Annual Report 2004

splendid medien AG

Splendid at a glance

Key Data (IAS)

in mill. Euro	*2004*	*2003*
Total sales revenues	**23**	**33.8**
Licenses granted	7.2	18
Home Entertainment	13.4	13.9
Post-production	2.4	1.9
EBITDA	5.0	10.9
EBIT	-1.7	-1.2
Profit	-0.7	-1.4
Cash flow from current business activities	4.7	14.6
Balance sheet total	25.4	22
Equity	9.3	10.1
Equity-ratio	36.6 %	45.6 %
Liquid funds as at 31.12	5.1	6.5
Film rights (incl. advance payments)	7.4	8.9
Investments in film rights	5.0	4.7
Investment-ratio (from Balance sheet total)	19.7 %	21.3 %
Depreciation of film rights	6.3	11.6
Depreciation-ratio (from sales revenues)	27.4 %	34.3 %
Earnings per share in Euro*	-0.08	-0.16
Number of employees at the end of the year	56	35

*Total number of shares: 8,9 mill.



Content

The Splendid Medien AG

Group Management Report

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Foreword of the Management Board

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

The consolidation initiated at the end of 2003 was delayed due to the unexpected and protracted lawsuit against Gold Circle Films, and the business success of our company was considerably impaired last year. In March this year, this lawsuit ended with a final settlement. Now we finally have an unobstructed view into the future!

In 2004, we continued to adapt our rights acquisition to the changed market environment, in particular to the growing home entertainment segment, and for this segment, we increasingly bought products. This strategy will characterise the business course of our company also in 2005 and, besides a shift in sales revenue in favour of the home entertainment segment, will also lead to an overall lower risk profile for the Splendid Group.

On account of the majority shareholding in WVG Medien GmbH which was taken over on 01 July 2004 (formerly Warner Vision Vertriebs GmbH), we have further strengthened our position in the home entertainment market and can therefore offer to our Group companies as well as to third parties a very well positioned and successful marketing channel for DVD / VHS distribution.

In 2005, we expect a successful, wide-ranging market launch for the innovative "Ben & Bella" edutainment series produced by our subsidiary Kids for Kids GmbH, and thereby a strengthening of the position in the important child and family segment.

For 2005, we intend to bring our turnaround to a successful conclusion. This includes further optimising the cost structure, consistently expanding the home entertainment business segment, and protecting the financial basis in the long-term.

We expect that in the current financial year 2005, sales will slightly decline compared to the previous year, but that the bottom-line results will be positive.

Cologne, April 2005

Andreas R. Klein
Chairman of the Management Board

Alexander Welzhofer
Member of the Management Board responsible for Marketing/Sales

Frank Preuss
Member of the Management Board responsible for Finances

Report of the Supervisory Board

During the past financial year 2004, the Supervisory Board fulfilled its responsibilities pursuant to statutory regulations and the articles of incorporation. The Management Board informed the Supervisory Board about matters that according to law, articles of association or the Management Board's rules of internal procedure require the Supervisory Board's involvement. The Supervisory Board considered the issues in presence of the Management Board. To the extent necessary, the Supervisory Board adopted resolutions required in this context.

For the purpose of monitoring the Management Board, the Supervisory Board was regularly and comprehensively informed by the Management Board concerning the course of business, strategic developments, the sales, earnings and liquidity situation as well as the plans of Splendid Medien AG and its associated companies. Business-related transactions of particular importance were discussed together with the Management Board in regular meetings, which also took place outside of ordinary meetings. Also, the Chairman of the Supervisory Board maintained regular contact with the Chairman of the Management Board for information purposes and for the exchange of ideas.

In the financial year 2004, the Supervisory Board held four ordinary meetings. The Supervisory Board established no special committees.

Pursuant to the resolution adopted by the general shareholders' meeting on 02 July 2004, the Supervisory Board commissioned auditors 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 as well as the consolidated financial statements and the management reports for the Group and for Splendid Medien AG as of 31 December 2004. As a result of this audit, the auditing company concluded that the consolidated financial statements comply with the International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS) and are a true representation of the Group's assets, financial and earnings position as well as of the cash flow in the financial year 2004. Concerning Splendid Medien AG's annual financial statement, the auditing company confirmed that it complies with the proper accounting principles (Grundsätze ordnungsmäßiger Buchführung) and is a true representation of the company's assets, financial and earnings position. For the financial statements, the auditing company has issued its unqualified audit certificate.

The annual financial statement, the management report, the consolidated financial statements and Group management report as well as the auditing company's report were submitted to all Supervisory Board members. The Supervisory Board examined the financial statements and discussed them in detail at the Supervisory Board's respective meeting on 29 April 2005 in the presence of the auditing company's responsible representative. The Supervisory Board saw no grounds for any objections.

In accordance with the statements contained in the auditing company's report, the Supervisory Board approved the annual

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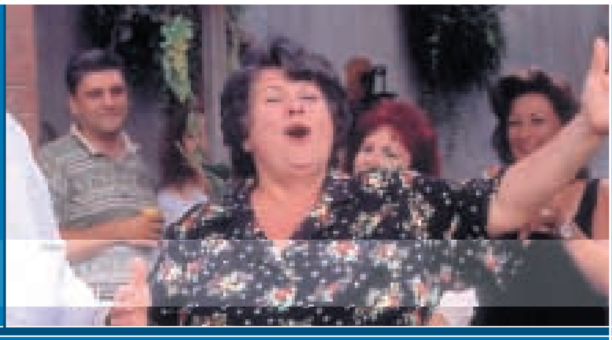

financial statement and the consolidated financial statements, thereby accepting Splendid Medien AG's annual financial statement as of 31 December 2004. The Supervisory Board has taken note of and approved the management reports and in particular the assessment by the Management Board regarding Splendid Medien AG's and the Group's further development.

A lawsuit against Dr. Thomas Weber, a former member of the Management Board, is still pending. In view of this lawsuit, the Supervisory Board follows the Management Board's recommendation to the general shareholders' meeting to again adjourn the decision concerning the discharge of Dr. Thomas Weber for the financial years 2002 and 2003.

The Supervisory Board paid particular attention that Splendid Medien AG adhere to the recommendations and suggestions of the German Corporate Governance Code. For this reason, deviations from the Code were discussed in detail with the Management Board, and were examined by the Supervisory Board as to their factual necessity. The declaration of conformity pursuant to §161 German Stock Corporation Act (AktG) was jointly adopted by the Management Board and the Supervisory Board in the Supervisory Board meeting on 09 December 2004, and was subsequently published.

In accordance with the recommendations contained in the German Corporate Governance Code, the Supervisory Board reviewed the efficiency of its activities. The Supervisory Board conducted this review by itself, without assistance of third parties, and on the basis of generally accessible catalogues of review criteria. The review has found that the Supervisory Board is duly and effectively fulfilling its obligations arising from statutory provisions and from the articles of association.

On the basis of information provided by the Management Board, the Supervisory Board regularly monitored the efficiency of the Group's early risk detection and risk management system, and discussed with the Management Board possibilities for further improving the system. In the Supervisory Board's opinion, the existing systems are essentially suited for providing timely alerts to dangers to the company, and for adequately reacting to such dangers.

The Supervisory Board would like to thank Splendid Group's management and all its employees for their dedicated performance during the financial year 2004.

Cologne, April 2005
Dr. Ralph Drouven
Chairman of the Supervisory Board

Ruby & Quentin

The value we add

Value added in the group

Splendid Medien AG's Group companies, in particular Splendid Film GmbH and Polyband Medien GmbH, acquire rights for feature films and other products and exploit these along the entire value added chain (cinema, home entertainment and TV) in German-speaking regions, either in-house or via our subsidiaries' distribution channels.

Inter alia, the **acquisition of licences** occurs at international film fairs such as AFN in Los Angeles, MIFED in Milan or the Cannes film festival, where licence purchasers inspect completed films during screenings. Sometimes, however, film licences may also be acquired before a film is shot. In cases in which the story and the director, as well as other appraisable qualitative factors signify sufficient marketing potential, a decision in favour of acquiring the licence is taken.

Cinema: Films are commercially exploited initially in cinemas, provided that the costs of acquisition and marketing as well as expected proceeds from ticket sales justify this course of action. Splendid publishes these films either on its own or in collaboration with 20th Century Fox, which assumes responsibility for distribution and marketing of movies in return for a distribution fee standard in the industry. The value of a successful movie increases, rendering it even more attractive for subsequent commercial exploitation with TV broadcasting stations as well as in the video and DVD segments.

According to current market analyses, the **home entertainment** market will exhibit strong growth also in forthcoming years. In view of these figures, Splendid will continue its active acquisition of film licences for exclusive commercial exploitation in this growth market.

Rental videos / DVDs: Approximately four to six months after the movie has been launched in the cinemas, it is commercially exploited as video and DVD rental and is distributed by Warner Home Video and our subsidiary, WVG Medien, with DVD being the most important source of sales revenue.

Videos / DVD for sale: Splendid distributes its movies using the "Splendid Entertainment", "Polyband" and "Kids for Kids" brand labels, whereas Splendid's subsidiary WVG Medien GmbH is responsible for distribution.

Video on Demand (VoD): Due to a number of collaborations, Splendid is also prepared for the market of the future, VoD, where the customer can individually download audio-visual programmes via telephone line / Internet, TV-cable network, power supply line or directional radio link, and watch them.

