

2005

CONSOLIDATED AND ANNUAL FINANCIAL STATEMENTS

2005



INTERENTAINMENT

Aktiengesellschaft

Intertainment AG: Management Report for the Company and the Group

for the business year 2005

The Consolidated Management Report and the Management Report for the parent company Intertainment AG for the business year 2005 are combined pursuant to Article § 315 Section 3 HGB ("Handels-gesetzbuch", German Commercial Code) in conjunction with Article § 298 Section 3 HGB. For this reason, information will be differentiated according to individual Group companies in the individual sections, insofar as this enhances transparency.

A. Market developments in the year 2005

1. Overall economic development:

As in previous years, the global economy also underwent extremely gratifying development in the fiscal year 2005. The most important regions for growth continued to be located in Asia - where economies showed signs of overheating - and the USA. Although growth in Western and Central Europe remained much lower by comparison, signs of a sustained economic upswing in Germany emerged as the year progressed.

2. Development of the film industry:

Despite the positive overall economic position, the film industry reported a very bad year in 2005. This was due to a steep decline in cinema audience numbers with a

corresponding drop in box-office takings. For example in the USA, the most important cinema market, sales at cinemas fell by some 6% to 8.99 billion dollars. The market in Germany posted a much more marked slide of minus 16.5% to 745 million euros. An additional factor was that the home entertainment market was unable to advance, whereas sales had continued to rise in previous years. In 2005, sales in the US home entertainment went up by nearly 1% to 24.3 billion US dollars, while sales in Germany registered a decline of 3% to 1.69 billion euros. Gross advertising revenues generated in the television industry continued to develop positively. These rose in the Federal Republic of Germany by 4.2% to some 8 billion euros.

B. Position of the Intertainment AG Group

Development of Business Activity

The following Section B presents the development of the Intertainment Group for the business year 2005. The central issues here are the legal disputes pursued by INTERTAINMENT Licensing GmbH in the USA relating to the budgetary fraud and breach of contract. Intertainment was also faced with a legal dispute in Germany, because HypoVereinsbank filed a partial claim within the scope of a proceeding for

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documentary evidence against INTER-TAINMENT Licensing GmbH and Intertainment AG at the end of 2005. As a result of the judgment handed down, INTERTAINMENT Licensing GmbH and Intertainment AG were forced to file applications for insolvency in January 2006. These applications for insolvency were withdrawn at the end of June 2006. A detailed presentation of the “insolvency of Intertainment” and other key events which occurred between the end of the business year for 2005 and the preparation of the management report will be presented in Section E. We refer to sections F and G for the risks of future development.

1. Legal Disputes in the USA

In 2005, INTERTAINMENT Licensing GmbH was involved in complex legal disputes in the USA for the fifth year in succession. At the end of 2000, INTERTAINMENT Licensing GmbH filed a lawsuit for compensation relating to budgetary fraud against American film production company, CEO Elie Samaha and other production companies. After an extensive civil proceeding before the Federal District Court in Santa Ana near Los Angeles, a nine-person jury held all the defendants to be liable for fraud in June 2004. Intertainment was granted total damages amounting to 121.7 million US dollars. Shortly after the judgment was entered, the majority of the liable parties filed for insolvency pursuant to Chapter 11 of the US Insolvency Law and thus obtained protection against their creditors. They also submitted petitions in an attempt to institute a retrial.

In the opinion of Intertainment, other parties were also involved in the fraud in addition to the parties found liable in the trial. This dispute continues with Comerica Bank. An arbitration proceeding in the USA is

pending relating to these matters. The discovery phase was proceeding throughout the reporting period. However, following a settlement with the bond companies, Comerica Bank is the only opposing party continuing the arbitration proceeding. The following report gives a detailed presentation of the complexities of the entire case divided into individual proceedings. We also refer to previous company reports in this matter which have addressed the background to the proceedings and the individual proceedings in detail.

1.1 Legal dispute against Franchise Pictures

The lawsuit filed against film-producing company Franchise Pictures, based in Los Angeles, CEO Elie Samaha, the production company Glickson Investment LLC, and against 15 other production companies was the focus of legal disputes involving Intertainment in the USA for some three and a half years. Franchise Pictures was the main film supplier for Intertainment until autumn 2000, before Intertainment discovered that the company had submitted invoices for fraudulently inflated budgets to INTERTAINMENT Licensing GmbH. In December 2000, Intertainment consequently filed a lawsuit relating to budgetary fraud and breach of contract in Los Angeles.

After the trial was postponed several times, the main trial started on April 20, 2004 before the Federal District Court in Santa Ana near Los Angeles and continued with some interruptions for around two months. The nine-person jury held all the defendants to be liable and granted INTERTAINMENT Licensing GmbH total damages amounting to 77.1 million dollars and punitive damages amounting to 29 million dollars. When the judgment was entered in mid-August 2004, the presiding judge granted INTER-

TAINTMENT Licensing GmbH interest amounting to 15.6 million US dollars.

Shortly after the judgment was entered, all the parties found liable, with the exception of Elie Samaha personally and Glickson Investment, filed for insolvency pursuant to Chapter 11 of the US Insolvency Law. In addition, they filed a petition against the judgment in the context of post trial motions. In April 2005, Elie Samaha and Glickson Investment LLC, also found liable, submitted a petition that the court should declare the judgment to be null and void and order a complete retrial, since new evidence had allegedly been found against Intertainment. Franchise Pictures and the production companies of Franchise Pictures currently subject to insolvency proceedings also acceded to this petition.

At a hearing on May 16, 2005, the presiding judge tentatively rejected all the post trial motions in a written tentative ruling. On December 30, 2005, she confirmed the tentative ruling and rejected the post trial motions submitted by Elie Samaha and Glickson Investment. This decision related solely to the petitions submitted by Samaha and Glickson Investment. The judge did not reach a decision on the petitions submitted by the insolvent companies.

1.2 Insolvency of Franchise Pictures and the production companies

A few days after the judgment was entered in August 2004, Franchise Pictures and the majority of the other companies filed for insolvency pursuant to Chapter 11 of the US Insolvency Law. INTERTAINMENT Licensing GmbH therefore asserted its claims against Franchise Pictures and the insolvent companies in the insolvency proceedings. The Franchise creditors also include Comerica Bank, which in the opinion of Intertainment was also involved in the fraud.

Under American Law, the Chief Restructuring Manager of a company has the exclusive right to submit a restructuring plan to the court for 120 days after opening insolvency proceedings pursuant to Chapter 11. It is possible to extend this period. In the case of the insolvency of Franchise Pictures and the production companies, this exclusivity period was to expire at the end of 2004. However, John Brincko, the Chief Restructuring Officer, applied to the Insolvency Court for and received several extensions of the deadline during the course of the reporting year. As a result, there was no restructuring plan in place by the end of 2005. In addition, the Chief Restructuring Officer was also unable to provide a reliable asset and debt status of Franchise Pictures to the creditor's committee by the close of the year. However, during the course of the reporting year, the assets of other companies associated with Franchise Pictures were included in the estate.

1.3 Proceedings against Elie Samaha

Elie Samaha himself, the former CEO of Franchise Pictures, in office until shortly before commencement of insolvency proceedings, did not file for insolvency in 2004 or 2005. After the judgment was entered, INTERTAINMENT Licensing GmbH instituted measures directed toward enforcement and securing the existing claims against Elie Samaha in the business year 2004 and 2005. These included applications for a lien on property owned by Samaha. In addition, Intertainment instituted enforcement measures relating to the personal assets of Elie Samaha. These were in respect of e.g. court orders relating to shareholdings owned by Elie Samaha.

Two court hearings relating to assets owned by Elie Samaha also took place on January 24, 2005 and June 27 2005. After

the disclosure at the first hearing, Intertainment immediately started to examine the documents that Samaha had submitted at the hearing. In addition, Intertainment also issued summonses relating to family members in respect of assets of Elie Samaha. Despite the measures, Intertainment was unable to achieve any significant income from exploitation of the assets owned by Samaha during the reporting period until conclusion of a settlement in the business year 2006 (see Section E.2.3).

1.4 Arbitration proceedings against Comerica Bank

Intertainment is of the opinion that apart from the parties found liable in the trial against Franchise Pictures, other parties also played a significant role in the budgetary fraud. These parties included in particular Comerica Bank. In December 2002, INTERTAINMENT Licensing GmbH therefore filed a lawsuit for damages against Comerica Bank and certain bond companies on account of fraudulent cooperation with Franchise Pictures before the State Court in Los Angeles. Damages amounting to at least 100 million US dollars were also asserted in this lawsuit.

At the end of June 2003, the presiding judge decided during a hearing that the lawsuit should be suspended until a decision was reached on the arbitration proceeding instituted by Comerica Bank against INTERTAINMENT Licensing GmbH for the film "Driven" during the first quarter of 2003.

