INTERTAINMENT
Aktiengesellschaft

## CORPORATE CALENDAR:

4. MAY 2001 FINANCIAL STATEMENT PRESS CONFERENCE IN MUNICH

7. MAY 2001 ANALYST CONFERENCE IN FRANKFURT

END OF MAY 2001 PUBLICATION OF QUARTERLY REPORT I/2001

27. JUNE 2001 THIRD GENERAL MEETING OF INTERTAINMENT AG IN MUNICH

END OF AUG. 2001 PUBLICATION OF QUARTERLY REPORT II/2001 END OF NOV. 2001 PUBLICATION OF QUARTERLY REPORT III/2001


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# 2000

# THE ANNUAL REPORT

INTERTAINMENT
Aktiengesellschaft

## Key figures

| | 2000 DEM mill. | 2000 Euro mill. | 1999 DEM mill. | 1999 Euro mill. | Change |
|---|---|---|---|---|---|
| Sales revenues | 171.7 | 87.8 | 56.1 | 28.7 | +206% |
| EBIT | 31.6 | 16.2 | 25.6 | 13.1 | +23% |
| EBITDA | 95.1 | 48.6 | 34.8 | 17.8 | +173.6% |
| Results of ordinary business activities | 20.9 | 10.7 | 27.4 | 14.0 | -24% |
| Net profit | 10.9 | 5.6 | 13.1 | 6.7 | -17% |
| Average of employees | | 28 | | 12 | |

## Key figures of the stock

| | | |
|---|---|---|
| SECURITIES IDENTIFICATION NUMBER | | 622 360 |
| SHARECAPITAL | | 15,005,155.09 Euro |
| NUMBER OF SHARES BEFORE CAPITAL INCREASE 18.07.2000 | | 9,696,400 |
| NUMBER OF SHARES AFTER CAPITAL INCREASE 18.07.2000 | | 11,739,013 |
| SHAREHOLDER STRUCTURE 31.12.2000 | Rüdiger Baeres | 58.03% |
| | Management, Supervisory Board | 1.12% |
| | Free Float | 40.85% |
| PRICE AT YEAR END 29.12.2000 | | 5.10 Euro |
| HIGHEST PRICE 2000 | | 117 Euro |
| LOWEST PRICE 2000 | | 4.52 Euro |

## Table of Contents



# Dear Shareholders

In 2000 Intertainment AG had to go through extreme ups and downs. While we were able to achieve outstanding results by continuing our expansion strategies in the first half of the year, our company was gripped by the downward trend on Germany's Neuer Markt in the second half.

On top of the general misery on the stock markets there was the legal action taken against Franchise and Imperial Bank on grounds of fraud to the sum of USD 75 million. The damage for Intertainment, however, would not materialize unless all the films were delivered at excessive budgets and Intertainment were to accept them. It was precisely to prevent this that we have taken legal action. The uncertainty as to the outcome of the litigation caused the value of our share to tumble.

Since March 2001 the price of the Intertainment share has also suffered to quite an extent due to the selling of my shares by a bank. The reason for this selling was a surety for a private loan. I myself sold none of my 6,812,400 shares, from the date of our IPO until now.

We see the current challenges as an opportunity and have the firm resolve to lead the company out of this depression and for it to emerge strengthened. Our company is on the right path, particularly in view of future forms of distribution over the Internet. We will therefore continue to put all our efforts into implementing our strategies in the future. We will inform you of the decisive steps in good time with PR work of even greater transparency.

Every single one of us on the Managing Board of Intertainment AG is firmly convinced of the uniqueness and the future of our company. This is why, in acquiring a holding in SightSound.com and in Kopelson productions, we will continue to make tireless efforts to make up for the loss of confidence that our share has suffered. It is a matter of greatest concern to us to ensure that our share resumes a constant upwards trend.

Rüdiger Baeres

Rüdiger Baeres
CEO of Intertainment AG

# Business in 2000

## Intertainment Continues the Implementation of its Strategies

The business environment for the film industry in 2000 was characterized by considerable fluctuations. A survey carried out by the magazine, “Blickpunkt:Film”, noted that the “representatives of the entertainment industry started 2000 with a marked note of optimism” (Blickpunkt:Film, 3/2000). This trend continued in the following months. After its positive IPO in 1999 and double-digit turnover growth, Intertainment, formed in 1993, was confident that it would be able to rapidly pursue its strategic aims of film financing and distribution in 2000 as well. However, the Company was not immune to the generally weaker trend of the media industry on the Neuer Markt which began in the middle of the year. Nevertheless, Intertainment AG successfully placed a capital increase in July 2000. For the first three quarters, the Managing Board’s consistent strategy for Intertainment AG had led to a growth in turnover of 335%. The profit warning due to the delated delivery of motion pictures in November 2000 and the dispute with Franchise Pictures at the end of the year, however, resulted in the decrease of Intertainment’s share price to its lowest level since its IPO.

## The Europe Strategy: A Rapid Expansion

Until 1999, Intertainment was active mainly in German-speaking countries. In 2000, Intertainment successfully expanded its activities throughout Europe. Thus Intertainment Licensing GmbH through it’s co-financing venture with Franchise Pictures aquired the pan-European exploitation rights to motion pictures (cinema, video, Pay TV, Free TV, airlines, hotels, music and book rights, merchandising), including Eastern Europe, Russia as well as China.

The distribution contracts with Warner Bros. and Twentieth CenturyFox, which were concluded in 1999 and run for five and ten years respectively, enable the Company to pursue a strategy of pan-European expansion without having to build up its own cost-intensive, distribution structures in each European country.

The continuing implementation of the pan-European strategy in the film licensing business resulted in sub-distribution contracts. Following is a description of some agreements:



### Spain

In February 2000 Intertainment concluded a Free TV and an all-rights deal with the independent Spanish distributor, Manga Films, at the AFM (American Film Market) which allowed Manga Films to acquire the first exploitation licenses (Free TV) for films such as *Art of War* from Intertainment.

### Italy

In March 2000 Intertainment sold licenses for ten feature films to Harmony Gold. These films will be licensed to Mediaset, one of the most important Italian distributors of film and television.

### The UK

In April 2000 Intertainment sold film rights to the British media company, Redbus. The contract covers both Free TV and Video on Demand rights for the UK.

### France

Also in April 2000 Intertainment concluded a Free TV deal including e.g. the productions *The Whole Nine Yards* and *Art of War* with TF1 for the French market.

## Digital Distribution via Audio and Video Download

The long-term trend of digital film and music distribution will have significant impact on the film and music industry. Experts even believe that the distribution of films over the Internet will supersede the video and Pay TV business. With its holding in the company, SightSound.com, Intertainment has promising prospects in the American market and has opened up a further distribution channel for its feature films worldwide.

## *Disney-Subsidiary Miramax and SightSound.com, Inc.*

The reputable US film producer Miramax, a Disney subsidiary, known for such films as *The English Patient* with Ralph Fiennes and Juliette Binoche, and SightSound.com have agreed on the initial online exploitation of twelve films. SightSound will be providing Miramax with the technology to allow Internet users in the US to download films from the world wide web.

## The Litigation against Franchise Pictures

At the end of December 2000 Intertainment filed a law suit in an amount over USD 75 million, against Franchise Pictures in the Federal District Court in Los Angeles based on allegations of fraudulently inflated production budgets. Franchise Pictures has reacted to the claim with a complaint against Intertainment. The outcome of the law suit is still unresolved.

The sub-licencing contracts listed above include films involved in the Franchise litigation, and may possibly be affected by that litigation. The turnover and profit of Intertainment may be substantially affected by the outcome of the litigation.

## Foundation of US-Intertainment Inc. in order to Intensify Contacts

In June 2000 Intertainment AG opened up its US subsidiary, USA-Intertainment Inc., in Los Angeles, CA. Board member Stephen Brown was named President and assumed management responsibilities for the 100% subsidiary. Brown, an experienced film producer and formerly President of Production at Kopelson Entertainment, is responsible for building relationships with film producers and distribution partners in the United States.

## The Production Strategy: A Solid Basis for the Future

Intertainment concluded a five-year film deal with the Oscar winning-producer, Arnold Kopelson. Thus, the Company has secured exclusive distribution rights to at least ten of the next films from this successful producer. With this contract Intertainment will be co-producing and marketing films for the first time all over the world.

## The Merchandising Strategy: Additional Sales Promotion

With  the focus on the "Rudolph"-brand, Intertainment is continually developing it's merchandising segment. The Company owns all the license rights in the German-speaking countries, i.e. in Germany, Austria, and Switzerland, for this US children's classic from the USA.



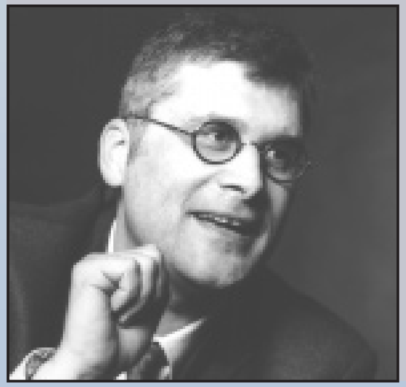


### Rüdiger Baeres,
### Chief Executive Officer

"Intertainment keeps on being flexible to the shifting environment in the film business and is focused on the resulting challenges ahead, such as digital distribution. Our most important task is therefore to remain constantly aware of the changes and to secure a strategically favorable market position."

### David C. Williamson,
### Executive Vice President

"We are looking forward to our extended partnership with Arnold Kopelson. This relationship will allow us to control worldwide exploitation of films, from script to production to cinema and internet."



### Achim Gerlach,
### Chief Financial Officer

"The lawsuit against Franchise Pictures is a challenge for the Intertainment group. In every phase of the lawsuit we evaluate the potential consequences for the Company – and are aware of our responsibility vis-a-vis our shareholders."

### Stephen Brown,
### Chief Executive Business Development

"Hollywood is producing more than 500 films a year. Therefore, our guiding principle for the selection of US films we wish to acquire must be focused upon quality before quantity."

# Co-Production Deal with American Star Producer Signed and Sealed

"*A Perfect Murder* is a first-class story." Why? "According to an old saying, there are only two dozen stories in the world and they keep getting told over and over again in all cultures. A really good story is full of possibilities". The person who said that should know what he's talking about. He has been in show business for decades. He has an unerring instinct for this and not only this. Success seems to have become endemic to him: Arnold Kopelson.

Kopelson, an Acadamy Award Winning producer, exerts a magical attraction as far as Oscar nominations are concerned: 17 in all. This is no wonder with his star casts, including Michael Douglas, Harrison Ford, Al Pacino and Brad Pitt. But his critical success is also reflected in sales: His last ten productions have generated more than USD 2 billion box office sales world-wide.

In June 2000 Intertainment signed an agreement with Kopelson Entertainment to finance the Kopelson-produced films for an initial term of five years with an option to an additional five years. Accordingly, the Company has secured the exclusive worldwide distribution rights to a minimum of ten future Kopelson Entertainment productions.

The contract contains even more promising factors. Intertainment and Kopelson will mutually decide which projects to acquire, which international stars will play in which films and who should be the director.





## A Lawyer with Unusual Ideas

A look back: Kopelson did not start his career in show business, but his work involved show business from the very beginning. After being admitted to practice law in New York, he soon specialized in the financing of movies. He came up with the innovative idea of marketing TV-produced films on an international scale. As a result, he formed Inter-Ocean Film Sales in the 70s in order to put his ideas into practice.

A few years later he decided to change his image. The lawyer Kopelson became a star producer of international renown. He formed his own company, Arnold Kopelson Productions, which was later renamed Kopelson Entertainment. Today, Arnold Kopelson is one of the most successful movie-producer worldwide.

## A Change of Scene: Strategic Alliance with Paramount Pictures

Big news from Hollywood: On January 11, 2001, Intertainment entered into a 2-year First Look Deal with Paramount Pictures, one of Hollywood's leading studios. Under the deal, Paramount Pictures will have the first opportunity to co-finance and distribute in North America the Intertainment/Kopelson Entertainment pictures. It means that Paramount will bear some of Intertainment's costs in financing the Kopelson deal. In addition the studio will bear some of the development costs of the film projects which they produce jointly with Intertainment and Kopelson.

In return for a capital contribution and a producer's fee payable to Intertainment for the films produced by Intertainment/Kopelson Entertainment, Paramount is entitled to acquire distribution rights for North America. The CEO of Intertainment's Managing Board, Rüdiger Baeres, on the latest deal: "Kopelson is the master of movie production with an outstanding perfomance record. The deal with Kopelson will have a great benefit for the future of Intertainment."

# Kopelson-Entertainment

Kopelson has produced more than 25 films since the 70s, most of them breaking box-office records. They range from A Perfect Murder (1998) through The Devil's Advocate (1997), Seven (1995), Fugitive (1993) and Platoon (1986) to Lost and Found (1979).

In December 2000 he started-still in cooperation with Twentieth Century Fox-productions on his latest film, Don't Say a Word (2001), starring Michael Douglas. In this thriller a New York psychiatrist does all he can to find and release his kidnapped daughter.

## Devil's Advocate

### (1997):

Al Pacino plays Milton, the Devil, who, by exercising psychological power, tempts Lomax (Keanu Reeves), a young and ambitious lawyer from Florida to Manhattan, that den of iniquity. Having succumbed to the glittery world of New York, he soon finds his private life in ruins.

## Seven

### (1995):

The seven deadly sins – avarice, arrogance, excessiveness, envy, lethargy, lust and rage – all blended in an extremely macabre thriller. A sadistic serial killer carries out horrific deeds with ritual murders of people who are guilty of these deadly sins.





Two policemen, Brad Pitt and Morgan Freeman, one of them young and the other shortly due to retire, are set upon the murderer. Although they are initially hostile to each other and despite continual set-backs, the policemen become genuine partners. In searching for the murderer's motives, the fates of the three protagonists merge.

## Falling Down

### (1993):

A nameless "anybody", played by Michael Douglas, freaks out on a perfectly normal morning. The attack seems to be triggered by the regular morning traffic jam on a highway leading to Los Angeles, but this unemployed man is divorced and, due to the threat of violence, he is no longer allowed to see his wife and his children.