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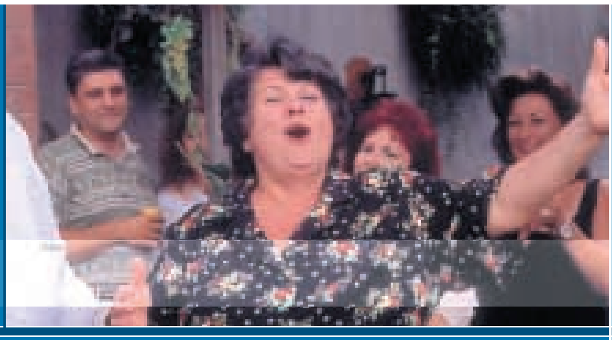


Pay TV / Free TV: Six months after a film's commercial exploitation in the home entertainment segment has commenced, TV exploitation begins. Generally, Pay TV shows the films first, followed by Free TV. Splendid sells the licences for a contractually agreed duration (for instance, seven years) and for a contractually agreed number of transmissions during a given period (for instance, seven transmissions in the course of seven years). At the end of the licence agreement, the film is available for a further commercial exploitation in TV markets (secondary exploitation).

Post-production

Audio and video-post-production represents a sensible complement to Splendid Medien AG's core business. Making use of its own capacities in dubbing and soundtrack addition as well as in converting films to DVD format ensures not only a consistently high quality standard for our own films, but is also increasingly demanded by external customers. The movies are dubbed and their soundtracks treated prior to their commercial exploitation in the cinema and the home entertainment market. At the same time, analogue film formats are converted to the digital DVD format. In doing so, new, additional content for the DVD is also created.

The Share

After its satisfactory performance in the first half of the year of 2004, Splendid Medien AG's shares significantly depreciated since beginning of August of the last year due to the unexpected and protracted lawsuit with Gold Circle Films. However, by the end of April 2005, the losses were recouped again to a considerable degree. On account of the final settlement with Gold Circle Films and further successful implementation of our adapted market strategy, we are convinced that our shares will continue to exhibit the positive development in 2005.

The Splendid share at a glance

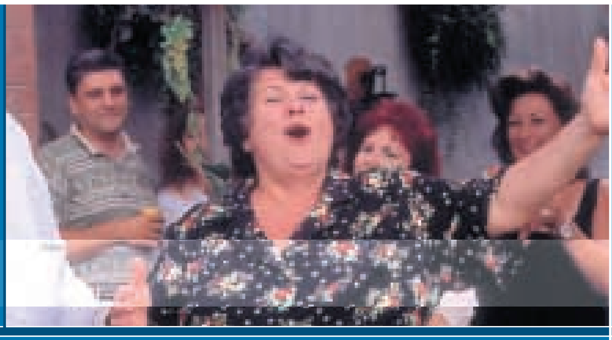
Security identification code	727 950
Stock market abbreviation	SPM
Reuters	SPMG.F
Bloomberg	SPM
ISIN	DE0007279507
Trading segment	Prime Standard
Number of shares issued	8,900,000
Nominal value	1 Euro per share
Issue price	30 Euro
Market capitalisation (as of 30 Dec 2004)	7.66 million Euro
Market capitalisation (as of 27 Apr 2005)	9.88 million Euro
Prime Standard Sector Index	Prime Media
Date of first quotation	24 Sep 1999

Shareholder structure

As of 31 December 2004, Splendid Medien AG's share capital was spread over 8.9 million bearer stocks. The shareholder structure was as follows:

Andreas R. Klein	59.65 %
Familie Klein GbR	6.94 %
MK Medien Beteiligung GmbH	5.05 %
Free Float	28.36 %

The lock-up periods voluntarily agreed to in the context of supervisory regulations at the time of the IPO have already expired. There are no further agreements. During the period under review, we did not execute any securities transactions subject to registration. For the securities portfolio subject to registration, please consult the notes.



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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 4.2.4

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. With regard to the statutory overall responsibility of the Management Board, this interest is complied with by the publication of the total compensation payable to the Management Board.

2. 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

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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.

3. 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.

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.

4. 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.

Ruby & Quentin

Splendid Medien AG, Cologne
Group Management Report

Business performance

Although consumer demand in Germany did not improve last year, the media sector was partially able to uncouple itself from negative trends and in certain areas achieved major increases in sales.

After a decline in the number of moviegoers in 2003, the downward trend in the German film market was halted, and a noticeable increase in the number of visitors – more than 5 % – was achieved. Also, box-office sales increased to 893 million Euro, at constant average prices per movie ticket.

In 2004, the home entertainment market segment grew by about 12 % compared to the previous year, to now 1.7 billion Euro, and according to current market analyses will also exhibit strong growth over the next years. At 103 million sold copies of audiovisual media, the 100 million-mark was surpassed for the first time. This achievement is due primarily to the high popularity with customers of the DVD.

Fortunately, in 2004 the rentals market grew again after years of decline, by number of rented audiovisual media as well as by sales. The home entertainment market therefore again represents the most important phase in the commercial exploitation of licenses.

The approach chosen by Splendid Medien AG of concentrating on movies with a lower budget has in 2004 led to a clear reduction of sales in the "license trade" segment, whereas overall performance in the "home entertainment" segment was satisfactory. In total, Splendid Medien AG achieved consolidated sales in the amount of 23.0 million Euro, compared to previous year's 33.8 million Euro. However, reserves which had to be established in connection with the lost lawsuit against Gold Circle Films LLC, start-up costs for the launch of products of our subsidiary Kids for Kids GmbH as well as expenses arising in connection with the subsidiary WVG Medien GmbH, fully consolidated for the first time as of 01 July 2004, led to negative overall earnings before interest and taxes (EBIT) of -1.7 million Euro (previous year: -1.2 million Euro).

With a share of 58 %, the "home entertainment" area was the strongest selling business division. In second place came "license trade" with a share of 32 %, followed by "post-production", which achieved 10 % of overall sales.

In 2004, the "license trade" business division achieved sales in the amount of 7.2 million Euro (previous year: 18.0 million Euro). The drop in sales was caused by the absence of strong-selling films in the year under review. Sales of TV licenses to a number of TV program providers such as ZDF, ProSieben and Premiere contributed to

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sales in the amount of 6.6 million Euro (previous year: 8.5 million Euro).

At 13.4 million Euro (previous year: 13.8 million Euro), the "home entertainment" division achieved nearly the same volume of sales as in 2003. Of this, the purchases subdivision ("sell-through"), at 12.1 million Euro, had the largest share, and a further 1.3 million Euro were realised in the rental business.

Splendid Film contributed 6.2 million Euro (previous year: 9.5 million Euro), and a further 5.3 million Euro (previous year: 4.3 million Euro) were earned by Polyband. The reduction within Splendid Film is the result of fewer strong-selling films in the purchases segment. Particularly successful were various films from the Jackie Chan series, and, as in the year before, the movies "Gangs of New York" and "My Big Fat Greek Wedding".

At 2.4 million Euro (previous year: 1.9 million Euro), post-production achieved a significant increase over last year's sales. The sales increase largely resulted from a successful expansion of commercial activities with existing customers.

Assets and financial position

Compared with the previous year, changes in the Group's balance sheet structure are caused by – beside operational influences – primarily an extension of the basis of consolidation to include WVG Medien GmbH. Overall, the balance sheet total increased slightly to 25.4 million Euro (previous year: 22.0 million Euro). At the cut-off date (31 December 2004), the equity ratio had declined to 36.6 %, down from 45.4 % in the previous year. Overall, the balance sheet structure is positive, due to low debt, high liquidity and the still good equity ratio.

As of 31 December 2004, "short-term assets" had increased to 15.7 million Euro (previous year: 11.6 million Euro). "Cash in hand and bank balances" included therein decreased to 5.1 million Euro (previous year: 6.5 million Euro). "Accounts receivable for goods and services" in the amount of 7.3 million Euro (previous year: 3.8 million Euro) essentially contained receivables arising from license agreements with TV companies.

At the cut-off date, "medium- and long-term assets" stood at 9.8 million Euro (previous year: 10.5 million Euro). The "film rights" and "advance payments made for film rights" in total were 7.4 million Euro, approximately 1.5 million Euro lower than as at the previous year's cut-off date (8.9 million Euro).

“Short-term liabilities” increased in the period under review from 10.6 million Euro to 15.4 million Euro. The increase is primarily due to the increase in the reserves in connection with the consolidation of WVG Medien GmbH. The “short-term loans and short-term share of long-term loans” decreased from 1.5 million Euro to 1.3 million Euro and contain the credit granted by Stadtsparkasse Köln as well as the short-term share of a financing arrangement with AGV (Wiesbaden, Germany) which was collateralised using film rights for secondary and tertiary commercial exploitation.

“Medium- and long-term liabilities” were reduced according to plan as at 31 December 2004 to 0.7 million Euro (previous year: 1.5 million Euro). This position contains the medium- and long-term share of the AGV loan.

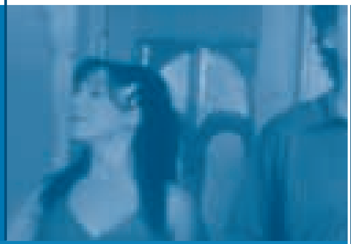
Corresponding to the net loss for the year, equity decreased from 10.0 million Euro to 9.3 million Euro.

Cash flow from ongoing Group business activities in the business year 2004 stood at 4.7 million Euro (previous year: 14.6 million Euro). The noticeable reduction compared to the previous year resulted from a change in the cost structure. Depreciation (non-cash-item) was 11.6 million Euro in 2003, and only 6.3 million Euro in the reporting year. Also, accounts receivable were significantly reduced in the previous year. Investment activities were financed by liquidity in the amount of 5.3 million Euro (previous year: 4.8 million Euro), of which investments in film stock represented 5.0 million Euro. Due to loan redemption, cash flow from financing activities was -1.0 million Euro (previous year: -7.1 million Euro).

Earnings position

In the past year, Splendid Medien AG registered a Group annual loss in the amount of 0.7 million Euro (previous year: 1.4 million Euro). Earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to 5.0 million Euro (previous year: 10.9 million Euro). Earnings before interest and taxes (EBIT) were -1.7 million Euro (previous year -1.2 million Euro).

