

# 2002

**QUARTERLY REPORT**  
**11/2002**



**ENTERTAINMENT**

Aktiengesellschaft

## Key figures (group)

	2 0 0 2		2 0 0 1	
Figures in million Euro	1.4.–30.6.	1.1.–30.6.	1.4.–30.6.	1.1.–30.6.
SALES REVENUES	8.9	11.5	9.9	14.7
EBIT	0.8*	-1.6*	1.0*	0.5*
OPERATING INCOME	-0.2	-2.6	-1.9	-2.3
RESULT BEFORE INCOME TAX	0.6	-2.0	2.1	2.1
NET INCOME	-0.4	-4.1	1.3	1.3
EARNINGS PER SHARE	-0.04	-0.35	0.11	0.11
AVERAGE NUMBER OF EMPLOYEES		24		27

\* including the extraordinary result

## Key figures of the stock

SECURITIES IDENTIFICATION NUMBER/ISIN	WKN: 622 360 / ISIN: DE0006223605	
SHARE CAPITAL	15,005,155.09 Euro	
NUMBER OF SHARES	11,739,013	
OFFER PRICE 8.2.1999	36.00 Euro	
	after split (1:2)	18.00 Euro
SHAREHOLDER STRUCTURE AT 30.6.2002	Rüdiger Baeres	52.86%
	Family Baeres	9.38%
	Management, Supervisory Board	0.20%
	Free float	37.56%
FINAL PRICE* AT 28.6.2002	1.26 Euro	
HIGHEST PRICE* 1 <sup>ST</sup> HALF-YEAR 2002 (3.1.2002)	3.05 Euro	
LOWEST PRICE* 1 <sup>ST</sup> HALF-YEAR 2002 (6.5.2002)	1.10 Euro	

\* Xetra

## Corporate Calender

2 <sup>ND</sup> QUARTERLY REPORT	August 29, 2002
DVFA-ANALYST CONFERENCE	October 15, 2002
3 <sup>RD</sup> QUARTERLY REPORT	November 28, 2002

## Contact

Intertainment AG	Phone: + 49 89 216 99-0
Investor Relations	Facsimile: + 49 89 216 99-11
Osterfeldstrasse 84	E-Mail: investor@intertainment.de
D-85737 Ismaning	www.intertainment.de

# Course of business during the first six months of 2002

In the first six months of 2002 Intertainment has achieved several operative successes in the field of buying and selling rights.

With the sale of three film packages to enterprises in Great Britain, Eastern Europe and Germany, Intertainment increased its sales volume and its earnings considerably in the second quarter of 2002, as compared with the first quarter. The sales volume for the second quarter 2002 amounts to 9 million Euros, the earnings before taxes amount to 0.6 million Euros. For the first six months the sales revenues amount to 11.5 million Euros, and the earnings before taxes amount to minus 2 million Euros. Between the first and the second quarter of 2002, the cash position has increased from 10.3 million Euros to 18.6 million Euros.

Intertainment has a solid financial basis, which will allow for further development of its activities in film production. In the first six months of 2002, Intertainment has achieved further success in its lawsuit against Franchise Pictures, which had been filed in December 2000 because of fraudulently inflated budgets.

## Rights-trade

In spite of the difficult situation in the European media-market, Intertainment has managed to sell three film packages during the first six months of 2002. In May of 2002, Intertainment sold a film package of Free-TV-Rights to England, and an All-Rights-film-package to Eastern Europe. At the end of June 2002, the Tele München Group purchased a film package from Intertainment AG to distribute in German Free- and Pay-TV. Among others, the titles of the films were "The Whole Nine Yards", "Art of War", "Things You Can Tell Just by Looking at Her", "Camouflage" and "Takedown". Further revenues from the sale of the film packages will be recognized during the next report period.

In connection with the Franchise lawsuit, further negotiations with our Spanish licensee became necessary, because films, for which down-payments had already been made, could not be provided. The parties have reached an agreement to fulfill the deal with the films that are deliverable. Thus, a part of the risk-precautions could be dissolved.

