  

splendid medien AG

Annual Report 2007

Splendid Medien AG at a glance

Key data per IFRS

in € million	**2007**	**2006**
Total sales	28.1	24.9
License sales	3.8	2.5
Home Entertainment	21.0	19.1
Postproduction	3.3	3.3
EBITDA	9.1	7.4
EBIT	-1.9	2.3
EBT	-2.4	2.0
Consolidated net income after taxes	-1.2	2.9
Cash flow from current business activities	5.9	4.2
Balance sheet total	33.6	34.4
Equity	14.0	15.3
Equity ratio	41.6%	44.5%
Cash in hand and cash at banks (liquid funds) at balance sheet date	7.7	10.7
Liquid funds less long-term loan	0.5	3.5
Film assets (incl. advance payments)	9.5	10.8
Investments in film rights	9.4	7.6
Investment ratio (from balance sheet total)	28.0%	22.1%
Depreciation of film assets	10.7	4.9
Depreciation ratio (from sales revenues)	38.1%	19.7%
Earnings per share in Euro*	-0.12	0.30
Number of employees on balance sheet date	79	66

* Average number of shares in circulation 2006 and 2007: 9,789,999

Contents

f.l.t.r.:
Michael Gawenda,
Andreas R. Klein,
Alexander Welzhofer

Foreword by the Executive Board

Dear Shareholders, Members of Staff and Partners of Splendid Medien AG,

In the 2007 financial year we succeeded in our plan of increasing sales by double digits – or 13 percent – to € 28.1 million. The License Trade segment in particular showed a strong upswing in sales, but we also built up the Home Entertainment segment and consolidated our position as one of the leading independent distributors in the German Home Entertainment market. In the Postproduction segment we not only have our core business but also a strong future potential in terms of the pervasive digitalisation of film content for the whole range of online marketing formats in conjunction with increasingly important "High Definition Technologies", and Blu-ray in particular.

In 2007 apart from sales of new TV licenses to major TV companies we continued to strengthen the position of the Video-on-demand (VoD) segment by entering into partnership with the VoD Portal Maxdome. Turnover from our VoD activities now accounts for two percent of total Home Entertainment sales.

Our Special Interest releases in fields like history, nature documentaries, and fitness and wellness and particularly the premium product "Planet Earth" have proved to be a huge commercial success that showed no signs of slackening in early 2008. When "Planet Earth" was first released in a Next Generation format, it shot right up the top of the charts, knocking lead products of the competition like "Die Hard" and "The Complete Matrix Trilogy" down a place.

For many years now the Splendid Group has been a dedicated provider of action and horror films from Asia and the USA. Even though such releases failed to meet our expectations of sales and results in 2007, the marketing of action and horror films still remains a vital part of product portfolio. Innovative marketing strategies and more intensive leverage on existing licenses should ensure optimised marketing.

Our high quality edutainment product "Discover English with Ben & Bella" for children of pre-school age with its fresh educational approach has been launched on various Asian markets and proved to be highly popular right from the start. Likewise our partnership with the renowned publishers "Encyclopaedia Britannica" is also bearing its first fruits. A further "Ben & Bella" product, evolved in co-operation with our contract partner, is scheduled for launch on various international markets during 2008.

We are still forging ahead with plans for our own Special Interest TV channel for Asian films and TV programmes. Even though exploratory talks have been unexpectedly drawn out and we have not as yet received a clear go-ahead from the major platform operators, we still remain optimistic that we will be able to launch AMAZIA – our own Special Interest channel – in the not too distant future.

Our Group results were influenced by a combination of significant factors. Whilst earnings before interest and taxes at € 9.1 million were 23 percent up on last year's figures (€ 7.4 million) and showed a highly profitable margin of 32 percent, EBIT (2007: -1.9; 2006: € 2.3 million) entered into negative territory due to special depreciation of film assets totalling € 4.3 million. We undertook this depreciation based on the recommendations of an external expert report. In the light of current and foreseeable developments in the marketing of film licenses, we commissioned an external review and evaluation of the Film Library of Splendid Film to assess the sustainable value and marketing opportunities of each individual film through review by an independent expert. The review was triggered by various market observations we had made concerning more recent customer-side business developments and their impact on peer companies in the film and media branch. On the whole the review confirmed the sustainable value of the Splendid Film Library; the need for special depreciation should be set against high valuation potential which cannot yet be reflected in the balance sheet. Even so we expect exploitation earnings commensurate with this in the coming financial years. Our Group annual returns after taxes were influenced by deferred taxes on losses carried forward and came to € -1.2 million (2006: € 2.9 million).

Our shares in the first half-year 2007 enjoyed a highly positive development, reaching peak values for the year. At the start of the second half-year this upswing continued driven by numerous purchase recommendations and strong business development, and profit taking set in. However, in autumn our shares lost ground due to the general economic downturn triggered by the crisis on the US subprime market and have made no significant recovery since then. Up to the first third 2008 the development of Splendid shares has not been satisfactory. Although there are no signs of long-term recovery in the general interest for small-cap values in the foreseeable future, we shall continue with on-going Investor Relations activities to keep investors and analysts of Splendid shares informed and up to date about Group activities whilst also showcasing the Splendid business model in Roadshows and events.

We intend to further consolidate our strong position in Home Entertainment. We expect a strong vitalisation of business turnover in the future segments of Blu-ray and Video-on-Demand. Likewise sales of TV licenses to TV companies will form a major part of our business.

For the 2008 financial year we expect sales earnings of at least € 31 million and an EBIT margin of between eight and nine percent.

We wish to thank our employees for all their dedicated and professional work. Our thanks also go to our business partners and shareholders for all their support and the confidence they have placed in us.

Cologne, April 2008

Andreas R. Klein
Chairman of the Executive Board

Alexander Welzhofer
Director of Marketing/Sales

M. Gawenda

Michael Gawenda
Director of Finances and Investor Relations

History of the Company

1974 *Splendid Film founded by Albert E. Klein*

1980 *Andreas R. Klein takes over as head of Distribution & Marketing*

1997 *The company sets up its own synchronisation studios at its new location*

1998 *Distribution partnership reached with Polyband and Warner Music for cassettes and DVDs*

Start of global presence through investment in Initial Entertainment Group, Inc. (IEG), Santa Monica

1999 *Listed on the stock market*

2000 *Acquisition of Polyband, founding of Enteractive and Splendid Television*

Co-operation agreement with 20th Fox International, L.A., for distribution of Splendid films

Production of "Traffic", "Dr. T & The Women", "Gangs of New York"

2001 *The Splendid production "Traffic" wins four Oscars*

Sale of the minority shareholding in the IEG film production company, Santa Monica

2002 *Golden Globe for the Splendid production "James Dean"*

Founding of the film production company Splendid Pictures Holdings, Los Angeles, with a majority shareholding

Three Emmy awards for the Splendid productions "James Dean" and "Victoria & Albert"

2003 *Two Golden Globes for the Splendid production "Gangs of New York"*

Separation from Splendid Pictures Holdings, Inc.

2004 *Majority shareholding in WVG Medien GmbH, distribution company, Hamburg*

Focus on core business segments (Home Entertainment, License Trade)

2005 *Increased share capital by issue of 889,999 new ordinary bearer shares*

2006 *Conclusion of a long-term financing agreement for € 7.5 million with HSBC Trinkaus & Burkhardt KG, Düsseldorf*

Splendid Synchron and FFS Film und Fernseh-Synchron GmbH, Munich/Berlin form a joint venture with its head office in Cologne

2007 *Development of the Video-on-demand (VoD) segment*

Launch of the edutainment product "Discover English with Ben & Bella" on various international markets

Presentation of "Sudokia" – the world's first interactive game for High-Definition-Disc formats



Report of the Supervisory Board

The Supervisory Board was informed by the Executive Board of all significant business transactions in the 2007 financial year as well as of general business development and strategic planning, and has supervised management and supported it in an advisory capacity. Information was given at meetings and in the context of the regular exchange of information and thoughts between the chairman of the Supervisory Board and the chairman of the Executive Board. The Supervisory Board has participated in the affairs of the company to the extent required by law, the Articles of Association and the rules of procedure of the Executive Board and, whenever necessary, has adopted resolutions on such affairs.

The reports written by the Executive Board kept the Supervisory Board informed on a regular basis on the course of business transactions, strategic developments as well as sales, earnings and liquidity of Splendid Medien AG and its portfolio companies. It was therefore fully in a position to discharge its obligations under the law and the Articles of Association in the 2007 financial year. It has also discharged these obligations to the full required extent. The Supervisory Board did not set up any special committees.

Composition of the Executive Board

As per resolution of the Supervisory Board on 22 October 2007, the appointment of Mr Michael Gawenda as a member of the Executive Board of Splendid Medien AG was extended until 30 June 2011.

Meetings of the Supervisory Board

The Supervisory Board met for four ordinary meetings in the 2007 financial year. The first meeting on 29 March 2007 was initially concerned with a comprehensive discussion of the business development of the affiliated companies of Splendid Medien AG during which the Executive Board pointed out that there had been signs of a slackening of sales in Asian films which had been addressed by changes to buying policies. The meeting mainly focussed on discussions with the Executive Board and the representatives of the auditing company about the Consolidated Annual Financial Statements and the Management Report. Following this the Executive Board presented its business plan for a new digital Special Interest channel. Agreement was reached between the Executive Board and the Supervisory Board on a suitable person to act as managing director for this new division. The Executive Board also gave a full report to the meeting on further measures for developing the risk early warning system and risk management system. The Supervisory Board suggested further individual improvements but also stated that basically it believed that such a system was fit for purpose in terms of timely and early identification of risks and preventive countermeasures. The written report on the findings of the Internal Audit 2006 had already been given to the Supervisory Board before the meeting. The Executive Board reported to the meeting about the implementation of the measures proposed by the Internal Audit. The matters to be treated by the Internal Audit in 2007 had been jointly agreed on by the Executive Board and Supervisory Board. The agenda for the General Shareholders' Meeting was approved by the Executive Board and

Supervisory Board. The Supervisory Board also passed a resolution on the bonuses to be accorded members of the Executive Board for the 2006 financial year.

The meeting of 11 June 2007 held wide-ranging discussions on the negative business development of Splendid Film GmbH. In this context the Executive Board pointed out general difficulties in the video rental business and the falling prices for retail cassettes which was also reflected in the lower margins of WVG GmbH. The main focus of the Supervisory Board meeting was devoted to Splendid Synchron GmbH and FFS Köln GmbH. The managing director of both companies, Mr Oliver Fay, who had been invited to the meeting, reported on current business development and strategic options. A further issue was the planned development of a digital Special Interest channel. The Executive Board reported on the status of negotiations with cable operators. With reference to the monthly reporting of the Executive Board to the Supervisory Board, the inclusion of further key figures was agreed on.

The meeting of 29 August 2007 was held in the offices of eNterActive GmbH in Hamburg. Managing director Mr Henseleit reported to the Supervisory Board on company development, its market position, and strategic goals for the future. With reference to Splendid Film GmbH, the Executive Board and Supervisory Board discussed measures to counter negative business development in the distribution of Asian and horror films. In this context the Supervisory Board expressed a wish that monthly reporting be more closely patterned on quarterly reporting so that it could be given an even more up to date and timely view of trends in business development. In light of the fact that a sufficient number of contracts had not yet been concluded with cable operators, the Executive Board and Supervisory Board both agreed that further investment for the development of the digital Special Interest channel should be postponed for the interim period whilst efforts to conclude further contracts should be continued. The Supervisory Board approved the project of the Executive Board to develop Special Marketing and New Business segments within the Group and to appoint Mr Schobel as a further managing director of WVG GmbH to this end. Prior to the meeting the Supervisory Board had also received a further report on the Internal Audit. The Executive Board and Supervisory Board discussed the findings of this report and the measures taken in its wake. The implications arising from the latest changes in the Corporate Governance Code of 14 June 2007 were also discussed, with a particular focus on the theme of Compliance.

The meeting of 28 November 2007, which took place in the offices of Polyband GmbH in Munich, was devoted to in-depth discussion of the business development of Polyband GmbH and Kids for Kids GmbH. The managing director of Polyband GmbH, Ms Swetlana Winkel, who had been invited to the meeting, reported on the current course of business and planning for 2008. Mr Sebastian Gutmann, who was also invited to the meeting, discussed the first successes in the international marketing of the "Ben & Bella" product, and gave an overview of the contracts to be concluded with distribution partners in other countries in the course of the coming months.

The Executive Board and the Supervisory Board both agreed that in the light of the on-going slump in DVD sales and the downturn in results this was causing Splendid Film GmbH, what was needed was a fundamental review of current strategic planning. Thus it was decided for the interim period to postpone formulation of a resolution of the 2008 budget. The resolution on this budget shall now be made by the Supervisory Board in the light of the latest developments on 21 December 2007. The written report by the Executive Board on Corporate Compliance was fully discussed in the meeting of 28 November 2007. The rules of procedure given in the Report were considered by the Supervisory Board to be appropriate and commensurate for meeting the requirements of Corporate Compliance. The Supervisory Board also reviewed the efficiency of its own activities in the light of the stipulations of the Corporate Governance Code. It arrived at the conclusion that the Supervisory Board was indeed effective and efficient in the discharge of its obligations and that no further measures for enhancing efficiency were called for. Further discussions focused on updating the Executive Board's Risk Management Report.

Audit of the Consolidated Financial Statements and the Annual Financial Statements

On 12 June 2007 the General Shareholders' Meeting selected the auditors BFJM Bachem Fervers Janßen Mehrhoff GmbH Wirtschaftsprüfungsgesellschaft, Cologne, as auditors for 2007. Upon commissioning by the Supervisory Board, BFJM Bachem Fervers Janßen Mehrhoff GmbH Wirtschaftsprüfungsgesellschaft audited the Annual Financial Statements of Splendid Medien AG together with the Consolidated Financial Statements and Status Report for the Group and Splendid Medien AG as of 31 December 2007 on the basis of applicable statutory regulations, and issued an unqualified certificate of audit.

The Annual Financial Statements and the Management Report of Splendid Medien AG together with the audit reports drawn up by the auditors were sent to all members of the Supervisory Board before the balance sheet meeting on 23 April 2008. The responsible representative of the auditors attended the meeting of the Supervisory Board on 23 April 2008 and reported to the Supervisory Board on the key findings of the audit. The annual statements and reports were fully discussed by the Supervisory Board with the Executive Board during the meeting. All questions raised by the Supervisory Board were answered by the Executive Board and the representative of the auditors. In the light of the discussions and the further evaluation it had undertaken, the Supervisory Board arrived at the conclusion that were no grounds for raising objections. In particular, the Supervisory Board had examined the mandatory data provided by the Executive Board in the Status Report of Splendid Medien AG as per Section 289 subsection. 4 German Commercial Code (HGB) and in the Group Status Report as per Section 315 subsection 4 HGB. The Supervisory Board considers the information provided by the Executive Board to be complete and correct and endorses it.

In agreement with the conclusions in the auditing reports of the auditors, and after due examination of the Annual Financial Statements and Consolidated



Financial Statements, the Supervisory Board gave its approval to the same. Hence the Annual Financial Statements of Splendid Medien AG as of 31 December 2007 have been given formal approval. The Supervisory Board has taken note of and agreed with the Status Report, and in particular the forecast of the Executive Board relating to the further development of Splendid Medien AG and the Group as a whole.

Compliance

The Supervisory Board endorses the Executive Board's view that good corporate governance requires the establishment of a system that ensures compliance with statutory obligations, public authority directives and ethical rules across the whole of the Group. In the 2007 financial year the Supervisory Board ascertained that the Executive Board had undertaken the necessary steps to make all employees across the whole of the group aware of the significance of Compliance, and to ensure that their own conduct is in a manner compliant to statutory and regulatory prescriptions. In relation to its own invested powers, the Supervisory Board will take all requisite measures to prevent business conduct from infringing the law, public authority regulations or ethical principles, and will act to severely punish any such cases of which it becomes aware.

Corporate Governance

Ensuring compliance with the recommendations and proposals contained in the Corporate Governance Code is a matter of great importance to the Executive Board and Supervisory Board alike. Only on a few points does Splendid Medien AG deviate from the prescriptions of the Code. In each case such a departure can be justified on objective grounds. Such justifications are set forth in the Joint Declaration of Conformity by the Executive Board and the Supervisory Board pursuant to Section 161 of the Stock Corporation Act (AktG). The current version of the Declaration of Conformity may be found along with all previous versions of the same on the homepage of Splendid Medien AG.

Risk early warning system

A risk early warning system has been in place within the Splendid Group for a number of years now and is regularly updated by the Executive Board. During its meetings in the 2007 financial year the Supervisory Board has been informed of the further on-going development of the risk early warning system, and has also discussed possibilities of making further improvements with the Executive Board. The Supervisory Board considers that the system already in place is suitable for early recognition of potential risks to the company and for taking appropriate countermeasures.

The Supervisory Board expresses its thanks to management and to all the employees of the Splendid Group for their dedication and performance in the 2007 financial year.

Cologne, 23 April 2008

Dr Ralph Drouven
Chairman of the Supervisory Board

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Planet Earth (© BBC Worldwide 2006)



Our Business Model

The Splendid Group is an integrated group of media companies operating in the medium-sized enterprise sector as a successful independent for over 30 years now across German-speaking Europe. The Group's sales and revenue comes from exploitation of films and edutainment programmes (Content), distribution services for retailers in the Home Entertainment segment (Distribution) and services in the Postproduction segment (Services).

Content

Splendid Film GmbH and Polyband Medien GmbH acquire rights for feature films, TV productions, Special Interest and children's programmes from a variety of sources, including international film trade fairs such as AFM in Los Angeles, the Berlin Film Festival, the Toronto International Film Festival, the Pusan International Film Festival (Korea) and various trade fairs in Cannes such as MIP TV, MIPCom and the Cannes Festival. Special screenings are held at these fairs where license buyers can get a taste of the ready-made product. But licenses can also be purchased even before the shooting of a film starts. When the story and the director and other qualitative value factors show that the film has a sufficient marketing potential, the decision to buy the license can go ahead. At the same time Polyband also works in the Special Interest segment together with leading companies like the BBC and Discovery Channel. With its first-look rights Polyband can decide on the exploitation of selected high quality documentaries from the contract partner's programme. After material delivery and possibly synchronisation, sound track post-editing, and digital formatting, the film is ready for exploitation across the whole of the value-added chain (cinema, Home Entertainment and TV) in German-speaking regions and the Benelux countries.

Film Exploitation

Cinema: Selected films, where the equation of acquisition and marketing costs against expected box office returns warrant it, are first exploited in movie houses. Splendid releases such films both in its own right and via outside distributors like its partner of many years standing Twentieth Century Fox. A box office hit increases a film's value and makes it more interesting for further valuation such as TV, video, and DVD/BD* exploitation.

Home Entertainment: About four to six months after its cinema release, the film is ready for commercial exploitation in video outlets as DVD rentals. Under the brand names "Splendid Film", "Polyband" and "Kids for Kids" the Splendid Group sells its programme as DVDs and Blu-ray discs (BD) to the retail trade.

With a series of co-operation agreements Splendid is also well positioned for the growth markets of Video-on-Demand (VoD) and Electronic Sell-through (EST). These media enable the customer to watch and in some cases also download audiovisual programmes individually via the telephone/Internet, cable TV network, electricity system and directional radio.

* Blu-ray Disk



PayTV/FreeTV: Six months after the start of exploitation in the Home Entertainment segment, the film is exposed to television. As a rule it is first broadcast on Pay TV, followed by Free TV. The Splendid Group sells licenses for a contractually fixed period (such as seven years) and for a contractually fixed number of broadcasts in a certain period (for instance, five broadcasts in seven years). At the end of the license agreement the film is ready for further exploitation in the field of television (secondary exploitation).

