. The financial statements prepared by the Managing Board were extensively discussed by the Supervisory Board in the presence of the auditor in the meeting held on 29 March 2001 and were approved after an extensive review. The Supervisory Board concurs with the proposal of the Managing Board relating to the employment of unappropriated retained earnings.

As of 30 June 2000, Mr Dietmar Schmitz left the Managing Board of Splendid Medien AG. His function has been assumed since 1 July 2000 by Mr Bernd Szymanski on an interim basis.

The Supervisory Board would like to thank the Managing Board for its activities and commitments on behalf of the company. The Supervisory Board would also like to thank all members of the staff of Splendid Group for their efforts in the financial year just ended.

Cologne, March 2001



Dr. Ralph Drouven
Chairman of the Supervisory Board

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3. Management Report

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In 2000 Splendid Medien AG has enjoyed a continuation of the positive developments in the 1999 financial year. Sales rose by 39.5 per cent to DM52.6 million (EUR26.9 million). This means that the increase was even greater than in the previous year. Most of the relevant key figures exceeded the previous year's levels both in absolute and in relative terms.

Splendid also succeeded in clearly expanding its market position, in becoming established in the international screen rights trading sector and in film production, in concluding cooperation agreements with major companies in the media branch and extending its own value chain to include significant sectors by founding new companies and acquiring shares in others.

The procurement market

Strategy: Targeted selection of first-class TV and cinema films

First-class feature films which can be exploited internationally have long been a rare commodity. In the USA there are only a limited number of crowd-pulling film stars, good screenplay writers, producers and directors. The number of films produced in Hollywood in a year is only 500 at the most and only a few of these can attract a wide audience world-wide and be marketed with the appropriate profitability. The limiting factors will also continue to prevail in future.

Until mid-2000 in particular, this limited supply was faced with a distinctly more ferocious competitive fight between the screen rights dealers to win the best material. This pushed the prices for international licence rights up. The rights for the German market were affected by this development to an especially high degree because the financial power of the German rights dealers had in part increased considerably through going public. In the second half of 2000, the situation visibly calmed down again.

In view of these market conditions, personal contacts and a thorough knowledge of the market are more important than ever to be able to acquire screen rights



at reasonable prices. The Splendid affiliate Initial Entertainment Group (IEG) is a respected and welcome partner in Hollywood thanks to its many years of successful activity in this business. Splendid was able to profit from this directly. Splendid can be selective in its choice of international cinema films so that it can pick out specific excellent but not over-priced material for co-productions. This in turn also places Splendid in an excellent position on the seller market because it can then supply its customers with class instead of mass. Likewise, the films for which Splendid acquires the screen rights from international licensors outside its co-production activities also have to meet the same high marketability requirements.

Splendid also proceeds most selectively in the case of its new subsidiary Splendid Television, LLC, which specialises in television films and TV mini-series. Here, too, the main focus is on high-quality products with good sales chances. With its television films, Splendid Television is serving a market which is highly receptive for good products and which is growing rapidly all over the world. Splendid Television also enhances this marketing potential in addition by its strategy of cooperating with major TV producers from the

3. Management Report - Market and branch of industry

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The sales market

Independent of the German market



English-speaking countries in the various productions and thus, primary with such important broadcasters as BBC and TNT.

The German market is characterised by a growing process of concentration like scarcely any other market. In the free TV sector in the meantime there are only three major contender groups: the Kirch Group, Bertelsmann and the public broadcasting stations. The pay TV sector is dominated by the Kirch Group alone. In the recent past, the two public broadcasting families in particular have filled increasingly more broadcasting time with their own programmes. All of this makes the selling of film licences more difficult in general.

Similar concentration trends are also visible in other major European sales markets. However, it can be assumed that those content suppliers who own the international rights on excellent films, will continue to enjoy very good business perspectives in the medium and long term. On the one hand, this is due to the fact that the number of television stations is growing rapidly all over the world with the concurrent increase in demand for feature films. On the other hand, the demand in the European and German free TV sector is also sure to rise again considerably – amongst others because it is now clearly identifiable that the audience ratings for internal productions (e.g. Reality TV), which are very successful at first, drop steeply whereas, by contrast, top-quality films continue to act as a guarantee for very high ratings.

With the introduction of interactive television, the propagation of video on demand and the creation of a great many specialised channels, the position of the film suppliers will continue to improve. The possibility of being able to load films directly into a PC or television set via the internet is turning into a business sector of increasing significance in conjunction with the spread of wide band technology and other technical advances. For companies in particular which own the rights to outstanding films this also opens up additional significant sales channels in the medium and long term. Who provides the technology for this effort or which technology is given preference is merely of subordinate importance to content suppliers like Splendid.

In the cinema sector, a consolidation and concentration process is in progress. There are ever fewer cinema operators and, in addition, the number of cinema tickets sold per year will rise only slightly if at all. On the other hand, the major cinema operators are concentrating primarily on films with hit potential.

In conclusion, the German video sector, the second most important market for Splendid in the year 2000, is also undergoing a process of change. The market share held by DVDs here is showing very powerful growth. The new storage media will replace the traditional VHS video in the medium term.

Splendid reacted comprehensively to these market developments at an early stage: In the meantime, Splendid is concentrating most intensively on select high-grade productions in the content sector. In addition, in the past year, Splendid has undergone a transformation from a company oriented primarily towards the German-speaking regions to a group operating world-wide: In the 2000 financial year, some 85 per cent of Splendid's sales in licence rights were on the international market.

Splendid has also considerably boosted its position in the German-language pay TV and cinema sectors through its cooperation with 20th Century Fox. Within the scope of this contract which was signed at the end of 2000, the American major will be bringing Splendid's films into the cinemas in the German-speaking regions and market them to counter the pay TV companies.

In the video sector, Splendid is making continuous efforts to expand the range of DVDs on offer. In the meantime, some 10 per cent of the films in the library, which in the interim have risen in number to more than 700 titles, have been converted to DVD. Moreover, five or six additional titles appear every month on DVD. The joint enterprise with Warner – Warner Vision Vertriebs GmbH – and the technical know-how of the new subsidiaries in the DVD post-production sector, Enteractive GmbH, furthermore enhance the potential of the DVD section within Splendid to a considerable extent.

Enteractive can upgrade the DVDs above all by the creation of addition content apart from the feature films themselves. These measures will lead to increasing rental and sales through figures for DVDs which might well compensate for the drop borne by the traditional VHS videos.

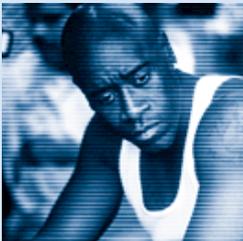
Sales trends and order situation

**Positive sales trends –
rigorous expansion of
contribution to sales
made by international
business**

In the 2000 financial year, Splendid has distinctly increased its group sales. In all, sales rose by 39.5 per cent to DM52.6 million (EUR26.9 million). This positive trend was carried primarily by licence trading which increased by 69.6 per cent and, amounting to DM38.0 million (EUR19.4 million) accounted for 72.2 per cent of total sales. Approximately 85 per cent of sales obtained from trading in rights was generated by international licence sales. Splendid acquired to a large extent the European rights in co-productions, which are completed jointly with Initial Entertainment Group, Inc. (IEG) of Santa Monica. In the year 2000 Splendid marketed – amongst others – the screen rights to “Dr. T and the Women” via IEG to European film licence dealers and attained a sales figure of DM32.2 million (EUR16.5 million). In 1999 Splendid had not yet had any sales to show here.



3. Management Report - Sales trends and order situation



In the licence dealing segment Splendid recorded national licence income in the year 2000 through the sale of screen rights to TV stations to the sum of DM5.8 million (EUR3.0 million), compared to DM22.4 million (EUR11.5 million) in the previous year.

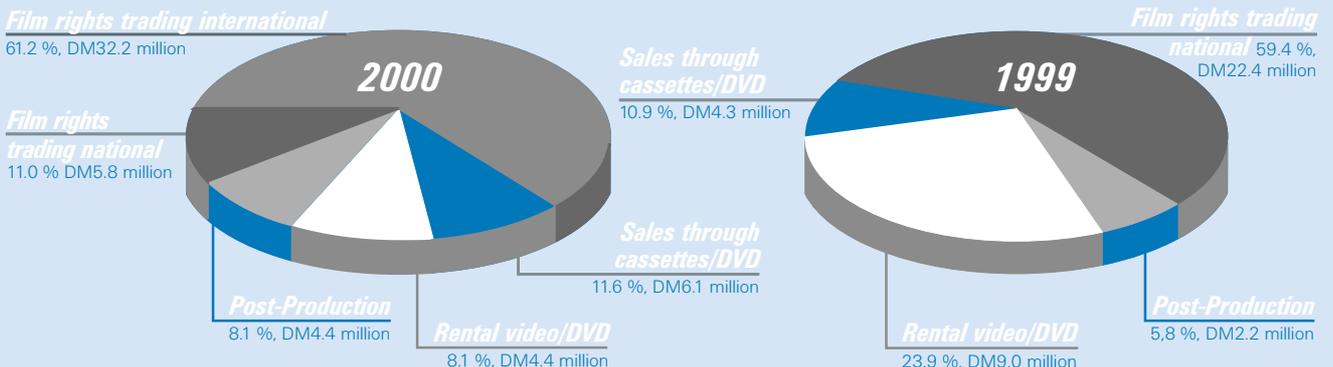
As a result of declaring its intention to relinquish taking over the majority at the end of 2000, the income from IEG is not included in the consolidated sales figure for Splendid. The participating interest in IEG is shown in the consolidated group accounts as earnings at equity. It is included in the item "Result from participations in associated companies" in the Income statement. IEG recorded sales of approximately 66 million dollars in the last financial year.

Accounting for 20 per cent of sales, the video sector maintained its position as the second-largest contributor to group sales. Sales through videos exceeded last year's sales figures by 39.5 per cent, reaching DM6.1 million (EUR3.1 million). In all, 41 titles were exploited as sales through cassettes and 33 titles as sales through DVDs in the 2000 financial year.

The video rental sector, operated in the main by Ascot Medien GmbH, was unable to repeat the good results achieved in the previous year. Despite the generally weak market environment, the rental sector still managed to achieve sales of DM4.4 million (EUR2.2 million). 19 titles were exploited as rental cassettes and 14 titles as rental DVDs.

The dubbing sector reflected a positive trend. A number of orders from television stations, TV production companies and the dubbing of films from the Splendid library ensured that the business volume rose by 65.0 per cent to DM3.6 million (EUR1.8 million). This meant that the contribution made by the dubbing sector to total sales rose by one per cent to 6.8 per cent in comparison with the previous year.

Contributions made by the segments to total sales



The new pre-mastering sector recorded some DM0.8 million (EUR0.4 million) from orders received from companies in the Home Entertainment and Business-to-Business sectors and provided in this way a respectable contribution to total sales of 1.5 per cent in its first few months of existence.