The earnings position in 2004 was influenced decisively by the unexpected and protracted lawsuit with Gold Circle Films LLC. The burden on earnings of the settlement plus the costs of legal consultation amounted to a total of 1.5 million Euro. In addition, legal consultation in connection with settlement negotiations with ICB Entertainment Finance (“ICBEF”), legal successor of Lewis Horwitz Organization (“LHO”), cost 167 kEuro. The settlement, concluded after the cut-off date, occurred in the context of materialized liability risks on the basis of securities for film purchases by Splendid Pictures Holdings, Inc., a former subsidiary of Splendid Medien AG that was sold in 2003.



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Results were also reduced by an amount of 1.2 million Euro because of exceptional depreciation of film assets, among other things.

With consideration of the exceptional items mentioned above, EBIT would have been positive, at 1.2 million Euro.

"Costs of production" amounted to 16.7 million Euro (previous year: 20.6 million Euro). Depreciation on film assets in the amount of 6.3 million Euro (previous year: 11.6 million Euro), cost of materials in the amount of 2.0 million Euro as well as royalties in the amount of 3.4 million Euro are among the major items. Production costs could not be reduced in proportion to sales due to the start-up expenses for Kids for Kids GmbH as well as the lawsuit against Gold Circle Films.

"Distribution expenses" amounted to 4.9 million Euro (previous year: 9.5 million Euro), essential components of which are advertising in the amount of 2.1 million Euro and sales commissions in the amount of 1.2 million Euro. The strong reduction in distribution expenses is caused by high advertising costs for the cinema exploitation for the films "Gangs of New York" and "My Big Fat Greek Wedding" in 2003.

"General administrative expenses" were 3.7 million Euro (previous year: 3.2 million Euro). The cost increase in this area arises from the fact that for the first time, WVG Medien GmbH and the Kids for Kids GmbH are included in consolidation. When adjusted for this effect, the administrative expenses have slightly decreased compared to the previous year.

Investments

5.0 million Euro (previous year: 4.7 million Euro) were invested in film assets such as, for example, "Final Cut", "Different Loyalty" and "U-Boat". Within the individual Group companies, Polyband has significantly increased investments; however, Splendid Film acquired licenses for a large number of individual films with a smaller investment sum, so that in total, less was invested. Furthermore, considerable funds were invested in the "Ben & Bella" project developed by Kids for Kids GmbH. The movies were financed exclusively through own resources.

Employees

The number of employees at the end of the year stood at 56 (previous year: 35). The majority of the Group's employees can look back on many years' professional experience.

Risk management

As an internationally operating company, Splendid Medien AG is exposed to different risks. The objective is to integrate suitable risk prevention measures into the decisions and business processes and to continuously adapt, develop and optimize these measures.

The following areas of risk assessment are analyzed extensively, because they have a direct bearing on the company's assets and financial position.

Acquisition and marketing of film licenses
In acquiring film licenses, the predominant aspect is the marketing potential of all value added stages. To this end, the managers of the subsidiaries responsible for film acquisitions in collaboration with the marketing department prepare a detailed "Acquisition Proposal" which in addition to a project-related analysis also includes among other things an analysis of the effects on profitability and liquidity of the entire company. Nevertheless, the risk remains that the respective movie might not meet the audience's taste, thereby not turning out to be an economic success. This applies equally to all value added stages.

Independent of the economic risks, legal risks can arise from the partially complex acquisition and sales contracts. Hence, Splendid Medien AG's subsidiaries concerned with acquisition of film licenses consult external legal experts on a case-by-case basis.

TV exploitation
A major share of sales is generated by the sale of films to Free TV and Pay TV. Falling advertising income or a lower number of subscribers have a significant influence on the TV stations' purchasing budget. The economic situation in the media industry, in particular one-sided, index-linked changes in payment arrangements therefore may have a negative effect on Splendid Group's financial and earnings position.

Product piracy
The film industry – as the music industry – has for a long time deplored illegal possibilities of downloading films from the Internet that have greatly increased with the arrival of DSL. This clearly burdens the film industry, in particular the video and DVD markets. The industry set up a series of initiatives intended to prevent illegal downloads in future. Among other aspects, this includes adjusting German regulations to reflect European standards. Nevertheless, at the present time, there

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exists as yet no clear, legally sufficient solution to these problems. In general it must be stated that the products of the Group's companies are affected to a differing degree by illegal downloads; thus, Polyband Medien GmbH's special interest products are exposed to a much smaller risk than Splendid Film GmbH's feature film products. This is primarily due to respective genre's different target audiences.

Currency risks

In the majority of cases, Splendid Group acquires film licenses in the USA. Because these licenses are commercially exploited in the German-speaking areas, the company's earnings position can be affected positively or negatively due to exchange rate fluctuations between the US Dollar and the Euro. On a case-by-case basis, exchange-hedging measures are examined, but carried out only in exceptional cases due to the overall strongly reduced acquisition volume per film license.

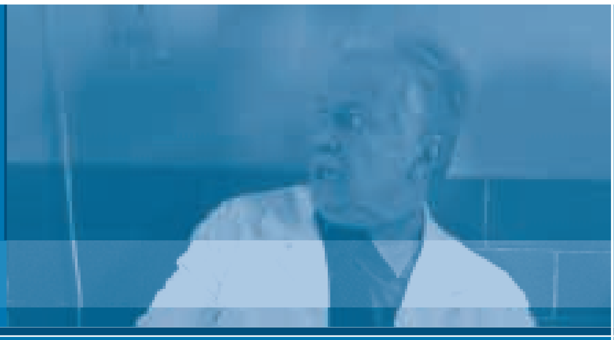
Risks concerning subsidiaries

Possible risks concerning subsidiaries that affect the Group are controlled by means of standardised monthly reports to the Management Board, including a report of differences between planned and actual figures. In addition, the Supervisory Board is informed about key developments within the Group and the subsidiaries within the scope of monthly reporting.

Events after the end of the financial year

On 23 March 2005, Splendid Medien AG and its subsidiary, Splendid Film GmbH, concluded a comprehensive settlement with Imperial Capital Bank Entertainment Finance (formerly: the Lewis Horwitz Organization) and its former subsidiary Splendid Pictures, Inc. as well as its subsidiary In the Shadows LLC. Within the scope of this settlement, existing liabilities were processed on the basis of securities provided for film acquisitions.

On 22 March 2005, the final settlement with Gold Circle Films was concluded, which will affect earnings in 2005.

Prospects

The consolidation that commenced at the end of 2003 and continued in 2004 will also determine the business trend in 2005. Compared to 2004, a significant drop in sales in the "license trade" segment will materialize, and, by contrast, the "home entertainment" segment can expect sales and profits to grow. Primarily, this is due to an acquisition strategy that compared to the past is less capital intensive. Already in 2004, increasingly licenses to films with small and medium-sized budgets (meaning production costs of less than 20 million USD) were acquired that were commercially exploited mainly along the home entertainment value added chain. This strategy has led to an overall reduced risk profile within Splendid Group, but has, however, at the same time strongly limited the opportunities of their commercial exploitation in the TV market and has thereby led to a major decline in sales. An exclusive focus on the "home entertainment" segment from the Group's view is, however, only sensible to a limited extent because the contributions to earnings in the "home entertainment" segment are not sufficient in the short term to fully cover Splendid Group's costs.

Therefore, the acquisition of film rights for the "license trade" segment is still relevant to overall Group results. However, compared to home entertainment rights, the investments required per film are considerably higher, and payback takes substantially longer on account of the TV broadcasting station's long periods of payment. But at the present time, the Group's financial resources are not sufficient to conduct investments in the amounts necessary for a successful continuation of license trade beyond 2006.

Therefore, the Management Board is of the opinion that the injection of additional funds is a priority for the current financial year, and is currently engaged in discussions with potential investors and credit institutions that are intended to be concluded shortly. At the current state of negotiations, only a proportion of the required funds can be considered secured. Should the financing not be realised in its planned amount, the Management Board will execute alternative measures for the purpose of reducing the cost basis and/or implementing changes in the portfolio.

Mambo Italiano

In its operational business activities, Splendid Medien AG is continuing to concentrate on its core business. Through its subsidiaries "Splendid Film" and "Polyband", film licenses for films in the areas of feature movies, children and special interest are acquired on the international markets and are commercially exploited via existing distribution channels along the entire value added chain. In the "license trade" segment, attention is focused on film rights in which TV broadcasting stations have already stated their interest early on. This means that the risks associated with commercial exploitation is significantly reduced so that liquid funds need to be provided only in the amounts needed for temporary finance.

The "home entertainment" business division will be the object of special attention because it is where the highest growth rates occur. By purchasing the majority shareholding in WVG Medien GmbH on 01 July 2004 (formerly Warner Vision Vertriebs GmbH), Splendid Group possesses a well-positioned marketing channel for its own and third-party products. After one year of consolidation, we expect a clear positive contribution to sales and profits in 2005.

The "Ben & Bella" project, delayed for reasons that include production difficulties, is rapidly being marketed in 2005 so that already in the current year a significant contribution to sales can be achieved. However, due to the start-up expenses for marketing its new products we also assume that Kids for Kids GmbH will produce a negative result in 2005.

Post-production by the subsidiaries "Splendid Synchron" and "Enteractive" represents a sensible complement to the core business. For Enteractive, we in future expect further improvements in the business environment due to the introduction of new data carrier standards (HD DVD), among other things.

Splendid Medien AG assumes that in the current financial year 2005, sales will decline compared to the previous year, but that an overall result can be achieved that is positive.