Edutainment: The Group company Kids for Kids GmbH acquires, produces and markets entertainment and edutainment programmes for a family audience. Its premium product "Discover English with Ben & Bella", a high quality learning game for children of pre-school age, has been launched and distributed on international markets in collaboration with international partners including the renowned international publishing house "Encyclopaedia Britannica".

Games: In 2007 the Group company Enteractive GmbH unveiled the first interactive game for the new High Definition disc format – "Sudokia", a registered trademark of the Splendid Group. "Sudokia" in BD* format can be played on all Blu-ray consoles per remote control by up five players. Other games are under development.

Distribution

The Splendid subsidiary WVG Medien GmbH is one of Germany's leading independent distributors. WVG distributes films of the Splendid, Polyband and Kids for Kids labels to the retail trade. WVG enjoys an extensive range of contacts to all the key stationary retail chains in Germany as well as to Internet retailers, whilst also developing innovative marketing concepts with affiliated industry branches. The leverage of WVG expertise is increasingly in demand by other license traders and producers for the distribution of their own products on the Home Entertainment market. WVG Medien now serves nearly thirty partners from the film and media branch.

Service

In its service segment the Splendid Group provides synchronisation, soundtrack post-production, and DVD and Blu-ray production. Making use of our own capacities in dubbing and soundtrack post-production as well as in converting films to DVD/BD* formats ensures not only a consistently high quality standard for our own films but is also increasingly in demand from external customers. Movies are synchronised and their soundtracks are processed before the film is released on the cinema and Home Entertainment markets. Mainly analogue film material is converted into the digital media of DVD and BD*. Along with the design of the menu intro, this also involves generation of added content for the DVD/BD* formats (Making of, bonus material, games etc.).

* Blu-ray Disk



The Share

Shares of Splendid Medien AG were listed in September 1999 on the German Stock Exchange in Frankfurt and noted in Prime Standard.

Positive development in the first half-year 2007 failed to continue

Splendid shares got off to an extremely good start in 2007, peaking at € 2.56. Strong reports on business development drew the attention of market analysts and were supported by recommendations. At the start of the second half-year Splendid shares saw a further upward swing following a purchase recommendation by the Research House First Berlin with profit-taking setting in. Towards the end of the third quarter share value fell in the general downward trend mainly caused by the crisis on the US subprime market which affected German banks and spread over into trading on the stock exchange. Development in Splendid shares remained unsatisfactory deep into the first quarter 2008.

On-going exchange with investors and market analysts

Throughout 2007 Splendid Medien AG held Roadshows in Frankfurt, Munich and Zurich as a platform for talks with investors, market analysts and journalists which resulted in a clear rise in the number of shares traded and positive price development. At the same time the company was also present at the German Equity Forum 2007 in Frankfurt, and its officers for Investor Relations could be contacted round the clock throughout the year by telephone or email.

General Shareholders' Meeting approves profit and loss transfer agreements for subsidiary companies

At the ordinary General Shareholders' Meeting of Splendid Medien AG held in Komed, Cologne, on 12 June 2007 apart from the usual items on the agenda, shareholders with voting rights also approved the Executive Board's proposal to introduce profit and loss agreements with the Group subsidiaries Splendid Synchron GmbH, Cologne and eNteractive GmbH, Hamburg. The Meeting also moved to approve authorisation for the purchase of own shares as well as various changes to the Articles of Association to bring them into line with the Transparency Directive Implementation Act (TUG).

Share in voting rights acquired

In March 2007 Commit GmbH, Cologne, acquired a share of 5.06% or 495,437 shares in Splendid Medien AG. In mid-February 2008 Stadtsparkasse Gelsenkirchen acquired a share of 3.575% or 350,000 shares in Splendid Medien AG. The shares are administered by Metzler Investment GmbH which also issued a declaration of voting rights.



Market price as per balance sheet date and market capitalisation*

	Price in €	Market Capitalisation
31.12.2006	1.25	12.23 million €
31.3.2007	2.07	20.27 million €
30.6.2007	2.15	21.05 million €
30.9.2007	1.77	17.34 million €
28.12.2008	1.45	14.20 million €

*Balance sheet date price as per XETRA

Shareholder Structure

As of 31 December 2007, the share capital of Splendid Medien AG was spread over 9,789,999 bearer shares. The shareholder structure was as follows:

Name	Percentage of total capital
Andreas R. Klein	54.23
Familie Klein GbR	6.31
COMMIT GmbH	5.06
Free float	34.40

*from a 5% share in stock capital

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 see the Appendix.

The Splendid share at a glance

ISIN	DE0007279507
Security Identification Code	727 950
Stock market Abbreviation	SPM
Prime Branch	Media
Industry Group	Movies & Entertainment
Trading Segment	Prime Standard
Reuters Instrument Code	SPMG.DE
Type of Instrument (class)	Ordinary bearer shares
Authorised Capital	EUR 9,789,999.00
Authorised Capital In Shares	9,789,999
Capital Stock	EUR 9,789,999.00
Capital Stock in Shares	9,789,999
First Trading Day	24, September 1999
Designated Sponsor	VEM Aktienbank AG, Munich
Capital Measures	29 August 2001: issue of stock options to Group employees. Total number: 222,494
	11 May 2005: Increase in share capital by issue of 889,999 new ordinary bearer shares.



Corporate Governance Report

Acting also on behalf of the Supervisory Board, the Executive Board has submitted the following report on Corporate Governance at Splendid Medien AG pursuant to No. 3.10 of the German Corporate Governance Code.

Declaration of Conformity

On 19 November 2007 and 13 March 2008 the Executive Board and the Supervisory Board submitted the Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) according to which, with four exceptions, Splendid Medien AG has met the recommendations of the German Corporate Governance Code in its version dated 14 June 2007.

Co-operation between the Executive Board and the Supervisory Board

The Executive Board and the Supervisory Board work together closely in the interest and for the benefit of Splendid Medien AG. The Supervisory Board supervises and advises the Executive Board in its management of company affairs. The Executive Board provides the Supervisory Board with regular, up-to-date and comprehensive reports on the course of business, strategic developments, Group status, and all issues with a bearing on corporate planning. The Articles of Association stipulate that all major business transactions are subject to approval by the Supervisory Board. For further details we refer you to the Report of the Supervisory Board.

Consulting agreements or agreements on the provision of other services between members of the Supervisory Board and the company exist in the case of Dr. Ralph Drouven and Mr Bernd Kucera. Dr. Drouven is both a member of the Supervisory Board of our company and a partner in the law firm of CMS Hasche Sigle; Mr Kucera is both a member of the Supervisory Board of our company and a partner in Kucera & Hüttner GmbH, auditors and tax consultants. Insofar as CMS Hasche Sigle and/or Kucera & Hüttner GmbH provided services to the company within the year under review, this took place with the approval of the Supervisory Board. No conflicts of interest requiring immediate reporting to the Supervisory Board occurred between members of the Executive Board and Supervisory Board.

The term of office of members of the Supervisory Board ends with conclusion of the General Shareholders' Meeting at which a resolution is adopted to approve the actions of the Supervisory Board in the 2009 financial year.

The company has taken out consequential loss insurance (D&O insurance) with an appropriate retained risk for members of the Executive Board and Supervisory Board of Splendid Medien AG.

Directors' Dealings

Pursuant to Section 15a of the German Securities Trading Act (WpHG), members of the Executive Board and Supervisory Board of the company together with certain employees with managerial



responsibilities and persons affiliated to them are obliged to disclose the acquisition or sale of shares in Splendid Medien AG, and the financial instruments based on them when the value of the business transactions conducted by the member or affiliated person within a calendar year reaches or exceeds the sum of € 5,000. Splendid Medien AG publishes such transactions immediately on being given notice of them. This information is also published on the Internet and may be accessed at www.splendidmedien.com/Investor Services. In the 2007 financial year no such transactions occurred.

Corporate Compliance

As per No. 4.1.3 the Executive Board is responsible for ensuring compliance with statutory prescriptions and in-house guidelines throughout the whole of the company. In the 2007 financial year the Executive Board issued a Corporate Compliance Directive especially designed to prevent cases of corruption and other malpractice.

Shares owned by members of the Executive Board and Supervisory Board

As per No. 6.6 of the German Corporate Governance Code, the Corporate Governance Report is required to contain information on the ownership of shares or financial instruments based on them by members of the Executive Board and Supervisory Board if such shares directly or indirectly exceed 1% of the shares issued by the company. Splendid Medien AG shows all shares and/or financial instruments based on them owned by members of the Executive Board and/or Supervisory Board on an individual basis.

Name	Number of Shares	% of Stock Capital	Options
Executive Board			
Andreas R. Klein	5,308,984	54.2286	0
Alexander Welzhofer	28,621	0.2923	33,375
Supervisory Board			
Dr Ralph Drouven	3,060	0.0313	0
Michael Baur	10,000	0.1021	0

Total number of shares: 9,789,999

Remuneration of the Executive Board 2007

in €	Fixed Pay	Bonuses Board	Bonuses Managing Director	Benefits in kind	Total
Andreas R. Klein (Chairman)	253,554	27,024	0	9,692	290,270
Alexander Welzhofer	231,882	18,654	2,110	8,901	261,547
Michael Gawenda	126,143	25,407	0	9,767	161,317
Total	**611,579**	**71,085**	**2,110**	**28,360**	**713,134**



As a minority shareholder in WVG Medien GmbH, in 2007 Alexander Welzhofer has a claim for a settlement payment of K€ 55.

Supervisory Board

The members of the Supervisory Board are:

- **Dr Ralph Drouven,** lawyer, Cologne, Chairman, other supervisory board mandates: TX Logistik AG, Bad Honnef
- **Mr Bernd Kucera,** auditor/tax consultant, Bonn, Deputy Chairman; other supervisory board mandates: AssFINET AG, Grafschaft bei Bonn (Chairman), pact Finanz AG, Düsseldorf
- **Dipl-Kfm. Michael Baur,** management consultant, Munich

As per the Articles of Association of Splendid Medien AG, members of the Supervisory Board solely receive fixed remuneration to the following amounts:

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

In the year under review Dr. Drouven (CMS Hasche Sigle) charged k€ 41 for consulting services (of which k€ 41 affected expenses) and Mr Kucera (Kucera & Hüttner GmbH) charged k€ 13 for payroll accounting for the Splendid Group in the financial year (of which k€ 13 affected expenses).

Declaration of Conformity to the German Corporate Governance Code

On 19 November 2007 and 13 march 2008 the Executive Board and Supervisory Board of Splendid Medien AG issued Declarations of Conformity as per Section 161 of the German Stock Corporation Act (AktG). The Declaration of 13 March 2008 has the following wording:

Declaration

The Executive Board and Supervisory Board of Splendid Medien AG issued the last Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) on 19 November 2007. The following declaration for the period starting 13 March 2008 relates to the requirements of the Code in its version dated 14 June 2007, and published in the electronic Federal Gazette on 20 July 2007. The Executive Board and Supervisory Board of Splendid Medien AG declare that the recommendations of the "Government Commission for the German Corporate Governance Code" have been and will be met by the following measures.

1. Section 5.3.2 clause 1

The Supervisory Board shall set up an Audit Committee which deals with in particular matters of accounting, risk management, Compliance, the requisite degree of independence required of the auditor, the issuing of the audit mandate to the auditor, the determination of key auditing points, and the fee agreement.

The Supervisory Board of Splendid Medien AG has not established such a separate Audit Committee.

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



2. Section 5.3.3

The Supervisory Board shall set up a Nomination Committee exclusively composed of representatives of shareholders which will propose suitable candidates for election to the Supervisory Board at the General Shareholders' Meeting.

The Supervisory Board of Splendid Medien AG has set up no such separate Nomination Committee.

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

3. Section 5.4.7 subsection 2 clause 1

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

In accordance with the Articles of Association of Splendid Medien AG, members of the Supervisory Board solely receive fixed remuneration to the following amounts:

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

Reason: The Supervisory Board has only a limited sway over the success of the company as it does not hold any management rights and cannot enjoin company management to carry out specific measures. For the fulfilment of its statutory obligation to supervise the company the Supervisory Board requires neither incentives nor rewards in the form of remuneration linked to company success.

4. Section 7.1.2. clause 3

The Consolidated Financial Statements shall be placed in the public domain within 90 days of the end of the financial year; interim reports shall be placed in the public domain within 45 days after the end of the reporting period.

Splendid Medien AG regularly issues its Consolidated Financial Statements within 90 days following the end of the financial year. For the 2007 financial year however, an exception has been made and the Consolidated Financial Statements will first be issued in April 2008. Publication of interim reports is within 60 days following the end of the reporting period.

Reason: The subsidiary Splendid Film GmbH, Cologne, commissioned an independent examination and valuation of its Film Library. The findings of this report will first be made known in April 2008. As such findings could carry implications for the individual financial statement of Splendid Film GmbH and thus on the Consolidated Financial Statements of Splendid Medien AG, the publication of the Consolidated Financial Statements for the 2007 financial year has been exceptionally delayed until April 2008.

Regular publication of interim reports within the period recommended by the Corporate Governance Codex would only be possible by increasing the size of internal accounting in a move that would involve considerable expense.

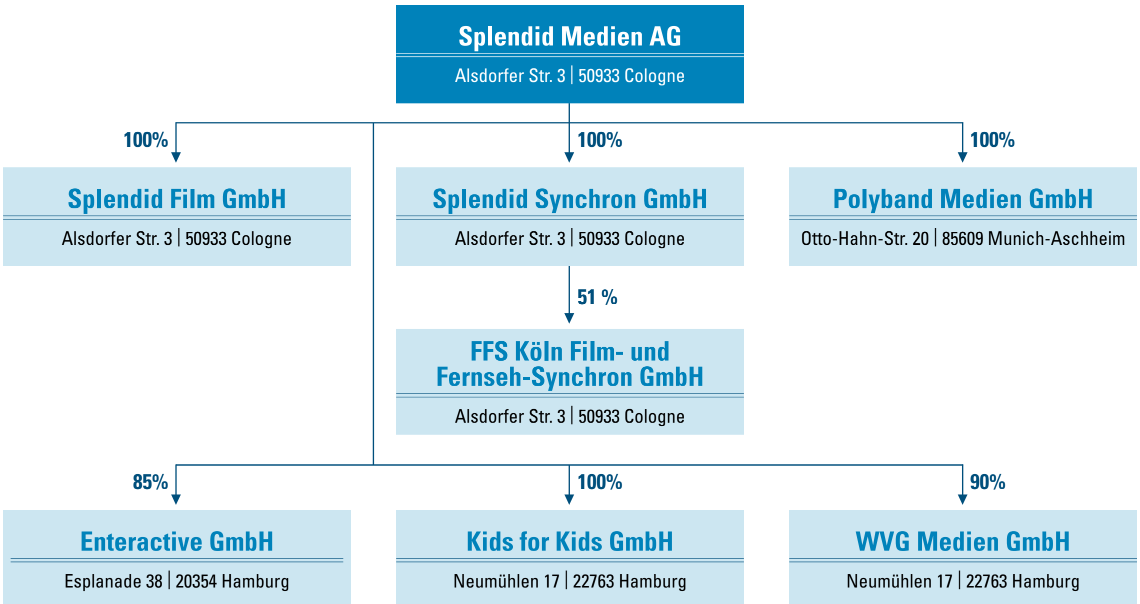
Contents

Schwerter des Königs – Dungeon Siege (OT: In the Name of the King: A Dungeon Siege Tale, Jason Statham)

Group Management Report

Course of business and business conditions

Splendid Medien AG is the holding company for its subsidiaries and investments which cover the value-added chain in the film business and in the cinema, video and DVD, Video-on-Demand (VoD), Pay TV and Free TV segments. Six group companies are directly affiliated to the parent company, Splendid Medien AG, (holding company). FFS Köln is affiliated to Splendid Synchron GmbH with a share of 51%, while the other 49% is held by FFS Film- und Fernseh-Synchron GmbH, Munich. The managing directors of the subsidiaries engaged in the operative business are wholly responsible for the business success of their companies, consulting with the Executive Board in the process. The managing directors of Enteractive GmbH and WVG Medien GmbH hold shares of their own in their companies. As the parent company, Splendid Medien AG assumes cross-divisional holding functions such as accounting, strategy development, administrative services, controlling, public relations, and investor relations at group level. In the 2007 financial year profit and loss transfer agreements were reached with the subsidiaries Enteractive GmbH and Splendid Synchron GmbH. In addition, control and profit transfer agreements have been in force with Polyband Medien GmbH (since 2004) and with WVG Medien GmbH (since 2005).





In specific terms, Splendid Film GmbH and Polyband Medien GmbH acquire rights to movies, TV productions, and special interest and children's programmes and exploit them across the value-added chain (cinema, Home Entertainment and TV) in German-speaking regions and the Benelux countries. Sales in the Home Entertainment segment are the business of the subsidiary WVG Medien GmbH which markets DVDs of the labels Splendid Film, Polyband, Kids for Kids and other marketing partners to the trade. Kids for Kids GmbH buys, produces and markets entertainment and edutainment programmes aimed at the family environment. Enteractive GmbH in Hamburg conceives and develops digital added-value services such as animations, trailers, and DVD and Internet games, forming a complement to the Internet/New Media segment of Splendid Medien AG and together with Splendid Synchron GmbH making up the Postproduction segment. Splendid Synchron GmbH and its subsidiary FFS Köln, both headquartered in Cologne, dub and synchronise foreign-language films and TV series.

Group Internal Control Systems

The Splendid Group is operated on principles of value-oriented management. The overarching goal is profitable growth in the core business of each operative company within the Group. The key control benchmarks are revenue, earnings before interest and taxes (EBIT), earnings before taxes (EBT), and – in terms of single investments – Return on Investment analyses showing comparisons of actual and target figures for each company in the Group. The Group's Executive Board believes that investigation of Group development using EBIT, EBT and ROI analytical instruments gives meaningful reflection of the earning power of the company. Value-oriented management is based on an internal planning, reporting and controlling system within the Group. Every month current developments in revenue and earnings are compiled and analysed using a target/performance analysis. Corrective measures are introduced when needed. During the 2007 financial year the Group internal reporting and controlling system was extended by the addition of various other internal management benchmarks.

Foreword of the Executive Board
Report of the Supervisory Board
Our Business Model
The Share
Corporate Governance
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Consolidated Financial Statements



Framework Conditions

Positive Economic Climate

The favourable general economic climate continued in 2007 as well. A growth rate of 2.5% even exceeded forecast expectations for 2007. However, triggered by turbulence on the financial markets, the strong Euro, and concerns about a recession in the USA, experts are predicting weaker growth for GDP in 2008. Even though forecasts disagree about the exact rate of growth, there is still a general consensus that it will be clearly below that of the previous year.

Disappointing Retail Sales

The last months of the previous year showed a disappointing development in retail sales which are critical for the marketing of DVDs. The strong surge in sales overtopping turnover for the previous year that was expected for December 2007 failed to materialise. October and November 2007 saw a drop in retail earnings of 1.8% and 1.9% respectively compared to the previous months. The fourth quarter showed a minus of 3.0% compared to the previous quarter. For the whole of last year real retail turnover must have shrunk by at least 1.5% compared to the previous year. Yet the three previous years saw a steady rise in retail turnover – by 2.1% in 2004, 1.3% for 2005 and 0.3% for 2006.

A Successful 2007 for the Home Entertainment Segment

The Home Entertainment segment can look back at a successful 2007. At € 1.587 billion (2006: € 1.579 billion) turn-over was up by 0.5% on the previous year. The growth driver here was the sales market which with earnings of € 1.313 billion (2006: 1.295 billion) not only made up the lion's share of total turnover but also improved its own growth rate by 1.4%. At € 274 million (2006: 284 million) the rentals market showed negative development.

