Annual Report

> 2 0 0 5 <

> > Godzilla < > Godzilla < > Godzilla < > The Final Cut < > The Final Cut < > The Final Cut < > You're fired < > You're fired < > You're fired < > Verliebt in Berlin < > Verliebt in Berlin < > Verliebt

splendid medien AG

>> You're fired (Matt Dillon) <<

SPLENDID AT A GLANCE

Key data (IAS)

in Mio. EUR	2005	2004
Total sales revenues	**20.3**	**23.0**
Licenses granted	2.0	7.2
Home Entertainment	15.6	13.4
Post-production	2.7	2.4
EBITDA	4.9	5.0
EBIT	1.9	-1.7
Profit	2.1	-0.7
Cash flow from current business activities	6.5	4.7
Balance sheet total	25.5	24.7
Equity	12.3	9.3
Equity ratio	48.1%	37.7%
Liquid funds as at 31.12.	7.7	5.1
Film rights (incl. advance payments)	8.1	7.4
Investments in film rights	3.3	5.0
Investitment ratio (from balance sheet total)	12.9%	20.2%
Depreciation of film rights	2.6	6.3
Depreciation-ratio (from sales revenues)	12.8%	27.4%
Earnings per share in Euro*	0.22	-0.08
Number of employees at the end of the year	64	56

*Earnings per average outstanding shares in 2005 (9,493,333).

CONTENT

THE SPLENDID MEDIEN AG

GROUP MANAGEMENT REPORT

CONSOLIDATED FINANCIAL STATEMENTS

FOREWORD OF THE MANAGEMENT BOARD

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

the rigorous implementation of our strategy – reducing the risk profile associated with the acquisition of films while simultaneously having conducted cost reduction measures – has worked: the positive business results for 2005 bear witness to our company's successful turnaround.

Indeed, in spite of our focus on films involving smaller budgets that resulted in a decline in overall sales in 2005, Splendid Medien AG still achieved earnings before interest and taxes (EBIT) in the amount of 1.9 million Euro – a major improvement over the previous year's loss of 1.7 million Euro. On the one hand, the substantial improvement in the results by an amount of 3.6 million Euro was caused by operational effects. In addition, earnings before interest and taxes benefited from the settlements concluded in March 2005 with Gold Circle Films LLC and ICBEF, and the associated dissolution of reserves and liabilities in the amount of 0.7 million Euro, as well as from reduced downward pressure on earnings resulting from the valuation of the film assets.

A particularly satisfactory development is the significant increase in cash flow over the previous year, growing from last year's 4.7 million Euro by 1.8 million Euro, up to 6.5 million Euro.

In the financial year 2006, we want to return to the growth path. Compared with 2005, we expect sales in all segments to increase. After years of declining sales in particular in the "license trade" segment, stepped-up acquisition activities will stimulate business. In doing so, we will focus on films that with respect to cost, cast and content are particularly suited for marketing in license trade.

We will continue to devote particular attention to our "Home Entertainment" business division. In this area, we will also focus on acquiring films that appeal to our target groups in the Home Entertainment market. In order to exploit the growth opportunities at hand, we will continue to attentively pursue alternative forms of exploitation (VoD, Mobile Entertainment). In addition, we will investigate in-house productions in the Special Interest segment (health, wellness). Also, we will intensively market the "Ben & Bellas Sprachenwelt" project, the innovative learning program for early childhood language acquisition.

For the post-production companies, we likewise expect an improvement in market conditions. We are assuming that this segment will benefit in particular from the introduction of new data carrier standards (HD DVD / Blue-Ray), but also from new formats such as interactive DVDs (DVD-I).

For the financial year 2006, we are expecting increases in sales over the previous year as well as an improved operational margin.

The fundamentally positive business expectations might further improve if we succeed in accessing additional financial resources such as mezzanine capital.

Cologne, March 2006

Andreas R. Klein
Chairman of the Management Board

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

Frank Preuss
Member of the Management Board responsible for Finances and Investor Relations

REPORT OF THE SUPERVISORY BOARD

Until 06 July 2005, the members of the Supervisory Board were Dr. Ralph Drouven, Mr. Georg Holschbach and Mr. Thomaz Burckhardt. Their term of office expired at the end of the General Meeting that took place on that day. On 06 July 2005, the General Meeting elected the following members of the new Supervisory Board:

- Dr. Ralph Drouven, lawyer, CMS Hasche Sigle, Cologne,
- Mr. Bernd Kucera, auditor / tax advisor, Kucera & Hüttner GmbH, Bonn,
- Mr. Michael Baur, business studies graduate (Diplom-Kaufmann), management consultant, AlixPartners, Munich

During the following meeting, the Supervisory Board elected Dr. Ralph Drouven as its chairman, and Mr. Bernd Kucera as its deputy chairman.

During the past financial year 2005, the Supervisory Board fulfilled its responsibilities pursuant to statutory regulations and the articles of association. The Management Board informed the Supervisory Board about matters that according to law, the 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 the presence of the Management Board. Where required, the Supervisory Board adopted resolutions pertaining to the issues at hand.

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 position as well as the plans of Splendid Medien AG and its associated companies. Business-related transactions of particular importance were also discussed among the members of the Supervisory Board and together with the Management Board 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 exchanging ideas. The Supervisory Board did not establish any special committees.

Meetings of the Supervisory Board

In the financial year 2005, the Supervisory Board held five ordinary meetings. During its first meeting on 18 March 2005, the Supervisory Board extensively deliberated the preliminary results contained in the annual financial statement as of 31 December 2004. In particular, the effects of the settlements that the Management Board intended to conclude for the purpose of winding down earlier investments in the US were discussed. With respect to the resolved change in Splendid Film GmbH's business model (acquisition of mid- and low-priced films instead of investing in high-priced films), the development of new sources of finance was considered to be one of the overriding challenges. A further topic of discussions with the Management Board during this meeting as well as during the subsequent meetings in 2005 was the development of business for the subsidiary Kids for Kids GmbH and the measures that management intended to implement in order to reduce initial losses. The consulting activities performed in 2004 and the related remuneration payments to lawyers Norton Rose Vieregge were approved by the Supervisory Board in view of the fact that the member of the Supervisory Board, Dr. Ralph Drouven, was a partner in this lawyer's partnership. Furthermore, the Supervisory Board was informed about the further implementation of the early risk detection and risk management system as well as the pending internal audit.

In the meeting that took place on 28 April 2005, the Management Board reported on the status of the various financing discussions. After discussions, the Supervisory Board approved the Management Board's plans to execute an increase of the authorised capital (Genehmigtes Kapital II) for cash on the basis of VEM Aktienbank AG's offer. The Supervisory Board also approved the issue of convertible bonds planned in the course of 2005 by the Management Board. On this basis, the Supervisory Board approved the amended business planning for the financial year 2005. Also, the Supervisory Board considered in some detail whether control as well as profit and loss transfer agreements should be concluded with subsidiaries of Splendid Medien AG.

At the constituent meeting of the newly elected Supervisory Board on 06 July 2005, the continuation of the service agreement with Mr. Andreas Klein that is set to expire at the end of 2005 was discussed. Furthermore, the Supervisory Board considered Mr. Frank Preuss' desire to prematurely cancel his employment relationship in view of his intention to pursue a scientific occupation.

The meeting on 25 August 2005 focused on a detailed discussion of the business situation concerning Splendid Medien AG and its subsidiaries. In particular, the collaboration with Edel Musik AG was discussed in this context. Also, the Management Board reported on the markedly positive development of business with respect to most companies of the Splendid Group. Given this background, the Management Board and the Supervisory Board considered whether issuing convertible bonds for financing purposes is actually still required. The final decision in this matter was deferred in view of the fact that the Management Board should initially examine other means of financing.

At the meeting on 17 November 2005, Dr. Werner Holzmeyer introduced himself; Dr. Holzmeyer will in future be responsible for auditing the financial statements on the part of auditors BFJM Bachem Fervers Janssen Mehrhoff GmbH. The budget for the audit of this financial statement was discussed in detail. In addition, the Management Board informed the Supervisory Board upon its request about Splendid Film GmbH's recent acquisitions of film rights and the prospects concerning their exploitation. The liquidity plans for 2006 and 2007 were deliberated in detail, taking into consideration the burgeoning opportunity to again take up outside funds. The Supervisory Board then extended the appointments of the members of the Management Board, Mr. Andreas Klein and Mr. Alexander Welzhofer, in each case up to 31 December 2008, and limited that of Mr. Frank Preuss to 30 June 2006, in accordance with his request. The Supervisory Board acknowledged and approved the report on the results of the internal audit that the Management Board had made available to the Supervisory Board for this meeting.

Audit of the consolidated financial statements and the annual financial statements

Pursuant to the resolution adopted by the general shareholders' meeting on 06 July 2005, 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 statements as well as the consolidated financial statements and the management reports for the Group and for Splendid Medien AG as of 31 December 2005 in accordance with the statutory provisions, and issued unqualified audit certificates.

Splendid Medien AG's annual financial statements and management report as well as the Management Board's proposed appropriation of profits, the consolidated financial statements and Group management report as well as the auditor's report had been made available to all Supervisory Board members. The Supervisory Board examined these financial statements and discussed them in detail at the Supervisory Board's respective meeting on 27 March 2006 in the presence of the auditing company's responsible representative. The auditing company's representative conveyed the essential results of the audits, and provided the Supervisory Board with information in response to further questions. Subsequently, the Supervisory Board saw no grounds for any objections.

In accordance with the findings contained in the auditor's audit report, the Supervisory Board approved the annual financial statements and the consolidated financial statements after having conducted its own examination. Splendid Medien AG's annual financial statement as of 31 December 2005 is thereby adopted. The Supervisory Board has acknowledged and approved the management reports and in particular the Management Board's assessment regarding the further development of Splendid Medien AG and the Group. The Supervisory Board has endorsed the Management Board's suggestion for the appropriation of profits.

Recommendations to the General Meeting

A lawsuit against Dr. Thomas Weber, a former member of the Management Board, is still pending, in a court of second instance. In view of the fact that the Cologne Regional Court has as a result of the action brought by Splendid Medien AG already adjudicated against Dr. Weber on account of taking an excessive percentage of annual profits without authority and making payments to third parties contrary to instructions, the Supervisory Board endorses the Management Board's recommendation to the General Meeting to finally refuse to grant discharge to Dr. Weber for the financial years 2002 and 2003.

Corporate Governance

The Supervisory Board considers compliance with the recommendations and suggestions contained in the Corporate Governance Code to be of particular importance. For this reason, departures from the Code were discussed in detail with the Management Board, and examined by the Supervisory Board as to their factual necessity. The Management Board and the Supervisory Board came to the conclusion that in contrast to previous practice, the Management Board's remuneration should be individually specified in the notes to Splendid Medien AG's consolidated financial statements and annual financial statements, disclosing the name of each individual member of the Management Board, and itemising fixed and success-dependent components. The declaration of conformity pursuant to Section 161 German Stock Corporation Act (Aktiengesetz; AktG) was jointly adopted by the Management Board and the Supervisory Board during the Supervisory Board meeting on 17 November 2005, and subsequently published.