Film production

In the context of a First-Look and Co-Financing Agreement with Paramount Pictures, during the first six months Intertainment developed the film “Blackout” together with Kopelson Entertainment. Paramount, which finances 35% of the film budget, will distribute the picture in North America. Intertainment retains all international rights outside of North America.

The partners are working on several other film projects including the thrillers “Decoy” and “Fast Forward”. Up to the end of June 2002, Intertainment has altogether invested 13.1 million dollars in film productions.

Lawsuit against Franchise Pictures

In the first six months of 2002, Intertainment’s lawsuit against Franchise Pictures has proceeded well. In May of 2002, a judge upheld two RICO-Claims against Franchise Pictures and its two partners, Elie Samaha and Andrew Stevens. “RICO-Act” stands for “Racketeer Influenced and Corrupt Organizations Act”. According to this special American law, which had been introduced as an “Anti-Mafia-Law” in the middle of the eighties, victims of organized crime are entitled to triple compensation and to the refund of attorneys’ fees.

In addition to the compensation claims against Franchise, Samaha and Stevens on grounds of organized crime, the court also upheld the RICO-allegations of a criminal enterprise involving Comerica Bank (formerly known as Imperial Bank) and WorldWide Film Completion Inc.

The decision of the court supports the intention of Intertainment, to also include the Comercia-Bank, as well as the completion bond companies WorldWide Film Completion and Film Finances in the range of liable parties because of their fraudulent cooperation with Franchise. The lawsuits, which Intertainment is preparing at present, will most likely be filed in Los Angeles by September 2002.

The progress of the litigation

December 18, 2000	Negotiations with Andrew Stevens, President and COO of Franchise Pictures, concerning an amicable settlement break down
December 21, 2000	Intertainment takes legal action against Franchise Pictures before the Federal District Court of Los Angeles  Franchise Pictures reacts by taking legal action against Intertainment
February 20, 2001	Intertainment also takes legal action against Imperial Bank
April 18, 2001	Judge decides that the general case is to be suspended and that priority should be given to the arbitration proceedings against Imperial Bank
May 31, 2001	Intertainment withdraws the law suit against Imperial Bank in order to further pursue the legal proceedings against Franchise Pictures
June 13, 2001	The judge rescinds the temporary suspension of the lawsuit against Franchise Pictures
August 17, 2001	Intertainment files the third version (update) of the statement of claim against Franchise Pictures
August 27, 2001	The date of the hearing is fixed for 10 September 2002. Completion of the discovery stage is scheduled for 27 May 2002
September 20, 2001	The court orders Franchise Pictures to respond to the interrogatories presented by Intertainment on the budgets of the films in dispute  The court also grants a petition from Intertainment that obliges the Imperial Bank to release discovery documents
September 25, 2001	The court rejects a petition from Imperial Bank filed because the bank wanted to refuse to release documents to Intertainment for reasons of “confidentiality”
October 13, 2001	The court orders that Film Finances Canada has to submit documents and answer questions on the budgets
October 31, 2001	The case is assigned to a new judge meaning that there are delays in the court dates
December 26, 2001	The judge sets June 3, 2002 as the final date for the discovery proceedings and sets November 19, 2002 as the date for proceedings (ten days for a jury trial)
January 24, 2002	The court orders that Franchise Pictures has to surrender budget documents and imposes monetary sanctions and that Franchise Pictures cannot assert “confidentiality”
January 29, 2002	The court orders monetary sanctions against Franchise Pictures again because they did not answer all questions in connection with the film budget
February 19, 2002	The court orders monetary sanctions against Comerica Bank (formerly known as the Imperial Bank) because it disregarded court orders
April 29, 2002	Intertainment filed a motion for “writ of attachment” against Franchise amounting to 24 million Dollars, in order to secure access to at least a portion of the claims against Franchise
May 23, 2002	The Federal District Court in Los Angeles upheld the pleading of two of three RICO claims against Franchise and its principals, Samaha and Stevens. With this claim, victims of organized crime are entitled to triple compensation and to the refund of attorneys’ fees  Further, the Court upheld the allegation of a criminal enterprise involving Comerica Bank (formerly Imperial Bank) and WorldWide Film Completion, Inc.