Once more a new DVD sales record of 103.3 million items could be set (2006: 100.7 million). A curb was also applied to the steep drop in retail prices for DVDs that set in during 2006. Yet at € 12.72 the average sales price of a DVD in 2007 was once more under the level for 2006 (€ 12.85). Factoring in the growth format Blu-ray and HD DVD, however, enabled a slight increase in the average price to € 12.73. With 0.5 million items sold, Next Generation formats (Blu-ray, HD DVD) contributed turnover of € 14 million to the overall results, reaching a significant level for the first time.

For the mid-term, experts predict modest growth for the Home Entertainment segment.



TV Advertising Income up by 5%

Development of advertising income is an important indictor of how TV companies set their programme buying – and thus of the sales opportunities for film licenses of the Splendid Group to TV channels. In the past two years the advertising market only showed a growth rate of between 3-4%. In 2007 TV company advertising income did indeed show positive development. With an increase of gross advertising turnover by 5.2% to € 8.7 billion, television was the classical advertising medium in which the majority of gross advertising investment was channelled. Even so, it is still apparent that there has been a drop in TV channel outlay on programmes and other forms of investment. At the same time the major TV channels are finding it increasingly difficult to find programmes that appeal to all sections of the population. The public broadcasting channels ARD and ZDF with their lack of major sporting events like the 2006 World Cup were particularly hard hit by falling viewer quotas. RTL, ProSieben and Sat.1 were the channels with the highest viewing figures in the key target group of viewers aged from 14 to 49, while in terms of the so-called "Best Age Group" (50 years upwards) the public broadcasting channels were way in front of RTL and the other private channels. At the same time classical TV is steadily losing ground to the Internet in terms of the generation of 16-24 year olds. For the coming years experts predict an increase in annual outlay for TV advertising of 2.8% (2006 estimate: 2.2%). By 2011 outlay on TV advertising will increase from € 4.1 billion for 2008 to € 4.7 billion.

Cinema: Falling Turnover and Audience Figures but Turnaround in Sight

Compared to the previous year, the German cinema market recorded a drop in audience figures of 8.2% (from 136.7 million to 125.4 million). Turnover fell by 5.7% (from € 814.4 million to € 767.9 million). Although in 2007 the German cinema market failed to meet the high expectations placed in it, experts are predicting that it will soon recover and that a reversal of the downturn in the cinema market is in sight. For the coming years experts expect average annual growth in cinema profits in the order of 4.2%.

Marked Price Squeeze in the Service Segment

Over the past few years the market for audio-visual postproduction has been hit by a major price squeeze which continued in 2007. Both synchronisation services and DVD production are no longer regarded by TV channels and production companies as prestige projects with high artistic and technical excellence as their focus increasingly shifts to economic aspects. On the one hand the splintering of the TV landscape with the advent of ever more TV programmes will continue to put the segment under an increasing price squeeze as the new Special

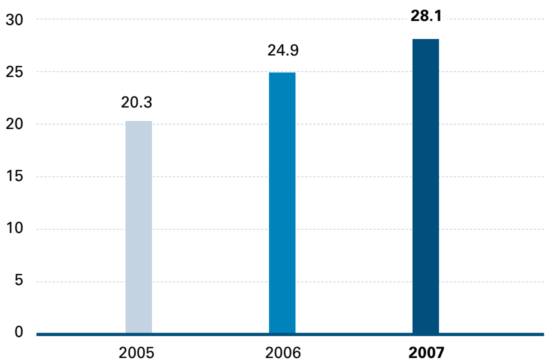
Interest channels generally have a different kind of financial power to that of the major TV channels. Yet on the other hand new kinds of programme content provided by Special Interest channels will be in need of synchronisation and thus offer further opportunities for growth.

Course of Business

Splendid Group Turnover up by 13%

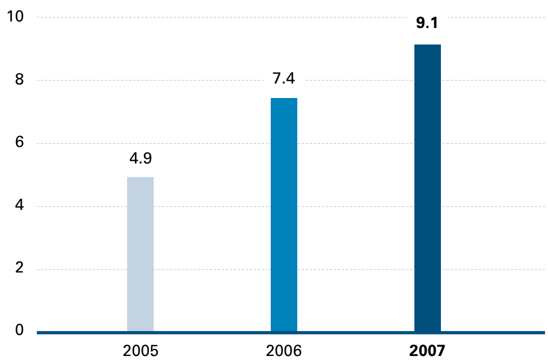
For the financial year 2007 the Splendid Group recorded total turnover of € 28.1 million (2006: € 24.9 million) or an increase of 12.9% against the previous year's figures. Alone the high-turnover fourth quarter 2007 recorded turnover of € 8.4 million (2006: € 7.2 million). The 2007 financial year also reflected new heavier investment in film assets which began in 2006. The newly acquired films were particularly effective in intensifying sales of TV licenses to TV companies.

Sales in € million



Home Entertainment was the key business segment. Its contribution to overall turnover changed in the year under review to 74.8% as against 76.9% for the previous year. The second key mainstay of sales for the Group was the License Trade segment which raised its overall share from 10.1% to 13.4%. In the year under review the Postproduction segment contributed 11.8% to total turnover, in the previous year its contribution was 13.0%.

EBITDA in € million



At € 9.1 million, earnings before interest taxes, depriciation and amortisation (EBITDA) were 23% up on the previous year's figures of € 7.4 million. At 32.4% the EBITDA margin was also above the previous year's figure of 29.7%. Earnings before interest and taxes came to € -1.9 million (2006: € 2.3 million) and was negatively impacted by special depreciation on the film assets of Splendid Film GmbH totalling € 4.3 million. The Splendid Group undertook special depreciation of the film assets of Splendid

Film GmbH based on the findings of an independent expert opinion of the film assets of the subsidiary Splendid Film GmbH. The Executive Board of Splendid Medien AG commissioned the inspection and evaluation of the Film Library of Splendid Film with a view to assessing sustainable value and marketing opportunities through a neutral expert analysis of all the individual titles particularly in terms of the current and foreseeable development of added-value in the film business. The point of departure was given by various market observations the Splendid Group had made concerning more recent customer-side business developments and their impact on peer companies in the film and media branch. The expert Report proposed a change in the valuation rate for numerous titles in the Library of Splendid Film, especially in view of the future exploitation chances for TV rights and for the Home Entertainment and Video-on-Demand segments. On the whole the sustainable value of the Library was confirmed, the need for special depreciation should be set against higher potential values which even though not apparent in accountancy terms may be expected to yield corresponding higher value yield in coming financial years. Following the revised state of affairs given by the findings of the expert Report, the special depreciation could be included in a timely manner in the Splendid Group's Annual Financial Statement for 2007. Pre-tax earnings came to minus € 2.4 million (2006: € 2.0 million). Group pre-tax earnings were influenced by deferred taxes on losses brought forward and came to minus € 1.2 million (2006: € 2.9 million).

Home Entertainment

The Home Entertainment segment generated sales revenues of € 21.0 million (2006: € 19.1 million) or a sales increase of 9.9% over the previous year.

In this business line a share of € 8.5 million was contributed by Splendid Film (2006: € 7.2 million), € 10.3 million by Polyband (2006: € 8.8 million), € 0.6 million by Kids for Kids (2006: € 1.2 million) and € 1.7 million by WVG Medien (2006: € 1.9 million).

Restructuring of the "Ben & Bella" product group at the subsidiary Kids for Kids proved to be a very lengthy process. Even so, the first sales revenues and contributions to operating income from the fresh and pedagogically approved new formats for "Discovering English with Ben & Bella" were recorded in 2007. A comprehensive set for direct marketing was launched in November 2007 on various markets in South-east Asia. A further "Ben & Bella"-product was created in partnership with the renowned international publishers Encyclopaedia Britannica that was launched with high expectations in early January initially in Korea and is later scheduled to be released on further key markets across the world.

Although WVG was able to improve its 2007 third-party distribution network sales by nearly € 1 million from € 22.7 million in 2006 to € 23.6 million, the consolidated growth in sales achieved by the Group in 2006 did not have a sequel. Consolidated sales



dropped from € 1.9 million for 2006 to € 1.7 million for the year under review. This was mainly due to flagging sales of WVG's own licenses.

The Splendid Group markets the DVDs of its labels 'Splendid' and 'Polyband' and the products of Kids for Kids via its own distribution subsidiary WVG Medien which has close contacts to large chains of department stores, specialist distributors and other retail trade companies. WVG also distributes the titles of what are now 25 (2006: 24) distribution partners, thus creating synergies in terms of market position and expertise. There has been no significant change in the overall market share of WVG Medien since 2006 which still lies at just under 2%. The third and fourth quarters 2007 saw further distribution partnership agreements reached with significant independent labels like Icestorm Entertainment, Berlin and Galileo Medien AG, Potsdam. The appointment of Klaus Schobel as second managing director at WVG in late 2007, signalled a new focus on the development of new segments in marketing and distribution and the intensification of co-operation with partners both inside and outside the film branch. In the first quarter 2008 WVG had already increased its market share by half a percent to approx. 2.5%. Production and physical distribution of DVDs is ensured by optimal media production, Röbel, a company of the edel music Group.

In terms of new releases from the Splendid Film Library, the main sales leaders were the horror comedy "Severance", "Bloodrayne 2 – Deliverance", the sequel to last year's highly successful adventure blockbuster "Bloodrayne", the Jackie Chan action movie "Rob-B-Hood" and the family favourite "Lassie" starring Peter O'Toole. Since the end of 2006 titles of the Splendid Label, in particular Asian action films, have been released in Benelux countries as well. Despite basically positive market conditions, so far it has not proved possible to release two titles per month as originally planned. Splendid Film is currently investigating enhanced marketing solutions but still intends to hold onto its market entry. The most successful Polyband titles were the BBC nature documentary "Planet Earth", the TV classics "Fury" and "The Winds of War – Der Feuersturm", the docu-soap "Die Ludolfs" and the English TV comedy format "Little Britain".

New Major Partnership in VoD

After the Splendid Group was one of the first holders of rights to enter into an agreement on programme marketing with in2movies, the Download-to-own-Platform in 2006, in 2007 Splendid Film signed a long-term co-operation agreement with the ProSiebenSat.1 Group for the Video-on-Demand Portal "maxdome" for which Splendid will provide a package of some 200 films for the movie DSL download service. After 2006, which saw no significant sales in VoDs, the segment received a major

boost in 2007, recording sales to the tune of k€ 355. Apart from the "maxdome" and "in2movies" platforms, sales were also generated with key partners like t-online and Arcor.

Growth in the License Trade Segment

In 2007 the License Trade segment saw a 52% boom in sales from € 2.5 million in 2006 to € 3.8 million. High turnover was largely due to the sale of TV licenses to TV companies. In the 2007 financial year the Splendid Group entered into a series of new licensing agreements with TV companies, some of which will have an impact on sales figures starting in 2008. Done deals include contracts with ProSiebenSat.1 for numerous cinema films including the horror comedy "Severance", action movie and comedy titles for the Premiere, RTL and RTL II channels, and other cinema and action films including "Schwerter des Königs – Dungeon Siege" and "Bloodrayne" for Free TV and Pay TV.

Three Cinema Releases

As in the previous year, in 2007 the Splendid Group also released three film for moviehouse rental: "Der Fluch der Betsy Bell – An American Haunting", a horror film with a superb cast line-up including Sissy Spacek, Donald Sutherland and Rachel Hurd-Wood, and "Ich habe Euch nicht vergessen – Simon Wiesenthals Leben und Vermächtnis – I Have Never Forgotten You – The Life and Legacy of Simon Wiesenthal", a moving film that received high critical acclaim. These two movies are genre films for comparatively small cinema audiences but which both have a potential which makes it advantageous to release them in cinemas before embarking on subsequent marketing stages. The third cinema release for 2007, "Die Schwerter des Königs – Dungeon Siege" (OT: "In the Name of the King: A Dungeon Siege Tale") – a scenic fantasy epic with action superstar Jason Statham in the main role – reached German cinema audiences of some 250,000 viewers so that its cinema release likewise mainly serves to strengthen its chances of sales to TV companies and in the Home Entertainment segment. In particular the major public broadcasting channels (ARD, ZDF) and the private broadcasting groups (RTL, ProSieben, Sat.1) prefer titles with a higher public profile due to their prior cinema release.

Postproduction builds New Business Unit

Turnover in the Postproduction segment slightly increased from € 3.2 million in 2006 to € 3.3 million. Enteractive GmbH contributed a share of € 2.1 million (2006: € 1.8 million), while Splendid Synchron GmbH and FFS Köln generated total turnover of € 1.2 million (2006: € 1.4 million). Turnover development at Splendid Synchron/FFS Köln was largely marked by deferral to the following year of FFS Köln projects planned for 2007. FFS Köln was founded in 2006 by Splendid Synchron and FFS Film- und Fernseh-Synchron GmbH, Munich/Berlin with the aim of making better use of the pool of talent in the Cologne/Frankfurt area for major cinema and TV synchronisation projects.

At the Internationale Funkausstellung (IFA) in Berlin, the world's largest consumer electronics trade fair, in the third quarter 2007 Enteractive presented the world's first interactive game for the new High Definition Disc format – "Sudokia", a registered trademark of the Splendid Group. "Sudokia" can be played with remote control on the Blu-ray format by up to five players. The first game sets are scheduled to come onto the market in 2008. Other games are now under development. The market decision to embrace the Blu-ray format rather than HD DVD as successor to the DVD is also welcomed by Enteractive. Even though the company was well positioned with sufficient technical expertise to meet market demands in both formats, it still welcomes the choice of focus as it means that henceforth investment will only have to be made in furthering one new standard.

Summary: Course of Business

Overall, the course of business for 2007 was characterised by strong growth in the License Trade segment. The Home Entertainment segment also showed signs of growth, yet in terms of single markets (DVD exploitation of US American and Asian horror and action films for Germany and Benelux countries) failed to meet in-house expectations. With an overall market share of some 2%, the Group continues to enjoy a position as one of the leading independent distributors in the German Home Entertainment market.

Earnings before depreciation and amortisation were clearly in excess of the previous year's figures. Earnings before interest and taxes were influenced by special depreciation totalling € 4.3 million which occurred in the wake of an independent evaluation of the film assets of Splendid Film GmbH. Group results after tax were also positively influenced by active deferred taxes from as yet unused tax losses carried forward.

Income, Assets and Financial Positions

Income Position

Production costs came to € 21.8 million (2006: € 16.0 million). The ratio between production costs and sales in 2007 was 77.6% (2006: 64.3%). Key positions include depreciation of film assets totalling € 10.7 million (2006: € 4.9 million), purchased services (such as production of film copies) totalling € 6.5 million (2006: € 6.1 million) and expenses of licenses and royalties totalling € 1.8 million (2006: € 2.1 million). The increase in production costs is mainly due to special depreciation of film assets to the sum of € 4.3 million.

Distribution costs amounting to € 5.2 million (2006: € 4.4 million) were mainly composed of advertising expenses totalling € 2.3 million (2006: € 1.8 million), personnel expenses totalling € 1.1 million (2006: € 1.0 million) and costs for Gema/film promotion totalling € 0.6 million (2006: € 0.6 million). The increase in advertising costs compared to the previous year is



mainly due to title releases in the Cinema segment. Personnel costs in the distribution sector are attributable to increased activity especially in the Home Entertainment segment which involved an increase in staff numbers. Compared to sales, distribution costs rose from 17.7 to 18.5%.

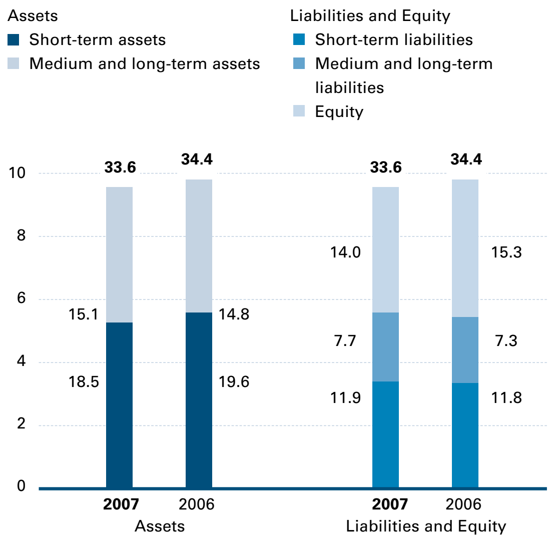
Compared to the year before, general administrative costs rose slightly from € 3.6 million to € 3.7 million. This also covers such expenditure as administrative personnel costs totalling € 1.7 million (2006: € 1.7 million) (also including salaries of the Executive Board), and costs for advisory services amounting to € 0.5 million (2006: € 0.4 million).

Other operating costs add up to € 0.8 million (2006: € 1.7 million) and were mainly attributable to the dissolution of reserves and the reduction of valuation adjustments. Interest costs rose from € 0.5 to 0.8 million and are mainly attributable to the long-term financial engagement taken out with the HSBC Trinkaus & Burkhardt KG, Düsseldorf (H.E.A.T Mezzanine II Fund) for over € 7.5 million in April 2006 with a term of seven years and an effective annual interest rate of 8.7%. In the 2006 financial year interest payments made on a pro-rata basis were booked.

Assets and Financial Position

In the past financial year the Group's balance sheet total was curtailed from € 34.4 million to € 33.6 million.

Balance sheet structure in € million



Compared to the year before, short-term assets went from € 19.6 million to € 18.5 million. Liquid funds decreased from € 10.7 to € 7.7 million. The Group's financial position, measured on the ratio of liquid funds minus long-term loans totals € 0.5 million in 2007 (2006: 3.5).

Compared to the year before, accounts receivable for goods and services rose from € 6.0 to 7.7 million. These included receivables for license sales



totalling € 0.7 million taken by the TV channels last year but not yet accounted for. Inventories slightly decreased from € 1.5 to 1.4 million. As the per balance sheet date, at € 15.1 million medium and long-term assets exceeded the previous year's figure of € 14.8 million. This is mainly due to changes in the "Deferred Taxes" item from € 3.2 to € 4.6 million. The "Film Rights" and "Advance Payments on Film Rights" items changed in aggregate from € 10.8 to € 9.5 million. Valuation of the film assets of Splendid Film GmbH underwent assessment by an independent expert. The Report proposed changes in the valuation rate of numerous titles, particularly in terms of the future exploitation chances for TV rights and for the Home Entertainment and Video-on-Demand segments. On the whole, the sustainable value of the Library was confirmed, the need for special depreciation should be set against higher potential values which even though not apparent in accountancy terms may be expected to yield corresponding higher value yield in coming financial years.

Short-term liabilities rose from € 11.8 to € 11.9 million. Liabilities for goods and services rose from € 4.5 to 5.1 million. They essentially consist of accounts payable to distribution partners. The "Reserves" item fell from € 4.9 to 4.7 million. The "Other Short-term Liabilities" item dropped from € 0.9 to 0.7 million.

In the year under review medium and long-term liabilities rose from € 7.3 to 7.7 million. This is mainly due to a long-term financing agreement realised in April 2006. The amount with account taken of a discount granted was reported under the "Long-term Loans" item.

Against the backdrop of the Group's year-end results, equity capital changed from € 15.3 to 14.0 million. The equity ratio is 41.6% (2006: 44.5).

The cash flow from the Group's current business activity increased substantially from € 4.2 to 5.9 million. This increase is mainly attributable to the results before depreciation which were higher than last year.

Cash flow from investment activity was minus € 9.0 million (2006: € -7.8 million). Liquid funds totalling € 8.6 million (2006: € 7.6 million) were used for investment in film assets. The Group made aggregate investments of € 9.4 million (2006: 7.6) in film assets. By the end of year, one investment of € 0.8 million had not been effecting payment.

Cash flow from financing activity changed from € 6.6 to € 0.1 million. The cash flow for the previous year included a long-term loan (€ 7.2 million after deduction of discount) and repayment of a loan (€ 0.6 million).



