

2005

QUARTERLY REPORT

II / 2005



INTERTAINMENT

Aktiengesellschaft

Key indicators (million euros)	2 0 0 5		2 0 0 4	
	1/1/-30/6/	1/4/-30/6/	1/1/-30/6/	1/4/-30/6/
Sales	0.5	0.4	17.3	16.3
EBIT	5.3	2.7	3.2	0.7
Result of ordinary business activities	5.3	2.7	3.2	0.7
Net profit for the period	4.0	1.9	2.3	0.7
Earnings per share (euros)	0.34	0.16	0.19	0.06
Average number of employees	10		13	

Key data for the share

ISIN	DE0006223605		
Share capital	15,005,155.09 Euro		
Number of shares	11,739,013		
Issue price 8/2/1999	36.00 Euro		
	after split (1:2)	18.00 Euro	
Closing price* at 30/6/2005	1.71 Euro		
High* for 1 st half-year 2005 (13/4/2005)	2.70 Euro		
Low* for 1 st half-year 2005 (27/6/ and 30/6/2005)	1.71 Euro		
Shareholder structure at 30/6/2005	Rüdiger Baeres (directly and indirectly)	59.08 %	
	Management and Supervisory Board**	0.20 %	
	Free float	40.72 %	

*Closing prices in Xetra electronic trading

**excluding Rüdiger Baeres

Corporate calendar

Annual General Meeting	September 13, 2005
3 rd Quarter 2005 Earnings Report	November 30, 2005
Analyst Conference	November 2005
Annual Report 2005	April 28, 2006

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Intertainment Group: Situation Report for the first half of 2005

A. Business development

During the first half of 2005, the protracted legal disputes in the USA have again been the main focus of Intertainment's activities. These were:

- The ongoing arbitration proceedings between INTERTAINMENT Licensing GmbH and Comerica Bank and other parties,
- Endeavors to achieve out of court settlements, and
- Asserting the existing claims for damages from the fraud case won against the US film production company Franchise Pictures, its former CEO Elie Samaha and numerous subsidiaries of Franchise Pictures.

Operatively, Intertainment concentrated on exploiting its existing library of film rights.

After exchange rate gains led Intertainment Group back into the black in the first quarter of 2005 despite the financial burdens arising from legal proceedings, the Group has now also ended the second quarter with a profit. In all, Intertainment generated a profit of € 4.0 million in the first six months of 2005, after € 2.3 million euros in the first half of 2004. The second quarter of 2005 accounted for € 1.9 million of these, as opposed to € 0.7 million in the same period the previous year. Earnings before insurance and taxes (EBIT) rose in the first half of 2005 to € 5.3 million. This figure was € 3.2 million at the end of June, 2004. Earnings per share were € 0.34 after € 0.19 the previous year.

Exchange rate gains were responsible for the improved second quarter result, as they

were in the first quarter of 2005 as well. The strict belt-tightening within the Group that went hand in hand with the reorganization efforts initiated in 2004 was also a contributor. In all, Intertainment generated revenues amounting to € 7.8 million in the first half of 2005, together with the valuation of the damages claims from legal disputes. This income is owed to the improved value of the US dollar against the Euro on the balance sheet date June 30, 2005 as compared to December 31, 2004. At the end of the quarter, Intertainment reported receivables from legal disputes of € 65.9 million after € 59.1 million at the end of 2004.

In the first half of 2005, Intertainment turned over € 0.5 million after € 17.3 million in the same period the previous year. Sales in the period under review resulted from the disposal of older film licenses, whereas the sales in the first half of 2004 were largely attributable to a one-off effect from the exploitation of the license to the thriller "Twisted", which was in movie theatres in 2004. € 0.4 million of the sales in the first half of 2005 were generated in the second quarter.

Intertainment's cash reserves were € 0.4 million at June 30, 2005 after € 1.7 million at December 31, 2004.

