

2003

QUARTERLY REPORT
I/2003

2003



INTERTAINMENT

Aktiengesellschaft

Sales (Mn Euros)	0.7	2.5
EBIT* (Mn Euros)	-2.3	-2.4
Result from ordinary operations (Mn Euros)	-2.5	-2.6
Net loss for the quarter (Mn Euros)	-2.8	-3.7
Earnings per share (Euros)	-0.24	-0.32
Average number of employees	23	25

*includes extraordinary result

Key data for the share

ISIN	ISIN: DE0006223605	
Share capital	15,005,155.09 Euro	
Number of shares	11,739.013	
Issue price 08.02.1999	36.00 Euro	
	After split (1:2)	18.00 Euro
Closing price at 31.03.2003*	1.68 Euro	
High for 1 st quarter* (16.01.2003)	2.75 Euro	
Low for 1 st quarter* (12.03.2003)	1.45 Euro	
Shareholder structure at 31.12.2002	Rüdiger Baeres	52,86%
	Baeres family	9,38%
	Management, Supervisory board	0,20%
	Free float	37,56%

*Closing prices in Xetra electronic trading

Financial calendar

Publication of 1 st quarter report	11. July 2003
Publication of 2 nd quarter report	28. August 2003
Annual General Meeting	22. September 2003
Analysts conference	November 2003
Publication of 3 rd quarter report	28. November 2003

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Intertainment Group: Situation Report

for the first quarter of 2003

Performance during the first quarter of 2003

During the first quarter of 2003, Intertainment focused on completing production of **"BLACKOUT"**, the first co-production with American producer Arnold Kopelson and major studio Paramount Pictures. Intertainment also progressed the development of other film projects and was successful in the sale of secondary exploitation rights in the German video/DVD market.

The drive by Intertainment to bring about an upturn in operating business is projected to impact significantly on the balance sheet during the second half of fiscal year 2003. In line with expectations, sales during the first quarter of 2003 remained below the comparative value for the first three months of 2002. Overall, the Intertainment Group achieved **SALES** totaling EUR 0.7 million during the period from January to the end of March 2003, compared with EUR 2.5 million during the first quarter of 2002. Despite the fall in sales, Intertainment succeeded in reducing the loss for the quarter by around EUR 1.2 million to EUR -2.5 million. Liquid funds amounted to EUR 3.8 million on March 31, 2003. On December 31, 2002, liquid funds were slightly higher at EUR 3.9 million.

"BLACKOUT"

Intertainment concentrated on producing the thriller "Blackout" during the first quarter

SALES

See page 13 for sales performance

Legal dispute with Franchise Pictures

The sustained fall in sales continues to be a direct consequence of the fraud perpetrated by American film producer Franchise Pictures. Inflated budgets have resulted in Intertainment being defrauded of at least USD 100 million. INTERTAINMENT Licensing GmbH is claiming compensation in a lawsuit filed with the Federal District Court in Los Angeles. The lawsuit was filed at the end of 2000 and the trial is scheduled to begin on August 5, 2003. Intertainment reported extensively on the background to the legal dispute and the current status of proceedings in the Annual Report for 2002.

The following developments took place in the legal dispute with Franchise Pictures and in matters relating to the dispute during the first three months of the current fiscal year:

Franchise appointed new lawyers in January 2003 after the lawyers representing Franchise withdrew from the case in November 2002.

In January 2003, Intertainment transferred the last installment for **"CAVEMAN'S VALENTINE"** demanded by the National Bank of Canada amounting to approximately USD 7 million. The National Bank of

"CAVEMAN'S VALENTINE"

Intertainment pays second installment

Canada had financed the film produced by Franchise Pictures and had demanded a second installment payment from Intertainment through arbitration proceedings. Intertainment contended that the film had not been correctly supplied. Intertainment was unsuccessful in these proceedings after all legal remedies had been exhausted. However, the film "Cavemans Valentine" continues to form part of the Franchise case as a result of fraudulently inflated budgets.

In December 2002, Intertainment filed a suit with the State Court against **COMERICA BANK**, insurance companies WorldWide Film Completion and Film Finances, and against executives in these companies on account of what in the view of Intertainment constitutes fraudulent collaboration with Franchise Pictures.

