Annual Report 2003

splendid medien AG

Splendid at a glance

Key Data (IAS) *in mill. EUR*	2003	2002
Total sales revenues	**33,8**	**34,5**
Licenses granted	18	14,5
Home Entertainment	13,9	10,4
Post-production	1,9	1,8
Production		7,8
EBITDA	10,9	9,5
EBIT	-1,2	-57,9
Profit	-1,4	-59,6
Cash flow from current business activities	14,6	-0,8
Balence sheet total	22	32,3
Equity	10,1	11,5
Equity-ratio	45,6%	35,6%
Liquid funds as at 31.12	6,5	3,8
Film rights (incl. advance payments)	8,9	15,8
Investments in film rights	4,7	23,3
Investment-ratio (from Balence sheet total)	21,3%	72,1%
Depreciation of film rights	11,6	50,1
Depreciation-ratio (from sales revenues)	34,3%	145,4%
Earnings per share in Euro*	-0,16	-6,69
Number of employees at the end of the year	35	42

*Total number of shares: 8,9 mill.

splendid film

Content

The Splendid Medien AG

Group Management Report

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Andreas R. Klein

Foreword of the Management Board

Dear shareholders, dear employees and partners of Splendid Medien AG,

The past year was marked by the successful consolidation and direction towards our core activities. Splendid Medien AG maintained good progress in a still difficult market environment. We registered a positive result in operative activities. Value adjustments for loans in connection with the separation from Splendid Pictures, however, led to a negative overall annual result.

We are setting new emphases in our company's strategic direction. License acquisition now focuses more strongly on lower and medium budget film productions in which TV channels have already signalled an interest in advance. We exploit these films in the cinema, TV and video/DVD sectors. We are paying particular attention to the growth market home entertainment, as the highest growth rates are anticipated in this branch, as in the past financial year. This business division is promisingly enriched by the products of "Kids for Kids GmbH", which will market an innovative edutainment programme and further products in the children's and family segment in the future.

For 2004, we anticipate a significantly improved EBIT margin where sales figures will be decreasing.

Cologne, April 2004

Andreas R. Klein
Chairman of the Management Board

Dr. Ralph Drouven

2003

Report of the Supervisory Board

During the financial year 2003, the Supervisory Board fulfilled its responsibilities according to the law and articles of incorporation and monitored the activities of the Management Board. It was kept regularly and extensively informed by the Management Board on the course of business, business policy, the turnover, earnings and liquidity situation and the plans of Splendid Medien AG and its associated companies. The Supervisory Board reviewed all transactions of particular importance and discussed both these transactions and the strategic development of all Group companies with the Management Board in regular sessions, which also took place outside ordinary meetings. Additionally, the Chairman of the Supervisory Board maintained regular contact to the Chairman of the Management Board in order to exchange information and ideas.

The Management Board presented all matters to the Supervisory Board which require the Supervisory Board's involvement according to law, articles of incorporation or the rules of internal procedure for the board. The Supervisory Board dealt with these matters and, where necessary, took decisions on them. During the financial year 2003, the Supervisory Board held five ordinary meetings. Special committees were not formed.

In compliance with the resolution of the Annual General Meeting of 26 August 2003, the Supervisory Board commissioned BFJM Bachem Fervers Janssen Mehrhoff GmbH Wirtschaftsprüfungsgesellschaft, Cologne, to audit the consolidated financial statements and the annual financial statements of the company. BFJM Bachem Fervers Janssen Mehrhoff GmbH Wirtschaftsprüfungsgesellschaft audited Splendid Medien AG's annual financial statement, the consolidated financial statements and the management reports for the Group and for Splendid Medien AG as of 31 December 2003. As a result of this audit, the auditing company came to the conclusion that the consolidated financial statements presented comply with International Accounting Standards (IAS) and present a correct view of the assets, earnings and financial position of the Group and the cash flow of the financial year 2003. The auditing company confirmed that Splendid Medien AG's annual financial statement was prepared under observance of the generally accepted accounting principles and presents a correct view of the company's assets, earnings and financial position. The auditing company issued the statements with an unqualified audit certificate.

The annual financial statement, management report, consolidated financial statements, Group management report and the report of the auditing company were submitted to all members of the Supervisory Board. The Supervisory Board examined these documents and discussed them in detail at the Supervisory Board's balance sheet meeting of 26 April 2004, in the presence of the responsible representative of the auditing company. The Supervisory Board also had no grounds for objection.

Following the statements contained in the audit report, the Supervisory Board approved the annual financial statement and the consolidated financial statement. Splendid Medien AG's annual financial statement as of 31 December 2003 is thereby accepted.

Report of the Supervisory Board

The Supervisory Board took note of the management reports and particularly the Management Board's assessment of the company's further development with approval.

Legal proceedings against the former member of the Management Board Dr. Thomas Weber are still pending. In view of these proceedings, the Supervisory Board agrees with the Management Board's suggestion to the Annual General Meeting to postpone the decision regarding Dr. Thomas Weber's release for the financial year 2002 once again.

The Supervisory Board paid particular heed that Splendid Medien AG follows the recommendations and suggestions of the Code of Corporate Governance, in as far as deviations from the code are not objectively appropriate. Such deviations were discussed in detail by the Management and Supervisory Boards. The compliance declaration in accordance with § 161 AktG was passed jointly by the Management and Supervisory Boards at the Supervisory Board meeting of 24 November 2003 and subsequently published.

In line with the recommendation of the Code of Corporate Governance, the Supervisory Board re-viewed the efficiency of its activities. The Board carried out this review autonomously without the aid of third parties, on the basis of generally available review catalogues. The findings of the review are that the responsibilities of the Supervisory Board according to law and articles of association are carried out in an orderly and effective manner.

The Supervisory Board monitored the further implementation of an early risk alert and risk manage-ment system. In this context, the Board received regular information from the Management Board. In the opinion of the Supervisory Board, the existing systems are essentially suitable to give a timely warning of dangers facing the company, thus allowing it to react appropriately. However, the Supervisory Board agrees with the auditor that certain individual processes could be further optimised.

The Supervisory Board would like to thank the Splendid Group's management and all members of staff for their committed efforts in the financial year 2003.

Cologne, April 2004
Dr. Ralph Drouven
Chairman of the Supervisory Board

2003

The Splendid Medien AG

Mambo Italiano

The Splendid Medien AG

Our value-added creation

Value-added in the group

Splendid Film GmbH acquires rights for feature films and exploits these either in-house or via the distribution channels operated by Splendid Medien AG's subsidiaries, along the entire value added chain (cinema, home entertainment and TV) in the German-speaking region.

With respect to the **(co)production** of films, copyrights are acquired that are valid for an indefinite period of time. Licensing rights are resold to customers in individual countries.

Licenses are **acquired** partly at international film fairs such as AFN in Los Angeles, MIFED in Milan or the Cannes film festival. License buyers sample finished films during screenings. However, in some cases, film licenses are acquired before the respective film has been made. In this case, insofar as the storyline, the director, the cast (actors, director, camera crew, etc.) and further qualitatively assessable factors represent sufficient marketing potential, a decision in favour of acquiring the license is taken. Our focus is on films in which TV channels have expressed a serious interest. This ensures that the return of a substantial part of the investment can be considered a certainty.

Cinema: Films are initially exploited in the cinemas if their acquisition and marketing costs as well as the expected ticket proceeds justify this course of action. Splendid works together with 20th Century Fox as a rule, which takes over the distribution and marketing of cinema films in return for an industry-standard distribution fee. A successful cinema film adds value and becomes even more attractive for further exploitation on video and DVD.

As a result of the development on the **home entertainment** market, still assessed as positive, Splendid is concentrating more strongly on acquiring film licenses for exclusive exploitation on this growth market. The edutainment and family entertainment programmes of "Kids for Kids GmbH" are a promising addition to this business model.

Rental videos/DVDs: Approximately six months after a film has been launched in the cinemas, it is exploited as rental video/DVD via distribution in video rental shops. The current top seller is the DVD format.

Sell-through Videos/DVDs: Splendid distributes its films on the market under the "Splendid Entertainment" and "Polyband" labels. Warner Vision Vertriebs GmbH, a Splendid subsidiary, is responsible for distribution.

VoD: Video on Demand (VoD), a new form of exploitation whereby customers download a film they want to watch via the Internet or TV is also attractive for Splendid Medien AG. We have concluded co-operations in this field with Arcor, Datacargo and Visono.

Pay-TV/free-TV: Six months after the start of the home entertainment exploitation process, films are exploited in the TV medium. As a rule, pay-TV transmits the film first, followed by free-TV. Splendid sells the respective licenses for a contractually agreed period of time (e.g. seven years) and for a contractually agreed number of transmissions during this period (e.g. seven transmissions during the seven years). Subsequent to the expiry of the license agreement, the film is available for further exploitation in the TV sector (secondary exploitation).

Post-production

Splendid Medien AG's core business is complemented by audio and video post-production. Besides guaranteeing a reliable high quality standard, with respect to Splendid's own films, the company's capacities in the fields of dubbing, the addition of soundtracks and conversion to DVD are increasingly in demand among external customers. Before the start of the cinema and home entertainment exploitation process, films are dubbed and post-produced using the appropriate sound technology. Simultaneously, analogue film material is converted into the digital DVD medium, thus creating new additional contents for DVD.

Ruby & Quentin (Tais-toi)

The Splendid Medien AG

The Share

Due to the successful consolidation carried out within the company, we have been able to win back investors' trust in the Splendid Medien AG share. In 2003, the share registered a volatile development due to market conditions. However, since the beginning of 2004 it has showed a growth tendency in its further development, outperforming the corresponding course of the Prime IG Movies & Entertainment index.