## SightSound Technologies

SightSound Technologies, in which Intertainment owns 22.8 per cent and which holds the American patents for digital audio- and video-download via telecommunication-lines in the USA, is the ideal partner for the future market: download of films via the internet. Intertainment is considering to increase its share in SightSound by stock swap in the long run. For this reason Intertainment requested an extension of permission for the acquisition of up to ten per cent of its own shares at this year's general meeting, for which approval was granted.

## Merchandizing

The preparations for the start of the new video of Rudolph 2 "Rudolph – And the Island of Misfit Toys" are running at full blast. The German version of the film was synchronized by well-known actors or showmasters, such as Michael Schanze, Katja Riemann, Wolfgang Völz, Ralf Bauer and Milka Loff Fernandes (VIVA). The talented actor Tristano Casanova is once again the voice of "Rudolph – The red-nosed Reindeer". Revenues from the exploitation of the video, soundtracks and other merchandizing-products will first be recognized during the Christmas season in the fourth quarter of 2002.

## General meeting in 2002

The fourth annual general meeting of Intertainment AG took place on July 16th, 2002 at the Arabella Sheraton Hotel, Munich. The share capital of Intertainment AG amounting to 15,005,155.09 Euros, which is divided up into 11,739,013 shares, was represented by the shareholders and the shareholders representatives present with 7,528,732 shares. This corresponded to a quota of approx. 64.13 per cent of the share capital. All seven items of the agenda were resolved by the voting shareholders and shareholders representatives with a large majority. In addition to approving the acts of the executive board and of the supervisory board, as well as the election of the auditor, one of the essential decisions of the shareholders' meeting was the authorization of the corporation for the acquisition of shares of its own. The authorization already expressed last year was thereby extended until January 16th, 2004. The general meeting has furthermore agreed to the adjustment of the stock option programs of 01-18-1999 / 07-09-1999 and of 06-27-2001 together with the corresponding amendments of the articles of association. The adjustment had become necessary after the average spot quotation, as a reference course, had been discontinued by the Frankfurt stock exchange.



*The fourth annual general meeting of Intertainment AG on July 16th, 2002 at the Arabella Sheraton Hotel, Munich*

In the context of the general meeting, the executive board has announced to largely adopt the Corporate Governance Codex coming into effect with the introduction of Transparency- and Publicity-Legislation.

## Outlook

On August 5th, 2002, Principal Photography of the film "Blackout" which is starring Ashley Judd ("High Crimes"), Samuel L. Jackson ("Star-Wars-Triology") and Andy Garcia ("Ocean's Eleven") commenced.

– The Management Board –

**Consolidated Balance Sheet as at June 30, 2002  
in Accordance with the International Accounting Standards (IAS)**

*INTERENTAINMENT GROUP*

**ASSETS**

	30.6.2002	31.12.2001
	€	€
<b>A. Fixed assets</b>		
<b>I. Intangible fixed assets</b>		
1. Franchises, trademarks and similar rights and assets, as well as licences to similar rights and assets	724,140.35	262,872.62
2. Down payments made	7,303,790.28	4,860,625.75
	<u>8,027,930.63</u>	<u>5,123,498.37</u>
<b>II. Property, plant and equipment</b>		
Other fixed assets fixtures, fittings and equipment	2,433,768.08	2,554,680.66
<b>III. Financial assets</b>		
Investments	15,381,060.60	15,036,272.25
	<u>25,842,759.31</u>	<u>22,714,451.28</u>
<b>B. Current assets</b>		
<b>I. Inventories</b>		
1. Film rights	22,220,488.67	27,700,378.54
2. Merchandise	175,366.30	177,431.38
3. Down payments made	24,569,986.34	24,569,986.34
	<u>46,965,841.31</u>	<u>52,447,796.26</u>
<b>II. Accounts receivable and other assets</b>		
1. Trade accounts receivable	42,328,479.87	54,242,348.43
2. Other assets	5,327,786.77	12,373,039.07
	<u>47,656,266.64</u>	<u>66,615,387.50</u>
<b>III. Cash on hand and in bank balances</b>	18,633,201.05	14,231,229.85
	<u>113,255,309.00</u>	<u>133,294,413.61</u>
<b>C. Prepaid expenses</b>	621,191.67	0.00
<b>D. Deferred taxes</b>	5,157,048.85	5,213,782.11
	<u>144,876,308.83</u>	<u>161,222,647.00</u>