"Driven" was one of the films that led Intertainment to file a lawsuit against Franchise Pictures. Comerica Bank had prefunded the film. INTERTAINMENT Licensing GmbH had paid Comerica Bank the first of two installments for the film, before the company generally stopped making

payments for Franchise films on account of the discovery that fraud was being perpetrated.

In the opinion of INTERTAINMENT Licensing GmbH, the arbitration case was directed exclusively toward undermining the action commenced by INTERTAINMENT Licensing GmbH against Comerica Bank and the bond companies. INTERTAINMENT Licensing GmbH countered this attempt by significantly expanding the scope of the arbitration proceeding. It now encompassed all the claims arising from the lawsuit against all parties which were asserted before the state court.

Comerica Bank reacted to the expansion by also expanding the claims it was asserting. Since then, Comerica Bank has been demanding all the outstanding installments due for films that it had financed under the output deal between Franchise Pictures and INTERTAINMENT Licensing GmbH and which INTERTAINMENT Licensing GmbH had refused to pay. As a result, Comerica Bank expanded its claims by more than 70 million US dollars. The demands of Comerica Bank relate without exception to the fraudulently inflated budgets. Although the first installment was paid in each case, INTERTAINMENT Licensing GmbH had never received any of the disputed films for exploitation. Instead, the films were exploited by the opposing side. In addition to receiving the payments already made by INTERTAINMENT Licensing GmbH on the basis of fraudulently inflated budgets, it had also received all the revenues arising from the films.

Following settlements with the bond companies (see Section B.1.5), Comerica Bank has been the only party opposing Intertainment to continue the arbitration proceeding since spring 2005. During the business year, the arbitration proceeding was

in the discovery phase. In this phase, the parties involved in the proceeding must submit internal and external company documents, which are relevant for the taking of evidence in the case, to the opposing parties.

At a hearing before the three arbitrators presiding over the case on March 18, 2005, Comerica Bank submitted a petition that all claims submitted by INTERTAINMENT Licensing GmbH be rejected without a decision on the merits of the case. The arbitrators rejected this petition at a hearing on April 27, 2005. However, the arbitrators compelled Intertainment to submit further documents during the discovery phase. In addition to the documents already forwarded, electronic data stored on data media of Intertainment were also collected within the scope of the discovery proceeding. Legal representatives of Comerica Bank were also present while the data was being recovered.

At a hearing on May 18, the arbitrators defined the ongoing proceedings in the discovery phase.

At a further hearing in the summer, the first witness testimonies in the proceeding were scheduled for the end of September / start of October 2005. This was to involve cross-examination by the opposing side of the Chairman of the Supervisory Board of Intertainment AG, Rüdiger Baeres, and Achim Gerlach, sole member of the Board of Management of Intertainment AG. However, these cross-examinations were postponed due to the suit filed by Hypo-Vereinsbank (see Section B.2).

During the course of the business year, on application by Comerica Bank the arbitrators compelled Intertainment to make available to Comerica all emails for the period relevant to the proceeding, which we-

re available on the PCs of Intertainment. The decision also relates to possible private emails of employees of Intertainment that were stored on these PCs. Because of issues relating to the requirements of the German Data Protection Law, the parties are proceeding cautiously with the advice of a German Data Protection Officer.

INTERTAINMENT Licensing GmbH is assuming that the claims asserted by Comerica Bank are unfounded and by the same token views its own prospects for success in the arbitration proceeding as extremely positive. The decision in the trial against Franchise Pictures, the 16 other parties involved and Elie Samaha also points in this direction – even if it was not intended to exert any prejudicial effect on the arbitration proceedings. If the outcome of the arbitration proceedings is in favor of INTERTAINMENT Licensing GmbH, it is assumed that the resulting damages will form part of the claims arising from the Franchise trial. Intertainment believes that the claims arising from the arbitration proceedings will in parts be founded on a joint liability with the claims successfully asserted in the Franchise case.

1.5 Settlements

After Intertainment had already concluded a settlement with the bond company XL Reinsurance in 2004, INTERTAINMENT Licensing GmbH and Intertainment AG also concluded a settlement agreement with the bond companies Film Finances Inc. and Film Finances (1998) Canada Ltd. Until the settlement was reached, the two companies had been among the opposing parties against INTERTAINMENT Licensing GmbH in the arbitration proceeding against Comerica Bank and against executive managers of the bank.

Under the terms of the settlement, Intertainment received a payment from Film Finances Inc. and Film Finances (1998) Canada. Film Finances Inc. and Film Finances (1998) Canada also assigned their claims against the insolvent film producer Franchise Pictures and against subsidiaries of Franchise to the estate, hence withdrawing from the list of creditors. Under the settlement, International Motion Pictures Corporation Ltd. (IMPC), Hong Kong, withdrew its arbitration suit against Intertainment in connection with the film "Tracker."

1.6 Arbitration Proceeding for the Film "Viva Las Nowhere"

In the context of the arbitration proceeding, INTERENTAINMENT Licensing GmbH is demanding a repayment amounting to approximately 1.3 million US dollars plus interest for the film "Viva Las Nowhere" from WestLB, the Lewis Horwitz Organization and the Federal Deposit Insurance Corp. The film was the subject of the trial against Franchise Pictures. It had a fraudulently inflated budget. During the period under review, WestLB filed counterclaims amounting to around 900,000 US dollars against INTERENTAINMENT Licensing GmbH. At the end of the business year, the parties had not yet concluded selection of the arbitrator.

2. Suit filed by HypoVereinsbank

In mid-September 2005, HypoVereinsbank filed a partial claim for payment of 10 million euros against Intertainment AG and INTERENTAINMENT Licensing GmbH in a proceeding for documentary evidence. The partial claim related to a residual loan amounting to some 14 million euros – on the date when the claim was filed – taken out by INTERENTAINMENT Licensing GmbH

from HVB, for which Intertainment AG had given a surety. Some of this residual debt resulted from finance provided for Franchise Pictures films. No witness testimonies are taken in a proceeding for documentary evidence and only documentary evidence is permissible.

In the opinion of Intertainment, HVB and Intertainment had reached an arrangement to create final legal clarity for settlement of the residual debt. The rescheduling provided for HVB issuing a debt waiver on a deferred debt basis. Within the scope of this deferred debt, the loan originally due on June 30, 2004 was written down in the balance sheet for the business year 2003 in the amount of 13.6 million euros and reported under reserves. A legal opinion was obtained for appraisal of the facts. This formed the basis for the assessment by the management of Intertainment.

HVB had called in the loan by two letters in March and at the end of June 2004, despite the new arrangement. In the opinion of Intertainment, this was no longer possible on account of the new arrangement. However, after the two letters were received, Intertainment recommenced negotiations with the bank in the business year 2004, with the aim of bringing the matter to a successful conclusion. Although these negotiations initially came to nothing, they started up again over the course of the business year. The last negotiations took place at the beginning of September 2005.

Within the scope of the documentary proceeding filed by HVB, two oral court hearings were held before the State Court I (Landgericht I) on October 21, 2005 and November 10, 2005. The presiding judge rendered a tentative ruling on December 22 confirming the claim by HVB for payment of 10 million euros. In this ruling, she also granted the bank the right to enforce

the judgment. This decision meant that INTERENTAINMENT Licensing GmbH and Intertainment AG were subject to a very high risk of insolvency. On December 23, following an extraordinary meeting of the Supervisory Board of Intertainment AG, the Supervisory Board therefore recommended that the Board of Management immediately conduct constructive negotiations with all parties in order to prevent insolvency and ensure the continuation of the company as a going concern. These negotiations were commenced immediately, but had not yielded a result by the close of the business year.

3. Lawsuit against AIG Europe

On May 31, 2005 Intertainment AG filed a claim against insurance company AIG Europe S.A. before the State Court (Landgericht) Frankfurt. In October 1999, Intertainment had taken out a D&O policy (Directors and Officers policy) with AIG Europe S.A. This policy insured the Members of the Board of Management of Intertainment AG and the Managing Directors of INTERENTAINMENT Licensing GmbH for the case that a claim was filed against them for financial loss in their capacity as an executive officer of Intertainment AG or INTERENTAINMENT Licensing GmbH on account of statutory liability provisions. In particular, the policy covered the costs of defense against claims filed against the insured person for compensation in court and out of court.

During the Franchise Pictures proceeding, the opposing parties asserted counterclaims against Intertainment. They had also filed claims against Rüdiger Baeres, at the time Chairman of the Board of Management of Intertainment, in person. This counterclaim was rejected unanimously by the jury of nine. In the opinion of Intertain-

ment, AIG should have been responsible for paying the costs of the legal defense of Mr. Baeres. However, the insurance company refused to make any payment. Intertainment believed there was no alternative to filing a claim. It involved a claim amounting to 2.7 million euros plus interest. No judgment was handed down in respect of the claim up to the date when these annual financial statements were prepared.