The Splendid share at a glance

Security identification code	727 950
Stock exchange abbreviation	SPM
Reuters	SPMG.F
Bloomberg	SPM
ISIN	DE0007279507
Trading segment	Prime Standard
Number of shares issued	8,900,000
Nominal value	1,– Euro per share
Issue price	30.– Euro
Market capitalisation (as of 30.12.2003)	5.34 mill. Euro
Market capitalisation (as of 30.3.2004)	10.235 mill Euro
Sector index at the Prime Standard	Prime Media
First date of quotation	24 September 1999

Shareholder structure

As of 31 December 2003, Splendid Medien AG's capital stock was distributed among 8.9 million bearer shares. The shareholder structure was as follows:

Management Board	
Andreas R. Klein	60.17 %
Alexander Welzhofer	0.08 %
Supervisory Board	
Dr. Ralph Drouven	0.03 %
Other	
Familie Klein GbR	6.94 %
Free float	32.78 %

The lock-up periods agreed both in response to supervisory regulations and voluntarily at the time of our IPO have already expired. No further agreements exist. During the period under review, we did not conduct any securities transactions subject to reporting requirements. Please refer to the appendix for the securities portfolio subject to reporting requirements.

Declarations of Conformity pursuant to Sec. 161 AktG by the Management and Supervisory Boards of Splendid Medien AG

Corporate Governance

Introduction

Under Sec. 161 of the German Stock Corporations Act [Aktiengesetz (AktG)] the Board of Management and the Supervisory Board of a publicly listed stock corporation under German law [Aktiengesellschaft (AG)] are required to issue an annual declaration that the company has complied and is complying with the recommendations of the "Government Commission on the German Corporate Governance Code" as published by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette [Bundesanzeiger] and to give details of any recommendations that have not been or are not being applied. Such declaration of conformity shall be available to stockholders at all times.

The German Corporate Governance Code (the "Code") contains provisions with different levels of binding force. In addition to the mandatory rules of applicable law on stock corporations it also contains recommendations from which companies may deviate; however, in this case they are under an obligation to disclose such non-compliance on an annual basis.

Declaration

The Board of Management and the Supervisory Board of Splendid Medien AG hereby declare that the company applies the following measures to comply with the recommendations of the "Government Commission on the German Corporate Governance Code" dated 7 November 2002 as published, on 26 November 2002, by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette and amended on 21 May 2003.

1. Section 4.2.3 Sentences 1 and 2

The overall compensation of the members of the Management Board shall comprise a fixed salary and variable components. Variable compensation should include one-time and annually-payable components linked to the business performance as well as long-term incentives containing risk elements.

The Management Board Member Dr. Weber was entitled to variable compensation components until his resignation on 11 July 2003. The other members of the Management Board have not received and do not presently receive any variable compensation components. In connection with the resolution on the new strategic orientation of the Splendid Group, the Supervisory Board shall decide on the introduction of performance-related compensation components.

The Splendid Medien AG

Reason: The division into fixed and variable compensation components did not seem to be appropriate for the other members of the Management Board because these also had considerable further responsibilities in other companies of the Splendid Group.

2. Section 4.2.4

Compensation of the members of the Management Board shall be reported in the Notes of the Consolidated Financial Statements subdivided according to fixed, performance-related and long-term incentive components. The figures shall be individualized.

The remuneration of the members of the Management Board of Splendid Medien AG is stated as a total amount in the Consolidated Financial Statement.

Reason: Investors have a legitimate interest in knowing by what amount the operating profit of the company is affected by compensation payments to the company management. This interest is sufficiently complied with by the publication of the total compensation payable to the Management Board. However, notably with regard to the statutory overall responsibility of the Management Board, a further protectable interest of the investors or the public in the individualization of the compensation received by the Management Board does not exist.

3. Section 5.3.2 Sentence 1

The Supervisory Board shall set up an Audit Committee which, in particular, handles issues of accounting and risk management, the necessary independence required of the auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points and the fee agreement

The Supervisory Board of Splendid Medien AG did not set up a special Audit Committee.

Reason: The Supervisory Board of Splendid Medien AG consists of three members. In view of this small size of the Supervisory Board it is not necessary to set up any committees.

4. Section 5.4.5 Para. 2 Sentence 1

Members of the Supervisory Board shall receive fixed as well as performance-related compensation.

Pursuant to the Articles of Association of Splendid Medien AG, the members of the Supervisory Board receive only a fixed compensation.

My Big Fat Greek Wedding

Reason: The Supervisory Board can influence the success of the company only to a limited extent because it does not have any business management powers and cannot cause the Management of the company to take certain measures. The Supervisory Board needs neither an incentive nor a gratification in the form of a performance-related compensation in order to fulfil its statutory supervisory function.

Section 5.4.5 Para. 3 Sentence 1

The compensation of the members of the Supervisory Board shall be reported in the Notes of the Consolidated Financial Statements, subdivided according to components.

The compensation of the individual members of the Supervisory Board has not been reported in individualized form in the Consolidated Financial Statement so far. In view of the fact that such remuneration is indicated in the Articles of Association of the company anyway, it shall henceforth be stated in individualized form in the Consolidated Financial Statement as well.

Reason: It did not seem to be necessary so far to individualize the compensation payments to the Supervisory Board in the Consolidated Financial Statement because the remuneration of the individual members of the Supervisory Board is already indicated in the Articles of Association of the company. However, in order to comply with the recommendations of the Corporate Governance Code, it shall henceforth be stated in individualized form in the Consolidated Financial Statement as well.

5. Section 7.1.2.

The Consolidated Financial Statements shall be publicly accessible within 90 days of the end of the financial year; interim reports shall be publicly accessible within 45 days of the end of the reporting period.

Splendid Medien AG publishes its Consolidated Financial Statement four months after the end of the financial year and its interim reports 60 days after the end of the reporting period.

Reason: Publication of the audited Consolidated Financial Statement and due interim reporting within the periods recommended by the Corporate Governance Code would only be possible if the management accounting resources were increased which would involve considerable expenses.

Group Management Report

Business trend

Splendid Medien AG successfully implemented the announced consolidation policy in 2003 and registered a positive operative result. Discount for loans in connection with the final separation from Splendid Pictures, however, led to a negative overall result.

Splendid Medien AG generated sales of 33.8 mill. Euro in 2003, compared to 34.5 mill. Euro in the previous year. "License trading" was the highest turnover business division, with a share of 53%. The division "home entertainment" was at second place with a share of 41 %, followed by the "post-production" division, generating 6% of overall sales.

The license trading business division generated sales of 18.0 (14.5) mill. Euro in 2003. Cinema exploitation generated the largest proportion of sales, amounting to 9.5 mill. Euro. The two main sellers were "Gangs of New York" and "My Big Fat Greek Wedding". The sale of TV licenses to a number of TV channel providers such as ProSieben, Premiere and KirchMedia contributed a total of 8.5 mill. Euro to overall turnover.

The home entertainment division showed rapid sales growth of 33% on 2002, reaching 13.8 (previous year 10.4) mill. Euro. As in the previous year, the "sell-through" sub-division generated the largest share of sales, amounting to 12.0 mill. Euro.

The post-production division generated slightly increased sales on the previous year, amounting to 1.9 (previous year 1.8) mill. Euro.

Assets and financial position

On the balance sheet date of 31.12.2003, Splendid Medien AG's consolidated balance sheet showed a significantly improved balance sheet structure compared to the previous year. Liquid funds in particular increased significantly on 2002, with a simultaneous reduction of short term liabilities.

"Short-term assets" were reduced to 11.6 (previous year 14.5) mill. Euro as of 31.12.2003. The "cash in hand and cash at banks" included in this item increased in comparison to the previous period by 71% to 6.5 (previous year 3.8) mill. Euro. The "trade receivables" amounting to 3.8 mill. Euro consisted mainly of receivables resulting from licensing agreements with TV channels.

At the balance sheet date, the "medium and long-term assets" were at 10.5 (previous year 17.8) mill. Euro. This reduction is primarily due to the reduction of the item "advanced payments on film rights" to 1.8 mill. EUR (previous year 7.8; this consists mainly of the advanced payment on the film "Gangs of New York", and must therefore be regarded as an exceptional situation).

In the period under review, "short-term liabilities" were significantly reduced by 41.4%, from 18.1 mill. Euro to 10.6 mill. Euro. The "short-term loans" amounting to 1.5 mill. Euro consist of the short-term shares of credits from the Stadtsparkasse Cologne and a financing agreement with the AGV, Wiesbaden, secured by film rights for secondary and tertiary exploitation.

The "medium and long-term liabilities" were also reduced to 1.4 (previous year 2,7) mill. Euro by the balance sheet date of 31.12.2003, and consisted mainly of the medium and long-term share of the AGV loan.

Equity fell from 11.5 mill. Euro to 10.1 mill. Euro, corresponding to the annual loss.

The Group's cash flow from current activities amounted to 14.6 (previous year –0.8) mill. Euro in the financial year 2003. Liquidity amounting to 4.8 (previous year 14.8) mill. Euro was utilised for investment activities. Investment in film assets accounted for a share of 4.7 mill. Euro of this figure. Due to the loan repayment, cash flow from financing activities was at –7.1 (previous year –3.1) mill. Euro.

Earnings position

The result of the discount of 2.5 mill. Euro for a loan payable in connection with the final dissolution of Splendid Pictures was a Group annual loss of 1.4 (previous year 59.6) mill. Euro for Splendid Medien AG in the financial year 2003. Earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to 10.9 (previous year 9.5) mill. Euro. Earnings before interest and tax (EBIT) amounted to –1.2 (previous year –57.9) mill. Euro.

Adjusted to take account of the above-mentioned exceptional effects, EBIT would amount to approx. 1.3 mill. Euro. The EBIT margin would thus be 3.9% of turnover. The earnings before tax and minority interests (EBT) were at –1.4 (previous year –53.5) mill. Euro.

The "cost of production" amounted to 20.6 mill. Euro (previous year 53.6). Scheduled depreciation of film assets amounting to 11.6 mill. Euro, material expenses amounting to 2.8 mill. Euro and royalties amounting to 2.9 mill. Euro were the largest items.

The "distribution expenses" were at 9.5 (previous year 8.0) mill. Euro. The level of the distribution expenses is primarily due to the cinema exploitation of "Gangs of New York" and "My Big Fat Greek Wedding".

Group Management Report

The "general administrative expenses" fell significantly to 3.2 mill. Euro (previous year 6.9 mill. Euro; the "general administrative expenses of Splendid Pictures" accounted for 3.1 mill. Euro of this sum). These included personnel expenses, legal and consulting expenses and expenses from Investor Relations and Public Relations alongside general administrative expenses.