B. Legal disputes in the USA

INTERTAINMENT Licensing GmbH has been involved in extensive legal disputes in the USA since the end of 2000. In the Summer of 2004 it won a damages suit against Franchise Pictures, 16 production companies and the former CEO of Franchise Pictures, Elie Samaha. Intertainment was awarded a total of US\$ 121.7 million in the context of this case. Shortly after this judgment was entered, most of the losing parties filed for bankruptcy in accordance with Chapter 11 of US insolvency law, thus providing them with protection against creditors. In the period under review, the post trial motions relating to this damages suit were being negotiated in court. Here, the opposing party endeavored, among other things, to have the court proceedings rescheduled.

The arbitration proceeding against Comerica Bank and other parties, also ongoing in the USA throughout the period under review was in the discovery phase during the entire period. No longer among the defendants in this case are the two insurance companies Film Finances and Film Finances (1998) Canada. Intertainment reached an out of court settlement with these entities in March 2005.

Within the scope of this report we will be describing developments in the various cases during the first half of 2005 and the events that took place since then up until the publishing of this report. For a detailed description and the backgrounds of these legal disputes in the USA we refer readers to the management report for the 2004 business year and its attachments.

1. Post trial motions in the Franchise Pictures case

Franchise Pictures, the production companies and Elie Samaha submitted post trial motions after execution of the judgment. In all, five motions are under consideration by the court, only one of which originates from INTERTAINMENT Licensing GmbH. In April of 2005, Elie Samaha and Glickson Investment International LLC applied to the court to have the judgment declared null and void and to have a totally new process ordered, claiming that new evidence against Intertainment had been found. Franchise Pictures and its related production companies that are also in insolvency joined this petition.

In a hearing on May 16, 2005, the responsible judge rejected all post trial motions in a tentative written ruling. She had not reached a final decision on the motions by completion of this interim report

2. Arbitration proceedings against Comerica Bank and others

At the time of completion of this interim report, the arbitration proceedings were in the discovery phase. In this phase, the companies involved in the case have to provide the opposing parties with internal and external company documents that are relevant to the case.

During this reporting period and within the scope of the discovery, electronic data at Intertainment stored on its data media have been collected in addition to the previously produced documents. During the data recovery, legal representatives of Comerica Bank were also present.

In a hearing in front of the arbitrators on March 18, 2005, Comerica Bank applied to

strike claims of INTERTAINMENT Licensing GmbH. The arbitrators rejected this motion in a hearing on April 27, 2005. However, the arbitrators did demand that Intertainment produce further documents within the scope of the discovery.

In a hearing on May 18, the arbitrators determined the continued procedure for the discovery phase. In this case Comerica Bank also put forward cross claims against the insurance company Film Finances Inc. It also opposed the motions from XL-Reinsurance, Film Finances Inc. and Film Finances (1998) Canada that the agreements reached between Intertainment and these parties be determined as good faith settlements. In the meantime the bank has, however, already recognized the agreements with XL-Reinsurance and Film Finances (1998) Canada as good faith settlements, but not yet the settlement with Film Finances Inc. The cross claim against Film Finances Inc. still stands, too. It has no effect on the claims asserted by Intertainment against Comerica Bank. Intertainment may apply to have the cross-claims bifurcated and dealt with in separate proceedings.

3. Settlement with Film Finances Inc. and Film Finances (1998) Canada

INTERTAINMENT Licensing GmbH and Intertainment AG settled with the film insurers Film Finances Inc. and Film Finances (1998) Canada Ltd. in mid March, 2005. Both of these companies had been among the opponents of INTERTAINMENT Licensing GmbH in the arbitration proceedings against Comerica Bank and management employees of the bank before the settlement.

The settlement includes a payment from

Film Finances Inc. and Film Finances (1998) Canada to Intertainment. In addition, Film Finances Inc. and Film Finances (1998) Canada have also submitted claims against the film production companies Franchise Pictures and its insolvent subsidiaries in favor of the insolvency estate. With that they retire from the group of creditors. INTERTAINMENT Licensing GmbH is the largest unsecured creditor in the Franchise insolvency case. The parties have agreed to maintain confidentiality as to the further conditions of the settlement.