Early risk detection system

The Supervisory Board regularly asked the Management Board to report on the efficiency of the Group's early risk detection and risk management systems and the results of the internal audit. The Supervisory Board and the Management Board together considered opportunities for further improving the system. In the Supervisory Board's opinion, the existing systems are 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 2005.

Cologne, March 2006
Dr. Ralph Drouven
Chairman of the Supervisory Board

>> You're Fired (Matt Dillon) <<

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, TV productions, special interest and children's programmes, 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 AFM in Los Angeles, the Berlinale and at various festivals in Cannes, including MIP TV, MIPCom and the Cannes Festival. There, buyers of licences sound out already produced films in screenings. Sometimes, however, 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 substantial 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 distribution partners, which assumes responsibility for distribution and marketing of movies in return for a distribution fee standard in the industry. The value of a successful film 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 continue to grow over the next years, despite the slight decline in growth recorded in 2005. Splendid will continue to acquire film licenses for exclusive exploitation in this growth market.

Approximately four to six months after the movie has been launched in the cinemas, it is commercially exploited as DVD rental and is distributed by Warner Home Video and our subsidiary, WVG Medien.

Splendid brands its movies using the "Splendid Film", "Polyband" and "Kids for Kids" brand labels, while Splendid's subsidiary WVG Medien GmbH is responsible for distribution.

Due to a number of collaborations, Splendid is also prepared for the market of the future, VoD, in which the customer can individually watch, and in part also download, audio-visual programmes via telephone line/Internet, TV cable network, power supply line or directional radio link.

Pay TV/FreeTV: 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).

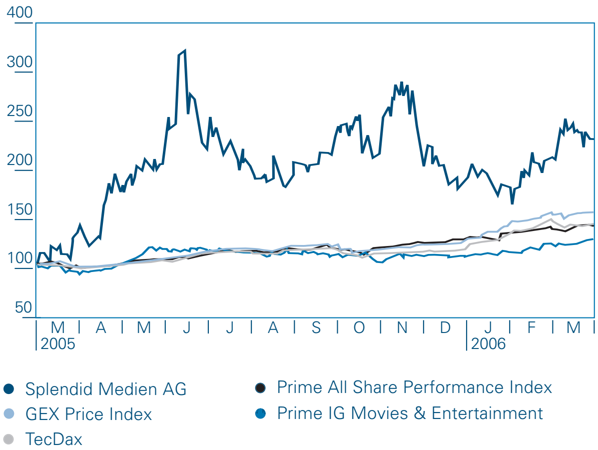
>> Verliebt in Berlin (Mathis Künzler, Bianca Hein, Alexandra Neldel) <<

THE SHARE

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. Step by step, the typically analog film material is being converted to the digital medium, DVD, often creating new, additional contents for the DVD.

The successful implementation of our amended market strategy as well as the capital increase in May 2005 spurred Splendid's share performance in the financial year 2005. Compared to the Prime IG Movies & Entertainment sector index as well as to other important standards, including the new GEX (German Entrepreneurial Index) standard founded by Deutsche Börse in early 2005 that lists owner-managed, medium-sized, listed companies, the Splendid Share demonstrated a significantly better performance

Development of splendid share in %

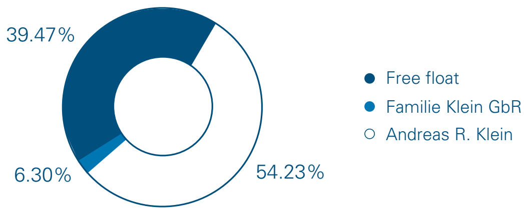


>> Verliebt in Berlin (Alexandra Neldel) <<

Shareholder structure

As of December 31 2005, Splendid Medien AG's share capital was spread over 9,789,999 bearer stocks. The shareholder structure was as follows:

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.



The Splendid Share at a glance

ISIN	DE0007279507
Security Identification Code	727 950
Stock market abbreviation	SPM
Prime Standard Sector Index	Media
Industry Group	Movies & Entertainment
Trading segment	Prime Standard
Reuters Instrument Code	SPMG.DE
Authorized Capital	EUR 9,789,999.00
Authorized Capital/Shares	9,789,999
Capital Stock	EUR 9,789,999.00
Capital Stock/Shares	9,789,999
First trading day	September 24 1999
Designated Sponsor	VEM Aktienbank AG, Munich
IPO activities in 2005	11 May 2005 Share capital increase by issuing 889,999 new, ordinary shares in bearer form
Market capitalization (as of December 30 2005)	14.88 million Euro
Market capitalization (as of March 27 2006)	18.80 million Euro

>> The Final Cut (Mira Sorvino, Robin Williams) <<

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

Corporate Governance Report

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 recommendation that have not been or are not being applied. Such declaration of conformity shall be available to stockholder 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 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.

The Corporate Governance Code stipulates that the members of the Management Board and the Supervisory Board disclose ownership of shares in the Company or financial instruments associated with those shares where ownership directly or indirectly exceeds 1% of shares issued by the Company.

Management Board	Number of shares held in Splendid Medien AG
Andreas R. Klein	5.308.984
Alexander Welzhofer	7.321

Supervisory Board	
Dr. Ralph Drouven	3.060

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 2 June 2005.

1. Section 4.2.3. Paragraph 3

The salient points of the compensation system and the concrete form of a stock options scheme or comparable instruments for components with long-term incentive effect and risk elements shall be published on the company's website in plainly understandable form and be detailed in the annual report. This shall include information on the value of stock options.

>> The Final Cut (Robin Williams) <<

The compensation system for Splendid Medien AG's Board of Management will not be presented in detail.

Reason: The investors have a legitimate interest in knowing to what extent the Company's earnings are burdened by payments of compensation to management. This interest is taken into consideration by publishing the overall compensation that is to be paid to the Board of Management in view of the Board's statutory collective responsibility.

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 auditin focal points and the fee agreement

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

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

3. Section 5.4.7 Paragraph 2 Sentence 1

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

In accordance with Splendid Medien AG's articles of association, the members of the Supervisory Board receive only a fixed compensation in the following amounts:

Dr. Ralph Drouven:	20,000 Euro
Bernd Kucera:	15,000 Euro
Michael Baur:	10,000 Euro

Reason: The Supervisory Board possesses only a limited degree of influence over the success of the Company because it does not have any management rights, and cannot cause the Company's management to carry out specific acts. For fulfilling its statutory task of monitoring the Company, the Supervisory Board does not require incentives or rewards in the form of a compensation that is linked to the success of the Company.

4. Section 7.1.2. Sentence 3

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 90 days after the end of the financial year and its interim reports 60 days after the end of the reporting period.

Reason: Publication of the 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.

>> The Final Cut (Robin Williams) <<

GROUP MANAGEMENT REPORT 2005 OF SPLENDID MEDIEN AG

Business performance

After a positive financial year 2004, the film industry experienced a rather staid financial year 2005. The revenue setbacks that are particularly noticeable regarding movie theatres are largely a result of slow economic growth associated with a general reluctance to buy. For Germany, the experts expect more favourable developments for 2006: Mainly due to so-called "preemptive behaviour" with respect to the increase in value added tax in early 2007, GfK and DIW experts assume that private consumption will increase between 0.1 and 0.3%.

In 2005, box office sales dropped globally. In Germany, the movies industry ended 2005 with a significant slump compared to the previous year: Initial published market data show that attendance at the movies dropped by 20.4%. Compared to 2004, sales revenue was lower by 18%. According to an evaluation conducted by Nielsen EDI, overall sales amounted to Euro 720.1 million (previous year: Euro 879.1 million), with 121.3 million moviegoers attending (previous year: 152.4 million). Key reasons given include the low number of films with strong public appeal in addition to the general restraint on the part of consumers. For the years as of 2006, experts are predicting a slight improvement in box office revenue.

The home entertainment market segment is still the driver of sales revenue in the entire industry. The financial year 2005 was not able to sustain the growth rates of past years. Despite the fact that sales revenue dropped by 3% compared to the previous year, the German video industry was satisfied with 2005. However, the massive decline in prices for DVDs meant that in 2005, a DVD meanwhile only costs 13.39 EUR on average, compared to 14.68 EUR in the previous year. The industry is reckoning that the decline in prices will continue in 2006.

Current market analyses indicate that the total home entertainment sector will grow by an average annual growth rate of 6.5% over the next years. The key for this to occur will be the continued growth regarding DVD and its follow-up formats (HD-DVD, Blue-Ray) as well as the enhanced demand for VoD.

Concerning the German television market, experts believe growth rates over the next years will amount to an average annual rate of around 3%. Germany's share in the western European television market, however, will decline over the next years, from around 19% in 2004, to 16.5%. The growing range of available programmes in the Free TV, Subscriber TV and Pay TV segments requires that the stations continue to steadily acquire feature films and television series. However, only moderate increases in the TV stations' advertising revenues are expected over the next years – this will affect the stations' budgets for films and series accordingly.

Also in 2005, Splendid Medien AG's chosen approach of concentrating on lower-budget films has led to a further reduction of sales revenue in the license trade segment, whereas the home entertainment segment performed very well. Compared to the previous year, the sales revenue generated by the home entertainment segment increased by 16.4%, to Euro 15.6 million. Segmental EBIT improved by Euro 2.9 million, to Euro 2.2 million.

In total, Splendid Medien AG achieved consolidated sales in the amount of Euro 20.3 million, compared to Euro 23.0 million in 2004. Despite the drop in sales, the Group achieved earnings before interest and taxes (EBIT) in the amount of Euro 1.9 million (previous year: Euro 1.7 million). On the one hand, the substantial improvement in the results by an amount of Euro 3.6 million was caused by operational effects. In addition, earnings before interest and taxes benefited from the settlements concluded in March 2005 with Gold Circle Films LLC and ICBEF and the associated dissolution of reserves and liabilities in the amount of Euro 0.7 million as well as from reduced downward pressure on earnings resulting from the valuation of the film assets.

Compared to the previous year's period, the home entertainment division further grew in importance, and, with a share of 77%, is the division generating the strongest sales. With 13% of overall sales, the "post-production" area came second, followed by "license trade", which generated 10%.

In 2005, the license trade business division generated sales revenue in the amount of Euro 2.0 million (previous year: Euro 7.2 million). The drop in sales is a direct result of the reduction of the investment volume as well as the amended acquisition policy during the past two years. The first consequence of acquiring a large number of smaller individual films is a significant improvement of the risk profile. However, the lack of major "lead films" restricts the opportunities for sales to TV stations. In particular, in the feature film segment, the major public-sector (ARD, ZDF) and private-sector (RTL, ProSieben, Sat1) stations are placing an emphasis on known films, often after they have been successfully exploited in the movie theatres. While sales to ProSieben significantly declined in the year under review, the sales to Pay TV stations such as Premiere remained largely stable compared to 2004. This development also underscores the overall increase in the relevance of the Pay TV market, which provides good sales opportunities particulary for niche productions and less known films.