The "other operating expenses" fell to 2.8 (previous year 14.4) mill. Euro. These included mainly depreciation on the loan granted to Splendid Pictures.

Investments

4.7 (previous year 14.3) mill. Euro were invested in film assets – for example in films such as "Tais-toi" (German title:"Ruby & Quentin"), "Mambo Italiano" and "Darkness". The lower investments on the previous year are due to an altered acquisition policy and a trend towards falling acquisition prices. By refraining from making expensive individual investments, we were able to acquire a number of individual titles, significantly improving the overall structure of the portfolio of films available for exploitation under risk-return aspects. Additionally, the films were primarily financed by own funds.

Staff

The number of staff at the end of the year was 35 (previous year 42). The majority of the group's employees has many years of experience in the industry.

Company	Number of staff
Splendid Medien AG	8
Splendid Film	5
Splendid Synchron	7
Polyband	4
Enteractive	11

Risk management

As an internationally operating company, Splendid Medien AG is exposed to various different risks. For this reason, risk management is an integral element of all decisions and business processes. Our further objective is to put suitable risk and precautionary measures into

place in advance. Our risk management is continually further developed, adjusted and optimised.

The following fields of risks are analysed to a particular extent, as they are directly connected to the assets, earnings and financial position of the company.

Marketing of film licenses

Marketing potential at all value added stages is the focal point for the acquisition of film licenses. Despite intensive discussions within the Management Board and a detailed acquisition proposal focusing on project-related analysis and above all on the profitability and liquidity of the whole company, there remains the risk of whether the individual film appeals to the public and becomes an economic success. This applies at all value added stages.

TV exploitation

A large part of turnover is generated by the sale of films to free-TV and pay-TV. Falling advertising income or a low number of subscribers have a considerable influence on the TV channels' purchasing budgets. Under certain circumstances, the economic situation in the media industry, particularly the one-sided indicated changes in the payment systems, may thus have a negative influence on the earnings and financial situation of the Splendid Group.

Product piracy

The film industry – similarly to the music industry – has been suffering for some time due to illegal downloading opportunities via the Internet, which have rapidly increased following the introduction of DSL connections. This development has a clearly negative effect on the film industry, especially the video/DVD sector. The industry has set up a number of initiatives intended to prevent this illegal downloading in the future. One preventative measure is the adjustment of German law to the European standards. However, there is not yet a clear, legally sufficient regulation on this problem area at present.

Group Management Report

Currency risks

The Splendid Group acquires film licenses mainly in the USA. As these licenses are exploited in the German-speaking regions, the company's earnings may be positively or negatively affected by exchange rate variations between the Euro and the Dollar.

Events that took place subsequent to the balance sheet date

Via a subsidiary, Splendid Medien AG acquired the high-quality, innovative edutainment programme "Ben & Bellas Sprachenwelt" and "Rudolph the red-nose reindeer" from Intertainment Animation & Merchandising GmbH, as part of an asset deal. "Ben & Bellas Sprachenwelt" is a foreign languages learning programme directed at children of pre-school and primary school age. The marketing of this product will begin in co-operation with the renowned Westermann publishing group in spring/early summer. We will also be marketing the license and merchandising rights of the most famous reindeer and most successful seasonal subject of recent years, "Rudolph the red-nose reindeer". "Kids for Kids GmbH" will be in charge of exploiting these products and developing, producing and marketing further children's and family-related subjects within Splendid Medien AG.

Splendid Medien AG, Cologne, appointed Frank Preuss as CFO in charge of Finances and Investor Relations with effect as of 26 February 2004.

Warner Music Group Germany Holding GmbH ("Warner Music GmbH") announced the withdrawal of its shares in Warner Vision Vertriebs GmbH in March 2004, with effect as of 31 March 2005. The resulting effects on the shareholder structure and medium-term economic development of the company are the subject of negotiations between the shareholders of Warner Music GmbH and Splendid Medien AG.

Prospects

Splendid Medien AG's financial figures were improved to a considerable extent by the policy of consolidation and concentration on core business activities introduced in 2003. Adjusted for exceptional influences in connection with the separation from "Splendid Pictures", a positive operative result was achieved

Splendid Medien AG will continue to concentrate on core business activities in the future. The subsidiaries "Splendid Film" and "Polyband" acquire film licenses on the international markets, which are exploited via the existing distribution channels in the cinema, TV and video/DVD sectors. The focus of license acquisition will be on films in which TV channels have signalised interest in advance. This ensures that the return of a substantial part of the investment can be considered a certainty. Our focus will therefore be on productions with budgets between 10 and 20 mill. US Dollars; we will no longer concentrate on acquiring licenses of high budget films (>20 mill. US Dollars) with a high cost risk for cinema exploitation. The business division "home entertainment" will be subject to particular attention, as we anticipate the highest growth rates in this area. The edutainment and family entertainment programmes of "Kids for Kids GmbH" are a promising addition to this business model, especially as Splendid Medien AG possesses the worldwide rights for "Ben & Bella".

Our core business is complemented by the post-production area through the subsidiaries "Splendid Synchron" and "Enteractive".

Splendid Medien AG anticipates a significantly improved EBIT margin and slightly lower sales figures for 2004.

Cologne, April 2004
Splendid Medien AG
The Management Board

Consolidated balance sheet (IAS)

as at 31 December 2003

Assets kEUR	01.01.2003- 31.12.2003	01.01.2002- 31.12.2002
Short-term assets:		
Liquid funds	6,451	3,807
Investments held as current assets	0	938
Accounts receivable for goods and services	3,756	8,313
Due from affiliated companies	0	0
Inventories	568	517
Deferred charges and other short-term assets	810	902
Short-term assets, total	**11,585**	**14,477**
Medium and long-term assets:		
Tangible assets	703	1,053
Intangible assets	155	146
Financial assets	288	375
Film rights	7,053	7,983
Advance payments made for film rights	1,815	7,801
Goodwill	328	347
Deferred taxes	118	96
Medium and long-term assets, total	**10,460**	**17,801**
Assets, total	**22,045**	**32,278**

2003

Consolidated balance sheet (IAS)

as at 31 December 2003

Liabilities kEUR	01.01.2003- 31.12.2003	01.01.2002- 31.12.2002
Short-term liabilities:		
Short-term share of finance leasing liabilities	160	210
Short-term loans and short-term share of long-term loans	1,531	7,505
Accounts payable	2,259	3,313
Accounts payable to affiliated companies	0	0
Advanced payments received	887	1,580
Reserves	5,489	5,116
Earnings-tax liabilities	0	0
Deferred charges and other short-term liabilities	242	331
Short-term liabilities, total	**10,568**	**18,055**
Medium and long-term liabilities:		
Long-term loans	1,308	2,386
Long-term finance leasing liabilities	137	323
Deferred taxes	10	33
Minority shares	-32	-29
Medium and long-term liabilities, total	**1,423**	**2,713**
Equity:		
Subscribed capital	8,900	8,900
Capital reserves	66,992	66,992
Balance sheet profit / loss	-65,768	-64,336
Currency differences	-70	-46
Equity, total	**10,054**	**11,510**
Liabilities, total	**22,045**	**32,278**

Consolidated Financial Statements

Consolidated profit and loss account (IAS)

for fiscal year 1 January until 31 December 2003

kEUR	01.01.2003-31.12.2003	01.01.2002-31.12.2002
Sales revenues	**33,770**	**34,461**
Other operative income	1,230	671
Income from subsidiary's exclusion from consolidated statement	0	11,932
Cost of production	-20,646	-53,559
Distribution expenses	-9,535	-7,996
Administrative expenses	-3,189	-6,915
Depreciation of goodwill	-20	-16,585
Other operative expenses	-2,763	-12,378
Operating result	**-1,153**	**-50,369**
Income from / expense on interest	-632	-1,398
Income / expenses from affiliated companies	387	362
Currency profit / loss	-28	-2,056
Earnings before tax (and minority shares)	**-1,426**	**-53,461**
Taxes on income	-19	-6,165
Extraordinary income / expense	0	0
Earnings before minority shares	**-1,445**	**-59,626**
Minority shares	13	58
Annual net income / loss	**-1,432**	**-59,568**
Profit / loss carried forward	-64,336	-4,768
Balance sheet profit / loss	**-65,768**	**-64,336**
Profit / loss per share (undiluted)	-0.16	-6.69
Profit / loss per share (diluted)	-0.16	-6.69
Average shares in circulation (undiluted)	8,900,000	8,900,000
Average shares in circulation (diluted)	8,900,000	8,900,000

2003

Consolidated cash flow statement (IAS)

for fiscal year 1 January until 31 December 2003

kEUR	01.01.2003-31.12.2003	01.01.2002-31.12.2002
Group surplus in accounting period before third-party shares	-1,445	-59,626
Income from interest	-21	-74
Expense on interest	653	1,472
Depreciation of fixed assets	492	705
Depreciation of film rights	11,602	46,299
Depreciation of advance payments on film rights	0	3,824
Amortisation of goodwill	20	16,585
Tax expenditure	19	6,148
+/- Increase / decrease of short-term reserves	324	1,159
-/+ Profit / loss from asset disposal	-8	-14
Increase in inventories, accounts receivable for goods and services and other assets not attributable to investment or financing activities	5,261	12,322
+/- Increase / decrease in accounts payable for goods and services and other liabilities not attributable to investment or financing activities	-2,046	-28,737
+ Taxes received	0	574
- Taxes paid	-15	-315
+ Profit distribution received from affiliated companies	362	260
+ Interest received	21	74
- Interest paid	-669	-1,489
Cash flow from current business activities	**14,550**	**-833**
Payments received from the disposal of tangible and intangible assets	12	42
Payments made for investments in tangible and intangible assets	-156	-548
Payments made for investments in film rights	-4,686	-14,269
Cash flow from investment activities	**-4,830**	**-14,775**
Payments received from loans granted	0	337
Payments made for credit repayments	-7,052	-3,417
Other changes in value of capital	-24	-48
Cash flow from financing activities	**-7,076**	**-3,128**
Change in existing financial resources affecting payments	2,644	-18,736
Change of consolidated group	0	19
Existing financial resources at beginning of accounting period	3,807	22,524
Existing financial resources at end of accounting period	**6,451**	**3,807**