4. Insolvency proceedings against Franchise Pictures and its production companies

Franchise Pictures and most of the losing production companies filed for bankruptcy a few days after execution of the judgment by the responsible judge on August 2004, in accordance with chapter 11 of US insolvency law. The responsible bankruptcy court has already extended the deadline for submission of a restructuring plan several times at the request of the restructuring manager – the last time to August 31, 2005. This means it has the exclusive right to provide a restructuring plan to this point in time. In the meantime assets of additional Franchise related entities have become part of the insolvency estate.

It is probable that the restructuring manager's application to have the deadline for the exclusive submission of a restructuring plan beyond August 31 will be granted.

5. Process against the former Franchise CEO Elie Samaha

On January 24, 2005 and June 27, 2005 there were two court hearings on the assets of Elie Samaha. Immediately after the first of these two dates, Intertainment began assessing the documents that Samaha had submitted in the hearing. Intertainment has now also summoned members of Elie Samaha's family to give evidence before court relating to Samaha's financial situation. During the period under review, INTER-TAINMENT Licensing GmbH also initiated an enforcement order on Elie Samaha's personal assets. This order may affect Elie Samaha's individual interests in various company stakeholdings.

6. Settlement with International Motion Pictures Corporation Ltd.

In March 2005, Intertainment reached a settlement with International Motion Pictures Corporation Ltd. (IMPC), Hong Kong, that the latter retract its arbitration suit against Intertainment with regard to the film "Tracker".

7. Arbitration proceedings in the "Viva Las Nowhere" case

In these arbitration proceedings, INTER-TAINMENT Licensing GmbH demands retransfer of an advance payment of US\$ 1.3 million plus interest for the film Viva Las Nowhere from Westdeutsche Landesbank (WestLB), the Lewis Horwitz Organization and Federal Deposit Insurance Corp. This film was the subject of the lawsuit against Franchise Pictures. It had a fraudulently excessive budget. In the period under review, Westdeutsche Landesbank had asserted counter claims within the arbitration

proceedings against INTER-TAINMENT Licensing GmbH amounting to around US\$ 900,000. At completion of this report the parties had not finished selecting the arbitrator.

C. The development of individual segments

1. Film production and the trading of film rights

In the period under review, Intertainment only exploited rights to films that it owned in the middle of 2000 at the latest. The management will continue to concentrate its efforts on the legal disputes in the USA for the moment. A reinforcement of the operative activities is linked to the realization of the new business strategy. In this context we refer to our explanations in item E.2 in the management report for the 2004 business year.

2. Participation in SightSound Technologies Inc.

The American Intertainment participation SightSound Technologies Inc. holds the US patents for the digital downloading of audio and video files from the Internet. After license negotiations between this company and a potential American licensee from the field of digital music and film downloads broke down in the reporting period, Intertainment decided to completely write off the SightSound participation in the balance sheet for the 2004 business year. The reason for this is that the management of Intertainment was not able to judge with sufficient certainty to what degree the patents retained value after the

breakdown of the negotiations, or whether SightSound is in a position to finance the further costs for asserting and marketing the patents. In the context of the consequences of the failed negotiations, the risk has also arisen that SightSound's patents are again being investigated by the US patent office. An investigation of this kind can take up to two years.

D. Staff

Intertainment Group employed an average of 10 staff (previous year 13) in the first half of 2005.

E. Risks in the future development of Intertainment AG Group

In this context we refer expressly to the annual report and management report for 2004 and the Attachments to this interim report.