**Consolidated Balance Sheet as at June 30, 2002  
in Accordance with the International Accounting Standards (IAS)**

*INTERENTAINMENT GROUP*

**LIABILITIES**

	30.6.2002	31.12.2001
	€	€
<b>A. Shareholder's equity</b>		
<b>I. Subscribed capital</b>	15,005,155.09	15,005,155.09
<b>II. Capital reserves</b>	149,570,542.21	149,523,096.82
<b>III. Retained earnings</b>		
Statutory reserve	115,806.59	115,806.59
<b>IV. Profit carried forward</b>	-74,495,554.85	12,311,232.50
<b>V. Loss for the year</b>	-4,132,992.20	-86,806,787.35
	<u>86,062,956.84</u>	<u>90,148,503.65</u>
<b>B. Provisions</b>		
1. Provisions for taxation	855,000.00	923,956.02
2. Other provisions	6,057,300.00	11,224,203.37
	<u>6,912,300.00</u>	<u>12,148,159.39</u>
<b>C. Liabilities</b>		
1. Liabilities due to banks	19,209,730.29	23,226,641.81
2. Down payments received on orders	0.00	3,265,691.80
3. Trade accounts payable	26,275,485.95	26,301,508.05
4. Other liabilities	2,165,345.75	3,896,358.87
	<u>47,650,561.99</u>	<u>56,690,200.53</u>
<b>D. Deferred tax liabilities</b>	4,250,490.00	2,235,783.43
	<u>144,876,308.83</u>	<u>161,222,647.00</u>

**Consolidated Income Statement for April 1, to June 30, 2002  
in Accordance with the International Accounting Standards (IAS)**

*INTERENTAINMENT GROUP*

	1.4.–30.6.2002	1.4.–30.6.2001
	€	€
1. Sales	8,942,672.73	9,867,865.55
2. Other operating income	2,375,710.66	5,462,600.43
	11,318,383.39	15,330,465.98
3. Cost of materials		
a) Cost of film rights and accompanying services	-5,937,978.58	-8,166,961.17
b) Cost of purchased merchandise and services rendered	-169,076.49	-69,067.97
	-6,107,055.07	-8,236,029.14
4. Personnel expenses		
a) Wages and salaries	-874,231.84	-942,940.37
b) Social security contributions	-33,600.81	-37,277.77
	-907,832.65	-980,218.14
5. Depreciation on intangible assets and property, plant and equipment	-126,171.15	-70,805.20
6. Other operating expenses	-4,425,091.06	-7,931,698.41
<b>7. Operating income</b>	<b>-247,766.54</b>	<b>-1,888,284.92</b>
8. Interest income/expense	-209,627.88	1,105,108.35
9. Extraordinary earnings	1,060,437.45	24,825,967.23
10. Extraordinary expenses	0.00	-21,985,550.89
11. Extraordinary results	1,060,437.45	2,840,416.34
<b>12. Result before tax</b>	<b>603,043.03</b>	<b>2,057,239.78</b>
13. Taxes on income	-1,021,055.28	-731,950.66
14. Other taxes	0.00	378.36
<b>15. Group net loss (pr. year net income)</b>	<b>-418,012.25</b>	<b>1,325,667.48</b>
Basic earnings per share	-0.04	0.11
Diluted earnings per share	-0.04	0.00