The Splendid Group held over € 7.7 million of liquid funds (2006: € 10.7 million). The Group has a stable financing and liquidity structure, and is able to honour its payment obligations at any time.

Investments

In the 2007 financial year the Group invested € 9.4 million (2006: € 7.6 million) in film assets or nearly 24% more than in the previous year. Newly acquired titles include "My Life in Ruins" by and with Nia Vardalos and the team behind the global blockbuster "My Big Fat Greek Wedding", the Kung Fu comedy "Big Stan", "Ong Bak 2", the sequel to the action-packed Thai kick-box film "Ong Bak", and a series of other comedy, action, and horror films. Various acquisitions were made in the Special Interest segment, including "Sharkwater" and "Turtle's Song" first-class – and with "Sharkwater" international award winning – nature and animal documentary films that are also scheduled for cinema release. Acquisitions for Family and Children's programmes included the rights for the TV classic "Fury", the series showing the adventures of the famous black stallion.

Employees

As per the end of year the number of permanent staff totalled 79 (2006: 66). In 2007 21 new employees were engaged, mainly in Product Marketing and Postproduction. Two employees were transferred from temporary to permanent employment status in 2007 and ten employees left the company.

Number of permanent employees (including Executive Board/management) in the Group Companies

	2007	2006
Splendid Medien AG	8	6
Splendid Film GmbH	7	8
Polyband Medien GmbH	12	7
Kids for Kids GmbH	1	0
Splendid Synchron GmbH	12	11
Enteractive GmbH	22	19
WVG Medien GmbH	17	15

*FFS Köln employed no permanent staff in 2007.

The majority of Group employees can look back on many years of experience in the industry and/or service with the Group. Senior staff; the managing directors in particular maintain close contacts with key customers.

Employees' Length of Service

	2007	2006
Up to 1 year	21	11
1 to 2 years	12	6
2 to 5 years	14	16
> 5 years	32	33



Events after the End of the Business Year

The Stadt-Sparkasse Gelsenkirchen notified the Splendid Group that their voting rights share in Splendid Medien AG on 12 February 2008 had exceeded the threshold of 3% and lay at 3.575% on that day.

Metzler Investment GmbH, Frankfurt, notified the Splendid Group that their voting rights share in Splendid Medien AG on 12 February 2008 had exceeded the threshold of 3% and lay at 3.575% on that day, of which Metzler Investment GmbH, Frankfurt, Germany shall be attributed 3,575% as per § 22 section 1 clause 1 No. 6 WpHG (German Securities Trading Act) over the Stadt-Sparkasse Gelsenkirchen.

No further items were given for inclusion in the Report of the event after the business year.

Risk Report

As an international player, Splendid Medien AG is exposed to various risks. The Group aims to integrate suitable risk precaution measures into its decisions and business processes, and to adjust, develop and optimise such measures on an on-going basis.

Timely and complete identification of existing and potentially serious risks forms part of the on-going risk identification strategy by the Executive Board, managing directors and management. The key risks affecting the Group are compiled in a Catalogue of Risks and assessed in terms of their "economic loss potential" and "degree of probability". Appropriate countermeasures are then evolved. Wherever possible, typical industry risks are minimised by countermeasures, and insurance taken out against risks caused by third-parties or force majeure.

The effectiveness of control measures and the risk situation itself is reviewed and updated at least twice a year.

Overall responsibility for risk management is in the hands of the Executive Board. The Board stipulates risk policies and decides on the total extent of risks to be borne by the Splendid Group as well as on the control measures for risk avoidance and reduction. The Executive Board commissions the upkeep of the central Catalogue of Risks which covers all the key risks, their respective assessments and the appropriate countermeasures. A Report based on the Catalogue of Risks is produced for the Executive Board at least twice a year. Should interim risks appear which could have a major impact on the Group's risk situation, immediate notification is given the Executive Board. At least once a year the Supervisory Board receives a comprehensive report on the Splendid Group's risk management.



The design and functionality of risk management are covered in the Group's final audit.

Risk assessment analysis places a special focus on the fields given below as these are directly related to the company's financial, assets and earnings positions:

Acquisition and Sale of Film Licenses

In film license acquisitions the focus is placed on marketing potential across the whole value-added chain. The managing directors of the subsidiaries who are responsible for film acquisitions co-operate with the Distribution segment to draw up "Acquisition Proposals" which give both a project-related analysis and an analysis of the effects on the profitability and liquidity of the company as a whole. Even so, the risk of whether a particular film will appeal to the audience and thus become an economic success still remains. The same applies across the whole of the value-added chain. Apart from economic risks, legal risks may ensue from the purchase and sales contracts, parts of which are extremely complex. For this reason the subsidiaries of Splendid Medien AG engaged in film license acquisitions regularly seek out third-party legal advice.

TV Exploitation

A certain proportion of profits is generated from the sale of films to Free TV and Pay TV. Decline in advertising income or an insufficient number of subscribers have a major impact on the buying budgets of TV channels. Thus the economic climate in the media landscape – especially unilaterally imposed changes to modes of payment – may have a negative impact on the Splendid Group's financial and earnings position. This risk is limited, however, given the practice of exploitation across numerous value-added stages.

Product Piracy

For some time now the film industry has voiced complaints about possibilities of illegal downloads on the Internet – possibilities which have sharply increased with the spread of DSL. Other forms of product piracy too, like dissemination of illegal DVD copies, are clearly detrimental to the film industry and the DVD segment in particular. The industry has launched a number of initiatives designed to place increasing restrictions on product piracy in the future. In general terms it should be noted that the impact of illegal downloads varies from company to company within the Group. The products of Polyband GmbH and Kids for Kids GmbH with their Special Interest and Children's programmes are exposed to a much lower risk than the feature film products of Splendid Film GmbH. This can mainly



be explained by reference to the different target groups addressed by the various genres. Over the past financial year the Splendid Group has taken further measures to optimise the copy protection system for DVD products. In general terms the economic risk for the Splendid Group can be said to be in line with that of the market.

Currency Risks

Among other countries, the Splendid Group also acquires film licenses from the USA and the Far East. As such licenses are predominantly exploited in German-speaking countries, fluctuations in the exchange rate between the Euro and Dollar may have a positive or negative effect on the company's earning position. The Splendid Group bases its projects and investments on planned rates. Any marked deviation from the actual planned rate will trigger an examination of appropriate security instruments. Rate-fixing measures are only taken in exceptional cases.

Risks arising from Non-Payment or Delayed Payment

The Splendid Group exploits most of the licensing rights it acquires in the Home Entertainment segment and in deals with TV companies in German-speaking regions. The Group counters risks from non-payment and delayed payment by means of standardised reports which provide overviews of the business situation and payment performance of key customers. A large portion of receivables for DVD sales is secured by the credit insurance policies of the distribution partner.

Financing

Availability of sufficient capital for the acquisition of film licenses is of vital importance to the Group. In the 2006 financial year the Splendid Group agreed on a long-term financing deal for € 7.5 million with HSBC Trinkaus & Burkhardt KG, Düsseldorf (H.E.A.T Mezzanine II Fund). Further details of this agreement are given above in the present Status Report and in the Group Appendix. In the 2007 financial year Splendid Medien AG entered into a co-operation agreement with the National Bank, Essen, which made provision for an operating credit line. Its term is initially set for one year. The Executive Board has already started negotiations with a view to extending the term.

The Splendid Group enjoys a solid finance and liquidity structure. With a view to pushing forward the growth strategy, the Executive Board is examining further financing options. Even so, the economic stability of Splendid Medien AG is ensured, independently of whatever additional financial arrangements may be met.



Key Personnel Risk

Management and key experts at subsidiary level are a vital factor in ensuring the Group's economic success. A sudden loss of such key figures may have an adverse effect on the business activities of the subsidiaries and the Group as a whole. The company counters such risk by putting in place succession and replacement arrangements. Profit-sharing schemes, flat hierarchies and incentive pay models ensure job satisfaction and the loyalty of staff members across the companies.

Legal Risks

Splendid Medien AG and its subsidiary Splendid Film GmbH jointly face risks arising from the former subsidiary Splendid Pictures, Inc. An equivalent reserve was established at Splendid Film GmbH as early as the 2002 financial year. In early 2007 a case was brought against Splendid Medien AG by a former business partner of Splendid Pictures Inc. who asserted claims for notes receivable against the former indirect subsidiary Splendid Pictures Inc. In the first instance in 2007 the case against Splendid Medien AG was rejected by a court in the United States. The plaintiff did not appeal. Splendid Medien AG expects no further liabilities for the Group to arise from this legal dispute. The Executive Board has taken note of future latent risks in this field and is maintaining the current reserve.

Risks from the Subsidiaries

Potential risks from the subsidiaries with an impact on the Group as a whole are identified by means of a standardised monthly report in which any differences between actual and target figures are made known to the Executive Board. Furthermore, the Supervisory Board is also informed of important developments within the Group as part of the monthly reporting system. In the year under review the Executive Board once more adjusted and optimised the existing systems to meet requirements.

In the 2007 financial year a separate evaluation was made, and a Corporate Compliance Code was issued aimed particularly at the prevention of corruption and other illegal activities. This was the Group's response to increasing calls from both public and political circles for a clear commitment to good business management practice. The Executive Board and management are responsible for ensuring compliance with the Code.

On an annual basis and acting in conjunction with the Supervisory Board, the Splendid Group identifies further areas and concerns requiring examination in terms of risk management. Reviews are generally carried out by independent firms of chartered accountants and auditors. In 2007 the risk management review reformed numerous business processes and optimised them whenever necessary.

Forecast Report

For the next two years and beyond, the Group aims at growth in all areas of business activity. The following examines what this involves when applied to individual business segments.

Home Entertainment is the Group's Key Growth Driver

The Home Entertainment segment is still characterised by the high appeal of the DVD. Even if today the very high growth rates of the past can no longer be achieved, sales still remain on a high level. Once more in 2007 turnover in the Home Entertainment segment was twice as high as that for Cinema. On the international level, the film industry made 10% of its turnover with cinema, 40% with television and 50% with DVDs. Last year the DVD follow-up formats HD DVD and Blu-ray made their first significant mark on the Home Entertainment market. Impact on average price development could be seen in advance and a fall in prices countered. Although the Blu-ray format is expected to take much longer to develop than the old DVD format as many households now do not have the right kind of player as they did when the DVD was first introduced, the Splendid Group still believes that the new formats will contribute to maintaining earnings from the playable audio-visual market as the benchmark for the exploitation chain – particularly since the drop-out of Toshiba, the industry champion of the HD DVD, has opened up the way to focus on one single new format, Blu-ray. The Splendid Group believes that sales development – especially in the Special Interest segment (Documentaries, Fitness/Wellness) – will continue to remain stable on a high level, and that the senior customer demographic for sales of DVDs will offer opportunities for increased sales and higher revenue in the coming years.

VoD shows Significant Sales Growth

Digital exploitation formats in Home Entertainment like VoD and Electronic Sell Through (EST) are steadily gaining in importance in the segment. Experts predict a doubling of the current market volume in the next few years. new strategies for the exploitation formats serve as development drivers. For instance, in 2008 Major Studios is planning to release films both in DVD and VoD format, while alone last year the Splendid Group managed to increase previously negligible sales to over k€ 350. The Group expects a further upswing in sales for VoD from co-operation with present and future partners.



TV Market in Coming Period Marked by Changed Sales Openings for Feature Films

Experts believe that the crisis triggered by the US real estate market and banking sector will also lead to curbed growth in advertising expenditure. The TV industry is likewise also sceptical about advertising income in the near future. The RTL group of broadcasters expect growth in 2008 of a mere one to maximum three percent. A further factor is that television is steadily loosing ground to the Internet for the generation of 16-24 year olds. It remains to be seen how expenditure on advertising for products for this target group will develop, and how TV channels will change their buying patterns for films targeted at this audience. Although it is difficult at this juncture to pinpoint a major programme trend for the coming years, 2008 will be largely shaped by major sporting events like football's European Cup and the Olympic Games. Furthermore, experts predict greater exposure of shows and American series.

From a structural standpoint the trade in TV licenses in the coming years is likely to be characterised by changes in sales openings. The major TV channels are increasingly buying feature film licenses directly from producers or focussing on large-scale productions with high minimum guarantees. On the buying side this is making the purchase of high quality TV licenses at a warranted price much more difficult. At the same time on-going digitalisation signals the emergence of a broad array of new channels and methods of dissemination on the TV landscape. Against this backdrop, TV broadcasters will require a growing number of high quality programmes that satisfy audiences and advertisers alike. Even so, the increasing market share taken by smaller channels indicates a trend to Special Interest channels that have less financial clout than the major broadcasters. What will be crucial in the coming years is to foster contacts with key customers in the TV license trade and to build up and consolidate relationships with the new channels. For the coming years the Splendid Group is aiming at a major contribution to turnover from the TV License Trade segment.

Plans for our Own Special Interest Channel

The Group still plans to operate its own Special Interest channel, predominantly for Asian films and TV programmes. Although exploratory talks have proven to be unexpectedly protracted and no clear go-ahead has as yet been given by the big platform operators, the Splendid Group remains confident that it will start its own Special Interest channel 'AMAZIA' in the foreseeable future. Increasing competition between platform operators is forcing them to provide ever more attractive programmes in a bid to win new customers. Against this backdrop, the Group considers that it is well positioned with its offering of AMAZIA as a high value Special Interest



channel dedicated to an Asian range of programmes. In the first stage the Splendid Group will mainly focus on titles from its own Film Library. If the venture proves a business success, further programmes will be systematically acquired. A precise forecast of contributions to turnover and income from the new channel for the coming years is not possible at the present juncture. However, for the mid-term it is expected to yield appropriate sales and revenue.

Product Strategy Focus on Asian-Action, Horror and Special Interest Films

The Splendid Group enjoys a leading market position in terms of horror and action films from Asia and the USA. Even if last year's expected sales and revenue figures failed to be reached, marketing of action and horror titles still continues to play a major role in the Splendid Group's Product Portfolio. Innovative marketing concepts in concert with more intensive exploitation of existing licenses will ensure optimisation of marketing.

In addition, the Splendid Group has a strong foothold in Special Interest segments such as history, nature documentaries, fitness and wellness, while the marketing of TV and children's programmes has also gained in importance for the Group. In the coming years too, the Splendid Group will continue to invest systematically in these genres and consolidate its market position.

Modest Perspectives Yet Drive in Benelux Countries Continues

The drive to exploit film titles in Benelux countries which began in late 2006 will be pursued in an overseeable manner despite initial difficulties in gaining a foothold on the market. The Group is currently investigating better marketing opportunities for film products on this market. However, the current focus is no longer on expansion of distribution and licensing opportunities in other European territories. Sales revenue from this field forms part of the Home Entertainment segment.

Successful Positioning of the "Ben & Bella" Learning Game Product on the Asian Market

The Splendid Group expects potentially major turnover for its "Ben & Bella" edutainment product from the partnerships and co-operation agreements with international partners it entered into in 2006 and 2007 including the renowned international publishers Encyclopaedia Britannica. Following the launch of the market-ready product in Asia during the 2007 financial year, it is now expected that marketing of the "Ben & Bella" programme in Asia will bring much higher sales revenues for the 2008 financial year.

Selected Cinema Releases

In the coming year the Splendid Group plans to release further films in the cinemas. These could also include selected titles from the Special Interest genre, particularly as the trend shows that Special Interest films too can be box office hits. The Splendid Group is careful in its selection of film titles as the Group does not wish to position itself as a classic film distributor in the coming years. Cinema distribution continues to play a minor role in the Group's overall Portfolio. For exploitation on cinema circuits, the Group will select such films from its stock of licenses as promise more conducive market conditions in terms of individual cost/benefit ratios and further exploitation opportunities.

Using Synergies in the Service Segment

In the Postproduction segment too, the Group is planning to build up capacity. The Group expects moderate growth in revenue from the Synchronisation Services segment in the coming years, driven in the main by increasing diversification and quality orientation of services, and by intensification of co-operation and partnerships with other major synchronisation providers. The extremely positive development of incoming orders at the beginning of 2008 is an indictor of good sales and earnings development for the 2008 financial year.

Growth is also aimed for in the Digital Postproduction segment. Last year the Group started development of its own Special Interest content with the Blu-ray format. Preliminary market investigations show that – in Germany at least – the games market is as yet clearly underrepresented but still holds great potential so that with foresight further investment in this field would pay dividends. More significant turnover and earnings are expected for the mid-term patterned on the current growth potential of the games market.

For the first months of the 2008 financial year, the Splendid Group recorded positive business development and expects commensurate positive effects on the development of turnover and earnings.

For the 2008 financial year the Executive Board expects sales revenue of at least € 31 million and an EBIT margin of between 8-9%.

Remuneration Report

Executive Board

The members of the Executive Board are:

- **Andreas R. Klein,** Director of License Trade & Strategic Planning, CEO
- **Alexander Welzhofer,** Director of Marketing & Distribution; other executive board mandates: Federal Association for Audiovisual Media (BVV), Hamburg
- **Michael Gawenda,** Director of Finance & Investor Relations

Executive Board members of Splendid Medien AG receive a contractually agreed fixed salary, and a performance-related management bonus. The bonus is related to sales and yield-related components and other defined performance targets that are set anew each year. Benefits in kind (mainly cars) are a further part of the Executive Board's remuneration.

Alexander Welzhofer was granted 33,375 stock options in 2001. These options have not as yet been exercised. On the date the first tranche was issued, the exercise price was € 3.43. The options have a term of 15 years. Subscription rights may be exercised no earlier than two years after allocation and then over the following four year period within exercise periods and timeframes based on the achievement of performance targets. In the past year Mr Welzhofer made no use of his exercise right.

The contracts of Executive Board members Andreas R. Klein and Alexander Welzhofer have a term expiring on 31 December 2008. The term of the contract of Michael Gawenda has been extended from 30 June 2008 to 30 June 2011. No Board member has been promised benefits in the event of termination of his activity. Nor has any member of the Executive Board in the course of the past year received any benefits or equivalent commitments from a third party with regard to his activity as a member of

Remuneration of the Executive Board

Annual Income

in €	Fixed Pay	Board Bonus	Managing Directors Bonus	Benefits in kind	Total
Andreas R. Klein (CEO)	253,554	27,024	0	9,692	290,270
Alexander Welzhofer	231,882	18,654	2,110	8,901	261,547
Michael Gawenda	126,143	25,407	0	9,767	161,317
Total	**611,579**	**71,085**	**2,110**	**28,360**	**713,134**

the Executive Board. Pensions are not granted to any member of the Executive Board. Nor do Board members receive any loans from the company.

In 2007 Alexander Welzhofer as a minority shareholder in WVG Medien GmbH has a claim to compensatory payment of k€ 55.

Supervisory Board

The members of the Supervisory Board are:

- **Dr Ralph Drouven,** lawyer, Cologne, chairman; other supervisory board mandates: TX Logistik AG, Bad Honnef
- **Mr Bernd Kucera,** auditor/tax consultant, Bonn, deputy chairman; other supervisory board mandates: AssFINET AG, Grafschaft bei Bonn (chairman), pact Finanz AG, Düsseldorf
- **Dipl-Kfm. Michael Baur,** business consultant, Munich

As per the Articles of Association of Splendid Medien AG members of the Supervisory Board exclusively receive a fixed remuneration to the following amounts:

	2007
Dr Ralph Drouven	€ 20,000.00
Bernd Kucera	€ 15,000.00
Michael Baur	€ 10,000.00

In the year under review Dr. Drouven (CMS Hasche Sigle) also charged k€ 41 for advisory services (of which k€ 41 are chargeable to expenses). In the same year, apart from his remuneration as a member of the Supervisory Board, Mr Kucera (Kucera & Hüttner GmbH) also charged k€ 13 for payroll accounting for the Splendid Group (of which k€ 13 are chargeable to expenses).