For the year 2001, seven cinema debuts are planned. At international level, sales of the feature film co-productions including "The Dangerous Lives of Altar Boys" to European film licence dealers and sales of co-produced TV films to television stations world-wide are planned. The sales of sales through cassettes and DVDs will be handled via Warner Vision Vertriebs GmbH. Five or six titles per month will be selected for DVD upgrading. In the rental sector, the first Hollywood co-productions from Splendid will be exploited as cassette/DVD from the second half of the year 2001 onwards. For the post-production sector, a number of orders are on the stocks in 2001 for television stations, TV production companies and companies from the home entertainment sector.

Earnings

Splendid Medien AG's consolidated group profit for the year (to HGB = German Commercial Code) attained DM7.3 million (EUR3.7 million). In 1999 the company showed a group loss of DM4.5 million (EUR2.3 million). Earnings before interest, taxes, depreciation and amortisation (to HGB) increased by 56.9 per cent to DM36.3 million (EUR18.6 million), thereby accounting for 69.0 per cent of sales. Amortisation of screen rights increased by 98.8 per cent to DM34.1 million (EUR17.4 million). Earnings before interest and taxation (HGB) rose to DM1.2 million (EUR0.6 million), compared with DM5.2 million (EUR2.7 million) in 1999. This can be attributed to the decline in licence trading in Germany.

The earnings from ordinary activities (HGB) improved by 136.1 per cent to DM9.7 million (EUR5.0 million) in comparison with the previous year. In the main, this increase was attributable to the financial result and to the income from associated companies.

The financial result (HGB) rose by 341.7 per cent to DM3.8 million (EUR2.0 million) in comparison with the preceding year and primarily resulted from interest income from an advance payment to the sum of 35 million dollars for "Gangs of New York". In the 2001 financial year, lower income from interest can be expected. The income from associated companies (HGB) was DM4.7 million (EUR2.4 million). In the previous year, a loss of DM1.9 million (EUR1 million) was shown. The income from associated companies is made up exclusively of the results from the participating interest in IEG.

Investment in screen rights

The basis for the successful future of Splendid Medien AG is its stock of films. In the 2000 financial year, Splendid invested DM107.0 million (EUR54.7 million) in screen rights, 14.9 per cent more than in the preceding year.

Apart from copyright rights to feature films and TV films for exploitation in Europe and internationally, German-language licences were also acquired. Splendid financed its film purchases primarily from funds arising from going public and via outside capital. In future Splendid will make more recourse to financing via credit lines. In the year 2000 Splendid invested amongst others in the following films: "Dr. T and the Women", "Under Suspicion", "Under Control ("Gorgeous")", "If these Walls Could Talk II" (German title: "Women love Women"), "Druids", "Traffic", and "The Dangerous Lives of Altar Boys".

Amortisation of screen rights

In the case of screen rights, as a rule 79 per cent of the costs of acquiring the rights to a film licence are written off in the first exploitation stage and accumulate over all the stages of exploitation (see also Notes). During secondary exploitation the remaining 21 per cent follows. In the 2000 financial year, Splendid Medien AG wrote DM34.1 million (EUR17.4 million) off screen rights by amortisation, which was 97.7 per cent more than in the previous year. In relation to sales, the amortisation rate amounted to 64.9 per cent.

Balance sheet

The group consolidated balance sheet total (to HGB) as of the date of the balance sheet rose in comparison with the previous year by 16.6 per cent to DM196.9 million (EUR100.7 million). Of assets, screens rights (including advance payments made) accounted for 84.8% at DM167.1 million (EUR85.4 million) of the balance sheet total and represented the largest single item by far. In comparison with the previous year, screen rights increased by 77.3 per cent. This distinct increase is based above all on high investment in film copyrights and film licences which were tied in with a 94.7 per cent reduction in liquid resources to DM2.6 million (EUR1.3 million).

Group capital increased in comparison with the previous year by 4.8 per cent to DM155.8 million (EUR79.7 million). The capital to asset ratio is 79.1 per cent. Due to the financing requirement as a consequence of the investments made, the amount of outside capital has increased. In particular, there was an increase in liabilities to banks and liabilities to affiliated companies.

Financial position

Splendid financed investments in the year under review from capital obtained from going public and through outside capital. In the year 2000 the Managing Board decided to supplement the capital through additional outside financing resources. At the end of 2000, negotiations with banks domiciled in Germany resulted in the agreement to provide a credit line to the sum of EUR25million. The Managing Board is also conducting talks with other banks and credit institutes in respect of further financing possibilities. The negotiations had still not been concluded in March 2001.



Splendid Medien AG



Splendid Medien AG exercises executive management of the Splendid Group company as a finance and services holding company.

For the affiliated companies, Splendid Medien AG provides central service functions in the finances, controlling, organisation and IT sectors. The charges raised for these services against the subsidiary companies in the year 2000 amounted to the sum of DM2.0 million (EUR1.0 million). For the equivalent period in the preceding year, the amount was DM0.8 million (EUR0.4 million). Following on from a loss for the year of DM2.3 million (EUR1.2 million) in the preceding year, the profit for the year amounted to DM3.7 million (EUR1.9 million) in the 2000 financial year and is primarily the result from income from participating interests to the sum of DM3.0 million (EUR1.5 million), from income from interest to the sum of DM5.9 million (EUR3.0 million). In the main, income was faced with increases in personnel expenses and other operating expenses which are attributable to the increased demand for services within the group. The balance sheet total of the parent company is 2.0 per cent higher than in the previous year at DM156.9 million (EUR80.3 million). The increase on the Assets side results primarily from the increase in financial assets (by 32.7 per cent to DM138.2 million or EUR70.7 million) and, in particular to the loans to associated companies (up by 38.5 per cent to DM119.6 million or EUR61.2 million). This meant that liquid funds fell by 95.9 per cent against the previous year to DM1.6 million or EUR0.8 million. In comparison with the preceding year, the shareholders' equity fell by 2.5 per cent to DM154.5 million (EUR79.0 million). The capital to asset ratio was 98.5 per cent. In the financial year just ended, Splendid Medien AG Holding invested DM34.6 million (EUR17.7 million) in fixed assets resulting from the loans to the associated company Splendid Film. In the current 2001 financial year, Splendid Medien AG will continue to exercise the executive management and service functions for the group and will receive income from these activities and income resulting from participating interests. Income from interest will be provisionally lower on the current financial year than in the year 2000. Personnel costs and other expenses are not expected to increase appreciably in the year 2001. To push growth, Splendid intends to acquire additional participations and acquisitions in the media sector wherever the possibility presents itself with prospects of success and the economic environment and liquidity situation of the company allow. Risks in future developments are to be found mainly in the business developments at the subsidiary and associate companies Splendid Film, IEG and Splendid Television. Splendid Television is still in the build-up phase where future trends are not yet entirely calculable. The participating interest IEG is of great significance to the group as a procurement source and for the marketing of European exploitation rights in co-productions.

3. Management Report - Events of particular significance

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Events of particular significance subsequent to the date of the balance sheet



At the beginning of 2001, the Managing Board of Splendid Medien AG was extended. Alexander Welzhofer joined the board as of 1 February 2001 and assumed responsibility for the Marketing and Sales/Distribution sectors. The co-production "Traffic" achieved box office returns in the USA to the sum of approx. 100 million dollars by mid-March 2001. That means that "Traffic" is one of the most successful cinema debuts in 2001. In the territories from which IEG owns the licence rights, the film has also been very successful. This is a good indication that "Traffic" will also be a success on the German market. Very good reports from film critics in the press and numerous awards also accord the film additional significance. In January "Traffic" received two Golden Globes. In addition, the thriller received Oscars in four categories at the end of March 2001: directing, writing (adapted), best supporting actor and film editing.

Other Splendid films were also awarded prizes: "Shadow of the Vampire" with John Malkovich and Willem Dafoe received two Oscar nominations. "If These Walls Could Talk II" with Sharon Stone and Vanessa Redgrave won a Golden Globe and received four Emmy nominations on top. Ascot has been marketing the film since mid-January 2001 under the title "Women love Women" on distribution via video and DVD. In January 2001 Splendid brought the film "Dr. T and the Women" to the German cinemas through its cooperation with 20th Century Fox. This was followed at the end of February 2001 by "Under Control" with Jackie Chan. The cinema attendance for "Dr. T and the Women" was below expectations. In general, however, cinema exploitation increases the marketing potential of the film in the following utilisation stages. In February 2001 Splendid began with the new publication of a Jackie Chan collection on DVD basis. It contains several new digitalized films by this star. The first titles in this collection are already selling successfully as at the start of trading. By contrast, licence trading with German television companies has not been satisfactory in the first months of 2001. No sales had been made to German TV stations to date.

Risks and provisional prospects *Procurement market*

The supply of high-grade new films is made at present through two channels: IEG, in which we hold a participating interest, and our subsidiary Splendid Television. IEG has acquired great significance for the group as a procurement source and for the marketing of European exploitation rights on co-produced films. Splendid's success will therefore primarily also depend upon whether cooperation with IEG remains successful.

Of great importance for building up the stock of screen rights and the further development of business is gaining access to additional sources of financing. To minimise the financing risks in film production, Splendid sells the licensing

rights in the run-up to production. The object of these pre-sales is to at least cover the investment in the film at the earliest possible point in time. Completion bonds and appropriate contracts secure against overshooting budgets and other production risks.

Exploitation of rights and sales/distribution



The TV licence trading business in Germany is still subject to a very restrictive purchasing policy at the TV stations. Whether the anticipated improvement in the situation will actually take place and soon cannot be stated at present with any degree of certitude. Splendid counteracts the difficult situation on the German market amongst others by resolute continuation of the internationalisation strategy and, in addition, through cooperation with the major players in the USA such as AOL/Time Warner and 20th Century Fox. Of decisive importance for the business success of Splendid is whether management can succeed in acquiring the licence rights for films which reflect the public taste. Otherwise, deleterious effects can arise for the results of business.

The film business is subject to severe fluctuations. This depends both on uncertainty when buying and also when marketing the licences whereby Splendid cannot influence these at all. This can, on the one hand, severely affect earnings and sales trends during the course of a business year and also between business years.

Currency risks

International dealings in the film industry are done in dollars. Currency exchange rate fluctuations can have a severe effect on the finance and earnings situation and provoke both exchange rate profits and exchange rate losses. It cannot be guaranteed that the company's own exchange rate securing mechanisms will always be successful.

Organisation



The success of the entire group depends principally on the qualifications, market knowledge, contacts and commitment of its top managers – and also on how long they have been with the company. By calling upon Alexander Welzhofer to join the managing board, the top executive management level was extended to include a recognised marketing/distribution expert, thus reducing the key manager risk. The second level of management was reinforced. Frequently, the management of the subsidiary companies are themselves shareholders in the company in question. This intensifies the bond with the company. On the other hand, members of the Managing Board hold shares in the company.

Splendid counters the entrepreneurial risks which exist within the company by matching the workforce, by adapting the organisational structure and by improving the reporting system and controlling at the participating interests. The latter is based primarily upon extending the IT systems used in the company.