His pent-up violence is continually stoked by minor events. Finally this man, disappointed and confused by everyday life, explodes. He starts lashing out. A policeman notices him and tries to stop him. Finally there is a direct confrontation between the two of them.

## Platoon

### (1986):

Arnold Kopelson received the Academy Award for Best Picture for his production of "Platoon". Probably the most honest anti-war film ever, it tells of the American trauma, the Vietnam War. Oliver Stone, the director, who also fought in Vietnam, is unscrupulous in the way he handles the eye of the camera, free of emotion and without permitting any relief in the face of the everyday brutalities of war.

# SightSound.com



# Distribution of the Future

## The Net: Music and Movies – Anytime, Anywhere

SightSound.com., a strategic holding of Intertainment AG, owns patents for the download of music and video over telecommunications lines in/from the USA. This company, which is based in the USA, has already laid the groundwork. What was once a novelty may revolutionize the path of distribution. Waiting is out. High speed is in. Like every business, this business completely revolves around the needs of the customer. Everything depends on the customer and the customer wants everything immediately, including music and film entertainment.

### High Speed is King

*The background: The 20th century was dominated by the moving images of film. In the first two decades the silent movie was one of the most popular forms of entertainment. People used to meet at the cinema and the pianist hammered into the keys to intensify the drama of the plot.*

*Shortly after that, at the end of the 20s, sound began to conquer the world of film, critisized by all those who saw an unwelcome disturbance and problems in anything new. People wanted something new, of course! But nothing was to change – that was the attitude of some of Hollywood's great names.*

*But the breath-taking development of film could not be held back. Things started to happen very fast. After the 2nd World War came color pictures and then TV. Home cinema brought Hollywood productions into peoples' living rooms, but it was a tainted pleasure as there was always a time lag. People had to wait a number of years to see a film.*

### From the Big Screen to Broad-band Technology

*The 60s brought color films for the big screen to history of the film industry. In addition to Panavision, huge screens were created for drive-in cinemas. The middle of the 90s saw the beginning of multiplex cinemas with a capacity to seat an audience of more than 1500.*

*Video opened up a further distribution channel for the film industry. The length of time it took for a film to get from the cinema screen to the video player was dramatically reduced but yet the customer still has to wait for six month until he can see the movie at home.*

*The fact is with the increasing use of the Internet – be it for the purchase of consumer goods, as a source of information or even to download music into your own living room– the main thing that customers are seeking is speed top speed. The people of the Internet age are no longer willing to wait. They want to be served straight away, with no delay, and this also applies to, or rather particularly applies to, the film industry.*

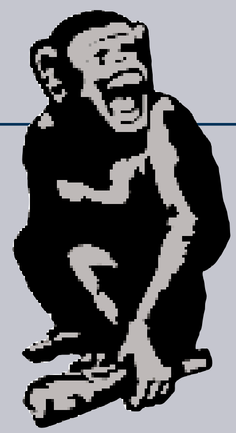
*As a result the film industry is entering the new millennium with a hitherto unknown dynamism – over the Internet!*

## Direct your Mouse to SightSound.com

Thanks to broadband technology and SightSound.com, cinema entertainment at the PC, PC-compatible set or notebook is now at your fingertips 24 hours a day. It is now possible to download online-films of cinema length.

SightSound has developed a technology so that a file can be downloaded in different lengths of time, depending on whether you have ISDN, DSL or a broad-band terminal: 24 images per second and the definition is in TV quality. According to the forecasts of experts, the number of those who have a broad-band terminal in their homes is inexorably growing.

# SightSound.com



## A Film Strategy for the Web

Films produced exclusively for the Internet are opening up low-cost opportunities for film-makers. Thus the "Quantum Project", for example, a thirty-minute thriller was especially produced for the Internet. The premiere on 5 May 2000 went out via SightSound.com.

In January 2000 SightSound applied for its fourth patent to protect a technique for the data compression of films. It will considerably reduce downloading times from the Internet – with excellent image and sound quality.

A further advantage is that the SightSound.com technology prevents films that have been downloaded from the Internet from being illegally passed on to others and it is this which makes a virtual videotheque attractive for big film producers.

Entertainment giants, such as Disney, Sony and AOL Time Warner, know only too well: in the future the Internet may well be the main distribution channel for music and film.

In order to guarantee high speed, SightSound.com has installed highly efficient servers all over the USA which allow the rapid downloading of films via the company's own platform. Even today Sightsound.com provides the capacity to download more than 380 000 films per day. Thus it only seems a question of time: in the long term the Internet film business will replace Pay TV and the traditional video business.

An on-line audio-video market has been created with a volume running into billions. As a result, the strategic orientation towards the sale of music and films over the Internet was a completely logical step for Rüdiger Baeres, Chairman of the Managing Board of Intertainment AG. Intertainment took this step and holds 24,84 per cent in SightSound.com Inc.






### Innovative patents as a future source of revenue

With its US patents SightSound already secured a good strategic starting position for itself in a dynamic growth market at the beginning of the 90s. The breath-taking development of digital marketing gives cause to believe that the patents of SightSound still have considerable potential for commercial exploitation.

In March 1993 SightSound.com, Inc. already received a patent for a method for the transfer of a desired digital signal, video or audio, originally stored at a broadcasting station. It is remarkable that even in those days the company came up with an idea for payment transactions via a telecommunication link. Two further patents for this method followed in 1997 and 1999. The current legal enforcement of claims under the patent for audio and video download against reputable users of the patented methods is highly indicative of the potential far-reaching significance of the patents of SightSound. SightSound has now taken legal action against CDNow in order to defend the patent rights. In the event SightSound wins the lawsuit CDNow may have to pay licence fees to SightSound, if they want to keep their business model.

Finally in January 2000 SightSound applied for a fourth patent for compressing and converting video and audio signals in a static audio file format and/or a static video file format. Therewith complete feature films can be downloaded from the Web in acceptable time.

The patents of SightSound.com which are restricted to the USA have met with widespread interest.
This technology allows the Internet user to rapidly download films and music from the World-wide Web, while making it possible for payment transactions to be rapidly settled over the Internet without any fuss and bother. Finally the patents are of particular interest to investors. SightSound, and indirectly Intertainment as well, could potentially have a share of all future revenue generated in the USA due to the method which SightSound.com has patented for downloading films and music.

# Rudolph – Everybody's Darling

He has only been with us since 1999, but he's already so successful. It would be difficult to imagine the Christmas Season without Rudolph. The second year has shown that Rudolph the Red-Nosed Reindeer is a well-established best seller .

The exploitation of theRudolph-brand has become an important business segment for Intertainment. Intertainment Animation & Merchandising GmbH, a 100% subsidiary of Intertainment AG, holds all of the exploitation rights to this American classic for the entire German-speaking area of Europe.

## Rudolph's Meteoric Career

The reindeer star was created in 1922 by the US poet, Clement Clark Moore, for his son:

- the book about him became a best-seller in the USA.
- the Christmas song about him took the world by storm
- and as a cartoon video he has conquered the hearts of all children and all those who are young at heart all over Europe.

In 1999, the year that he joined the company, this shy reindeer surpassed all expectations. The cartoon film was the year's most popular video, selling more than 800,000 copies.

In 2000 the Rudolph video was number 1 again for five weeks, thus reaching position 3 in the German video charts for the year as a whole. He was equally successful in Austria where he rose to number 1 for five weeks in the charts and in Switzerland Rudolph topped the sales charts for also five weeks.

Rudolf's success is based on a cleverly networked and long-term marketing strategy, a co-operation with UNICEF and the optimum integration of licensing and trading partners in order to permanently establish the character in a family environment. For this reason Intertainment Animation & Merchandising GmbH also made major investments in building up and positioning this character in 2000.



# Rudolph – Appeals to all Kids all over the World

It is for kids that Rudolph naturally has this unusual appeal. This is the reason why Intertainment Animation & Merchandising GmbH is doing all it can to support the interests of children all over the world.

Rüdiger Baeres, CEO of Intertainment puts it like this: "The world changes with them. If we improve their circumstances, then we are changing the first link in a causal chain."

This special social commitment attracted the attention of UNICEF. Using the logo "Kids for Kids", Intertainment Animation & Merchandising, headed by its Managing Director, Heinz Ehmann, elaborated strategies to utilize this attractive character for the aims of the Children's Relief Agency of the United Nations. Rudolph soon became a symbolic figure for the campaign to help disadvantaged children around the world, jointly created by UNICEF and Intertainment.

With more than ninety products, Rudolph was the Christmas theme in retailing. The broad product line ranges from Rudolph videos, DVDs and music soundtracks through Rudolph cuddly toys, Rudolph advent calendars, UNICEF greetings cards with Rudolph motifs, and Rudolph plays on CD and MC.

The advent actions for 2000 also met with an enthusiastic response. These were carried out in conjunction with major retail chains in Germany, Austria and Switzerland. Intertainment received particular support for its Christmas promotion from Unilever (Sanella), the petrol chain, BP, the major chain stores, Müller Brot/Anker Brot, the Libro retailing chain and the Swiss Coop, all of whom proved to be strong partners.

"Kinder backen mit Rudolph" (Kids Baking with Rudolph), for example, was a baking event organized by Sanella in German cities. During this baking tour, Rudolph and his friends were accompanied by prominent UNICEF ambassadors such as Nadine Dehmel, Edith von Welser-Ude, Mareike Carriere, Anja Kruse and Joachim Luger.





## Rudolph – a Reindeer for all Seasons

Rudolph is not just a seasonal product. Symbolizing friendship, willingness to help, courage and tolerance, the reindeer's exciting adventures are not merely confined to the Christmas season. The co-operations in the summer of 2000 included a broad-based charity campaign together with the Weltbild publishing house and Deutsche Post AG. Rudolph went on tour as a symbol for the "Kids for Kids" campaign under the powerful motto: "Rudolph Kids Days". In June and July his destinations included four huge German theme parks, Holiday-Park in the Palatinate, Phantasialand in Brühl near Cologne, Spieleland in Ravensburg and Heide-Park Soltau on Lüneburg Heath. The events were sold out at all theme parks. At Heide-Park Soltau and Phantasialand the organizers even extended the event by a further day to take account of the enormous interest.
The money which Rudolph collected was used to build schools in Ecuador. His great popularity clearly shows that Rudolph and his friends, Leonard the polar bear and Slyly the Arctic fox, are able to warm the hearts of both young and old all through the year.

## The Millennium Year – a Rudolph Year

The investments in the broad-based PR campaign included Rudolph as a television star, major advertising campaigns on TV and in the print media, events suitable for children, radio commercials and advertisements in children's magazines such as Mickey Maus and Die Schlümpfe.
There are no two ways about it: 2000 was the year in which Rudolph became established for years to come.

This year as well Rudolph and his friends will be warming the hearts of children and adults with a host of new products.

# Further Intensification of Contacts with Investors, Analysts and the Business Press

## Intertainment at International Financial Locations

Frankfurt, London, Paris, Zürich, Geneva, Milan, New York, Boston, San Diego, San Francisco: at the most important international financial locations Intertainment's board of management informed institutional investors about the company's business model during a three-week roadshow prior to the capital increase of July 2000. In the course of intensifying investor relations activities, the CEO, Rüdiger Baeres, emphasized the importance of the exchange of information in a spirit of trust.

## The Capital Increase

With the aim

- of gaining a more broadly-based and international circle of shareholders,
- increasing the volume of Intertainment shares traded and
- increasing the liquidity and equity of the company,

a capital increase was concluded in July 2000. Despite the difficult market environment, the offering was 1.5 times over-subscribed. The Company succeeded in placing two million shares including the greenshoe.

The funds of almost DM 200 million thus generated will serve to carry out successful projects such as

- the financing of top film productions in co-operation with Arnold Kopelson,
- the acquisition of further film rights
- and the extension of the business from the pan-european to the worldwide distribution of film-licenses.

### CORPORATE CALENDAR FOR 2001

**4. May 2001**
*Financial Statement press conference in Munich*

**7. May 2001**
*Analyst conference in Frankfurt*

**End of May 2001**
*Quarterly report I/2001*

**27. June 2001**
*General meeting in Munich*

**End of August 2001**
*Quarterly report II/2001*

**End of November 2001**
*Quarterly report III/2001*





## The Development of the Shares

During the year under review Germany's Neuer Markt had to struggle with many uncertainties. This was also reflected in the price development of the Intertainment-share.

Unfortunately, in November the Company had to informe its investors of a reduction in its projected turnover figures and results of ordinary business activities. This was because negotiations concerning TV rights and the start of three cinema films had been postponed.

In December 2000 Intertainment informed the public that its subsidiary, Intertainment Licensing GmbH, and the American film company, Franchise Pictures, were involved in a legal dispute due to excessively inflated film budgets. The Company pointed out that the outcome of the dispute might affect turnover and profits for the year under review and the next financial year.

### PERSONALIA

*STEPHEN BROWN, was appointed to the Managing Board of Intertainment AG as a successor to Andreas Diga in the 4th quarter of 2000. He has been President of USA-Intertainment, Inc since June 2000. Brown is responsible for "Business Development".*

*ACHIM GERLACH was taken under contract as Chief Financial Executive for a further three years.*

*DR. ERNST PECHTL was appointed by court to the supervisory board as a successor to Martin Schürmann on 22 December 2000. Martin Schürmann retired from the supervisory board on 23 December 2000 due to personal reasons.*

## Report of the Supervisory Board

The Supervisory Board attended to the duties incumbent on it according to the law and the statutes and continually supervised and advised the company's management during the reporting period. The Managing Board provided the Supervisory Board with information regarding the company's development and important business transactions on a regular basis and these were discussed with the Managing Board. In addition to the development of the current business and important individual business events, the especially important strategic business decisions as well as the internationalization of the business activities of Intertainment were discussed. The Supervisory Board exhaustively examined the proposals of the Managing Board and voted on these proposals, as far as necessitated by the legal and statutory regulations.

The Supervisory Board and the Managing Board discussed the existing risks for the company and the system for early recognition of risks developed by the Managing Board.

In all, the Supervisory Board held six meetings in the business year 2000. In addition to this, there was regular contact with the company's Managing Board during which important individual events were discussed and advice provided.