4. Operating area

The operating business of Intertainment also suffered during the year under review from the consequences of the fraud perpetrated by Franchise Pictures and the other parties involved. Since it was possible to exploit the rights in the new film "Twisted" in 2004, Intertainment focused on exploiting the existing film library in 2005. In this connection, Intertainment sold the secondary rights in an extensive package of films to the Tele München Group. The total value of the rights amounted to 2.6 million euros. The film package included the secondary rights in the films "The Whole Nine Yards", "The Art of War" and "Mulholland Falls".

5. Participation in SightSound Technologies Inc.

The American Intertainment holding in SightSound Technologies sold its US patent rights for digital download of audio and video files from the Internet to a subsidiary of the American Group General Electric. General Electric is planning to exploit the patents under the agreement. In return, SightSound will receive 50% (less costs) of the revenues arising from exploitation of the patents.

Intertainment had decided in the business year 2004 to write this shareholding off in full in the balance sheet for the business year 2004. The background to this was that the patents are again subject to a renewed investigation by the US Patent Office as a result of an application by a company from the download sector. The application was preceded by failed license negotiations between SightSound and the company. An investigation of this nature could take up to two years. At the time of the writedown, the management of Intertainment was unable to assess with sufficient certainty whether SightSound has the financial resources to sustain the renewed investigation of the patents. Although the sale appears to safeguard the financial position, a writeup is not being carried out until the legal status relating to the validity of the patents has been established.

6. Employees, management and Supervisory Board

The Intertainment Group continued to reduce the number of its employees during the business year 2005. During the business year, the Group continued to employ an average of 10 employees. On average during the previous business year, Intertainment employed 13 fulltime staff.

Intertainment splits remuneration for the Board of Management into fixed and variable remuneration. In 2005, the fixed remuneration package of the Board of Management amounted to some 238,000 euros. The performance-related remuneration element includes in particular share options and contractually defined bonuses. The level of the bonuses is dependent on the cash-inflows of funds arising from the successful legal dispute against Franchise Pictures and against other parties.

C. Net worth, financial and earnings position of the Intertainment AG Group for the business year 2005 in accordance with IFRS

1. Net worth

The key changes to the net worth on the ASSETS SIDE were as follows:

C.1 GROUP: KEY CHANGES ASSETS SIDE		in mn Euros	
	31/12/2005	31/12/2004	Change
Other assets	58.0	59.3	-1.3
Film rights	2.6	4.4	-1.8
Deferred taxes	9.6	15.9	-6.3

As in the prior year, the damages claims against Franchise Pictures and other parties constitute the major item of other assets. The reduction of 1.3 million euros is due to payments made following out-of-court settlements, changes in the exchange rate between the euro and the US dollar, and changes in risk assessments. The management of Intertainment continues to regard the claims for damages as valuable, despite the proceedings for insolvency instituted by Franchise Pictures and other parties.

The value derives from the fact that part of the claims can be met by the insolvency settlement and the management of Intertainment regards the prospects for success in the impending arbitration proceedings against Comerica Bank as extremely positive. If Intertainment succeeds in asserting its claims against Comerica Bank, the management of Intertainment believes that Comerica Bank would also be liable for the damages sustained by Intertainment which were already successfully asserted in the trial against Franchise Pictures and other parties.

The value of the film rights fell back by 1.8 million euros compared with the previous year and currently amounts to 2.6 million euros. This drop is particularly attributable to non-scheduled depreciation due to a reduction in anticipated sales prices and license sales that have been carried out.

The reduction in deferred tax assets of 6.3 million euros results from a changed forecast for revenues between the companies consolidated in the Intertainment Group and the associated change in use of loss carry-forwards.

The key items on the EQUITY AND LIABILITIES SIDE developed as follows:

C.1 GROUP: KEY ITEMS ON THE EQUITY AND LIABILITIES SIDE		in mn Euros	
	31/12/2005	31/12/2004	Change
Other provisions	24.1	27.2	-3.1
Equity	27.7	37.9	-10.2
Liabilities	1.6	1.0	+0.6

The reduction in other provisions is in particular due to lower values in provisions for participation in trial proceeds and trial costs. The provision for participation in trial proceeds is reduced by 3.2 million euros to 14.7 million euros. One of the factors underlying this is the reduced balance sheet value of claims for damages against Franchise Pictures etc., which form the measurement base for the underlying claims. The lower value by 0.6 million euros reported under the provision for legal and consultancy costs by comparison with the prior year is due to the requirement during the business year 2005.

Liabilities amounted to 1.6 million euros on the balance sheet date for 2005, corresponding to an increase of 0.6 million euros compared with 31/12/2004. Liabilities essentially comprised trade accounts payables. Equity amounted to 27.7 (prior year 37.9) million euros on the balance sheet date. The capital reserve went down by 3.0 (prior year 22.8) million euros, mainly due to the utilization carried out in accordance with Article § 150 Section 3 and 4 AktG ("Aktengesetz", "Stock Corporation Law") in the context of preparing the financial statements of Intertainment AG to balance the consolidated net loss for the year and loss carry-forward. The equity ratio deteriorated by 6 percentage points and amounts to 39 (prior year 45)%.

2. Financial position

At the close of 2005, the Intertainment Group had liquid funds amounting to 0.1 million euros, compared with 1.7 million euros on December 31, 2004. The decrease is due in particular to legal consultancy fees and regular outgoings for personnel expenses and rents. The Board of Management has drawn up a detailed financial plan for the Intertainment Group covering the bu-

business years 2006 to 2008, from which the executive management infers a positive forecast for the continuing existence of the Group companies as going concerns. However, despite the measures that have been instituted and implemented, the liquidity situation of Intertainment is difficult. We therefore refer expressly to the fact that the financial plans and the forecast of continued existence are subject to the risks described in Section "F Risk and opportunity report of the Intertainment AG Group". In particular, we refer at this point to the risks imperiling future existence under item F.1. of this Management Report.

3. Earnings situation

The Intertainment Group has a consolidated deficit of -10.3 (prior year -22.2) million euros for the business year 2005. EBIT amounts to -3.0 million euros compared with -21.3 million euros in the previous year. Earnings from ordinary activities amounted to -3.0 (prior year -21.3) million euros. Sales revenues amounted to 1.3 million euros compared with 17.9 million euros in the previous year. This significant decrease resulted from the fact that no new film rights were acquired and sold by Intertainment during the business year. The previous year was dominated by the sale of the license rights in the thriller "Twisted". The cost of materials amounted to 2.7 (prior year 17.1) million euros and essentially comprises scheduled and non-scheduled amortization of film rights. The earnings of the Intertainment Group were also burdened by the deferred tax expense to be reported in the year under review amounting to 7.3 (prior year 0.8) million euros. This mainly resulted from changed revenue forecasts of companies consolidated within Intertainment and the associated utilization of loss carry-forwards.

D. Net worth, financial and earnings positions of Intertainment AG for the business year 2005 in accordance with HGB

1. Net worth

The assets of Intertainment AG are affected on the ASSETS SIDE by the following key changes:

D.1 AG: KEY CHANGES ASSETS SIDE		in mn Euros	
	31/12/2005	31/12/2004	Change
Financial assets	8.9	9.0	-0.1
Film rights	2.3	4.3	-2.0
Receivables from affiliated companies	59.9	58.2	+1.7

The financial assets fell on account of the writedown of shareholdings in USA-Intertainment, Inc. by 0.1 million euros and amounted to 8.9 million euros on the balance sheet date.

The value of film rights decreased by 2.0 million euros compared to the previous year and amounts to 2.3 million euros at the balance sheet date. This drop is particularly attributable to scheduled and non-scheduled amortization due a reduction in anticipated sales prices and actual license sales.

Receivables from affiliated companies increased by 1.7 million euros and primarily relate to INTERTAINMENT Licensing GmbH.

The key items on the Equity and liabilities side developed as follows:

D.1 AG: KEY ITEMS EQUITY AND LIABILITIES SIDE		in mn Euros	
	31/12/2005	31/12/2004	Change
Equity	71.2	74.2	-3.0
Provisions	1.5	1.3	+0.2
Liabilities	0.7	0.3	+0.4

Equity amounted to 71.2 (prior year 74.2) million Euros. The capital reserve went down by 3.0 (prior year 22.9) million euros on the balance sheet date due to withdrawals carried out in accordance with Clause § 150 Section 3 and 4 AktG ("Aktiengesetz" "Stock Corporation Law") in the context of preparing the financial statements of Intertainment AG for the year. The equity ratio deteriorated by one percentage point and amounts to 97.0 (prior year 98.0)%. Provisions amount to 1.5 million euros and essentially relate to obligations arising from reorganization. The liabilities essentially comprise 0.2 million euros arising from trade accounts payables and liabilities from affiliated enterprises amounting to 0.4 million euros.