**Consolidated Income Statement for January 1, to June 30, 2002  
in Accordance with the International Accounting Standards (IAS)**

*INTERENTAINMENT GROUP*

	1.1.–30.6.2002	1.1.–30.6.2001
	€	€
1. Sales	11,476,649.19	14,750,216.87
2. Other operating income	3,801,294.83	9,385,617.47
	15,277,944.02	24,135,834.34
3. Cost of materials		
a) Cost of film rights and accompanying services	-6,703,144.00	-9,894,134.63
b) Cost of purchased merchandise and services rendered	-220,438.57	-100,209.31
	-6,923,582.57	-9,994,343.95
4. Personnel expenses		
a) Wages and salaries	-1,687,634.39	-1,958,550.01
b) Social security contributions	-66,029.40	-79,167.93
	-1,753,663.79	-2,037,717.94
5. Depreciation on intangible assets and property, plant and equipment	-261,623.10	-115,517.23
6. Other operating expenses	-8,987,067.72	-14,317,706.21
<b>7. Operating income</b>	<b>-2,647,993.16</b>	<b>-2,329,450.99</b>
8. Interest income/expense	-397,417.96	1,590,445.93
9. Extraordinary earnings	1,060,437.45	24,825,967.23
10. Extraordinary expenses	0.00	-21,985,550.89
11. Extraordinary results	1,060,437.45	2,840,416.34
<b>12. Result before tax</b>	<b>-1,984,973.67</b>	<b>2,101,411.28</b>
13. Taxes on income	-2,148,018.53	-773,432.72
14. Other taxes	0.00	-351.77
<b>15. Group net loss (pr. year net income)</b>	<b>-4,132,992.20</b>	<b>1,327,626.79</b>
Basic earnings per share	-0.35	0.11
Diluted earnings per share	-0.35	0.00

**Consolidated Statement of Cash Flows for January 1, to June 30, 2002  
in Accordance with the International Accounting Standards (IAS)**

*INTERENTAINMENT GROUP*

	30.6.2002	30.6.2001
	T€	T€
Net income before extraordinary items	-5,193	1,328
Depreciation of fixed assets	262	116
Change in provisions	-5,236	-18,578
Change in inventories	5,482	-36,314
Change in trade receivables	11,914	3,584
Change in other assets	6,481	775
Change in trade accounts payable and other liabilities	-3,008	-9,775
	10,702	-58,864
Extraordinary items not affecting cash flows	1,060	0
<b>Cash used for current operations</b>	<b>11,762</b>	<b>-58,864</b>
Payments made for investments in property, plant and equipment	-3,391	-212
<b>Cash used for investing activities</b>	<b>-3,391</b>	<b>-212</b>
Change in liabilities due to banks	-4,017	-332
<b>Cash used for financing activities</b>	<b>-4,017</b>	<b>-332</b>
<b>Changes in cash and cash equivalents affecting income</b>	<b>4,354</b>	<b>-59,408</b>
Changes in cash and cash equivalents caused by exchange rates and other factors	48	-155
Cash and cash equivalents at the beginning of the period	14,231	72,851
<b>Cash and cash equivalents at the end of the period</b>	<b>18,633</b>	<b>13,288</b>

**Development of the Group-Shareholders' Equity as at June 30, 2002  
in Accordance with the International Accounting Standards (IAS)**