3. Management Report - Risks and provisional prospects

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Prospects



In addition, improvement of the internal control mechanisms, improvements in the administration of the licensing business and the complete implementation of an early warning risk identification system are of great significance for the further organisational development of the group.

Splendid Medien AG will continue to resolutely pursue its strategy in the current financial year as well and further extend its market position in the international film business. This means that it is expected that seven Splendid films will make their cinema debut in 2001 alone. In addition, there will be at least two television films produced by Splendid Television to be sold to international television stations.

The Managing Board is proceeding on the basis that Splendid will also participate in new film projects. This involves both cinema films and also productions for television. The number and the extent of investment in screen rights will depend upon the liquidity situation of the company at the time in question. Group sales will grow further alone due to the new films appearing in 2001 and by international pre-sales of film rights. This must have a positive effect on the earnings trends.

Additional earnings potential from international licence trading awaits the company in the case of particularly successful films where the box office income exceeds the pre-sales and marketing costs. In this case, Splendid will participate in the sales from the next exploitation stages.

From the subsidiary companies newly acquired or founded in the previous year and from the cooperation with 20th Century Fox and Warner, Splendid is expecting positive effects on the business trends. The video/DVD sectors within the group will also profit from the imminent Splendid Hollywood productions.

In addition, management expects that Splendid Synchron GmbH will also continue the satisfactory business trends of the past and record a distinct contribution to earnings.

Splendid regards the commitment at Enteractive GmbH primarily as an investment in the future with which Splendid will not only rigorously expand the value chain but will be swift to occupy such business fields as content production and pre-mastering in the DVD sector, which are becoming more and more important, and also the domains of digital television and internet TV. To accelerate growth, Splendid intends to make acquisitions and buy into participating interests in future.

Wherever promising possibilities appear and the economic environment and liquidity situation of the company allow, Splendid will continue to supplement its company portfolio to strengthen the various divisions and/or to open up new sectors for business.

Cologne, 27 March 2001

Splendid Medien AG
Managing Board

Investor Relations

In addition to two major analyst conferences – one in conjunction with the presentation of the 1999 year-end accounts, and another on the occasion of announcing the cooperation with Catherine Zeta-Jones – the managing board has conducted several road-shows in the 2000 financial year at home and abroad. In the process, management discussed its concepts with analysts and institutional investors. Splendid also exhibited at important fairs and symposia, including the DVFA media forum in November. The DVFA is the professional organisation for analysts in Germany. The resonance achieved by Splendid at these discussions was mostly quite definitely positive. This is also reflected in the relevant recommendations made by the analysts.

In the last financial year, both the Managing Board and also those responsible for investor and public relations had many talks with representatives of the press. This resulted in many positive contributions on Splendid in the press.

At the first annual general meeting after going public, the Managing Board and the Supervisory Board informed some 130 shareholders who had assembled in Cologne on 31 May 2000 in detail on the business developments and the corporate strategy.

The extreme share price losses on the Neuer Markt between March and December 2000 and a particular skepticism in respect of media companies ensured that the price of the Splendid share did not or only for short periods react to the positive assessments and business trends. The Managing Board expects that this situation will change when normality returns to the stock exchanges.

The holdings of securities subject to official reporting as at 31 December 2000 amounted to a total of 8.9 million shares:

	<i>Shares</i>	<i>Percentage of total capital</i>
<i>Managing Board</i>		
Andreas R. Klein	5,046,874	56.7064%
Graham King	346,050	3.8882%
<i>Supervisory Board</i>	3,060	
Dr. Ralph Drouven		0.0344%



Film library extended considerably

The stock of films is the salient success factor for a company like Splendid. It ensures and advances growth in the company and in the long term ensures that earnings are good. In the meantime, the "library" contains more than 700 titles. Approximately 300 titles, including 150 feature films, were acquired through the purchase of Polyband alone.

Co-productions such as "Gangs of New York" with Leonardo DiCaprio, "Traffic" with Michael Douglas and Catherine Zeta-Jones, "Dr. T and the Women" with Richard Gere and "The Dangerous Lives of Altar Boys" with Jodie Foster and the high-quality television films which our subsidiary Splendid Television contribute, greatly enhance the value of the film library.



Current feature films from Splendid Medien AG – cinema debuts in Germany

<i>Dr. T and the Women*</i>	Richard Gere, Farrah Fawcett, Helen Hunt, Liv Tyler, Robert Altman (director), cinema debut: 25.01.2001
<i>Under Control (orig.title in English: Gorgeous):</i>	Jackie Chan, Tony Leung, Vincent Kok (director), cinema debut: 22.02.2001
<i>Traffic*</i>	Michael Douglas, Catherine Zeta-Jones, Dennis Quaid, Steven Soderbergh (director), cinema debut: 05.04.2001
<i>Under Suspicion:</i>	Gene Hackman, Morgan Freeman, Monica Bellucci, Stephen Hopkins (director), cinema debut: 03.05.2001
<i>Shadow of the Vampire:</i>	John Malkovich, Willem Dafoe, Udo Kier, E. Elias Merhige (director), cinema debut: 21.06.2001
<i>Druids:</i>	Christopher Lambert, Max von Sydow, Klaus Maria Brandauer, Jacques Dorfmann (director)
<i>The Dangerous Lives of Altar Boys:*</i>	Jodie Foster, Vincent d'Onofrio, Peter Care (director)
<i>Gangs of New York*:</i>	Leonardo DiCaprio, Cameron Diaz, Liam Neeson, Daniel Day-Lewis, Martin Scorsese (director)

* Co-produktion/Co-financing by Splendid/IEG

The subsidiary companies

Splendid Film GmbH
(100 per cent)

Splendid Film GmbH is the major contributor to sales in the group. The main focus of its activities is no longer only trading in film rights but also in the meantime on the co-production of high-grade US American feature films. Within the scope of its international activities, the company sells film licences to co-productions from Splendid in Europe. Film licences for the German-speaking areas are exploited by the company itself. In the process it relies on its co-operation partner 20th Century Fox in respect of cinema distribution and pay TV sales.

Splendid Television, LLC
(80 per cent)

With this company, founded in October 2000, Splendid is also engaged as a co-producer in the sector of high-grade internationally exploitable television films. In this way, Splendid gained a new position also in the television film sector and extended its focus from the German to the world market. Splendid Television is already working on two projects, the mini-series "Victoria & Albert" and the feature film "James Dean", both of which are scheduled for broadcasting in the year 2001. The executive partner, Douglas Schwalbe, has a 20 per cent share in Splendid Television. He has been working in the TV business for 15 years and has gained a lot of profile both in the production and in the marketing sectors. Schwalbe has worked amongst others for the American pay TV station HBO and for 20th Century Fox.

Ascot Medien GmbH (100 per cent)

Within the video business within the Splendid Group, Ascot is responsible for the distribution sector. The Essen-based company has also operated profitably in the 2000 financial year despite a decline in sales.

**Polyband Gesellschaft für Bild-
und Tonträger mbH & Co.
Betriebs KG (100 per cent)**

With Polyband Splendid was able to acquire in September 2000 a company which had long been engaged in the video business. Polyband specialises in the sale of VHS videos and DVDs and extended Splendid's film library by some 300 titles – primarily in segments in which Splendid had not previously been actively involved. In addition to 150 mainly German and US-American feature films, Polyband also brought in 80 children's films and cartoons as well as 70 titles in the special interest segments fitness/wellness/health. However, particularly in the case of the fitness videos, Polyband not only aims at sales but also produces the films itself.

Splendid Synchron GmbH
(100 per cent)

Together with Enteractive, Splendid Synchron GmbH forms the post-production division in the Splendid Group. Splendid Synchron recorded great growth in the year gone by and thereby consolidated its position as an important dubbing company for the German-speaking areas. The company includes amongst its clients major German television stations, TV production companies and dealers in licences. However, Splendid itself also uses the capacities of its subsidiaries to an increasing degree. Splendid Synchron processes the

Interactive GmbH (85 per cent)

cinema films co-produced by Splendid as well as the international television films from Splendid Television, LLC, for the German-language regions.

The DVD sector is developing into one of the major supports of the film business. Splendid has not only taken this into account within the scope of its sales and distribution activities but also through the founding of Interactive GmbH. Splendid holds 85 per cent in the company specialising in complete post-production and creative services in the DVD sector, Hans D. Henseleit, executive managing partner, holds 15 per cent of the shares. He is one of the pioneers of the DVD business and brought into the company with him valuable business connections to well-known addresses such as Warner Home Video and Columbia Tristar. In the year just ended, DVD productions in which Interactive was involved to a major degree ("Anatomy" and "Tobias Totz and his Lion"), were awarded the prestigious "DVD Champion 2000" title.

Major participating interests

Initial Entertainment Group, Inc., (IEG) (49 per cent)

Within only six years Graham King and Colin Cotter succeeded in making Initial Entertainment Group (IEG) a highly regarded and respected film producer in Hollywood. Through its 49 per cent holding in IEG, Splendid has direct access to the American film industry. IEG is on the spot, has the market in its field of vision, develops new projects and exercises optimal controlling over the realisation of the films. By virtue of the option not exercised by Splendid to acquire the majority in IEG the company's sales are not included in the consolidation. Nevertheless, the results of IEG flow to 49 per cent into the profit and loss account of the Splendid Group.

Warner Vision Vertriebs GmbH (49 per cent)

At the end of 2000 Splendid, together with Warner Music Germany, founded Warner Vision Vertriebs GmbH. Splendid holds a 49 per cent share in the company. Within the scope of the joint venture Splendid and Warner will be marketing sales through videos and sales through DVDs in the German-speaking areas. The new company is the resolute continuation of a cooperation agreement which has been in existence since 1998 between Splendid and Warner in the sales through video sector. Warner Vision Vertriebs GmbH does not concentrate solely on videos from Splendid or from the Warner Group, but also markets other labels. The foundation of the joint venture was accepted very positively by the press and also by the analysts. The managing director of Warner Vision Vertriebs GmbH is the new member of Splendid's Managing Board, Alexander Welzhofer.

Managing Board

In the last few months, the composition of those persons occupying positions in the Managing Board at Splendid Medien AG has changed. Dietmar Schmitz, responsible for finance, left office in mid-2000. Since Schmitz left, Bernd Szymanski, an experienced finance expert, has assumed interim responsibility for finance.

As of 1 February 2001 Alexander Welzhofer, 37, has been part of the Managing Board of Splendid Medien AG and has assumed responsibility for the Marketing and Sales/Distribution sectors. Welzhofer has held responsible positions since 1983 in the film and video branches. Parallel to his mandate in the Managing Board, he will be in charge of business at the new Splendid participation Warner Vision Vertriebs GmbH of Hamburg and is – as he was before he took over his Managing Board function at Splendid – General Manager for Warner Vision Germany. In this function he has been looking after the intensive business contacts with Splendid within the scope of joint video and DVD marketing for many years now.

As a result of Welzhofer's joining, the Managing Board of Splendid consists of three persons:

Andreas R. Klein (39), Chief Executive Officer,

Graham King (39), Executive Director for Production and Worldwide Sales/Distribution,

Alexander Welzhofer (37), Executive Director for Marketing and Sales/Distribution.