In its first meeting on March 24, 2000, the Supervisory Board discussed the company's current situation and future strategy presented by the Managing Board at length. On March 30, 2000, the Supervisory Board held the company's balance sheet meeting for the business year 1999 in the presence of the auditor. A detailed discussion with the company's auditor regarding the financial statements and the system for early recognition of risks followed. In its meeting on May 24, the Managing Board and Supervisory Board discussed the development and projects of both the subsidiaries and the holding in the firm SightSound.com, Inc. On July 25 the Managing Board, among other things, gave an account of the development of the Secondary Placements to the Supervisory Board. The object of the meeting held on October 10 included the current course of the business as well as the intended business policy and other fundamental questions in respect to the company planning; in particular, the financial, investment and personnel planning. During the meeting on December 27, among other things, the Managing Board and the Supervisory Board exhaustively discussed the status of the legal dispute with Franchise Pictures as well as the further course of action in this respect within the framework of developing a crisis management.

Furthermore, the Supervisory Board aided and advised the Managing Board in developing a future-oriented strategy in the wake of the severely changed market conditions. During the meeting on October 10, the Supervisory Board appointed Stephen Brown as a member of the Managing Board for the business segment "Business Development". Stephen Brown took over as successor to Andreas Diga. The Supervisory Board thanks Andreas Diga for his committed and successful work.

On December 22, 2000, by a court order, Dipl.-Kfm. Dr. Ernst Pechtl, was appointed as a new member of the Supervisory Board. He takes the place of Martin Schürmann who resigned from his office as a member of the Supervisory Board for personal reasons with effect from December 23, 2000. The Supervisory Board thanks him for the cooperation.





The shareholders' meeting of June 15, 2000 had designated the KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main, as the auditor for the business year 2000.

The Managing Board presented the company's financial statements for the year 2000 at the meeting of March 28, 2001. There followed a detailed discussion regarding the balance sheet questions posed by the KPMG during which the Supervisory Board enlisted the aid of an expert certified public accountant.

Owing to the open balance sheet questions, on March 26, 2001, the company filed an application to the Deutsche Börse AG for extending the time limit for announcing the company's financial statements for the year 2000. The Deutsche Börse AG granted this application on March 29, 2001 by authorizing the extension of the time limit up until April 28, 2001.

Furthermore, the KPMG succeeded in completing its audits relating to the book keeping, the financial statements and the management report of the Intertainment AG as well as the audits of the group financial statements and the group management report of the business year ending December 31, 2000 and provided the book keeping, the financial statements and the management report of the Intertainment AG as well as the group financial statements and the group management report respectively with an unqualified audit certificate.

In the balance sheet meeting of April 24, 2001, the auditor gave a report on the significant results of his audit. The Supervisory Board approved of the results of the audit.

In addition, the Supervisory Board examined the financial statements as of December 31, 2000, the management report, the proposal for the appropriation of profits as well as the group financial statements and the group management report. Since there were no objections, the Supervisory Board gave its consent to the company's financial statements and thereby approved of the same. The Supervisory Board also approved of the Managing Board's proposal for the appropriation of the net profits.

The Managing Board and the employees of the company have worked with a great deal of commitment in the past year and advanced the company despite the difficult situation and helped to solve the problems that were encountered. The Supervisory Board thanks all the persons concerned and expresses its appreciation for their exceptional dedication.

Munich, April 24, 2001
The Supervisory Board

Dr. Matthias Heisse
– Chairman –

## Group Balance Sheet as of 31 December 2000
## in accordance with the International Accounting Standards (IAS)

*INTERTAINMENT GROUP*

### ASSETS

| | 31.12.2000 | 31.12.1999 |
|---|---|---|
| | DEM | DEM |
| **A. Fixed assets** | | |
| **I. Intangible assets** | | |
| Franchises, trademarks and similar rights and assets, as well as licences to similar rights and assets | 654,241.47 | 592,507.44 |
| **II. Property, plant and equipmant** | | |
| Other fixed assets fixtures, fittings and equipment | 1,034,026.37 | 344,971.00 |
| **III. Financial assets** | | |
| | 39,211,189.81 | 0.00 |
| | 40,899,457.65 | 937,478.44 |
| **B. Current assets** | | |
| **I. Inventories** | | |
| 1. Film rights | 125,189,483.18 | 39,253,756.21 |
| 2. Goods | 985,539.01 | 1,267,545.38 |
| 3. Down payments made | 13,502,499.04 | 2,641,660.00 |
| | 139,677,521.23 | 43,162,961.59 |
| **II. Accounts receivable and other assets** | | |
| 1. Trade accounts receivable | 167,121,072.14 | 40,117,530.59 |
| 2. Other assets | 25,226,336.72 | 6,138,742.97 |
| | 192,347,408.86 | 46,256,273.56 |
| **III. Other securities** | 0.00 | 5,163.14 |
| **IV. Cash on hand and in banks** | 142,484,877.41 | 105,535,290.50 |
| | 474,509,807.50 | 194,959,688.79 |
| **C. Deferred taxes** | 1,263,797.66 | 1,739,313.84 |
| | **516,673,062.81** | **197,636,481.07** |

## Group Balance Sheet as of 31 December 2000
## in accordance with the International Accounting Standards (IAS)

*INTERTAINMENT GROUP*

### LIABILITIES

| | 31.12.2000 | 31.12.1999 |
|---|---|---|
| | DEM | DEM |
| **A. Shareholder's equity** | | |
| **I. Subscribed capital** | 29,347,532.48 | 24,241,000.00 |
| **II. Reserves** | 292,444,691.53 | 60,182,954.24 |
| **III. Statutory reserves** | 226,498.00 | 226,498.00 |
| **IV. Group retained earnings** | 24,078,677.86 | 13,186,606.77 |
| | 346,097,399.87 | 97,837,059.01 |
| **B. Provisions** | | |
| 1. Tax provisions | 16,669,650.61 | 21,484,021.11 |
| 2. Other provisions | 38,853,926.53 | 11,630,901.65 |
| | 55,523,577.14 | 33,114,922.76 |
| **C. Liabilities** | | |
| 1. Liabilities due to banks | 52,996,625.65 | 39,265,279.30 |
| 2. Down payments received on orders | 7,762,630.70 | 620,000.00 |
| 3. Trade accounts payable | 45,802,701.92 | 22,324,537.52 |
| 4. Other liabilities | 6,509,991.53 | 4,376,685.48 |
| | 113,071,949.80 | 66,586,502.30 |
| **D. Deferred tax liabilities** | 1,980,136.00 | 97,997.00 |
| | **516,673,062.81** | **197,636,481.07** |

## Group Income Statement for 1 January to 31 December 2000
## in accordance with the International Accounting Standards (IAS)

*INTERTAINMENT GROUP*

| | 1.1.–31.12.2000 | 1.1.–31.12.1999 |
|---|---|---|
| | DEM | DEM |
| 1. Sales | 171,743,222.77 | 56,092,534.96 |
| 2. Other operating income | 19,781,678.59 | 13,375,563.51 |
| | 191,524,901.36 | 69,468,098.47 |
| 3. Cost of materials | | |
| a) Cost of film rights and accompanying services | 104,858,092.42 | 18,809,458.94 |
| b) Cost of purchased merchandise | 1,326,707.93 | 3,255,500.10 |
| c) Cost of services received | 1,076,467.31 | 1,091,889.71 |
| | 107,261,267.66 | 23,156,848.75 |
| 4. Personnel expenses | | |
| a) Wages and salaries | 5,970,894.06 | 2,460,243.19 |
| b) Social security contributions | 332,233.38 | 170,268.46 |
| | 6,303,127.44 | 2,630,511.65 |
| 5. Depreciation on intangible assets and property, plant and equipment | 377,055.77 | 205,820.51 |
| 6. Other operating expenses | 45,979,720.86 | 17,854,180.33 |
| Earnings before interest and tax (EBIT) | 31,603,729.63 | 25,620,737.23 |
| 7. Interest income/expense | -10,752,990.71 | 1,736,975.87 |
| 8. Profit/loss on ordinary operations | 20,850,738.92 | 27,357,713.10 |
| 9. Taxes on income | 9,956,451.31 | 14,247,573.83 |
| 10. Other taxes | 2,216.52 | 3,756.00 |
| 11. Group net income | 10,892,071.09 | 13,106,383.27 |
| 12. Retained earnings brought forward/loss carried forward | 13,186,606.77 | 128,326.49 |
| 13. Earnings appropriated to the statutory reserve | 0.00 | -48,102.99 |
| **14. Group retained earnings** | **24,078,677.86** | **13,186,606.77** |
| Basic earnings per share | 1.02 | 1.38 |
| Diluted earnings per share | 1.01 | 1.36 |

## Consolidated Statement of Cash Flow at 31 December 2000
## in accordance with the International Accounting Standards (IAS)

*INTERTAINMENT GROUP*

| | 2000 | 1999 |
|---|---|---|
| | TDM | TDM |
| Net income | 10,892 | 13,106 |
| Depreciation of fixed assets | 377 | 206 |
| **Cash Flow** | 11,269 | 13,312 |
| Increase in provisions | 22,409 | 24,801 |
| Gain from the retirement of fixed asset items | -7 | -1 |
| Increase in inventories (previous year decrease) | -96,515 | 30,745 |
| Increase in trade accounts receivable | -127,004 | -30,870 |
| Increase in other assets | -18,607 | -7,330 |
| Increase (previous year decrease) in liabilities from trading and other liabilities | 34,636 | -45,184 |
| **Cash used for current operations** | **-173,819** | **-14,527** |
| Payments received from disposal of fixed asset items | 31 | 1 |
| Payments made for investment in property, plant and equipment | -1,150 | -1,014 |
| **Cash used for investment activities** | **-1,119** | **-1,013** |
| Payments received from capital increases | 203,112 | 85,337 |
| Payments to shareholders (dividends) | 0 | -3,382 |
| Capital increase expenses | -5,041 | -3,543 |
| Increase (previous year decrease) of liabilities due to banks | 13,731 | -3,845 |
| **Proceeds from the financing activities** | **211,802** | **74,567** |
| **Change in cash and cash equivalents** | **36,864** | **59,027** |
| Changes in cash and cash equivalents caused by exchange rates and other factors | 86 | 0 |
| Cash and cash equivalents at the beginning of the period | 105,535 | 46,508 |
| **Cash and cash equivalents at the end of the period** | **142,485** | **105,535** |

*INTERTAINMENT GROUP*

| | Share capital | Capital reserv. | Statutory reserv. | Retained earnings | Total |
|---|---|---|---|---|---|
| | DEM | DEM | DEM | DEM | DEM |
| **Balance 31.12.1998 (HGB)** | **18,181,000.00** | **0.00** | **178,395.01** | **345,272.34** | **18,704,667.35** |
| **IAS reconcilation** | | | | | |
| Difference on legal reorganisation | | -15,550,000.00 | | 3,028,689.60 | - 12,521,310.40 |
| Foreign currency valuation | | | | 123,168.55 | 123,168.55 |
| Deferred taxation | | | | 12,862.00 | 12,862.00 |
| **Balance 31.12.1998 (IAS)** | **18,181,000.00** | **-15,550,000.00** | **178,395.01** | **3,509,992.49** | **6,319,387.50** |
| Net income 1999 | | | | 13,106,383.27 | 13,106,383.27 |
| Flotation | 6,060,000.00 | 79,276,774.56 | | | 85,336,774.56 |
| IPO expenses | | -3,543,820.32 | | | -3,543,820.32 |
| Dividends | | | | -3,381,666.00 | -3,381,666.00 |
| Appropriated to statutory | | | 48,102.99 | -48,102.99 | 0.00 |
| **Balance 31.12.1999 (IAS)** | **24,241,000.00** | **60,182,954.24** | **226,498.00** | **13,186,606.77** | **97,837,059.01** |
| Net income 2000 | | | | 10,892,071.09 | 10,892,071.09 |
| Differences on exchange | | 85,970.62 | | | 85,970.62 |
| Share exchange | 481,532.48 | 38,729,657.33 | | | 39,211,189.81 |
| Capital increase | 4,625,000.00 | 198,487,049.67 | | | 203,112,049.67 |
| Cost of capital increase | | -5,040,940.33 | | | -5,040,940.33 |
| **Balance 31.12.2000 (IAS)** | **29,347,532.48** | **292,444,691.53** | **226,498.00** | **24,078,677.86** | **346,097,399.87** |

In the fiscal year 1998 INTERTAINMENT for the first time produced a reconciliation between the annual financial statements according to German commercial law and according to the International Accounting Standards. The effect of that reconciliation was DEM 3,164,720.15.





*INTERTAINMENT GROUP*

## (I) General information

For the fiscal year 2000 the consolidated financial statements of Intertainment Aktiengesellschaft were compiled for the first time as per Article 292a of the German commercial code (HGB) in accordance with the International Accounting Standards (IAS). In the year under auditaudit the statements were compiled for the first time without a reconciliation to HGB. This means that the company is released from compiling consolidated financial statements in accordance with the rules of HGB article 290 ff.
In respect of the companies included, the consolidated financial statements are based on unified accounting and valuation methods. Intertainment produces consolidated financial statements in accordance with HGB and adjusts these to the International Accounting Standards on the basis of the IAS adjustments made to the individual financial statements. Intertainment prepared a reconciliation to International Accounting Standards accounts for the first time in respect of the 1998 financial year. Bearing in mind that the incorporation of INTERTAINMENT Licensing GmbH constituted a legal reorganisation, the resulting change in profit/loss in relation to the HGB financial statements in 1998 was DEM 3,164,720.15. For a detailed explanation of this effect, please refer to the analysis of shareholders' equity.
The type of expenditure format has been adopted for the income statement. The previous year's figures for these consolidated financial statements result from the 1999 reconciliation account and are therefore directly comparable. The incorporation of INTERTAINMENT Licensing GmbH was already shown as a legal reorganisation last year.