In the first quarter of 2003, Comerica Bank, one of the syndicated banks of Franchise Pictures, commenced arbitration proceedings against INTERTAINMENT Licensing GmbH for payment of the second installment amounting to USD 13.6 million for the film "Driven" and applied for transfer of the lawsuit filed by Intertainment to the Federal Court. Intertainment consequently applied for suspension of the arbitration proceedings on the grounds that the film "Driven" was already the subject of a lawsuit against Comerica Bank and the other defendants, and a decision on a claim for payment could not therefore be made on this matter in a separate procedure.

After the conclusion of the first quarter, the following developments took place in the legal dispute with Franchise Pictures and in matters relating to the dispute: In April 2003, the US District Court decided pursuant to the application by Intertainment that the suit filed against Comerica Bank and the other defendants in December 2002 should be heard by the **STATE COURT** and not by the Federal Court as contended by the opposite party.

At a pre-trial conference in mid-June 2003, the United States District Court judge confirmed August 5 as the date for the start of the main hearing for the lawsuit filed by Intertainment against Franchise Pictures. The parties have been allowed 16 trial days over a period of four weeks.

At the end of June, the United States District Court judge announced at a hearing that the lawsuit filed by Intertainment against Comerica Bank, the two insurance companies and executives of these companies would be postponed until a decision had been reached on the arbitration proceedings instituted by Comerica Bank against Intertainment. By filing counterclaims and counterdemands under the arbitration proceedings, Intertainment consolidated the claim for payment of the second tranche for the film "Driven" that Intertainment is filing in the State Court.

In mid-June 2003, International Motion Picture Corporation Ltd., Hong Kong, commenced arbitration proceedings against Intertainment. These relate to the film "Tracker", which is part of the budget fraud lawsuit that Intertainment is conducting against Franchise Pictures. Internatio-

STATE COURT

Case against Comerica Bank remains with State Court

nal Motion Picture Corporation is demanding compensation for damages from Intertainment amounting to around USD 3.3 million in connection with the film. Intertainment is assuming that a decision on the "Tracker" case will be reached in the course of a consolidated arbitration hearing covering all the claims which have been asserted. Intertainment furthermore assumes that this consolidated arbitration hearing will only be held after the conclusion of the Franchise trial.

Segmental development

Film production and sale of rights

The film "Blackout" was in the post-production phase during the first quarter of 2003. This was brought to a successful conclusion after the end of the reporting period. The film stars Ashley Judd, Samuel L. Jackson and Andy Garcia in the main roles and is scheduled for cinema release in **AUTUMN 2003**. "Blackout" is the first co-production between Intertainment and Arnold Kopelson. Paramount Pictures were also involved. The US film studio holds the North American rights to "Blackout". Intertainment owns all other rights and has successfully arranged **PRE-SALES** for the film. For example, pre-sales for Spanish and French rights were concluded after the American film festival AFM in February 2003. By the end of the reporting period, Intertainment had sold key territorial licenses for "Blackout" in advance.

AUTUMN 2003

"Blackout" is scheduled for cinema launch in autumn

PRE-SALES

Intertainment has already sold territorial licenses for "Blackout"

During the first quarter of 2003, Intertainment also worked on the development of **OTHER FILM PROJECTS** with partner Kopelson Entertainment. The film script for the thriller "Fast Forward" was progressed, also in cooperation with Paramount Pictures. Work also started on the film script for action comedy "Navy Seal". US major Walt Disney is also involved in the development of this film alongside Kopelson. Disney has taken over 35 % of development costs.

In February, Intertainment concluded a sales agreement with Independent Label Planet Media home entertainment GmbH with the aim of launching films from the Intertainment film library on the German DVD/video market.

In collaboration with otffilm, Intertainment launched "Things you can tell ..." in German cinemas on April 17, 2003. The film was launched with a total of 50 copies.

Animation & Merchandising

Intertainment Animation & Merchandising GmbH concentrated on developing the activities for the Christmas classic "Rudolph the Red Nosed Reindeer" during the first quarter of 2003, and also worked intensively on developing new material for the children's and family market.