>> The Final Cut (Robin Williams) <<

At Euro 15.6 million (previous year: Euro 13.4 million), the home entertainment division achieved a significant increase over 2004.

Splendid Film contributed Euro 5.3 million (previous year: Euro 6.2 million), and a further Euro 7.7 million (previous year: Euro 5.3 million) was generated by Polyband. WVG Medien also showed a significant increase – its sales revenue in the first year of consolidation 2005 reached Euro 1.5 million (previous year: Euro 1.0 million). The reduction within Splendid Film is the result of fewer strong-selling films. In addition to various films from the "back catalogue" such as "Gangs of New York", "Traffic" or films from the Jackie Chan series, newly acquired individual films movies in Splendid Film's movie library such as the Korean action movie "Arahan", the scifi thriller "The Final Cut" starring Robin Williams and Mira Sorvino, the comedy "You're Fired" (original title "Employee of the Month") starring Matt Dillon and Christina Applegate as well as "Godzilla – Final Wars" were particularly successful. In Polyband's library, various films produced in cooperation with BBC and Discovery Channel were particularly strong sellers, in addition to the "Verliebt in Berlin" seasons and "Barbara Becker – Mein Pilates Training".

The post-production area was able to continue the positive trend exhibited over the past years, generating an increase in sales of 13%, to Euro 2.7 million (previous year: Euro 2.4 million). 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 structure of the consolidated balance sheet are primarily the result of operational effects. Overall, the balance sheet total increased marginally, to Euro 25.5 million (previous year: Euro 24.7 million). A particularly interesting aspect is the significant increase of the equity ratio, up from 37.7% to 48.1% as of the balance sheet date, 31 December 2005. Due to the continued reduction in debt, the improved liquidity and the significantly improved equity ratio, the balance sheet structure is exceedingly stable.

As of 31 December 2005, at Euro 14.5 million, short-term assets fell short of the previous year's mark of Euro 14.9 million. Cash in hand and cash at banks contained in this position increased substantially, to Euro 7.7 million (previous year: Euro 5.1 million). Accounts receivable for goods and services declined, to Euro 5.1 million (previous year: Euro 7.3 million), and essentially comprise receivables associated with the distribution of home entertainment products.

As of the balance sheet date, medium- and long-term assets stood at Euro 11.0 million, higher than the previous year's figure of Euro 9.7 million. Compared to the previous year (Euro 7.4 million), the "film rights" and "advance payments made for film rights" positions increased by approximately Euro 0.7 million, to Euro 8.1 million.

In the period under review, the "short-term liabilities" position was reduced, from Euro 14.7 million to Euro 13.1 million. The substantial reduction is largely the result of the reduction of loan liabilities and the reduction of other liabilities.

As at 31 December 2005, medium- and long-term liabilities were reduced according to plan, to Euro 0.1 million (previous year: Euro 0.7 million).

Equity capital increased from Euro 9.3 million to Euro 12.3 million, in line with the net income for the year and the capital increase.

In the financial year 2005, cash flow from the Group's current business activities stood at Euro 6.5 million, significantly more than the previous year's figure of Euro 4.7 million. The increase over the previous year is a result of the positive business trend as well as the reduction in the accounts receivable.

Depreciation of film assets (non-cash-item) was Euro 6.3 million in 2004, and only Euro 2.6 million in the year under review. The reduction is a result of the changed acquisition policy that generally leads to higher ongoing royalty payments and fewer minimum guarantees that would affect depreciation. Liquidity in an amount of Euro 3.3 million (previous year Euro 5.0 million) was used for investments in film assets. This reduction is likewise associated with the changed acquisition strategy. Due to the balance of loan repayment and the inflow of equity capital, cash flow from financing activities stood at Euro -0.3 million (previous year: Euro -1.0 million).

Earnings position

In the past year, Splendid Medien AG registered an annual profit for the Group in the amount of Euro 2.1 million (previous year: Euro -0.7 million). Earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to Euro 4.9 million (previous year: Euro 5.0 million). Earnings before interest and taxes (EBIT) stood at Euro 1.9 million (previous year: Euro -1.7 million).

The earnings position in 2005 was essentially characterised by the positive business trend in the home entertainment and the post-production segments. Furthermore, the dissolution of reserves and liabilities in connection with the conclusion of the settlements with Gold Circle Films LLC and LHO in the amount of Euro 0.7 million contributed to positive results.

>> The Final Cut (Robin Williams) <<

To a small extent, results were burdened in the amount of Euro 0.1 million as a result of the valuation of the film assets within the scope of the annual impairment test. In the context of this valuation, individual films were devalued, and other films revalued, arriving at a fair economic value for each film.

Production costs amounted to Euro 12.5 million (previous year: Euro 16.7 million). The largest positions include amortisation of film assets in an amount of Euro 3.4 million (previous year: Euro 6.3 million), purchased services in an amount of Euro 4.8 million (previous year: Euro 4.7 million) as well as royalties in an amount of Euro 1.8 million (previous year: Euro 3.4 million).

Distribution expenses stood at Euro 4.0 million (previous year: Euro 4.9 million). The main cost factors are advertising expenses in an amount of Euro 1.7 million (previous year: Euro 2.1 million), personnel expenses in an amount of Euro 1.2 million (previous year: Euro 0.9 million) and sales commission in an amount of Euro 0.3 million (previous year: Euro 1.2 million). The reduction in distribution expenses is largely a result of the reduced number of strong-selling films in the home entertainment segment as well as the consolidation of WVG Medien. This brought about a reduction in advertising expenses and sales commission associated with the films.

General administrative expenses amounted to Euro 3.9 million, slightly more than previous year's figure of Euro 3.7 million. This increase is exclusively the result of the first-time, full-year consolidation of WVG Medien GmbH. When adjusted for this effect, the administrative expenses incurred by the Group have due to a variety of cost reduction measures decreased in comparison with the previous year, by approximately 5%, or Euro 0.2 million.

Investments

Euro 3.3 million (previous year: Euro 5.0 million) were invested in film assets, for instance in films such as "Arahan", "Godzilla – Final Wars", the "Masters of Horror" series, the "Verliebt in Berlin" series as well as various films produced in cooperation with BBC and Discovery Channel. Within the individual Group companies, Polyband significantly increased investments; however, Splendid Film acquired licenses for a large number of individual films having a smaller investment sum, leading to decreased overall investments. Also, considerable funds were invested in the "Ben & Bella" project developed by Kids for Kids GmbH. The movies were financed exclusively by own resources.

Employees

The number of employees at year-end was 64 (previous year: 56). 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 analysed extensively, because they have a direct bearing on the company's financial, assets and earnings 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 film might not meet with the audience's approval, rendering it economically unsuccessful. This applies to all value added stages.

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

TV exploitation

A certain degree of sales revenue 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 the unilaterally indexed changes of the payment arrangements, may therefore have a negative impact on Splendid Group's financial and earnings position. Due to the increasing importance of the home entertainment segment, however, this risk is less serious than in the past.

Product piracy

The film industry – like the music industry – has for a long time deplored the opportunities for illegal downloads provided by the Internet that have greatly increased with the arrival of DSL connections. This clearly exerts a negative impact on the film industry, in particular on the video and DVD markets. The industry set up a series of initiatives intended to prevent such illegal downloads in future. Among other aspects, this includes an adjustment of German regulations to reflect European standards. Nevertheless, at the present time, there exists as yet no clear, legally satisfac-

>> The Final Cut (Robin Williams) <<

tory 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 as well as Kids for Kids GmbH's special interest products are associated with a much smaller risk than Splendid Film GmbH's feature film products. This is primarily due to respective genre's different target audiences. Generally, the economic risk for Splendid Group is seen to be low.

Currency risks

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

Risks resulting from shortfalls or delays in payment

Splendid Group is exploiting the majority of the acquired license rights in home entertainment as well as in dealing with TV companies in the German-speaking regions. The Group manages the risks resulting from shortfalls or delays in payment by means of standardised reports. A large degree of the receivables associated with the sale of DVDs and videocassettes is secured via credit insurance procured by the distribution partner.

Financing

It is crucially important for the Group to be equipped with sufficient capital for the acquisition of film licenses. Due to the successful capital increase conducted in 2005, the positive business trend as well as the near-complete cancellation of debt in the year under review, Splendid Group exhibits a stable financial and liquidity structure. In the context of the intended expansion, the Management Board is currently engaged in discussions with various financing partners. The economic stability of Splendid Medien AG is assured, irrespective of the outcome of these discussions.

Key person risk

The Group's economic success is determined to a large extent by the management and by key employees in the subsidiaries. A sudden unavailability of these key employees can have a negative impact on the subsidiaries' and the Group's business activities. Stock options, flat hierarchies and success-dependent, variable compensation structures promote job satisfaction and employee loyalty within the companies.

Legal risks

Together with its subsidiary Splendid Film GmbH, Splendid Medien AG is exposed to liability risks associated with its former subsidiary, Splendid Pictures, Inc., in particular relating to collateral furnished in the context of film acquisitions. Corresponding reserves were already created for Splendid Film GmbH during financial year 2002. In this context, Splendid Medien AG and Splendid Film GmbH concluded a comprehensive settlement on 23 March 2005 with ICBEF, Splendid Pictures, Inc. as well as its subsidiary, "In the Shadows, LLC". The reserves were utilised to the extent of the settlement amount. Currently, Splendid Medien AG and its subsidiary, Splendid Film GmbH, are involved in litigation against the Fireman's Fund Insurance Company ("Fireman's Fund") in the context of a film entitled "U-Boat" that was produced by the former indirect subsidiary of Splendid Medien AG, "U-Boat LLC". Fireman's Fund is suing Splendid Medien AG for payment of USD 565,709.45 for payments made by Fireman's Fund from the completion bond. Payments from a completion bond are made by the insurer – in this case, Fireman's Fund – if a production cannot be completed on time, for instance due to loss of production and/or non-payment. Fireman's Fund argues that Splendid Medien AG did not assume payment obligations on the part of its former subsidiary, thereby causing the insured event. The action's prospects of success cannot be finally ascertained at this time. However, according to a risk assessment prepared by the Management Board, there are chances that the proceedings may lead to a positive outcome for Splendid. The remaining risks in the context of the former subsidiary Splendid Pictures, Inc., were reassessed, also in light of the concluded settlement. This led to a partial dissolution of the reserves in Splendid Film GmbH.

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 of key developments within the Group and the subsidiaries within the scope of the monthly reporting. Also, for 2006, the Management Board is planning to implement an integrated planning and controlling system that is to replace the present system consisting of individual solutions and manual reporting activities.

>> The Final Cut (Robin Williams) <<

Events after the end of the financial year

In January 2006, Splendid Medien AG relocated the seat of its subsidiary Kids for Kids from Dornach (near Munich) to Hamburg. In this context, the film rights held by Kids for Kids will in future be exploited by the subsidiary WVG. The contract with the managing director hitherto responsible for Kids for Kids GmbH, Mr. Heinz Ehmann, was cancelled. Mr. Alexander Welzhofer was appointed as new managing director.