## (II) Information on the date of, and companies included in, the consolidation (IAS 22)

Intertainment AG and its subsidiaries INTERTAINMENT Licensing GmbH, Intertainment Animation & Merchandising GmbH and USA-Intertainment Inc. were included in the consolidation. USA-Intertainment Inc. was founded in the year under auditaudit by Intertainment AG in Los Angeles; the first consolidation was undertaken at the time of the foundation. In summary the Intertainment group comprises the following companies, in which Intertainment AG holds a direct 100% interest.

| Company | Acquisition | Capital subscribed (Result for 2000) DEM (HGB) | Share % | Description |
|---|---|---|---|---|
| Intertainment AG, Ismaning | | 29,347,532.48 (-19,101.67) | | Financial holding company without operating activities. |
| INTERTAINMENT Licensing GmbH, Ismaning | | 1,850,000 (8,667,010.99) | 100 | The business of this enterprise is the development of media concepts and the trade in film licences. |
| Intertainment Animation & Merchandising GmbH, Ismaning | | 700,000 (-841,846.49) | 100 | The business of this enterprise is the trade in film and merchandising rights in respect of cartoon films. |
| USA-Intertainment Inc. | 10.05.2000 | 317,351.83 (26,431.22) | 100 | The business of this enterprise is to look after existing contracts with American companies and to look out for and evaluate new film projects and potential licence and production agreements. |

The consolidated financial statements were drawn up as at the reporting date of the parent company Intertainment AG, Ismaning, 31 December 2000. The annual financial statements of the subsidiary companies included in the consolidated financial statements have this reporting date.

## (III) Methods of consolidation

### 1. Capital consolidation – first consolidation

The capital consolidation was performed using the bookvalue method in accordance with HGB article 301, section 1, sentence 2, no. 1 by setting off the book value of the shares against the shareholders' equity of the subsidiaries included in the consolidated financial statements at the time of their acquisition (IAS 22).

Since fiscalfiscal year 1999 the integration of INTERTAINMENT Licensing GmbH into the consolidated financial statements has been treated as a legal reorganisation, as a result of which goodwill was offset directly against the capital reserve. No goodwill was recorded

### 2. Intercompany Eliminations

Both accounts receivable / liabilities and income / expenditure between the companies included in the consolidated financial statements are eliminated.

### 3. Elimination of intercompany profits

Intercompany profits from business transactions within the Intertainment group have been eliminated.



Notes to the Consolidated Financial Statements at 31 December 2000
in accordance with the International Accounting Standards (IAS)

INTERTAINMENT GROUP

### 4. Currency translation (IAS 21)

The translation of the values of balance sheet items of USA-Intertainment Inc. as at the balance sheet date and those of the income statement at the average rate resulted in differences on exchange amounting to DEM 85,970.62. These were booked into the translation reserve of shareholders' equity without effect on income statement. In addition, as a result of the consolidation of the individual company financial statements, a difference on exchange of DEM 183,699.60 resulted, the effect of which was taken into income.

## (IV) Principles of accounting and valuation

### 1. Fixed assets

Intangible assets are stated at acquisition cost. If such acquisition costs are attributable to various partial rights, allocation is undertaken on the basis of anticipated sales. Scheduled depreciation is applied in accordance with the useful economic life or rate of usage. In the case of software this is 3 to 5 years and in the case of licences 4 to 14 years.

Property, plant and equipment are stated at acquisition cost less depreciation. Depreciable property, plant and equipment are depreciated on a scheduled basis. Depreciation is based on the estimated useful life using the straight-line method. The useful economic life for fixtures, fittings and equipment is 4 to 10 years.

Financial fixed assets are stated at acquisition cost. In the context of an exchange of shares acquisition costs consist of the value of the shares surrendered at the reporting date. Consolidation of interests in which Intertainment does not hold 100% of the shares or voting rights, is undertaken according to IAS 28 only if more than 20% of the shares or voting rights are held and a controlling influence is exercised. Sightsound.com does not meet this requirement.

### 2. Assets

Film licences are stated at acquisition cost less amortisation of exploited partial rights. The cost of financing with borrowed capital is treated as an expense in accordance with IAS 23. The acquisition costs are allocated to the partial rights cinema, video, video-on demand, pay-TV and free TV. In the case of films for which no utilization possibilities exist in the cinema sector, allocation is made to the remaining partial rights on the basis of revised allocation percentages.

Film licences are capitalised at the time of technical acceptance of the delivered film material by an independent laboratory.

Scheduled amortisation of the acquisition costs allocated to the partial rights is based on the decline in economic value of the subject licences. The basis of assessment is the anticipated sales in the individual sectors in proportion to total sales. Intertainment assumes up to three utilization cycles in a total utilization period of up to 25 years. When stating turnover for individual partial rights, the relevant segment is amortised analogously at the previously defined percentage.

In the context of the no-loss valuation (IAS 2) of film licences shown in the balance sheet, the exploitability of such licences is examined and where appropriate unscheduled amortisation is applied.

Trading stock shown in inventories is stated at cost. Goods already delivered, in respect of which marketing partners have a return right, continue to be stated by Intertainment in inventories at acquisition cost. For this reason no provision is made for returns, as was the case in the previous year. Sale is recorded at the time of expiry of the return right.

Trade accounts receivable and other assets have been capitalised at face value. Long-term accounts receivable are discounted at 5.5% p.a.. Accounts receivable in foreign currency are stated at the exchange rate prevailing at the balance sheet date.

Cash on hand and in banks is shown in the balance sheet at face value. Credit balances in foreign currency are stated at the exchange rate prevailing at the reporting date.

Deferred tax assets and liabilities are created (IAS 12) for consolidation adjustments affecting profit, which are expected to reverse out in subsequent periods ('temporary differences') and for losses carried forward, which will reduce future taxable profit ('tax credits').

### 3. Liabilities

Tax provisions (IAS 37) comprise the company’s presumed tax liabilities calculated at current tax rates.

Other provisions are determined on the basis of sound business judgement and comprise all risks and contingent liabilities identifiable up to the balance sheet date. In contrast to the previous year no returns provision has been made for delivered goods, in respect of which the marketing partner has a return right. Instead of this the sale will be reversed and inventory increased accordingly.

Liabilities are stated at the redemption amounts. On the basis of IAS 21 liabilities in foreign currency are stated at the exchange rate on the balance sheet date.

### 4. Revenue recognition

With regard to the realisation of revenues from film licences that have the potential for a major cinema start, a fundamental distinction is made between the possibilities of sales of sub-licences and utilization by Intertainment itself.

In the case of the sale of a sub-licence (generally in the case of all-rights deals and TV sales) turnover is recorded at the point at which a binding contractual relationship has been created between Intertainment and the sub-licensee. This is the case in particular if:





- acceptance of the sub-licensed film rights exists,
- the licence fee for each sub-licensed film right is known,
- the cost of each sub-licensed film right is known and
- there is adequate probability that the economic benefit, the licence fee, will accrue to Intertainment on the due date.

In the case of own utilization (generally in the cinema, video and pay-TV sectors) of the film licences by Intertainment, turnover is recognised at the time of utilization of the respective partial right. Utilization of the video segment generally begins six months after commencement in the cinema.

In the case of merchandise revenues are recognised in the reporting year at the time of sale of the goods to the retail sector. In the case of goods for which the retail sector has a right to return goods to Intertainment, revenues are not recognised until expiry of the return period. Until that time the goods continue to be shown in inventory. In the previous year turnover was stated in full and a provision was made in the amount of the profit margin.

## (V) Explanation of the differences between HGB and IAS

According to Article 292a II, no. 4b of the German commercial code the following differences exist between HGB and IAS:

### 1. Valuation of foreign currency balances

Under IAS 21 foreign currency balances, especially accounts receivable and liabilities, are stated at the exchange rate applicable at the balance sheet date. Under HGB the principle of prudence is observed, as a result of which unrealised gains on exchange are not recorded. This recalculation results in a difference of DEM 3,360,883.00 (previous year DEM 103,289.00).

### 2. Expenses of the increase in capital

Under IAS (SIC 17) the after-tax value of expenses related to the increase in capital are charged directly to the capital reserve. In contrast to the situation under HGB, they do not therefore accrue to the income statement. In the year under audit the expenses associated with the increase in capital were DEM 8,691,276.43 (previous year DEM 6,514,375.59).

### 3. General bad debt provision

Under IAS a bad debt provision is only formed for trade accounts receivable, when there does exist a certain risk. This is not so for Intertainment. Under HGB, on the basis of the principle of prudence, a percentage of 2%, corresponding to DEM 1,850,000.00 (previous year DEM 1,163,000.00), is applied.

### 4. Withdrawal of the amortisation of goodwill

The incorporation of INTERTAINMENT Licensing GmbH into Intertainment AG during the fiscal year 1998 is not covered by IAS 22. Accordingly, in economic terms it is not a 'business combination' but a legal reorganisation of the Intertainment group. As a result, this incorporation does not create goodwill and amortisation as per HGB is eliminated (DEM 1,273,000.00). Under HGB the difference resulting from the capital consolidation, which is not capable of distribution between the group balance sheet items, is to be shown as goodwill under intangible assets. The goodwill is equal to the difference between the cost of acquiring the shares in the subsidiary and shareholders' equity at the time of first consolidation. The goodwill is amortised starting from the first consolidation date over its probable economic life of ten years in accordance with HGB article 309, section 1, sentence 2 in association with HGB article 255, section 4, sentence 3.

### 5. Deferred tax assets and tax liabilities

In accordance with IAS 12 and with due regard for current tax relief legislation, the tax effect arising from the restatement in accordance with the International Accounting Standards is calculated at a tax rate of 38%. There are also underlying individual tax rates for effects attributable to the past. Under IAS, deferred tax assets and liabilities are also formed for loss carry forwards. In the year under audit the deferred tax charge was DEM 6,007,991.78 and in the previous year DEM 2,919,809.19.

## (VI) Notes to the group balance sheet

### 1. Fixed assets

For the presentation of the development of fixed assets we refer to the enclosed analysis of fixed assets.

Intangible assets include in the main cartoon film licences of Intertainment Animation & Merchandising GmbH, which are amortised in accordance with expected economic life. Depreciation or amortisation of software and fixtures, fittings and equipment is also applied over the useful economic life of the assets.

During the year under audit Intertainment AG acquired 26% of the shares in the company SightSound.com Inc. by means of an exchange of shares. At the reporting date Intertainment held approximately 24.84% of the shares, as there was no further increase in capital. In the context of this acquisition 192,613 no-par-value shares of SightSound.com Inc. with a market value of DEM 39,211,189.81 were transferred. On the one hand this value represents the cost of acquisition and on the other hand is divided between the share capital at DEM 481,532.48 and the additional-paid-in-capital of DEM 38,729,657.33.
As of 30 September 2000 Sightsound.com presents an equity amounting to some KUSD 4,737 and a loss amounting to some KUSD -5,985. Sightsound.com has only been in operation for a short time, so the services are not yet being used extensively, as the technical basis, the broadband network is not yet widely distributed. So the results of Sightsound.com are not satisfactory. Additionally, the degree to which patent rights can be enforced for the whole audio and video download field in the pending court case is very significant for earnings development in future. INTERTAINMENT believes that Sightsound.com will show positive earnings development after it overcomes its start-up problems.

### 2. Inventories

At the balance sheet date the value of the film licences was DEM 125,189,483.18 (previous year DEM 39,253,756.21), which amounts to an increase of DEM 85,935,726.97. The increase is attributable in the main to the acquisition of the three major films, "Whole Nine Yards", "Battlefield Earth" and "Art of War". This addition has been offset by the scheduled amortisation of DEM 56,818,788.03 on film licences and unscheduled amortisation of DEM 6,288,663.00. Last year the timing of capitalisation of film licences was changed. Film licences are no longer recorded on signature of contract but not until delivery of the film and acceptance by an expert laboratory. In the 1999 fiscal year this change resulted in a reduction of DEM 40,356,341.00 in capitalised film rights.

Film licences developed as follows:

| | Fiscal year 2000 | Fiscal year 1999 |
|---|---|---|
| | DEM | DEM |
| Cost at 31 December | 231,955,404.40 | 82,912,226.40 |
| Book values at 1 January | 39,253,756.21 | 73,823,784.80 |
| Additions | 149,043,178.00 | 14,718,682.00 |
| Amortisation | 63,107,451.03 | 8,932,369.59 |
| Disposals | 0.00 | 40,356,341.00 |
| Book values at 31 December | 125,189,483.18 | 39,253,756.21 |

Merchandise with a value of DEM 985,539.01 (previous year DEM 1,267,545.38) comprise in the main merchandising articles or video and DVD stocks.

Payments on account amounting to DEM 13,502,499.04 (previous year DEM 2,641,660.00) consist of payments for film licences acquired, formal delivery of which has not yet been taken by Intertainment.

### 3. Accounts receivable and other assets

Trade accounts receivable amounting to DEM 63,970,481.65 (previous year DEM 6,981,750.00) have a remaining term of more than one year. These accounts receivable are directly related to the sale of the Free TV rights, as the payment terms are directly connected with the availability of the respective films. The discount amount of DEM 11,609,670.60 under interest paid (previous year DEM 427,625.00).

### 4. Liquid assets

DEM 129,541,581.31 (previous year DEM 98,475,200.00) consists of time deposits; DEM 12,935,858.06 (previous year DEM 7,050,346.85) consists of current account balances and cash on hand amounts to DEM 7,438.04 (previous year DEM 9,743.65). In this context we point to the loans and credit lines under "Letters of credit" falling due in the future.

### 5. Deferred tax assets and liabilities

Tax deferrals have been created in respect of consolidation adjustments affecting profit, which are expected to reverse out in subsequent periods. The amount stated in the balance sheet results from the use of an estimated tax rate of 38% for corporation and other trade taxes, and individual tax rates for effects attributable to the past.

### 6. Shareholders' equity

#### 6.1 Subscribed capital

At the time of formation of the company a cash contribution of TDM 100 was made. In the course of the contribution of the share of INTERTAINMENT Licensing GmbH by agreement of 1 October 1998 (registration on 30 October 1998) the company's share capital was increased by resolution of the General Meeting of Shareholders on 1 October 1998 by TDM 17,400 on the basis of contribution in kind and by the same resolution by a further TDM 681 on the basis of a cash contribution to a total of TDM 18,181; this corresponded to 3,636,200 issued shares.

In the context of flotation the company's share capital was increased by the issue of a total of 1,212,000 shares by TDM 6,060 to TDM 24,241. After flotation there are 1,195,000 shares in general ownership.