Minority Shareholders

The Indemnity Agreement with minority shareholders makes provision for the following annual compensatory payments:

in k€	2007
Alexander Welzhofer	55
Hans Henseleit	51



Reporting as per § 315 section 4 HGB (Commercial Code)

Structure of Capital and Voting Rights

As of 31 December 2007 the capital stock of Splendid Medien AG totalled € 9,789,999, divided into 9,789,999 bearer shares with a nominal value of € 1,00 per share. As given in § 26 paragraph 1 of the Articles of Association of Splendid Medien AG each share commands one vote. The Executive Board is not aware of any restrictions affecting voting rights or the transfer of shares, even if such restrictions may arise from agreements between shareholders. Nor do the shares confer any privileges granting control powers.

At the end of the year under review the shareholder structure was as follows:

Name	Number of Shares	Share of capital stock (in %)
Andreas R. Klein	5,308,984	54.2286
Familie Klein GbR	617,285	6.3053
COMMIT GmbH	495,437	5.0606

* from 5% share of capital stock

Appointment and Dismissal of Executive Board Members

As per § 8 para. 1 of the Articles of Association, the Executive Board of Splendid Medien AG consists of one or more persons. The Supervisory Board may appoint one Executive Board member as Speaker or Chief Executive Officer of the Board. Moreover, it is also possible to appoint deputising members of the Executive Board; these have the same rights as regular Board members when representing the company in dealings with third parties. The Executive Board of Splendid Medien AG is currently composed of three members. Pursuant to § 8 para. 2 of the Articles of Association, it is the Supervisory Board which determines the number of Executive Board members, decides on their appointment and dismissal, and on entering into, changing, and terminating contracts of employment with the same.

Change of Articles of Association

As a matter of principle it is always the general meeting of shareholders which is the competent body for any changes to the Articles of Association. (§ 179 para. 1 sentence 1 AktG – Stock Corporation Act). Pursuant to § 22a of the Articles of Association, the Supervisory Board is empowered to resolve changes to the Articles of Association which only relate to their amended version.



Material Provisions for the Event of a Takeover Bid

Splendid Medien AG has not agreed on any material provisions for the event of a change of control. This also includes any possible indemnification agreements with members of the Executive Board and staff. Under the terms of the long-term financing agreement with HSBC Trinkaus & Burkhardt, KG, Düsseldorf/H.E.A.T Mezzanine S.A., Luxembourg, an agreement concerning change of control can only take effect if such change of control leads to a worsened balance sheet evaluation.

Powers of the Executive Board to Issue Shares

The powers of the Executive Board to issue shares are regulated by § 5 para. 3 to 7 of the Articles of Association.

Approved Capital

Approved Capital I

By resolution of the General Meeting of shareholders on 2 July 2004, The Executive Board was empowered to increase – with the Supervisory Board's consent – the company's capital stock for a period ending on 20 July 2009 once or several times against contributions in cash or in kind by up to € 3,560,000 by issuance of new bearer shares having a nominal value of € 1.00 per share (Approved Capital I). The Executive Board was further empowered to decide in each respective case – with the Supervisory Board's consent – on the exclusion of the statutory subscription rights of the shareholders. Further details are given in the Appendix.

Approved Capital II/2005

By resolution of the General Meeting of shareholders on 6 July 2005 the Executive Board was empowered to increase – with the Supervisory Board's consent – the company's capital stock for a period ending on 1 August 2010, once or several times against contributions in cash or in kind by up to a total of € 978,000, by issuance of new bearer shares having a nominal value of € 1.00 per share (Approved Capital II/2005). The Executive Board is empowered to decide in each respective case – with the Supervisory Board's consent – on the exclusion of the statutory subscription rights of the shareholders. Further details are given in the Appendix.

Conditional Capital

Conditional Capital I

By resolution of the General Meeting of shareholders on 20 June 2001 the capital stock of the company was nominally increased by up to € 890,000 (Conditional Capital I) by issuance of new bearer shares at the nominal amount of € 1.00 per share. The conditional capital increase solely serves to honour subscription rights granted under the 2001 Stock Option Plan. Sole competence for the granting of subscription rights to members of the Executive Board lies in the hands of the Supervisory Board. Further details are given in the Appendix.

Conditional Capital II

By resolution of the General Meeting of shareholders on 6 July 2005 the capital stock was conditionally increased by up to € 3,000,000 by issuance of up to 3,000,000 shares of the nominal amount of € 1.00 per share (Conditional Capital II/2005). The increase in conditional capital solely serves to honour conversion and option rights resulting from convertible and option bonds to be issued up to 5 July 2010 as per the authorisation resolution passed by the General Meeting of shareholders on 6 July 2005.

The Executive Board is empowered - with the Supervisory Board's consent – to specify further content of the stock option rights and further details concerning implementation of the increase in conditional capital. More details are given in the Appendix.

Authorisation for the Acquisition and Use of Own Shares

By resolution of the General Meeting of the shareholders of Splendid Medien AG on 12 June 2007 the Executive Board was authorised to acquire – with the Supervisory Board's consent – within a period of 18 months starting with the date of the resolution shares in Splendid Medien AG equivalent to up to 10% of the capital stock as given on the date of the resolution. Shares acquired by virtue of this authorisation



together with other shares held by the company or attributable to it as per §§ 71a ff. Aktiengesetz (Stock Corporation Act) shall never at any time exceed ten percent of the capital stock. The authority granted shall never be used for the purpose of trading with one's own shares. After election of the Executive Board and with the Supervisory Board's consent, shares may be acquired via the stock exchange, or via a public purchase order addressed to all shareholders, or via a public request for submission of sales offers addressed to the shareholders of the company. After election of the Executive Board and with the Supervisory Board's consent, the acquisition may be effected in a different manner, also by exclusion of any put option on the shareholders' part, namely if the acquisition is transacted as part of a merger with, or take-over of, companies or holdings in companies or parts thereof, or if a package acquisition of at least 1% of current capital stock is involved and such an acquisition serves a purpose primarily in the company's interest and is both suitable and necessary to achieve such a purpose. The Executive Board is empowered, with the Supervisory Board's consent, to sell shares in Splendid Medien AG, acquired by virtue of the said authorisation via the stock exchange, or through an offer to all other shareholders, and to use the same for any other legally permitted purposes, in particular for IPOs of shares of Splendid Medien AG on stock exchanges on which they were previously not traded, for use in the context of company mergers or company take-overs or investment in companies, or parts thereof, for sale to third parties or to all shareholders, and for purposes of redemption.

Cologne, 21 April 2008

Splendid Medien AG
The Executive Board

Andreas R. Klein
Alexander Welzhofer
Michael Gawenda



Consolidated Balance Sheet

Assets

in k€	Notes	31.12.2007	31.12.2006
A. Short-term assets			
I. Liquid funds	H.1	7,740	10,727
II. Accounts receivable for goods and services	H.2	7,741	6,040
III. Inventories	H.3	1,400	1,539
IV. Receivables from earnings tax	H.2	883	956
V. Other short-term assets	H.2	733	307
Short-term assets, total		**18,497**	**19,569**
B. Medium and long-term assets			
I. Tangible assets	H.4, 5	485	351
II. Intangible assets	H.4, 6	103	141
III. Film rights	H.8	6,494	7,965
IV. Advance payments made for film rights	H.8	3,007	2,827
V. Goodwill	H.9	326	326
VI. Deferred taxes	H.10	4,610	3,207
VII. Other assets	H.2	32	0
Medium and long-term assets, total		**15,057**	**14,817**
Assets, total		**33,554**	**34,386**



Liabilities and Equity

in k€	Notes	31.12.2007	31.12.2006
A. Short-term liabilities			
I. Short-term share of finance leasing liabilities	H.11	53	32
II. Liabilities vis-à-vis credit institutes	H.11	0	1
III. Accounts payable	H.11	5,092	4,543
IV. Advanced payments received	H.11	848	605
V. Reserves	H.11	4,724	4,892
VI. Earnings-tax liabilities	H.11	493	784
VII. Other short-term liabilities	H.11	654	895
Short-term liabilities, total		**11,864**	**11,752**
B. Medium and long-term liabilities	H.11		
I. Long-term loans		7,258	7,223
II. Long-term finance leasing liabilities		134	40
III. Deferred taxes		80	70
IV. Other medium and long-term liabilities		263	0
Medium and long-term liabilities, total		**7,735**	**7,333**
C. Equity	H.13		
I. Subscribed capital		9,790	9,790
II. Capital reserves		66,860	66,949
III. Group balance sheet loss		-62,708	-61,549
IV. Minority shares		13	111
Equity, total		**13,955**	**15,301**
Liabilities, total		**33,554**	**34,386**



Group Profit and Loss Account as per IAS

(Cost-of-sales accounting format)

in k€	Notes	2007	2006
1. Sales revenue	G.1	28,135	24,885
2. Production costs	G.3	-21,761	-16,000
3. Gross operating result from sales		**6,374**	**8,885**
4. Distribution expenses	G.4	-5,175	-4,396
5. Administrative expenses	G.5	-3,701	-3,600
6. Other operating income	G.2	831	1,694
7. Other operating expenses	G.7	-165	-249
8. Operating Result		**-1,836**	**2,334**
9. Interest income	G.8	295	209
10. Interest expenses	G.8	-794	-493
11. Currency profit / loss	G.9	-71	-51
12. Pre-tax income		**-2,406**	**1,999**
13. Taxes from revenue and income	G.10	1,248	942
14. Consolidated net income/loss for the year		**-1,158**	**2,941**
15. Minority shares		-1	-27
16. Earnings of the shareholders of Splendid Medien AG		-1,159	2,914
17. Group loss brought forward		-61,549	-64,463
18. Group Balance Sheet Loss		**-62,708**	**-61,549**
Earnings per share (undiluted)	G.11	-0.12	0.30
Earnings per share (diluted)	G.11	-0.12	0.30
Average number of shares in circulation (undiluted)		9,789,999	9,789,999
Average number of shares in circulation (diluted)		9,789,999	9,789,999



Group Cash Flow Statement as per IAS

in k€	Notes	2007	2006
Consolidated net loss before ínterest and taxes (2006: income)		-1,907	2,283
+ Depreciation of capital assets		260	267
+ Depreciation of film assets		10,718	4,875
+ Dissolution of debt discount		35	24
+/- increase/drop in short-term reserves		252	-1,439
-/+ increase/drop in inventories, accounts receivable for goods and services, and other assets extraneous to financing and investment activities		-1,828	-1,786
+/- increase/drop in accounts payable and other liabilities extraneous to investment and financing activities		-529	477
+ Tax received		835	0
- Tax paid		-1,563	-160
+ Interest received		303	179
- Interest paid		-641	-493
Cash-Flow from current Business Activity	**J.1**	**5,935**	**4,227**
Proceeds from disposals of tangible assets and intangible assets from capital assets		0	5
Payments for investments in tangible assets and intangible assets		-356	-238
Payments for investments in film assets		-8,644	-7,637
Proceeds from reimbursement of payments made		16	44
Cash-Flow from Investment Activity	**J.2**	**-8,984**	**-7,826**
Payments to minority holders aquisition of shares in subsidiaries		0	-2
Proceeds from credits taken out		0	7,200
Payments for credit redemption		-1	-577
Other changes to the value of capital		63	0
Cash-Flow from Financing Activity	**J.3**	**62**	**6,621**
Change in the financial resources with affect on payment		-2,987	**3,022**
Change in the consolidation scope		0	12
Financial resources at the beginning of the period		10,727	7,693
Financial Resources at the end of the period	**J.4**	**7,740**	**10,727**



Consolidated Statement of Fixed Assets Movements

(acc. to IFRS)

	Acquisition and Production Costs					
in k€	Status 01.01.2007	Additions	Disposals	Repostings	Deconsoli-dated disposals	Status 31.12.2007
I. Intangible Assets						
1. Commercial copyrights and other rights and values	518	37	1	0	0	554
2. Goodwill	5,590	0	0	0	0	5,590
3. Advance payments made	0	0	0	0	0	0
Total intangible assets	**6,108**	**37**	**1**	**0**	**0**	**6,144**
II. Tangible assets						
1. Real estate and buildings including buildings on third-party land	698	0	0	0	0	698
2. Technical equipment and machines	531	187	263	0	0	455
3. Other facilities, furniture and fittings	910	132	6	0	0	1,036
4. Facilities under const. & advance payments	0	0	0	0	0	0
Total tangible assets	**2,139**	**319**	**269**	**0**	**0**	**2,189**
III. Financial assets						
1. Shares in affiliated companies	336	0	336	0		0
2. Loans to affiliated companies	0	0	0	0		0
3. Investments	0	0	0	0		0
4. Advance payments for financial assets	0	0	0	0		0
Total financial assets	**336**	**0**	**336**	**0**	**0**	**0**
Total fixed assets	**8,583**	**356**	**606**	**0**	**0**	**8,333**



Depreciations						Residual Book Value	
Status 01.01.2007	Additions	Disposals	Repostings	Deconsoli-dated disposals	Status 31.12.2007	Status 31.12.2007	Status 31.12.2006
377	75	1	0	0	451	103	141
5,264	0	0	0	0	5,264	326	326
0	0	0	0	0	0	0	0
5,641	**75**	**1**	**0**	**0**	**5,715**	**429**	**467**
673	7	0	0	0	680	18	25
415	65	263	0	0	217	238	116
700	113	6	0	0	807	229	210
0	0	0	0		0	0	0
1,788	**185**	**269**	**0**	**0**	**1,704**	**485**	**351**
336	0	336	0		0	0	0
0	0	0	0		0	0	0
0	0	0	0		0	0	0
0	0	0	0		0	0	0
336	**0**	**336**	**0**	**0**	**0**	**0**	**0**
7,765	**260**	**606**	**0**	**0**	**7,419**	**914**	**818**



Development of Equity Account

in k€	Subscribed capital	Capital reserves	Balance sheet proft/loss	Minority shareholdings	Total
Stand 01.01.2006	**9,790**	**66,951**	**-64,463**	**71**	**12,349**
Currency difference					0
Additions from minority shareholdings				13	13
Capital increase		-2			-2
Consolidated net income for the year			2,914	27	2,941
Status as of 31.12.2006	**9,790**	**66,949**	**-61,549**	**111**	**15,301**
Currency difference					0
Correction of IPO costs		63			63
Offsetting purchased minority shareholdings		-152			-152
Reclassification from minority shareholdings to debts				-98	-98
Earnings of the shareholders of Splendid Medien AG			-1,159		-1,159
Stand 31.12.2007	**9,790**	**66,860**	**-62,708**	**13**	**13,955**



General Information

General Information

A. General Information
Splendid Medien AG, Alsdorfer Str. 3, 50933 Cologne, is a stock corporation (Aktiengesellschaft) under German law, headquartered in Cologne and registered in the local trade register under No. HRB 31022. As the parent company of the companies affiliated in the Splendid 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
The consolidated financial statements of Splendid Medien AG for the financial year starting 1 January 2007 and ending 31 December 2007 have been prepared in accordance with IFRS. All binding IAS and IFRS stipulations passed and adopted by the EU by the key date of 31 December 2007 have been adhered to. Thus the Consolidated Financial Statements are compliant with the IFRS.

First use of new standards
The following standards first came into force for the this financial year and were applied by Splendid Medien AG:

IFRS 7 Financial Instruments: Disclosures
This new standard concerns disclosure regulations for financial instruments and requires a comprehensive set of information on the role played by financial instruments in terms of the financial, asset and earnings position of the company as well as on the type and scope of risks arising from such financial instruments.

IFRIC 10: Interim Financial Reporting and Impairment
Application of these interpretations has not impacted on the asset, financial and earnings positions of the company.

The following standards issued by the IASB or the IFRIC have not been applied by Splendid Medien AG in the IFRS-based Consolidated Financial Statements as of 31 December 2007 as they have not yet been officially recognised by the EU or because their mandatory use is first scheduled for the coming year.



- IAS 1 (2007): Presentation of Financial Statements (from 1 January 2009)
- IAS 23 (2007): Borrowing Costs (from 1 January 2009)
- IFRS 8: Operative Segments (from 1 January 2009)
- IFRS 3: Business Combinations (from 1 July 2009)
- IAS 27 (2008): Consolidated and Separate Financial Statements as per IFRS (from 1 July 2009)
- IFRS 2: Share-based Payment (from 1 January 2009)

- IFRIC 11: Group and Treasury Share Transactions (from 1 January 2008)
  Recognition: Already granted but does not apply to Splendid.
- IFRIC 12: Service Concession Arrangements (from 1 January 2008)
- IFRIC 13: Customer Loyalty Programmes (from 1 January 2008)
- IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset Funding Requirements and their Interaction (from 1 January 2008)

The Splendid Group is currently examining the implications these changes hold for future business combinations and the presentation of consolidated financial statements.

Basic methods

Individual financial accounts are drawn up on uniform accounting and valuation principles, whereby the rules and regulations employed by the parent company are also applied by the subsidiaries. The financial statements of the subsidiaries are issued on the same balance sheet date as those of the parent company. Currency is expressed in thousands of Euro (k€). The consolidated financial statements subscribe to the acquisition costs principle. Each important group of items in the consolidated financial statement is presented on a separate basis. Items which are not similar in function or kind are presented individually in so far as they are not insubstantial. The accounting and valuation stipulations employed in the present consolidated financial statements – with the exception of the accounting principles used for minority shareholders – are the same as those used in the previous year.

The balance sheet is structured according to dates due; short-term liabilities and short-term assets are due within a period of one year or less.



The profit and loss account is based on the costs of sales accounting format while the cash flow statement is based on indirect methods.

The preparation of consolidated financial statements in compliance with the regulations of the IFRS requires that estimates and assumptions be made that influence both the values stated for the assets, accounts payable and financial liabilities as of the balance sheet date, and the income and expenses reported for the financial year. The actual results may deviate from these estimates and assumptions. The following section presents those estimates and assumptions which may carry a significant risk in terms of necessitating significant adjustment of book values within the next financial year:

The economic success of activated film licenses (net book value: k€ 9501; 2006: k€ 10,792) depends on their marketing success across the various stages of the value-added chain. Should the assumptions made here fail to materialise (e.g. through changes in audience taste), this can lead to depreciation in the following years.

The Executive Board of Splendid Medien AG commissioned an expert report for the evaluation of the Film Library of Splendid Film GmbH by the key date of 31 December 2007, which through an analysis of individual film titles evaluated the long-term value and marketing chances of the library as a whole, in particular in terms of current and foreseeable development of added-value in the film business. Various criteria (e.g. programme-specific, customer-specific criteria) were used for assessment of individual titles using the acquisition value method. The Report recommended a change in the valuation status for numerous titles from the Splendid Film Library, particularly in terms of their future exploitation chances for TV rights, and for exploitation chances in the Home Entertainment and Video-on-Demand segments. On the whole, the Report confirmed the sustainable value of the Library; the need for special depreciation in the 2007 financial year is set against potentially higher values which could not be taken into account by an increased valuation.

The estimate concerning activated tax losses carried forward as deferred taxes (book value: k€ 4,610; 2006: k€ 3,097) depends for its future usability on whether the company can actually generate the positive taxable income as substantiated and forecast by company planning.

Tax losses carried forward as deferred taxes are accounted for with a long-term expected tax rate 31.58%.



Splendid Medien AG together with its subsidiary Splendid Film GmbH incurs joint liability risks arising from the former subsidiary Splendid Pictures, Inc. An appropriate reserve was set up back in the 2002 financial year by Splendid Film GmbH. Residual risks arising from this reserve (book value: k€ 482; 2006: k€ 530) were assessed anew at the end of the year. Should the assumptions made in this instance fail to be realised, this could lead to adjustments of the reserve which could entail both positive and negative consequences for the asset, financial and income positions.