On 14 February 2006, Splendid Medien AG acquired the shares held by the former managing director of Kids for Kids GmbH, Mr. Heinz Ehmann, in an amount of 10% of the share capital of the aforementioned company at their nominal value.

In December 2005, Splendid Medien AG submitted a proposal to HSBC Trinkaus & Burckhardt AG ("HSBC") to conclude a profit participation rights agreement. This offer was submitted subject to acceptance on the part of HSBC. Acceptance is dependent upon the final structuring of the so-called H.E.A.T. Mezzanine II Fonds that is expected shortly.

Prospects

The business trend in 2005 reflects the successful turnaround and provides the Group with a solid basis for returning to the growth path in 2006. Compared to 2005, increases in sales are expected in all segments. After years of decline in the license trade segment, new acquisitions will stimulate business in 2006. This is of great significance, given the strategic importance of license trade for the entire Group. Therefore, the budget for acquisitions will also be substantially increased in 2006.

Sales and earnings are also expected to increase in the home entertainment segment. The Group will continue to invest in the burgeoning special interest and TV productions segments as well as children's and animation programmes. For the first time, the Group is also expecting earnings contributions from marketing the "Ben & Bella" project due to changes in the cost structure.

The fundamentally positive business expectations for 2006 and the following years might further improve if we succeed in accessing additional financial resources such as mezzanine capital.

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

We will continue to devote particular attention to our home entertainment business division. In order to optimally exploit the available growth opportunities, alternative forms of exploitation will be attentively pursued, for instance in the areas of VoD, Mobile Entertainment, etc. Furthermore, in-house productions in the special interest category (health, wellness etc.) are being studied.

In the medium term we expect that the license trade and home entertainment segments will again exhibit a more highly balanced sales revenue.

For the companies involved in post-production, we are expecting a future improvement of the business environment. In particular, this applies to Enteractive GmbH, which among other things will benefit from the introduction of new data carrier standards (Blue-Ray and HD-DVD).

In the current financial year 2006, Splendid Medien AG is expecting an increase in sales revenue over the previous year and a further improvement in the operational margin.

Cologne 17. March 2006

Splendid Medien AG

The Management Board

Andreas R. Klein

Alexander Welzhofer

Frank Preuss

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet (IFRS)
as at 31 December 2005

Assets in kEuro	01.01.2005 – 31.12.2005	01.01.2004 – 31.12.2004
Short-term assets:		
Liquid funds	7,693	5,129
Accounts receivable for goods and services	5,160	7,349
Inventories	952	654
Deferred charges and other short-term assets	737	1,802
Short-term assets, total	**14,542**	**14,934**
Medium and long-term assets		
Tangible assets	397	533
Intangible assets	129	107
Financial assets	0	0
Film rights	5,702	6,019
Advance payments made for film rights	2,372	1,363
Goodwill	326	326
Deferred taxes	2,039	1,394
Medium and long-term assets, total	**10,965**	**9,742**
Assets, total	**25,507**	**24,676**

Liabilities in kEuro	01.01.2005 – 31.12.2005	01.01.2004 – 31.12.2004
Short-term liabilities:		
Short-term share of finance leasing liabilities	66	72
Short-term loans and short-term share of long-term loans	577	1,261
Accounts payable	3,448	3,287
Advanced payments received	440	628
Reserves	6,158	6,369
Earnings-tax liabilities	373	378
Other short-term liabilities	2,065	2,676
Short-term liabilities, total	**13,127**	**14,671**
Medium and long-term liabilities:		
Long-term loans	0	577
Long-term finance leasing liabilities	30	96
Minority shares	71	35
Deferred taxes	1	0
Medium and long-term liabilities, total	**102**	**708**
Equity:		
Subscribed capital	9,790	8,900
Capital reserves	66,951	66,992
Balance sheet profit/loss	-64,463	-66,532
Currency differences	0	-63
Equity, total	**12,278**	**9,297**
Liabilities, total	**25,507**	**24,676**

Consolidated profit and loss account (IFRS)
as at 31 December 2005

in kEuro	01.01.2005 – 31.12.2005	01.01.2004 – 31.12.2004
Sales revenues	**20,334**	**23,014**
Production cost	-12,462	-16,721
Gross profit on sales	**7,872**	**6,293**
Distribution expenses	-4,013	-4,939
Administrative expenses	-3,914	-3,732
Other operative income	2,306	1,052
Other operative expenses	-408	-443
Depreciation of goodwill	0	-20
Operating result	**1,843**	**-1,789**
Income from interest	91	42
Expense on interest	-127	-271
Income/expenses from affiliated companies	0	-94
Currency profit/loss	26	58
Earnings before tax (and minority shares)	**1,833**	**-2,054**
Taxes on income	272	1,356
Annual net income/loss	**2,105**	**-698**
Minority shares	-36	-16
Profit/loss carried forward	-66,532	-65,818
Balance sheet profit/loss	**-64,463**	-66,532
Profit/loss per share (undiluted)	0.22	-0.08
Profit/loss per share (diluted)	0.22	-0.08
Average shared in circulation (undiluted)	9,493,333	8,900,000
Average shared in circulation (diluted)	9,493,333	8,900,000

Consolidated cash flow statement (IFRS)
as at 31 December 2005

	in kEUR	01.01.2005 – 31.12.2005	01.01.2004 – 31.12.2004
	Group surplus in accounting period before third-party shares	**2,105**	-698
	Income from interest	-91	-42
	Expense on interest	126	271
	Depreciation of fixed assets	352	467
	Depreciation and amortisation of film rights	2,637	6,266
	Depreciation of goodwill	0	20
-/+	Tax result/expenditure	-272	-1,331
+/-	Increase/decrease of short-term reserves	-396	916
-/+	Profit/loss from asset disposal	0	0
+/-	Increase/decrease in inventories, accounts receivable for goods and services and other asstes not attributable to investment of financing activities	2,387	-3,353
+/-	Increase/decrease in accounts payable for goods and services and other liabilities not attributable to investment or financing activities	-301	1,937
+	Taxes received	700	695
-	Taxes paid	-687	-217
+	Interest received	74	47
-	Interest paid	-133	-270
	Cash flow from current business activities	**6,501**	**4,708**
	Payments received from the disposal of tangible and intangible assets	4	0
	Payments made for investments in tangible and intangible assets	-242	-247
	Payments made for investments in film rights	-3,329	-5,038
	Cash flow from investment activities	**-3,567**	**-5,285**
	Payments made for credit repayments	-1,261	-1,002
	Capital increase	849	0
	Other changes in value of capital	63	9
	Cash flow from financing activities	**-349**	**-993**
	Change in exisiting financial resources affecting payments	**2,585**	**-1,570**
	Change of consolidated group	-21	248
	Exisiting financial resources at beginning of accounting period	5,129	6,451
	Exisiting financial resources at end of accounting period	**7,693**	5,129

Consolidated statement of fixed assets (IFRS)

in kEUR	Acquisition and production costs As of 01.01.2005	Currency differences	Additions	Re-bookings
I. Intangible assets				
1. Industrial property and similar rights and values	375	16	0	0
2. Goodwill	5,620	0	0	0
3. Advanced payments made	0	63	0	0
Total intangible assets	**5,995**	**79**	**0**	**0**
II. Tangible assets				
1. Properties and builgings, including buildings on third-party property	687	0	0	0
2. Technical equipment and machines	481	44	49	0
3. Other equipment, office equipment and furniture	716	119	18	0
4. Equipment under construction and advance payments	0	0	0	0
Total tangible assets	**1,884**	**163**	**67**	**0**
III. Financial assets				
1. Shares in affiliated companies	0	0	0	0
2. Loans to affiliated companies	0	0	0	0
3. Investments	0	0	0	336
4. Advance payments on financial assets	0	0	0	0
Total financial assets	**0**	**0**	**0**	**336**
Total assets	**7,879**	**242**	**67**	**336**

		Depreciation						Residual book values	
Disposals end conso-lidation	As of 31.12.2005	As of 01.01.2005	Additions	Disposals	Re-bookings	Disposals end conso-lidation	As of 31.12.2005	As of 31.12.2005	As of 31.12.2004
0	391	286	57	0	0	0	325	66	107
0	5,620	5,294	0	0	0	0	5,294	326	326
0	63	0	0	0	0	0	0	63	0
0	**6,074**	**5,562**	**57**	**0**	**0**	**0**	**5,619**	**455**	**433**
0	687	536	101	0	0	0	637	50	151
0	476	297	89	49	0	0	337	139	184
6	811	518	105	15	0	5	603	208	198
0	0	0	0	0	0	0	0	0	0
6	**1,974**	**1,351**	**295**	**64**	**0**	**5**	**1,577**	**397**	**533**
0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0
0	336	0	0	0	336	0	336	0	0
0	0	0	0	0	0	0	0	0	0
0	**336**	**0**	**0**	**0**	**336**	**0**	**336**	**0**	**0**
0	**8,384**	**6,913**	**352**	**64**	**336**	**5**	**7,532**	**852**	**966**

Development of equity (IFRS)
for fiscal year 1 January until 31 December 2005

in kEUR	Subscribed capital	Capital reserves	Balance sheet profit/loss	Currency difference	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 minority shares			3,442		3,442
As of 31.12.2000	8,900	66,992	3,939	-12	**79,819**
Currency difference				14	14
Earnings after minority shares			-8,707		-8,707
As of 31.12.2001	8,900	66,992	-4,768	2	**71,126**
Currency difference				-48	-48
Earnings after minority shares			-59,568		-59,568
As of 31.12.2002	8,900	66,992	-64,336	-46	**11,510**
Adjustments for previous years			-35		-35
Currency difference				-26	-26
Earnings after minority shares			-1,447		-1,447
As of 31.12.2003	8,900	66,992	-65,818	-72	**10,002**
Currency difference				9	9
Earnings after minority shares			-714		-714
As of 31.12.2004	8,900	66,992	-66,532	-63	**9,297**
Currency difference				63	63
Capital increase	890	-41			849
Earnings after minority shares			2,069		2,069
As of 31.12.2005	9,790	66,951	-64,463	0	**12,278**

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 based in Cologne and has been registered in the local trade register under No. HRB 31022. As parent company of a single-tiered group for the purposes of Section 315a HGB (German Commercial Code), Splendid Medien AG has prepared consolidated financial statements in accordance with IFRS.

B. Foundation and methods employed

Splendid Medien AG's consolidated financial statements for the financial year starting 01 January and ending 31 December 2005 have been prepared in accordance with IFRS; all binding IFRS stipulations applicable on or before 31 December 2005 have been observed.

Pursuant to IAS 32, the net costs of the initial public offering and of the capital increase (costs less taxes on income) were offset against equity (capital reserves). In the year under review, an amount of kEuro 49 was offset.

The individual accounts have been prepared in accordance with uniform accounting and valuation principles; the reporting and valuation principles employed by the parent company have also been observed by the subsidiaries. Monetary amounts are stated in terms of thousand Euro (kEuro).