By resolution of the General Meeting of Shareholders on 9 July 1999 and entry in the trade register on 19 July 1999 a share split in the ratio 1:2 was implemented. As a result, the number of shares in issue is 9,696,400. The company's share capital was also converted to euros; henceforth it amounts to EUR 12,394,226.49 (DEM 24,241,000.00).

By decision of the Supervisory Board on 17 April 2000 and entry in the trade register on 23 May 2000 the company's share capital was increased by EUR 246,203.65 (DEM 481,532.48) as a result of the exchange of shares with SightSound.com Inc..

As a result of the increase in capital in the fiscal year 2000, which was resolved by the Supervisory Board on 17 July 2000 and 27 July 2000 and entered in the trade register on 18 July 2000 and 2 August 2000, the company's share capital increased by EUR 2,364,724.95 to a total of EUR 15,005,155.09 (DEM 29,347,532.48) and is now made up of 11,739,013 no-par-value shares in issue.





**Authorised capital**

In accordance with the capital increase the authorised capital at the balance sheet date declined to EUR 3,202,715.74 (DEM 6,263,967.53); in the previous year the figure was EUR 5,813,644.34 (DEM 11,370,500.01). The management board is authorised until 28 January 2004, subject to the consent of the supervisory board, to increase the share capital by this amount by the single or multiple issue of new no-par-value bearer shares for contribution in cash or in kind. Furthermore the management board is authorised, subject to the agreement of the supervisory board, to exclude in whole in part the stock option of the shareholders, in the following cases:

- to equalise peak amounts
- to obtain contributions in kind
- if the capital increase on the basis of capital contributions does not exceed EUR 1,207,415.78 (DEM 2,361,500.01) of the share capital and the issue price of the shares does not significantly exceed the market price.

Changes in the authorised capital in the year under audit were as follows:

| | | |
|---|---|---|
| Balance at 1 January 2000 | 11,370,500.01 DEM | 5,813,644.34 EUR |
| Share exchange with SightSound.com Inc. | - 481,532.48 DEM | - 246,203.65 EUR |
| Capital increase | - 4,625,000.00 DEM | -2,364,724.95 EUR |
| Balance at 31 December 2000 | 6,263,967.53 DEM | 3,202,715.74 EUR |

**Restricted capital**

At 31 December 2000, as in the previous year, the group had restricted capital of EUR 511,291.88 (DEM 1,000,000.00). The share capital has therefore been increased by this amount. The capital increase will only be implemented to the extent that the holders of subscription rights, issued by Intertainment AG as authorised by the General Meeting of Shareholders on 18 January 1999 and on the basis of the amended authorisation by the General Meeting of Shareholders on 09 July 1999, make use of their subscription rights. Where new shares arise as a result of the exercise of subscription rights, they participate in profit from the start of the fiscal year.

#### 6.2 Capital reserves

On the basis of the increase in capital DEM 198,487,049.67 of the share premium achieved was transferred to capital reserves. In addition, the share exchange with SightSound.com Inc. amounting to DEM 38,729,657.33 is reflected in this position.

#### 6.3 Statutory reserves

Statutory reserves relate exclusively to the statutory reserve of Intertainment AG. No transfer to the reserves was made in the fiscal year 2000.

## 7. Provisions

### 7.1 Provisions for taxations

The movement in provisions for taxation during the year under audit was as follows:

| Description | Balance at 01.01.2000 | Utilised | Released | Added | Balance at 31.12.2000 |
|---|---|---|---|---|---|
| | DEM | DEM | DEM | DEM | DEM |
| Municipal trade tax | 8,842,812.00 | -7,576,284.00 | 0 | 0 | 1,266,528.00 |
| Corporation tax | 11,981,701.20 | -2,119,386.20 | 0 | 4,738,936.66 | 14,601,251.66 |
| Reunification tax | 659,508.41 | -117,179.74 | 0 | 259,542.28 | 801,870.95 |
| Total | 21,484,021.61 | -9,812,849.94 | 0 | 4,998,478.94 | 16,669,650.61 |

### 7.2 Other provisions

| Description | Balance at 01.01.2000 | Utilised | Released | Added | Balance at 31.12.2000 |
|---|---|---|---|---|---|
| | DEM | DEM | DEM | DEM | DEM |
| For marketing expenses | 9,000,000.00 | 0.00 | -9,000,000.00 | 22,325,504.03 | 22,325,504.03 |
| For licence sales | 0.00 | 0.00 | 0.00 | 12,350,000.00 | 12,350,000.00 |
| For litigation risks | 0.00 | 0.00 | 0.00 | 2,150,000.00 | 2,150,000.00 |
| For licence fees | 937,509.65 | -577,038.79 | -360,470.86 | 910,000.00 | 910,000.00 |
| For potential losses | 0.00 | 0.00 | 0.00 | 389,922.50 | 389,922.50 |
| For personnel | 47,000.00 | -45,500.00 | -1,500.00 | 383,500.00 | 383,500.00 |
| For miscellaneous | 1,646,392.00 | -148,000.00 | -1,498,392.00 | 345,000.00 | 345,000.00 |
| Total | 11,630,901.65 | -770,538.79 | -10,860,362.86 | 38,853,926.53 | 38,853,926.53 |

The provision for marketing expenses comprises in respect of film rights already exploited the as yet unpaid “print and advertising” expenses or marketing commissions.

The provision for licence sales results from margins already realised on film licences, which may have to be revoked in the following year.





The provision for litigation risks is formed for judicial proceedings and the associated expenses and risks.

The provision for licence fees relates to licences exploited during the year under audit, for which appropriate fees are payable to the licensor.

## 8. Liabilities

Trade accounts payable result in the main from the acquisition of licences. Accounts payable for film rights are recorded in a manner analogous to the capitalisation of the film rights on acceptance of the delivered film material by an independent laboratory. Accounts payable in foreign currency are stated at the exchange rate on the balance sheet date. Accounts payable are all due for payment within one year.

DEM 33,720,000.00 of liabilities to banks consist of loans and DEM 19,129,220.98 consist of current account balances.

The composition of the loans is as follows:

| Kreditinstitut | Betrag | Verzinsung | Fälligkeit |
|---|---|---|---|
| HypoVereinsbank AG | 28,720,000.00 DEM | 6.5 % p.a. | 05 January 2001 |
| HypoVereinsbank AG | 5,000,000.00 DEM | 6.5 % p.a. | 05 January 2001 |

Special collateral exists for the liabilities to banks. In this context assignment of the utilization rights, of the material and assignment of accounts receivable under sales agreements have been agreed to.

The following credit lines have been granted to INTERTAINMENT Licensing GmbH:

| | |
|---|---|
| HypoVereinsbank AG, Munich | USD 75,842,500.00 |
| BHF Bank, Frankfurt | USD 13,645.000.00 |

USD 80,897,500.00 of the credit lines are directly related to the letters of credit opened in favour of the film licensors. In the event of exercise of the rights under the LC by the film licensor or its bank, the credit line can be used and declared due against Intertainment.

## (VII) Notes to the group income statement

### 1. Sales

Sales amounting to DEM 171,743,222.77 are composed as follows:

| | Fiscal year 2000 (DEM) | Fiscal year 1999 (DEM) |
|---|---|---|
| Utilization of film licences | 163,842,543.85 | 41,309,111.09 |
| Utilization of visual media | 5,945,909.76 | 12,896,012.00 |
| Other sales | 2,193,807.65 | 2,256,079.63 |
| Sales deductions | -239,038.49 | -368,667.76 |
| **Total** | **171,743,222.77** | **56,092,534.96** |

Sales deductions relate in the main to bonuses and discounts granted.

### 2. Other operating income

This item consists in the main of exchange profits amounting to DEM 8,392,085.98 (previous year DEM 12,453,924.53) and income from the release of provisions amounting to DEM 10,860,362.86 (previous year DEM 695,000.00).

### 3. Cost of materials

The cost of materials consists in the main of the amortisation of the released film rights DEM 63,107,451.03 (previous year 8,932,369.59), marketing expenses DEM 40,082,801.68 (previous year DEM 9,000,000.00), cost of sales for visual media and merchandising articles DEM 1,327,580.64 (previous year DEM 3,255,570.01) and licensor shares DEM 1,251,627.79 (previous year DEM 862,509.65). The amortisation of the film rights includes special amortisations of DEM 6,288,668.00.

### 4. Other operating expenses

This item consists in the main of provisions for licence sales at DEM 12,350,000.00 (previous year DEM 0.00), expenses for losses on exchange at DEM 11,945,891.66 (previous year DEM 3,775,295.84), marketing commissions and advertising expenses at DEM 5,174,792.98 (previous year DEM 4,794,270.23), cost of outside services at DEM 1,172,893.11 (DEM 748,178.28), ancillary expenses relating to funds transfer at DEM 2,761,340.62 (previous year DEM 1,124,530.58) and legal and consultancy expenses at DEM 5,050,048.64 (previous year DEM 1,274,945.77).

### 5. Interest income/expense

Interest income/expense comprises interest income of DEM 8,449,898.21 (previous year DEM 3,549,999.98) and interest expense of DEM 19,202,888.92 (previous year DEM 1,813,024.11).





## (VIII) Other information

### 1. Earnings per share

Under IAS 33 earnings per share are calculated by dividing the result for the period by the weighted average number of shares in issue.

The weighted average number is calculated as follows:

| **Number at 1 January 2000** | **9,696,400** |
|---|---|
| Capital increase as a result of share exchange | 120,383 |
| Capital increase (July 2000) | 845,625 |
| Capital increase (August 2000) | 1,875 |
| Average number in fiscal year 2000 | 10,664,283 |

Undiluted earnings per share at 31 December 2000 amounted to DEM 1.02 (previous year DEM 1.38). Inclusion of the relevant share options results in a diluted earnings figure of DEM 1.01 (previous year DEM 1.36).

### 2. Mitarbeiterbeteiligungsprogramm

The management board is authorised up to 18 January 2004, subject to the approval of the supervisory board, to offer to employees or members of the management board and members of the management of affiliated companies share options in respect of up to 400,000 no-par-value bearer shares, valid for not more than five years. The right to subscribe and the number of subscription rights is determined for members of the management board of the company solely by the supervisory board and in other cases by the management board and the supervisory board. Shareholders have no statutory subscription right.

The exercise price of the subscription rights in the company is set annually as the average closing price of a share in the company on the Frankfurt stock exchange on the date of the decision by the competent bodies.

Subject to the applicable waiting period and exercise conditions, the subscription rights may be exercised annually during the fourth and subsequent 15 market days after the ordinary general meeting of shareholders and after announcement of the results for the third quarter. Up to 25% of the subscription rights may be exercised for the first time two years after the date of granting of the subscription rights; a further 25% may be exercised in each of the following three years. If options are not exercised by this last date, they will expire without substitution.

The subscription rights may only be exercised if the average cash price of a share in the company on the Frankfurt stock exchange in the first five market days after the ordinary general meeting of shareholders has risen by at least 30% in relation to the average cash price of a share in the company taken as a basis for the exercise price on issue of the subscription rights.

Movements in the share options in the 2000 fiscal year were as follows:

| | |
|---|---|
| Options in issue at 1 January 2000 | 178,000 |
| Options granted in 2000 | 120,000 |
| Options exercised | 0 |
| Options lapsed | 4,000 |
| Options in issue at 31 December 2000 | 298,000 |
| Options still available | 102,000 |

### 3. Other financial commitments

| Description | Remaining term up to 1 Year | Remaining term 1–5 Years | Remaining term > 5 Years |
|---|---|---|---|
| | TDM | TDM | TDM |
| Rental commitments (previous year including lesing) | 512<br>prev. year 348 | 1,752<br>prev. year 483 | 0<br>prev. year 0 |
| Commitments under leasing contracts | 97 | 183 | 0 |
| Payment obligations for film licences | 345,434<br>prev. year 267,998 | 0<br>prev. year 0 | 0<br>prev. year 0 |
| Commitments arising from co-financing | 13,650<br>prev. year 0 | 75,600<br>prev. year 0 | 0<br>prev. year 0 |
| **Gesamt** | **359,693**<br>**prev. year 268,346** | **77,535**<br>**prev. year 483** | **0**<br>**prev. year 0** |

**Rent for office premises**
The term of the lease for the business premises occupied to date in Munich was until 31 August 2000, but the lease was cancelled prematurely by the company with effect from 15 June 2000. With effect from 15 June 2000 the company has leased new business premises, initially for a period of five years. The resulting monthly rental commitment is TDM 42. In addition, a guarantee of TDM 149 was provided.

**Other commitments under lease contracts**
The Intertainment group leases vehicles and various office equipment, which are all covered by "operating leasing". Total lease expense in the fiscal year 2000 was TDM 280.



**Payment obligations in respect of film licences**
The group has payment obligations of TUSD 164,952 to American producers arising from purchasing agreements for film licences. These fall due on delivery of technically satisfactory film material. In the event of non-delivery or defective quality of the material the claim of the American producers is extinguished.

### 4. Other contingent liabilities

As a result of the financing of the film licences by banks and the corresponding granting of lines of credit, the film licences and associated accounts receivable of Intertainment in respect of the utilization of these licences have been assigned as security to the banks.

### 5. Finance instruments

As a hedge against currency risks, in particular in respect of the US dollar, Intertainment enters into forward exchange contracts. This derivative financial instrument is used solely to secure the underlying basic transactions. They cannot therefore be classified as speculative transactions, since there is a close relationship in terms of amount and timing between the basic and securing transactions. At the balance sheet date forward exchange contracts of USD 6,140,000.00 existed (previous year TUSD 0), for purposes of the no-loss valuation of which a provision of DEM 389,922.50 was made.

### 6. Additional disclosures with regard to the cash-flow statement in accordance with IAS 7

During the year under audit tax payments of DEM 27,040,277.73 (previous year DEM 1,345,855.30) were made by Intertainment; tax refunds of DEM 2,087,698.98 (previous year DEM 0) became payable.
Interest payments made in the fiscal year 2000 amounted to DEM 3,951,738.53 (previous year DEM 3,549,999.98) and interest payments received DEM 4,620,294.81 (previous year DEM 1,813,024.11).
In 1999 payments of DEM 3,381,666.00 (dividends) were made to shareholders in respect of the fiscal year 1998. During the year under audit no distribution was made in respect of the previous year.
The shares of SightSound.com Inc. were acquired via a share exchange. This event is therefore not reflected in the cash flow statement.