2. Financial position

At the close of 2005, Intertainment AG had liquid funds amounting to 0.1 million euros, compared with 1.6 million euros at December 31, 2004. The decrease is due to a number of factors in particular to cash inflows to INTERTAINMENT Licensing GmbH for financial legal disputes and regular outgoings for operating activities (personnel expenses and rents).

A detailed financial plan from Intertainment AG is available for the business years 2006 and 2007, from which the Board of

Management infers a positive forecast for the continuing existence of the company. However, despite the measures that have been instituted and implemented, the liquidity situation of Intertainment is difficult. We therefore refer expressly to the fact that the financial plans and the forecast of continued existence are subject to the risks described in Section "G Risk and opportunity report of Intertainment AG". In particular, we refer at this point to the risks imperiling future existence under item G.1. of this Management Report.

3. Earnings situation

The earnings situation is dominated by an improvement in earnings. The consolidated deficit for the year fell by 20.3 million euros to -3.0 million euros, and earnings from ordinary activities amounted to -3.0 million euros compared with -22.2 million euros in the previous year.

Sales revenues amounted to 1.2 million euros compared with 17.8 million euros in the previous year. This significant decrease resulted from the fact that no new film rights were acquired and sold by Intertainment during the business year. The previous year was dominated by the sale of the license rights in the thriller "Twisted". The cost of materials amounted to 2.8 (prior year 16.9) million euros and essentially comprised scheduled and non-scheduled amortization of film rights

E. Future Development of the Intertainment AG Group

This section presents key events that occurred in the period between the close of the business year and preparation of this management report. The events that occurred were divided into the overarching categories of "Insolvency and events in the area of insolvency", "Legal disputes in the USA" and "Personalities" to provide greater transparency. We also outline the future strategy of Intertainment.

1. Insolvency and events in the area of insolvency

1.1 Opening of insolvency proceedings

The tentative ruling handed down at the end of 2005 relating to the proceeding for documentary evidence filed by HypoVereinsbank for payment of 10 million euros meant that Intertainment was subject to a high risk of insolvency as a result of the judgment at the end of the year. Negotiations with all the parties involved were commenced immediately after the judgment was rendered, but they did not result in a successful outcome. The management of Intertainment was therefore compelled to file an application for insolvency to the Munich Local Court (Amtsgericht München) for Intertainment AG and for INTER-TAINMENT Licensing GmbH. München on January 12, 2006. On January 17, 2006, the Local Court appointed the Munich lawyer Michael Jaffé in connection with the ongoing opening of insolvency proceedings to draw up an expert opinion. This expert opinion was intended to clarify whether the two companies were overindebted and unable to meet their financial obligations, or whether there was a threat of impending insolvency, further to ascer-

tain what prospects there were for continuing the indebted company as a going concern, and whether the assets were sufficient to cover the costs of insolvency proceedings.

Even before the expert opinion had been drawn up, Dr. Jaffé requested the court to release him from this function in order to avoid possible conflicts of interest in advance. Dr. Jaffé had only just become aware of new circumstances that related to a possible conflict of interests with another insolvency proceeding.

The Local Court Munich then appointed the Munich Lawyer Dr. Martin Prager as the new expert lawyer.

1.2 Acquisition of claim by Albis Finance

At the end of February 2006, Albis Finance AG based in Hamburg informed Intertainment that it had acquired the loan claim of HypoVereinsbank AG against INTER-TAINMENT Licensing GmbH and the guarantee claim against Intertainment AG arising from this loan claim.

1.3 Lawsuit filed by HypoVereinsbank

On March 23, 2006, the Munich State Court I (Landgericht München I) confirmed the tentative ruling rendered orally on December 22, 2005 relating to the partial claim filed by HypoVereinsbank against Intertainment and declared this to be without reservation. Intertainment filed an appeal against the tentative ruling and against the judgment rendered in the subsequent proceeding.

1.4 Preliminary insolvency administration

In mid-March 2006, the Munich Local Court (Amtsgericht München) ordered the preliminary insolvency administration for Intertainment AG and INTER-TAINMENT Licensing GmbH. The Munich lawyer, Dr.

Martin Prager, was appointed as the preliminary insolvency administrator.

1.5 Sale of shares to Kinowelt

On May 8, Rüdiger Baeres and Kinowelt GmbH, Leipzig, informed the Board of Management of Intertainment AG that Mr. Baeres had sold 50.05 percent of the shares in Intertainment AG to Kinowelt GmbH, its main shareholder MK Medien GmbH and to seven subsidiary companies of Kinowelt GmbH.

Completion of the contract of sale was subject to the condition precedent of granting a privilege for rehabilitation by the Federal Financial Supervisory Authority (BaFin). Grant of the privilege for rehabilitation would not entail the purchasing group having to submit a mandatory offer to the independent shareholders of Intertainment AG for the takeover of the Intertainment shares held by these shareholders. The privilege for rehabilitation was granted on December 12, 2006.

1.6 Agreement with Albis Finance

At the end of May 2006, Intertainment AG and INTER-TAINMENT Licensing GmbH, and Albis Finance AG, Hamburg, reached agreement on repayment modalities relating to claims acquired by Albis Finance from HVB in February 2006 (see E.1.2). The total amount of the claims amounted to some 14 million euros. The agreement stated that Intertainment would pay Albis the sum of 9 million euros in several tranches by the end of 2006. The reimbursement of an additional amount of 5 million euros was linked to the level of income that Intertainment might achieve from the legal disputes being pursued in the USA. The agreement between Intertainment and Albis Finance was subject to the suspensive condition that Intertainment AG

and INTER-TAINMENT Licensing GmbH withdraw the application for opening insolvency proceedings insolvency proceedings. Both companies fulfilled this agreement on June 29, 2006.

The agreement was also subject to the resolatory conditions that neither Intertainment AG nor INTER-TAINMENT Licensing GmbH would file a renewed application for opening insolvency agreement before September 30, 2006 and that the stock sale contract between the Kinowelt Group and Mr. Baeres would be closed within this period of time.

The agreement with Albis Finance also meant that the suspension was ordered of the two appeal proceedings being pursued by Intertainment against the tentative ruling and the judgment rendered in the subsequent proceeding in the context of the proceeding for documentary evidence pursued by HVB against Intertainment.

1.7 Withdrawal of insolvency applications

On June 29, 2006, Intertainment AG and INTER-TAINMENT Licensing GmbH withdrew their applications for opening an insolvency proceeding submitted in January. Immediately before withdrawing the insolvency applications, the Board of Management and Supervisory Board of Intertainment AG resolved to carry out a capital increase of nearly 10 percent of the capital stock of Intertainment AG, excluding the pre-emptive rights of the existing shareholders. The new shares for the capital increase were underwritten by Kinowelt GmbH, Leipzig. The withdrawal of the applications for opening insolvency proceedings was also based on the agreement regulating repayment modalities agreed with Albis Finance AG for their claim (see E.1.6).

1.8 Capital increase

At the beginning of July 2006, Intertainment AG implemented the capital increase resolved on June 29. Intertainment AG issued at total of 1,172,275 new shares at the price of 1.28 euros per share. Intertainment received approximately 1.5 million euros as a result of the capital increase. The issue price of the new shares corresponded to the permissible minimum amount under legislation regulating stocks. The capital increase raised the subscribed capital by 1.500.511,80 euros to 16,505,667.09 euros.

1.9 Albis sells to Kinowelt GmbH

On September 22, 2006 Albis Finance AG informed Intertainment that it had sold its claims for receivables acquired in February to Kinowelt GmbH, Leipzig.

1.10 Ralf Schmitz new General Representative

At the end of September 2006, Ralf Schmitz was appointed General Representative of Intertainment AG. The industrial engineer is directly accountable to the Board of Management and he also manages the business of Epsilon Motion Pictures GmbH, Munich, a subsidiary company of Kinowelt GmbH.

1.11 Agreement with Kinowelt GmbH

On October 5, 2006, Intertainment AG and ENTERTAINMENT Licensing GmbH reached an agreement with Kinowelt GmbH about restructuring liabilities with Kinowelt GmbH. The restructuring package replaced the repayment agreement concluded with Albis Finance AG, Hamburg, at the end of May 2006 (see E.1.6.). Under the new agreement, Kinowelt GmbH waived the cancellation condition that a stock purchase contract had to be concluded between the Kinowelt Group and major Intertainment

shareholder Rüdiger Baeres by September 30, 2006. The two parties also agreed that Intertainment would pay the tranches due for repayment in each case three months later than originally scheduled. The first tranche is hence due for payment on September 30, 2007 and the last on March 31, 2009.