Ismaning, July 9, 2003

Management Board

OTHER FILM PROJECTS

Working on "Fast Forward" and "Navy Seal"

COMERICA BANK

Lawsuit against Comerica Bank, insurance companies and executives of the companies

Intertainment Group: Consolidated Balance Sheet

as at March 31, 2003 in Accordance with IFRS

ASSETS	TEUR	
	31.03.2003	31.12.2002
A. FIXED ASSETS		
I. Intangible assets		
1. Licenses, commercial property rights and similar rights as well as licences to such rights	598	631
2. Payments made on account	10,241	9,513
	10,839	10,144
II. Property, plant & equipment		
Other plant, business and office equipment	2,054	2,206
III. Financial assets		
Participations	15,036	15,036
	27,929	27,386
B. CURRENT ASSETS		
I. Inventories		
1. Film rights	10,831	10,831
2. Merchandise	425	425
3. Payments made on account	33,170	33,107
	44,426	44,363
II. Receivables and other assets		
1. Trade receivables	26,783	37,165
2. Receivables from affiliated enterprises	9,728	9,452
	36,511	46,617
III. Cash on hand and in bank balances	3,831	3,922
	84,768	94,902
C. DEFERRED TAXES	5,129	5,132
	117,826	127,420

EQUITY & LIABILITIES	TEUR	
	31.03.2003	31.12.2002
A. EQUITY		
I. Subscribed capital	15,005	15,005
II. Capital reserve	149,417	149,426
III. Revenue reserves		
Statutory reserve	116	116
IV. Loss carried forward	-90,620	-74,496
V. Loss for the period	-2,834	-16,124
	71,084	73,927
B. PROVISIONS		
1. Tax provisions	117	117
2. Other provisions	4,609	6,966
	4,726	7,083
C. LIABILITIES		
1. Liabilities due to banks	15,185	16,172
2. Down payments received on orders	841	419
3. Trade accounts payable	20,330	24,233
4. Other liabilities	3,538	3,782
	39,894	44,606
D. DEFERRED TAX LIABILITIES	2,122	1,804
	117,826	127,420

Intertainment Group: Income Statement

for the period from 1 January to 31 March 2003 in Accordance with IFRS

TEUR	1.1.-31.03.2003	1.1.-31.03.2002
1. Sales revenues	716	2,534
2. Other operating income	1,579	1,426
	2,295	3,960
3. Cost of materials		
a) Cost of film rights and accompanying services	313	765
b) Cost of purchased merchandise and services rendered	89	52
	402	817
4. Personnel expenses		
a) Wages & salaries	759	813
b) Social security contributions	36	33
	795	846
5. Depreciation on property, plant & equipment and amortization on items of intangible fixed assets	106	135
6. Other operating expenses	3,341	4,562
7. Interest income / expense	-164	-188
8. Result of ordinary business activity	-2,513	-2,588
9. Taxes on income and earnings	320	1,127
10. Other taxes	1	0
11. Group net loss for the period	-2,834	-3,715
Basic loss per share	-0,24	-0,32
Diluted loss per share	-0,24	-0,32

Intertainment Group: Consolidated Cash Flow Statement

for the period from 1 January to 31 March 2003 in Accordance with IFRS

TEUR	31.03.2003	31.03.2002
Period result prior to extraordinary items	-2,834	-3,715
Depreciation of fixed assets	106	136
Change in provisions	-2,357	535
Changes to inventories	-63	0
Changes in trade receivables	10,382	3,641
Changes in other assets	-273	1,240
Changes in trade payables as well as in other liabilities	-3,407	-959
Inflow from current operations	1,554	878
Outgoing payments for investments in fixed assets	-649	-2,973
Outflow of funds from investment activity	-649	-2,973
Changes in liabilities to banks	-987	-1,816
Outflow of funds from financing activity	-987	-1,816
Changes in cash and cash equivalents	-82	-3,911
Changes in cash and cash equivalents resulting from exchange rate and other influences	-9	-57
Cash and cash equivalents at beginning of period	3,922	14,231
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3,831	10,263