Cologne (Germany), April 2005

Splendid Medien AG

The Management Board

Consolidated Financial Statements

Consolidated balance sheet (IAS)

as at 31. Dezember 2004

ASSETS in kEuro	**01.01.2004 – 31.12.2004**	**01.01.2003 – 31.12.2003**
Short-term assets:		
Liquid funds	5,129	6,451
Investments held as current assets	0	0
Accounts receivable for goods and services	7,349	3,756
Inventories	654	568
Deferred charges and other short-term assets	2,562	810
Short-term assets, total	**15,694**	**11,585**
Medium and long-term assets:		
Tangible assets	533	703
Intangible assets	107	155
Financial assets	0	288
Film rights	6,019	7,053
Advance payments made for film rights	1,363	1,815
Goodwill	326	328
Taxes on loss carried forward	1,291	0
Deferred taxes	103	118
Medium and long-term assets, total	**9,742**	**10,460**
Assets, total	**25,436**	**22,045**

LIABILITIES in kEuro	**01.01.2004 – 31.12.2004**	**01.01.2003 – 31.12.2003**
Short-term liabilities:		
Short-term share of finance leasing liabilities	72	160
Short-term loans and short-term share of long-term loans	1,261	1,531
Accounts payable	2,827	2,259
Advanced payments received	628	887
Reserves	7,844	5,489
Earnings-tax liabilities	378	0
Deferred charges and other short-term liabilities	2,421	242
Short-term liabilities, total	**15,431**	**10,568**
Medium and long-term liabilities:		
Long-term loans	577	1,308
Long-term finance leasing liabilities	96	137
Deferred taxes	0	10
Minority shares	35	20
Medium and long-term liabilities, total	**708**	**1,475**
Equity:		
Subscribed capital	8,900	8,900
Capital reserves	66,992	66,992
Balance sheet profit/loss	-66,532	-65,818
Currency differences	-63	-72
Equity, total	**9,297**	**10,002**
Liabilities, total	**25,436**	**22,045**

Consolidated profit and loss account (IAS)

for fiscal year 1. January until 31. December 2004

in kEuro	01.01.2004 – 31.12.2004	01.01.2003 – 31.12.2003
Sales revenues	**23,014**	**33,770**
Production cost	-16,721	-20,646
Gross profit on sales	**6,293**	**13,124**
Distribution expenses	-4,939	-9,535
Administrative expenses	-3,732	-3,189
Other operative income / expense	609	-1,533
Depreciation of goodwill	-20	-20
Operating result	**-1,789**	**-1,153**
Income from / expense on interest	-229	-632
Income / expenses from affiliated companies	-94	387
Currency profit / loss	58	-28
Earnings before tax (and minority shares)	**-2,054**	**-1,426**
Taxes on income	1,356	-19
Annual net income / loss	**-698**	**-1,445**
Minority shares	-16	-2
Profit / loss carried forward	-65,818	-64,371
Balance sheet profit / loss	**-66,532**	**-65,818**
Profit / loss per share (undiluted)	-0.08	-0.16
Profit / loss per share (diluted)	-0.08	-0.16
Average shares in circulation (undiluted)	8,900,000	8,900,000
Average shares in circulation (diluted)	8,900,000	8,900,000

Consolidated cash flow statement (IAS)

for fiscal year 1. January until 31. December 2004

in kEuro	01.01.2004 – 31.12.2004	01.01.2003 – 31.12.2003
Group surplus in accounting period before third-party shares	-698	-1,445
Income from interest	-42	-21
Expense on interest	271	653
Depreciation of fixed assets	467	472
Depreciation of film rights	6,266	11,602
Amortisation of goodwill	20	20
Tax expenditure	-1,331	-45
+/- Increase / decrease of short-term reserves	916	388
-/+ Profit / loss from asset disposal	0	-8
Increase in inventories, accounts receivable for goods and services and other assets not attributable to investment of financing activities	-3,353	5,152
+/- Increase / decrease in accounts payable for goods and services and other liabilities not attributable to investment or financing activities	1,937	-2,046
+ Taxes received	695	0
- Taxes paid	-217	-15
+ Profit distribution received from affiliated companies	0	473
+ Interest received	47	21
+ Interest paid	-270	-669
Cash flow from current business activities	**4,708**	**14,532**
Payments received from the disposal of tangible and intangible assets	0	32
Payments made for investments in tangible and intangible assets	-247	-156
Payments made for investments in film rights	-5,038	-4,686
Cash flow from investment activities	**-5,285**	**-4,810**
Payments made for credit repayments	-1,002	-7,052
Other changes in value of capital	9	-26
Cash flow from financing activities	**-993**	**-7,078**
Change in existing financial resources affecting payments	-1,570	2,644
Change of consolidated group	248	0
Existing financial resources at beginning of accounting period	6,451	3,807
Existing financial resources at end of accounting period	**5,129**	**6,451**

Consolidated statement of fixed assets (IAS)

in kEuro	As of 01.01.2004	Currency differences	Additions	Disposals	Rebookings
	Acquisition and production costs				
I. Intangible assets					
1. Industrial property and similar rights and values	347	-1	29	0	0
2. Goodwill	5,601	0	19	0	0
Total intangible assets	**5,948**	**-1**	**48**	**0**	**0**
II. Tangible assets					
1. Properties and buildings, including buildings on third-party property	687	0	0	0	0
2. Technical equipment and machines	1,401	0	41	961	0
3. Other equipment, office equipment and furniture	1,023	0	179	486	0
4. Equipment under construction and advance payments	0	0	0	0	0
Total tangible assets	**3,111**	**0**	**220**	**1,447**	**0**
III. Financial assets					
1. Shares in affiliated companies	0	0	0	0	0
2. Loans to affiliated companies	0	0	0	0	0
3. Investments	186	0	217	403	0
4. Advance payments on financial assets	0	0	0	0	0
Total financial assets	**186**	**0**	**217**	**403**	**0**
Total assets	**9,245**	**-1**	**485**	**1,850**	**0**

	Depreciation						Residual book values	
As of 31.12.2004	As of 01.01.2004	Currency differences	Additions	Disposals	Rebookings	As of 31.12.2004	As of 31.12.2004	As of 31.12.2003
375	191	0	77	0	0	268	107	156
5,620	5,274	0	20	0	0	5,294	326	327
5,995	**5,465**	**0**	**97**	**0**	**0**	**5,562**	**433**	**483**
687	430	0	101	0	5	536	151	257
481	1,332	0	174	961	-248	297	184	69
716	646	0	115	486	243	518	198	377
0	0	0	0	0	0	0	0	0
1,884	**2,408**	**0**	**390**	**1,447**	**0**	**1,351**	**533**	**703**
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	-102	0	102	0	0	0	0	288
0	0	0	0	0	0	0	0	0
0	**-102**	**0**	**102**	**0**	**0**	**0**	**0**	**288**
7,879	**7,771**	**0**	**589**	**1,447**	**0**	**6,913**	**966**	**1,474**

Development of equity (IAS)

for fiscal year 1. January until 31. December 2004

in kEuro	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				14	14
Earnings after tax			-8.707		-8.707
As of 31.12.2001	**8.900**	**66.992**	**-4.768**	**2**	**71.126**
Currency difference				-48	-48
Earnings after tax			-59.568		-59.568
As of 31.12.2002	**8.900**	**66.992**	**-64.336**	**-46**	**11.510**
Adjustments previous years			-35		-35
Currency difference				-26	-26
Earnings after tax			-1.447		-1.447
As of 31.12.2003	**8.900**	**66.992**	**-65.818**	**-72**	**10.002**
Currency difference				9	9
Earnings after tax			-714		-714
As of 31.12.2004	**8.900**	**66.992**	**-66.532**	**-63**	**9.297**

Appendix to the 2004 Consolidated Financial Statements

General information

A. General information

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).

B. Foundation and methods employed

Splendid Medien AG's consolidated financial statements for the financial year starting 01 January and ending 31 December 2004 were prepared in accordance with the stipulations of the International Accounting Standards Board (IASB), taking into account the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and the Standing Interpretations Committee (SIC).

Pursuant to IAS 32, the net costs of the initial public offering (costs minus tax expenses) were offset against equity (capital reserves). IFRS 3 must be applied to the first-time consolidation of WVG Medien GmbH, because the acquisition date was after 31 March 2004. It is not binding to apply IFRS 3 to goodwill existing within the Group in 2004, and it was not applied. Also, IAS 32 (2004), IAS 39 (2004) and IFRS 2 (2004) were not applied.

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 (kEuro).

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 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.

C. Consolidation principles

Beside the parent company, the following subsidiaries were included in the consolidated financial statements:

Affiliated companies	Seat	Share in %
Splendid Film GmbH	Cologne	100
Splendid Synchron GmbH	Cologne	100
Kids for Kids GmbH	Dornach	90
Polyband Medien GmbH (formerly: Polyband Gesellschaft für Bild- und Tonträger mit beschränkter Haftung)	Dornach	100
eNterActive GmbH	Hamburg	85
Splendid Television International LLC	New York, USA	90
WVG Medien GmbH (formerly: Warner Vision Vertriebs GmbH)	Hamburg	90

Splendid Film GmbH (100 %), Cologne, acquires films on the global market and markets them mainly in the German-language regions.

Polyband Medien GmbH (100 %), Dornach, acquires and produces videos and DVDs intended for sale in the German-language regions.

Splendid Film, Polyband and Kids for Kids distribute their videos and DVDs via **WVG Medien GmbH** (90 %), Hamburg. In addition, WVG Medien distributes its own range of products, and also distributes videos and DVDs for other companies.

Kids for Kids GmbH (90 %), Dornach, acquires, produces and markets family-oriented entertainment and edutainment programmes.

eNterActive GmbH (85 %) in Hamburg conceives and develops digital value-added services such as animations, trailers, games for DVD and for the Internet. This company complements Splendid Medien AG's Internet / New Media segment and together with **Splendid Synchron GmbH** (100 %) represents the post-production division. Splendid Synchron GmbH, located in Cologne, dubs foreign-language movies and TV series and reengineers their soundtrack.