In accordance with IAS 37, and starting with the present financial statements, Splendid Medien AG is reporting accruals that hitherto were reported as part of the reserves as accounts payable or other liabilities. The respective figures relating to the previous year were reclassified, ensuring comparability. In the previous year, reserves were reported in the amount of kEuro 715, of which kEuro 255 were now transferred to accounts payable, and kEuro 460 to other liabilities. The positions in the balance sheet are sorted by the date they are due; short-term liabilities and short-term assets are due within a period of one year or less. Within the scope of uniform, Group-wide accounting, the statement of returns expected for WVG GmbH was adjusted, and the statement pertaining to the previous year was corrected accordingly. In the context of the adjustment, other assets and other reserves that had been reported for the previous year were each reduced by an amount of kEuro 760.

>> Godzilla <<

In other respects, the applied accounting and valuation principles as well as the calculation methods correspond to those that were applied to the consolidated financial statements for the entire previous year.

The profit and loss account was prepared in accordance with the cost-of-sales accounting format, the cash flow statement in accordance with the indirect method.

The preparation of annual financial statements in accordance with IFRS stipulations requires that estimates and assumptions be made that influence the values stated for the assets, accounts payable and financial liabilities as of the balance sheet date as well as the income and expenses reported for 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	Dornach	100
eNterActive GmbH	Hamburg	85
WVG Medien 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, and 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.

During the first quarter of 2005, the company decided to shut down **Splendid Television International LLC** (90%), New York. The deconsolidation was already carried out effective 01 January 2005, observing aspects of materiality. The shutdown of the company was initiated within the year under review; the company no longer sustained any substantial business activities in 2005.

The affiliated companies are all subject to unified management 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 Euro 0.08, was not consolidated in the year under review, in line with the principle of materiality. The company's shutdown was initiated during the year under review.

On 06 July, retroactively effective as of 01 January 2005, WVG Medien GmbH concluded a control and profit transfer agreement with Splendid Medien AG, the latter constituting the controlling entity. The shareholders' meeting approved the agreement by resolution adopted on 06 July 2005. The settlement agreement with the minority shareholder, Mr. Alexander Welzhofer, provides an annual compensation payment in the amount of kEuro 55.

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	341	-52	393
eNterActive GmbH	45	42	3
WVG Medien GmbH	229	210	19
	6,359	**768**	**5,591**

Up to the financial year 2004, the asset difference on the part of Polyband Medien GmbH resulting from the first-time consolidation was written down as goodwill using straight-line amortisation over a period of 20 years, corresponding to its prospective useful life. In the year under review, the value of the remaining goodwill was verified in accordance with IAS 36 and not amortised. The value of the goodwill arising from the consolidation of WVG Medien GmbH was verified according to IAS 36 and not amortised. All other goodwill had already been entirely amortised in the past.

Accounts receivable and accounts payable among the consolidated companies were offset against one another. Sales revenue and other internal income were offset against the corresponding expenses incurred by the concerned subsidiary. Intercompany profits were eliminated. Pursuant to IAS 32, the costs associated with the initial public offering as well as those related to the capital increase conducted during the year under review were offset against equity.

D. Financial instruments

The financial instruments reported in the balance sheet include cash in hand and cash at banks in the amount of kEuro 7,693 (previous year: kEuro 5,129), accounts receivable (kEuro 5,160, previous year: kEuro 7,349) and accounts payable for goods and services (kEuro 3,448, previous year: kEuro 3,287) as well as other assets and liabilities. The other short-term assets essentially include receivables from amounts withheld for returned goods, tax liabilities as well as debit balances. There are no derivative financial instruments. According to IAS 32, all financial instruments reported in the balance sheet are to be classified in the "trading" category, while the term of the other short-term assets in each case is less than one year. The medium- to long-term other liabilities have a term of up to five years. This category is not associated with an interest rate risk. Regarding the financial instruments reported in the balance sheet, there are no significant deviations between the balance sheet values and the current values.

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

Currency transactions are recorded at the exchange rate applicable at the time they occur. The value of monetary assets and liabilities stated in a foreign currency is converted using the historical exchange rate. Exchange gains and losses are recorded affecting current-period results.

Notes pertaining to the Group profit and loss account

(1) Sales revenues

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

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.

The Group companies generate sales revenue from the exploitation of films in cinemas, video / DVD as well as TV. In the case of movies, 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 at the moment the materials have been accepted by the licensee, or when the goods have been delivered.

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 relate to services.

(2) Other operating income

During the financial year 2005, other operational income amounted to kEuro 2,306 (previous year: kEuro 1,052). Concerning other operational income reported for the previous year, the values for income resulting from the dissolution of reserves and from the dissolution of liabilities were adjusted. This adjustment is based on the reclassification of positions that in the previous year had been reported as a part of the reserves, but in the year under review were stated within the positions for accounts payable or other liabilities.

in kEuro	**2005**	2004
Income from the reduction of provisions / from written-off debts	**107**	6
Income from the dissolution of reserves	**621**	36
Income from the dissolution of liabilities	**603**	383
Income from appreciations in the value of film assets	**758**	0
Warner Music compensation payment	**0**	350
Film subsidies	**0**	142
Other	**217**	135
Total	**2,306**	**1,052**

No income was generated from the sale of assets during the year under review (previous year: kEuro 0).

(3) Production costs

In the financial year 2005, the production costs for the services associated with generating the sales revenue amounted to kEuro 12,462 (previous year: kEuro 16,721) The production costs contain the following items:

in kEuro	2005	2004
Amortisation of film rights	3,395	6,266
Licence payments / royalties	1,811	3,410
Personnel expenses	1,208	1,037
Purchased services	4,804	4,689
Depreciation of assets	131	230
Artists' fees	983	914
Other	130	175
Total	**12,462**	**16,721**

Amortisation of film rights includes special amortisation in the amount of kEuro 814 (previous year: kEuro 1,159). Depreciation / amortisation of fixed assets includes amortisation of intangible assets in the amount of kEuro 3.

(4) Distribution expenses

In the financial year 2005, distribution expenses amounted to kEuro 4,013 (previous year: kEuro 4,939) Distribution expenses include the items listed in the following table:

in kEuro	2005	2004
Advertising	1,685	2,117
Sales commission	291	1,213
Personnel expenses	1,209	893
GEMA / film subsidy	518	401
Travel expenses	152	132
Other	158	183
Total	**4,013**	**4,939**

Depreciation / amortisation of fixed assets contained in the "Other" item includes amortisation of intangible assets in the amount of kEuro 6.

(5) Administrative expenses

During the financial year 2005, overall administrative expenses amounted to kEuro 3,914 (previous year: kEuro 3,732). The administrative expenses comprise the following items:

in kEuro	2005	2004
Legal and consulting costs	817	1,001
Administrative personnel expenses	1,566	1,285
Rents, leasing, operating expenses	598	581
Public relations	43	58
Office expenses, insurance and similar expenses	258	242
Postage, telephone	137	117
General shareholders' meeting	80	54
Depreciation / amortisation of fixed assets	208	217
Other	207	177
Total	**3,914**	**3,732**

Depreciation / amortisation includes amortisation of intangible assets in the amount of kEuro 48. The auditor's fee for auditing contained in the legal and consulting costs amounts to kEuro 121, the fee for other consulting services to kEuro 104.

(6) Amortisation of goodwill

In the year under review, amortisation of goodwill amounted to kEuro 0 (previous year: kEuro 20). In the previous year, amortisation of goodwill was a result of differences arising from Splendid Medien AG's capital consolidation. The following table presents the respective amortisation items:

	Amortisation of goodwill	
Company in kEuro	**2005**	2004
Polyband Medien GmbH	**0**	20

(7) Other operating expenses

During the financial year 2005, other operating expenses amounted to kEuro 408 (previous year: kEuro 442). The individual items are presented in the following table:

in kEuro	**2005**	2004
Discount on accounts receivable	**55**	275
Losses on receivables	**99**	73
Compensation payment to minority shareholder	**55**	0
Deconsolidation Splendid Television	**62**	0
Other	**137**	94
Total	**408**	442

(8) Interest income / expenses

Interest income and expenses are reported 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 as follows:

in kEuro	2005	2004
Interest income		
Interest income from bank balances	75	42
Interest income from tax liabilities	1	0
Interest income from other receivables	15	0
	91	**42**
Interest expenses		
Interest expenses associated with accounts due to banks	19	69
Interest expenses associated with other liabilities	2	6
Interest expenses associated with finance-leasing liabilities	9	14
Interest expenses associated with leasing business loans	97	182
	127	**271**
Net interest income	**-36**	**-229**

Interest payments amounted to kEuro 133 (previous year: kEuro 270), and interest income amounted to kEuro 74 (previous year: kEuro 47).

(9) Income / expenses from associated companies

In the previous year, this position contained the prorated earnings of WVG Medien GmbH for the period from 01 January 2004 through 30 June 2004 in the amount of kEuro -94.

(10) Currency gains / losses

In the year under review, currency gains in the amount of kEuro 26 (previous year: kEuro 58) were realised.

(11) Taxes on income

The "taxes on income" item reports corporate income tax and trade tax including deferred taxes, foreign input taxes that cannot be offset as well as taxes relating to losses carried forward.

The taxes are composed as follows:

in kEuro	2005	2004
Corporate income tax	185	35
Trade tax	175	38
Current tax income from tax loss carry-back	0	-141
Trade tax from previous year	0	0
Corporate income tax from previous years	0	-7
Foreign input taxes that cannot be offset	13	4
Deferred taxes	-25	6
Dissolution of deferred taxes relating to the previous year's loss carry-forward	291	0
Utilisation of deferred taxes relating to loss carry-forward	354	0
Capitalisation of taxes relating to loss carry-forward	-1.265	-1.291
	-272	-1.356

The deferred taxes are the result of temporary differences.

For the purpose of determining deferred taxes, corporate income tax was calculated at the rate of 25%, the applicable rate for 2005. The trade tax rate used was 19%, and the solidarity surcharge was taken into consideration at a rate of 5.5% of corporate income tax. Claims to tax refunds relating to losses carried forward were capitalised to the extent that the losses carried forward can be offset against taxable income within a planning horizon of five years. Whereas in the previous year, the deferred taxes relating to losses carried forward were based on a planning horizon of two years, five years were used in the report under review on account of the changed economic conditions. The tax provisions concerning minimum taxation restrict the possibility of offsetting losses carried forward against the results of future periods.

The transition of gross expenditure took place as follows:

in kEuro	2005	2004
Taxes on income, based on a 40% tax rate (previous year: 40%)	728	-822
Expenses and tax-free income that cannot be offset	-124	-1,021
Amortisation of goodwill	0	8
Taxes not reported relating to losses carried forward	354	623
Taxes relating to losses carried forward	-1,243	0
Foreign taxes that cannot be offset	13	4
Dissolution of deferred taxes relating to the previous year on account of integrated inter-company relationship (Organschaft)	81	0
Tax income and expenses relating to other periods	0	-148
Actual tax expenditure	**-272**	-1,356

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 average share in circulation amounts to Euro 0.22 (previous year: Euro -0.08). The dividend per share amounts to Euro 0.00 (previous year: Euro 0.00). The calculation of the earnings per share was based on an assumption of 9,493,333 shares (previous year: 8,900,000).