Changes in the presentation of the consolidated financial statements

An analysis by Splendid Medien AG has shown that minority shareholdings subject to a contractually regulated fixed offset (Section 304 Corporation Stock Act – AktG) should be accounted for in the balance sheet as compound financial instruments. Future contractually regulated fixed claims for compensation constitute financial liabilities in the sense of IAS 32.16 (a)(i) (comp. minority shareholdings). The amount to be paid in future will be given as calculated by the effective interest rate method. As the IFRS does not give clear regulation in this matter, the following procedure has been adopted: the cash value of future payments within the contractually regulated minimum term will be accounted for as liabilities. The difference to the book value of minority shareholdings will be calculated along with this and accounted for as equity. In cases where such a difference is negative, it will be accounted for in the reserves of the parent company Splendid Medien AG until such times as the liability exceeds the book value of the minority shareholdings. Recurrent compensatory payments are included under interest expenses.

In previous years the full amounts of such minority shareholdings (concerns WVG Medien GmbH) were accounted for within equity. This error occurred in the Consolidated Financial Statements of Splendid Medien AG for 2005 and 2006. Splendid Medien AG rectified the error in the ongoing accounts for 2007, as an assessment of the error arrived at the conclusion that its effect was negligible for the years in which it occurred. The table below gives an overview of the effects of the error for the Annual Reports 2005 and 2006:

k€	2005	2006
Reserves	-177	-138
Minority shareholdings	-2	-2
Equity, total	**-179**	**-140**
Other medium and long-term liabilities	179	140
Medium and long-term liabilities	**179**	**140**
Net income for the year	-	-16

C. Consolidation principles

Besides the parent company, the following subsidiaries are 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	Hamburg	100
Polyband Medien GmbH	Aschheim	100
eNterActive GmbH	Hamburg	85
WVG Medien GmbH	Hamburg	90
FFS Köln Film- und Fernseh-Synchron GmbH	Cologne	51

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

Polyband Medien GmbH (100%), Aschheim, acquires and produces programmes in the Special Interest and Family Entertainment segments and exploits these in German-speaking countries across the whole of the value-added chain. Polyband Medien GmbH has entered into a profit transfer agreement with Splendid Medien AG as the dominant company.

WVG Medien GmbH (90%) in Hamburg is the distribution partner for the retail videos and DVDs of Splendid Film, Polyband and Kids for Kids. WVG Medien also distributes its own programme as well as that of videos and DVDs for other companies. The present contract of domination and profit transfer agreement between WVG Medien GmbH and Splendid Medien AG as the dominant company makes provision for an indemnification agreement with the minority holder Mr Alexander Welzhofer for an annual compensatory payment of k€ 55.

Die **Kids for Kids GmbH** (100%), Hamburg, 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 the Internet. Enteractive also ranks as one of the leading international companies for the development of interactive programme formats Blu-ray technology. Thus Enteractive complements



Splendid Medien AG's Internet/New Media segment, and together with **Splendid Synchron GmbH** (100%) makes up the Postproduction segment. In the year under review eNterActive GmbH entered into a profit transfer agreement with Splendid Medien AG as the dominant company. The indemnification agreement with minority shareholder Mr Hans Henseleit makes provision for an annual compensatory payment of k€ 51.

Splendid Synchron GmbH with headquarters in Cologne synchronises and dubs foreign-language films and TV series. In the year under review Splendid Synchron GmbH entered into a profit transfer agreement with Splendid Medien AG as the dominant company. In 2006 Splendid Synchron GmbH in concert with FFS Film- und Fernseh-Synchron GmbH, Munich, founded the FFS Köln Film- und Fernseh-Synchron GmbH, Cologne. Splendid Synchron GmbH holds 51% of the capital stock of the new company.

The consolidated financial statement includes all those companies over which Splendid AG has a direct or indirect means of influencing financial and business policies with a view to deriving benefits from the activities of such companies (subsidiaries).

Companies which evoke the exemption option as per Section 264 par. 3 HGB – German Commercial Code

WVG Medien GmbH, Hamburg, Polyband Medien GmbH, Aschheim, Splendid Synchron GmbH, Cologne and Enteractive GmbH, Hamburg have all made use of the easement options and exemption possibilities given in Section 264 par. 3 HGB- German Commercial Code.

Consolidation Methods

For capital consolidation for mergers prior to 31 March 2004, the book value method was applied in accordance with IAS 22 (1998). This means that the costs of acquiring shares were offset against the book value of the proportionate equity of the subsidiary at the time of acquisition. For mergers after 31 March 2004 consolidation was made according to the acquisition method as per IFRS 3.

Capital consolidation as per IFRS 3 involves offsetting the book value of the holding against proportionate newly revalued equity of the subsidiary at the time of acquisition. Residual differences are treated as goodwill after structuring of hidden reserves and encumbrances.



Company	Acquisition costs k€	Pro-rata equity k€	Difference k€
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	228	210	18
	6,358	**768**	**5,590**

Up to the 2004 financial year, the asset difference from Polyband Medien GmbH resulting from the first-time consolidation was written down using straightline amortisation as goodwill for a 20 year period corresponding to its prospective useful life. Since then the Group tests the sustainable value of the goodwill on a quarterly basis. Testing also takes place should events or circumstances suggest a possible impairment. Verification of sustained value is based on estimated future cash inflows. In the year under review the residual goodwill (k€ 308) was tested for its value as per IAS 36 and not amortised. The goodwill (k€ 18) arising from consolidation of WVG Medien GmbH was tested for value as per IAS 36 and not amortised. All other forms of goodwill were completely amortised over the past few years. Once recorded, depreciation expenses can no longer be made good in subsequent reporting periods.

The acquisition price of k€ 2 paid in the 2006 financial year for the purchase of the remaining shares of the subsidiary Kids for Kids GmbH which had previously been incorporated over the past few years by the drive to full consolidation were offset against reserves.

There was no difference from the FFS Köln Film- und Fernseh-Synchron GmbH, Cologne which had been newly established the previous year. During the establishment of the company the Group received liquid funds totalling k€ 12 (re: minority shareholdings).

Accounts receivable and liabilities between the consolidated companies are offset against one another. Sales revenue and other internal income is offset against corresponding expenses of the relevant subsidiary. Intercompany profits were eliminated.

D. Financial instruments

The financial instruments of the company consist of liquid funds and equivalent liquid funds, accounts receivable, saleable financial assets, together with financial obligations and credits. There are no derivative financial instruments.

Accounting for financial instruments follows on the purchase or sale on the trading day, i.e. on the day on which an obligation for the purchase or sale of an asset or liability was first entered into.

Credits and accounts receivable (accounts receivable for goods and services, other assets) are not derivative financial assets with fixed or attributable payments that are not listed on an active market. Credits and accounts receivable are initially set at their attributable current value which as a rule is equivalent to acquisition costs with transaction costs factored in, on the following balance sheet dates they are assessed at accrued acquisition costs; longer-term assets are set using the effective interest method. If doubts arise as to whether accounts receivable may be recovered, appropriate discount is made. Signs indicating this are late or slow incoming payments, insolvency, or legal disputes on missing securities or securities that have not maintained their value. If the discount rate should fall during one of the following reporting periods, and such reduction can be objectively attributed to circumstances arising after the discount was first set, the earlier discount rate will be cancelled. A subsequent revaluation will be accounted for with affect on earnings if the book value of the asset at the time of revaluation does not exceed accrued acquisition costs. In terms of accounts receivable for goods and services and other assets, it is assumed that the nominal amount less single discounts is equivalent to the attributable current value. Receivables are deleted from the accounts as soon as they become non-recoverable. The receivables and credits are mainly short-term with a term of under three months. There are no substantial long-term financial assets nor are there any substantial interest risks for these categories.

The category of saleable financial assets includes shares in a non-consolidated holding. This is a one percent holding in Central Organisation of Technology, Inc. (COT) which Splendid Medien AG received when acquiring its 80% share in Splendid Pictures Holdings, Inc. The holding was accounted for at the value of the 80% share in Splendid Pictures Holdings, Inc., which at the time of transfer came to € 0. The holding is valued at acquisition costs as there is no market for it and an attributable current value cannot be reliably given by other assessment methods. The liquid funds and equivalent liquid funds (cash reserves) consist of cash in hand, cash at banks, and time deposits all with a total term of less than three months. They are given at nominal value. Foreign currency is given at the key date exchange rate.



Financial liabilities (loan obligations, liabilities from goods and services, other liabilities) are given at their first-time application at their attributable current value less any transaction costs. Subsequent valuation is at accrued acquisition costs using the effective interest method. Differences in liabilities between the payment amount (after deduction of transaction costs) and the repayment amount are spread over the whole term of the loan agreement always using the effective interest method (use of the original effective interest rate), and given in the profit and loss account. In terms of accounts payable for goods and services and other short-term liabilities, it is assumed that the book value is equivalent to the attributable current value. Liabilities are classified as long-term when the agreement makes provision for redemption after 12 months. The (loan) liability is a long-term financial agreement with HSBC Trinkaus & Burkhardt KG, Düsseldorf, (H.E.A.T. Mezzanine II Fund) for € 7.5 million with an annual interest rate of 7.933%. Finally due in 2013, at first-time application the loan was valued at attributable current value less the transaction costs directly associated with the take-out of the credit (disagio) and included on the balance sheet under "long-term loans". After first-time valuation, the loan will be evaluated at accrued acquisition costs using the effective interest method. The effective interest rate is 8.7%, thus there is no risk in a change in the interest rate. Only in the event that the annual balance sheet valuation falls below a predefined rating for two consecutive financial years will the interest owed be raised by 50 base points p. a. calculated on the base amount. The attributable current value of the present long-term fixed-interest loan is essentially determined by interest expectations although the creditworthiness of the company is one of the other subordinate factors that play a role. There is no active market for this type of liability. It is assumed that the current value is equivalent to the book value of the liability. A reliable valuation of the attributable current value is not considered possible.

For more on the classification of financial instruments and their valuation see H. and I.

Third party capital costs are classified under expenditures at the time of their occurrence.

The provisions of IAS 18 apply to accounting for earnings from financial instruments.

E. Pension costs

Payments for contribution-oriented pension schemes are booked as expenditure when due; payments for state pension schemes are treated as contribution-oriented pension schemes.

F. Principles of currency conversion

Items contained in the annual financial statements of each subsidiary in the Group are measured in the currency applying to the business field in which the company operates (functional currency). The reporting currency for the Consolidated Financial Statements is the Euro. The Euro represents the functional currency of the parent company and the associated subsidiaries.



Foreign currency transactions are recorded at the exchange rate applicable at the time they occur. The value of financial 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.

G. Notes on the Group Profit and Loss Account

(1) Sales revenues

Group companies generate sales from exploitation of film rights as well as from provision of services to the film and TV industries.

On the basis of their exploitation rights, Group companies grant licenses to customers mainly located in Germany and German-speaking countries subject to time-related and geographical restrictions. Sales revenue is realised at the time of fulfilment of contract in favour of the licensee, with the proviso that the Group companies have largely satisfied their contractual obligations.

Group companies generate sales revenue from the exploitation of films in cinemas, video/DVD formats and television. In terms of cinema films, revenue is realised starting with the film's release in the cinema. As a rule exploitation in terms of video/DVD formats and TV (Pay TV and Free TV) begins six to 24 months after the start of standard cinema exploitation. Sales are realised at the moment the materials are accepted by the licensee, or when the goods are delivered.

Sales from services provided in the Audio & Video Postproduction segment are realised after completion and acceptance.

Sales in individual segments (business segments and regions) are given under Segmental Reporting. Sales in the License Trade segment cover license revenue, while sales in the Home Entertainment segment cover goods deliveries and sales in the Postproduction segment relate to services.



(2) Other operating income

Other operating income for the 2007 financial year totalled k€ 831 (2006: k€ 1,694).

k€	2007	2006
Income from reduction of provisions from written-off debts	76	24
Income from dissolution of reserves	349	1,485
Income from dissolution of liabilities	78	0
Income from revaluation of film assets	49	0
Other	279	185
Total	**831**	**1,694**

No income was generated by the sale of assets during the year under review (2006: 0).

(3) Production costs

In the 2007 financial year production costs for services generating sales revenue totalled k€ 21,761 (2006: k€ 16,000). Production costs cover the following items:

k€	2007	2006
Depreciation of film rights	10,718	4,825
License payments/royalties	1,758	2,127
Personnel costs	1,479	1,347
Purchased services	6,531	6,089
Depreciation of assets	146	135
Artists' fees	972	1,278
Other	160	199
Total	**21,761**	**16,000**

Depreciation of film rights includes exceptional depreciation of k€ 4,316 (2006: k€ 324). Depreciation of assets includes depreciation of intangible assets totalling k€ 51.



(4) Distribution costs

In the 2007 financial year distribution costs amounted to k€ 5,175 (2006: k€ 4,396). Distribution costs included the items listed in the table below:

k€	2007	2006
Advertising	2,259	1,780
Sales commission	598	466
Personnel costs	1,128	985
GEMA/film promotion	611	582
Travel	222	202
Other	357	381
Total	**5,175**	**4,396**

Amortisation of capital assets included in the item "Other costs" covers depreciation of intangible assets totalling k€ 7.

(5) Administrative costs

Administrative costs for the 2007 financial year totalled k€ 3,701 (2006: k€ 3,600). Administrative costs consist of the following items:

k€	2007	2006
Legal and consulting costs	494	419
Personnel costs – administration	1,665	1,705
Rentals, leasing, operation costs	660	638
Public Relations	51	78
Office expenses, insurance etc.	333	288
Postage, telephone costs	123	143
General Shareholders' Meeting	83	82
Depreciation of assets	102	118
Other	190	129
Total	**3,701**	**3,600**

Depreciation of assets includes amortisation of intangible assets totalling k€ 17. The Legal and advisory services costs include an auditor's fee for the final accounts of k€ 71, the fee for tax consultants services of k€ 50 and a fee for other services of k€ 4.



(6) Amortisation of goodwill

Amortisation of goodwill came to € 0 (2006: € 0) in the 2007 financial year.

(7) Other operating expenses

Other operating expenses for the 2007 financial year came to k€ 165 (2006: k€ 249). The expenses broke down as follows:

k€	2007	2006
Discount on accounts receivable	47	13
Losses on receivables	0	59
Write-off on payments for film assets	51	0
Other	67	177
Total	**165**	**249**

(8) Interest income/expenses

Interest income and expenses are reported according to the accruals principle, with account taken of the applicable interest rate.

Income from interest mainly consists of interest from cash in banks. Net interest income broke down as follows:

in T€	2007	2006
Interest Income		
Interest income from cash at banks	232	209
Interest income from tax liabilities	57	0
Interest income from other receivables	6	0
	295	209
Interest Expenses		
Interest expenses arising from accounts due to banks	6	1
Interest expenses arising from tax liabilities	36	0
Interest expenses arising from finance leasing liabilities	4	5
Interest expenses arising from leasing company loan	0	32
Interest income arising from HSBC loan H.E.A.T. Mezzanine II Fund	630	455
Settlement payment to minority shareholder*	106	0
Other	12	0
	794	**493**
Net Interest Income	**-499**	**-284**

*2006: K€ 55 information shown under "Other administrative costs"

Interest to the amount of k€ 641 (2006: k€ 493) was paid, and interest to the amount of k€ 303 (2006: k€ 179) was earned.

(9) Currency losses

There were currency losses of k€ 71 in the year under review (2006: k€ 51).

(10) Taxes on income and earnings

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:

k€	**2007**	**2006**
Corporation tax	38	137
Trade tax	0	116
Trade tax, previous years	71	0
Corporation tax, previous years	36	-96
Deferred taxes	120	87
Dissolution of deferred capitalised taxes on loss carryback, previous year	2,032	277
Use of deferred capitalised taxes on loss carried forward	0	183
Capitalisation of deferred taxes on loss carried forward	-3,545	-1,646
	-1,248	**-942**

Pursuant to IAS 12 deferred taxes are recognised for all temporary balance sheet and measurement differences between the value rates in the tax balance sheet and the IFRS Group balance sheet. A deferred tax asset should be recognised for an unused tax loss carryforward if it is considered probable that there will be sufficient future taxable profit against which the loss carry-forward can be utilised. Capitalisation of deferred taxes on tax losses carry-fowards deviates from German commercial law. The deferred taxes are the result of temporary differences.

For tax accrual and deferral expected future tax rates are used for the dissolution of temporary balance sheet and assessment differences. Thus pursuant to IAS 12.48 the reduced tax rate given in the Corporation Tax Reform Act (Unternehmenssteuerreformgesetz) 2008 approved by the Federal Council on 6 July 2007 has already been deployed.



For the purpose of determining deferred taxes, corporation tax was calculated at the 15% rate that shall first come into force in 2008. The trade tax was calculated at 15.75%, and the solidarity surcharge was taken 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. For estimated assessments, cf. B.

Within the Group (after setoff of deferred taxes caused by underlying consolidation differences) there are loss carryforwards totalling € 55.5 million with respect to corporate income tax, and € 54.3 million with respect to trade tax for which no deferred tax claim exists in the balance sheet.

The transition of gross expenditure took place as follows:

k€	**2007**	**2006**
Taxes from income and earnings based on a tax rate of 40% (2006: 40%)	-960	800
Non-tax-deductible expenses and tax-free income	1,182	-130
Deferred taxes on losses carried forward not included	-189	-237
Taxes on losses carried forward	-2,077	-1,369
Changes in deferred taxes due to changes in the tax rate	684	0
Tax expenses not relating to the accounting period	107	0
Other	5	-6
Actual tax expenses	**-1,248**	**-942**

The tax rate of 31.58% used in the calculations does not represent the year's tax rate, but rather the tax rate expected in the long term.

(11) Earnings per share

The earnings per share in average circulation amounted to minus € 0.12 (2006: € 0.30). Dividends per share amounted to € 0.00 (2006: € 0.00). Calculation of earnings per share was based on 9,789,999 shares (2006: 9,789,999). A potential dilution of value per share may arise in future from the approved and/or conditional capital stock. Compare on this subject (13) Equity Capital.



H. Notes on the Consolidated Balance Sheet

(1) Liquid funds

Liquid funds (k€ 7,740, 2006: k€ 10,727) consist of cash in hand and cash at credit institutes with an overall term of less than three months. They are shown at their nominal value. Cash in banks in foreign exchange was converted at the exchange rate applicable on the balance sheet date. Liquid funds totalling k€ 883 are bound as security for a guaranteed credit and may not be freely disposed of by the company.

(2) Receivables and other short-term assets

Receivables and other assets are recorded at acquisition costs or accrued acquisition costs with account taken of the periods of time over which payment flows are spread, and of the expected amounts. In the case of receivables involving discernible risks adequate individual valuation adjustments were carried out. In addition to requisite individual valuation adjustments, the discernible risks arising from the general credit risk are also taken into account by establishing general valuation adjustments.

A financial asset is deleted when contractual rights with reference to the cash flow are extinguished and/ or when a contractual obligation stipulates that the received cash flow should be immediately paid to a third party.

Currency receivables are valued at the historical exchange rate applicable on the cut-off date.

As of the cut-off date there were receivables with a residual term of over one year to the amount of k€ 32. Receivables and other assets can be item-ised as follows:

k€	31.12. 2007	31.12. 2006
Receivables from goods and services	7,741	6,040
Income tax receivables	883	956
Other assets	765	307
	9,389	**7,303**

Write downs or write ups of receivables and other short-term assets with an affect on income in the year under review came to k€ 26 and k€ 75 respectively (2006: k€ 12 and k€ 21).