*INTERENTAINMENT GROUP*

	Share capital	Capital reserve	Statutory reserve	Distributable profit	Total
	T€	T€	T€	T€	T€
<b>Balance 31.12.1998 (HGB code)</b>	<b>9,296</b>		<b>91</b>	<b>177</b>	<b>9,564</b>
<b>IAS reconciliation</b>					<b>0</b>
Adjusting item for legal reorganisation		-7,951		1,549	-6,402
Foreign currency valuation				63	63
Deferred taxation				6	6
<b>Balance 31.12.1998 (IAS)</b>	<b>9,296</b>	<b>-7,951</b>	<b>91</b>	<b>1,795</b>	<b>3,231</b>
Net income 1999				6,701	6,701
IPO	3,098	40,534			43,632
IPO expenses		-1,812			-1,812
Dividend				-1,729	-1,729
Appropriated to revenue reserves			25	-25	0
<b>Balance 31.12.1999</b>	<b>12,394</b>	<b>30,771</b>	<b>116</b>	<b>6,742</b>	<b>50,023</b>
Net income 2000				5,569	5,569
Differences on exchange		44			44
Share exchange	246	19,802			20,048
Capital increase	2,365	101,485			103,850
Capital increase expenses		-2,577			-2,577
<b>Balance 31.12.2000</b>	<b>15,005</b>	<b>149,525</b>	<b>116</b>	<b>12,311</b>	<b>176,957</b>
Net loss 2001				-86,807	-86,807
Differences on exchange		-2			-2
<b>Balance 31.12.2001</b>	<b>15,005</b>	<b>149,523</b>	<b>116</b>	<b>-74,496</b>	<b>90,148</b>
Net loss 30.6.2002				-4,133	-4,133
Differences on exchange		48			48
<b>Balance 30.6.2002</b>	<b>15,005</b>	<b>149,571</b>	<b>116</b>	<b>-78,629</b>	<b>86,063</b>

*INTERENTAINMENT GROUP*

**(I) Accounting- and Valuation-Methods**

Intertainment uses the same accounting-, valuation- and consolidation methods for the Interim-Report as were applied for the Group Statement of the financial year 2001. Separate explanation of these principles is renounced in the context of the Interim-Report.

**(II) Notes on the Balance Sheet**

**1. Fixed assets**

The license for the new version of “Rudolph – The red-nosed Reindeer” is accounted for in the intangible fixed assets for the first time to June 30th 2002 at a value amounting to TEUR 493 (December 31st, 2001: TEUR 0).

The down payments for intangible fixed assets concern advance payments for producer remunerations in the amount of TEUR 7,304 (December 31st, 2001: TEUR 4,491).

The financial fixed assets of TEUR 15,381 (December 31st, 2001: TEUR 15,036) contain an approx. 22.8% share of Intertainment AG in the company SightSound Technologies Inc. This holding was depreciated with 25% in the financial year 2001, due to increased risk discounts for enterprise- and industry-specific-risks. In the second quarter of 2002, Intertainment AG additionally granted SightSound Technologies Inc. an interest-bearing loan in the amount of TEUR 345, the repayment of which is planned for April 4th, 2003. Intertainment AG is entitled to change the loan amount into shares in SightSound Technologies Inc. at any time during the term of the loan.

**2. Film rights**

Up to June 30th, 2002, the stock of film rights amounts to TEUR 22,220 (December 31st, 2001: TEUR 27,701). Scheduled depreciations for sold film rights in the amount of TEUR 5,481 were carried out in the second quarter of 2002 (December 31st, 2001: TEUR 5,393).

The film rights have developed as follows:

	<b>June 30, 2002</b>	<b>December 31, 2001</b>
	T€	T€
Beginning inventories (book value)	27,701	64,008
Accesses	0	42,692
Scheduled depreciations	-5,481	-5,393
Unbudgeted depreciations	0	-62,221
Reductions	0	-11,385
End stock (book value)	22,220	27,701

*INTERENTAINMENT GROUP*

The down payments made in the amount of TEUR 24,570 (December 31st, 2001: TEUR 24,570) mostly consist of payments of the first rate for film rights of Franchise Pictures, which are directly connected to the pending law suit. Depreciations were carried out on these down payments to December 31st, 2001 in order to be able to take possible exploitation losses from the controversial film rights and further risks from the lawsuit into account. Secondly, precautions for further risks arising from the continuing legal disputes with Franchise Pictures were taken. These assessments are still correct to June 30th, 2002.

**3. Trade accounts receivable**

Until June 30th, 2002, the trade accounts receivable amount to TEUR 42,329 (December 31st, 2001: TEUR 54,242). The reduction is essentially due to the compensation of unpaid items, the offset of down payments received, and varying exchange rates.