Entertainment Group: Development of the Group-Shareholders' Equity

as at March 31, 2003 in Accordance with IFRS

in TEUR					
	Share capital	Capital reserve	Revenue reserve	Balance Sheet profit/loss	Total
Result 2000				5,569	5,569
Currency difference		44			44
Share swap	246	19,802			20,048
Capital increase	2,365	101,485			103,850
Costs of capital increase		-2,577			-2,577
BALANCE AT 31.12.2000	15,005	149,525	116	12,311	176,957
Result 2001				-86,807	-86,807
Currency difference		-2			-2
BALANCE AT 31.12.2001	15,005	149,523	116	-74,496	90,148
Result 31.12.2002				-16,124	-16,124
Currency difference		-97			-97
BALANCE AT 31.12.2002	15,005	149,426	116	-90,620	73,927
Result 31.03.2003				-2,834	-2,834
Currency difference		-9			-9
BALANCE AT 31.03.2003	15,005	149,417	116	-93,454	71,084

Entertainment Group: Notes

to the Consolidated Financial Statements for the Interim Report for the period to March 31, 2003 in Accordance with IFRS

I. General Information

Entertainment AG and the companies included in the consolidated financial statements use the same accounting, valuation and consolidation policies for the Interim Report as were applied for the consolidated statements of the financial year 2002.

A detailed explanation of these policies is not included in the Interim Report.

The **CONSOLIDATED FINANCIAL STATEMENTS** relate to Entertainment AG and its subsidiaries ENTERTAINMENT Licensing GmbH, Entertainment Animation & Merchandising GmbH and USA-Entertainment, Inc.

Entertainment has stated the figures in these Notes in thousand Euros (TEUR). The corresponding figures for the previous year are presented alongside the figures for the reporting period in order to assist in making comparisons. December 31, 2002 is given as the comparative reporting date in the balance sheet and March 31, 2002 is given in the income statement.

II. Notes to the Balance Sheet

1. Fixed assets

Payments on account and intangible assets include in particular TEUR 5,509 (12/31/2002: 5,509) for the acquisition of film rights and TEUR 4,732 (12/31/2002: 4,004) for other film productions.

FINANCIAL ASSETS comprise the shareholding in the company SightSound Technologies Inc. Entertainment AG has a stake of approximately 22.8 % in this company. In the fiscal year 2001, this participation in SightSound was written down by 25 % of the valuation amount due to increased risk discounts for risks specific to the company and the industry.

2. Inventories

The value of **FILM RIGHTS** amounting to TEUR 10,831 at the reporting date was unchanged compared with December 31, 2002. The value of merchandise held for sale is unchanged at TEUR 425 (12/31/2002: TEUR 425) and comprises merchandising articles, videos and DVDs.

CONSOLIDATED FINANCIAL STATEMENTS

Entertainment AG and its three subsidiaries are included in the consolidated financial statements

FINANCIAL ASSETS

Comprise the shareholding in SightSound Technologies

FILM RIGHTS

Remain unchanged compared with December 31, 2002

Payments on account for film rights of TEUR 33,170 (12/31/2002: TEUR 33,107) consist mainly of payments relating to the first installment for film rights of Franchise Pictures that are directly connected with the pending legal actions. Intertainment paid the first installment and part of the second installment for these film titles and has reported the total amount of the payments reduced by depreciation reserves as a payment on account for film rights.

3. Trade accounts receivable

Trade receivables amount to TEUR 26,783 (12/31/2002: TEUR 37,165), of which TEUR 19,082 (12/31/2002: TEUR 19,214) have a residual term of more than one year. Long-term accounts receivable were discounted by a total of TEUR 2,151 (12/31/2002: TEUR 2,446).

4. Other assets

Other assets consist mainly of accounts receivable from Blackout Productions Inc. in the amount of TEUR 6,521 (12/31/2002: TEUR 6,820), accounts receivable from Paramount Pictures totaling TEUR 481

(12/31/2002: TEUR 506) and input tax not due of TEUR 1,337 (12/31/2002: TEUR 1,337).

5. Cash on hand, bank balances

LIQUID FUNDS totaling TEUR 3,831 (12/31/2002: TEUR 3,922) comprise fixed term deposits of TEUR 617 (12/31/2002: TEUR 900), current account balances of TEUR 3,214 (12/31/2002: TEUR 3,022) and cash on hand. Fixed term deposits have terms of less than one year. Liquidity of TEUR 617 (12/31/2002: TEUR 717) is not unconditionally available due to a surety and a letter of credit in connection with rental obligations relating to office premises.