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

The affiliated companies are all managed by Splendid Medien AG and are fully consolidated in the consolidated financial statements.

Splendid Entertainment, Inc., Los Angeles, Delaware, founded on 13 June 2003 with equity capital in the amount of 0.08 Euro, was not consolidated in the year under review in line with the principle of materiality.

In the year under review, the shareholding in WVG Medien GmbH (formerly Warner Vision Vertriebs GmbH) was increased to 100 %, from 49 %, by acquiring shares from Warner Music Germany Holding GmbH (Warner Music GmbH).

Pursuant to the business share transfer agreement dated 18 November 2004, 10 % of the business shares were transferred to the manager of WVG Medien GmbH, Mr. Alexander Welzhofer.

In the financial year, Kids for Kids GmbH acquired all rights and contracts relating to the projects Rudolph I, Rudolph II as well as "Ben and Bella" from Intertainment Animation und Merchandising GmbH, Ismaning. The acquisition included the associated stocks.

In accordance with the shareholders' resolution adopted by the extraordinary general meeting on 10 May 2004, Splendid Medien AG paid kEuro 500 into the account of Kids for Kids GmbH, which recorded the funds in their capital reserves.

Pursuant to the business share transfer agreement dated 02 July 2004, 10 % of the business shares were transferred to the manager of Kids for Kids GmbH, Mr. Heinz Ehmann.

The nominal capital of Polyband Medien GmbH (formerly Polyband Gesellschaft für Bild- und Tonträger mit beschränkter Haftung) was increased during the year under review, initially by cash payment by an amount of 35.41 Euro, to 25,600 Euro. Subsequently, nominal capital was increased by 400 Euro by investment in kind due to the merger on the basis of book values with Polyband

Gesellschaft für Bild- und Tonträger m.b.H. & Co. Betriebs KG. On 16 November, retroactively effective as of 01 January 2004, the company concluded a control and profit transfer agreement, with Splendid Medien AG as the controlling company. The shareholders' meeting approved the merger in a resolution adopted on 02 July 2004.

WVG Medien GmbH was consolidated for the first time as of 01 July 2004. If the date of acquiring this company had been at the beginning of the period, Group sales would have amounted to kEuro 24,092, and the annual loss would have been kEuro 729.

At the time of its first-time consolidation, WVG Medien GmbH's assets and debts were as follows:

Assets in kEuro	
Short-term assets	4,602
Medium- and long-term assets	0
Assets, total	**4,602**

Liabilities in kEuro	
Short-term liabilities	4,211
Medium- and long-term liabilities	0
Equity	391
Liabilities, total	**4,602**

Consolidation methods

For capital consolidation for mergers prior to 31 March 2004, the book value method was applied in accordance with IAS 22 (1998). In doing so, the costs of acquiring the shares were offset against the book value of the proportionate equity capital of the subsidiary at the time of acquisition. For mergers after 31 March 2004, consolidation was conducted applying the acquisition method, in accordance with IFRS 3.

Company in kEuro	**Acquisition costs**	**Prorate equity**	**Difference**
Splendid Film GmbH	5,192	36	5,156
Splendid Synchron GmbH	28	25	3
Kids for Kids GmbH	524	507	17
Polyband Medien GmbH (formerly: Polyband Gesellschaft mit beschränkter Haftung)	341	-52	393
Splendid Television International LLC	336	307	29
eNterActive GmbH	45	42	3
WVG Medien GmbH (formerly: Warner Vision Vertriebs GmbH)	229	210	19
	6,695	**1,075**	**5,620**

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 straightline 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 kEuro 57, which arose retroactively in 2000 in the context of the acquisition of Kids for Kids GmbH, were offset against the liability difference that arose in the year 1999, amounting to kEuro 40, and kEuro 17 were written off in 2000. The goodwill (kEuro 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 (kEuro 4,511) were fully written off during the previous years. The value of the goodwill arising from the consolidation of WVG Medien GmbH was verified according to IAS 36 and was not depreciated.

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 IAS 32.

D. Financial instruments

The financial instruments reported in the balance sheet include cash in hand and cash at banks in the amount of kEuro 5,129 (previous year: kEuro 6,451), accounts receivable (kEuro 7,349, previous year: kEuro 3,756) and accounts payable for goods and services (kEuro 2,827, previous year: kEuro 2,259) as well as other assets and liabilities. The position "other assets" consists of short-term as well as medium-term and long-term other assets. The other short-term assets include essentially receivables from amounts withheld for returns, tax liabilities as well as debit balances. There are no derivative financial instruments.

In accounting for income from financial instruments, the provisions contained in IAS 18 were observed.

E. Cost 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. Principles of currency conversion

According to IAS 21, the foreign subsidiary is a financially independent foreign sub-unit. The financial statement of the economically independent foreign sub-unit was converted by applying the functional currency concept in accordance with IAS 21:

- monetary as well as non-monetary assets and liabilities were converted at the historical exchange rate
- income and expense items were converted using the average weighted annual exchange rate
- equity capital was converted at its historical exchange rate

On the basis of the financial statements, conversion differences were recorded in the context of:

- the conversion of income and expense items at the average annual exchange rate, and the assets and liabilities at their historical exchange rate
- changes in the equity capital

These changes were recorded as an equity item, not affecting net income.

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.

Notes pertaining to the Group profit and loss account

(1) Sales revenue

The Group companies generate sales revenue from the exploitation of film rights as well as from providing services for the film and TV industry.

The Group companies generate sales revenue from the exploitation of acquired film rights for certain countries and time periods. On the basis of their exploitation rights, the Group companies grant licences to clients mainly located in Germany and German-speaking Europe subject to time-related and geographical restrictions. The sales revenue is realised at the time the contract is fulfilled in favour of the licensee provided the Group companies have essentially satisfied their contractual obligations.

Splendid Medien AG earns revenue from the exploitation of films in cinemas, video / DVD as well as TV. In the case of motion pictures played in cinemas, revenues are realised as of the moment the film is launched. As a rule, video / DVD and TV (Pay TV and Free TV) exploitation begins between six and 24 months after regular cinema exploitation has commenced. Sales are realised when the respective licence exploitation begins.

Sales generated from services provided in the audio- and video-post-production segment are realised after completion and acceptance.

Concerning sales by individual segments (business segments and regions), please consult the information contained in the segmental reporting. Sales in the “licences” segment concern licence revenue, while sales in the “home entertainment” segment concern deliveries, and sales in the “post-production” segment concern services.

(2) Other operating income

During the financial year 2004, other operational income amounted to kEuro 1,052 (previous year: kEuro 1,230), of which kEuro 8 were attributable to Kids for Kids GmbH, and kEuro 7 to WVG Medien GmbH. Individual items are evident from the following table:

Other operation income in kEuro	**2004**	**2003**
Surplus proceeds from sale of shares	0	356
Income from the reduction of provisions / from written-off debts	6	382
Income from the dissolution of reserves	36	343
Income from the dissolution of liabilities / accounts payable	383	0
Warner Music compensation payment	350	0
Film subsidies	142	0
Other	135	149
Total	**1,052**	**1,230**

During the year under review, there was no income from of the sale of assets (previous year: kEuro 8).

(3) Production costs

In the financial year 2004, the production costs associated with generating the sales revenue amounted to kEuro 16,721 (previous year: kEuro 20,646), of which kEuro 1,203 can be attributed to Kids for Kids GmbH, and kEuro 1,353 to WVG Medien GmbH. The production costs contain the following items:

Costs of production in kEuro	**2004**	**2003**
Depreciation of film rights	6,266	11,602
Licence payments / royalties	3,410	2,858
Costs of materials and production	1,983	2,782
Personnel expenses	1,037	919
Purchased services	2,706	1,320
Depreciation of assets	230	258
Artists' fees	914	768
Other	175	139
Total	**16,721**	**20,646**

Depreciation on film rights includes special depreciation in the amount of kEuro 1,159 (previous year: kEuro 487). Depreciation of assets includes depreciation of intangible assets in the amount of kEuro 22.

(4) Distribution expenses

In the financial year 2004, distribution expenses in the amount of kEuro 4,939 were incurred (previous year: kEuro 9,535), of which kEuro 678 can be attributed to Kids for Kids GmbH, and kEuro 439 to WVG Medien GmbH. Distribution expenses include the items listed in the following table:

Distribution expenses in kEuro	**2004**	**2003**
Advertising	2,117	5,352
Sales commission	1,213	3,131
Personnel expenses	893	326
GEMA / film subsidy	401	453
Travel expenses	132	132
Other	183	141
Total	**4,939**	**9,535**

(5) Administrative expenses

During the financial year 2004, overall administrative expenses amounted to kEuro 3,732 (previous year: kEuro 3,189). The increase in costs compared to the previous year is mainly a result of the consolidation of WVG Medien GmbH (kEuro 377) as well as of the resumption of operations of Kids for Kids GmbH (kEuro 106). The administrative expenses comprise the following items:

Administrative expenses in kEuro	**2004**	**2003**
Legal and consulting costs	1,001	977
Administrative staff expenses	1,285	916
Rents, leasing, operating expenses	581	492
Public relations	58	135
Office expenses, insurance and the like	242	209
Postage, telephone	117	90
General shareholders' meeting	54	59
Depreciation of assets	217	203
Other	177	108
Total	**3,732**	**3,189**

The depreciation of assets includes depreciation of intangible assets in the amount of kEuro 55.