Ismaning, August 31, 2005

The Management Board

Intertainment Group: Consolidated Balance Sheet

as at June 30, 2005 in Accordance with the IFRS

ASSETS	in TEuros	
	30/6/2005	31/12/2004
A. FIXED ASSETS		
I. Intangible assets		
1. Licenses, commercial property rights and similar rights as well as licences in such rights	0	1
2. Payments made on account	2,147	2,147
	2,147	2,148
II. Property, plant & equipment		
Other plant, business and office equipment	84	122
III. Financial assets		
Participations	0	0
	2,231	2,270
B. CURRENT ASSETS		
I. Inventories		
Film rights	4,253	4,408
II. Receivables and other assets		
1. Trade receivables	391	661
2. Other assets	66,122	59,264
	66,513	59,925
III. Cash on hand, bank balances	375	1,694
	71,141	66,027
C. DEFERRED TAXES	15,924	15,924
	89,296	84,221

EQUITY & LIABILITIES	in TEuros	
	30/6/2005	31/12/2004
A. EQUITY		
I. Subscribed capital	15,005	15,005
II. Capital reserve	46,898	46,989
III. Earnings reserves		
Statutory reserve	116	116
IV. Group retained earnings	-20,109	-24,158
V. Currency differences	-97	-85
	41,813	37,867
B. PROVISIONS		
1. Tax provisions	1,200	0
2. Other provisions	26,811	27,187
	28,011	27,187
C. LIABILITIES		
1. Liabilities due to banks	23	0
2. Trade accounts payables	1,180	911
3. Other liabilities	67	54
	1,270	965
D. DEFERRED TAXES	18,202	18,202
	89,296	84,221

Intertainment Group: Income Statement

for the period from January 1, 2005 to June 30, 2005
in Accordance with the IFRS

in TEuros	1/1/-30/6/2005	1/1/-30/6/2004
1. Sales revenues	484	17,319
2. Other operating income	8,707	4,084
	9,191	21,403
3. Cost of materials		
a) Cost of film rights and associated performances	-232	-14,554
b) Expenses for bought-in merchandise and services	-9	-10
	-241	-14,564
4. Personnel expenses		
a) Salaries	-588	-875
b) Social security contributions	-38	-50
	-626	-925
5. Depreciation on property, plant & equipment and amortization on intangible fixed assets	-76	-30
6. Other operating expenses	-2,998	-2,710
7. Net interest	2	1
8. Result of ordinary business activities	5,252	3,175
9. Taxes on income and earnings	-1,201	-922
10. Other taxes	-2	0
11. Consolidated net income for the period	4,049	2,253
12. Accumulated loss	-24,158	-25,249
13. Group retained earnings	-20,109	-22,996
Basic earnings per share	0.34	0.19
Diluted earnings per share	0.34	0.18

Intertainment Group: Income Statement

for the period from April 1, 2005 to June 30, 2005
in Accordance with the IFRS

in TEuros	1/4/-30/6/2005	1/4/-30/6/2004
1. Sales revenues	417	16,267
2. Other operating income	4,740	52
	5,157	16,319
3. Cost of materials		
a) Cost of film rights and associated performances	-231	-14,402
b) Expenses for bought-in merchandise and services	-8	-5
	-239	-14,407
4. Personnel expenses		
a) Salaries	-226	-361
b) Social security contributions	-18	-24
	-244	-385
5. Depreciation on property, plant & equipment and amortization on intangible fixed assets	-64	-14
6. Other operating expenses	-1,954	-793
7. Net interest	3	0
8. Result of ordinary business activities	2,659	720
9. Taxes on income and earnings	-731	-18
10. Other taxes	-1	0
11. Consolidated net income for the period	1,927	702
Basic earnings per share	0.16	0.06
Diluted earnings per share	0.16	0.06