6. Equity

We refer to the **SCHEDULE OF SHAREHOLDERS' EQUITY** for developments in equity. The share capital is made up of 11,739,013 no-par-value shares in issue. The authorized unissued capital and contingent capital remains unchanged since December 31, 2002.

7. Provisions

Provisions for taxation include outstanding taxes for the fiscal years 1998 to 2000 arising from a tax audit and amounting to a total of TEUR 117 (12/31/2002: TEUR 117).

LIQUID FUNDS

At TEUR 3,831 virtually the same as December 31, 2002

SCHEDULE OF SHAREHOLDERS' EQUITY

See page 10

Other provisions developed as follows in the first quarter for 2003:

II. 7. OTHER PROVISIONS				TEUR
	Description 01.01.2003	Utilized	Released	Description 31.03.2003
Outstanding invoices	2,623	-515	-1,304	804
Litigation risks	3,000	-288	0	2,712
Provision for license sales	765	0	0	765
Personnel	372	-250	0	122
License fees	127	0	0	127
Miscellaneous	79	0	0	79
Total	6,966	-1,053	-1,304	4,609

The provisions for outstanding invoices consist of payment obligations for goods delivered and services rendered and not yet paid for.

The provision for litigation risks encompasses the estimated costs still to be incurred for the pending legal action with Franchise Pictures.

The provision for license sales results from disputes relating to the settlement of film license sale agreements. In 2002, Intertainment adjusted existing agreements with licensees, to take into account the litigation with Franchise Pictures and other matters. The provision for personnel relates to vacation not yet taken and severance payments.

The provision for license fees relates to licenses exploited during the period under review for which corresponding fees are payable to the licensee.

8. Liabilities

LIABILITIES TO BANKS relate exclusively to a loan amounting to TEUR 15,185 (12/31/2002: TEU 15,185) with HypoVer-einsbank. The loan with BHF Bank was settled in full in the first quarter of 2003 (12/31/2002: TEUR 987). The existing loan is being repaid on a regular basis and is due for repayment at the latest on June 30, 2004. The loan is subject to variable interest which is geared to base interest rates. Intertainment has used the loan to finance the acquisition of film license rights and in this connection has agreed to the assignment of exploitation rights, ownership of the material and accounts receivable from sales contracts to the bank.

LIABILITIES TO BANKS

Loan to BHF Bank repaid in full

TRADE LIABILITIES
Decrease to TEUR
20,268

TRADE LIABILITIES amount to TEUR 20,268 (12/31/2002: TEUR 24,233). This includes long-term liabilities totaling TEUR 17,110 (12/31/2002: TEUR 18,206) which are discounted by TEUR 2,007 (12/31/2002: TEUR 2,277).

Miscellaneous liabilities mainly relate to repayment obligations to Paramount Pictures amounting to TEUR 2,088 (12/31/2002: TEUR 2,088).

III Notes on the income statement

1. Sales revenues

SALES REVENUES amount to TEUR 716 (3/31/2002: TEUR 2,534) and result in particular from video and pay-TV exploitation of the film titles "Art of War", "The Whole Nine Yards" and "Battlefield Earth", and the sale of a package of secondary rights.

2. Other operating income

Other operating income includes released provisions amounting to TEUR 1,304 (3/31/2002: TEUR 18) and currency gains totaling TEUR 264 (3/31/2002: TEUR 672). Currency gains are set against currency losses amounting to TEUR 1,199 (3/31/2002: TEUR 744) and reported under other operating expenses.

3. Cost of materials

The cost of materials consists primarily of marketing costs amounting to TEUR 313 (3/31/2002: TEUR 783) relating to the film titles exploited under sales revenues.

4. Other operating expenses

OTHER OPERATING EXPENSES essentially include the following: expenses for currency losses amounting to TEUR 1,199 (3/31/2002: TEUR 744), remuneration of administrative costs to film producers amounting to TEUR 728 (3/31/2002: TEUR 650), and legal and consultancy fees totaling TEUR 755 (3/31/2002: TEUR 350).