(6) Amortisation of goodwill

In the year under review, amortisation of goodwill amounted to kEuro 20 (previous year: kEuro 20). It is the result of differences arising from Splendid Medien AG's capital consolidation. The following table presents the respective amortisation items:

Company in kEuro	Amortisation of goodwill 2004	2003
Polyband Medien GmbH	20	20

(7) Other operating expenses

During the financial year 2004, other operating expenses amounted to kEuro 442 (previous year: kEuro 2,763). This figure contains expenses incurred by Kids for Kids GmbH in the amount of kEuro 19 as well as expenses incurred by WVG Medien GmbH in the amount of kEuro 68. The individual items are presented in the following table:

Other operating expenses in kEuro	2004	2003
Discount on accounts receivable	275	2,715
Losses on receivables	73	0
Other	94	48
Total	**442**	**2,763**

(8) Interest income / expenses

Interest income and expenses are adjusted according to the accruals principle, taking into account the applicable interest rate. The interest income essentially results from interest paid on cash at banks.

The interest income is composed of the following items:

in kEuro	2004	2003
Interest income		
Interest income from bank balances	42	13
Interest income from other receivables	0	8
	42	**21**
Interest expenses		
Interest expenses associated with accounts due to banks	69	347
Interest expenses associated with other liabilities	6	2
Interest expenses associated with finance-leasing liabilities	14	26
Interest expenses associated with leasing business loans	182	278
	271	**653**
Net interest income	**-229**	**-632**

Interest payments amounted to kEuro 270 (previous year: kEuro 669), and interest in-come amounted to kEuro 47 (previous year: kEuro 21).

(9) Income / expenses from associated companies

This item includes the pro-rated result of WVG Medien GmbH for the period from 1 January 2004 until 30 June 2004 in the amount of kEuro -94 (income from associated companies in the previous year: kEuro 387).

(10) Currency gains / losses

In the year under review, currency gains in the amount of kEuro 57 (previous year: currency losses of kEuro 28) were incurred.

(11) Taxes on income

The "taxes on income" item reports corporate income tax and trade tax including deferred taxes as well as foreign input taxes that cannot be offset as well as deferred taxes from loss carry-forward.

The composition of taxes is as follows:

in kEuro	2004	2003
Corporate income tax	35	3
Trade tax	38	38
Current tax income from tax loss carry-back	-141	0
Trade tax from previous years	0	9
Corporate income tax from previous years	-7	11
Foreign input taxes that cannot be offset	4	3
Deferred taxes	6	-45
Deferred taxes from loss carry-forward	-1,291	0
Total	**-1,356**	**19**

The deferred taxes result from temporary differences.

For the purpose of determining deferred taxes, corporate income tax was calculated at the rate of 25 %, the applicable rate for 2004. Trade tax was calculated at 19 %, the solidarity surcharge was taken into consideration using a percentage of 5.5 % on corporate income tax. Tax refund claims on losses carried forward have been capitalised to the extent that the losses carried forward can be offset against taxable income within the planning horizon of two years. The tax provisions concerning minimum taxation restrict the possibility of offsetting losses carried forward against the results of future periods.

The transition of gross expenses is as follows:

in kEuro	2004	2003
Taxes on income, based on a 40 % tax rate (previous year: 40%)	-822	-696
Expenses and tax-free income that cannot be offset	-1,021	15
Amortisation of goodwill	8	8
Tax not reported from loss carry-forward	623	692
Foreign taxes that cannot be offset	4	0
Tax income und expenses relating to other periods	-148	0
Actual tax expenditure	**-1,356**	**19**

The tax rate of 40 % used in the calculations does not represent the year's tax rate, but rather the tax rate expected in the long term.

(12) Earnings per share

The earnings per share amounts to Euro -0.08 (previous year: Euro -0.16). The dividend per share amounts to Euro 0.00 (previous year: Euro 0.00). The calculation of the earnings per share was based on the assumption of 8,900,000 shares (previous year: 8,900,000).

Notes pertaining to the consolidated balance sheet

(1) Liquid funds

The liquid funds (kEuro 5,129, previous year: kEuro 6,451) comprise cash in hand and cash at banks, recorded at their nominal value. Bank balances in foreign currencies were converted using the exchange rate at the balance sheet date.

(2) Receivables, deferred charges and other short-term assets

As a matter of principle, receivables and other assets were recorded at their nominal value. In the case of receivables that involve discernible risks, adequate individual valuation adjustments were carried out. Currency receivables were valued at the exchange rate at the cut-off date.

Receivables with a residual term of more than one year did not exist at the cut-off date.

The receivables and other assets can be itemised as follows:

in kEuro	31.12.2004	31.12.2003
Accounts receivable for goods and services	7,349	3,756
Tax refund claims	757	311
Receivables arising in connection with unauthorised salary overpayments to Management Board members	0	107
Other short-term assets	1,754	311
Prepayments and accrued income	51	81
	9,911	**4,566**

The accounts receivable for goods and services contain receivables from Splendid Pictures Holdings, Inc., which are, however, value-adjusted in their full amount.

(3) Inventories

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

Composition of inventories:

in kEuro	31.12.2004	31.12.2003
Finished goods	597	529
Unfinished goods and services	57	39
	654	**568**

The "finished goods" position essentially concerns videotapes, DVDs as well as a small amount of merchandise. Goods were valued at average costs of acquisition, subsequently applying a percentile marketability deduction. The "unfinished goods and services" category mainly refers to services in the area of dubbing.

(4) Fixed assets

Concerning the development of fixed assets and the depreciation in the financial year, we refer to the "schedule of fixed assets" enclosed in the Appendix.

(5) Tangible assets

Tangible assets were recorded at their historical costs of acquisition or production, less scheduled depreciation through use. Assets attributable to the company due to finance-leasing were capitalised at the present value of the future leasing payments, in accordance with IAS 17. The present values were based on average interest rates applicable to equivalent bank financing. Depreciation on tangible assets is contained in the costs of production (kEuro 230), in the distribution costs (kEuro 20) as well as in the administrative costs (kEuro 217).

Depreciation on tangible assets was based on the straightline method. Assets due to finance-leasing were written down pro rata temporis, assuming a useful life between three and five years, using the straight line method.

The following useful life was assumed for the scheduled depreciation of those assets that were not capitalised due to existing leasing contracts:

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

Leasing relationships

IAS 17 was applied to the leasing relationships. Operate-leasing relationships essentially concerned leased cars and office equipment. The term of the leasing relations as a rule amounts to three years. Future liabilities associated with leasing payments are reported as "other financial liabilities".

The finance-leasing relationships comprise technical studio equipment.

Contracts are concluded for terms between three and five years. All leasing relation-ships are based on fixed instalments in Euro.

	Minimum leasing payments		Cash value of minimum leasing payments	
in kEuro	**31.12.2004**	**31.12.2003**	**31.12.2004**	**31.12.2003**
Liabilities from finance-leasing				
With a residual term of one year or less	81	173	72	160
With a residual term of more than one year and up to five years	98	148	96	137
	179	**321**	**168**	**297**
Less future financing costs	-11	-24		
Cash value of leasing liabilities	168	297	168	297

As of 31 December 2004, assets reported in the asset category "office equipment and furniture" stood at kEuro 156 (previous year: kEuro 277).

(6) Intangible assets

Intangible assets valued at acquisition cost concern acquired software. They are capitalised pursuant to IAS 38 at acquisition cost and are written off over a useful life of three to five years, applying straight-line depreciation. Depreciation in the amount of kEuro 55 (previous year: kEuro 51) is contained in the administrative expenses, and in the costs of production in the amount of kEuro 22 (previous year: kEuro 26).

(7) Financial assets

This item includes shares in non-consolidated holdings, which refer to a holding in the amount of 1 % in Central Organisation of Technology, Inc. (COT) that Splendid Medien AG received in the context of transferring its 80 % share of Splendid Pictures Holdings, Inc. to COT. The holding was recorded at the value of transferred shares in Splendid Pictures Holdings, Inc., which amounted to 0 Euro at the time of transfer. The item also includes Splendid Entertainment, Inc., Los Angeles, newly founded in the financial year 2003, in which Splendid Medien AG holds 100 % of shares. This company was not consolidated due to insignificance.

(8) Film rights and advance payments on film rights

The film rights and advance payments on film rights have been reported as separate items. In the absence of industry-specific regulations pursuant to HGB or IFRS, valuation was based on general principles. The valuation was guided by the provisions contained in US GAAP, in particular SOP 00-02 (Accounting by Producers or Distributors of Films), to the extent that these regulations did not contradict IFRS. On this basis, modifications and deviations were applied which created the suitable bases for a company-specific valuation. The applied method concerning the realisation of sales is presented in the sales revenue section. The applied valuation of the film assets is presented in greater detail in the following paragraphs:

The film rights reported under the corresponding item are capitalised at acquisition cost at the time of their technical acceptance, our own productions are reported at the cost of production, pursuant to IAS 38. The film rights are written off in line with their exploitation, or with respect to the sale of subrights. In the cases in which we own full rights, generally of film rights in the video rentals / video sale business (incl. DVD), depreciation amounts to 20 % of acquisition costs; in 2004 and 2003, a rate of 10 % was used for the exploitation of video rentals and video sales. In the case of sale of TV rights, depreciation was reported in the amount of 80 % of acquisition costs. For the exploitation of Pay-TV rights, depreciation in the amount of 10 % was recorded in the expenses. For the initial exploitation of Free-TV rights, depreciation amounts to 49 % of acquisition cost, and to 21 % for secondary exploitation. For the cinema exploitation stage, the applied depreciation rate amounts to 10 % of the costs of acquisition. The corresponding depreciation volume was reduced at the TV rights exploitation stage.

Reporting of acquired sub-rights in the balance sheet is based on the Management Board's experience and assessment of the exploitation possibilities, even if contracts in individual cases specify different breakdowns of the purchase price concerning the individual sub-rights. A lack of opportunities at the various stages of exploitation has been taken into consideration in the form of non-scheduled depreciation. Also, specific features of the licence agreements (e.g., long periods for initial exploitation) are taken into consideration by appropriate adjustments of the depreciation rates.