Employees

In the financial year gone by, Splendid has distinctly increased its personnel strength but has nevertheless remained a lean company. This new recruitment was a reaction to the growing demands being made of the company and is intended to reinforce the existing team particularly in the accountancy and finance sectors and also in public relations, investor relations and marketing.

The increase in the number of employees at the holding company was due more to the acquisition of new subsidiaries and boosting management than the recruitment of new staff. In its shareholding policies, Splendid places great emphasis on the fact that self-responsible managers, some of whom are also shareholders in the company, are in charge of independent units within the group. In this way, Hans Henseleit (34) joined the group as executive partner in Enteractive GmbH, Douglas Schwalbe (39) as executive partner in Splendid Television, LLC, and Svetlana Winkel (47), managing director of Polyband.

As at the end of the last financial year, the Splendid Group employed 38 staff as compared to 19 at the end of December 1999. Of these, 6 were employed at Splendid Medien AG, and 6 at Splendid Film, 10 worked at Splendid Synchron and one at Ascot. Polyband had a workforce of 6, Enteractive 7 and Splendid Television two. In addition, 12 free-lance associates work for Splendid Synchron and 10 representatives for Ascot.

Management wishes to express its thanks to all staff and employees for their enormous commitment in the last financial year. In this way they have contributed towards the good trends the company has enjoyed.



Traffic



Stephen Gaghan (Screenplay):

"I went all over the country to research the story. In Washington, D.C., meeting with the policymakers - the Deputy Secretary of Defense, the Office of National Drug Control Policy, the head of the Association of Police Chiefs, the DEA, members of think tank."

Steven Soderbergh:

"I actually threw Michael Douglas into these situations. When we were at the border, they were actually busting cars that were filled with drugs and people - right in front of us. We filmed the dogs and the agents tearing these cars apart while the experts were explaining to Michael how it worked. And it was all improvised."



Benicio Del Toro:

"Steven's idea, to do it in Spanish - it was exciting to tackle that. It adds texture to the story, realism of a kind we haven't seen."

Steven Soderbergh:

"I hope Traffic works on a dramatic thriller level. I want those people who just want to see a roller-coaster ride of a story to be happy."



When the role was initially offered to **Catherine Zeta-Jones**, only her family knew her carefully guarded secret. "My predicament, when Steven called me was that I knew I was pregnant", she laughs. I finally told him that if we started in April 2000, I would be 5 months pregnant."



Steven Soderbergh:

"Aside from the primary leads, the film has an enormous range of characters - over 110 speaking parts."



For his part, **Michael Douglas** remembers, "My first day of filming was the border. When I arrived on the set, Steven introduced me to Rudy M. Camacho, who is the real director of the U.S. customs in San Diego, and said, 'Rudy will take you through and you ask him whatever you want. Now let's go.' So my first was an 11-minute take of improvised material!"

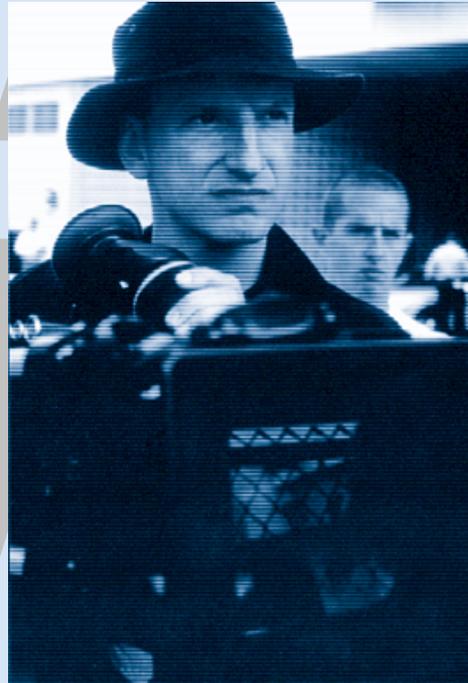


Steven Soderbergh:

"There is a new headline every day about the drug war and you'd find yourself wanting to pull in some of those new elements. We were constantly updating and revising."

Michael Douglas:

"We filmed a scene at the San Ysidro/Tijuana border in San Diego. When you see 28 lanes of traffic coming through, you begin to get a perspective of how overwhelming this issue is. It's so sophisticated that there are lookouts on the Mexican side watching the border through binoculars."



Steven Soderbergh:

"Drugs are one of the key social issues in our culture today. I feel like it's in the air right now and people are talking about it a lot."



Steven Soderbergh:

"A way of keep *Traffic* feeling to audiences as though it were happening in front of them was to take the production to locales where film's stories take place. The film began production in April with four weeks of shooting in San Diego."



8. Financial statements

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8. Financial report



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a. Consolidated Financial Statements

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Consolidated balance sheet (HGB (German Commercial Code)) as of 31.12.2000

<i>Assets</i>	<i>DM '000</i> <i>31.12.2000</i>	<i>DM '000</i> <i>31.12.1999</i>	<i>EUR '000</i> <i>31.12.2000</i>	<i>EUR '000</i> <i>31.12.1999</i>
A. Fixed assets				
I. Intangible assets	10,046	9,783	5,136	5,002
II. Tangible assets	1,061	1,117	542	571
III. Financial assets	10,009	5,552	5,118	2,839
Total fixed assets	21,116	16,452	10,796	8,412
B. Screen rights				
I. Film rights	72,111	13,912	36,870	7,113
II. Advance payments	94,977	80,342	48,561	41,078
Total screen rights	167,088	94,254	85,431	48,191
C. Current assets				
I. Inventories				
Finished goods and trading stock	904	284	462	145
Total inventories	904	284	462	145
II. Trade receivables and other assets				
1. Trade receivables	1,820	4,307	931	2,202
2. Accounts due from companies in which the company has a participating interest	-	751	-	384
3. Other assets	3,358	3,985	1,717	2,037
Total trade receivables and other assets	5,178	9,043	2,648	4,623
III. Cash in hand and cash at banks	2,582	48,817	1,320	24,960
Total current assets	8,664	58,144	4,430	29,729
D. Deferred charges and prepaid expenses	18	1	9	1
E. Deferred taxes	46	-	24	-
Total	196,932	168,851	100,690	86,332

Consolidated balance sheet (HGB) as of 31.12.2000

<i>Liabilities</i>	<i>DM '000</i> <i>31.12.2000</i>	<i>DM '000</i> <i>31.12.1999</i>	<i>EUR '000</i> <i>31.12.2000</i>	<i>EUR '000</i> <i>31.12.1999</i>
A. Shareholders' equity				
I. Subscribed capital	17,407	17,407	8,900	8,900
II. Capital reserve	135,630	135,652	69,347	69,358
III. Consolidated balance sheet profit	2,747	-4,518	1,405	-2,310
IV. Adjustment for shares held by other shareholders	23	-	12	-
V. Difference due to capital consolidation	0	78	-	40
Total shareholders' equity	155,807	148,619	79,663	75,988
B. Provisions				
1. Tax provisions	2,798	4,390	1,431	2,245
2. Other provisions	4,777	5,047	2,442	2,580
Total provisions	7,575	9,437	3,873	4,825
C. Liabilities				
1. Liabilities to banks	7,931	0	4,055	0
2. Advance payments received on account of orders	12	1,979	6	1,012
3. Trade liabilities	3,971	3,521	2,030	1,800
4. Accounts due to affiliated companies	19,708	0	10,077	0
5. Other liabilities	1,928	5,295	986	2,707
Total liabilities	33,550	10,795	17,154	5,519
Total	196,932	168,851	100,690	86,332

8. Financial statements

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<i>Income statement (HGB)</i>				
<i>Consolidated income statement</i>	<i>DM '000</i>	<i>DM '000</i>	<i>EUR '000</i>	<i>EUR '000</i>
<i>01. January to 31. December 2000</i>	<i>31.12.2000</i>	<i>31.12.1999</i>	<i>31.12.2000</i>	<i>31.12.1999</i>
1. Sales	52,604	37,675	26,896	19,263
2. Cost of sales	-42,107	-26,117	-21,529	-13,353
3. Gross profit	10,497	11,558	5,367	5,910
4. Distribution costs	-3,152	-3,391	-1,611	-1,734
5. General administration costs	-7,359	-3,787	-3,762	-1,936
6. Other operating income	2,703	1,610	1,382	823
7. Other operating expenses	-1,529	-822	-782	-420
8. Result from participations in associated companies	4,725	-1,918	2,416	-981
9. Other interest and similar income	4,342	1,341	2,220	686
10. Amortisation on financial assets	-293	0	-150	
11. Interest and similar expenses	-211	-472	-108	-241
12. Result of ordinary activities	9,723	4,119	4,972	2,107
13. Exceptional expenses	-949	-9,329	-485	-4,770
14. Taxes on income	-1,596	691	-816	353
15. Other taxes	-1	1	-1	-
16. Net profit/deficit	7,177	-4,518	3,670	-2,310
17. Portion of loss assigned to third party shareholders	88	0	45	0
18. Consolidated net profit/deficit	7,265	-4,518	3,715	-2,310
19. Consolidated losses carried forward	-4,518	0	-2,310	0
20. Consolidated balance sheet profit/loss	2,747	-4,518	1,405	-2,310

a. Consolidated financial statements

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Reconciliation of consolidated capital and consolidated net profit

in accordance with International
Accounting Standards

The adjustments to the consolidated financial statements of Splendid Medien AG prepared for the period ending 31 December 2000 in accordance with the requirements of commercial law for reconciliation with the International Accounting Standards (IAS) applicable at the point at which the balance sheet was prepared are detailed below.

We have adjusted those items in the consolidated financial statements prepared in accordance with commercial law that are valued differently in accordance with IAS regulations.

	<i>IAS adjustments</i>			
	<i>DM '000</i>	<i>DM '000</i>	<i>EUR '000</i>	<i>EUR '000</i>
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
Consolidated capital (HGB) as of 31.12.	155,783	148,541	79,651	75,948
Assets				
Goodwill	257	85	131	43
Tangible assets/Leasing	950	546	486	279
Holdings in associated companies	99	33	51	17
Trade receivables	11	39	6	20
Deferred charges and prepaid expenses	104	54	53	28
Deferred taxes	8	955	4	488
Total	1,429	1,712	731	875
Liabilities				
Deferred taxes	0	-17	0	-9
Trade liabilities	-1,095	-606	-560	-310
Total	-1,095	-623	-560	-319
Consolidated shareholders' equity (IAS) at 31.12.	156,117	149,630	79,822	76,504
Consolidated net profit (HGB) 31.12.	7,265	-4,518	3,715	-2,310
Financial result	16	24	8	12
Depreciation on tangible assets	-277	-42	-142	-21
Amortisation of goodwill	172	85	88	43
Leasing costs	282	44	144	22
Other operating income	-56	0	-29	-
Other operating expenses	39	39	20	20
IPO costs	374	9,330	191	4,770
Tax expenditure for acquisitions/IPO costs	-150	-4,927	-77	-2,519
Deferred taxes	-930	938	-476	480
Total	-530	5,491	-273	2,807
Consolidated net profit (IAS) 31.12.	6,735	973	3,442	497

Auditor's opinion

We have audited the plausibility and calculations of the reconciliation statement for consolidated shareholders' equity as of 31 December 2000 and the consolidated net profit 2000 of Splendid Medien AG, Cologne (HGB) in accordance with IAS accounting principles. We draw attention to the fact that this reconciliation statement does not constitute a complete set of financial statements as defined by IAS accounting principles. A complete set of consolidated IAS financial statements consists of the consolidated balance sheet, consolidated income statement and notes to the consolidated financial statements as well as further explanatory notes.