The development of value adjustment is as follows:

k€	
Status as of 31.12.2005	**16,858**
Dissolution	21
Availment	52
Allocation	12
Status as of 31.12.2006	**16,597**
Dissolution	75
Availment	0
Allocation	26
Status as of 31.12.2007	**16,548**

Value adjustment was made on receivables for goods and services and other assets totalling k€ 16,548 (2006: k€ 16,597). The terms of non-discountable receivables and other assets are as follows:

Term	k€
over one year	32
over two months up to one year	1,470
up to two months	7,887
	9,389

(3) Inventories

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

Composition of inventories:

k€	31. Dec. 2007	31. Dec. 2006
Finished goods and merchandise	1,351	1,496
Unfinished goods, unfinished services	49	43
	1,400	**1,539**



Finished goods and merchandise essentially refers to DVDs and a small proportion of video cassettes and merchandising articles. In the event of lower saleability value adjustments are made to factor in lower net sales value and recorded in the account. "Unfinished goods and services" mainly refers to synchronisation services. The decrease in the inventory by k€ 139 is the result of increases to the inventory of k€ 164 and of deprecations recorded in the year under review to the amount of k€ 303.

(4) Fixed assets

Concerning the development of fixed assets and depreciation in the financial year, we refer you to "Schedule of Fixed Assets" in the Appendix.

(5) Tangible assets

Tangible assets are recorded at their historical cost of acquisition or production, less scheduled depreciation on account of use. Assets attributable to the company due to finance leasing are capitalised at the present value of the future leasing payments in accordance with IAS 17. Present values are determined on the basis of average interest rates that apply in the case of equivalent bank financing. Depreciation of the tangible assets is accounted for in the production costs (k€ 95), distribution costs (k€ 5) and administration costs (k€ 85).

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

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 leasing relationships. Operating-leasing relationships essentially concerned leased cars and office equipment. As a rule, the term of the leasing agreement is three years. Future liabilities arising from leasing payments are reported under "Other financial liabilities".

The finance-leasing relationships include technical studio equipment. Using the straight-line method, the equipment is written off over an economically useful life span of three to five years. A liability arising from finance leasing is entered on the liabilities side of the balance sheet at the cash value of minimum leasing payments. In the following period the leasing liability is paid off and accrued using the effective interest method.

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

	Minimum leasing payments		Cash value of minimum leasing payments	
k€	**31.12.2007**	**31.12.2006**	**31.12.2007**	**31.12.2006**
Liabilities from finance leasing				
With residual term due within one year	64	36	53	32
With residual term of over one year and up to five years	146	43	134	40
	210	**79**	**187**	**72**
Less future financing costs	-23	-7		
Cash value of leasing liabilities	**187**	**72**	**187**	**72**

Capitalised assets carried in the asset categories "furniture and fittings" and "technical equipment and machines" were entered at k€ 182 on 31 December 2007 (2006: k€ 68).



(6) Intangible assets

The intangible assets valued at acquisition cost related to purchased software. Pursuant to IAS 38 they are capitalised at acquisition cost and written off over an economically useful life span of three to five years, applying straight-line depreciation. Depreciation broke down as k€ 51 (2006: k€ 27) for production costs, k€ 17 (2006: k€ 17) for administrative expenses, and k€ 7 (2006: k€ 8) for distribution costs.

(7) Financial assets

This position reports interests in non-consolidated holdings. It refers to an interest 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 € 0 at the time of transfer. The interest in Splendid Television International LLC, New York and Splendid Entertainment, Inc., Los Angeles, which were fully discounted over the previous years were disposed of as a non-operating result during the financial year.

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

Film rights and advance payments made for film rights are reported as separate items. In the absence of industry-specific HGB and IFRS regulations, valuation was based on general principles. The method applied to the realisation of sales revenue is presented in the sales revenue section. The method applied to the valuation of film assets in given in greater detail below.

The film rights reported under "film assets" are capitalised at acquisition cost at the time of the technical acceptance of film material and written down in accordance with their commercial exploitation. Accounting is based on management experience and assessment of the exploitation options the licenses present.

In the standard case of acquisition of full rights, exploitation of film rights in the DVD rental/DVD sales segments is subject to a depreciation of 20% of acquisition costs (10% respectively for rental and sales). For sales of TV rights depreciation of 80% of acquisition costs is factored in.

For the exploitation of Pay TV rights, depreciation of 10% was recorded as expenses. In the case of Free TV rights, primary exploitation carries depreciation of 49% and secondary exploitation depreciation of 21% of acquisition costs. As a rule, the estimated period for income generation that serves as a basis for calculating depreciation was limited to a maximum of ten years.

For the cinema circuit exploitation stage depreciation of 10% of acquisition costs was set. The corresponding depreciation amount is reduced at the TV rights exploitation stage.

At variance with the depreciation method given above are low-budget films which give rise to relatively low revenue expectations compared with overall revenue expectations from TV exploitation. Exploitation of these film rights in the DVD rentals/DVD sales segments is subject to depreciation of 50% of acquisition costs (respectively 25% for rentals and 25% for sales). Sales of TV rights likewise record depreciation of 50% of acquisition costs.

If it was seen in individual cases that application of the above depreciation rules would not lead to a proper result, recourse was made to appropriate adjustments of the actual exploitation lifecycle. No significant changes arise from these circumstances.

One exception to these depreciation rulings is our innovative edutainment series "Ben & Bella". We have not yet had sufficient experience with this new product to give value parameters. Against the backdrop of expected use it was depreciated using the straight-line method over a period of ten years.

The stated value of the licenses is verified at each balance sheet date within the framework of an impairment test. The audit of the Film Library at the end of the year led in the fourth quarter to non-scheduled depreciation totalling k€ 4,179 (fourth quarter 2006: k€ 324) and to value reinstatements totalling k€ 49 (2006: € 0). Over the whole year under review non-scheduled depreciation came to k€ 4,367 (2006: k€ 374). See B for estimated assessments.



As film assets fulfil criteria for both current and fixed assets, in the past, in accordance with standard historical accounting practise, they have been reported in the individual accounts under commercial law as a separate balance sheet item between current and fixed assets. As a result of this historical practise, license historical acquisition costs , completely written off in the previous year and not subject to appreciations in value during the year under review, were not continued in the scope of an asset history sheet. Thus the reported historical acquisition costs only relate to licenses that as of 31 December 2004 were on record as having residual book values.

	Acquisition & Production Costs				
k€	**Status 01.01.2007**	**Additions**	**Disposals**	**Repostings**	**Status 31.12.2007**
I. Film assets					
1. Film rights	58,975	6,517	8	2,503	67,987
2. Films in progress and advance payments	2,827	2,926	42	-2,503	3,208
Total film assets	**61,802**	**9,443**	**50**	**0**	**71,195**

	Depriciation					Rest book value	
k€	**Status 01.01.2007**	**Additions**	**Disposals**	**Write-ups**	**Status 31.12.2007**	**Status 31.12.2007**	**Status 31.12.2006**
I. Film assets							
1. Film rights	51,010	10,532	0	49	61,493	6,494	7,965
2. Films in progress and advance payments	0	235	34	0	201	3,007	2,827
Total film assets	**51,010**	**10,767**	**34**	**49**	**61,694**	**9,501**	**10,792**



(9) Goodwill

Goodwill (k€ 326; 2006: k€ 326) arose from capital consolidation. It was reviewed pursuant to IFRS 3 in conjunction with IAS 36 in terms of its sustainable value and was not depreciated.

(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 and tax losses carried forward.

k€	31.12.2007	31.12.2006
Losses carried forward	4,610	3,097
Film assets	0	103
Inventories	0	7
Total	**4,610**	**3,207**

(11) Liabilities

Liabilities are recorded at their respective payback amounts. Liabilities are always measured using the effective interest method with their accrued acquisition costs. The difference between the payment and payback amount is distributed across the term with account taken of transaction costs. A financial liability is written off when its basic underlying obligation is either fulfilled, cancelled or extinguished. The future contractually regulated settlement claims of minority shareholders constitute a financial liability in the sense given by IAS 32.16 (a)(i) (comp. minority shareholdings). The applicable future fulfilment amount is calculated using the effective interest method.

Liabilities denominated in foreign currencies are valued at the exchange rate applicable on the balance sheet day. The residual terms of liabilities are disclosed in the schedule of liabilities:

2007 in k€	**Amount**	**Of which over 1 year**
Finance leasing liabilities	187	134
Loans	7,258	7,258
Accounts payable for goods and services	5,092	
Advance payments received	848	
Liabilities on taxes on earnings	493	
Deferred taxes	80	80
Settlement claim of minority shareholders	369	263
Other liabilities	548	
	14,875	**7,735**

Deferred taxes refer to intangible assets (k€ 34), tangible assets (k€ 12) and liabilities (k€ 34).

2006 in k€	**Amount**	**Of which over 1 year**
Finance leasing liabilities	72	40
Loans	7,224	7,223
Accounts payable for goods and services	4,543	
Advance payments received	605	
Liabilities on taxes on earnings	784	
Deferred taxes	70	70
Other liabilities	895	
	14,193	**7,333**

In 2006 a long-term financial agreement was concluded with HSBC Trinkaus & Burkhardt KG (H.E.A.T. Mezzanine II Fund). We refer you to our remarks on this matter under D.

(12) Reserves

Pursuant to IAS 37 other reserves are established to the amount corresponding to the best possible estimation of the outflow of funds required to fulfil current obligations on the balance sheet date. A reserve is created when the company faces a legal or actual obligation vis-à-vis a third party arising from a past event which is likely to result in future net payment flows. Balance sheet accounting is only applied pursuant to

IAS 37 if the probability of such an obligation occurring is exceeding 50%. Monetary payment obligations for which no interest is to be paid are recorded at cash value. All reserves are short-term in nature.

Reserves for taxes given in the previous year concerned taxes on earnings in the amount of k€ 163 for 2006.

The other reserves cover the following items:

k€	31.12.2007	31.12.2006
Obligations from license agreements	1,618	1,647
Liability risks arising from Splendid Pictures, Inc.	482	530
Legal and consultancy costs	0	37
GEMA fees and other charges	1,104	964
Returns	213	201
Bonuses	1,231	1,018
Other	76	75
	4,724	**4,472**

Schedule of reserves

k€	Reserves for Taxes on earnings	Reserves for Liability risks	Reserves for obligations from License contracts	Film subsidy charges	Bonuses	Returns	Other Reserves	Total
Status: 01.01.2007	420	530	1,647	964	1,018	201	112	4,892
Additions	0	0	248	442	1,019	211	26	1,946
Consumption	420	48	218	88	806	174	11	1,765
Dissolution	0	0	59	214	0	25	51	349
Status: 31.12.2007	0	482	1,618	1,104	1,231	213	76	4,724

Reserves include obligations from license agreements for royalty payments, film subsidy charges (this category also includes GEMA charges), returns of DVDs from trade sales, and bonus payments to the trade.

Reserves for liability risks concern risks arising from the former subsidiary Splendid Pictures, Inc. For an estimated assessment see B. All reserves are due within one year. Reserves of k€ 3,427 are likely to outflow within one year; the outflow times of other reserves cannot be specified in greater detail due to legal uncertainties.

(13) Equity capital

For the development of equity capital we refer you to the "Schedule of Changes in Equity Capital" table.

The company's subscribed capital totals € 9,789,999. Share capital is divided into 9,789,999 ordinary bearer shares with a nominal value of € 1.00 per share.

Authorised Capital

Authorised Capital I

A resolution adopted by the General Shareholders' Meeting on 2 July 2004 authorised the Executive Board acting in consent with the Supervisory Board to increase the share capital of the company for the period up to 20 July 2009 once or several times by issuing new bearer shares with a nominal value of € 1.00 per share against cash contributions or non-cash contributions by up to a total amount of € 3,560,000 (Authorised Capital I). The Executive Board was further authorised with the consent of the Supervisory Board to decide in each case on the exclusion of the shareholders' statutory subscription rights. However, exclusion of subscription rights is only permissible for the following purposes:

- Compensation of residual amounts, and
- In the case of capital increases in exchange for non-cash contributions in issuing shares for the company with a view to acquiring companies or parts of companies or investing in companies.

The Executive Board is further authorised acting with the consent of the Supervisory Board to stipulate further details of the implementation of capital increases from Authorised Capital I. The Supervisory Board is empowered to adapt the Articles of Association following complete or partial realisation of capital increase through Authorised Capital I, or following expiry of the authorisation period in accordance with the scope of the capital increase from Authorised Capital I.



Authorised Capital II/2005

A resolution adopted by the General Shareholders' Meeting on 6 July 2005 empowered the Executive Board acting with the Supervisory Board's consent to increase the company's share capital for the period up to 1 August 2010 once or several times by issuing new bearer shares with a nominal value of € 1.00 per share against cash contributions or non-cash contributions by up to a total of € 978,000 (Authorised Capital II/2005). The Executive Board is empowered, acting with the Supervisory Board's consent, to decide in each case on the exclusion of shareholders' statutory subscription rights. However, exclusion of shareholders' subscription rights is only permissible:

- For compensation of residual amounts,
- For capital increases for non-cash contributions for issuing shares of the company with a view to acquiring companies or parts of companies or investing in companies, and
- For cases where the increase of share capital occurs in exchange for cash contributions, and the proportion of the share capital corresponding to the new shares exceeds neither a total of ten percent of the share capital in existence at the time of registration of this Authorised Capital, nor ten percent of the share capital in existence at the time the new shares were issued, and the issue price of the new shares does not fall substantially short of the stock exchange price of the shares already listed at the time of the final determination of the amount of shares to be issued by the Executive Board pursuant to Sections 203 paras. 1 and 2, 186 para. 3 clause 4 German Stock Corporation Act (Aktiengesetz).

The Executive Board is also empowered, acting with consent from the Supervisory Board, to stipulate further details of the realisation of capital increase through Authorised Capital II. The Supervisory Board is empowered to adapt the Articles of Association following complete or partial realisation of capital increase through Authorised Capital II/2005, or following expiry of the authorisation period, in accordance with the scope of the capital increase from Authorised Capital II.

Conditional Capital

Conditional Capital I

Following a resolution adopted by the General Shareholders' Meeting on 20 June 2001, the share capital of the company was increased conditionally by a nominal amount of up to € 890,000 (Conditional Capital I) by issuing new bearer shares with a nominal value of € 1.00 per share. The conditional capital increase solely serves to redeem subscription rights granted in the context of the 2001 Stock Option Plan. With regard to members of the company's Executive Board, responsibility for issuing subscription rights rests solely with the Supervisory Board.



On 29 August 2001 a total of 222,494 share options was issued to managers and employees of the Splendid Group. No options had been exercised by 31 December 2007. The strike price for the first tranche is € 3.43.

Conditional Capital II

By resolution of the General Shareholders' Meeting on 6 July 2005 stock capital was conditionally increased by up to € 3,000,000 by issuance of up to 3,000,000 shares at a nominal value of € 1.00 per share. (Conditional Capital II/2005).

The conditional capital increase shall only be implemented to the extent that:

- the bearers or creditors of conversion rights or warrants associated with the convertible bond or warrant issues to be conducted by 5 July 2010 by the company or by its direct or indirect majority share-holders pursuant to the authorisation resolution of the General Share-holders' Meeting of 6 July 2005, exercise their conversion or option rights, or
- the bearers or creditors of the convertible bond issues to be conducted by the company or its direct or indirect majority shareholders by 5 July 2010 pursuant to the authorisation resolution of the General Shareholders' Meeting of 6 Jul 2005 fulfil their conversion obligation.

The new shares participate in the profits as of the start of the financial year in which they are created through exercise of conversion or warrant rights or through fulfilment of conversion obligations; notwithstanding this, the Executive Board, acting with the consent of the Supervisory Board, may determine that the new shares participate in the profits as of the start of the financial year for which – at the moment of exercising the conversion or warrant rights or the fulfilment of conversion obligations – the General Shareholders' Meeting has not as yet made any resolution concerning appropriation of balance sheet profits.

The Executive Board is empowered acting with the consent of the Supervisory Board, to determine further details of the rights associated with the share certificate, and further details of the realisation of the conditional capital increase.

As of the balance sheet date of 31 December 2007 no shares from Conditional Capital II had been issued.



Capital reserve

The capital reserve contains premium amounts from the issue of new shares in 1999 totalling respectively k€ 49 and k€ 69,278 (the latter resulting from the IPO) as well as from the issue of new shares in the context of the previous year's capital increase of k€ 9. Pursuant to IAS 32, costs of the IPO and the capital increase were offset net (costs less taxes on earnings) against equity capital (capital reserve). In 2006 the payment for the acquisition of residual shares in Kids for Kids GmbH totalling k€ 2 was offset. In the year under review following an internal audit the refund of VAT from the previous costs of the IPO to the amount of k€ 63 (refund less taxes on earnings) was offset. In addition, the settlement claim of minority shareholders, after deduction of their pro rata equity, was also offset against capital reserves (see Minority share-holdings).

2001 Stock Option Plan

Various employees, the Executive Board and the managing directors of affiliated companies were given the opportunity of purchasing stock options of bearer shares up to a maximum amount of 890,000 shares of Splendid Medien AG at the nominal value of € 1.00 per share.

The strike price to be paid in the Stock Option Plan for purchasing a nominal share value in Splendid Medien AG corresponds to the average closing rates of the share at the Frankfurt Stock Exchange over a thirty day trading period prior to the stock option date of issue, being at least commensurate with the nominal price of the share to be purchased. On 29 August 2001 a total of 222,494 stock options was issued to managers and employees of the Splendid Group. As of 31 December 2007 no options had been exercised. At the time the first tranche was issued, the strike price was € 3.43.

The maximum term of the issued subscription rights is 15 years. 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 on the achievement of certain performance targets.

Minority shares

The shares held by other shareholders are always 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 attributable to minority shareholders, plus annually accrued pro rata contributions to income in so far as these can be offset.

Minority shareholdings that come with a contractually regulated statutory settlement claim (as per Section 304 Stock Corporation Act – AktG) are entered on the balance sheet as compound financial instruments. Contractually regulated future settlement claims constitute financial liabilities in the sense given in IAS 32.16 (a)(i). Future payment amounts are calculated using the effective interest method. Due to a lack of clear regulation on the part of the IFRS, the following procedure has been adopted. The cash value of the future settlement payment within the contractually regulated minimum term is given as a liability. The difference to the book value of the minority shareholding is offset against this and entered under equity capital. In cases where the difference is negative, it is offset against the reserves of the parent company Splendid Medien AG until such times as the liability exceeds the book value of the minority shareholding. Recurrent settlement payments are recorded under interest expenses.

I. Financial Risk Management

Objectives and methods of Financial Risk Management

The main financial liabilities incurred by the Group include bank loans and current credit accounts, finance and leasing relationships, accounts payable for goods and services and hire-purchase agreements and loans provided. The overarching aim of such financial liabilities is to finance the business activities of the Group. The Group disposes of various financial assets such as accounts receivable for goods and services, cash holdings, and short-term deposits directly resulting from particular business activities.

The main risks affecting the Group arising from financial instruments are liquidity, currency and credit risks. The strategies and methods evolved by company management for control of the various types of risk are given below:

Interest risks

The risk of fluctuations in market interest rates to which the Group is exposed in the main tends to result from long-term liabilities with a variable interest rate. As the Splendid Group only holds short-term liabilities and financial assets or long-term liabilities with a fixed interest rate, there are no significant risks to be incurred in this area.

Liquidity risks

In the 2007 financial year Splendid Medien AG entered into a cooperation with National Bank, Essen, which also made provision for an operating credit line. The credit term was initially set at one year. The Executive Board has already entered into negotiations with a view to extending this.



Currency risks

The Splendid Group acquires film licenses in various countries but mainly in the USA and Far East. Since these licenses are essentially exploited in German-speaking countries, exchange rate fluctuations between the Euro and the Dollar can have a positive or negative impact on the Group's earning position. The Splendid Group uses budgeted exchange rates as the basis on which its projects and investments are calculated. Any clear deviation of actual rates from budgeted rates triggers a review of appropriate hedging instruments. Hedging instruments are only deployed in exceptional cases. For the acquisition of a film US Dollars are acquired at the exchange rate applicable at the time of purchase and reserved for the acquisition of the film rights.