Intertainment Group: Consolidated Cash Flow Statement

as at June 30, 2005 in Accordance with the IFRS

in TEuros	30/6/2005	30/6/2004
Period result prior to extraordinary items, interest and taxes	4,047	2,253
Valuation of damages from legal disputes	-7,757	-2,208
Valuation of provision for contractual disputes	1,880	1,056
Valuation of provision for participation in trial proceeds	-850	-135
Personnel expenses share options for Board of Management and employees	-91	0
Amortization & depreciation on items of fixed assets	76	30
Losses from fixed asset disposals	5	0
Changes in provisions	-206	-3,877
Changes to inventories	155	1,049
Changes in trade receivables	270	-1,026
Changes in other assets	899	2,243
Changes in trade payables as well as in other liabilities	282	-466
Interest received	15	1
Interest paid	-13	0
Outflow of funds from current business activities	-1,288	-1,080
Outgoing payments for investments in fixed assets	-42	-4
Outflow of funds from investment activities	-42	-4
Changes in liabilities to banks	23	-4
Inflow (p.y. outflow) of funds from financing activities	23	-4
Changes in cash and cash equivalents	-1,307	-1,088
Changes in cash and cash equivalents resulting from exchange rate and other influences	-12	-2
Cash and cash equivalents at beginning of period	1,694	2,138
CASH AND CASH EQUIVALENTS AT END OF PERIOD	375	1,048

Intertainment Group: Schedule of Nominal Capital

in Accordance with the IFRS

in TEuros	Share capital	Capital reserve	Revenue reserve	Retained earnings	Currency difference	Total
AS AT 31/12/2003	15,005	70,045	116	-25,249	-81	59,836
Result at 30/6/2004				2.253		2,253
Currency difference					-2	-2
AS AT 30/6/2004	15,005	70,045	116	-22,996	-83	62,087
AS AT 31/12/2004	15,005	46,989	116	-24,158	-85	37,867
Result at 30/6/2005				4.049		4,049
Share options		-91				-91
Currency difference					-12	-12
AS AT 30/6/2005	15,005	46,898	116	-20,109	-97	41,813

Entertainment Group: Notes

to the Consolidated Financial Statements for the Interim Report for the period to June 30, 2005 in Accordance with the IFRS

I. General information

Entertainment AG (hereinafter Entertainment) and the subsidiaries included in the Consolidated Financial Statements have used the same accounting, valuation and consolidation policies for the Interim Report as were applied for the Consolidated Financial Statements of the 2004 business year. A detailed explanation of these policies will not be repeated here and we refer the reader to the annual financial statements for 2004, should details be required.

The Consolidated Financial Statements again include Entertainment AG and its subsidiaries INTERTAINMENT Licensing GmbH, Entertainment Animation & Merchandising GmbH and USA-Entertainment, Inc. The balance sheet date for the Consolidated Financial Statements is June 30, 2005.

Changes to the IFRS regulations mean that from January 1, 2005, an extraordinary result will no longer be reported in accordance with IAS 1-85. For this reason, Entertainment is reporting all matters relating to the legal disputes with Franchise Pictures and other parties in the operating result. The previous period has been adjusted accordingly.

The figures in these explanatory notes are stated in thousand euros (TEuros). For purposes of comparison, the figures for the period under review and the corresponding figures for the previous period are listed side by side. The comparative date in the balance sheet is December 31, 2004 and in the income statement June 30, 2004.

II. Notes to the consolidated balance sheet

1. Fixed assets

Payments on account for intangible assets amount to 2,147 (31/12/2004: 2,147) TEuros and relate to the acquisition of film rights.

Property, plant and equipment amount to 84 (31/12/2004: 122) TEuros. This figure includes the extraordinary write-off of office and business equipment to the amount of 45 (previous year 0) TEuros. There were also further revenues amounting to 42 (previous year 4) TEuros.

Financial assets comprise the shareholding in SightSound Technologies Inc. This was written off in full in the 2004 business year.

2. Inventories

Film rights are valued at 4,253 (31/12/2004: 4,408) TEuros. The change here is due to the ordinary write-off of 155 (previous year 0) TEuros from the disposal of the film rights in question.

3. Trade accounts receivable

Trade accounts receivable amount to 391 (31/12/2004: 661) TEuros and relate exclusively to a remaining term of less than one year. The change is based in particular on balancing open items.