After examining the reconciliation statement attached for plausibility and arithmetic correctness we are of the opinion that it correctly reflects the information contained in the company's books and calculations. In view of the fact that the scope of the examination was small in comparison to a group audit, we have abstained from issuing an official opinion.

On the basis of our examination, we have not become aware of any salient changes which would have had to be taken into consideration for the attached reconciliation statement of the Group consolidated equity and the Group profit for the year to meet IAS requirements.

Cologne, 28 March 2001

BFJM BACHEM FERVERS JANSSEN MEHRHOFF GmbH
Wirtschaftsprüfungsgesellschaft

(Dr. Christian Janßen)
Auditor

(Dipl. Kfm. Franz Meller)
Auditor

a. Consolidated financial statements

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Cash flow statement (HGB)

Consolidated cash flow statements as of 31.12.2000	DM '000	DM '000	EUR '000	EUR '000
	2000	1999	2000	1999
Net profit/loss	7,177	-4,518	3,670	-2,310
+/- Write-downs/write-ups intangible and tangible assets	1,037	801	530	410
+ Amortisation on financial assets	293	0	150	0
+ Amortisation of screen rights	34,071	17,140	17,420	8,762
+ Amortisation on advance payments for screen rights	45	119	23	61
+/- Earnings of associated companies	-4,725	1,918	-2,416	981
+/- Other transactions not relevant for payments	-	37	-	19
Gross Cash flow	37,898	15,497	19,377	7,923
+/- Increase/decrease in medium-term and short-term provisions	-1,862	-3,981	-952	-2,035
-/+ Profit/loss from disposal of fixed assets	-22	-20	-11	-10
-/+ Increase/decrease in inventories, trade receivables and other assets	3,183	-4,174	1,627	-2,134
+/- Increase/decrease in trade liabilities and other liabilities	22,756	2,449	11,635	1,252
= Cash flow for/from operating activities	61,953	9,771	31,676	4,996
+ Proceeds from disposals of fixed assets	22	580	11	297
- Cash outflows for Investments in intangible and tangible assets	-1,245	-197	-637	-101
- Cash outflows for investments in financial assets	-24	-7,470	-12	-3,819
- Cash outflows for investments in screen rights	-106,951	-93,082	-54,683	-47,592
+ Repayments of advance payments for screen rights	0	70	0	36
= Cash flow for/from investment activities	-108,198	-100,099	-55,321	-51,180
+ Proceeds from capital increases	-	142,897	-	73,062
- Payments to shareholders (dividends, profit distributions)	-	-5,875	-	-3,004
+/- Other value changes in capital	10	0	5	0
- Payments for redemptions of loans	-	-868	-	-444
= Cash flow from/for financing activities	10	136,154	5	69,614
+/- Net cash changes in cash and cash equivalents	-46,235	45,826	-23,640	23,430
+ Cash and cash equivalents at beginning of period	48,817	2,991	24,960	1,529
= Cash and cash equivalents at end of period	2,582	48,817	1,320	24,960

1. General

The consolidated financial statements for the financial year 2000 have been prepared in accordance with the regulations of the Handelsgesetzbuch (German Commercial Code). The financial statements of the companies included in the consolidated financial statements of Splendid Medien AG are based on standard accounting and valuation principles and have been reconciled to the reference date of the consolidated financial statements.

2. Consolidated companies

In addition to Splendid Medien AG, the following companies are also included in the consolidated financial statements.

<i>Company</i>	<i>Registered office</i>	<i>Equity holding in %</i>
<i>Affiliated companies</i>		
Splendid Film GmbH	Cologne	100
Splendid Synchron GmbH	Cologne	100
Ascot Medien GmbH	Essen	100
Polyband Gesellschaft für Bild- und Tonträger m.b.H. & Co. Betriebs KG	Munich	100
Polyband Gesellschaft für Bild- und Tonträger mit beschränkter Haftung	Munich	100
eNterActive GmbH	Hamburg	85
splendid television, LLC	New York, USA	80
<i>Associated companies</i>		
Initial Entertainment Group, Inc.	Santa Monica, USA	49
Warner Vision Vertriebs GmbH	Hamburg	49

The holding in Initial Entertainment Group, Inc., Santa Monica acquired during the financial year 1999 has been stated at equity in accordance with para. 312 section 1 number 1 HGB. Splendid Medien AG has a 49% equity holding in Warner Vision Vertriebs GmbH which was founded in December 2000. This has been reported at the book value of the investment. This participating interest, whose financial year ends on 30.11., had not yet taken up its activities in the 2000 financial year. The option of not including subsidiaries of minor significance provided for in para. 269 section 2 sentence 1 HGB has not been used. All fully consolidated companies are subject to the uniform management of Splendid Medien AG.

3. Principles of consolidation

The individual financial statements of the fully consolidated companies have been prepared in accordance with uniform accounting and valuation methods. All companies included in the consolidated financial statements close their financial year on 31 December 2001.

Intra-group income and expenses have been eliminated. Receivables and liabilities between the incorporated companies have been netted. The parent company's corporation tax entitlement resulting from profits received from subsidiaries during the same period has been netted against the corporation tax costs of the subsidiaries. Inter-company profits and losses arising from

intra-group disposals have been eliminated.

3.1 Capital consolidation

Capital has been consolidated in accordance with the book value method. The differences resulting from capital consolidation at the time of initial consolidation for acquisitions or initial incorporation are calculated as follows:

<i>Capital consolidation in DM Company</i>	<i>Book value of holding</i>	<i>Shareholders' equity to be consolidated</i>	<i>Difference</i>	
			<i>Asset</i>	<i>Liability</i>
Splendid Film GmbH	10,154,735.60	70,348.46	10,084,387.14	
Splendid Synchron GmbH	54,022.76	48,895.75	5,127.01	
Ascot Medien GmbH	161,793.37	127,947.61	33,845.76	
Polyband Gesellschaft für Bild- und Tonträger m.b.H. & Co. Betriebs KG	514,039.34	-255,203.05	769,242.39	
eNterActive GmbH	88,405.26	83,122.78	5,282.48	
	10,972,996.33	75,111.55	10,897,884.78	

The asset differences resulting from the initial consolidation (Splendid Film GmbH and Polyband Gesellschaft für Bild- und Tonträger m.b.H. & Co. Betriebs KG) are written down in the form of goodwill over 15 years (straight-line depreciation) in accordance with the likely useful life. The remaining goodwill from the consolidation of Splendid Synchron GmbH was written off in full in the last financial year. Of the acquisition costs amounting to DM111 thousand which arose subsequently within the framework of the acquisition of ASCOT Medien GmbH, DM78 thousand was netted against the capital consolidation difference formed in the previous year. The remaining goodwill amounting to DM34 thousand was written off immediately.

3.2 Equity consolidation

The holding in Initial Entertainment Group, Inc, has been stated at book value in accordance with para. 312 section 1 sentence 1 HGB. The resultant difference of DM3,957 thousand will be written down in the form of goodwill over 15 years (straight-line depreciation) in accordance with the likely useful life. The development of the valuation of the holding was in accordance with para. 312 section 4 HGB. The consolidated financial statements prepared and audited in accordance with US-GAAP were adapted to the accounting and valuation methods of Splendid Medien AG within the framework of a HGB commercial balance sheet II. In order to determine the value of the holding in accordance with para. 312 section 4 HGB, film rights newly acquired in the financial year 2000 were included at the value reported in the HGB commercial balance sheet II. The valuation methods will be explained in the notes to the consolidated balance sheet (screen rights). As a precaution, no adaptation was made of the goodwill from the initial consolidation with regard to any undisclosed reserves in the film stock. Any intermediate results on the basis of licence transactions between consolidated companies and the associated company were not adapted in accordance with para. 312 section 5 in conjunction with

para. 304 HGB as the authoritative information for assessment was unknown or not accessible.

3.3 Currency translation

The shareholders' equity of the foreign subsidiary has been translated at the exchange rate applicable at the time of initial consolidation. Changes in shareholders' equity have been translated using the exchange rate applicable on the reference date.

4. Accounting and valuation methods

The individual financial statements have been prepared in accordance with uniform accounting and valuation methods. The fully consolidated subsidiaries have also used the statement and valuation rules applied by the parent company. The income statement has been structured in accordance with the cost of sales method. The accounting, valuation and depreciation methods used take account of all identifiable risks; they are detailed under the notes to the balance sheet items.

5. Notes to the consolidated balance sheet

5.1 Fixed assets

The development of the individual items of fixed assets is detailed in the enclosed list of fixed assets.

Intangible assets

Most of the intangible assets valued at cost of purchase represent software acquired and goodwill resulting from capital consolidation. A useful life of 15 years has been assumed for amortisation purposes.

Tangible assets

Tangible assets are capitalised at cost of procurement or cost of production, less scheduled use-related depreciation. Scheduled depreciation is calculated using the straight-line method, and is based on the useful life under normal operating conditions. Movable assets are written down over useful lives of between three and ten years; tenant fittings are written down over the tenancy life of ten years or over the shorter useful life under normal operating conditions. Use has been made of the simplification rule for tax purposes detailed in R 44 section 2 EStR (income tax regulations). Minor-value assets with procurement values of up to DM800,00 are written down in full in the year in which they are acquired.

Financial investments

The holdings in associated companies are the 49% stake in Initial Entertainment Group, Inc. Santa Monica and a further holding of the same proportion in Warner Vision Vertriebs GmbH, Hamburg. Under the item "Advance payments on financial assets" the payment for the option of a further 2% stake in Initial Entertainment Group, Inc. Santa Monica reported in the previous year has been written off as the option was not exercised.

Screen rights

The rights stated under screen rights are capitalised at their cost of purchase at the point of technical acceptance of the film material and written down as sub-rights are exploited or sold. In the normal situation in which full rights are acquired, the rights are written down at the rate of 20% of cost of procurement when they are exploited in the form of video cassettes for rental or sale (incl. DVD); in the year 2000, 10% was rated in each case regarding exploitation in the form of video rental and sales. When TV rights are sold, amortisation is calculated as 80% of the cost of procurement. When Pay-TV rights are exploited, 10% of the cost of procurement is stated as amortisation. For Free-TV rights, amortisation is calculated as 49% of the cost of procurement at the point of initial exploitation, and as 21% for subsequent exploitation. Amortisation is calculated as 10% of the cost of procurement when the rights are exploited in the cinema. The corresponding amortisation is reduced when TV rights are exploited. The application of the valuation methods to the associated company Initial Entertainment Group, Inc. led, in relation to film rights newly acquired in the financial year 2000, to adaptations in the HGB commercial balance sheet II in relation to the US-GAAP financial statements of the associated company. The remaining book value of two high-value screen rights was written down by approximately half in view of the expected initial exploitation proceeds in the following financial years. On account of the long period of initial exploitation there is a remaining book value for subsequent exploitation amounting to approximately 10% of the cost of procurement.