Consolidated Statement of Fixed Assets (IAS)

kEUR	As of 01.01.2003	Acquisition and production costs: Currency differences	Additions	Disposals
I. Intangible assets				
1. Industrial property and similar rights and values	260	1	86	0
2. Goodwill	5,601	0	0	0
Total intangible assets	**5,861**	**1**	**86**	**0**
II. Tangible assets				
1. Properties and buildings, including buildings on third-party property	687	0	0	0
2. Technical equipment and machines	1,422	0	5	26
3. Other equipment, office equipment and furniture	968	-1	65	9
4. Equipment under construction and advance payments	0	0	0	0
Total tangible assets	**3,077**	**-1**	**70**	**35**
III. Financial assets				
1. Shares in affiliated companies	0	0	0	
2. Loans to affiliated companies	0	0	0	0
3. Investments	273	0	386	473
4. Advance payments on financial assets	0	0	0	0
Total financial assets	**273**	**0**	**386**	**473**
Total asset	**9,211**	**0**	**542**	**508**

2003

	Depreciation					Residual book values	
As of 31.12.2003	As of 01.01.2003	Currency differences	Additions	Disposals	As of 31.12.2003	As of 31.12.2003	As of 31.12.2002
347	114	0	77	0	191	156	146
5,601	5,254	0	20	0	5,274	327	347
5,948	**5,368**	**0**	**97**	**0**	**5,465**	**483**	**493**
687	328	0	102	0	430	257	359
1,401	1,109	0	223	0	1,332	69	313
1,023	587	-2	70	9	646	377	381
0	0	0	0	0	0	0	0
3,111	**2,024**	**-2**	**395**	**9**	**2,408**	**703**	**1,053**
0	0	0			0	0	0
0	0	0	0	0	0	0	0
186	-102	0	0	0	-102	288	375
0	0	0	0	0	0	0	0
186	**-102**	**0**	**0**	**0**	**-102**	**288**	**375**
9,245	**7,290**	**-2**	**492**	**9**	**7,771**	**1,474**	**1,921**

Development of equity

for fiscal year 1 January until 31 December 2003

kEUR	Subscribed capital	Capital reserves	Balance sheet profit / loss	Currency difference (CTA)	Total
As of 01.01.2000	**8,900**	**67,106**	**497**	**0**	**76,503**
Currency difference				-12	-12
Cost of IPO / acquisitions		-114			-114
Earnings after tax			3,442		3,442
As of 31.12.2000	**8,900**	**66,992**	**3,939**	**-12**	**79,819**
Currency difference					0
Earnings after tax			-8,707	14	-8,693
As of 31.12.2001	**8,900**	**66,992**	**-4,768**	**2**	**71,126**
Currency difference					0
Earnings after tax			-59,568	-48	-59,616
As of 31.12.2002	**8,900**	**66,992**	**-64,336**	**-46**	**11,510**
Currency difference				-24	-24
Earnings after tax			-1,432		-1,432
As of 31.12.2003	**8,900**	**66,992**	**-65,768**	**-70**	**10,054**

2003

Appendix to the 2003 Consolidated Financial Statements

General information

A. General points

Splendid Medien AG, Alsdorfer Str. 3, 50933 Cologne, is a stock corporation (Aktiengesellschaft) under German law. The company is seated in Cologne and has been entered in the local trade register under No. HRB 31022. Splendid Medien AG, as parent company of a single-tiered group, prepares the consolidated financial statements in compliance with the International Accounting Standards (IFRS/IAS) and the Group status report, which has a discharging effect in accordance with Section 292a HGB (German Commercial Code). The financial statements comply with guideline 83/349/EU.

Due to its quotation on the Prime Standard of Deutsche Börse AG (since 24 March 2003; previously Neuer Markt), Splendid Medien AG is obliged to prepare its consolidated financial statements in accordance with either the rules of the IFRS/IAS or the US accountancy regulations (US-GAAP). Splendid Medien AG decided to prepare its consolidated financial statements in accordance with international accounting standards (IFRS/IAS).

A number of the accounting, valuation and consolidation principles which were employed in the preparation of the consolidated financial statements in accordance with the IFRS/IAS deviate from German law. Most notably, these deviations occurred with respect to tax losses carried forward as deferred taxes (IAS 12), finance leasing (IAS 17) and self-produced intangible assets (IAS 38). In addition, SIC 17 was applied from the key date of 31 December 1999 onwards. In this context, the net cost of the IPO (cost minus tax expenditure) was offset against the equity capital (capital reserve). A further difference exists with respect to the amortisation of goodwill periods, which amount to 20 years (IFRS/IAS) as opposed to 15 (HGB).

In accordance with IAS 39, investments held as current assets were recorded at "fair value". Deferred taxes were formed with respect to temporary differences in the adjustments carried out.

The differing valuation of accounts receivable and liabilities according to IFRS/IAS takes effect on the consolidated balance sheet as of the balance sheet date. In contrast to the regulations of the German commercial code, which apply the highest (liabilities) or lowest value principle (accounts receivable), accounts receivable and liabilities in foreign currencies are valued at the exchange rate of the balance sheet date according to IFRS/IAS, regardless of the historical exchange rate.

B. Foundation and methods employed

Splendid Medien AG's consolidated financial statements for the financial year starting 1 January 2003 and ending 31 December 2003 were prepared in accordance with the guidelines set out by the International Accounting Standards Committee (IASC), London, applicable on the reporting date. The individual financial statements have been prepared according to uniform accounting and valuation principles. The fully consolidated companies also took into consideration the reporting and valuation principles employed by the parent company. All figures were expressed in thousand Euro (kEUR).

With respect to the classification of the consolidated financial statements, we followed the legal requirements under the HGB (German Commercial Code) and made adjustments in compliance with the interim reporting proposals published by the German stock exchange. Our notes on the financial statements are based on the principles of clarity, comprehensibility and essentiality. The profit and loss account was prepared in accordance with the cost-of-sales accounting format and the cash flow statement in accordance with the indirect method.

The preparation of annual financial statements in compliance with the rules of the IFRS/IAS requires estimates and assumptions that affect the value of assets, liabilities and financial liabilities as of the balance sheet date as well as the reported income and expenses of the financial year. The actual results may deviate from these estimates and assumptions.

The new IAS 41 (in effect since 1 January 2003) does not apply to the company.

C. Consolidation principles

Besides the parent company, the consolidated financial statements also include the following subsidiaries:

	Seat	Share in %
Affiliated companies		
Splendid Film GmbH	Cologne	100
Splendid Synchron GmbH	Cologne	100
Kids for Kids GmbH (former ASCOT Medien GmbH)	Ismaning	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 International LLC	New York, USA	90
Associated undertaking		
Warner Vision Vertriebs GmbH	Hamburg	49

Splendid Film GmbH (100 %), Cologne, acquires films on the global market and markets these films predominantly in the German-speaking region.

Polyband Ges. für Bild- und Tonträger m.b.H. & Co. Betriebs KG (100 %), Munich, acquires and produces videos and DVDs for sale in the German-speaking region. Splendid Film and Polyband distribute their video tapes and DVDs via **Warner Vision Vertriebs GmbH** in Hamburg, a 49-% subsidiary of Splendid. In addition, Warner Vision also distributes videos and DVDs for other companies.

Kids for Kids GmbH, (100 %), Ismaning, is active in the video and DVD rental business.

eNterActive GmbH (85 %) based in Hamburg, prepares concepts for and develops digital value added services, such as animation, trailers and DVD and Internet games. The company complements Splendid Medien AG's Internet/New Media segment and, in conjunction with **Splendid Synchron GmbH (**100%), forms the post-production division. The latter company, which is seated in Cologne, overdubs foreign-language films and TV series and is involved in sound technology processing.

Splendid Television International LLC (90 %) New York, distributes TV films and series worldwide.

The affiliated companies are all managed by Splendid Medien AG and were included in the consolidated financial statements using the full consolidation method.

Consolidation of the associated undertaking was based on the at equity method.

Splendid Entertainment, Inc, Los Angeles, Delaware, founded with equity amounting to 0.08 Euro as of 13 June 2003, was not consolidated in the report year due to insignificance, as this company does not start operative business until the following year.

Consolidation methods

In accordance with IAS 22, capital consolidation was based on the net book value method. In this context, the acquisition costs relating to the acquired shares were offset against the net book value of the subsidiary's prorate equity capital as of the acquisition date.

Company kEUR	Net book value	Prorate equity	Difference
Splendid Film GmbH	5,192	36	5,156
Splendid Synchron GmbH	28	25	3
Kids for Kids GmbH (former ASCOT Medien GmbH)	82	65	17
Polyband Gesellschaft für Bild- und Tonträger m.b.H. & Co. Betriebs KG	303	-90	393
Polyband Gesellschaft für Bild- und Tonträger mit beschränkter Haftung	38	38	0
Splendid Television International LLC	336	307	29
eNterActive GmbH	45	42	3
	6,024	**423**	**5,601**

The asset difference resulting from first-time consolidation in the case of Polyband Gesellschaft für Bild- und Tonträger m.b.H. & Co. Betriebs KG will be written off, using the straight-line method, as goodwill over 20 years of expected useful life. The goodwill left after consolidation of Splendid Synchron GmbH was fully written off during the financial year 2000. The acquisition costs amounting to kEUR 57, which arose retroactively in 2000 in the context of the acquisition of Kids for Kids GmbH (former ASCOT Medien GmbH), were offset against the liability difference that arose in the year 1999, amounting to kEUR 40, and kEUR 17 were written off in 2000. The goodwill (kEUR 29) resulting from the increase in our shares in Splendid Television International LLC in 2002 from 80% to 90% and the residual goodwill of Splendid Film GmbH (kEUR 4,511) were fully written off during the previous year.

Accounts receivable and payable between the consolidated companies were offset. Sales revenue and other internal income were offset against the subsidiaries' respective expenses. Intercompany profits were eliminated. The cost of the IPO was offset against the equity capital in accordance with SIC 17.

Equity consolidation was based on the associated undertaking's prorate equity. Consolidation of Warner Vision Vertriebs GmbH did not result in any disparate amounts. Within the framework of follow-up consolidation, the associated undertaking's value will be extrapolated.