4. Other assets

Other assets amount to 66,122 (31/12/2004: 59,264) TEuros. These assets are comprised as follows:

II. 4 OTHER ASSETS		in TEuros	
	30/6/2005	31/12/2004	
Damages receivable from legal disputes	65,935	59,110	
Miscellaneous	187	154	
Total	66,122	59,264	

The damages receivable from legal disputes relate to Entertainment's claims against Franchise Pictures and other parties.

The valuation is based on Entertainment's claims arising from the successful legal dispute against Franchise Pictures and other parties amounting to the sum cited in the judgment less reduction for risk. Despite the fact that Franchise Pictures and other parties instituted insolvency proceedings in August 2004, the management still regards this asset as valuable. The value derives from the fact that part of the claim can be met by the insolvency settlement. The management also regards the prospects for success in the impending arbitration proceedings against Comerica Bank as very positive. In this context we also refer to our statements in the

financial statements for 2004. If Entertainment's claim against Comerica Bank is successful, Entertainment's management is of the opinion that Comerica Bank would also be liable for the damage sustained which has already been successfully asserted in the process against Franchise Pictures and other companies.

The change in damages receivable compared with December 31, 2004 results in particular from the change in the exchange rate between the euro and the US dollar.

5. Cash on hand, bank balances

Liquid funds totaling 375 (31/12/2004: 1,694) TEuros result from current accounts and cash on hand. The balance includes a fixed term deposit of 43 TEuros, which Entertainment does not have access to as it is a rental deposit.

6. Equity

We refer to the statement on changes in consolidated equity for details of the development of equity capital.

The nominal capital was unchanged and held in the form of 11,739,013 issued non-par shares. The accumulated net loss at June 30, 2005 was -20,109 (31/12/2004: -24,158) TEuros. The consolidated net income for the period amounts to 4,049 (31/12/2004: consolidated deficit -22,151) TEuros.

The authorized and the contingent capital remained unchanged as compared to December 31, 2004.

7. Provisions

7.1 Tax provisions

The provision for tax expenditure as at June 30, 2005 amounts to 1,200 TEuros.

7.2 Other provisions

Other provisions developed as follows during the second quarter of 2005:

II. 7 OTHER PROVISIONS					in TEuros
	As at 1/1/2005	Utilization	Release	Allocation	As at 30/6/2005
Litigation revenue	17,935	0	0	1,880	19,815
Contractual disputes	4,750	0	-850	0	3,900
Legal/consultancy costs	3,200	-1,520	0	0	1,680
Reorganization	935	0	0	165	1,100
Outstanding invoices	331	-95	0	50	286
Personnel	34	-4	-2	0	28
Miscellaneous	2	0	0	0	2
Total	27,187	-1,619	-852	2,095	26,811

We refer to the Notes to the 2004 Consolidated Financial Statements for an explanation of the individual provision items. The change in the provision for litigation revenues results from an allocation of 1,880 (previous period 1,056) TEuros. This increase is based on the rise in the claims from legal disputes reported in Other Assets. Utilization of the provision for legal and consultancy costs relates to payments in conjunction with the legal disputes against Franchise Pictures, Comerica Bank and other parties.

8. Liabilities

Liabilities to banks amount to 23 (31/12/2004: 0) TEuros. This item encompasses only current accounts. Accounts payable amount to 1,180 (31/12/2004: 911) TEuros. Other liabilities amount to 67 (31/12/2004: 54) TEuros. Liabilities have a total remaining term of less than one year. During the business year 2003, a loan in the value of 13,583 TEuros, due on June 30, 2004 was written off since the manage-

ment believed that the residual debt called in by the bank on June 30, 2004 was re-scheduled. For this reason, the management believed on June 30, 2004 that the loan could no longer be called in. The re-scheduling provides for the bank to issue a debt waiver on a deferred debt basis. Within the context of this deferred debt, receivables are reinstated when the conditions come into force. The total sum of the receivables reinstated through the deferred debt is limited to 115 % of the original loan debt. In order to secure the claims of the bank, the assets and claims described under contingent liabilities were assigned. We refer to item F.1 of the management report for the business year 2004 for information on the risks in conjunction with the settlement of the residual debt.