The way in which acquired sub-rights are stated in the accounts is based on the experience and assessment of the company management regarding potential exploitation, even if different breakdowns of the purchase price in relation to the individual sub-rights are agreed in individual contracts. Non-scheduled amortisation is used to reflect the absence of exploitation possibilities in the individual stages of the exploitation chain. In addition, due consideration has been given to the particular nature of licence agreements (e.g. long periods of duration for initial exploitation) by reasonable changes adopted in the amortisation rates. In the case of the rights taken over by the Group via Polyband GmbH & Co. KG, the video rights are written down over a period of three years using the straight-line method on account of its special business.

5.2 Current assets

Inventories

Inventories are valued at the lower of market price or cost of purchase or production on the balance sheet reference date.

Receivables

Receivables and other assets are stated at their nominal value. Appropriate individual adjustments have been made to individual accounts receivable which are exposed to identifiable risks. A flat-rate provision has been made to cover general risks.

Non-interest bearing receivables with a remaining term of more than one year have

been discounted to the present. Currency receivables have been valued using the lower of the exchange rate applicable at the point at which the claim originated or the bid price applicable on the reference date of the financial statements. Receivables with a remaining term of more than one year did not exist at the reference date of the financial statements. Cash in hand and cash at banks have been stated at their nominal amounts. Credit bank balances in foreign currency are translated using the bid price applicable on the balance sheet reference date.

5.3 Shareholders' equity

Share capital

The company's subscribed capital amounted to EUR8,900,000.00 as of 31.12.2000. In the financial statements the subscribed capital has been converted using the rate of EUR1.00 = DM1.95583 defined by the Council of the European Union. The share capital is split into 8,900,000.00 ordinary bearer shares each with a par value of EUR1.00.

Approved capital

Pursuant to a resolution on 3 September 1999, the Managing Board was authorised, subject to the approval of the Supervisory Board, to increase the company's share capital on one or more occasions in the period up to 20 September 2004, against cash contributions or non-cash contributions by a total of up to EUR3,410,000.00 (authorised capital increase I), by up to a total of EUR890,000.00 (authorised capital increase II) or up to a total of EUR150,000.00 (authorised capital increase III) by way of an issue of new bearer shares each with a par value of EUR1.00. The Managing Board was also authorised, subject to the approval of the Supervisory Board, to decide whether the statutory subscription rights of the shareholders are excluded. However, shareholders' subscription rights can only be excluded:

- in order to settle fractions,
- for acquiring companies or equity stakes in companies by granting shares in the company,
- if a capital increase against cash contributions does not exceed 10% of the company's share capital and if the price at which the shares are issued is not significantly lower than the market price (applicable only for authorised capital increase II).

Capital reserves

The capital reserve consists of the issue of new shares in 1999 of DM96 thousand or DM135,496 thousand (the latter resulting from the IPO).

5.4 Provisions

Tax provisions contain tax liabilities for the assessed years 1987 to 2000 which are probable on the reference date for the financial statements. Other provisions contain all recognisable risks and contingent obligations on the balance sheet reference date and have been set aside in accordance with the principle of prudent business practice. They consist primarily of obligations resulting from licence agreements amounting to DM3,063 thousand as well as consultancy services not yet invoiced.

5.5 Liabilities

Liabilities have been carried at the amount due for repayment. Foreign currency liabilities are valued at the higher of procurement price or market price on the balance sheet reference date. The remaining times of the liabilities are set out in the list of liabilities.

List of liabilities					
	Total amount	Expected periods			Security provided
		up to 1 year	1-5 years	over 5 years	
TDM		DM '000	DM '000	DM '000	DM '000
1. Liabilities to banks	7,931	7,931			
2. Advance payments received on account of orders	12	12	0	0	0
3. Trade liabilities	3,971	3,971			
4. Accounts due to affiliated companies	19,708	19,708			
5. Other liabilities	1,928	1,928			
	33,550	33,550	0	0	0

Other liabilities include tax liabilities of DM1,121 thousand (DM4,845k last year). In addition, liabilities within the scope of social security are shown here at DM89 thousand (DM55k last year).

6. Notes to the consolidated income statement

6.1 Sales

Most sales are generated abroad. The breakdown is as follows:

	2000	1999
	DM '000	DM '000
Revenues from licences and theatrical distribution	37,991	22,427
Revenues from video rental/video sales/DVD	10,542	13,409
Revenues from dubbing and Post-production	3,599	2,181
Revenues from mastering	798	-
Less revenue reductions	-326	-342
Total sales	52,604	37,675

6.2 Cost of goods sold

This item consists primarily of the costs of film rights (amortisation on screen rights and licence expenses), material and production costs, dubbing costs and personnel costs attributable to costs of production as well as depreciation on fixed assets.

6.3 Distribution costs

Distribution costs consist primarily of advertising costs, sales commissions, personnel costs and travelling expenses attributable to sales activities.

6.4 General administration costs

General administration costs include personnel costs attributable to administration activities, legal and consultancy costs, rents and operating costs, depreciation on fixed assets and other administration costs.

6.5 Other operating income

The main items under other operating income are income from the writing back of provisions (DM549 thousand) and in particular gains attributable to foreign currency transactions (DM612 thousand) and payment receipts for written-off receivables (DM486 thousand).

6.6 Other operating expenses

Other operating expenses include losses attributable to foreign currency transactions, bad debts, depreciation on prepayments and depreciation on the capital consolidation differences stated as goodwill.

6.7 Result of associated companies

This item contains the proportionate result of the Initial Entertainment Group, Inc. less the depreciation on the consolidation difference stated as goodwill in accordance with para. 312 section 1 sentence 1.

6.8 Amortisation on financial assets

This item relates to the amounts paid for the IEG option that was not exercised.

6.9 Interest and similar income

Interest income results mainly from interest on advance payments for two film rights amounting to DM3,855 thousand and from the interest on time deposit accounts amounting to DM426 thousand.

6.10 Exceptional result

The exceptional result amounting to DM949 thousand in the financial year 2000 consists of subsequent expenses in connection with the IPO on 24 September 1999 and from non-capitalised acquisition costs in the financial year 2000.

6.11 Taxes on income

Taxes on income consist of corporation tax and trade tax.

6.10 Segment reporting

Due to the close links between the individual segments, further segmentation has not been used. The current segmental reporting is based primarily on sales segmentation.

	Film rights	Video / DVD	Dubbing	Premastering	Total
Segment reporting	DM '000				
Revenues	37,991	10,216	3,599	798	52,604
EBITDA (HGB)	33,217	2,862	287	-53	36,313
Depreciation					
- on screen rights					-34,116
- on tangible assets					-303
- on goodwill					-733
EBIT (HGB)					1,161
Financial result					8,563
Result of ordinary operations					9,724
Exceptional expenses					-949
Taxes					-1,598
Net profit					7,177
Third party shares in profit					88
Consolidated profit					7,265

7. Other information

7.1 Liability

There are guarantees for rent and leasing agreements entered into by subsidiaries amounting to DM331 thousand.

7.2 Other financial obligations

The Group has other financial obligations attributable to rental and leasing agreements as well as the acquisition of film rights amounting to a total of DM32.763 thousand (previous year: DM48,345 thousand). Commitments from orders amounted to DM6,096 thousand as of 31.12.2000.

7.3 Employees

In the financial year 2000 the Group employed on average 32 permanent staff (previous year: 19).

Total personnel costs in the financial year 2000 amounted to DM3,603 thousand (previous year: DM2,388 thousand).

7.4 Executive bodies

Managing Board

Mr Andreas Ralf Klein, Cologne (Chairman)

Mr Graham King, Pacific Palisades, USA

Mr Dietmar Schmitz, Neuwied, Managing Board responsible for finance and controlling (until 30.06.2000)

The emoluments of the Managing Board amounted to DM776 thousand in the financial year (previous year: DM715 thousand).

Supervisory Board

Dr. Ralph Drouven, lawyer, Cologne, Chairman; further supervisory board seats:

Santron AG, Cologne

Mr Georg Holschbach, auditor and tax consultant, Pulheim, Deputy Chairman

Mr James W. Wells, Content Manager, Munich

In the financial year remuneration amounting to DM87 thousand was paid to the Supervisory Board (previous year: DM46 thousand) .

Cologne, 27 March 2000

Splendid Medien AG

Managing Board

Auditor's opinion

We have audited the consolidated financial statements and the consolidated management report of Splendid Medien AG for the financial year between 01 January and 31 December 2000. The statutory representatives of the company are responsible for preparing the financial statements and management report in accordance with the regulations of German Commercial Law and the additional stipulations in the company's Articles of Association. Our assignment is to provide an assessment of the consolidated financial statements as well as an assessment of the consolidated management report on the basis of the audits which we have carried out.

We have conducted our audit of the consolidated financial statements in accordance with para. 317 HGB and subject to the principles of proper accounting defined by the Institut der Wirtschaftsprüfer (IDW). Accordingly, the audit must be planned and carried out in such a way that it is possible with adequate certainty to identify any irregularities and breaches of regulations which have a material effect on the presentation of the view of the net worth, financial and earnings situation provided by the consolidated financial statements in accordance with the principles of proper accounting and also provided by the consolidated management report. The process of determining the audit actions has given due consideration to knowledge of the business activities and legal circumstances of the Group as well as expectations of possible errors. As part of the audit process, the effectiveness of the internal control system as well as supporting evidence for the information in the consolidated financial statements and consolidated management report are assessed primarily on the basis of random samples. The audit involves an assessment of the financial statements of the companies included in the consolidated financial statements, the definition of the companies under consolidation, the applied principles of valuation and accounting as well as an assessment of the main estimates of the statutory representatives. It also considers the overall presentation of the consolidated financial statements and the consolidated management report. We are of the opinion that our audit forms an adequate basis for our audit opinion.

Our audit has not resulted in any objections. In our opinion the consolidated financial statements present, taking into account the principles of proper accounting, a true and fair view of the net worth, financial and earnings situation of the Group. The consolidated management report presents a correct view of the position of the group and presents correctly the risks of future development.