D. Financial instruments

The financial instruments reported in the balance sheet include cash in hand and cash at banks amounting to kEUR 6,451 (prev. year: kEUR 3,807), accounts receivable (kEUR 3,756, prev. year: kEUR 8,313), accounts payable (kEUR 2.259, prev. year: kEUR 3.313) for goods and services, assets and liabilities. The shares disclosed under the item "investments held as current assets" were sold in the report year. The "other assets" item is divided into other short-term, and medium and long-term assets. The other short-term assets predominantly include tax liabilities, receivables from one Management Board member arising in connection with unauthorised overpayments of salaries in the financial year 2002, as well as vendors with a debit balance.

Derivative financial instruments do not exist.

E. Costs for old age pensions

Payments for contribution-oriented pension plans are booked as expenditure when due, payments for state pension plans are dealt with as contribution-oriented pension plans.

F. Currency conversion principles

According to IAS 21 No. 25, the foreign subsidiary is a financially independent foreign sub-unit. The following procedure was applied to the conversion of the financial statement prepared by the foreign sub-unit in compliance with IAS 21 No. 30:

- both cash and non-cash assets and liabilities were converted at the exchange rate applicable on the key date
- the income and expense items were converted using the average weighted monthly exchange rate
- the goodwill was converted according to eligibility in accordance with IAS 21.33 b

As a result of the financial statements, conversion differences were recorded in the context of:

- the conversion of income and expense items at the average exchange rates of the respective periods and of the assets and liabilities at the key date exchange rates
- in/decreases in equity capital

These in/decreases were not recorded as income or expenses attributable to the period.

Transactions in foreign currencies were recorded at the exchange rate valid at the time of the transaction. For monetary assets and debts whose value is given in a foreign currency, conversion was undertaken at the exchange rate applicable on the key date. Exchange rate profit and loss was recorded affecting the current result.

G. Discontinuation of business divisions

By the bringing in of Splendid Medien AG's 80 % share of Splendid Pictures Holdings, Inc., into Central Organisation of Technology, Inc., of which Splendid Medien AG now only holds a business share of 1 %, this business division – own production of cinema films – was discontinued for the time being.

Notes pertaining to the Group profit and loss account

(1) Sales revenue

Splendid Medien AG generates sales revenue from the exploitation of film rights and from providing services for the film and TV industry.

The Group companies generate sales revenue from the exploitation of film rights with respect to certain countries and time periods. On the basis of their exploitation rights, the Group companies, on their part, grant licenses, which are subject to temporal and geographical restrictions, to clients predominantly in Germany and the German-speaking regions. The sales revenue is realised at the moment the contract is performed in favour of the licensee, provided that the Group companies have essentially fulfilled their contractual duties.

Splendid Medien AG generates turnover from the exploitation of films in cinemas, on video/DVD and on TV. Turnover generated from cinema films is realised on the date films open at the cinemas. As a rule, video/DVD and TV (pay and free-TV) exploitation commences six to 24 months after the commencement of regular cinema exploitation. The respective turnover is realised when the respective license exploitation commences.

Sales revenue generated from services provided in the audio and video post-production area are realised after completion and collection.

With respect to the individual segments' sales revenue (business segments and regions), we would like to refer to the information presented in the context of segmental reporting.

(2) Other operating income

During the financial year 2003, the other operating income amounted to kEUR 1,230 (prev. year: kEUR 671). Splendid Pictures Holdings, Inc. accounted for kEUR 343 of this amount in the previous year. The following table gives an overview of individual items:

Other operating income **kEUR**	**2003**	**2002**
Surplus proceeds from sale of shares	356	0
Income from the reduction of provisions / from written-off debts	382	346
Income from the dissolution of reserves	343	111
Other	149	214
Total	**1,230**	**671**

Income from the sale of assets amounted to kEUR 8 in the financial year (prev. year: kEUR 14).

(3) Cost of production

During the financial year 2003, the cost of production of services associated with the generation of the sales revenue amounted to kEUR 20,646 (prev. year: kEUR 53,559). In the previous year, Splendid Pictures Holdings, Inc. accounted for kEUR 17.062 of this amount. The cost of production includes the following items:

Cost of production **kEUR**	**2003**	**2002**
Depreciation of film rights	11,602	46,299
License payments / royalties	2,858	997
Cost of material and production	2,782	3,726
Personnel expenses	919	901
Purchased services	1,320	835
Depreciation of assets and long term in-vestments	257	289
Artists' fees	768	475
Other	140	37
Total	**20,646**	**53,559**

Depreciation of film rights includes special depreciation amounting to kEUR 487 (prev. year: kEUR 13,418). In the previous year, the other operative expenses additionally included special depreciation of film rights amounting to kEUR 3,824. Depreciation of assets and long term investments includes depreciation of intangible assets amounting to kEUR 26.

(4) Distribution expenses

During the financial year 2003, distribution expenses amounted to kEUR 9,535 (prev. year: kEUR 7,996). In the previous year, Splendid Pictures Holdings, Inc. accounted for kEUR 2,447 of this amount. The distribution expenses include the items listed in the following table:

Distribution expenses kEUR	2003	2002
Advertising	5,352	3,976
Sales commission	3,131	1,872
Personnel expenses	326	1,227
GEMA/film promotion	453	357
Travel expenses	132	412
Other	141	152
Total	**9,535**	**7,996**

(5) Administrative expenses

During the financial year 2003, administrative expenses amounted to kEUR 3,189 (prev. year: kEUR 6.915). The comparatively high costs of the previous year were predominantly due to the first-time consolidation of Splendid Pictures Holdings Inc. which, adjusted by Group charges, accounted for kEUR 3,079 of the administrative expenses. The following table presents a break-down of this item:

Administration expenses kEUR	2003	2002
Legal and consulting costs	977	1,880
Administrative staff expenses	916	1,857
Rents, leasing, operating expenses	492	666
Public relations	135	234
Development costs	0	860
Office expenses, insurance and similar	209	406
Postage, telephone	90	263
General shareholders' meeting	59	60
Depreciation of assets	203	403
Other	108	286
Total	**3,189**	**6,915**

The depreciation of assets includes depreciation of intangible assets amounting to kEUR 51.

(6) Amortisation of goodwill

During the year under review, amortisation of goodwill amounted to kEUR 20 (prev. year: kEUR 16,585). It is accounted for by the difference arising from Splendid Medien AG's capital consolidation. The following table presents the respective amortisation items:

Company	Amortisation of goodwill	
in kEUR	2003	2002
Splendid Film GmbH	0	4,511
Polyband Gesellschaft für Bild- und Tonträger m.b.H. & Co. Betriebs KG	20	20
Splendid Television International LLC	0	29
Splendid Pictures Holdings, Inc.	0	12,025
Total	**20**	**16,585**

(7) Other operating expenses

In the financial year 2003, the other operating expenses totalled kEUR 2,763 (prev. year: kEUR 12,378). The figures for the previous year include kEUR 371 accounted for by Splendid Pictures Holdings, Inc. The individual items are presented in the following:

Other operating expenses	2003	2002
in kEUR		
Depreciation of securities	0	6,443
Depreciation of advance payments on film assets	0	3,824
Allocation to the provision for liability risks associated with furnishing collateral for film acquisitions made by Splendid Pictures Holdings, Inc.	0	1,600
Discount on accounts receivable	2,715	1
Losses on receivables	0	71
Other	48	439
Total	**2,763**	**12,378**

(8) Interest income / expenses

Interest income and expenses are adjusted on an accrual basis, taking the interest rate to be applied into account.
The interest income essentially results from the interest rates applying to bank balances.

The interest income is composed as follows:

kEUR	2003	2002
Interest income		
Interest income from bank balances	13	74
Interest income from other receivables	8	0
	21	**74**
Interest expenses		
Interest expenses associated with accounts due to banks	347	1,015
Interest income associated with other liabilities	2	7
Interest expenses associated with finance leasing liabilities	26	39
Interest expenses associated with leasing business loans	278	411
	653	**1,472**
Net interest income	**-632**	**-1,398**

Interest payments amounted to kEUR 669 (prev. year: kEUR 1,489) and interest income amounted to kEUR 21 (prev. year: kEUR 74).

(9) Income / expenses: associated undertakings

This item includes the prorate result of Warner Vision Vertriebs GmbH amounting to kEUR 275 (prev. year: kEUR 362) and a subsequent credit for the previous year amounting to kEUR 112.

(10) Currency gains / losses

In the year under review, currency losses amounted to kEUR 28 (prev. year: kEUR 2,056).

(11) Taxes on income

The taxes on income item consists of corporate income tax and trade tax, including deferred taxes and those foreign input taxes that cannot be offset.

Taxes are composed as follows:

kEUR	2003	2002
Corporate income tax	3	27
Trade tax	38	25
Current tax income from tax loss carryback	0	-216
Trade tax, previous years	9	0
Corporate income tax, previous years	11	-379
Foreign input taxes that cannot be offset	3	18
Deferred taxes	-45	6,690
Total	**19**	**6,165**

The deferred taxes result from temporary differences.

For the purpose of deferred taxes, corporate income tax was calculated at the rate of 26.5% valid for 2003. Trade tax was recorded at 19 % and the solidarity surcharge at 5.5 % of the corporate income tax rate.

Transition of the gross expenditure can be presented as follows:

kEUR	2003	2002
Taxes on income, based on a 40 % tax rate (prev. year: 40 %)	-696	-21,384
Non-offsettable expenses and tax-free income	15	1,867
Amortisation of goodwill	8	6,634
Deviating foreign tax rates	0	395
Deferred taxes from the year under review that were not reported	692	12,061
Allowance for deferred taxes from the previous year	0	6,592
Other	0	0
Actual tax expenditure	**19**	**6,165**

The reported tax rate of 40 % is not the tax rate of the respective year, but represents the long term anticipated tax rate.

(12) Net earnings per share

The net earnings per share amounted to EUR –0.16 (prev. year: EUR –6.69) and the dividend per share to EUR 0.00 (prev. year: EUR 0.00). The calculation of the net earnings per share was based on 8,900,000 (prev. year: 8,900,000) shares.