Kinowelt also has the right to serve notice on the agreement effective January 1, 2007 with a period of notice of three months. If Kinowelt asserted this right, the legal disputes associated with the liabilities between Intertainment and Hypo Vereinsbank/Albis and with Kinowelt, due to enter the proceedings, would be resumed.

1.12 Kinowelt increases shareholding in Intertainment

Although at this point in time, no decision had been made by BaFin on the application to grant a privilege for rehabilitation by the Federal Financial Supervisory Authority (BaFin), the Kinowelt Group acquired a tranche of the stock in Intertainment held by Rüdiger Baeres at the end of September 2006. This increased the shareholding held by the Kinowelt Group to 29.9% to make it the biggest shareholder in Intertainment AG (see E.6.1. Changes in shareholder structure).

1.13 Kinowelt becomes majority shareholder in Intertainment

With effect from October 27, 2006, the Kinowelt Group increased its share in Intertainment AG from 29.99% to 53.61%. On this date, a decision by the Federal Financial Supervisory Authority (BaFin) on the granting of a privilege for rehabilitation had not yet been rendered. The shares were sold by Rüdiger Baeres. The transaction reduced Mr. Baeres shareholding in Intertainment to 0% (see E.6.1. Changes in shareholder structure).

1.14 BaFin grants privilege for rehabilitation to the Kinowelt Group

On December 12, 2006, the Federal Financial Supervisory Authority (BaFin) granted the Kinowelt Group the privilege for rehabilitation it had applied for (see E.1.5 and E.1.13). This privilege is subject to reservation of revocation such that (a) the Kinowelt Group must consolidate Epsilon Motion Pictures GmbH in Intertainment AG within the scope of a capital increase by September 30, 2007 and that (b) the existing film assets of Epsilon Motion Pictures GmbH, including the advances, receivables, and cash and cash equivalents must not amount to less than 30 million euros on the date of the consolidation and the underlying valuation.

2. Legal disputes in the USA

2.1 Arbitration proceeding against Comerica Bank

At the point in time when this situation report was prepared, the arbitration proceeding against Comerica Bank was still in the discovery phase. This was delayed by the temporary insolvency of Intertainment. Following this, arrangements were again made for purposes of carrying the inspection by Comerica of all email correspondence of Intertainment as ordered by the arbitrators. In order to comply with German data protection regulations, the relevant emails are being prepared by an independent third party for analysis. They will then be made available to Comerica Bank. In mid-March 2006, the witness testimony phase started in the arbitration proceeding. Comerica Bank and Intertainment each have the right to cross-examine seven witnesses under oath in advance of the actual oral proceedings. The first three witnesses to be cross-examined were Rüdiger Baeres,

the former Chairman of the Board of Management of Intertainment AG, Achim Gerlach, the sole Member of the Board of Management of Intertainment AG, and former Member of the Intertainment Board of Management Stephen Brown.

In March 2006, the arbitrators had provisionally scheduled the start of the oral proceedings for January 9, 2007. However, this date has now been cancelled due to delays in the discovery phase. A new date has not yet been set.

2.2 Insolvency proceeding of Franchise Pictures

At the point when this situation report was prepared, Franchise Pictures continued to receive protection from their creditors under Chapter 11 of the US Insolvency Law. The Chief Restructuring Manager had not yet submitted a restructuring plan. At the beginning of October 2006, a group headed by former Franchise Pictures investor David Bergstein and production company Morgan Creek Productions purchased the film rights held by the estate. The purchase was retrospective to 1 September 2006.

2.3 Settlement with Elie Samaha

In mid-August 2006, Intertainment concluded a settlement with former CEO of Franchise Pictures, Elie Samaha, and the production company Sidonian Holdings LLC (formerly Glickson Investments International LLC). Under the settlement, Samaha and Sidonian undertook to pay to Intertainment a total of 3 million US dollars. The sum is to be paid in two installments by mid-December 2006. The first installment amounting to 2.2 million US dollars was paid in September 2006. Following discussion with Samaha, Intertainment agreed to postponement of the transfer of the

second installment amounting to 0.8 million US dollars until February 2007. Originally, it had been agreed that this installment would be paid in December 2006. In mid-January 2007, Samaha paid part of the second installment amounting to 0.5 million US dollars.

In the context of the settlement, Samaha also transferred to Intertainment his ownership rights vested in around 100 film production and film distribution companies that were attributed to him before August 18, 2004. The value of these holdings cannot be determined because third parties have registered claims with many of the companies. These parties also include the Chief Restructuring Manager in the Franchise Pictures case. A number of these companies have also filed for insolvency protection.

Under the settlement, Intertainment has agreed to waive all further claims against Samaha and Sidonian arising from the judgment entered in the trial against Franchise Pictures in the summer of 2004.

2.4 Arbitration Proceeding for the Film "Viva Las Nowhere"

In mid-July 2006, the parties involved in the arbitration proceeding agreed not to pursue this arbitration proceeding further and to waive their respective claims. This step enabled Intertainment to achieve its goal of focusing personnel and financial resources on the main proceeding, in particular the arbitration proceeding against Comerica Bank.

3. Lawsuit against AIG Europe

At the end of September 2006, Intertainment obtained the assistance of Allianz ProzessFinanz GmbH, Munich in financing the court costs in the proceeding against AIG Europe. Allianz ProzessFinanz GmbH

will bear the costs of the proceeding as a result. In return, it will receive a percentage share in the possible payments made by AIG arising from the proceeding. The court has set February 23, 2007 as the date for the oral proceeding.

4. Personalities

4.1 Board of Management

At the beginning of July 2006, the Intertainment Supervisory Board extended the contract with Sole Member of the Board of Management Achim Gerlach until June 30, 2008. The aim of the contract extension is to ensure that the rehabilitation concept of the company can be implemented.

4.2 Supervisory Board

On March 6, 2006, Rüdiger Baeres resigned his office for personal reasons as Chairman of the Supervisory Board of Intertainment AG with immediate effect. The Munich Local Court (Amtsgericht München) consequently confirmed Dr. Ernst Pechtl as the new Member of the Supervisory Board at the beginning of May 2006. Dr. Pechtl had already been a member of the Supervisory Board of Intertainment from December 2000 to September 2003. On May 15, the Supervisory Board elected Dr. Matthias Heisse as the new Chairman. Dr. Heisse had previously held the position of Deputy Chairman of the Supervisory Board. Dr. Pechtl took over Dr Heisse's previous position of Deputy Chairman of the Supervisory Board.

5. Forecast report of the Intertainment AG Group

Intertainment is planning to rebuild the operating business that has been virtually brought to a standstill by the fraud case relating to Franchise Pictures. This includes in particular the sale of film rights. Up to now, this has not been possible due to the inadequate cash flows of funds arising from the Franchise Pictures case..

In particular, Intertainment intends to exploit film rights using existing sales structures. The management anticipates that integration of Epsilon Motion Pictures GmbH into Intertainment AG (see E.1.14) will provide significant support for rebuilding the operating business. Epsilon has good contacts with leading independent US-American studios and has a very successful track record in marketing films. The integration is also likely to make it much easier for Intertainment to acquire new film rights than had been the case in the past.

6. Miscellaneous

6.1 Changes in the shareholder structure

During the course of the current business year 2006, changes have taken place in the shareholder structure of Intertainment. Rüdiger Baeres gradually reduced his proportion of the voting shares in Intertainment AG to 0% over the over of the year (see E.1.12 and E.1.13).

After the capital increase was carried out, the Kinowelt Group announced that it held a shareholding of 11.05% in Intertainment. Kinowelt then increased its share to 29.99%. With effect from October 27, 2006, the Kinowelt Group assumed the position of majority shareholder in Intertainment with a share of 53.6% (6,921,910 shares) (see E.1.12 and E.1.13).

6.2 Change to the General Standard

On September 6, 2006, Intertainment AG submitted an application to the regulatory authority for the Frankfurt Stock Exchange to revoke the listing of its shares in the segment of the regulated market with additional consequent listing obligations (Prime Standard). A few days later, the stock exchange issued a notification of revocation. Intertainment hence changed from the Prime Standard to the General Standard stock-market segment on December 14, 2006.

6.3 Change in auditor

On August 7, 2006, the Munich Local Court (Amtsgericht München) confirmed PSP Peters Schönberger GmbH as the new auditor of Intertainment. This rendered void the resolution by the most recent Annual General Meeting to appoint KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft as auditor.