Beside periodic, prorate depreciation, "impairment tests" are carried out at regular intervals, at the latest at each balance sheet date. During the year under review, non-scheduled depreciation in the amount of kEuro 1,159 (previous year: kEuro 487) was applied. As in the previous year, depreciation is contained in the costs of production.

(9) Goodwill

Goodwill (kEuro 326, previous year: kEuro 327) arose in conjunction with capital consolidation. If it originated prior to 31 March 2004, it was recorded at acquisition cost less scheduled depreciation over a maximum useful life of 20 years.

The asset difference resulting from the first-time consolidation of Polyband Medien GmbH is depreciated as goodwill over 20 years, using straight-line depreciation, in accordance with the expected useful life. The difference arising from the consolidation of Splendid Synchron GmbH as well as Kids for Kids GmbH was fully depreciated during the financial year 2000. The asset difference resulting from the first-time consolidation of WVG Medien GmbH in the amount of kEuro 18 was examined with regards to its value pursuant to IFRS 3 in conjunction with IAS 36 and was not depreciated.

(10) Deferred taxes, deferred taxes on loss carry-forward

The following deferred taxes recorded in the balance sheet arise from accounting and valuation differences in the various balance sheet items:

in kEuro	31.12.2004	31.12.2003
Loss carried forward	1,291	0
Tangible assets	22	46
Consolidations	81	72
Total	**1,394**	**118**

(11) Liabilities

The liabilities have been accrued at their respective payback amounts. Liabilities denominated in foreign currencies are valued at the exchange rate at the balance sheet date. The liabilities' residual terms are disclosed in the schedule of liabilities:

2004 in kEuro	**Amount**	**of which over 1 year**	**Collateral provided**	**Type**
Finance-leasing	168	96		
Loans, credit institutions	563		563	Pledging of film rights
Loans, leasing business (AGV)	1,275	577	1,275	Pledging of film rights
Accounts payable for goods and services	2,827			
Advances received	628			
Earnings-tax liabilities	378			
Other liabilities	2,421			
	8,260	**673**	**1,838**	

2003 in kEuro	**Amount**	**of which over 1 year**	**Collateral provided**	**Type**
Finance-leasing	297	137		
Loans, credit institutions	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			
	6,524	**1,445**	**2,839**	

The stated loan granted by a leasing company concerns a “sale and lease back” transaction in which secondary exploitation rights (film rights) were used as collateral. The loan is to be repaid over a period of five years. The possibilities for exploitation relating to the film rights remain with Splendid Film GmbH. After five years, the film rights are returned to Splendid Film, in exchange for a payment in the amount of kEuro 15. The proceeds generated from the sale of film rights (kEuro 5,113) were recorded as a loan liability; interest and other administrative expenses were recorded as affecting results.

Other liabilities in the year under review include an amount receivable from a licensor arising from an arbitration proceeding in the amount of kEuro 1,538. Negotiations concerning a reduction of this liability had not been concluded by the end of the year under review.

(12) Reserves

Pursuant to IAS 37, other reserves are established in the amount corresponding to the best possible estimation of the outflow of funds required for the performance of the current obligations at the balance sheet date. All discernible risks and contingent liabilities are considered that are based on past events, and whose amount and due date are uncertain. All reserves are short-term in nature.

Of the provisions for taxes in the amount of kEuro 73 (previous year: kEuro 88), kEuro 73 are associated with the current year's taxes on income.

The other reserves include the following items:

in kEuro	31.12.2004	31.12.2003
Commitments arising from licence agreements	2,275	2,412
Liability risks in connection with the provision of collateral for film acquisitions made by Splendid Pictures, Inc.	1,600	1,600
Legal and consulting costs	233	154
Film subsidy charges and the like	899	628
Royalties and settlements	151	42
Outstanding interest	26	20
Outstanding vacation	50	69
Returns	1,490	166
Bonuses	527	0
Other	520	310
	7,771	**5,401**

Reserve schedule in kEuro	**Provisions for taxes on income**	**Provisions for liability risks**	**Provisions for commitments arising from licence agreements**	**Other provisions**	**Total**
Status 01.01.2004	**88**	**1,600**	**2,412**	**1,389**	**5,489**
Additions first-time consolidation	0	0	0	1,342	1,342
Additions	73	0	436	2,702	3,211
Utilisation	83	0	573	1,502	2,158
Dissolution	5	0	0	35	40
Status 31.12.2004	**73**	**1,600**	**2,275**	**3,896**	**7,844**

Reserves established for liability risks associated with furnishing securities for film acquisitions of Splendid Pictures, Inc.

(13) Shares held by other shareholders

The shares held by other shareholders (kEuro 35, previous year: kEuro 20) were recorded at the time of acquiring the respective company, on the basis of the share of the fair present value of the assets and liabilities in the context of the share purchase attributable to the minority shareholders, plus annually accrued prorate contributions to income, to the extent that they can be offset.

(14) Equity capital

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

As of 31 December 2004, the company's subscribed capital amounted to Euro 8,900,000. The capital stock is divided into 8,900,000 ordinary bearer shares with a nominal value of Euro 1. The basic capital has been fully paid in. All shares have been issued.

Authorised capital

The Management Board was authorised by resolution adopted by the general shareholders' meeting on 02 July 2004 to increase – with the Supervisory Board's approval – as of registration in the local trade register, between 21 July 2004 and 20 July 2009, the company's share capital in one step or in several steps in exchange for cash or non-cash contributions by a total of 3,560,000.00 Euro (authorised capital I) and by a total of 890,000.00 Euro (authorised capital II) by issuance of new bearer shares with a nominal value of 1.00 Euro per share. Also, the Management Board was authorised to decide – with the Supervisory Board's approval – about the exclusion of the shareholders' statutory preemptive subscription rights in each case. However, exclusion of subscription rights is only permissible for the following purposes:

- for the compensation of fractional amounts, as well as
- for the acquisition of companies or company shareholdings in return for the company's shares
- if a capital increase in return for cash contributions does not exceed ten percent of the company's capital stock, and the shares' issue price is not significantly less than the stock's market price (this only applies 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 Euro 890,000 (authorised but unissued capital) by way of issuing new bearer shares with a nominal value of Euro 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.

Authorisation to buy back own shares

In a resolution passed on 02 July 2004, the general shareholders' meeting authorised the company to acquire shares in Splendid Medien AG during 18 months as of the day following the date of the resolution, in the amount of up to ten percent of the share capital existing at the time of the resolution's adoption, for the purpose of

- launching the shares in foreign stock exchanges on which they are as yet not traded
- being able to offer the shares to third parties within the scope of mergers with companies, or within the scope of the acquisition of companies or share-holdings in companies
- selling the shares for a price that is not significantly lower than the shares' quoted price at the time of sale
- redeeming the shares.

The own shares purchased in accordance with the authorisation pursuant to §71 section 1 no. 8 German Stock Corporation Act (Aktiengesetz, AktG) may together with other shares of the company which it has already acquired or still owns, not exceed ten percent of the company's share capital.

The authorisation may be used in its full amount, or in partial amounts, in one step or in several steps, for pursuing one or more of the purposes stated. The acquisition may take place via the stock exchange or by means of a public offer to buy directed to all shareholders, or through a public request directed to the company's shareholders for the submission of offers to sell.

- Provided that the acquisition of the shares occurs via the stock exchange, the corresponding equivalent value per share paid by Splendid Medien AG may not exceed the quoted price by more than ten percent, or fall short of the quoted price by more than twenty percent (excluding incidental costs associated with the purchase). The relevant quoted share price for the purpose of the above provision is the arithmetic average of the closing prices of the stock of Splendid Medien AG (as in the XETRA trading system, or its comparable successor system) at the Frankfurt Stock Exchange over the last ten subsequent trading days prior to the acquisition or prior to entering an undertaking for the purchase of the shares.

- If the acquisition is conducted via a public offer to buy to all shareholders of the company or by means of a public request directed to the company's shareholders for the submission of offers to sell, the offered purchase price or the limits of the offered sale or purchase price margin per share (excluding incidental costs associated with the acquisition) may not exceed, or fall short of, the arithmetic average of the closing prices of Splendid Medien AG shares (in the XETRA trading system, or a comparable successor system) at the Frankfurt Stock Exchange during the last ten subsequent trading days prior to the publication of the purchase offer / the public request for the submission of sales offers by more than twenty percent. If after the publication of a for-

mal offer or of a formal request for the submission of offers to sell significant deviations occur between the share price and the offered sales or purchase price, or the limits of the offered sales or purchase price range, the offer or the request for the submission of offers to sell may be adjusted. In this case, the relevant amount is determined in accordance with the corresponding stock exchange price on the last day of trading prior to the publication of the adjustment; the limit of twenty percent for exceeding or falling short is to be applied to this amount.

The volume of the offer or the request for the submission of offers may be limited. To the extent that shares offered by the shareholders within the scope of the acquisition exceed the total amount of the company's offer of acquisition, the acquisition must in each case occur in relation to the offered shares. Preferred acquisition or preferred acceptance of small amounts of up to fifty offered shares per company shareholder may be stipulated.

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

Earnings per share amounted to -0.08 Euro (previous year: -0.16 Euro). Dividends per share amounted to 0.00 Euro (previous year: 0.00 Euro). Earnings per share were calculated on the basis of 8,900,000 shares (previous year: 8,900,000 shares). Because no option rights were exercised, earnings were not diluted.

Stock option plan in 2001
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 Euro 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 2004, 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 pursuant to IFRS

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
Cash flow from current business activities amounted to kEuro 4,708 (previous year: kEuro 14,532).

(2) Cash flow from investment activities
Cash flow from investment activities was kEuro -5,285 (previous year: kEuro -4,810), resulting from the acquisition of film assets (kEuro 5,038), as well as the purchase of tangible and intangible assets (kEuro 247).