Notes pertaining to the consolidated balance sheet

(1) Liquid funds

The liquid funds (kEUR 6,451, prev. year: kEUR 3,807) consist of cash in hand and cash at banks. They were recorded at nominal value. Bank balances in foreign currencies were converted using the exchange rate as of the balance sheet date.

(2) Investments held as current assets

The shares in IM Internationalmedia AG disclosed under this item in the previous year were sold in the year under review. The income from this sale amounted to kEUR 356.

(3) Receivables, prepayments and accrued income and other short-term assets

Receivables and other assets were recorded at their nominal value as a matter of principle. Appropriate individual valuation adjustment was applied to receivables that involved discernible risks. Receivables in foreign currencies were valued at the exchange rate applicable as of the cut-off date.

Receivables with a residual term of over one year did not exist on the cut-off date.

The receivables and other assets can be broken down as follows:

kEUR	31.12.2003	31.12.2002
Accounts receivable for goods and services	3,756	8,313
Tax refund claims	311	596
Receivables arising in connection with unauthorised salary overpayments to Management Board members	107	132
Other short term assets	311	149
Prepayments and accrued income	81	25
	4,566	**9,215**

The accounts receivable concern receivables from Splendid Pictures Holdings Inc. amounting to kEUR 15,601, which have been taken into account to their full extent. Further receivables amounting to kEUR 867 are due from Warner Vision Vertriebs GmbH.

(4) Inventories

Inventories were valued at acquisition cost, the cost of production or the lower replacement cost as of the balance sheet date.

Composition of inventories:

kEUR	31.12.2003	31.12.2002
Finished goods	529	476
Unfinished goods and services	39	41
	568	**517**

Finished goods mainly refer to videotapes and DVDs. Goods were valued at average acquisition costs, less a percentile marketability deduction. Unfinished goods and services refer mainly to overdubbing services.

(5) Fixed assets

The financial year's trend in fixed assets and depreciation has been presented in the "fixed asset" schedule enclosed with the Appendix.

(6) Tangible assets

Tangible assets were recorded either at acquisition or production cost minus scheduled depreciation through use. Assets attributable to the company due to finance leasing were capitalised at the cash value of the future leasing payments. The cash values were based on the average interest rates applicable to equivalent bank financing. Tangible asset depreciation is included in the cost of production (kEUR 231), distribution costs (kEUR 12) and administrative costs (kEUR 134).

Tangible asset depreciation was based on the straight-line method. Assets due to finance leasing were written down pro rata temporis on the basis of a useful life between 3 and 5 years, using the straight-line method.

Scheduled depreciation of assets not capitalised due to existing leasing contracts were based on the following useful life:

Tenants' conversions	0 up to 5 years
Furniture and fittings	3 to 10 years
Technical equipment and machines	3 to 5 years

Leasing relationships

The operating leasing relationships mainly concern leased cars and office equipment. The term of the leasing relationships usually amounts to 3 years. Future liabilities associated with leasing payments have been reported under the "other financial liabilities" item.

The finance leasing relationships concern technical studio equipment.

The contracts are drawn up over a period of between 3 and 5 years. All leasing relationships are based on fixed payments in Euro.

	Minimum leasing payments		**Cash value of minimum leasing payments**	
kEUR	**31.12.2003**	**31.12.2002**	**31.12.2003**	**31.12.2002**
Liabilities from finance leasing				
With a residual term of less than one year	173	228	160	323
With a residual term of between one and five years	148	319	137	210
	321	547	297	533
Less future financing costs	-24	-14		
Cash value of leasing liabilities	297	533	297	533

As of 31.12.2003, assets classified as furniture and fittings amounted to kEUR 277 (prev. year: kEUR 502).

(7) Intangible assets

Intangible assets, which were valued at acquisition cost, refer to purchased software. They are written off over a useful life of 3 to 5 years using the straight-line method. Depreciation amounting to kEUR 51 (prev. year: kEUR 69) is included in administrative expenses, and a sum of 26 kEUR in the cost of production.

(8) Financial assets

This item includes shares in non-consolidated holdings. These consist of a holding of 1 % of Central Organisation of Technology, Inc. (COT), which Splendid Medien AG received on the transfer of its 80 % share of Splendid Pictures Holdings, Inc. to COT. The holding was offset against the value of the transferred shares in Splendid Pictures Holdings, Inc., which amounted to 0 Euro at the transfer date. The item also includes Splendid Entertainment, Inc., Los Angeles, newly founded in the year under review, of which Splendid Medien AG holds 100 % of shares. This company does not begin its operative activities until 2004 and has therefore not been consolidated.

The share in associated undertakings also disclosed under this item refers to a 49 % holding in Warner Vision Vertriebs GmbH, Hamburg, which has been valued at equity.

The business activities of Warner Vision Vertriebs GmbH are concentrated on marketing video tapes and DVDs for sale. This company markets the products of the Group companies Splendid Film GmbH and Polyband GmbH & Co. KG, and of further companies unrelated to the group. In the year under review, the turnover of Warner Vision Vertriebs GmbH amounted to kEUR 3,900.

(9) Film rights and advance payments on film rights

Film rights and advance payments on film rights have been reported as a separate item. In the absence of industry-specific regulations under either the HGB or the IFRS/IAS, valuation was based on general principles. We orientated ourselves on the US-GAAP regulations, most notably SOP 00-02 (Accounting by Producers or Distributors of Films), insofar as these regulations did not contradict the IFRS/IAS regulations. On this basis, modifications and deviations were applied which created suitable foundations for company-specific valuation. The method applied with respect to the realisation of sales revenue has been presented in the sales revenue section. The applied valuation of our film assets was based on the following principles:

At the time of the final technical inspection of the film material, the film rights reported under the film asset item are capitalised at acquisition cost while our own productions are reported at the cost of production. Film rights are written down either according to exploitation or to the sale of sub-rights. In the standard case, whereby we own the full rights, exploitation of film rights in the video rental/video tape distribution trade (incl. DVD) involves a 20 % write-down of the acquisition cost. In this context, in the years 2003 and 2002, the rate recorded with respect to video rental and sale amounted to 10 %. Depreciation amounting to 80 % of the acquisition cost applies to the sale of TV rights. The exploitation of pay-TV rights involves a 10 % write-down which is included in the expenses. With respect to free-TV rights, initial exploitation involves a 49 % write-down of the acquisition cost and secondary exploitation a 21 % write-down. The depreciation rate applying to the cinema exploitation stage amounts to 10 % of the acquisition cost. The corresponding depreciation volume was cut down for the TV rights exploitation stage.

The recording of the purchased sub-rights in the balance sheet is based on both the management board's experience and their assessment of exploitation possibilities even if, in individual cases, contracts specify a different breakdown of the purchase price (according to individual sub-rights). A potential lack of opportunities at the various exploitation stages has been taken into consideration in the form of non-scheduled depreciation. In addition, special features of the license agreements (e.g. long initial exploitation periods) have been taken into account through appropriate adjustments of the depreciation rates.

Beyond prorate periodic depreciation, "impairment tests" are carried out regularly – at the least on each balance sheet date. During the year under review, non-scheduled depreciation amounting to kEUR 487 (prev. year: kEUR 17.242) was applied. This depreciation has been included in the cost of production (kEUR 487, prev. year: kEUR 13,418). In the previous year, kEUR 3,824 were also disclosed under other operating expenses.

(10) Goodwill

The recorded goodwill (kEUR 327, prev. year: kEUR 347) arose in connection with capital consolidation. It was recorded at acquisition cost minus scheduled depreciation over a maximum useful life of 20 years.

The asset difference resulting from first-time consolidation of Polyband Gesellschaft für Bild- und Tonträger m.b.H. & Co. Betriebs KG will be written down as goodwill, using the straight-line method, over 20 years of expected useful life. The difference resulting from the consolidation of Splendid Synchron GmbH and Kids for Kids GmbH (former ASCOT Medien GmbH) was fully written off during the financial year 2000.

During the year under review, in the context of the annual "impairment test", non-scheduled depreciation was applied to the goodwill of the following companies: Splendid Film GmbH (kEUR 4,511) and Splendid Television International LLC. (kEUR 29). This depreciation is registered in the profit and loss statement under amortisation of goodwill.

(11) Deferred taxes

Deferred taxes are formed with respect to the difference between the commercial balance sheet / consolidated balance sheet result and the consolidated companies' accumulated tax result. The valuation of the future tax reduction claims that are to be capitalised depends on the probability of utilisation in the context of the usefulness of the balances carried forward. These deferred taxes are calculated using estimates based on current tax laws applicable to taxable income generated in the years during which the difference is either reversed or offset.

Deferred taxes include the following items:

kEUR	31.12.2003	31.12.2002
Deferred tax assets		
Losses carried forward	6	6,633
Temporary differences	112	55
Sub-total: deferred tax assets	118	6,688
Value adjustment: deferred tax assets	0	-6,592
Total deferred tax assets	**118**	**96**

(12) Liabilities

The liabilities have been accrued at their respective repayment amounts. Liabilities denominated in foreign currencies were valued at the exchange rate applicable on the balance sheet date. The liabilities' residual terms have been presented in the liability schedule:

2003 kEUR	Amount	Of which over 1 year	Collateral provided	Type
Finance leasing	297	137		
Loans, credit institutes	548		548	Pledging of film rights
Loans, leasing business (AGV)	2,291	1,308	2,291	Pledging of film rights
Accounts payable for goods and services	2,259			
Advances received	887			
Other liabilities	242			
Total	**6,524**	**1,445**	**2,839**	

2002 kEUR	Amount	Of which over 1 year	Collateral provided	Type
Finance leasing	533	323		
Loans, credit institutes	6,506		6,506	Pledging of film rights
Loans, leasing business (AGV)	3,385	2,386	3,385	Pledging of film rights
Accounts payable for goods and services	3,313			
Advances received	1,580			
Other liabilities	331			
Total	**15,648**	**2,709**	**9,981**	

The loan extended by a leasing company refers to a loan in the form of a "sale and lease back" transaction. In this context, secondary exploitation rights (film rights) are serving as collateral. The loan is to be repaid over a 5-year period. Splendid Film GmbH retains the film rights exploitation possibilities. After the five years have expired, the film rights will be returned to Splendid Film in return for the payment of kEUR 15. The proceeds generated from the sale of the film rights (kEUR 5,113) were recorded as a loan liability; the respective interest and other administrative expenses affect the result.