6.4. Audit by the Financial Reporting Enforcement Panel

In the business year 2006, an audit by the Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung, DPR) at Intertainment for the business year 2004. When the annual financial statements for 2005 were prepared, the Financial Reporting Enforcement Panel informed Intertainment in a statement that the claims for compensation arising from legal disputes (see item V.1.2 on the Notes to the Group financial statements) were overvalued. The management does not share this view and will not accept the finding because the reasons put forward by the Financial Reporting Enforcement Panel do not justify, in the opinion of the management, the writedown of claims for compensation. In order to clarify the facts of

the case, the notice issued by the Federal Financial Supervisory Authority (BaFin) on December 21, 2006 ordered an audit pursuant to Article § 37p (1) Sentence 2 No. 1 Securities Trading Law (WpHG) in conjunction with Article § 37o (1) WpHG. The audit had not started by the time this Management Report was drawn up.

F. Risk and opportunity report of the Intertainment AG Group

1. Risk relating to the Ability to Continue as a Going Concern

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

- Outflows of funds arising from the exercise of the right of termination of Kinowelt GmbH with respect to Intertainment AG and INTERENTAINMENT Licensing GmbH in connection with the failure in the search for an alternative investor.
- Cash inflows arising from the settlement of legal disputes against Franchise Pictures, Comerica Bank and other parties.
- No cash outflows from current arbitration proceedings for the payment of second installments of the disputed film rights.
- Fulfillment of the other assumptions of the finance plan including cash inflows planned over the short term.

If the inflows of funds, the outflows of funds or the assumptions on which the financial plan is based fail to materialize as planned, the ability to continue as a going concern of Intertainment AG, INTERENTAINMENT Licensing GmbH and Intertainment Animation & Merchandising GmbH is highly endangered because of being unable to fulfill their payment obligations and the associated risk of filing for insolvency proceedings.

CASH OUTFLOWS ARISING FROM THE EXERCISE OF THE EXTRAORDINARY RIGHT OF TERMINATION OF KINOWELT GMBH WITH RESPECT TO INTERENTAINMENT AG AND INTERENTAINMENT LICENSING GMBH IN CONNECTION WITH A FAILED SEARCH FOR AN ALTERNATIVE INVESTOR.

It was agreed with Kinowelt GmbH, that Intertainment would pay back the residual debt in several installments by March 31, 2009. Effective from January 1, 2007, Kinowelt GmbH also has a right of termination with a period of notice of 3 months,

which right can be exercised without conditions.

If Kinowelt GmbH exercises its contractual right to serve premature notice from January 1, 2007, there is a risk that Intertainment, if the required financial resources are not available at this point, must find a new investor to finance this obligation. For the case that settlement cannot be made, there is a risk that Intertainment must again file for insolvency.

Irrespective of this, if Kinowelt GmbH serves a notice of termination, the legal disputes associated with the liabilities between Intertainment and HypoVereinsbank, Albis Finance AG and with Kinowelt, due to enter the proceedings, would be resumed.

REALIZATION OF CASH INFLOWS FROM THE SETTLEMENT OF THE LEGAL DISPUTES WITH FRANCHISE PICTURES, COMERICA BANK AND OTHER PARTIES

INTERENTAINMENT Licensing GmbH expects to receive at least the cash outflows reported in the balance sheet as damages receivable following the judgment in the legal dispute with Franchise Pictures and other parties and from the arbitration proceedings against Comerica Bank and other parties. At the same time - as in other proceedings - there is also the risk that it may not be possible to enforce a title despite having won the trial or that the expected level of damages may not be obtained. There is also the risk that Franchise Pictures or another of the companies found liable in the Franchise trial and meantime subject to insolvency might appeal against the judgment. If one of the parties referred to appeals, the appeal would not affect enforcement of the judgment. However, two exceptions are a possibility: There is, on the one hand, the very unlikely possibility that one of the companies goes to appeal and

at the same time makes a payment of a bond as security. In this case, no claims could be enforced against this company during the period of the appeal procedure. Any potential appeal procedure may last for 18 up to 24 months. On the other hand, there is also the possibility that one of the companies may go to appeal and the court would decide that the judgment cannot be enforced during the appeal phase. However, such a resolution by the court of this nature can only be made on the basis of special circumstances. Irrespective of whether the judgment from the first instance can be implemented during the appeal phase, there is a risk that continuing to finance the expensive litigation will exert substantial negative effects on Intertainment.

There is also the risk that the damages claim existing in the opinion of the management of Intertainment against Comerica Bank is not successful in the arbitration tribunal.

NO CASH OUTFLOWS FROM CURRENT ARBITRATION PROCEEDINGS FOR THE PAYMENT OF TWO INSTALLMENTS OF THE DISPUTED FILMS

INTERENTAINMENT Licensing GmbH is subject to the risk that payment of the second installments for the disputed films will be claimed in the context of awards in the arbitration proceedings. This applies to the arbitration proceedings that Comerica Bank opened at the beginning of 2003 against INTERENTAINMENT Licensing GmbH in relation to the film "Driven" and which were subsequently expanded to include all the disputed Franchise films financed by Comerica Bank.

If COMERICA BANK were to be successful with the arbitration proceedings that it has instigated, INTERENTAINMENT Licensing

GmbH may face a payment obligation of more than 70 million US dollars. In the event that the arbitration tribunal decides in favor of the bank, 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. The management of Intertainment assumes that this income will be higher than the sum of the second installment.

The current arbitration tribunal entails substantial cash outflows for Intertainment due to legal fees.

CONSEQUENCES OF A POSSIBLE MIS-CALCULATION

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

2. Further risks

There are other risks associated with the development of the Group. Intertainment has examined the business processes and has identified, analyzed, and evaluated the risks arising. It has also developed measures under an ongoing risk monitoring regime which are designed to minimize these risks. Building on this, the risk monitoring system for the detection of dangerous influences is being further developed and supplemented. Below is a description of the principal risks which arise, firstly, from

the company's own operating activity in the areas of trading with film rights and film production and, secondly, from the participations.

2.1 Risk of further cash outflows to Paramount Pictures

The contract with Paramount Pictures entails the risk on the basis of exploitation of the film title "Twisted" that depending on exploitation proceeds assigned other financial obligations may arise in the future for Intertainment AG. Securities amounting to maximally 7 million US dollars were granted to Paramount Pictures in order to cover these obligations.

2.2 Producer risk

As the producer of films, Intertainment is subject to the risk that a film production may have to be aborted. This may result in the loss of development costs that have already been invested. There is additionally the risk that payment for damages has to be made for existing future obligations.

2.3. Trading in film licenses

Intertainment trades in film licenses, among other things. There is strong competition in this area. This can lead to changes in the level of prices, falling sales figures, lower profit margins and a deterioration in the market position. The continuing consolidation trends, especially in European cinema and TV sector, may lead to a concentration in the European sales market and so make it more difficult to sell license rights. The sale of TV licenses is closely connected with the development of advertising income by the television stations.

2.4 Acquisition and exploitation of film rights

Where Intertainment acquires license rights prior to the commencement of production, there is a risk of a film being purchased at too high a price. The possible success of a film is difficult to forecast at this point in time. An attempt is made to minimize the risk on the strength of the expertise of the staff, the actors in the main roles and by analysis of the film script.

2.5 Fraud through collaboration with several partners

In cases in which Intertainment is the co-financier of a film, there is a danger of fraud arising through cooperation with a number of partners. As a result, it is possible that Intertainment is informed of fraudulently excessive budgets for financing. Suitable measures for the reduction of this risk are ongoing control of expenditures and budget control with weekly reports, the control and monitoring of the completion bond company securing the film financing, and a continuous examination of the ongoing film production by the company's own staff on the spot.

2.6 Dependence on distribution partners

The Europe-wide distribution by the majors represents a substantial competitive advantage for Intertainment. If these cooperative distribution agreements are dissolved, this might have considerable effects on the financial situation and the business result of the company.

2.7 Planning risk

Intertainment acquires and awards film licenses at irregular intervals. It is very difficult to plan the timing of acquisition and the award of licenses. Through the irregular intervals of the transactions, the result

of Intertainment can fluctuate sharply from period to period. Furthermore, a financing risk can arise through the changes in the incoming and outgoing payments involved.

2.8 Currency risk

Fluctuations in the exchange rate between the US dollar and the euro may have effects on business activity, the financial and earnings situation and in particular on profit margins as a result of exchange rate gains or losses.