### 7. Organisation

| | |
|---|---|
| **Management Board** | Ernst Rüdiger Bäres, Munich (Chairman)<br>David Charles Willliamson, Munich (Deputy chairman)<br>Hans-Joachim Gerlach, Berlin (Finance director)<br>Andreas Diga, Munich (Marketing & sales director) until 14 December 2000<br>Stephen Joel Brown (Business development director) from 21 December 2000 |

Mr. Ernst Rüdiger Bäres has sole power of attorney. Messrs David Charles Williamson, Hans-Joachim Gerlach and Stephen Joel Brown each have power of attorney when acting jointly with another member of the management board.

The remuneration of the management board for the calendar year 2000 amounted to DEM 2,552,046.49 (previous year DEM 1,618,368.90).

| | |
|---|---|
| **Supervisory Board** | Dr. Matthias Heisse, lawyer, Munich (Chairman)<br>Dr. Andreas Bohn, Diplom Kaufmann, Munich<br>Dr. iur. Ernst Pechtl, Diplom Kaufmann, Berg (from 23.12.2000)<br>Dr. Martin Schürmann, Brentwood/ USA (until 22.12.2000) |

During the year under audit Dr. Matthias Heisse was still a member of the supervisory board of Firestorm AG, Munich.

At 31 December 2000 Dr. iur Ernst Pechtl was also chairman of the supervisory board of MedCon AG, Cologne and of Wegold Edelmetalle AG, Wendelstein.

Supervisory board fees of DEM 45,326.36 (previous year DEM 43,028.26) were paid in the fiscal year 2000.





### 8. Relationships with affiliated legal entitities

Under IAS 24 the subsidiaries INTERTAINMENT Licensing GmbH, Intertainment Animation & Merchandising GmbH and USA-Intertainment Inc. are classified as affiliated legal entities of Intertainment AG. Intertainment AG holds 100% of the voting rights and shares in all these companies. The nature of the relationship of the undertakings to each other lies among other things in the fact that USA-Intertainment Inc. provides services in Los Angeles for the German subsidiaries, thus resulting in accordance with the cost-plus method in a cost allocation to the respective receiver of the service. In the year under audit the result of USA-Intertainment was taken over in full at DEM 2,657,587.99 by INTERTAINMENT Licensing.

In addition, services were charged as follows by INTERTAINMENT Licensing GmbH:

| | |
|---|---|
| Intertainment AG | DEM 201,985.21 |
| Intertainment Animation & Merchandising GmbH | DEM 234,338.60 |

The liquidity of the group companies is ensured by means of clearing accounts with Intertainment AG, which bear interest at market rates. At 31 December 2000 Intertainment AG showed the following accounts receivable from the subsidiaries:

| | |
|---|---|
| INTERTAINMENT Licensing GmbH | DEM 147,294,080.40 |
| Intertainment Animation & Merchandising GmbH | DEM 4,888,705.80 |
| USA Intertainment Inc. | DEM 3,151,185.51 |

Mr Rüdiger Bäres is to be regarded as an affiliated legal entity, holding 58% of the voting rights in Intertainment AG at the balance sheet date.
During the year under audit fees amounting to DEM 869,236.58 were paid in the context of a separate consultancy agreement to the ARCOM firm of lawyers, in which Dr. Heisse is a partner (AktG, article 114).

### 9. Employees

In the fiscal year 2000 the group had an average of 28 employees (previous year 12 employees).

### 10. Registered office

The registered office of Intertainment AG is at Osterfeldstraße 84, 85737 Ismaning, Germany.

### 11. Post-balance-sheet events

At the end of December 2000 INTERTAINMENT Licensing GmbH entered a lawsuit before the District Court (Federal Court) in Los Angeles against Franchise Pictures LLC, Franchise Pictures Inc., its Chairman and CEO, Elie Samaha, its President and COO Andrew Stevens, various production firms of the Franchise group and other parties. At the end of February 2001 INTERTAINMENT Licensing GmbH extended the lawsuit on this matter to include Imperial Bank, registered in Inglewood, USA, as defendant.

In the context of a film contract extending over several years, INTERTAINMENT indicated its willingness to acquire the European rights for at least 60 Franchise films over a period of 5 years in return for agreeing to pay 47% of the actual production cost of each film. This amount is designated as bonded budget for the film. According to the extended lawsuit, however, "Franchise indicated to INTERTAINMENT fraudulent budgets, which were exaggeratedly high by several millions of dollars.

In total the budgets, which had been set at exaggeratedly high levels by Franchise, resulted in "additional expenses of 75 million dollars" in "fraudulently raised" licence fees for a series of 26 films.

In the expanded lawsuit Imperial Bank is accused of having known "that the budgets were fraudulently inflated". The bank acted as lender for the production of most of the films of Franchise, which produced the films in accordance with its contract with INTERTAINMENT. In fact, according to the lawsuit, "Imperial Franchise actively permitted the participation in the planned fraud, concealed the planned fraud from INTERTAINMENT and in at least two cases signed exaggeratedly high budgets, in the knowledge that the purpose of these budgets was to deceive INTERTAINMENT".

Notes to the Consolidated Financial Statements at 31 December 2000
in accordance with the International Accounting Standards (IAS)

*INTERTAINMENT GROUP*

In return, INTERTAIMENT and Mr. Ernst Rüdiger Bäres personally were sued by Franchise Pictures for not honouring verbal commitments and not making payments connected with acquisition of film licenses. Those promises relate to the granting of 50,000 INTERTAINMENT shares to Franchise Pictures at a price of 75 euros, and also to the purchase of various film licenses for Europe from the Franchise Pictures library, and finally the assumption of amounts owed by Franchises Pictures to banks in the amount of 150,000 USD. Additionally, payments connected with the acquitsition of film licenses are alleged not to have been made. The value in dispute is put at approximately 50 million USD. INTERTAINMENT considers the countersuit to be completely groundless, and therefore no precautions in the form of provisions were created in the annual financial statements.

Complete cessation of the contractual relationships with Franchise, which from the current point of view is altogether possible, would result in INTERTAINMENT no longer having access to Franchise films.

No post-balance sheet date events have occurred that would result in the financial statements as at 31 December 2000 giving a false representation. In particular no further insights exist with regard to the lawsuits.

Intertainment AG, 24 April 2001

Ernst Rüdiger Baeres
David Charles Williamson
Hans-Joachim Gerlach
Stephen Joel Brown

# INTERTAINMENT GROUP



INTERTAINMENT GROUP

| | Cost of Purchase or Manufacture | | | |
|---|---|---|---|---|
| | 1.1.2000 | Additions | Disposals | 31.12.2000 |
| | DEM | DEM | DEM | DEM |
| **I. Intangible assets** | | | | |
| Concessions, industrial and similar rights and assets and licences in such rights and assets | 704,618.69 | 225,023.24 | 0.00 | 929,641.93 |
| **II. Tangible assets** | | | | |
| Other equipment, factory and office equipment | 543,119.07 | 925,905.90 | 62,348.83 | 1,406,676.14 |
| **III. Financial assets** | | | | |
| Investments | 0.00 | 39,211,189.81 | 0.00 | 39,211,189.81 |
| | **1,247,737.76** | **40,362,118.95** | **62,348.83** | **41,547,507.88** |

| | Accumulative Depreciation and Amortization | | | | Net Book Values | |
|---|---|---|---|---|---|---|
| | 1.1.2000 | Depreciation for the fiscal year | Abgänge | 31.12.2000 | 31.12.2000 | 31.12.1999 |
| | DEM | DEM | DEM | DEM | DEM | DEM |
| **I. Intangible assets** | | | | | | |
| Concessions, industrial and similar rights and assets and licences in such rights and assets | 112,111.28 | 163,289.18 | 0.00 | 275,400.46 | 654,241.47 | 592,507.41 |
| **II. Tangible assets** | | | | | | |
| Other equipment, factory and office equipment | 198,148.07 | 213,766.59 | 39,264.89 | 372,649.77 | 1,034,026.37 | 344,971.00 |
| **III. Financial assets** | | | | | | |
| Investments | 0.00 | 0.00 | 0.00 | 0.00 | 39,211,189.81 | 0.00 |
| | **310,259.35** | **377,055.77** | **39,264.89** | **648,050.23** | **40,899,457.65** | **937,478.41** |

### I. Business activities and development

In fiscal 2000, INTERTAINMENT successfully implemented the foundations laid the previous year. For instance, for the first time several significant film licenses were purchased through the film package from Franchise Pictures LLC during the year under review and distributed through the long-term cooperative distribution arrangements with Warner Bros. and 20th Century Fox. This strategy by INTERTAINMENT of intentionally doing without its own utilization channels in the exploitation phases of cinema, video, and pay TV and not competing with its current cooperation partners is thus proving very successful. In addition, INTERTAINMENT successfully sold film licenses in the “Free TV” segments on the Spanish, Italian, French, and British markets, and furthermore made significant “all-rights deals.” Additionally, INTERTAINMENT was able for the first time to sell an extensive film package in Germany consisting of secondary licenses. This shows that building up valuable business relations all over Europe is bearing fruit, and INTERTAINMENT has very successfully made the jump from a primarily German license trader to a pan-European one.

By signing the deal with Arnold Kopelson, INTERTAINMENT is securing extensive access to high-quality film materials. In the future, INTERTAINMENT will perform the functions of film coproduction and film cofinancing for the first time. Film financing is to be secured through its own resources, bank loans, film funds, and advance sales of individual country or regional rights to major studios or independent distributors in the United States, among other methods. In addition, receipts from marketing various film licenses are reinvested into those projects.

During the year under review, INTERTAINMENT acquired 26 percent of shares in SightSound.com Inc., Pennsylvania, U.S.A., by a stock swap. As of the reporting date, there is a 24.84-percent participating interest, as additional shares of the business partner were issued.

As of December 31, 2000, this successful development of INTERTAINMENT is overshadowed by the pending trial with Franchise Pictures LLC, however. INTERTAINMENT is suing Franchise Pictures LLC for budget fraud in this context. The outcome of this trial is still open at the time the annual financial statements are being prepared but INTERTAINMENT is very confident at the current time that there is sufficient evidence to successfully conclude this trial.

In return, INTERTAINMENT and the chairman of the managing board Ernst Rüdiger Bäres personally were sued by Franchise Pictures for not honoring verbal commitments and not making payments connected with acquisition of film licenses. However, INTERTAINMENT views the countersuit as being completely groundless.





### II. Asset and earnings position

The asset and earnings position is largely characterized by the successfully implemented European business policies, the transition to marketing films with exploitation potential in the cinema segment, and the pending trials.

In the asset position, it is primarily the significantly increased inventories and accounts receivable that are reflected on the asset side, which can be traced to the acquisition and sale of film licenses with cinema potential. From the increased financial requirements in this context, a considerable increase in accounts payable and amounts owed to banks and provisions results on the liability side. Furthermore, precautions are taken in the form of provisions for the pending trials and possible effects.

The earnings position is characterized by sales revenue that has increased 206 percent to DEM 171,743,000 and a surplus for the year that has dropped 17 percent to DEM 10,892,000. The result from ordinary business activity dropped 24 percent to DEM 20,851,000. In the fiscal year 2000 just ended, INTERTAINMENT had a profit-turnover ratio of 6 percent (previous year 23 percent), relative to the result of ordinary business activity of 12 percent (previous year 49 percent). Two main factors can be named as the causes for the considerable change in business results over the previous year. First, INTERTAINMENT exploited three films in the utilization segment of cinema during the year under review, which resulted in a significant increase in material expenditures due to high print and advertising costs. INTERTAINMENT will profit substantially in further utilization phases and thus in coming fiscal years particularly from film licenses that pass through this segment. For this reason, the materials usage ratio is 62 percent in the year under review, representing a 30-percent increase over the previous year. Second, INTERTAINMENT has made provisions for the risks from pending trials and possible effects. This results in a significant increase in other operating expenditures. The negative interest result is due primarily to interest on bank loans extended for financing film rights.

## III. Profitability of the Group

### 1. Return on equity

In fiscal 2000, INTERTAINMENT had return on equity before taxes and interest of 9 percent (previous year 30 percent), or 3 percent after taxes and interest (previous year 13 percent).

### 2. Equity ratio

The equity ratio at INTERTAINMENT is 67 percent (previous year 50 percent).

### 3. Outside capital structure

Outside capital, with a ratio of 33 percent, consists of provisions and accruals at DEM 57,406,000, amounts owed to banks at DEM 52,997,000, and accounts payable at DEM 45,803,000.

## IV. Future development of the Group

The future development of INTERTAINMENT is largely characterized by continued implementation of the agreements concluded during the previous year with Franchise Pictures LLC, Warner Bros., and 20th Century Fox, and the agreement made during the year under review with Arnold Kopelson.

Particularly through the cooperation with Arnold Kopelson, INTERTAINMENT is securing a second major foothold for purchasing high-quality film utilization rights that are unrestricted with respect both to time and territory. The agreement provides for the American producer working exclusively for INTERTAINMENT in the next five years -- there is also an option for a further five years -- and that at least 10 films will be made in the context of the cooperation between the two companies. INTERTAINMENT is arranging the financing for these films and therefore has extensive rights during all phases of film production, which ultimately makes the company co-producer of the films. In return, INTERTAINMENT receives rights to these films without restrictions of time or territory, and the sole exploitation right. With this agreement, INTERTAINMENT is now doing business globally, and has thus expanded its European strategy in a logical way.