**4. Other assets**

The other assets amounting to TEUR 5,328 (December 31st, 2001: TEUR 12,373) are reduced particularly by tax repayments from the second quarter of 2002. This alteration is compensated by the increase of the film project costs to TEUR 2,461 (December 31st, 2001: TEUR 271).

**5. Liquid funds and liabilities due to banks**

Up to June 30th, 2002, Intertainment reported liquid funds of TEUR 18,633 (December 31st, 2001: TEUR 14,231), and liabilities due to banks amounting to TEUR 19,210 (December 31st, 2001: TEUR 23,227).

**Liquid funds:**

The increase of the stock of financial means is mainly based on deposits from the sales of film rights, and a tax refund.

**Liabilities due to banks:**

The liabilities towards banks are diminishing as planned. The outstanding liabilities amounting to TEUR 19,184 are due at the latest on June 30th, 2004. The transfer of the exploitation rights, the transfer of ownership of the film as security on a debt, as well as the transfer of the claims from sales contracts were agreed with the banks. We also refer to the details given with regard to the liability conditions (number IV 3).



**Notes to the Consolidated Financial Statements as at June 30, 2002  
in Accordance with the International Accounting Standards (IAS)**

*INTERENTAINMENT GROUP*

**6. Equity**

To June 30th, 2002, Intertainment has an unaffected nominal capital of TEUR 15,005, which is dispersed to 11,739,013 no-par-value shares. The loss as shown in the balance sheet amounts to TEUR 78,629 (December 31st, 2001: TEUR 74,496), the loss of the year amounts to TEUR 4,133 (December 31st, 2001: net income for the year TEUR 1,328).

**7. Reserves**

The reduction of the tax reserves results from the payment of the tax debts for the financial year 2000.

Until June 30th, 2002, the other reserves amount to TEUR 6,057 (December 31st, 2001: TEUR 11,224), and they contain, among other items:

	June 30, 2002	Dezember 31, 2001
	T€	T€
Account receivables	2,465	2,788
Precautions for license sales	1,730	4,250
Precautions for risks of legal actions	1,600	3,068

**8. Down payments received on purchase orders**

The down payments received were offset completely with the claims from deliveries and performances in the second quarter of 2002, after a definite solution concerning the execution of the contract could be found with a licensee.

**9. Trade accounts payable**

The trade accounts payable mostly contain obligations from the acquisition of various film rights.

**(III) Notes on the income statement**

**1. Sales**

Up to June 30th, 2002 Intertainment achieved sales in the amount of TEUR 11,477 (June 30th, 2001: TEUR 14,750). Therefrom, TEUR 8,943 may be allotted to the second quarter of 2002 alone (June 30th, 2001: TEUR 9,868). The increase, compared with the first quarter of 2002, is due to sales of Free-TV film rights for the territories of Germany and the United Kingdom, as well as All-Rights sales in Eastern Europe.

**Notes to the Consolidated Financial Statements as at June 30, 2002  
in Accordance with the International Accounting Standards (IAS)**

*INTERENTAINMENT GROUP*

In addition, further revenue came from the video-exploitation of the film titles “Art of War”, “Whole Nine Yards” and “Battlefield Earth”.

**2. Other operating income**

The other operating income amounting to TEUR 3,801 (June 30th, 2001: TEUR 9,386) consist of, among other items:

	June 30, 2002	June 30, 2001
	T€	T€
Exchange profits	2,540	6,311
Remunerations for producer services	1,115	1,176

The exchange profits stand against losses on exchange in the amount of TEUR 3,350 (June 30th, 2001: TEUR 4,690), which are accounted for in the other operational expenditures.

**3. Cost of materials**

The cost of materials essentially consists of the scheduled depreciations for sold film rights in the amount of TEUR 5,481 (June 30th, 2001: TEUR 5,393).