G. Risk and opportunity report of Intertainment AG

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

The annual financial statements for the business year 2005 were prepared on the basis that Intertainment AG still has the ability to continue as a going concern. The Board of Management of Intertainment AG has a positive assumption regarding its ability to continue as a going concern, so that the company will in all probability be able to continue its business activities in the current and subsequent business years and meet its payment obligations. The positive assumption regarding the company's ability to continue as a going concern is based on a detailed finance plan. This is made up of the financing of future business activity, the planned investments, and other financing activities. Overall, the assumption regarding Intertainment's ability to continue as a going concern is qualified by substantial uncertainties that cannot be judged definitively at the present time. In particular, these are:

- Cash outflows arising from the exercise of the right of termination of Kinowelt GmbH with respect to Intertainment AG and INTERTAINMENT Licensing GmbH (joint and several liability) in connection with failure in the search for an alternative investor.
- Cash inflow of funds arising from the settlement of the legal disputes with Franchise, Pictures, Comerica Bank and other parties.
- No cash outflows of funds arising from the current arbitration proceedings for payment of the second installments for the disputed film rights

If these assumptions fail to materialize, there is a high probability that this would lead to insolvency of Intertainment Licensing GmbH and Intertainment AG.

FULFILLMENT OF THE ASSUMPTIONS WHICH ADDITIONALLY FORM THE BASIS FOR THE FINANCIAL PLAN SUBMITTED BY INTERTAINMENT AG.

We refer to our statements under "F.1. Risks relating to the ability to continue as a going concern" in the Intertainment Group.

CONSEQUENCES OF A POSSIBLE MIS-CALCULATION

The consequences of a possible wrong assessment in relation to the risks endangering the company's ability to continue as a going concern are far-reaching in their effect on the continuation of business activity. Insolvency proceedings could be instituted – under certain circumstances at very short notice – because of impending inability to fulfill payment obligations and it would not be possible to use going concern values in the valuation of assets and debts pursuant to Articles § 252 Section I No. 2 HGB ("Handelsgesetzbuch", "German Commercial Code")

2. Other risks

We refer to our statements on the Intertainment Group under item F.2. for an explanation of other risks.

Munich, February 9, 2007
Intertainment AG

Board of Management

Intertainment Group: Consolidated Balance Sheet

as at December 31, 2005 in Accordance with IFRS

ASSETS		in TEuros	
		31/12/2005	31/12/2004
A. CURRENT ASSETS			
I. Cash on hand and bank balances	V.1.1	99	1,694
II. Receivables and other assets	V.1.2		
1. Trade receivables		65	661
2. Miscellaneous		57,986	59,264
III. Inventories	V.1.3		
Film rights and licenses		2,624	4,408
		60,774	66,027
B. NON-CURRENT ASSETS			
I. Property, plant and equipment	V.2		
Other plant, business and office equipment		79	122
II. Intangible assets	V.2		
1. Licenses, commercial property rights and similar rights as well as licenses to such rights		0	1
2. Payments made on account		2,147	2,147
III. Financial assets	V.2.1		
Participations		0	0
IV. Deferred tax assets	V.2.2	9,628	15,924
		11,854	18,194
TOTAL ASSETS		72,628	84,221

EQUITY & LIABILITIES		in TEuros	
		31/12/2005	31/12/2004
A. CURRENT LIABILITIES			
I. Trade accounts payables	V.3.1	1,552	911
II. Other liabilities	V.3.1	88	54
III. Tax provisions		40	0
IV. Other provisions	V.3.2	24,081	27,187
		25,761	28,152
B. NON-CURRENT LIABILITIES			
I. Deferred taxes	V.4.1	19,168	18,202
		19,168	18,202
C. EQUITY			
I. Subscribed capital	V.5.1	15,005	15,005
II. Capital reserve	V.5.2	44,089	46,989
III. Revenue reserve	V.5.3		
Statutory reserve		116	116
IV. Group retained earnings	V.5.4	-31,435	-24,158
V. Currency differences		-76	-85
		27,699	37,867
TOTAL EQUITY & LIABILITY		72,628	84,221

Intertainment Group: Income Statement

For the Period from January 1, 2005 to December 31, 2005 in Accordance with IFRS

in TEuros	Tz.	1/1/-31/12/2005	1/1/-31/12/2004
1. Sales revenues	VI.1	1,290	17,854
2. Other operating income	VI.2	4,309	4,408
		5,599	22,262
3. Cost of materials	VI.3		
a) Cost of film rights and associated performances		-2,671	-17,033
b) Expenses for bought-in merchandise and services		-33	-26
		-2,704	-17,059
4. Personnel expenses			
a) Salaries		-1,403	-2,052
b) Social security contributions		-71	-100
		-1,474	-2,152
5. Depreciation and amortization	VI.4		
Amortization on intangible fixed assets depreciation on property, plant & equipment		-42	-55
6. Other operating expenses	VI.5	-4,387	-9,293
7. Writedowns on financial assets		0	-15,036
8. Net interest	VI.6	3	5
9. Result of ordinary business activities		-3,005	-21,328
10. Taxes on income and earnings	VI.7	-7,302	-822
11. Other taxes		0	-1
12. Net loss		-10,307	-22,151
13. Accumulated loss		-24,158	-25,310
14. Release of capital income		3,030	23,303
15. Group retained earnings		-31,435	-24,158
Basic earnings per share		-0.88	-1.89
Diluted earnings per share		-0.88	-1.89

Intertainment Group: Consolidated Cash Flow Statement

For the period from January 1, 2005 to December 31, 2005

in TEuros	2005	2004
Period result prior to extraordinary items, interest and taxes	-3,008	-20,771
Personnel expenses share options for Board of Management and employees	130	186
Amortization & depreciation of fixed assets	42	55
Losses from the disposal of fixed assets	22	0
Valuation of claims for compensation arising from legal disputes	298	4,014
Valuation of provisions for contractual disputes	610	-1,863
Valuation of provision for litigation revenue participations	-3,185	1,250
Valuation of provision for legal consultancy fees	1,480	570
Writedowns on financial assets	0	15,036
Change in provisions	-2,011	-5,427
Change in inventories	1,784	3,232
Change in trade receivables	596	94
Change in other assets	980	6,025
Change in trade payables as well as other liabilities	675	-1,740
Interest received	16	5
Interest paid	-13	0
Outflow (compared with inflow) of funds from current business activities	-1,584	666
Cash items from the extraordinary result	0	-1,118
Incoming payments on the disposal of fixed assets	28	23
Outgoing payments for investments in fixed assets	-48	-4
Outflow (compared with inflow) of funds from investment activities	-20	19
Change in liabilities to banks	0	-7
Outflow of funds from financing activities	0	-7
Changes in cash and cash equivalents	-1,604	-440
Changes in cash and cash equivalents resulting from exchange rate and other influences	9	-4
Cash and cash equivalents at beginning of period	1,694	2,138
CASH AND CASH EQUIVALENTS AT END OF PERIOD	99	1,694

Intertainment Group: Schedule of Nominal Capital

in Accordance with IFRS

in TEuros						
	Share capital	Capital reserve	Revenue reserve	Retained earnings	Currency	Total
AS AT 31/12/2003	15,005	70,106	116	-25,310	-81	59,836
Result 31/12/2004				-22,151		-22,151
Share options		186				186
Withdrawals from capital reserve		-23,303		23,303		0
Currency difference					-4	-4
AS AT 31/12/2004	15,005	46,989	116	-24,158	-85	37,867
Result 31/12/2005				-10,307		-10,307
Share options		130				130
Withdrawals from capital reserve		-3,030		3,030		0
Currency difference					9	9
AS AT 31/12/2005	15,005	44,089	116	-31,435	-76	27,699

Intertainment Group: Notes

for the business year ended December 31, 2005 in accordance with IFRS

I. General Information

Intertainment Aktiengesellschaft (referred to as "Intertainment" below) was been listed from February 1999 in the "Neuer Markt" and changed on January 15, 2003 to the regulated market, "Prime Standard" sub-section, of the Frankfurt Stock Exchange. The consolidated financial statements of Intertainment Aktiengesellschaft have been prepared, pursuant to Article § 315a HGB, according to the International Financial Reporting Standards (IFRS).

The accounting and valuation methods used by the companies included in the consolidated financial statements are uniform. On the basis of the individual financial statements of the enterprises to consolidated, Intertainment prepares consolidated financial statements according to the German Commercial Code (HGB) and reconciles these with the consolidated financial statements according to IFRS.

The individual items in the balance sheet are reported in accordance with IAS 1.51 ff. on the basis of remaining terms. Assets and liabilities are reported on the basis of short-term and long-term positions. Deferred taxes are reported under long-term items.

Intertainment uses the type of expenditure method for the income statement.

In accordance with the regulation IAS 1.85, extraordinary earnings are no longer reported in the income statement.

In these Notes, Intertainment states the figures in thousand euros (TEuros). Alongside the figures for the business year 2005, the corresponding figures for the prior year are given for purposes of comparison. These are presented in brackets. The abbreviation p.y. stands for "prior year".