5. Interest result

The interest result is made up of interest income of TEUR 292 (3/31/2002: TEUR 337) and interest expenses of TEUR 456 (3/31/2002: TEUR 525).

IV. Other information

1. Earnings per share

Under IAS 33, **EARNINGS PER SHARE** are calculated by dividing the quarterly result by the weighted average number of shares in circulation.

The number of Intertainment shares amounts to 11,739,013. The Group recorded a net loss of TEUR -2,834 in the first quarter of 2003, following a loss of TEUR -3,715 in the previous quarter. Earnings per share therefore amount to EUR -0.24 after EUR -0.32 in the first quarter of 2002. Diluted earnings per share in the quarter under review and the previous quarter correspond to undiluted earnings.

OTHER OPERATING EXPENSES

See page 8 for development during the first quarter of 2002

EARNINGS PER SHARE

Improvement to EUR -0.24

GUARANTEE

Intertainment AG guarantees loan taken out by INTERTAINMENT Licensing GmbH

2. Other financial commitments

As at March 31, 2003, Intertainment records the following future payment obligations:

IV. 2. FUTURE PAYMENT OBLIGATIONS			TEUR
	Remaining term less than 1 year	Remaining term more than 1 year	Total
Obligations arising from film productions	31,119 (32,699)	6,481 (7,659)*	37,600 (40,358)*
Obligations arising from lease and rental contracts	1,395 (1,640)	2,695 (3,245)*	4,090 (4,885)*
Total	32,514 (34,339)*	9,176 (10,904)*	41,690 (45,243)*

*at 12/31/2002

You are referred to the notes on the financial statements for the year ending 2002 if you require details of the individual items.

4. Other contingent obligations

Intertainment has financed part of its film rights with loans from banks. In return, Intertainment has assigned to the banks the film rights and associated receivables arising from the exploitation of such rights. During the financial year 2001, Intertainment AG assumed a **GUARANTEE** to Hypo-Vereinsbank AG of TEUR 16,361. This serves as security for a loan taken out by INTERTAINMENT Licensing GmbH and falls due on 6/30/2004. At March 31, 2003,

the loan amounted to TEUR 15,185 (12/31/2002: TEUR 15,185).

Intertainment AG gave a surety of TEUR 76 (12/31/2002: TEUR 76) in the course of fiscal year 2000 for the tenancy of office premises in Ismaning and this surety continues unchanged. There is also a letter of credit from Intertainment AG for TUSD 666 (12/31/2002: TUSD 666) for the rental obligations relating to the tenancy of the office premises of USA- Intertainment, Inc. in Los Angeles.

5. Pending litigation

Proceedings against Franchise Pictures were still pending at March 31, 2003. The grounds for this lawsuit have already been outlined in the notes to the consolidated financial statements for the period ended December 31, 2002. The risks and probabilities of occurrence remain unchanged.

6. Employees

The Group employed on average a staff of 23 (12/31/2002: 23) during the first quarter of 2003.

7. Share ownership and options held by members of the executive bodies

IV.7. SHARE OWNERSHIP AND OPTIONS		
MANAGEMENT BOARD	Shares	Options
Rüdiger Baeres	6,205,635	0
Achim Gerlach	10,000	100,000
Stephen Brown	0	50,000
SUPERVISORY BOARD	Shares	Options
Dr. Matthias Heisse	12,980	0
Dr. Ernst Pechtl	0	0
Dr. Wilhelm Bahner	0	0

As at March 31, 2003, the Company did not hold any of its own shares.

18. Risks prejudicial to continue existence

The quarterly financial statements have been prepared on the premise of a going concern. In this connection, the management of Intertainment assumes a positive forecast for the continuance of the company as a going concern, so that the company will in all probability be able to continue its business activities during the current and subsequent business years and meet its payment obligations. The positive forecast for continuation as a going concern is based on an **INTEGRATED CORPORATE PLAN** from which a detailed financial budget has been derived. This includes the financing of future business activity, planned investments and other financing activities. Overall, the estimate of the continued existence of the company's activities is qualified by three major uncertainties that cannot be assessed definitively at the present time. In particular, these are:

- > Inflows of funds from the litigation against Franchise Pictures,
 - > Outflows of funds from arbitration court proceedings, and
 - > Uncertainties about the realization of other premises on which the financial budget submitted by the company is based.
- If the inflows of funds, the outflows of funds or the premises on which the financial budget is based fail to materialize as

INTEGRATED CORPORATE PLAN

A detailed financial budget has been derived from the integrated corporate plan

planned, the continued existence of Intertainment AG, INTERTAINMENT Licensing GmbH and Intertainment Animation & Merchandising GmbH is highly imperiled on account of impending inability to pay and the consequent opening of insolvency proceedings – also in the short term.