In late December 2000, INTERTAINMENT filed suit in District Court (federal court) in Los Angeles against Franchise Pictures LLC, Franchise Pictures Inc., chairman and CEO Elie Samaha, president and COO Andrew





Stevens, various production companies of the Franchise Group, and other parties. In late February 2001, INTERTAINMENT Licensing GmbH expanded the suit to include Imperial Bank, headquartered in Inglewood, U.S.A., as a defendant. In the context of a film agreement running over several years, INTERTAINMENT stated its willingness to acquire the European rights for at least 60 franchise films over a period of five years in exchange for providing 47 percent of actual production costs; this figure is referred to as the film's "bonded budget." However, according to the expanded suit Franchise gave INTERTAINMENT fraudulent budgets that were inflated by several million dollars. All in all, the budgets inflated by Franchise signify "75 million dollars in additional expenditures" for INTERTAINMENT in "fraudulently inflated" license fees for a group of 26 films. In the expanded suit Imperial Bank is accused of knowing "that the budgets were inflated with fraudulent intent." The bank acted as lender for the production of most Franchise films which Franchise produced under its agreement with INTERTAINMENT. In fact, the suit alleges, "Imperial actively permitted Franchise to participate in the fraudulent plan, concealed the fraudulent plan from INTERTAINMENT, and in at least two cases signed inflated budgets, well knowing that those budgets served to deceive INTERTAINMENT."

In return, INTERTAINMENT and Mr. Ernst Rüdiger Bäres personally were sued by Franchise Pictures for not honoring verbal commitments and not making payments connected with acquisition of film licenses. Those promises relate to the granting of 50,000 INTERTAINMENT shares to Franchise Pictures at a price of 75 euros, and also to the purchase of various film licenses for Europe from the Franchise Pictures library, and finally the assumption of amounts owed by Franchise Pictures to banks in the amount of 150,000 U.S. dollars. Additionally, payments connected with the acquisition of film licenses are alleged not to have been made. The value in dispute is put at approximately 50 million U.S. dollars. INTERTAINMENT considers the countersuit to be completely groundless, and therefore no precautions in the form of provisions were created in the annual financial statements.

The complete elimination of contractual relations with Franchise, which is certainly possible from today's viewpoint, would result in INTERTAINMENT no longer being able to access Franchise films.

Even before the suit was filed against Franchise, INTERTAINMENT therefore dramatically reduced its dependence on Franchise and established USA-Intertainment Inc. This company is in charge of reviewing and selecting film projects. In the medium-term, the possible loss of an important supplier will not have any effect on the growth of INTERTAINMENT. However, the trial that is still pending against Franchise Pictures LLC is influencing business results.

In addition, further growth in sales and earnings potential is still expected from today's viewpoint through the coproduction and cofinancing agreement made with Arnold Kopelson, quite apart from the outcome of the trial against Franchise Pictures LLC.

The high print and advertising costs which the company expects through cinema utilization and the start-up costs from the Kopelson deal which will color results due to a lack of receipts until completion of the first film will result in under-proportional development of results overall.

The field of merchandising trade is characterized by repeated successful exploitation of the "Rudolph mit der roten Nase" license. However, the result is burdened by high investments in distribution and image creation, from which the company hopes to see significant profits in the future.

By acquiring an investment in SightSound.com Inc., INTERTAINMENT is securing access to the new "music/video by Internet" distribution channel. SightSound.com Inc. is a vendor of download technology and patents for the media industry for economic utilization of audio/video content over the Internet. The company possesses several "business patents" which, if confirmed in upcoming court proceedings, will allow the company to charge license fees for each commercial Internet download in the United States.

## V. Risks in future development

INTERTAINMENT has investigated the business processes and identified, analyzed, and evaluated the resulting risks and developed measures to minimize them in the context of ongoing risk monitoring.

Building on this, management will further develop and supplement the risk monitoring system to identify hazardous influences.

Increasing internationalization of the company results in expanded requirements for accounting and controlling. The company has taken the necessary adjustment measures.

The major risks in the field of film license trade are shown below, and necessary risk minimizing measures are described:

### General business circumstances and competition

As a media company, INTERTAINMENT works in film licensing and cofinancing, merchandising, and Internet distribution. INTERTAINMENT has a large number of competitors in these fields, particularly since INTERTAINMENT started doing business in the larger European market for film licensing, the Internet market, and the merchandising market. Growing pressure from competition can resulting changes in price level, decrease in sales figures, lower profit margins, and deterioration in market position.



### Acquisition, cofinancing, and utilization of film rights

When purchasing license rights, INTERTAINMENT undertakes to purchase them prior to the start of production. It is difficult to forecast the possible success of a film at that point in time. INTERTAINMENT tries to minimize this risk through appropriate expertise of employees, casting of lead roles, and analysis of the screenplay.

### Dependence on distribution partners and suppliers

A major competitive advantage of INTERTAINMENT is the possibility of film distribution throughout Europe by the majors. If INTERTAINMENT loses those distribution partners or film suppliers, this can result in considerable negative effects on its financial position and business result.

### Financing future growth

Purchasing additional film licenses, expanding business activities into new sales regions, expanding Internet distribution, and the possible acquisition of new participating interests require considerable financial resources. A commitment for the extension and increase of an existing line of credit has been obtained.

### International business activities

Exchange rate fluctuations between the U.S. dollar and the euro can have effects on INTERTAINMENT's business activities, its financial and earnings position, and particularly its profit margins through exchange rate gains or losses. INTERTAINMENT tries to keep these currency risks low by securing incoming and outgoing payments with reciprocal covering transactions with regard to amount and due date.

### Changes and fluctuations in profits and stock price

The irregular intervals in which INTERTAINMENT grants film licenses and receives film materials during a certain period of time have the result that profits can fluctuate significantly. When planning, this results in considerable difficulties in defining the precise time of acquisition or sale of the particular film license. Changes in INTERTAINMENT's business results can contribute to significant fluctuations in the stock price, and thus make it more difficult to acquire additional capital.

**Participating interest in SightSound.com**

SightSound.com has only been in operation for a short time, so the services are not yet being used extensively. The results position at SightSound.com Inc. is not satisfactory because the success of a vendor of online entertainment depends to a large degree on acceptance of the Internet by the consumer and the supply of attractive content.

Currently, the leading music labels and film studios are restrictive in issuing licenses, though some loosening-up is expected in the future. Additionally, the degree to which patent rights can be enforced for the whole audio and video download field in the pending court case is very significant for earnings development. This could involve major opportunities and also risks regarding the value content of the book value of the participating interest. Still, INTERTAINMENT believes that SightSound.com will show positive earnings development after it overcomes its start-up problems.







## Independent Auditors' Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity/partners' capital and cash flows as well as the notes to the financial statements prepared by the Intertainment Aktiengesellschaft for the business year from 1 January to 31 December 2000. The preparation and the content of the consolidated financial statements in accordance with International Accounting Standards (IAS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Intertainment Aktiengesellschaft for the business year in accordance with International Accounting Standards.

Our audit, which also extends to the group management report prepared by the Company's management for the business year from 1 January to 31 December, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from 1 January to 31 December satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Munich, 24 April 2001

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Dr. Bartels-Hetzler | Matzinger |
| – German Public Auditor | – German Public Auditor |

# INTERTAINMENT AG

## ASSETS

| | 31.12.2000 DEM | 31.12.1999 DEM |
|---|---|---|
| **A. Fixed assets** | | |
| **I. Intangible assets** | | |
| Franchises, trademarks and similar rights and assets, as well as licences to such rights and assets | 147,511.90 | 14,159.00 |
| **II. Property, plant and equipment** | | |
| Fixtures, fittings and equipment | 10,242.68 | 0.00 |
| **III. Financial assets** | | |
| Interests in affiliated companies | 57,516,139.81 | 18,100,000.00 |
| | 57,673,894.39 | 18,114,159.00 |
| **B. Current assets** | | |
| **I. Accounts receivable and other assets** | | |
| 1. Accounts due from affiliated companies | 155,333,971.73 | 26,002,522.93 |
| 2. Other assets | 21,764,506.18 | 5,915,731.50 |
| **II. Securities** | 0.00 | 5,163.14 |
| **III. Cash on hand and in banks** | 114,289,576.83 | 62,643,105.53 |
| | 291,388,054.74 | 94,566,523.10 |
| | **349,061,949.13** | **112,680,682.10** |

Balance Sheet at 31 December 2000

INTERTAINMENT AG

## LIABILITIES

| | 31.12.2000 DEM | 31.12.1999 DEM |
|---|---|---|
| **A. Shareholder's equity** | | |
| **I. Capital subscribed** | 29,347,532.48 | 24,241,000.00 |
| **II. Capital reserves** | 316,493,481.56 | 79,276,774.56 |
| **III. Statutory reserves** | 226,498.00 | 226,498.00 |
| **IV. Retained earnings** | 902,694.37 | 921,796.04 |
| | 346,970,206.41 | 104,666,068.60 |
| **B. Provisions** | | |
| 1. Tax provisions | 1,266,528.00 | 6,189,728.00 |
| 2. Other provisions | 341,000.00 | 46,000.00 |
| | 1,607,528.00 | 6,235,728.00 |
| **C. Liabilities** | | |
| 1. Liabilities due to banks | 64,381.09 | 0.00 |
| 2. Accounts due to affiliated companies | 0.00 | 0.00 |
| 3. Trade accounts payable | 105,803.74 | 203,441.51 |
| 4. Other liabilities | 314,029.89 | 1,575,443.99 |
| | 484,214.72 | 1,778,885.50 |
| | **349,061,949.13** | **112,680,682.10** |

## Income Statement
## for the period 1 January to 31 December 2000

*INTERTAINMENT AG*

| | 2000 DEM | 1999 DEM |
|---|---|---|
| 1. Other operating income | 112,456.38 | 24,828.21 |
| 2. Personnel expenses | | |
| a) Wages and salaries | 2,699,611.82 | 1,683,353.82 |
| b) Social security contributions and retirement benefit and support expenses | 88,175.72 | 26,332.13 |
| | 2,787,787.54 | 1,709,685.95 |
| 3. Amortisation of intangible fixed assets | 77,763.16 | 5,445.00 |
| 4. Other operating expenses | 14,459,083.09 | 8,535,447.93 |
| 5. Income from equity investments | 7,070,000.00 | 10,000,000.00 |
| 6. Other interest and similar income | 10,174,617.81 | 1,898,924.17 |
| 7. Interest and similar expense | 39,790.44 | 59,863.54 |
| 8. Income from ordinary operations | -7,350.04 | 1,613,309.96 |
| 9. Taxes on income | 11,751.63 | 651,242.00 |
| 10. Net income | -19,101.67 | 962,067.96 |
| 11. Retained earnings brought forward from previous year | 921,796.04 | 7,831.08 |
| 12. Transfer to statutory reserves | 0.00 | -48,103.00 |
| **13. Retained earnings** | **902,694.37** | **921,796.04** |



## Notes for the Fiscal Year 2000

*INTERTAINMENT AG*

### I. General information

Intertainment AG has been listed on the “Neuer Markt” section of the Frankfurt stock exchange since 18 February 1999.

The company is a large public limited company as defined by Article 267, section 3, sentence 2 of the German commercial code (HGB).

The annual financial statements of Intertainment AG have been compiled in accordance with the provisions of the HGB and the German Companies Act.

The type of expenditure format was applied for the income statement.

### II. Accounting and valuation methods

#### 1. Fixed assets

Fixed asset items have been stated at cost less scheduled straight-line depreciation. The depreciation period is selected on the basis of the depreciation method required for tax purposes. In determining the depreciation use is made of the simplification rule in EstR R 44, section 2. Low-value aquisitions up to DEM 800 are fully written off in the year of acquisition and shown as disposals in the analysis of fixed assets.

Financial assets are stated at the value of the investment in kind/cash or at acquisition cost. In the case of an exchange of shares the cost of acquisition is determined in accordance with the value of the relinquished shares.

#### 2. Current assets

Accounts receivable and other assets are stated at the nominal amounts.
The company states liquid assets at nominal value. Foreign currency balances in current accounts are stated at the exchange rate applicable on the reporting date.

#### 3. Long-term debt

Provisions are determined on the basis of sound business judgement and take account of all identifiable risks from uncertain liabilities.

Liabilities are stated at the amounts repayable. Liabilities in foreign currency are stated at the higher of the exchange rate on the date of receipt of the invoice or the reporting date.

## III. Notes to the balance sheet

### 1. Fixed assets

For the presentation of the development of fixed assets, please refer to the enclosed analysis of fixed assets.

Financial fixed assets include the following shares in affiliated companies:

| Participation | Registered office | % share | Shareholder's equity at 31 December 2000 | Result for the year |
|---|---|---|---|---|
| INTERTAINMENT Licensing GmbH | Munich | 100 | TDM 15,205* | TDM 8,667 |
| Intertainment Animation & Merchandising GmbH | Munich | 100 | TDM 340 | TDM -842 |
| USA Intertainment Inc. | Los Angeles | 100 | TDM 317 | TDM 26 |
| SightSound.com, Inc ** | Pittsburg | 24.8 | TUSD 4,737 | TUSD -5,985 |

* Shareholders' equity after partial distribution of dividends.

* * The shareholders' equity, and deficit of Sightsound.com, Inc., relate to the unaudited annual financial statements for the year ended 30 September 2000.

### 2. Accounts receivable, other assets and liquid assets

Accounts receivable from affiliated companies exist in respect of INTERTAINMENT Licensing GmbH in the amount of DEM 147,294,080.42, Intertainment Animation & Merchandising GmbH in the amount of DEM 4,888,705.80 and USA Intertainment Inc. in the amount of DEM 3,151,185.51. In the case of INTERTAINMENT Licensing GmbH these result from the clearing account, which in addition to the profit distributions of INTERTAINMENT Licensing GmbH for the fiscal years 1999 and 2000, contains mainly transactions related to financing. Accounts receivable from Intertainment Animation & Merchandising GmbH consist of the clearing account. Loans made to subsidiaries during the year carry an interest rate of 6% p.a., the clearing account an interest rate of 8% p.a.

All accounts receivable have a remaining term of less than one year.

Other assets consist mainly of entitlements to reimbursement of corporation tax and other trade tax for the fiscal year 2000, amounting to DEM 19,739,612.08.





Liquid assets result from time deposits amounting to DEM 111,928,383.15 and current accounts amounting to DEM 2,361,193.68. The time deposits all mature in the fiscal year 2001.

### 3. Shareholders' equity

At the reporting date subscribed share capital was DEM 29,347,532.48 (previous year DEM 24,241,000.00). The increase is attributable to the capital increase and the share exchange with Sightsound.com Inc.. As at 31 December 2000 the subscribed share capital was made up of 11,739,013 no-par-value shares.