(13) Reserves

Reserves are formed for contingent liabilities and expected losses from pending transactions insofar as their utilisation is more likely to occur than not. Reserves are only formed if they are based on legal or factual liabilities vis-à-vis third parties. The reserves have been valued on the basis of the amounts necessary to cover the Group's future commitments to pay, discernable risks and contingent liabilities. All reserves are of a short-term nature.

35 kEUR of the provisions for taxes amounting to kEUR 88 (prev. year: kEUR 40) are accounted for by the current year's taxes on income.

The other reserves include the following items:

Other reserves **kEUR**	**2003**	**2002**
Commitments arising from license agreements	2,412	2,063
Liability risks arising in connection with the provision of collateral for film acquisitions made by Splendid Pictures, Inc.	1,600	1,600
Legal and consulting costs	154	490
Film subsidy charges and similar	628	442
Royalties and settlements	42	58
Outstanding interest	20	26
Outstanding vacation	69	89
Returns	166	173
Other	310	135
	5,401	**5,076**

Reserve schedule in kEUR	Provisions for taxes on income	Provisions for liability risks	Provisions for commitments arising from license agreements	Other provisions	Total
As of 01.01.2003	**40**	**1,600**	**2,063**	**1,413**	**5,116**
Additions	51	0	844	724	1,619
Utilisation	0	0	495	408	903
Retransfer	3	0	0	340	343
As of 31.12.2003	**88**	**1,600**	**2,412**	**1,389**	**5,489**

The provisions for liability risks refer to risks associated with provision of collateral for film acquisitions made by Splendid Pictures, Inc.

(14) Deferred tax liabilities

The deferred tax liabilities, amounting to kEUR 10 (prev. year: kEUR 33) result from temporary differences.

(15) Interests held by other shareholders

The interests held by other shareholders (kEUR -32, prev. year: kEUR -29) were recorded, at the time of the respective company's acquisition, on the basis of minority companies' share in the applicable current market value of the assets and debts taken over plus the annually accumulating prorate profit contributions.

(16) Equity capital

With respect to equity capital development, we refer to the equity capital schedule enclosed with the Appendix.

As of 31 December 2003, the company's subscribed capital amounted to EUR 8,900,000. The capital stock is divided into 8,900,000 ordinary bearer shares with a nominal value of EUR 1. The basic capital has been fully paid in. All shares have been issued.

Approved capital

In a resolution of 3 September 1999, the Management Board was authorised to increase the company's capital stock, with the Supervisory Board's approval, once or several times during the period until 20 September 2004, in return for either cash or non-cash contributions, by up to EUR 3,410,000 (authorised capital I), up to EUR 890,000 (authorised capital II) or up to EUR 150,000 (authorised capital III) by way of

issuing new bearer shares with a nominal value of EUR 1 per share. Furthermore, the Management Board was authorised, with the Supervisory Board's approval, to take a decision regarding the exclusion of the shareholders' subscription rights. The exclusion of subscription rights is, however, only admissible in cases whereby peak amounts are offset or companies, or holdings therein, are acquired in return for the company's shares, as long as the capital increase in return for a cash contribution does not exceed ten percent of the capital stock and the issue price is not significantly lower than the stock market price (refers only to authorised capital II).

Authorised but unissued capital

In a resolution of 20 June 2001, the Management Board was authorised to increase the company's capital stock, with the Supervisory Board's approval, by up to a nominal amount of EUR 890,000 (authorised but unissued capital) by way of issuing new bearer shares with a nominal value of EUR 1 per share. The conditional increase of capital stock exclusively serves to honour subscription rights which were granted within the context of the 2001 share option plan. The Supervisory Board is exclusively responsible for granting subscription rights to Management Board members.

Capital reserve

The capital reserve essentially consists of premiums associated with the issue of new shares in 1999, amounting to kEUR 49 / kEUR 69,278 (the latter figure resulting from the IPO), which were netted out with the costs of the IPO (kEUR 2,365).

The net earnings per share amounted to EUR – 0.16 (prev. year: EUR- 6.69). The dividend per share amounted to EUR 0 (prev. year: EUR 0). The net earnings per share were calculated on the basis of 8,900,000 (prev. year: 8,900,000) shares. Since the option rights were not exercised, the earnings were not diluted.

2001 share option plan

At present, the IFRS/IAS do not include any regulations concerning the recording and valuation of share option schemes. Consequently, such schemes do not require special treatment in terms of either the balance sheet or the profit and loss account. Furthermore, it is not obligatory to record the respective amount under personnel expenses in the profit and loss account. Given this background, Splendid Medien AG merely opted for a presentation of the share option scheme.

Some members of the staff, the entire Management Board and managing directors of affiliated companies have been offered the option to acquire bearer share options to purchase a maximum of 890,000 shares in Splendid Medien AG at a nominal value of EUR 1 per share. These options are granted in tranches spread over four years (2001 to 2004).

The respective exercise price to be paid when the share option for the acquisition of a nominal value share in Splendid Medien AG is exercised corresponds to the share's average closing price during the last 30 trading days (at the Frankfurt securities exchange) preceding the date on which the share options are issued, and may not be lower than the nominal value of the share to be acquired. A total of 222,494 share options were issued to the Splendid Group's executives and employees on 29 August 2001. By 31 December 2003, no options had been exercised. At the time the first tranche was issued, the exercise price amounted to Euro 3.43.

The term of the issued subscription rights is limited to a maximum of 15 years. The subscription rights may be exercised, for the first time, 2 years after allocation and thereafter over the following 4 years during certain exercise periods and intervals which are dependent upon the achievement of certain performance targets.

Notes pertaining to the cash flow statement according to the IFRS/IAS

Splendid Medien AG's cash flow calculation is based on the indirect method according to which the current profit and loss account is adjusted by the effects of transactions not affecting payments, by the deferral of in- and outflows of funds associated with current business operations in the past and in the future and by income and expense items connected with the cash flow from investment or financing activities.

(1) Cash flow from current business activities

The cash flow from current business activities amounted to kEUR 14,550 (prev. year: kEUR –833).

(2) Cash flow from investment activities

The cash flow from investment activities, amounting to kEUR –4,830 (prev. year: kEUR –14,775), results from the acquisition of film assets (kEUR 4,686), tangible assets and intangible assets (kEUR 156) as well as deposits made in connection with the sale of tangible and intangible assets.

(3) Cash flow from financing activities

The cash flow from financing activities, amounting to kEUR –7,076 (prev. year: kEUR –3,128), was mainly due to the repayment of loans in 2003 (kEUR –7,052).

(4) Financial resources

The financial resources amounting to kEUR 6,451 (prev. year: kEUR 3,807) include cheques, cash in hand and cash at banks.

Group segmental reporting

Splendid Medien AG's lines of business include licensing transactions, home entertainment and post-production. The individual segments have been defined on the basis of internal reporting. In this context, only those items that are either directly attributable to a particular segment or can be allocated to certain segments on the basis of sensible considerations have been taken into consideration. Intersegmental income and expenses were eliminated.

Key figures relating to the segments:

2003 kEUR	License trade	Home Entertainment	Post- production	Total	Consolidation	Total
External sales	18,016	13,819	1,935	33,770		33,770
Intercompany sales	4	2	820	826	-826	0
Total sales	18,020	13,821	2,755	34,596	-826	33,770
EBITDA	**7,057**	**3,510**	**60**	**10,627**	**285**	**10,912**
TD: film rights	-8,551	-3,185	0	-11,736	134	-11,602
TD: properties and tangible assets	-10	-32	-430	-472		-472
TD: goodwill	0	-20	0	-20		-20
EBIT	**-1,504**	**273**	**-370**	**-1,601**	**419**	**-1,182**
Financial result					-632	-632
Result: associated undertaking					387	387
Taxes on income					-18	-18
Minority shares					13	13
Group result						**-1,432**
Segmental fixed assets	17	712	457	1,186	288	1,474
Film rights	7,960	1,010	0	8,970	-102	8,868
Other assets	7,353	3,708	570	11,631	72	11,703
Total assets	15,330	5,430	1,027	21,787	258	22,045
Total liabilities	7,844	3,499	648	11,991	0	11,991
Investment, film rights	3,448	1,362	0	4,810	-124	4,686
Investment, properties and tangible assets	53	51	52	156		156
Number of staff	8	6	21	35		35
Sales per employee, in kEUR	2,252	2,303	92	965		965

Non-scheduled depreciation of film assets, amounting to kEUR 487, refers to the license trade segment.

2003

2002 kEUR	Production	License trade	Home Entertainment	Post- production	Total	Consolidation	Total
External sales	7,761	14,544	10,407	1,749	34,461		34,461
Intercompany sales		29	11	876	916	-916	0
Total sales	7,761	14,573	10,418	2,625	35,377	-916	34,461
EBITDA	**-2,168**	**7,500**	**4,133**	**393**	**9,858**	**-359**	**9,499**
Tax depreciation (TD): film rights	-15,268	-26,836	-4,195		-46,299		-46,299
TD: advance payments on film rights	0	-3,824			-3,824		-3,824
TD: properties and tangible assets	-191	-123	-80	-311	-705		-705
TD: goodwill	-12,025	-4,540	-20		-16,585		-16,585
EBIT	**-29,652**	**-27,823**	**-162**	**82**	**-57,555**	**-359**	**-57,914**
Financial result						-1,398	-1,398
Result – associated undertaking						362	362
Deprec. of investments held as current assets						-6,443	-6,443
De-consolidation of Splendid Pictures Holdings, Inc.						11,932	11,932
Taxes on income						-6,165	-6,165
Minority shares						58	58
Group result							**-59,568**
Segmental fixed assets		27	733	687	1,447	474	1,921
Film rights		12,342	3,442		15,784		15,784
Other assets		9,753	3,104	447	13,304	1,269	14,573
Total assets		22,122	7,279	1,134	30,535	1,743	32,278
Total liabilities		16,876	2,298	811	19,985	783	20,768
Investment, film rights	9,068	11,112	3,157		23,337		23,337
Investment, properties and tangible assets	44	46	44	408	542		542
Number of staff	18	12	8	22	60		60
Sales per employee, in kEUR	431	1,212	1,301	80	574		574

Due to the close links that exist between the individual segments, further segmentation was not considered to be useful. Segmental reporting is essentially based on segmentation according to sales revenue.