INFLOWS OF FUNDS FROM LITIGATION AGAINST FRANCHISE PICTURES

If INTERTAINMENT Licensing GmbH should fail with its suit against Franchise Pictures in the first instance in August 2003, there is a possibility of appeal. The appeal proceedings would last roughly a further 18 to 24 months. The further financing of the costly trial could also have considerable negative effects on the company. If INTERTAINMENT Licensing GmbH should win the lawsuit against Franchise in the first instance, Franchise too has the possibility of appealing. As with any court case, there is moreover the risk that, even if Intertainment carries the day, it may not be possible to realize the decision against the parties being sued.

OUTFLOWS OF FUNDS FROM ARBITRATION PROCEEDINGS

INTERTAINMENT Licensing GmbH is subject to the risk that the banks financing Franchise Pictures will open arbitration proceedings for payment of the second installment for the disputed film rights. Comerica Bank opened such proceedings at the beginning of 2003 against INTERTAINMENT Licensing GmbH in connection with the film "Driven".

If Comerica Bank should have success with the arbitration proceedings that it has initiated regarding the second installment for the film "Driven", INTERTAINMENT Licensing GmbH may face a payment obligation of up to USD 13.6 million. In the event that Intertainment does not obtain the budgeted inflows of funds from the Franchise lawsuit, there would be a danger that INTERTAINMENT Licensing GmbH would not be able to meet this payment obligation. A resulting inability to pay and the insolvency proceedings which would have to be initiated against INTERTAINMENT Licensing GmbH would mean for Intertainment AG, among other things, the loss due to the impairment of the inter-company account with INTERTAINMENT Licensing GmbH and the impairment of the shares of INTERTAINMENT Licensing GmbH which are held by Intertainment

AG. There would also be a question as to whether Intertainment AG would be able to continue to pursue the lawsuit being prosecuted by INTERTAINMENT Licensing GmbH against Franchise Pictures.

In the event that an arbitration court decides in favor of one of the financing banks, the bank would, in the view of Intertainment, be obliged to offset the income from the exploitation of the disputed film rights against the payment obligation of Intertainment. However, in the case of the arbitration court proceedings relating to Caveman's Valentine which were confirmed during the year under review, this did not happen. Intertainment assumes that the income from the exploitation of these film rights will be considerably higher than the obligations to pay the second installment. In the lawsuit against Comerica and the insurance companies, Intertainment will petition for all claims (including the claims for payment made by Comerica in the arbitration proceedings) connected with any films in which Franchise Pictures is involved to be decided in a consolidated arbitration hearing. Furthermore, Intertainment will apply to have this proceeding scheduled after the main hearing of the lawsuit against Franchise Pictures.

Meanwhile on June 18, 2003 International Motion Picture Corporation Ltd., which is based in Hong Kong, opened a further arbitration case against INTERTAINMENT Licensing GmbH for payment of damages in

the amount of USD 3,262,500 for the film "Tracker". Here, too, Intertainment will petition to have the claims decided by the consolidated hearing described above. Independently of any arbitration proceedings, the disputed films remain part of the pending lawsuit against Franchise Pictures.

UNCERTAINTIES WITH REGARD TO THE OTHER ASSUMPTIONS IN THE FINANCIAL BUDGET

The other assumptions of the financial budget relate mainly to inflows of funds in the short term from operating activities of the Group and a sale of receivables, which has already been concluded and which is subject to a condition precedent. Moreover, there are financial obligations in connection with the redemption of a BANK LOAN which is due in June 2004. The debtor for this loan is INTERTAINMENT Licensing GmbH. Intertainment AG has given a guarantee for these liabilities.

Intertainment AG, July 9, 2003

Management Board

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