An expert opinion by a legal office forms the basis for the assessment of this matter. If it emerges in future that this legal opinion is flawed, there is a risk that significant outflows of funds will have to result for the settlement of the original residual debt. In this context there is also a risk that the guarantee of Intertainment AG originally provided for the settlement of the loan is not extinguished and Intertainment AG will also incur significant outflows of funds amounting to the original residual debt.

III. Explanations for the Group Income Statement

1. Sales revenues

Sales revenues in this six month period amount to 484 (30/6/2004: 17,319) TEuros. In the second quarter, Intertainment generated sales of 417 (previous year 16,267) TEuros. The sales revenues stem from the sale of film rights.

2. Other operating income

Other operating income amounts to 8,707 (30/6/2004: 4,084) TEuros and comprises:

III. 2 OTHER OPERATING INCOME			in TEuros
	1/1/- 30/6/ 2005	1/1/- 30/6/ 2004	
Valuation of claims for damages	7,757	2,343	
Change in provision for contractual disputes	850	0	
Exchange rate gains	91	384	
Provisions for taxation	0	940	
Miscellaneous	9	417	
Total	8,707	4,084	

The valuation of the claims for damages reported under other assets relates in particular to currency income arising from the change in the exchange rate of the euro against the US dollar.

3. Cost of materials

Cost of materials amounts to 241 (30/6/2004: 14,564) TEuros and includes scheduled depreciation on film rights of 155 (previous year 13,602) TEuros, expenditure on

film rights and related services of 77 (30/6/2004: 952) TEuros and cost of purchased goods and services of 9 (30/6/2004: 10) TEuros.

4. Depreciation of intangible and fixed assets

The depreciation of intangible and fixed assets amounts to 76 (previous year 30) TEuros. These include extraordinary write-offs of fixed assets of 45 TEuros.

5. Other operating expenses

The other operating expenses amount to 2,998 (30/6/2004: 2,710) TEuros and comprise:

III. 4 OTHER OPERATING EXPENSES		
	in TEuros	
	1/1/-30/6/ 2005	1/1/-30/6/ 2004
Change in provision for litigation revenue participations	1,855	1,056
Rental costs	155	152
Exchange rate losses	169	411
Legal and consultancy costs	164	350
Miscellaneous	655	741
Total	2,998	2,710

IV. Other information

1. Earnings per share

The number of Intertainment shares remained 11,739,013 on June 30, 2005. The Group generated net income of 4,049 TEuros in the first half of 2005, after a net income of 2,253 TEuros in the previous period. The earnings per share were therefore € 0.34, after € 0.19 on June 30, 2004. The diluted earnings per share amount to € 0.34 (30/6/2004: € 0.18).

2. Other financial commitments

Intertainment has the following future payment obligations on June 30, 2005:

IV. 2 OTHER FINANCIAL COMMITMENTS			
	in TEuros		
	Remaining term less than 1 year	Remaining term more than 1 year	Total
Obligations arising from lease and rental contracts	544	825	1,369
	(1,021)*	(1,238)*	(2,259)*

* as at 30/6/2004

OBLIGATIONS ARISING FROM THE ARBITRATION PROCEEDINGS

The arbitration proceedings that originally related to the film "Driven" were extended to all the disputed Franchise films financed by Comerica Bank and all claims for damages being asserted by Intertainment against Comerica Bank. In these arbitration proceedings, Comerica Bank is demanding all outstanding installments for the films it finan-

ced. The total amount is more than 70 million US dollars. We refer to our statements in item B.1.6 of the management report for the businesses year 2004 for further information.