Retained earnings brought forward from the previous year amounted to DEM 921,796.04.

Additional paid in capital of DEM 198,487,049.67 (payments in excess of the par value of the shares) was transferred to capital  reserves, as was DEM 38,729,657.33 from the exchange of shares with SightSound.com Inc..

At the reporting date the statutory reserve remained unchanged at DEM 226,498.00.

At 31 December 2000 the company's authorised share capital amounted to EUR 3,202,715.74 and its restricted capital to EUR 511,291.88.

In summary the development of shareholders' equity during the year under audit was as follows:

| | Balance at 01.01.2000 | Additions | Result for the year | Balance at 31.12.2000 |
|---|---|---|---|---|
| | TDM | TDM | TDM | TDM |
| Subscribed share capital | 24,241 | 5,107 | | 29,348 |
| Capital reserves | 79,277 | 237,216 | | 316,493 |
| Statutory reserve | 226 | | | 226 |
| Retained earnings | 921 | | -19 | 902 |
| Shareholders equity | 104,665 | 242,323 | -19 | 346,969 |

§160 I No. 7 AktG was not applied.

### 4. Long-term debt

The provision for taxation comprises the other trade taxes for the fiscal year 1998, which arose before the company entered into the parent-subsidiary legal agreement which transfers these tax liabilities to the parent.

Other provisions relate mainly to provisions for outstanding vacation entitlement and accounting/auditing expenses to the year under audit.

Liabilities have a remaining term of less than one year.

Other liabilities consist mainly of liabilities to the tax office for wage tax and church tax (DEM 108,369.36) still to be remitted, social security payments owing (DEM 1,032.22) and turnover tax (DEM 96,736.71) on the basis of the fiscal unit subject to turnover tax.

## IV. Notes to the income statement

### 1. Other operating expenses

This item includes in particular legal and consultancy expenses of DEM 9,737,931.28, arising mainly from the increase in capital, advertising expenses of 1,565,033.34 and expenses of DEM 799,510.72 for holding the General Meeting of Shareholders.

### 2. Income from investments

Income from investments results entirely from affiliated companies and relates to the the distribution of retained earnings by INTERTAINMENT Licensing GmbH at 31 December 2000 amounting to DEM 7,070,000.00.

### 3. Interest income/expense

Interest income results mainly from the charging of interest at 8% p.a. (DEM 6,595,403.28) on the clearing accounts of the subsidiaries INTERTAINMENT Licensing GmbH, Intertainment Animation & Merchandising GmbH and USA-Intertainment Inc., and from bank interest (DEM 3,579,214.53). Interest expense of DEM 39,790.44 results from bank interest.

## V. Other information

### 1. Employees

The company had an average of five employees during the fiscal year.





### 2. Management Structure

The following were **managing directors** during the fiscal year:

Ernst Rüdiger Baeres, Munich (Chairman)
David Charles Williamson, Munich (Deputy chairman, Legal director)
Hans-Joachim Gerlach, Berlin (Finance director)
Andreas Diga, Munich (Marketing and sales director) until 14 December 2000
Stephen Brown, Los Angeles (Business development director) from 21 December 2000

Remuneration of the management board for the fiscal year 2000 amounted to DEM 2,552,046.49.

The following were members of the non-executive **supervisory board** in the fiscal year:

Dr. Matthias Heisse, Rechtsanwalt in Munich (Chairman)
Dr. Andreas Bohn, Diplom-Kaufmann, in Munich
Martin Schürmann, film dealer in Brentwood/USA until 22 December 2000
Dr. iur Ernst Pechtl, Diplom Kaufmann, Berg from 23 December 2000

During the year under audit Dr. Matthias Heisse was still a member of the supervisory board of Firestorm AG, Munich and Dr. iur. Pechtl, chairman of the supervisory board of MedCon AG, Cologne and of Wegold Edelmetalle AG, Wendelstein.

Fees of DEM 45,326.36 were paid to the supervisory board in the fiscal year.

### 3. Consolidated group statements

Intertainment Aktiengesellschaft, Ismaning, prepares the consolidated financials statements that include all affiliated companies.

Ismaning near Munich, 24 April 2001

Intertainment AG

Ernst Rüdiger Baeres
David Charles Williamson
Hans Joachim Gerlach
Stephen Joel Brown

# INTERTAINMENT AG

Development of Fixed Assets

INTERTAINMENT AG

| | Cost of purchase or Manufacture | | | Accumulative Depreciation and Amortization | | | Net Book Values | |
|---|---|---|---|---|---|---|---|---|
| | 1.1.2000 | Zugänge | 31.12.2000 | 1.1.2000 | Depreciation for the fiscal year | 31.12.2000 | 31.12.2000 | 31.12.1999 |
| | DEM | DEM | DEM | DEM | DEM | DEM | DEM | DEM |
| **I. Intangible assets** | | | | | | | | |
| Concessions, industrial and similar rights and assets and licences in such rights and assets | 19,604.00 | 209,831.24 | 229,435.24 | 5,445.00 | 76,478.34 | 81,923.34 | 147,511.90 | 14,159.00 |
| **II. Tangible assets** | | | | | | | | |
| Other equipment, factory and office equipment | 0.00 | 11,527.50 | 11,527.50 | 0.00 | 1,284.82 | 1,284.82 | 10,242.68 | 0.00 |
| **III. Financial assets** | | | | | | | | |
| 1. Shares in affiliated companies | 18,100,000.00 | 204,950.00 | 18,304,950.00 | 0.00 | 0.00 | 0.00 | 18,304,950.00 | 18,100,000.00 |
| 2. Investments | 0.00 | 39,211,189.81 | 39,211,189.81 | 0.00 | 0.00 | 0.00 | 39,211,189.81 | 0.00 |
| | 18,100,000.00 | 39,416,139.81 | 57,516,139.81 | 0.00 | 0.00 | 0.00 | 57,516,139.81 | 18,100,000.00 |
| | **18,119,604.00** | **39,637,498.55** | **57,757,102.55** | **5,445.00** | **77,763.16** | **83,208.16** | **57,673,894.39** | **18,114,159.00** |

## I. Business activities and development

As the parent company of Intertainment Licensing GmbH, Intertainment Animation & Merchandising GmbH, and USA-Intertainment Inc., Intertainment Aktiengesellschaft performs the function of a financial holding company. It holds 100 percent of shares in all subsidiaries.

By signing the deal with Arnold Kopelson, INTERTAINMENT is performing the functions of film coproduction and film cofinancing for the first time. Film financing is to be secured through its own resources, bank loans, film funds, and advance sales of individual country or regional rights to major studios or independent distributors in the United States, among other methods. In addition, receipts from marketing various film licenses are reinvested into those projects.

**Investments**

In fiscal year 2000, INTERTAINMENT AG acquired 26 percent of shares in the American company SightSound.com Inc., Pennsylvania, USA, through a stock swap. As of the reporting date, there is a 24.84-percent participating interest, as additional shares of the business partner were issued.

SightSound.com Inc. is a vendor of download technology and patents for the media industry for economic utilization of audio/video content over the Internet. The company possesses several "business patents" which, if confirmed in upcoming court proceedings, will allow the company to charge license fees for each commercial Internet download in the United States.

**Capital increase**

The capital increase was performed in July 2000 by issuing 1,850,000 no-par shares on the capital market; it was successfully concluded with 1.5-times oversubscription. These funds will be used to finance film productions with Arnold Kopelson and for further acquisitions of worldwide and pan-European film rights.

## II. Asset and earnings position

The asset and earnings position is largely characterized by the holding company function and capital increase of INTERTAINMENT AG.

In the asset position, it is primarily the book value of investments at KDM 57,516 and the amounts owed to affiliated enterprises at KDM 155,334 that are reflected on the asset side. The financial resources were granted to the two





subsidiaries in connection with expansion of operations. The capital increase by issuing shares on the capital market results in the year under review in a substantial increase in liquid resources and equity, particularly capital reserves, to which the above-par amount of KDM 197,928 is transferred.

Since INTERTAINMENT Aktiengesellschaft does not have any operational business activities, the earnings position is largely characterized by same-phase receipt of part of the result of INTERTAINMENT Licensing GmbH in the amount of KDM 7,070 and interest income at KDM 10,175. These are balanced in particular by the corporate expenses of the capital increase and personnel costs. INTERTAINMENT Aktiengesellschaft had a net loss for the year of KDM 19 in fiscal year 2000; the balance sheet profit is carried forward to the new account at KDM 903.

## III. Future development and risks in future development

In the context of future development, INTERTAINMENT Aktiengesellschaft has the risk of participation in subsidiaries and Sight-Sound.com Inc. Negative developments at those companies can also have an effect on the value content of investment book values and accounts receivable. The company's own business processes and the business processes of affiliated enterprises were examined and the resulting risks identified, analyzed, evaluated, and based on that measures were developed in order to minimize them as part of a permanent risk monitoring system. Based on this, management will further develop and supplement the risk monitoring system to identify dangerous influences.

The position of the major companies is described below.

INTERTAINMENT Licensing GmbH profits during the year under review from the foundations laid during the previous year. For instance, for the first time several significant film licenses were purchased through the attractive film package from Franchise Pictures LLC during the year under review and distributed through the long-term cooperative distribution arrangements with Warner Bros. and 20th Century Fox. This strategy of intentionally doing without its own utilization channels in the exploitation phases of cinema, video, and pay TV and not competing with its current cooperation partners is thus proving very successful. In addition, INTERTAINMENT Licensing GmbH successfully sold film licenses in the "Free TV" segments on the Spanish, Italian, French, and British markets, and furthermore made significant "all-rights deals." Additionally, during the year under review the company was able for the first time to sell an extensive film package in Germany consisting of secondary licenses. This shows that building up valuable business relations all over Europe is bearing fruit, and INTERTAINMENT Licensing GmbH has very successfully made the jump from a primarily German license trader to a pan-European one.

In late December 2000, INTERTAINMENT Licensing GmbH filed suit in District Court (federal court) in Los Angeles against Franchise Pictures LLC, Franchise Pictures Inc., chairman and CEO Elie Samaha, president and COO Andrew Stevens, various production companies of the Franchise Group, and other parties. In late February 2001, INTERTAINMENT Licensing GmbH expanded the suit to include Imperial Bank, headquartered in Inglewood, U.S.A., as a defendant.

In the context of a film agreement running over several years, INTERTAINMENT stated its willingness to acquire the European rights for at least 60 franchise films over a period of five years in exchange for providing 47 percent of actual production costs; this figure is referred to as the film's "bonded budget." However, according to the expanded suit Franchise gave INTERTAINMENT fraudulent budgets that were inflated by several million dollars.

All in all, the budgets inflated by Franchise signify "75 million dollars in additional expenditures" for INTERTAINMENT in "fraudulently inflated" license fees for a group of 26 films.

In the expanded suit Imperial Bank is accused of knowing "that the budgets were inflated with fraudulent intent." The bank acted as lender for the production of most Franchise films which Franchise produced under its agreement with INTERTAINMENT. In fact, the suit alleges, "Imperial actively permitted Franchise to participate in the fraudulent plan, concealed the fraudulent plan from INTERTAINMENT, and in at least two cases signed inflated budgets, well knowing that those budgets served to deceive INTERTAINMENT."

In return, INTERTAINMENT and Mr. Ernst Rüdiger Bäres personally were sued by Franchise Pictures for not honoring verbal commitments and not making payments connected with acquisition of film licenses. Those promises relate to the granting of 50,000 INTERTAINMENT shares to Franchise Pictures at a price of 75 euros, and also to the purchase of various film licenses for Europe from the Franchise Pictures library, and finally the assumption of amounts owed by Franchise Pictures to banks in the amount of 150,000 U.S. dollars. Additionally, payments connected with the acquisition of film licenses are alleged not to have been made. The value in dispute is put at approximately 50 million U.S. dollars. INTERTAINMENT considers the countersuit to be completely groundless, and therefore no precautions in the form of provisions were created in the annual financial statements.

The complete elimination of contractual relations with Franchise, which is certainly possible from today's viewpoint, would result in INTERTAINMENT no longer being able to access Franchise films.



Even before the suit was filed against Franchise, INTERTAINMENT therefore dramatically reduced its dependence on Franchise and established USA-Intertainment Inc. This company is in charge of reviewing and selecting film projects. In the medium-term, the possible loss of an important supplier will not have any effect on the growth of INTERTAINMENT Licensing GmbH. However, the trial that is still pending against Franchise Pictures LLC is influencing business results.

An additional source for high-quality film materials is secured and thus further growth in sales and earnings potential is still expected from today's viewpoint through the coproduction and cofinancing agreement made with Arnold Kopelson during fiscal year 2000, quite apart from the outcome of the trial against Franchise Pictures LLC.

Intertainment Animation und Merchandising GmbH closes out fiscal year 2000 with a net loss for the year of KDM 842. The year under review was characterized largely by repeated successful exploitation of the "Rudolph the red nosed reindeer" license. However, the result is balanced out by high investments in distribution and image creation, from which the company will profit in the future by expanding the merchandising area.

**Investment in SightSound.com**

SightSound.com has only been in operation for a short time, so the services are not yet being used extensively. The results position at SightSound.com Inc. is not satisfactory because the success of a vendor of online entertainment depends to a large degree on acceptance of the Internet by the consumer and the supply of attractive content.

Currently, the leading music labels and film studios are restrictive in issuing licenses, though some loosening-up is expected in the future. Additionally, the degree to which patent rights can be enforced for the whole audio and video download field in the pending court case is very significant for earnings development. This could involve major opportunities and also risks regarding the value content of the book value of the participating interest. Still, INTERTAINMENT believes that SightSound.com will show positive earnings development after it overcomes its start-up problems.

*INTERTAINMENT AG*

## Independent Auditors' Report

We have audited the annual financial statements, together with the bookkeeping system, and the management report of the Company Intertainment Aktiengesellschaft for the business year from 1 January 2000 to 31 December 2000. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB "Handelsgesetzbuch: German Commercial Code" and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system relating to the accounting system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. On the whole the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Munich, April 24 2001

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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|---|---|
| Dr. Bartels-Hetzler | Matzinger |
| – German Public Auditor | – German Public Auditor |

Concept:
Intertainment AG

Design:
ASC 3 Werbeagentur
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