Credit risks

The Group only concludes business deals with creditworthy third parties. The main part of the acquired license rights are exploited in the Home Entertainment segment and in trade with TV companies in German-speaking regions. The Group addresses risks from shortfalls or delays in payment by means of standardised reports which give an overview of the business situation and payment performance of key customers. A major part of receivables from sales of DVDs is secured by the loan insurance of the distribution partner. The maximum shortfall risk on receivables as per the balance sheet date is limited to € 4.8 million (2006: € 2.1 million). The Group has no major focus on default risks.

Capital management

The overarching goal of Group capital management is to ensure financial flexibility. As of 31 December 2007, the equity capital quota was 41.6% (2006: 44.5%).

Book value and current value of financial instruments

Cash deposits, accounts receivable and other assets, accounts payable for goods and services, received advance payments and other liabilities all have short residual terms so their book value as per balance sheet date corresponds to their present value. In terms of the long-term loan there is no indication that its book value is at variance with its fair value. Nor are there any indications to suggest that the current value of holdings is any different to their book value.



Financial Assets

		Book value		Attributable value	
in k€	Class*)	31.12.2007	31.12.2006	31.12.2007	31.12.2007
Payment funds & equivalent payment funds	1	7,740	10,727	7,740	10,727
Short-term receivables from goods & services	2	7,741	6,040	7,741	6,040
Other short-term financial assets	2	1,616	1,263	1,616	1,263
Other medium & long-term financial assets	2	32	0	32	0
Holdings	4	0	0	0	0
Total		**17,129**	**18,030**	**17,129**	**18,030**

Financial Liabilities

		Book value		Attributable value	
in k€	Class*)	31.12.2007	31.12.2006	31.12.2007	31.12.2007
Loans (long term)**	3	7,258	7,223	7,258	7,223
Liabilities vis-à-vis credit institutes (short-term)	3	0	1	0	1
Accounts payable for goods and services (short-term)	3	53	32	53	32
Leasing liabilities (medium & long-term)	3	134	40	134	40
Obligations from goods and services	3	5,092	4,543	5,092	4,543
Other short-term liabilities	3	1,147	1,679	1,147	1,679
Other medium & long-term liabilities	3	263	0	263	0
Total		**13,947**	**13,518**	**13,947**	**13,518**

*) 1 Cash reserves
2 Credits and receivables valued at accrued acqusition costs
3 Financial liabilities valued at accrued acquisition costs
**) Estimation of the current value see D.
4 Up for sale, valued at attributable present value



J. Notes on cash flow statement as per IFRS

Splendid Medien AG's cash flow calculation is based on the indirect method, i.e. the profit or loss from a period is adjusted by the effects of non-cash transaction, by accruals and deferrals of inflows and outflows of funds associated with current business activities in the past or future, and by income and expense items in connection with the cash flow from investment or financing activities.

(1) Cash flow from current business activities

Cash flow from current business activities comes to k€ 5,935 (2006: k€ 4,227).

(2) Cash flow from investment activities

Cash flow from investment activities amounting to k€ -8,984 (2006: k€ -7,826) essentially results from the acquisition of film assets (k€ -8,644) and tangible and intangible assets (k€ -356).

(3) Cash flow from financing activities

Cash flow from financing activities comes to k€ 62. In the previous year amortisation of the loan and incoming payment from the take-out of a follow-up credit essentially resulted in an accrual of K€ 6,621.

(4) Financial resources

The financial resources totalling k€ 7,740 (2006: k€ 10,727) cover the cheques, cash in hand and cash at banks shown on the balance sheet. The Group has money on account with credit institutes of k€ 883 which is not freely available as it is bound as security for a letter of credit.

K. Group segmental reporting

Splendid Medien AG's fields of business are licensing transactions, the Home Entertainment segment and the Postproduction segment. Definition of individual segments is based on internal reporting. This means that account was only taken of such items as could be directly assigned to a particular segment or reasonably assigned to a particular segment. Intersegmental expenses and income were eliminated.

The key figures relating to the segments are as follows:

Non-scheduled depreciation totalling k€ 4,407 (2006: k€ 374) affected the License Trade segment and non-scheduled depreciation totalling k€ 93 (2006: € 0) affected the Home Entertainment segment.

2007 in k€	License Trade	Home Entertain-ment	Post-production	Holding	Sum	Consoli-dation	Total
External sales	3,764	21,061	3,310	0	28,135		28,135
Group internal sales	0	2,626	1,310	922	4,858		4,858
Total sales	3,764	23,687	4,620	922	32,993		32,993
EBITDA	**2,435**	**6,805**	**1,073**	**-864**	**9,449**	**-378**	**9,071**
Depriciation on film rights	-6,511	-4,611	0	0	-11,122	404	-10,718
Depriciation on real estate & tangible assets	-3	-33	-183	-41	-260		-260
Depriciation on goodwill	0	0	0	0	0		0
EBIT	**-4,079**	**2,161**	**890**	**-905**	**-1,933**	**26**	**-1,907**
Financial result							-499
Taxes on earnings							1,248
Group net loss for the year							**-1,158**
Segment assets	5	382	465	62	914		914
- thereof goodwill	0	326	0	0	326		326
Film rights	5,328	4,423	0	0	9,751	-250	9,501
Other assets	3,074	9,629	1,789	8,682	23,174	-35	23,139
Total assets	8,407	14,434	2,254	8,744	33,839	-285	33,554
Total liabilities	4,590	6,331	624	7,712	19,257	342	19,599
Investments in film rights	4,956	4,870	0	0	9,826	-383	9,443
Investments in real estate & tangible assets	2	19	326	9	356		356
Employees	3.75	28.00	32.00	7.25	71.00		71.00
Sales per employee in k€	1,004	752	103	0	396		396



2006 in k€	License Trade	Home Entertain-ment	Post-production	Holding	Sum	Consoli-dation	Total
External sales	2,514	19,127	3,244	0	24,885		24,885
Group internal sales	13	2,565	1,418	1,052	5,048		5,048
Total sales	2,527	21,692	4,662	1,052	29,933		29,933
EBITDA	**1,448**	**6,436**	**705**	**-828**	**7,761**	**-336**	**7,425**
Depriciation on film rights	-1,824	-3,300	0	0	-5,124	249	-4,875
Depriciation on real estate & tangible assets	-3	-36	-163	-65	-267		-267
Depriciation on goodwill	0	0	0	0	0		0
EBIT	**-379**	**3,100**	**542**	**-893**	**2,370**	**-87**	**2,283**
Financial result							-284
Taxes on earnings							942
Group net loss for the year							**2,941**
Segment assets	7	396	322	93	818		818
- thereof goodwill	0	326	0	0	326		326
Film rights	7,464	3,600	0	0	11,064	-272	10,792
Other assets	3,044	10,666	1,423	7,585	22,718	58	22,776
Total assets	10,515	14,662	1,745	7,678	34,600	-214	34,386
Total liabilities	4,173	6,294	733	7,941	19,141	55	19,196
Investments in film rights	4,570	3,367	0	0	7,937	-300	7,637
Investments in real estate & tangible assets	7	25	188	18	238		238
Employees	4	23	30	6	63		63
Sales per employee in k€	629	831	108	0	395		395

Given the close connections between individual segments, further segmentation was considered unnecessary. Present segmental reporting is essentially based on sales revenue.



Sales revenues by geographical regions are as follows:

Sales revenue in k€	2007	2006
Germany	26,717	23,259
Rest of Europe	774	747
USA	356	697
Other	288	182
Total	**28,135**	**24,885**

The geographical location of assets is Germany. Transfer prices applicable to intra-Group sales are based on market prices (at the arm's length principle).

L. Executive Board and Supervisory Board

Executive Board

The members of the Executive Board are:

- Andreas R. Klein, Director of License Trade and Strategic Planning, Chairman
- Alexander Welzhofer, Director of Marketing and Distribution; other executive board mandates: Federation of Audiovisual Media (BVV), Hamburg
- Michael Gawenda, Director of Finance and Investor Relations

Remuneration of the Executive Board in k€

in €	Fixed Pay	Bonuses Executive Board	Bonuses Managing Directors	Non-cash benefits	Total
Andreas R. Klein (Chairman)	253,554	27,024	0	9,692	290,270
Alexander Welzhofer	231,882	18,654	2,110	8,901	261,547
Michael Gawenda	126,143	25,407	0	9,767	161,617
Total	**611,579**	**71,085**	**2,110**	**28,360**	**713,134**

In 2007 as a minority shareholder in WVG Medien GmbH, Alexander Welzhofer had a claim for a settlement payment of k€ 55.

See also the reporting on Executive Board remuneration given in the Group Status Report (Remuneration Report).



Supervisory Board

The members of the Supervisory Board are:

- Dr Ralph Drouven, lawyer, Cologne, Chairman; other supervisory board mandates: TX Logistik AG, Bad Honnef
- Bernd Kucera, auditor/tax consultant, Bonn, Deputy Chairman; other supervisory board mandates: AssFINET AG, Grafschaft bei Bonn (Chairman), pact Finanz AG, Dusseldorf
- Dipl.-Kfm. Michael Baur, management consultant, Munich

As per the Articles of Association of Splendid Medien AG members of the Supervisory Board solely receive as compensation a fixed remuneration to the following amounts:

Dr Ralph Drouven	€ 20,000.00
Bernd Kucera	€ 15,000.00
Michael Baur	€ 10,000.00

With regard to other services charged by members of the Supervisory Board, we refer you to the item "Relationships to affiliated persons".

M. Other information

Staff

At the end of the year the number of salaried employees was as follows:

	2007	2006
Executive Boards	3	3
Salaried staff	76	63

Total personnel costs for the 2007 financial year came to k€ 4,272 (2006: k€ 4,045).

Foreword of the Executive Board
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Shareholdings by members of the corporate bodies

On 29 August 2001 a total of 222,494 stock options was issued to managers and employees of the Splendid Group. By 31 December 2007 no option had been exercised. The earliest possible exercise date was 29 August 2003.

As of 31 December 2007 the share capital of Splendid Medien AG stood at € 9,789,999 and consisted of 9,789,999 bearer shares.

As of 31 December 2007 the shareholdings of members of the corporate bodies were as follows:

	2007			2006		
in k€	Number	Share in %	Options	**Number**	**Share in %**	Options
Executive Board						
Andreas R. Klein	5,308,984	54.2286	0	5,308,984	54.2286	0
Alexander Welzhofer	28,621	0.2923	33,375	28,621	0.2923	33,375
Supervisory Board						
Dr Ralph Drouven	3,060	0.0313	0	3,060	0.0313	0
Michael Baur	10,000	0.1021	0	10,000	0.1021	0

Relationships with affiliated persons

in k€	Amount	Of which expenses	Of which out-standing	Type of activity	Payment
Dr Drouven (CMS Hasche Sigle)	41	41	2	Consulting services	By the hour
Kucera & Hüttner GmbH	13	13	1	Preparation of Payroll accounts	Based on the Number of Employee accounts
Albert Klein	118	118	0	Rent of office building	As per leasing contract
Albert Klein	45	45	10	Consulting services	As per contract

The settlement agreement with minority shareholders makes provision for the following annual payments:

Alexander Welzhofer	k€ 55
Hans Henseleit	k€ 51



Other financial liabilities

in k€	Up to 1 year	2 to 5 years	over 5 years	Total
Type of liability				
Rents	326	577	0	903
Operating leasing	111	114	0	225

Expenses for operating leasing totalling k€ 122 were booked in the year under review with an effect on net income.

Order commitments for investments came to k€ 4,768 (2006: k€ 4,286).

Contingencies

There are bank guarantees to the amount of k€ 908.

Events taking place after the balance sheet date

The Stadt-Sparkasse Gelsenkirchen notified the Splendid Group that their share of voting rights in Splendid Medien AG had exceeded the 3% threshold as of 12 February 2008 and lay at 3.575% on that day.

Metzler Investment GmbH, Frankfurt, notified the Splendid Group that their share of voting rights in Splendid Medien AG had exceeded the 3% threshold as of 12 February 2008 and lay at 3.575% on that day. Of which 3.575% are to be attributed to Metzler Investment GmbH, Frankfurt, Germany, via the Stadt-Sparkasse Gelsenkirchen pursuant to Section 22 para. 1 clause 1 No. 6 Securities Trading Act (WpHG).

No notice was given of further events requiring reporting.

Proposal for the appropriation of profits and dividends per share

The Executive Board of Splendid Medien AG will recommend to the General Shareholders' Meeting that no dividends to be paid out for the 2007 financial year. The Executive Board proposes offsetting the net annual income of Splendid Medien AG to the amount of € 2,837,378.41 against the loss carried forward of € 66,224,819.89 and that this be carried forward to the new account as a balance sheet loss of € 99,062,198.30.

Notices published as per Section 26 German Securities Trading Act (WpHG) and (Section 160 para. 1 No. 8 German Stock Corporation Act -AktG)

On 20 March 2008 the following mandatory notices were published:

"Publication in compliance with Section 26 para. 1 WpHG with the aim of dissemination across the whole of Europe

Metzler Investment GmbH, Frankfurt, Germany, informed us on 18 March 2008 pursuant to Section 21 para. 1 WpHG that their share of voting rights in Splendid Medien AG, ISIN: DE0007279507, WKN: 727950, exceeded the 3% threshold on 12 February 2008 and lay on that date at 3.575% (equivalent to 350,000 voting rights). Of which Metzler Investment GmbH, Frankfurt, Germany, is to be attributed 3.575% (equivalent to 350,000 voting rights) as per Section 22 para. 1 clause 1 No. 6 WpHG via the Stadt-Sparkasse Gelsenkirchen, Gelsenkirchen, Germany."

On 25 February 2008 the following mandatory notice was published:

"Publication in compliance with Section 26 para. 1 WpHG with the aim of dissemination across the whole of Europe

The Sparkasse Gelsenkirchen, Gelsenkirchen, Germany, informed us on 20 February 2008 pursuant to Section 21 para. 1 WpHG that their share of voting rights in Splendid Medien AG, ISIN: DE0007279507, WKN:727950, exceeded the 3% threshold on 12 February 2008 and lay at 3.575% (equivalent to 350,000 voting rights) on that day."

On 14 March 2007 the following mandatory notice was published:

"Publication in compliance with Section 26 para. 1 WpHG with the aim of dissemination across the whole of Europe

COMMIT GmbH, Cologne, Germany, informed us on 12 March 2007 pursuant to Section 21 para. 1 WpHG that their share of voting rights in Splendid Medien AG, ISIN: DE0007279507, WKN:727950, exceeded the 5% threshold on 9 March 2007 and lay at 5.06% on that day (in absolute figures: 495,437 shares).



Mr Michel Aloui, Germany, informed us on 12 March 2007 pursuant to Section 21 para. 1 WpHG that his share of voting rights in Splendid Medien AG, ISIN: DE0007279507, WKN: 727950, exceeded the 5% threshold on 9 March 2007 and lay at 5.06% as of that date (in absolute figures: 495,437 shares). Of which Mr Michel Aloui, Germany, is to be attributed 5.06% (in absolute figures: 495,437 shares) as per Section 22 para. 1 clause 1 No. 1 WpHG via COMMIT GmbH."

Declaration pursuant to Section 161 AktG

The declaration of conformity of the Executive Board and Supervisory Board of Splendid Medien AG to the Corporate Governance Codex as per Section 161 AktG was published on the homepage of Splendid Medien AG.

The present Consolidated Financial Statements were released by the Executive Board to the Supervisory Board on 21 April 2008.

Cologne, 21 April 2008

The Executive Board:

Andreas Ralf Klein Alexander Welzhofer Michael Gawenda

  

Assertion of Consolidated Financial Statements

Assertion of the Executive Board as per Section 37y No. 1 German Securities Trading Act (WpHG) in connection with Sections 297 subsection 2 clause 3 and Section 315 subsection 1 clause 5 German Commercial Code (HGB)

We hereby pledge that to the best of our knowledge pursuant to the applicable accounting principles the Consolidated Financial Statements of Splendid Medien AG, Cologne, as of 31 December 2007 render a true and accurate picture of the asset, financial and earnings position of the Group, and that the Group Status Report presents the course of business, business results and Group position is such a manner as to render a true and accurate picture of both actual conditions and the substantial risks and opportunities of expected Group development.

Cologne, 21 April 2008

The Executive Board

Auditor‘s Certificate

“We have audited the Consolidated Financial Statements prepared by Splendid Medien AG, Cologne, consisting of Balance Sheet, Profit and Loss Statement, Schedule of Changes in Equity Cash Flow Statement and Appendix together with the Group Status Report for the financial year from 1 January to 31 December 2007. The preparation of the Consolidated Financial Statements and the Group Status Report according to the directives of the IFRS as applicable within the EU, and in further accordance with the stipulations of commercial law to be applied as per Section 315a subsection 1 German Commercial Code (HGB) as well as in compliance with further provisions given in the Articles of Association is the responsibility of the legal representatives of the company. It is our remit to prepare an assessment of the Consolidated Financial Statements and the Group Status Report on the basis of the audit we carry out.

We have conducted our audit of the Consolidated Financial Statements in compliance with Section 317 HGB and the German standards for the auditing of financial statements issued by the German Institute of Auditors (Institut der Wirtschaftsprüfer -IDW). These require that the audit be planned and conducted in such a manner that inaccuracies and infringements substantially affecting the view of the assets, financial and earnings position as given by the Consolidated Financial Statements in compliance with applicable accounting standards, and by the Group Status Report are identified with a sufficient degree of certainty. The scope of the audit was planned with account taken of our knowledge of the Group’s business activities, the economic and legal environment in which the Group operates, and expectations of possible errors. In the framework of the audit the effectiveness of the accounting-related internal control system and the evidence supporting the statements contained in the Consolidated Financial Statements and Group Status Report was evaluated, mainly on the basis of sampling. The audit comprises assessment of the Annual Financial Statements of the companies included in the Consolidated Financial Statements, definition of the consolidated entity, applied accounting and consolidation principles, key assessments of the legal representatives together with 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 on which to make our assessment.

Our audit did not give rise to any objections.

Our assessment based on the insights obtained in the course of the audit is that the Consolidated Financial Statements are in compliance with the directives of the IFRS as applicable within the EU , the further provisions under commercial law to be applied as per Section 315a subsection 1 German Commercial Code (HGB) and the supplemental provisions contained in the Articles of Association, and provide an accurate view of the Group’s assets, financial and earnings position as delivered in compliance with these regulations. The Group Status Report is in harmony with the Consolidated Financial Statements and provides a true overall picture of the Group’s position and accurately represents the risks and opportunities of its future development.”

Cologne, 21 April 2008

BFJM Bachem Fervers Janßen Mehrhoff GmbH
Auditing Company

(Dr Werner Holzmayer)	(Dipl.-Kfm. Marcus Lauten)
Auditor	Auditor

  

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Annual report on the Internet

The Splendid Medien AG annual report can be viewed as a PDF file in the Internet at www.splendidmedien.com. This Annual Report is also available in German. In the event of conflicts the German language version shall prevail.

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.

Financial Calendar 2008

30.05.2008	**Report of the first quarter of 2008** Press release of the financial figures of the first quarter of 2008. Publication of the interim report on the first quarter of 2008.
10.06.2008	**Annual general meeting 2008** 11 h, Komed, Cologne. Ordinary annual shareholders' meeting of Splendid Medien AG.
29.08.2008	**Semi-annual report 2008** Press release of the financial figures of the first six months of 2008. Publication of the interim report on the first six months of 2008.
28.11.2008	**Nine-month report 2008** Press release of the financial figures of the first nine months of 2008. Publication of the interim report on the first nine months of 2008.

www.splendidmedien.com