**4. Other operating expenses**

The other operating expenses in the amount of TEUR 8,987 (June 30th, 2001: TEUR 14,318) essentially contain:

	June 30, 2002	June 30, 2001
	T€	T€
Losses on exchange	3,350	4,690
Precautions for license sales	1,730	0
Remunerations of administrative costs to film producers	1,324	1,393

**5. Interest result**

The interest result consists of interest received of TEUR 698 (June 30th, 2001: TEUR 2,490), and interest paid in the amount of TEUR 1,095 (June 30th, 2001: TEUR 899).

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**6. Extraordinary result**

The extraordinary result consists of extraordinary proceeds in the amount of TEUR 1,060 (June 30th, 2001: TEUR 24,826). These extraordinary proceeds originate from the dissolution of reserves, which had been created in the financial year 2001 in connection with the legal proceedings against Franchise Pictures by way of the extraordinary result.

**(IV) Other details**

**1. Earnings per share**

The earnings per share is determined by dividing the quarterly result by the weighted number of shares. The number of shares to June 30th, 2002 amounts to 11,739,013, unchanged; this therefore also represents the weighted number. In the second quarter of 2002, a negative result per share in the amount of EUR 0.35 may be calculated, this also corresponds to the diluted result per share.

**2. Other financial commitments**

Other financial commitments exist for remunerations for producers amounting to TEUR 31.550, and for obligations from leasing- or renting contracts amounting to TEUR 4.914. A part of these obligations amounting to TEUR 9.139 have a remaining period to maturity of less than one year.

The financial commitments for the purchase of film rights reported in the financial year 2000 no longer exist, because, due to the ongoing legal dispute, Intertainment has decided not to pay the second installment of the film titles concerned. In case the financing banks of Franchise Pictures should decide to instigate arbitral proceedings for the payment of the second installment with regard to the film titles concerned, and if an arbitral award would be given in their favor, the banks would be compelled to offset the revenue from the exploitation of these film rights with the financial obligation of Intertainment. Intertainment assumes, that the revenues from the exploitation are fundamentally higher than the financial obligation for the due second installment.

Notwithstanding any possible arbitral procedure, the film rights in the legal dispute remain to Franchise Pictures. A definite decision regarding the fraud with the inflationary budgets will be made in this procedure only.

**3. Liability conditions**

Due to the financing of the film rights by banks, and the corresponding granting of credit lines, the film rights and the corresponding claims of Intertainment with regard to the exploitation of these rights were transferred to the banks to provide security coverage. In connection with this, claim transfers of Intertainment Licensing GmbH were made

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in favor of HypoVereinsbank AG amounting altogether to TEUR 16,448, and in favor of BHF Bank amounting to TEUR 19,427.

In addition, Intertainment AG undertook a guarantee in favor of HypoVereinsbank AG in the amount of TEUR 16,361, which serves to secure the loans to Intertainment Licensing GmbH, and which is due on June 30th, 2004.

Intertainment AG undertook a guarantee in the amount of TEUR 76 for the rental of the office facilities in Ismaning. Furthermore, a Letter of Credit in the amount of TUSD 1,000 has been issued to secure the obligations arising from renting the office facilities in Los Angeles.

**4. Pending litigation**

Up until June 30th, 2002, the proceedings against Franchise Pictures LLC are furthermore pending. The grounds for this lawsuit were already depicted in the Group Appendix of December 31st, 2001. The risks and probabilities of occurrence remain unchanged.

**5. Number of employees**

On an average, Intertainment employed a staff of 24 employees during the first six months.

**6. Share holding and option rights of the members of the executive bodies**

Up until June 30th, 2002, the members of the management board and the supervisory board had the following no-par-value shares and options:

	Shares	Options
<b><u>Management board</u></b>		
Rüdiger Baeres	6,205,635	0
Achim Gerlach	10,000	100,000
Stephen Brown	0	50,000
<b><u>Supervisory board</u></b>		
Dr. Matthias Heisse	12,980	0
Dr. Ernst Pechtl	0	0
Dr. Wilhelm Bahner	0	0

Up until June 30th, 2002, the corporation possesses no shares of its own.

Intertainment AG, August 28th, 2002

– The Management Board –