OTHER OBLIGATIONS ARISING FROM LITIGATION REVENUE PARTICIPATIONS

Insofar as cash inflows from the legal dispute with Franchise Pictures and other parties exceed the damages claimed reported under Other Assets, other contractual obligations for litigation revenue participations arise on the basis of contractual agreements for which no provisions have been formed to date.

3. Contingent liabilities

Under Liabilities to Banks, Intertainment reports rescheduling for the settlement of the residual debt arising from a loan to INTER-TAINMENT Licensing GmbH, which the management assumes will come into force. In the opinion of the Intertainment management, the bank issued a debt waiver on a deferred debt basis in December 2003. In this context, the film rights already assigned but not yet sold and the resulting exploitation revenues remain assigned as security. The financing bank is also being assigned 15 % of the future net income for the business years 2004 to 2006 and a further 15 % of the litigation revenues arising from the litigation against Franchise Pictures as security.

In the 2001 business year, Intertainment AG took over a guarantee to the bank for this loan. In the view of the management, this guarantee has been extinguished within the framework of the new negotiations with

the bank. We refer to item F.1 of the 2004 management report for an assessment of the associated risks.

In the year 2000, Intertainment AG provided ongoing surety amounting to 43 (previous year 76) TEuros for the rental of the offices in Munich.

4. Pending legal disputes

A comprehensive report on the pending legal disputes is included in the Management Report for the fiscal year 2004 in sections B1 and E1. We also refer readers to the current situational report and the Interim Report for the first quarter of 2005.

5. Employees

On average during the first half of 2005, the Group employed 10 (2004: 13) staff.

6. Shares and options held by members of the executive bodies

The number of shares held by Rüdiger Baeres has fallen compared with December 31, 2004. The reason for this drop is the sale of 150,000 shares by Alkmäon Vermögensverwaltungsgesellschaft mbH on February 17, 2005. The shares in this company are controlled by Mr. Baeres.

The shares and options held by the other members of the executive bodies have not changed since December 31, 2004.

7. Risks relating to the ability to continue as a going concern

The consolidated financial statements for the first half of 2005 were prepared on the assumption that the Intertainment AG Group still has the ability to continue as a going concern. The Management of Intertainment has a positive assumption regarding its ability to continue as a going concern, so that the Group will in all probability be able to continue its business activities in the current and the subsequent business years and meet its payment obligations. The positive assumption regarding the Intertainment AG Group's ability to continue as a going concern is based on an integrated corporate plan, from which a detailed finance plan was derived. This is made up of the financing of future business activity, the planned investments and other financing activities. Overall, the assumption regarding Intertainment's ability to continue as a going concern is qualified by four main areas of uncertainty that cannot be judged definitively at the present time. These are:

- Settlement of a bank loan which has been called in on the basis of the assumptions by the legal representatives
- Cash inflows from the settlement of legal disputes with Franchise Pictures, Comerica Bank and other parties
- No cash-outflows of funds from the legal disputes for the payment of the second installment for the disputed film rights

- Fulfillment of the other premises of the finance plan including other incoming payments planned for the near future

If the inflows of funds, the outflows of funds or the assumptions on which the financial plan is based fail to materialize as planned, the ability of Intertainment AG, INTER-TAINMENT Licensing GmbH and Intertainment Animation & Merchandising GmbH to continue as a going concern is highly endangered – even at very short notice – due to an inability to fulfill their payment obligations and the associated risk of insolvency proceedings.

We refer to the Group Management Report for the year ended December 31, 2004 (item F "Risks of future development of the Intertainment AG Group") for further details on the risks.

CONSEQUENCES OF A POSSIBLE MISCALCULATION

The consequences of a possible wrong assessment of the risks endangering the company's ability to continue as a going concern are far-reaching for the continuation of business activity. Insolvency proceedings could be instituted – under certain circumstances at very short notice – because of an impending inability to fulfill payment obligations, and it would not be possible to use going concern values in the valuation of assets and debts pursuant to the IFRS Framework Article § 23.

Intertainment AG, August 31, 2005

The Management Board

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