Sales revenue according to geographical regions:

Sales revenue **kEUR**	**2003**	**2002**
Germany	32,659	24,900
Rest of Europe	722	4,237
USA	184	2,987
Other	205	2,337
Total	**33,770**	**34,461**

More than 97 % of the company's assets are located in Germany. The transfer prices applicable to intercompany sales are orientated on market prices (at arm's length principle).

Management Board

The Management Board consists of the following members:

- Andreas Ralf Klein, Cologne, Director License Trade and Strategic Planning, CEO
- Dr. Thomas Weber, CFO, Financial Director, Operative Management of Associated Companies and Investor Relations (until 11 July 2003)
- Alexander Welzhofer, CMO, Marketing and Sales Director
- Frank Preuss, CFO, Financial Director and Investor Relations (as of 26 February 2004)

The Management Board's remuneration during the financial year 2003 amounted to kEUR 331 (prev. year: kEUR 482).
During the year 2003, the members of the Management Board did not fulfil any further responsibilities on other supervisory boards or management bodies.

Supervisory Board

The Supervisory Board consists of the following members:

- Dr. Ralph Drouven, lawyer, Cologne, Chairman; further Supervisory Board mandates: Easyway AG, Gesellschaft für Biotechnologie, Monheim
- Georg Holschbach, auditor, tax consultant, Pulheim, Deputy Chairman
- James W. Wells, Managing Director, Multithématiques GmbH, Ismaning (until 26.08.2003)
- Thomaz Burckhardt, Baar, Switzerland (as of 26.08.2003); further Supervisory Board mandates: TV Loonland, Munich, Impla invent AG, Basel, Christoph Burckhardt AG, Basel

The remuneration received by the members of the Supervisory Board during the financial year 2003 amounted to kEUR 45 (prev. year: kEUR 45).

Other information

Staff

At the end of the year, the number of salaried employees amounted to:

	2003	2002
Members of the Management Board	1	2
Employees	35	42

During the financial year 2003, total personnel expenses amounted to kEUR 2,161 (prev. year: kEUR 3,985). The reduction of personnel expenses is due to the personnel expenses included in the previous year's statement for Splendid Pictures Holdings, Inc., amounting to kEUR 1,440.

Shareholder structure

On 29 August 2001, a total of 222,494 share options were issued to the Splendid Group's executives and employees. By 31 December 2003, no option had been exercised. The earliest exercise date was 29 August 2003.

Splendid Medien AG's capital stock as of 31 December 2003 amounted to EUR 8,900,000 and consisted of 8,900,000 ordinary bearer shares.

As of 31 December 2003, the securities portfolio subject to reporting require-ments included the following:

	2003			2002		
	Number	Shares in %	Option	Number	Shares in %	Option
Mgt. Board						
Andreas R. Klein	5,355,129	60.1700	0	5,355,129	60.1700	0
Alexander Welzhofer	7,321	0.0823		7,321	0.0823	0
Superv. Board						
Dr. Ralph Drouven	3,060	0.0344	0	3,060	0.0344	0

Relationships with affiliated persons

Name	Amount in kEUR	Of which outstanding	Type of activity	Settlement
Dr. Drouven (Norton Rose Vieregge)	130	37	Consulting	Acc. to hours
Albert Klein	118	0	Rent, office -	Acc. to tenancy agreement
Albert Klein	63	3	Consulting	Acc. to contract

Other financial obligations

Other financial obligations, in kEUR:

Type of obligation	Up to 1 year	2 to 5 years	Over 5 years	Total
Rent	260	442	0	702
Operating leasing	41	25	0	66

During the year under review, expenses associated with operating leasing, amounting to kEUR 33, were entered in the books affecting the result.

The investment-related order commitment amounted to kEUR 8,422 (prev. year: kEUR 8,964).

Contingencies

Bank guarantees, amounting to kEUR 1,225, have been furnished. A call money asset account worth kEUR 1,200 was pledged as security to the Stadtsparkasse Cologne for the surety credit for Kids for Kids GmbH (former ASCOT Medien GmbH).

Events that took place subsequent to the balance sheet date

Via a subsidiary, Splendid Medien AG acquired the high-quality, innovative edutainment programme "Ben & Bellas Sprachenwelt" and "Rudolph the red-nose rendeer" from Intertainment Animation & Merchandising GmbH, as part of an asset deal. "Ben & Bellas Sprachenwelt" is a foreign languages learning programme directed at children of pre-school and primary school age. The marketing of this product will begin in cooperation with the renowned Westermann publishing group in spring/early summer. We will also be marketing the license and merchandising rights of the most famous reindeer and most successful seasonal subject of recent years, "Rudolph the red-nose rendeer". "Kids for Kids GmbH" will be in charge of exploiting these products and developing, producing and marketing further children's and family-related subjects within Splendid Medien AG.

Splendid Medien AG, Cologne, appointed Frank Preuss as Director of Finances and Investor Relations with effect as of 26 February 2004.

Warner Music Group Germany Holding GmbH ("Warner Music GmbH") announced the withdrawal of its shares in Warner Vision Vertriebs GmbH in March 2004, with effect as of 31.03.2005. The resulting effects on the shareholder structure and medium-term economic development of the company are the subject of negotiations between the shareholders of WARNER MUSIC GmbH and Splendid Medien AG.

Proposal for the appropriation of profits and dividend per share

The Splendid Medien AG Management Board's proposal to the general shareholders' meeting will involve the relinquishment of a dividend for the financial year 2003. The Management Board suggests carrying forward to new account Splendid Medien AG's balance sheet loss amounting to EUR –68.246,811.42 (according to the HGB).

The Splendid Medien AG Management and Supervisory Boards' declaration of conformity regarding the corporate governance codex in accordance with Section 161 AktG has been published on Splendid Medien AG's homepage.

The consolidated financial statements were released for publication by the Management and Supervisory Boards on 22 April 2004.

Cologne, 22 April 2004
The Management Board

Auditor's Certificate

Auditor's Certificate

"We have examined the consolidated financial statements of Splendid Medien AG for the financial year from 01 January to 31 December 2003, consisting of balance sheet, profit and loss statement, schedule of changes in equity, cash flow statement and notes. The preparation and content of the consolidated financial statements are the responsibility of the company's Management Board. It is our task to assess whether the consolidated financial statements conform to International Accounting Standards (IAS/IFRS) on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and with the German standards for the audit of financial statements issued by the German Institute of Auditors (Institut der Wirtschaftsprüfer (IDW)). These require us to plan and conduct the audit in such a way as to obtain reasonable assurance that the consolidated financial statements contain no significant inaccuracies. The scope of the audit was planned taking into account our knowledge of the Group's business activities, economic and legal environment and expectations of possible errors. In the course of the audit, the proof of valuations and the disclosures made in the consolidated financial statements were verified on a test basis. The audit included the assessment of the accounting principles applied, the significant estimates made by the Group's legal representatives and the evaluation of the overall presentation of the consolidated financial statements. We believe that our audit provides a sufficiently secure basis for our assessment.

In our opinion, the consolidated financial statements present an accurate view of the assets, earnings, financial position and cash flow of the Group during the financial year in accordance with IFRS/IAS.

Our audit, which also included the Group management report prepared by the Management Board for the financial year from 01 January to 31 December 2003, gave no cause for qualification. In our opinion, the Group management report, together with the other statements contained in the consolidated financial statements, provides an accurate description of the Group's situation and an accurate presentation of the risks of the future development. We also confirm that the consolidated financial statements and the Group management report for the financial year from 01 January to 31 December 2003 fulfil the German legal requirements for the company's exemption from the obligation to prepare consolidated financial statements and a Group management report."

Cologne, 23 April 2004
BFJM Bachem Fervers Janßen Mehrhoff GmbH
Auditing company

(Dr. Christian Janßen)
Auditor

(Dipl.-Kfm. Franz Meller)
Auditor

Imprint

Imprint

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We gladly send you the financial statements of Splendid Medien AG according to German Trade Law (HGB), as well as any further information on the company. Please send your request to the contact stated below.

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2002

Company History

1974 Foundation of "Splendid Film" by Albert E. Klein as a distribution company for cinema films

1980 Andreas R. Klein manages the "Sales and Marketing" division

1986 Foundation of "Pacific Video GmbH", later renamed "Ascot Medien GmbH"

1997 The company's own dubbing studio complex is erected at the new corporate location

1998 Start of joint distribution with Polyband and Warner Music for videos and DVDs for sale

1999 IPO, quotation on the Neuer Markt stock exchange index.Splendid acquires 49 percent of the US production company Initial Entertainment Group, Inc, Santa Monica.Splendid/IEG arrange to co-produce first class Hollywood films such as "Traffic", "Gangs of New York" and "Dr. T & The Women"

2000 Acquisition of "Polyband" in Munich, foundation of "Enteractive" in Hamburg and "Splendid Television" in New York; cooperation agreement with 20th Fox International, L.A., for the distribution of Splendid films

2001 Sale of the shares in the film production company Initial Entertainment Group, Inc, Santa Monica

2002 Foundation of the film production company Splendid Pictures Holdings, Los Angeles. (Co)production of films such as "Agent Cody Banks", "U-Boat" and "Narc"

2003 Separation from Splendid Pictures, Inc.

Financial Calendar 2004

31.05.2004 **Report on the first quarter of 2004**
Press release on the financial figures of the first quarter of 2004.
Publication of the interim report on the first quarter of 2004.

02.07.2004 **Annual general meeting 2004**
Fifth ordinary shareholders' meeting of Splendid Medien AG.

31.08.2004 **31.08.2004 Semi-annual report 2004**
Press release on the financial figures of the first six months of 2004.
Publication of the interim report on the first six months of 2004.

30.11.2004 **Nine-month report 2004**
Press release on the financial figures of the first nine months of 2004. Publication of the nine-month report.

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Annual Report 2003

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