(3) Cash flow from financing activities
Cash flow associated with financing activities amounted to kEuro -993 (previous year: kEuro -7,078), largely determined by the repayment of loans (kEuro -1,002) carried out in 2004.

(4) Financial resources
The financial resources in the amount of kEuro 5,129 (previous year: kEuro 6,451) include the checks reported in the balance sheet, cash in hand and credit balances at financial institutions.

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.

The key figures relating to the segments are:

2004 in kEuro	**License trade**	**Home Enter-tainment**	**Postpro-duction**	**Total**	**Con-solidation**	**Total**
External sales	7,254	13,363	2,397	23,014		23,014
Intercompany sales	10	930	830	1,770	- 1,770	0
Total sales	7,264	14,293	3,227	24,784	- 1,770	23,014
EBITDA	**3,261**	**1,246**	**376**	**4,883**	**139**	**5,022**
TD: film rights	-3,960	-2,451	0	-6,411	145	-6,266
TD: properties and tangi-ble assets	-7	-84	-376	-467		-467
TD: goodwill	0	-20	0	-20		-20
EBIT	**-706**	**-1,309**	**0**	**-2,015**	**284**	**-1,731**
Financial result					-229	-229
Result: associated undertaking					-94	-94
Taxes on income					1,356	1,356
Group loss for the year						**-698**
Segmental fixed assets	7	595	364	966		966
Film rights	5,930	1,576	0	7,506	-124	7,382
Other assets	7,381	8,721	907	17,009	79	17,088
Total assets	13,318	10,892	1,271	25,481	-45	25,436
Total liabilities	8,608	6,972	564	16,144	-5	16,139
Investment, film rights	2,129	3,077	0	5,206	-168	5,038
Investment, properties and tangible assets	44	127	97	268		268
Number of staff	6	24	26	56		56
Sales per employee in kEuro	1,209	557	92	411		411

Non-scheduled depreciation of film assets in the amount of kEuro 1,159 relates to the home entertainment segment (kEuro 534) as well as to the licence trade segment (kEuro 625).

2003 in kEuro	**License trade**	**Home Enter-tainment**	**Postpro-duction**	**Total**	**Con-solidation**	**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
Group loss for the year						**-1,445**
Segmental fixed assets	17	712	457	1,186	288	1,474
Film rights	7,960	1,010		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	7,896	3,499	648	12,043	0	12,043
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 kEuro	2,252	2,303	92	965		965

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 by geographical regions are as follows:

Sales revenue in kEuro	**2004**	**2003**
Germany	21,975	32,659
Rest of Europe	635	722
USA	390	184
Other	14	205
Total	**23,014**	**33,770**

More than 99 % of the assets are situated in Germany. The transfer prices applicable to intra-group sales are guided by the markets (“at arm’s length principle”).

Management board
The following persons are members of the Management Board:

- Andreas Ralf Klein, Cologne, chairman of the Management Board and responsible for licence trade and strategic planning
- Alexander Welzhofer, Management Board member responsible for marketing and sales
- Frank Preuss, Management Board member responsible for finances and investor relations (as of 26 February 2004)

During the financial year 2004, the Management Board received remunerations in the amount of kEuro 617 (previous year: kEuro 331).

During 2004, the Management Board members did not have any additional responsibilities in other Supervisory Boards and controlling bodies.

Supervisory board
The following persons are members of the Supervisory Board:

- Dr. Ralph Drouven, lawyer, Cologne, chairman; additional Supervisory Board mandates: Easyway AG, Gesellschaft für Biotechnologie, Monheim (Germany), Bürgerverein 1864 AG, Bernkastel-Kues (Germany)
- Georg Holschbach, auditor, tax consultant, Pulheim (Germany), deputy chairman
- Thomaz Burckhardt, Wollerau (Switzerland); additional Supervisory Board mandates: TV Loonland, Munich (Germany), Impla invent AG, Basel (Switzerland), Christoph Burckhardt AG, Basel

During the financial year 2004, remuneration received by the members of the Supervi-sory Board amounted to kEuro 45 (previous year: kEuro 45).

Other information

Staff
At the end of the year, the number of salaried employees amounted was:

	2004	2003
Members of the Management Board	3	1
Employees	53	35

During the financial year 2004, total personnel expenses amounted to kEuro 3,055 (previous year: kEuro 2,161). The increase in personnel expenses is a result of the first-time consolidation of WVG Medien GmbH, the resumption of business activities by Kids for Kids GmbH as well as of the appointment for the previously vacant position of member of the Management Board responsible for financial matters.

Shareholdings by members of the corporate bodies

On 29 August 2001, at total of 222,494 stock options were issued to Splendid Group's managers. Up to 31 December 2004, no options had been exercised. The earliest possible exercise date was 29 August 2003.

As of 31 December 2004, Splendid Medien AG's share capital stood at 8,900,000.00 Euro, and consisted of 8,900,000 bearer shares.

The shareholdings of members of the corporate bodies as of 31 December 2004 were comprised as follows:

	2004			2003		
	Number	**Shares in %**	**Options**	**Number**	**Shares in %**	**Options**
Management Board						
Andreas R. Klein	5,308,984	59,6515	0	5,355,129	60,1700	0
Alexander Welzhofer	7,321	0,0823	0	7,321	0,0823	0
Supervisory Board						
Dr. Ralph Drouven	3,060	0,0344	0	3,060	0,0344	0

Relationships with affiliated persons

Name	Amount in kEuro	Of which outstanding	Type of activity	Settlement
Dr. Drouven (Norton Rose Vieregge / CMS Hasche Sigle)	111	10	Consulting	According to hours
Albert Klein	118	0	Rent of office building	According to tenancy contract
Albert Klein	70	0	Consulting	According to contract

Other financial liabilities

Other financial liabilities in kEuro:

Type of obligation	Up to 1 year	2 to 5 years	More than 5 years	Total
Rent	341	393	0	734
Operate Leasing	55	61	0	116

During the year under review, expenses resulting from operate-leasing were recorded in the amount of kEuro 76, affecting results.

The order commitment associated with investments amounted to kEuro 2,401 (previous year: kEuro 8,422).

Contingencies

Bank guarantees exist in the amount of kEuro 66.

Events after the balance sheet date

On 23 March 2005, Splendid Medien AG and its subsidiary, Splendid Film GmbH, concluded a comprehensive settlement with Imperial Capital Bank Entertainment Finance (formerly: the Lewis Horwitz Organization) and its former subsidiary Splendid Pictures, Inc. as well as its subsidiary In the Shadows LLC. Within the scope of this settlement, existing liabilities were processed on the basis of securities provided for film acquisitions.

On 22 March 2005, the final settlement with Gold Circle Films was concluded, which will affect earnings in 2005.

Proposal for the appropriation of profits and dividends per share

Splendid Medien AG's Management Board will propose to the general shareholders' meeting not to pay dividends for 2004. The Management Board suggests carrying forward to new account Splendid Medien AG's balance sheet loss in the amount of 70,161,086.71 Euro (according to the German Commercial Act (Handelsgesetzbuch, HGB)).

The declaration of conformity by Splendid Medien AG's Management Board and the Supervisory Board concerning the corporate governance code pursuant to § 161 German Stock Corporation Act (AktG) was published on Splendid Medien AG's website.

On 29 April 2005, the Management Board and the Supervisory Board released these consolidated financial statements for publication.

Cologne, 29 April 2005

The Management Board

Andreas Ralf Klein   Alexander Welzhofer   Frank Preuss

Auditor's Certificate

"We have examined the consolidated financial statements of Splendid Medien AG for the financial year from 01 January to 31 December 2004, 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 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 2004, 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 2004 fulfil the German legal requirements for the company's exemption from the obligation to prepare consolidated financial statements and a Group management report."

Cologne, 29 April 2005
BFJM Bachem Fervers Janßen Mehrhoff GmbH
Auditing company

(Dr. Christian Janßen)	(Dipl.-Kfm. Franz Meller)
Auditor	Auditor

Imprint

Publisher:

Splendid Medien AG
Alsdorfer Straße 3
50933 Köln

Tel.: +49 (0) 2 21-95 42 32-32
Fax: +49 (0) 2 21-95 42 32-8
E-Mail: info@splendid-medien.com
Web: www.splendidmedien.com

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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.

Investor Relations:

Splendid Medien AG
Dr. Gert Fisahn
Karin Opgenoorth
Alsdorfer Straße 3
50933 Köln
Tel.: +49 (0) 2 21-95 42 32-34 / -99
Fax: +49 (0) 2 21-95 42 32-8
E-Mail: gert.fisahn@splendid-medien.com
karin.opgenoorth@splendid-medien.com

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. Internationalisation begins by investing in "IEG": Start of production business
1999	IPO, quotation on the Neuer Markt stock exchange index
2000	Acquisition of "Polyband" in Munich, foundation of "Enteractive" and "Splendid Television"; cooperation agreement with 20th Fox International, L.A., for the distribution of Splendid films. Production of "Traffic", "Shadow of the Vampire", "Dr. T & The Women"
2001	Sale of the minority share in the film production company Initial Entertainment Group, Inc, Santa Monica
2002	Foundation of the film production company Splendid Pictures Holdings, Los Angeles, with a major shareholding
2003	Separation from Splendid Pictures, Inc.

Financial Calendar 2005

31.05.2005	**Report on the first quarter of 2005** Press release on the financial figures of the first quarter of 2005. Publication of the interim report on the first quarter of 2005.
06.07.2005	**Annual general meeting 2005** Fifth ordinary shareholders' meeting of Splendid Medien AG.
31.08.2005	**Semi-annual report 2005** Press release on the financial figures of the first six months of 2005. Publication of the interim report on the first six months of 2005.
30.11.2005	**Nine-month report 2005** Press release on the financial figures of the first nine months of 2005. Publication of the nine-month report.

www.splendidmedien.de

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