Cologne, 28 March 2001

BFJM BACHEM FERVERS JANSSEN MEHRHOFF GmbH
Wirtschaftsprüfungsgesellschaft

(Dr. Christian Janßen)
Auditor

(Dipl. Kfm. Franz Meller)
Auditor

b. Financial Statements Splendid Medien AG

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<i>Balance sheet Splendid Medien AG as of 31.12.2000</i>				
<i>Assets</i>	<i>DM '000</i> <i>31.12.2000</i>	<i>DM '000</i> <i>31.12.1999</i>	<i>EUR '000</i> <i>31.12.2000</i>	<i>EUR '000</i> <i>31.12.1999</i>
A. Fixed assets				
I. Intangible assets	177	2	91	1
II. Tangible assets	779	894	398	457
III. Financial assets	138,177	104,094	70,649	53,222
Total fixed assets	139,133	104,990	71,138	53,680
B. Current assets				
I. Trade receivables and other assets				
1. Accounts due from affiliated companies	12,839	3,990	6,564	2,040
2. Other assets	3,362	4,653	1,719	2,379
Total accounts receivable and other assets	16,201	8,643	8,283	4,419
II. Cash in hand and cash at banks	1,632	40,209	834	20,559
Total current assets	17,833	48,852	9,117	24,978
C. Deferred charges and prepaid expenses	0	1	0	1
Total	156,966	153,843	80,255	78,659

<i>Balance sheet Splendid Medien AG as of 31.12.2000</i>				
<i>Liabilities</i>	<i>DM '000</i> <i>31.12.2000</i>	<i>DM '000</i> <i>31.12.1999</i>	<i>EUR '000</i> <i>31.12.2000</i>	<i>EUR '000</i> <i>31.12.1999</i>
A. Shareholders' equity				
I. Subscribed capital	17,407	17,407	8,900	8,900
II. Capital reserve	135,652	135,652	69,358	69,358
III. Balance sheet profit/deficit	1,471	-2,262	752	-1,157
Total shareholders' equity	154,530	150,797	79,010	77,101
B. Provisions				
1. Tax provisions	425	1,337	217	684
2. Other provisions	631	727	323	372
Total provisions	1,056	2,064	540	1,056
C. Liabilities				
1. Liabilities to banks	0	0	0	0
2. Trade liabilities	1,110	376	567	192
3. Amounts due to affiliated companies	-	75	-	38
4. Other liabilities				
- thereof for taxes: DM96,082.52 (previous year: DM433,957.87)				
- thereof for social security: DM9,990.83 (previous year: DM8,903.08)	270	531	138	272
Total liabilities	1,380	982	705	502
Total	156,966	153,843	80,255	78,659

8. Financial statements

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Income statement

Splendid Medien AG income statement 01 January - 31. Dec. 2000	DM '000		DM '000		EUR '000		EUR '000	
	31.12.2000		31.12.1999		31.12.2000		31.12.1999	
1. Sales		2,031		771		1,038		394
2. Other operating income		837		999		428		511
3. Personnel expenses								
a) Wages and salaries	-1.052		-640		-538		-327	
b) Social security, pension and other benefit costs	-61		-28		-31		-14	
- thereof for pensions: DMO.00 (previous year.: DMO.00)								
		-1,113		-668		-569		-341
4. Depreciation/Amortisation of intangible and tangible assets		-188		-58		-96		-30
5. Other operating expenses		-3,985		-514		-2,038		-263
6. Income from investments		2,988		5,399		1,528		2,760
7. Other interest and similar income								
- thereof from affiliated companies DM5,520,646.00 (previous year: DM754,203.38)		5,947		1,187		3,041		607
8. Amortisation of financial assets		-293		0		-150		0
9. Interest and similar expenses								
- thereof to affiliated companies DM1,905.56 (previous year: DM45,642.47)		-18		-46		-9		-24
10. Result of ordinary activities		6,206		7,070		3,173		3,614
11. Exceptional expenses		-949		-9,332		-485		-4,771
12. Taxes on income		-1,523		0		-779		0
13. Other taxes		-1		0		0		0
14. Net profit/deficit		3,733		-2,262		1,909		-1,157
15. Losses carried forward		-2,262		0		-1,157		0
16. Balance sheet profit/deficit		1,471		-2,262		752		-1,157

Fixed assets

Fixed assets Splendid Medien AG From 1.1. to 31.12.2000	Costs of purchase or acquisition (DM '000)				Depreciation (DM '000)				Book values (DM '000)	
	Balance 01.01.00	Additions	Disposals	Balance 31.12.00	Balance 01.01.00	Additions	Disposals	Balance 31.12.00	Balance 31.12.00	Balance 31.12.99
I. Intangible assets										
1. Franchises, commercial property rights and similar rights and licences to such rights	3	180	0	183	1	5	0	6	177	2
Total intangible assets	3	180	0	183	1	5	0	6	177	2
II. Tangible assets										
1. Land and buildings, including buildings on non-owned land	816			816	40	119	0	159	657	776
2. Other equipment, operational and office equipment	133	68	1	200	15	64	1	78	122	118
Total tangible assets	949	68	1	1,016	55	183	1	237	779	894
III. Financial assets										
1. Shares in affiliated companies	10,259	1,117	0	11,376	0	0	0	0	11,376	10,259
2. Loans due from affiliated companies	86,365	33,235	0	119,600	0	0	0	0	119,600	86,365
3. Investments	7,177	24	0	7,201	0	0	0	0	7,201	7,177
4. Advance paymt. for financial assets	293	0	293	0	0	293	293	0	0	293
Total financial assets	104,094	34,376	293	138,177	0	293	293	0	138,177	104,094
Total fixed assets	105,046	34,624	294	139,376	56	481	294	243	139,133	104,990

b. Financial statements *Splendid Medien AG*

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<i>Cash flow statement</i>					
<i>Splendid Medien AG cash flow statement as of 31.12.2000</i>	<i>DM '000</i>	<i>DM '000</i>	<i>EUR '000</i>	<i>EUR '000</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>	
Net deficit/profit	3,733	-2,262	1,909	-1,157	
+/- Write-downs/write-ups on intangible and tangible assets	187	58	95	30	
+ Amortisation of financial assets	293	0	150	0	
Gross Cash flow	4,213	-2,204	2,154	-1,127	
+/- Increase/decrease in medium-term and short-term provisions	-1,008	724	-515	370	
-/+ Profit/loss from disposal of fixed assets	-2	7	-1	4	
-/+ Increase/decrease in receivables and other assets	-7,558	-3,132	-3,864	-1,602	
+/- Increase/decrease in trade liabilities and other liabilities	399	907	204	464	
= Cash flow for/from operating activities	-3,956	-3,698	-2,023	-1,891	
+ Proceeds from disposals of fixed assets	2	103	1	53	
- Cash outflows for investments in fixed assets	-34,623	-94,983	-17,702	-48,564	
= Cash flow for/from investment activities	-34,621	-94,880	-17,701	-48,511	
+ Proceeds from capital increases	0	142,897	0	73,062	
- Payments to shareholders (dividends, profit distributions)	0	-4,160	0	-2,127	
= Cash flow from/for financing activities	0	138,737	0	70,935	
+/- Net cash changes in cash and cash equivalents	-38,577	40,159	-19,724	20,533	
+ Cash and cash equivalents at beginning of period	40,209	50	20,558	26	
= Cash and cash equivalents at end of period	1,632	40,209	834	20,559	

1. General

Splendid Medien AG has been listed on the Neuer Markt in Frankfurt since 24 September 1999.

2. Accounting and valuation methods

The company is a large Kapitalgesellschaft (public limited company) as defined in para. 267 section 3 HGB. The financial statements for the financial year from 01 January to 31 December 2000 have been prepared in accordance with the regulations of the Handelsgesetzbuch (Commercial Code) and the Aktiengesetz (German Stock Corporation Act). The presentation, structure and valuation of the financial statements are consistent with the principles applied in previous years. The total cost method detailed in para. 275 section 2 HGB has been chosen for the income statement.

The accounting, valuation and depreciation methods that have been applied take account of all identifiable risks. They have been detailed under the notes to the balance sheet items and the income statement of items.

3. Notes to the balance sheet

Fixed assets

The development of purchase costs and cumulative adjustments as of 31 December 2000 is detailed in the list of assets (appendix to this annex).

Intangible assets and tangible assets

Fixed assets are stated at cost less scheduled depreciation. Scheduled depreciation is calculated using the straight-line method and reflects the useful life under normal operating conditions. Tangible and intangible assets stated as of 31.12.2000 are written down over their likely remaining useful life (intangible assets three years, moveable tangible assets one to seven years, tenant fittings over the tenancy duration of seven years). Use has been made of the simplification rule for tax purposes detailed in R 44 section 2 EStR (income tax regulations). Minor-value assets acquired at a cost of up to DM800.00 are written down in full in the year in which they are acquired.

Financial assets

The investments of the company as of 31.12.2000 are as follows (details in accordance with para. 285 number 11 HGB):

Financial assets	Registered office	Holding in %	Shareholder's equity 31.12.00	Net profit/net loss 31.12.00
			<i>DM '000</i>	<i>DM '000</i>
Affiliated companies				
Splendid Film GmbH	Cologne	100	1,672	1,602
Splendid Synchron GmbH	Cologne	100	285	236
Ascot Medien GmbH	Essen	100	381	253
Polyband Gesellschaft für Bild- und Tonträger mbH & Co. Betriebs KG	Munich	100	-214	-70
Polyband Gesellschaft für Bild- und Tonträger mit beschränkter Haftung	Munich	100	76	1
eNterActive GmbH	Hamburg	85	80	-18
splendid television, LLC	New York, USA	80	-23	-424
Associated companies				
Initial Entertainment Group, Inc.,	Santa Monica, USA	49	4,763	881
Warner Vision Vertriebs GmbH	Hamburg	49	49	-

Shares in affiliated companies and investments are capitalised at cost (incl. ancillary acquisition costs).

In conjunction with the purchase on 18 June 1999 of 49% of the shares of IEG an option was granted to purchase a further 2% of the shares. This option was not, however, exercised. The option has expired and the proportional acquisition costs have been written off. In the year 2000 the following holdings were acquired:

eNterActive GmbH, Hamburg	85% of the shares
splendid television, LLC, New York	80% of the shares
Warner Vision Vertriebs GmbH, Hamburg	49% of the shares
Polyband Gesellschaft für Bild-und Tonträger m.b.H.&Co Betriebs KG, Munich	100% of the shares
Polyband Gesellschaft für Bild-und Tonträger mit beschränkter Haftung, Munich	100% of the shares

The shareholder's equity of the foreign companies has been translated using the historic exchange rate at the time of acquisition. Loans due from affiliated companies relate to an interest-bearing loan to Splendid Film GmbH.

Current assets

Accounts receivable and other assets as well as credit balances at banks have been reported at their nominal values. No accounts receivable in foreign currency existed on the reference date for the financial statements.

Other assets include tax credits amounting to DM896 thousand attributable to the profit distributions received in the period from subsidiaries, although such distributions arise only in the following year for legal purposes.

There are no receivables with a remaining term of more than one year.

Shareholders' equity and share capital

The company's subscribed capital amounted to EUR8,900,000.00 as of 31.12.2000. In the financial statements it has been converted using the rate of EUR1.00 = DM1.95583 defined by the Council of the European Union.

The share capital is split into 8,900,000.00 ordinary bearer shares each with a par value of EUR1.00.