Notes pertaining to the consolidated balance sheet

(1) Liquid funds

The liquid funds (kEuro 7,693, previous year: kEuro 5,129) comprise cash in hand and cash at banks, stated in their nominal amount. Bank balances in foreign currencies were converted using the exchange rate at the balance sheet date. The reported cash at banks contains a payment received in error in the amount of kEuro 1,000 that could only be returned after 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. In addition to the required individual valuation adjustments, the discernible risks arising from the general credit risk are taken into consideration by establishing general valuation adjustments.

Currency receivables were valued at the historical exchange rate applicable on 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	**31.12.2005**	31.12.2004
Accounts receivable for goods and services	5,160	7,349
Tax refund claims	560	757
Deferred charges and other short-term assets	177	1,045
	5,897	**9,151**

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

(3) Inventories

Inventories were valued at their costs of acquisition or costs of production less impairment of value on the balance sheet date.

Composition of inventories:

in kEuro	31.12.2005	31.12.2004
Finished goods	902	597
Unfinished goods and services	50	57
	952	654

The "finished goods" position essentially refers to videotapes, DVDs as well as a small proportion of merchandise. Goods were valued at average costs of acquisition, subsequently applying a percentile marketability deduction. The "unfinished goods and services" category refers mainly to services in the area of dubbing. The increase in inventories by kEuro 298 comprises changes in inventories in the amount of kEuro 411 as well as impairments of value in the amount of kEuro 113 recorded in the year under review.

(4) Fixed assets

Concerning the development of fixed assets and 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 on account of 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 determined on the basis of average interest rates that apply in the case of equivalent bank financing. Depreciation of tangible assets is contained in the costs of production (kEuro 128), in the distribution costs (kEuro 7) as well as in the administrative costs (kEuro 160).

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

The following useful life spans were 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 13 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 include technical studio equipment.

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

	Mindestleasingzahlungen		Present value of minimum leasing payments	
in kEuro	**31.12.2005**	31.12.2004	**31.12.2005**	31.12.2004
Finance leasing liabilities				
With a residual term of one year or less	**70**	81	**66**	72
With a residual term of more than one year and up to five years	**32**	98	**30**	96
	102	**179**	**96**	**168**
Less future costs of financing	**-6**	-11		
Present value of leasing liabilities	**96**	168	**96**	168

The assets reported in the asset categories "furniture and fittings" and "technical equipment and machines" are recorded as at 31 December 2005 at kEuro 86 (previous year: kEuro 156).

(6) Intangible assets

The intangible assets valued at acquisition cost relate to acquired software. Pursuant to IAS 38, they are capitalised at acquisition cost and are written off over a useful life of three to five years, applying straight-line depreciation. Depreciation is included in the administrative costs in the amount of kEuro 48 (previous year: kEuro 55), in the distribution costs in the amount of kEuro 6 (previous year: kEuro 0), and in the costs of production in the amount of kEuro 3 (previous year: kEuro 22).

(7) Financial assets

This position is used to report interests in non-consolidated holdings. It refers to an interest in the amount of 1% in Central Organisation of Technology, Inc. (COT), which Splendid Medien AG received in the context of contributing its 80% share in Splendid Pictures Holdings, Inc. to COT. The holding was recorded at the value of the transferred shares in Splendid Pictures Holdings, Inc., which amounted to Euro 0 at the time of transfer. Regarding Splendid Television International LLC as well as Splendid Entertainment Inc., please refer to chapter C. Consolidation principles.

(8) Film rights and advance payments made for film rights

The film rights and advance payments made for film rights have been reported as separate items. In the absence of industry-specific HGB or IFRS-regulations, valuation was based on general principles. The applied method concerning the realisation of sales revenue 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 as "film assets" are capitalised at acquisition cost at the time of their technical acceptance, and written down in accordance with their commercial exploitation. Accounting occurred on the basis of the experience and assessment of management regarding the opportunities for exploitation that the licenses present.

In the prevalent cases in which we own full rights, film rights in the video rentals / video sales business (incl. DVD) when exploited are subject to a depreciation of 20% of acquisition costs (10% for the exploitation of both video rentals and video sales). In the event that TV rights were sold, 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 as expense. For primary exploitation of Free TV rights, depreciation amounts to 49% of acquisition cost, and 21% of acquisition cost for secondary exploitation. As a general rule, the period assumed for generating revenue that is used for determining depreciation was limited to a maximum of ten years.

For the movie theatre exploitation stage, depreciation in the amount of 10% of acquisition cost is recorded. The corresponding amount of depreciation is reduced at the TV rights exploitation stage.

At variance with the above depreciation method, low-budget films that give rise to relatively low revenue expectations compared to overall TV exploitation revenue expectations when exploiting the film rights in the video rentals / video sales business (incl. DVD) are subject to depreciation in the amount of 50% of acquisition costs (25% for the exploitation of both video rentals and video sales). In the case that TV rights were sold, depreciation was also recorded in the amount of 50% of acquisition costs.

Our innovative educational series “Ben & Bella” represents an exception to these depreciation rules. For this newly developed product, we have not yet been in a position to gain any experience. It was depreciated in a straight-line over a period of ten years.

The stated value of the licenses is verified at each balance sheet date within the context of an impairment test. When the film library was examined at the end of the year, shifts in valuations between specific films were recognised. In the year under review, these resulted not only in special amortisation in the amount of kEuro 814, but also in appreciations for some films that had been subject to non-scheduled amortisation in the amount of kEuro 758 in previous years. In the previous year, non-scheduled amortisation amounted to kEuro 1,159.

Since the film assets satisfy criteria for current assets as well as fixed assets, they have been – in accordance with common historic accounting practise – reported in the past in the individual accounts under commercial law as separate balance sheet item, between fixed and current assets. As a result of this accounting practise, the licenses' historic acquisition costs that in the previous year had already been entirely written down and that were not subject to appreciations in value during the year under review were not continued within the scope of an asset history sheet. Therefore, the reported historic acquisition costs only relate to licenses that as of 31 December 2004 were on the record as having residual book values.

in kEuro			Aquisition and production costs		
	As at 01.01.2005	Additions	Disposals	Re-bookings	**As at 31.12.2005**
I. Film assets					
1. Film rights	49,683	1,491	74	829	**51,929**
2. Film in progress and advance payments received	1,363	1,838	0	-829	**2,372**
Total film assets	**51,046**	**3,329**	**74**	**0**	**54,301**

in kEuro			Depreciation			Residual book values	
	As at 01.01.2005	Additions	Disposals	Apre-ciation	**As at 31.12.2005**	**As at 31.12.2005**	As at 31.12.2004
I. Film assets							
1. Film rights	43,664	3,395	74	758	**46,227**	5,702	6,019
2. Film in progress and payments received in advance	0	0	0	0	**0**	2,372	1,363
Total film assets	**43,664**	**3,395**	**74**	**758**	**46,227**	**8,074**	7,382

(9) Goodwill

Goodwill (kEuro 326, previous year: kEuro 326) came about as a result of capital consolidation. In accordance with IFRS 3 in conjunction with IAS 36, the associated value was verified and not amortised.

(10) Deferred taxes, taxes resulting from losses carried forward

The following deferred taxes recorded in the balance sheet are a result of accounting and valuation differences in the various balance sheet items as well as tax losses carried forward:

in kEuro	**31.12.2005**	31.12.2004
Losses carried forward	**1,911**	1,291
Tangible assets	**1**	22
Liabilities	**18**	0
Consolidations	**109**	81
Total	**2,039**	1,394

(11) Liabilities

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

2005 in kEuro	Amount	of which more than 1 year	Furnished collateral	Type
Finance-leasing liabilities	96	30		
Leasing business loans (AGV)	577		577	Pledging of film rights
Accounts payable	3,448			
Advance payments received	440			
Earnings-tax liabilities	373			
Deferred taxes	1	1		
Other liabilities	2,065			
Total	7,000	31	577	

2004 in kEuro	Amount	of which more than 1 year	Furnished collateral	Type
Finance-leasing liabilities	168	96		
Loans, banks	563		563	Pledging of film rights
Leasing business loans (AGV)	1,275	577	1,275	Pledging of film rights
Accounts payable	3,287			
Advance payments received	628			
Earnings-tax liabilities	378			
Other liabilities	2,676			
Total	8,975	673	1,838	

The stated loan granted by a leasing company concerns a loan as a part of 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 the film rights (kEuro 5,113) were recorded as a loan liability; interest and other administrative expenses were recorded as affecting results. In its calculations, the leasing company uses a margin of around 10%. The loan will be entirely repaid in 2006; therefore, interest rate risks do not exist as of the balance sheet date.

(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 to fulfil the current obligations on the balance sheet date. All discernible risks and contingent liabilities that are based on past events, and whose amount and due date are uncertain, were taken into consideration. All reserves are short-term in nature.

Of the provisions for taxes in the amount of kEuro 247 (previous year: kEuro 73), kEuro 247 are associated with the current year's taxes on income.

The other reserves include the following items:

in kEuro	**31.12.2005**	31.12.2004
Commitments arising from licence agreements	**2,215**	2,275
Liability risks associated with Splendid Pictures, Inc.	**1,000**	1,600
Legal and consulting costs	**136**	104
Film subsidy charges and similar items	**1,088**	899
Outstanding interest	**0**	20
Returns	**530**	730
Bonuses	**753**	527
Other	**189**	141
Total	**5,911**	**6,296**

Reserve schedule

in kEuro	Reserves for income taxes	Reserves for liability risks	Reserves for committments arising from licence agreements	Film subsidy charges
As at 01.01.2005	**73**	**1,600**	**2,275**	**899**
Additions	247	0	530	235
Disposals	73	378	387	8
Disolution	0	222	203	38
As at 31.12.2005	**247**	**1,000**	**2,215**	**1,088**

in kEuro	Bonuses	Returns	Other reserves	**Total**
As at 01.01.2005	**527**	**730**	**265**	**6,369**
Additions	569	456	313	**2,350**
Disposals	343	656	96	**1,941**
Disolution	0	0	157	**620**
As at 31.12.2005	**753**	**530**	**325**	**6,158**

Reserves established for liability risks relate to risks arising from the former subsidiary, Splendid Pictures, Inc., in particular to risks arising from furnishing collateral in the context of film acquisitions. All reserves are due within one year. Reserves will in all probability correspond to an outflow of funds in the amount of kEuro 2,367 within one year; the times of the outflows corresponding to the other amounts cannot be determined in greater detail due to legal uncertainties.

(13) Minority shares

The shares held by other shareholders (kEuro 71, previous year: kEuro 35) 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 acquired in the context of the share purchase that is attributable to the minority shareholders, plus annually accrued prorate contributions to income, to the extent that they can be offset.

(14) Equity capital

Regarding the development of equity capital, we refer to the table "Schedule of changes in equity capital".

The company's subscribed capital was increased by Euro 889,999.00, to the current Euro 9,789,999.00, by means of a capital increase in exchange for cash. The company was registered in the local trade register on 31 May 2005. The share capital is divided into 9,789,999 ordinary bearer shares in the nominal amount of Euro 1.00 per share. At the beginning of the financial year, 8,900,000 ordinary shares were in circulation; as a result of the capital increase for cash, the number of ordinary shares in circulation grew by 889,999 to 9,789,999 at the end of the financial year.

Authorised capital

Authorised Capital I

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 Euro 3,560,000.00 by issuing new bearer shares having a nominal value of Euro 1.00 per share (Authorised Capital I). Also, the Management Board was authorised to decide on the exclusion of the shareholders' statutory pre-emptive subscription rights in each case, subject to the Supervisory Board's approval. However, exclusion of subscription rights is only permissible for the following purposes:

- for the compensation of residual amounts, as well as
- in the case of capital increases in exchange for non-cash contributions for issuing shares of the company for the purpose of acquiring companies or parts of companies or investing in companies.

Furthermore, the Management Board is authorised to – with the Supervisory Board's approval – determine the further details of executing capital increases from the Authorised Capital I. The Supervisory Board is authorised to adapt the articles of association after a complete or partial execution of the capital increase from the Authorised Capital I, or after the authorisation period has expired, in accordance with the scope of the capital increase from the Authorised Capital I.

Authorised Capital II
In the year under review, the Authorised Capital II was utilised in the amount of Euro 889,999.00. By resolution adopted by the General Shareholders' Meeting on 06 July 2005, the Authorised Capital II has been cancelled.

Authorised Capital II/2005
The Management Board was authorised by resolution adopted by the General Shareholders' Meeting on 06 July 2005 to increase – with the Supervisory Board's approval – during the period up to 01 August 2010 the company's share capital in one step or in several steps in exchange for cash or non-cash contributions by a total of up to Euro 978,000.00 by issuing new bearer shares having a nominal value of Euro 1.00 per share (Authorised Capital II/2005). With the Supervisory Board's approval, the Management Board is authorised to decide in each instance on the exclusion of the shareholders' statutory subscription rights. However, an exclusion of subscription rights is only permissible for the following purposes:

- for the compensation of residual amounts,
- in the case of capital increases in exchange for non-cash contributions for issuing shares of the company for the purpose of acquiring companies or parts of companies or investing in companies, as well as
- if the increase of the share capital occurs in exchange for cash contributions and the proportion of the share capital corresponding to the new shares neither exceeds a total of ten percent of the share capital in existence at the time of registration of this authorised capital nor exceeds ten percent of the share capital in existence at the time the new shares are issued, and the issue price of the new shares does not for the purposes of Section 203 subsections 1 and 2, Section 186, subsection 3 clause 4 German Stock Corporation Law (Aktiengesetz) substantially fall short of the stock exchange price of the shares already listed at the time of the final determination of the amount for which shares are issued by the Management Board.

Furthermore, the Management Board is authorised to determine the further details of executing capital increases from the Authorised Capital II, subject to the Supervisory Board's approval. The Supervisory Board is authorised to adapt the articles of association after a complete or partial execution of the capital increase from the Authorised Capital II/2005, or after the authorisation period has expired, in accordance with the scope of the capital increase from the Authorised Capital II.

Conditional capital

Conditional Capital I

By resolution of the General Shareholders' Meeting adopted on 20 June 2001, the Management Board was authorised to increase the company's share capital by a nominal amount of up to Euro 890,000.00 (Conditional Capital I) by issuing new ordinary bearer shares in the nominal value of Euro 1.00 per share, subject to approval by the Supervisory Board. The conditional capital increase exclusively serves to redeem subscription rights that were granted in the context of the 2001 stock option plan. Concerning members of the company's Management Board, the responsibility for issuing subscription rights resides exclusively with the Supervisory Board.

On 29 August 2001, a total of 222,494 stock options was issued to Splendid Group's managers and employees. No options were exercised by 31 December 2005. The strike price for the first tranche is Euro 3.43.

Conditional Capital II

By resolution of the General Shareholders' Meeting adopted on 06 July 2005, the share capital was conditionally increased by up to Euro 3,000,000.00 by issuing up to 3,000,000 shares in the nominal amount of Euro 1.00 per share (Conditional Capital II/2005).

The conditional capital increase will only be executed to the extent that

- the bearers or creditors of conversion rights or warrants associated with the convertible bond or warrant issues that are to be conducted by 05 July 2010 by the company or its direct or indirect majority shareholders pursuant to the authorisation resolution adopted by the General Shareholders' Meeting on 06 July 2005 exercise their conversion or option rights, or

- the bearers or creditors of the convertible bond issues that are to be conducted by the company or its direct or indirect majority shareholders by 05 July 2010 pursuant to the authorisation resolution adopted by the General Shareholders' Meeting on 06 July 2005 obliged to convert fulfil their conversion obligation.

The new shares participate in the profits as of the beginning of the financial year in which they are created on account of exercise of conversion or warrant rights or by fulfilment of conversion obligations; notwithstanding the above, the Management Board may, subject to the Supervisory Board's approval, determine that the new shares participate in the profits as of the beginning of the financial year for which at the moment of exercising the conversion or warrant rights or the fulfilment of the conversion obligations the General Shareholders' Meeting has not yet adopted a resolution concerning the appropriation of the balance sheet profit.

The Management Board is authorised – subject to the Supervisory Board's approval – to determine the further contents of the rights associated with the share certificate and the further details of execution of the conditional capital increase.

By the balance sheet date on 31 December 2005, no new shares from the Conditional Capital II have been issued.

Capital reserve

The capital reserve contains premiums from the 1999 issue of new shares in the amount of kEuro 49 and kEuro 69,278 (the latter resulting from the initial public offering), as well as from the issue of new shares in the context of the capital increase in the year under review in the amount of kEuro 9. Pursuant to IAS 32, the net costs of the initial public offering and of the capital increase (costs less taxes on income) were offset against equity (capital reserves). In the year under review, an amount of kEuro 49 was offset.

2001 stock option plan

Some staff members, the Management Board as well as managing directors of affiliated companies were given the opportunity of purchasing stock options issued to the bearer for purchasing up to a maximum of 890,000 ordinary bearer shares of Splendid Medien AG in a nominal value of Euro 1.00 per share.

The strike price that is to be paid for purchasing a nominal value share in Splendid Medien AG when executing the stock option corresponds to the average of the closing rates of the share determined at the Frankfurt Stock Exchange of the last thirty days of trading prior to the date of issue of the stock options; however, at least to the nominal value of the share that is to be purchased. On 29 August 2001, at total of 222,494 stock options was issued to Splendid Group's managers and employees. No options were exercised by 31 December 2005. At the time the first tranche was issued, the strike price was Euro 3.43.

The maximum term of the issued subscription rights is fifteen years. The subscription rights may be exercised for the first time two years after allocation, and thereafter over the following four years within certain exercise periods and intervals that depend upon the achievement of certain performance targets.

Risk management

As an internationally operating company, Splendid Medien AG is exposed to a variety of risks. The objective is to make appropriate risk and precautionary measures an integral part of the decisions and business processes, and to continuously adapt, further develop and optimise these measures.

Currency risks

Splendid Group acquires film licenses mainly in the US and the Far East. Since these licenses are exploited in the German-speaking regions, the company's earnings can be positively or negatively influenced by exchange rate variations between the Euro and the Dollar. Hedging transactions are examined on a case-by-case basis, but only employed in exceptional cases due to the overall strongly reduced purchase budget per film license.

Risks resulting from shortfalls or delays in payment

Splendid Group exploits the majority of the acquired license rights in the home entertainment segment as well as in deals with TV companies in the German-speaking regions. The Group addresses the risks resulting from shortfalls or delays in payment by means of standardised reports. The sales of DVDs and videocassettes occur via a distribution partner; the distribution partner secures the claims existing vis-à-vis individual customers by means of credit insurance.

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 profit or loss from that period is adjusted by the effects of the non-cash transactions, by accruals and deferrals of inflows and outflows of funds associated with current business operations in the past or 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 6,501 (previous year: kEuro 4,708).

(2) Cash flow from investment activities

Cash flow from investment activities was kEuro -3,567 (previous year: kEuro -5,285), resulting from the acquisition of film assets (kEuro 3,329), as well as the purchase of tangible and intangible assets (kEuro 242).

(3) Cash flow from financing activities

The repayment of loans in 2005 (kEuro -1,261) as well as the payments associated with the capital increase (kEuro 849) was the main contributors to the cash flow from financing activities in the amount of kEuro -349 (previous year: kEuro -993).

(4) Financial resources

The financial resources in the amount of kEuro 7,693 (previous year: kEuro 5,129) include the checks reported in the balance sheet, cash in hand and credit balances at financial institutions. The reported financial resources contain a payment received in error in the amount of kEuro 1,000 that could only be returned after the balance sheet date.

Group segmental reporting

Splendid Medien AG’s areas of business are licensing transactions, home entertainment and post-production. In order to achieve greater transparency, the Holding's activities in the year under review were for the first time reported individually. The data pertaining to the previous years was adjusted accordingly. The definition of the individual segments occurred on the basis of the internal reporting system. In doing so, only such items were taken into consideration that could be directly attributed to a segment, or that could be allocated to certain segments on a reasonable basis. Inter-segmental expenses and income were eliminated.

The key figures relating to the segments are:

2005 in kEuro	License trade	Home Enter-tainment	Postpro-duction	Holding	Total	Con-solidation	**Total**
External sales	2,056	15,583	2,695		20,334		**20,334**
Intercompany sales	0	2,178	922	996	4,096		**4,096**
Total sales	2,056	17,761	3,617	996	24,430		**24,430**
EBITDA	**1,618**	**3,906**	**682**	**-1,820**	**4,386**	**472**	**4,858**
TD: film rights	-1,074	-1,672	0	0	-2,746	109	**-2,637**
TD: properties and tangible assets	-3	-36	-153	-160	-352		**-352**
TD: goodwill	0	0	0	0	0		**0**
EBIT	**541**	**2,198**	**529**	**-1,980**	**1,288**	**581**	**1,869**
Financial result						-36	**-36**
Result: associated undertaking						0	**0**
Taxes on income						272	**272**
Group annual net profit							**2,105**
Segmental fixed assets	3	409	295	145	852	0	**852**
Film rights	5,438	2,856	0	0	8,294	-220	**8,074**
Other assets	2,860	9,820	804	2,998	16,482	99	**16,581**
Total liabilities	8,301	13,085	1,099	3,143	25,628	-121	**25,507**
Total liabilities	5,143	6,738	668	719	13,268	-39	**13,229**
Investments, film rights	969	2,566	0	0	3,535	-206	**3,329**
Investment, properties and tangible assets	4	21	189	28	242		**242**
Number of staff	2	25	29	7	63		**63**
Sales per employee in kEuro	1,028	623	93	0	323		**323**

Non-scheduled amortisation (kEuro 814) as well as the appreciations in value of the film assets (kEuro 758) refers to the license trade segment.