Approved capital

Pursuant to a resolution on 3 September 1999, the Managing Board was authorised, subject to the approval of the Supervisory Board, to increase the company's share capital on one or more occasions in the period up to 20 September 2004, against cash contributions or non-cash contributions by a total of up to EUR3,410,000.00 (authorised capital increase I), by up to a total of EUR890,000.00 (authorised capital increase II) or up to a total of EUR150,000.00 (authorised capital increase III) by way of an issue of new bearer shares each with a par value of EUR1.00. The Managing Board was also authorised, subject to the approval of the Supervisory Board, to decide whether the statutory subscription rights of the shareholders are excluded. However, shareholders' subscription rights can only be excluded:

- in order to settle fractions,
- for acquiring companies or equity stakes in companies by granting shares in the company,
- if a capital increase against cash contributions does not exceed 10% of the company's share capital and if the price at which the shares are issued is not significantly lower than the market price (applicable only for authorised capital increase II).

Capital reserve

The capital reserve contains premiums from the issue of new shares in 1999 of DM96 thousand or DM135,496 thousand (the latter resulting from the IPO).

Provisions

Tax provisions cover the expected trade tax expenses for year 2000. Other provisions relate mainly to remaining costs of the IPO, consultancy costs, internal and external costs of preparing financial statements, remuneration for the Managing Board and the Supervisory Boards as well as amounts for outstanding employee holiday entitlement. The provisions take into account all recognisable contingent liabilities, losses and risks on the balance sheet reference date in accordance with the principle of prudent business practice.

Liabilities

Liabilities have been carried at the amount due for repayment. The remaining times of the liabilities are all less than one year. No collateral has been granted. No exchange rate liabilities existed on the reference date of the financial statements.

4. Notes to the Income Statement

Sales

Sales include DM1,867 thousand (previous year: DM722 thousand) for administration costs allocated to affiliated companies and DM145 thousand (previous year: DM48 thousand) for rental income of affiliated companies.

Other operating income

This includes the writing back of provisions as well as the sale of fixed assets.

Personnel expenses

Emoluments to the Managing Board amounted to DM775 thousand in the year 2000 (previous year: DM479 thousand).

Depreciation on intangible assets/amortisation on intangible assets

This item consists exclusively of scheduled depreciation. Please refer to the list of assets (appendix to this annex) for the depreciation/amortisation amounts applicable to the individual items of tangible and intangible assets.

Other operating expenses

Other operating expenses include mainly costs of administration, maintenance and rents, other operating costs as well as PR work.

Administration costs include remuneration of DM88 thousand paid to the Supervisory Board (previous year: DM46 thousand).

Income from investments

Income from investments relates to profit distributions received for the period from the subsidiaries Splendid Film GmbH, ASCOT Medien GmbH and Splendid Synchron GmbH.

Interest and similar income

This item relates to interest from loans to affiliated companies and credit balances at banks. The interest income from affiliated companies amounts to DM5,521 thousand (previous year: DM754 thousand).

Amortisation of financial investments

This item relates to the amounts paid for the IEG option which was not exercised.

Exceptional expenses

Exceptional expenses include remaining costs from the IPO which took place in 1999 and costs for acquisition work in the year 2000.

Taxes on income

On account of the tax loss carried forward, taxes on income amounting to DM1,523 thousand are reported (previous year: DM 0).

5. Other information

5.1 Executive bodies

Managing Board

Mr Andreas Ralf Klein, Cologne, Chairman. Responsible for licence business and strategic planning.

Mr Dietmar Schmitz, Neuwied, Managing Board. Responsible for finance and controlling (until 30.06.2000)

Mr Graham King, Pacific Palisades, USA, Managing Board. Responsible for production and world-wide sales/distribution; Chief Executive Officer of Initial Entertainment Group, Inc., USA.

Mr Andreas Ralf Klein, Director, has sole right of representation.

Supervisory Board

Dr. Ralph Drouven, lawyer, Cologne, Chairman; further supervisory board seats: Santron AG, Cologne.

Mr Georg Holschbach, auditor and tax consultant, Pulheim, Deputy Chairman.

Mr James W. Wells, Content Manager, MSG Mediaservices GmbH, Munich.

5.2 Liability, other financial obligations

There are guarantees for rent and leasing agreements entered into by subsidiaries amounting to DM331 thousand. The company has other financial obligations from rental and leasing agreements amounting to a total of DM1,003 thousand.

In addition, there has been an abdication in ranking in respect of the Stadtparkasse Köln in connection with credits made available to Splendid Film GmbH.

5.3 Employees

In the financial year 2000 the company employed an average of 4 salaried employees (previous year: 2). These figures do not include Managing Board members.

5.4 Proposed allocation of accumulated profits

At the Annual General Meeting to be held on 20 June 2001, the Managing Board will propose that the profit for the year amounting to DM1,471 thousand as shown in the year-end financial statements of Splendid Medien AG as at 31.12.2000 within the framework of the provisions contained in the German Commercial Code (HGB) and the German Stock Corporation Law (AktG) be carried forward.

Cologne, 27 March 2001

Splendid Medien AG
Managing Board

Auditor's opinion

We have audited the financial statements including the accounting records and the consolidated management report of Splendid Medien AG (formerly Splendid Medien Holding GmbH) for the financial year from 01 January and 31 December 2000. The statutory representatives of the company are responsible for the accounting records and for preparing the financial statements and consolidated management report in accordance with the regulations of German Commercial Law and the additional stipulations in the company's Articles of Association. Our assignment is to provide an assessment of the financial statements, accounting records and the consolidated management report on the basis of the audit carried out by us. We have conducted our audit of the financial statements in accordance with para. 317 HGB and subject to the principles of proper accounting defined by the Institut der Wirtschaftsprüfer (IDW). Accordingly, the audit must be planned and carried out in such a way that it is possible with adequate certainty to identify any irregularities and breaches of regulations that have a material effect on the presentation of the view of the net worth, financial and earnings situation provided by the financial statements in accordance with the principles of proper accounting and also provided by the consolidated management report. The process of determining the audit actions has given due consideration to knowledge of the business activities and legal circumstances of the Group as well as expectations of possible errors. As part of the audit process, the effectiveness of the internal control system as well as supporting evidence for the information in the accounting records, financial statements and consolidated management report are assessed primarily on the basis of random samples. The audit involves an assessment of the applied principles of valuation, an assessment of the main estimates of the statutory representatives, and also considers the overall presentation of the financial statements and the consolidated management report. We are of the opinion that our audit forms an adequate basis for our audit opinion.

Our audit has not resulted in any objections. In our opinion the financial statements present, taking into account the principles of proper accounting, a true and fair view of the net worth, financial and earnings situation of the company. The consolidated management report presents a correct view of the position of the company and presents correctly the risks of future development.

Cologne, 28 March 2001

BFJM BACHEM FERVERS JANSSEN MEHRHOFF GmbH
Wirtschaftsprüfungsgesellschaft

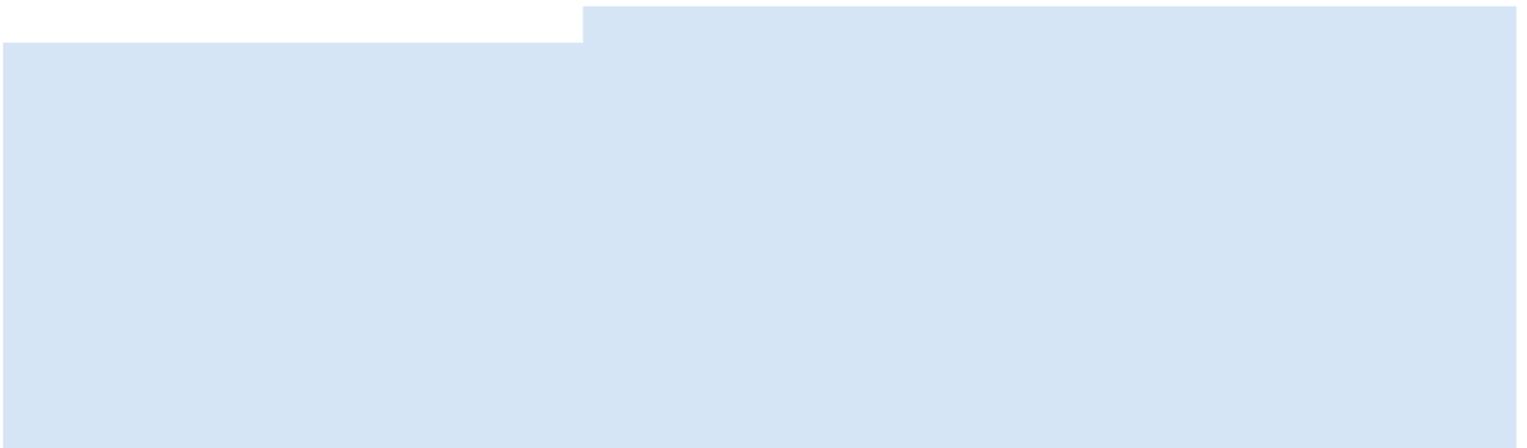
(Dr. Christian Janßen)
Auditor

(Dipl. Kfm. Franz Meller)
Auditor

Company history

- 1974** Albert E. Klein founds his own company Splendid Film. He based his efforts on his 20 years of experience with the American film company United Artists.
- 1979** The sole-owner company develops into Splendid Film Klein GmbH.
- 1980** Andreas R. Klein enters the company and assumes responsibility for the marketing and sales/distribution sectors.
- 1986** Star Media GmbH Film TV Video Production is founded.
PACIFIC Video GmbH comes into being (renamed in 1994 as ASCOT Medien GmbH).
- 1987** Birth of Splendid Video GmbH.
- 1990** Splendid extends its performance portfolio by opening a dubbing studio.
- 1991** Star Media GmbH amalgamates with Splendid Film Klein GmbH.
- 1996** Splendid Video GmbH and Splendid Film Klein GmbH merge.
- 1997** A company-owned studio complex is formed at the new location on the Alsdorfer Strasse in Cologne with the most modern technical equipment and a capacity of 9,000 minutes of sending time.
- 1998** Together with Polyband Gesellschaft für Bild- und Tonträger mbH & Co. Betriebs KG and Warner Music Germany GmbH a new joint sales entity is formed to sell sales through cassettes and DVDs.
- 1999** Splendid becomes a limited liability company and goes public in September with its shares quoted on the Neuer Markt.
Splendid acquires a 49 per cent holding in the US-American production company Initial Entertainment Group, Inc., Santa Monica (IEG).
Splendid/IEG agree on the co-production of top-class Hollywood films with well-known American production companies.
- 2000** Splendid founds Enteractive GmbH and Splendid Television, LLC together with the executive partners and takes over 100 per cent of the shares in Polyband Gesellschaft für Bild- und Tonträger GmbH & Co. KG.
Splendid founds Warner Vision Vertriebs GmbH together with Warner Music Germany to market sales through cassettes and DVDs.





splendid medien AG

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splendid film GmbH

splendid synchron GmbH

splendid television, LLC



ENTERACTIVE

polyband