2004 in kEuro	License trade	Home Enter- tainment	Postpro- duction	Holding	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	**3,563**	**1,841**	**510**	**-1,032**	**4,882**	**139**	**5,021**
TD: film rights	-3,960	-2,451	0	0	-6,411	145	-6,266
TD: properties and tangible assets	-5	-40	-250	-171	-466		-466
TD: goodwill	0	-20	0	0	-20		-20
EBIT	**-402**	**-670**	**260**	**-1,203**	**-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	4	426	259	277	966		966
Film rights	5,930	1,576	0	0	7,506	-124	7,382
Other assets	7,109	7,609	867	664	16,249	79	16,328
Total assets	13,043	9,611	1,126	941	24,721	-45	24,676
Total liabilities	8,396	6,044	552	392	15,384	-5	15,379
Investments, film rights	2,129	3,077	0	0	5,206	-168	5,038
Investment, properties and tangible assets	1	115	90	62	268		268
Number of staff	2	21	24	9	56		56
Sales per employee in kEuro	3,627	636	100	0	411		411

Due to the close interrelation of the individual segments, further segmentation was not considered to be particularly meaningful. The present segmental reporting is essentially based on a segmentation according to sales revenue.

Sales by geographical regions are as follows:

Sales revenue in kEuro	2005	2004
Germany	18,920	21,975
Rest of Europe	687	635
USA	569	390
Others	158	14
Total	20,334	23,014

Geographically, the assets are situated in Germany. The transfer prices applicable to intra-Group sales are guided by market prices ("at arm's length principle").

Management Board

The following persons are members of the Management Board:

- Andreas R. Klein, Cologne, Director Licence Trade and Strategic Planning, CEO; also member of the supervisory board of: Bauer Martinez Entertainment Inc., Los Angeles
- Alexander Welzhofer, Marketing and Sales Director, CMO; also member of the management board of: Bundesverband Audiovisuelle Medien (BVV), Hamburg
- Frank Preuss, Director Finances and Investor Relations, CFO

Remuneration of the Management Board 2005 in EUR

	Annual income				
	Fixed income	Bonus Management Board	Bonus Directors	Benefits in kind	Total
Andreas R. Klein Chairman	256,074	85,503	0	0	341,577
Alexander Welzhofer	221,534	48,218	40,000	6,434	316,186
Frank Preuss	156,836	0	0	4,000	160,836
Total	634,444	133,721	40,000	10,434	818,599

In 2005, Mr. Alexander Welzhofer as minority shareholder in WVG Medien GmbH is entitled to a compensation payment in the amount of kEuro 55.

Supervisory Board

The following persons are members of the Supervisory Board:

- Dr. Ralph Drouven, lawyer, Cologne, chairman; also member of the supervisory board of: Easyway AG, Gesellschaft for Biotechnologie, Monheim

- Mr. Bernd Kucera, auditor / tax advisor, Bonn, deputy chairman; member of the supervisory boards of: AssFINET AG, Graftschaft near Bonn (chairman); pact Finanz, Düsseldorf

- Mr. Michael Baur, business studies graduate [Diplom-Kaufmann], management consultant, Munich

According to Splendid Medien AG's articles of association, the members of the Supervisory Board receive as sole compensation a fixed remuneration in the following amounts:

Dr. Ralph Drouven: Euro 20,000.00
Bernd Kucera: Euro 15,000.00
Michael Baur: Euro 10,000.00

In the year under review, Dr. Drouven (CMS Hasche Sigle) invoiced the company for consulting services in an amount of kEuro 126. During the period of his activities as member of the Supervisory Board, Mr. Kucera (Kucera & Hüttner) invoiced the company in an amount of kEuro 13 for consulting services as well as for the preparation of Splendid Group's payroll accounts.

Other information

Staff

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

	2005	2004
Members of the Management Board	3	3
Employees	61	53

During the financial 2005, total personnel expenses amounted to kEuro 3,877 (previous year: kEuro 3,055).

Shareholdings by members of the corporate bodies

On 29 August 2001, at total of 222,494 stock options was issued to Splendid Group's managers and employees. No options were exercised by 31 December 2005. The earliest possible exercise date was 29 August 2003.

As of 31 December 2005, Splendid Medien AG's share capital stood at Euro 9,789,999.00, and consisted of 9,789,999 bearer shares.

The shareholdings of members of the corporate bodies as of 31 December 2005 were as follows:

	2005			2004		
	Number	**Shares in %**	**Options**	Number	Shares in %	Options
Management Board						
Andreas R. Klein	5,308,984	54.2286	0	5,308,984	59.6515	0
Alexander Welzhofer	7,321	0.0748	33,375	7,321	0.0823	33,375
Supervisory Board						
Dr. Ralph Drouven	3,060	0.0313	0	3,060	0.0344	0

Relationships with affiliated persons

Name	Amount in kEUR	Of which outstanding	Type of activity	Basis of payment
Dr. Drouven (CMS Hasche Sigle)	126	0	Consulting services	According to hours
Kucera & Hüttner	13	0	Consulting services and preparation of the payroll accounts	According to hours / number of employees
Albert Klein	118	0	Rent of office building	According to tenancy contract
Albert Klein	37	0	Consulting	According to contract

During the year under review, Splendid Entertainment, Inc., invoiced subsidiaries of Splendid Medien AG's in an amount of kEuro 84; the invoices were paid during the year under review. The settlement agreement with the minority shareholder, Mr. Alexander Welzhofer, provides an annual compensation payment in the amount of kEuro 55.

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	331	344	0	675
Operate-leasing	103	135	0	238

During the year under review, expenses resulting from operate-leasing were recorded in the amount of kEuro 92, affecting results.

The order commitment associated with investments amounted to kEuro 5,540 (previous year: kEuro 2,401).

Contingencies

Bank guarantees exist in the amount of kEuro 25.

Events that took place after the balance sheet date

In January 2006, Splendid Medien AG relocated the seat of its subsidiary, Kids for Kids, from Dornach (near Munich) to Hamburg. In this context, the film rights held by Kids for Kids will in future be exploited by the subsidiary WVG. The contract with the managing director hitherto responsible for Kids for Kids GmbH, Mr. Heinz Ehmann, was cancelled. Mr. Alexander Welzhofer was appointed as new managing director.

On 14 February 2006, Splendid Medien AG acquired the shares held by the former managing director of Kids for Kids GmbH, Mr. Heinz Ehmann, in an amount of 10% of the share capital of the aforementioned company at their nominal value.

In December 2005, Splendid Medien AG submitted an offer to HSBC Trinkaus & Burckhardt AG ("HSBC") to conclude a profit participation rights agreement. This offer was submitted subject to acceptance on the part of HSBC. Acceptance is dependent upon the final structuring of the so-called H.E.A.T. Mezzanine II Fonds that is expected shortly.

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 2005. The Management Board proposes to offset Splendid Medien AG's net income in an amount of Euro 1,156,585.15 with the loss carry-forward in an amount of Euro 70,161,086.71, and to carry forward this loss to new account as balance sheet loss in an amount of Euro 69,004,501.56.

The declaration of conformity by Splendid Medien AG's Management Board and Supervisory Board concerning the Corporate Governance Code pursuant to Section 161 German Stock Corporation Act (AktG) was published on Splendid Medien AG's website.

On 17 March 2006, the Management Board released the present Consolidated Financial Statements for consideration by the Supervisory Board.

Cologne, 17 March 2006

The Management Board:

Andreas R. Klein Alexander Welzhofer Frank Preuss

THE AUDITOR'S CERTIFICATE

"We have audited the consolidated financial statements prepared by Splendid Medien AG, Cologne, for the financial year from 01 January to 31 December 2005, consisting of balance sheet, profit and loss statement, schedule of changes in equity, cash flow statement and notes as well as the group status report. The preparation of the consolidated financial statements and the group status report according to IFRS as applicable in the EU, and according to the stipulations under commercial law that are to be applied additionally pursuant to Section 315a subsection 1 German Commercial Code (HGB), as well as according to the supplemental provisions contained in the articles of association, is the responsibility of the company's legal representatives. It is our task to prepare an assessment of the consolidated financial statements and the group status report on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and the German standards for auditing financial statements issued by the German Institute of Auditors (Institut der Wirtschaftsprüfer (IDW)). These specifications require that the audit be planned and conducted in such a manner that inaccuracies and infringements that substantially affect the view of the assets, financial and earnings position as provided by the consolidated financial statements – taking into account the applicable accounting standards – and by the group status report are identified with a sufficient degree of certainty. The scope of the audit was planned taking into account our knowledge of the Group's business activities, the economic and legal environment as well as expectations of possible errors. Within the scope of the audit, the effectiveness of the accounting-related internal control system as well as documentation for the statements contained in the consolidated financial statements and the group status report are evaluated, mainly on the basis of samples. The audit comprises the assessment of the annual financial statements of the companies included in the consolidated financial statements, the definition of the consolidated entity, the applied accounting and consolidation principles and the legal representatives' essential assessments as well as an appreciation of the overall presentation of the consolidated financial statements and the group status report. We believe that our audit provides a sufficiently secure basis for our assessment.

Our audit did not give rise to any qualification. Our assessment on the basis of insights obtained in the course of the audit is that the consolidated financial statements comply with the IFRS as applicable in the EU, the stipulations under commercial law that are to be applied additionally pursuant to Section 315a subsection 1 German Commercial Code (HGB), as well as the supplemental provisions contained in the articles of association, and provide an accurate view of the Group's assets, financial and earnings position – taking into account the applicable accounting standards. The group status report corresponds to the consolidated financial statements and provides a true overall view of the Group's position, and accurately represents the risks and opportunities of its future development."

Cologne, 17 March 2006
BFJM Bachem Fervers Janßen Mehrhoff GmbH, Auditing company

(Dr. Werner Holzmayer)
Auditor

(Dipl.-Kfm. Marcus Lauten)
Auditor

Imprint/Contact

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

Editing and Content:
Splendid Medien AG

Concept and Design:
IR-One AG & Co. KG, Hamburg

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
Karin Opgenoorth
Alsdorfer Straße 3
50933 Köln
Tel.: +49 (0) 2 21-95 42 32-99
Fax: +49 (0) 2 21-95 42 32-613
E-Mail: karin.opgenoorth@splendid-medien.com

Financial Calender 2006

29.05.2006	**Report of the first quarter of 2006** Press release on the financial figures of the first quarter of 2006. Publication of the interim report on the first quarter of 2006.
30.05.2006	**Annual general meeting 2006** 11 h, Komed, Köln, 7th ordinary shareholders' meeting of Splendid Medien AG.
31.08.2006	**Semi-annual report 2006** Press release on the financial figures of the first six months of 2006. Publication of the interim report on the first six months of 2006.
30.11.2006	**Nine-month report 2006** Press release on the financial figures of the first nine months of 2006. Publication of the nine-month report.

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 Century Fox International, L.A., for the distribution of Splendid films.

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.

2004 Acquisition of a majority stake in the distribution company WVG Medien GmbH, Hamburg.

2005 Increase of the share capital by issuing 889,999 new, ordinary shares in bearer form

www.splendidmedien.com

splendid medien AG