II. Details of the scope of consolidation and the balance sheet date

The scope of consolidation includes Intertainment AG and its subsidiaries INTER-TAINMENT Li-censing GmbH, Intertainment Animation & Merchandising GmbH and USA-Intertainment, Inc.

The Intertainment Group consists of the following companies, with Intertainment AG directly holding 100% of the other enterprises. The individual statements of the domestic subsidiary companies were prepared in accordance with HGB.

II. KONSOLIDIERUNGSKREIS					In TEuros
Company	Subscribed capital (p.y.)	Equity 2005 (p.y.)	Annual result 2005 (p.y.)	Share (in %)	Description
Intertainment AG, Munich	15,005 (15,005)	71,173 (74,203)	-3,030 (-23,303)		The object of the company is the acquisition and exploitation of film rights, trade with film rights, production and co-production of films, merchandising, distribution and transfer of media contents in the audio and video area via communications channels of all kinds as well as execution of similar business. The company also acts as finance holding.
INTERENTAINMENT Licensing GmbH, Munich	946 (946)	- 73,051 (-73,381)	329 (-3,586)	100	The object of the company is the development of media concepts and film rights.
Intertainment Animation & Merchandising GmbH, Munich	358 (358)	20 (0)	20 (0)	100	The object of the company is trade with merchandising and cartoon film rights.
USA-Intertainment, Inc., Los Angeles, USA	105 (105)	98 (48)	41 (42)	100	The object of the company is to oversee contracts of enterprises belonging to the Intertainment Group with American corporations and to identify and evaluate new film projects as well as potential license and production agreements.

The closing date for the consolidated financial statements is December 31, 2005. Both the financial statements of Intertainment AG and those of all the subsidiaries included in the consolidated financial statements refer to this closing date.

III. Consolidation methods

1. Capital consolidation – first consolidation

For the capital consolidation, Intertainment applies the acquisition method. The book value of the shares of the subsidiaries included in the consolidated financial statements is offset against their revalued equity at the time of their first-time consolidation. From the date of first-time reporting, INTERENTAINMENT Licensing GmbH will be treated as a legal reorganization. This means that the goodwill from the capital consolidation is directly offset with the capital reserve. Goodwill is not shown.

2. Debt and expense and earnings consolidation

Receivables and liabilities, and income and expenses between the companies included in the consolidated financial statements have been eliminated.

3. Elimination of intercompany results

The intercompany results from transactions within the Intertainment Group have been eliminated.

4. Currency translation (IAS 21)

USA Intertainment, Inc. draws up its balance sheet in US dollars. Through the translation to the euro of the balance sheet figures at the rate on the closing date and of the figures shown in the income statement at the average rate, currency differences arose in the past business year of -76 (p.y. -85) TEuros. These were offset against the equity without any effect on results. In addition, under the adjustment of the individual financial statements to group-wide accounting and valuation methods, as in the prior year, there were no currency differences to be taken into account as affecting results.

IV. Accounting and valuation methods

1. Current assets

CASH ON HAND AND BANK BALANCES are stated at their nominal value. The valuation of bank balances in foreign currency is on the basis of the euro exchange rate on the balance sheet date.

Receivables and other assets, which have a residual term of less than one year are capitalized at their nominal value Receivables in foreign currencies are valued using the euro exchange rate on the balance sheet date. Adjustments are formed to take account of the risk of the receivable not being paid

FILM RIGHTS AND LICENSES that are acquired for a limited period of time are recorded under current assets. The valuation is based on the acquisition costs less amortization of the exploited portions of the rights. The costs of financing by outside capital are treated as expense in accordance with IAS 23. The acquisition costs are broken down according to the rights portions cinema, video and DVD, as well as Pay TV and Free TV. The measurement base for this breakdown relates to the revenues forecast for the defined subsegments. The Free TV rights portions are broken down into up to three exploitation cycles. Often they will cover a period of up to 25 years. If individual subsegments for film rights are not exploited, the acquisition costs are broken down into the remaining exploitation stages with modified allocation percentages.

THE FILM LICENSE RIGHTS are capitalized when an independent laboratory has accepted the technical quality of the film material supplied.

The scheduled amortization of film rights is based on economic life or exploitation of the film rights. In addition, non-scheduled writedowns are made in accordance with IAS 2, if it is determined that the forecast revenues from disposal (net disposal values) are less than the residual book value capitalized.

2. Non-current assets

PROPERTY, PLANT AND EQUIPMENT are stated at acquisition costs less scheduled linear depreciation. The scheduled linear depreciation is based on the normal useful life for the business. The useful life of business and office equipment is 4 to 10 years. Non-scheduled depreciation is also carried out at the market or current value. Low value economic goods of fixed assets are depreciated in full in the year of acquisition and are shown in the fixed asset schedule as disposals.

INTANGIBLE ASSETS are shown at their acquisition cost less amortization. Where the acquisition costs of an asset relate to different portions of the rights, as often occurs in the case of film rights, the acquisition costs are divided on the basis of the forecast revenues. The acquisition costs are amortized normally in accordance with the useful economic life or causation. The useful life for software is 3 to 5 years.

Payments for the acquisition of film rights which are available for an indefinite period of time and have not yet been delivered and the technical quality accepted are reported as payments under intangible assets.

The capitalized costs are regularly examined as to their value and, if necessary, recorded as a non-scheduled writedown. This writedown is especially necessary when it is not sufficiently probable that a future economic benefit can be generated from the assets.

Intangible assets that are no longer appropriate for serving the business over the long term are reclassified under current assets.

The FINANCIAL ASSETS are stated at the lower of acquisition costs and fair value.

3. Current liabilities

OTHER PROVISIONS are formed when on account of an event in the past a present legal or practical obligation exists, the outflow of economic resources to fulfill this obligation is probable and it is possible to reliably estimate the amount of the obligation.

DEBTS, which have a residual term of less than one year are capitalized at their nominal value. Foreign currency debts are valued in accordance with IAS 21 using the euro exchange rate on the balance sheet date.

4. Equity

The CAPITAL RESERVE includes the amount that is achieved by the issue of shares above the nominal value. The proportionate fair value of share options issued is additionally recorded under this item for the relevant business year.

5. Sales realization

The sale and exploitation of licenses for film rights should always be differentiated when sales revenues are reported.

In the case of the SALE OF A LICENSE, revenues are realized when a binding contractual relationship has arisen with the licensee. This is the case in particular when the licensed film rights have been accepted, the license fee for each licensed film right is known, and there is sufficient probability that the economic benefit, i.e. the license fee, will flow as income when due. In cases of EXPLOITATION OF FILM RIGHTS, the sale is recorded when the actual box-office results during the period of exploitation of the relevant portion of the rights concerned are known. As a rule, exploitation of the DVD segment begins six months after the cinema release, Pay TV exploitation takes place twelve months later and the Free-TV segment starts a further twelve months later.

6. Valuation of share options

According to IFRS 2, remuneration by way of granting share options to the Board of Management and staff members of the company is recorded proportionately over the waiting period under personnel expenses and the capital reserve from the point in time of the issue. To this end, the share options were therefore valued at the point of issue on the basis of an option price model. A difference amounting to 130 (p.y. 186) TEuros arises from reporting share options in accordance with IFRS.

7. Deferred taxes

According to IAS 12 and taking into consideration the Tax Relief Law 1999/2000/2002, the tax effect from the revaluation according to the International Accounting Standards has been accounted for using a tax rate of approximately 40% (p.y. 38%). In accordance with the IFRS regulations, deferred taxes are also formed for loss carry-forwards. The deferred tax expenses amount to 7,261 TEuros. Deferred taxes of 822 TEuros were reported in the prior year. An adjustment amounting to 388 TEuros resulted from the change in tax rate compared with the previous year.

V. Explanations to the consolidated balance sheet

1. Current assets

1.1 Cash on hand, bank balances

Liquid funds totaling 99 (p.y. 1,694) TEuros are made up of current accounts and cash on hand.

1.2 Receivables and other assets

The trade receivables amount to 65 (p.y. 661) TEuros and have a residual term of less than one year.

The other assets amounting to 57,986 (p.y. 59,264) TEuros are comprised as follows:

V. 1.2 OTHER ASSETS		in TEuros
	2005	2004
Damages receivable from legal disputes	57,880	59,110
Miscellaneous	106	154
Total	57,986	59,264

The damages receivable from legal disputes relate to the claims of Intertainment against Franchise Pictures and other parties.

The valuation is based on the claims of Intertainment arising from the successful legal dispute amounting to the sum cited in the judgment less the risk reduction. The calculation was carried out on the basis of a real option valuation model in which the cash flows were valued with the probability of their realization. The change by comparison with the prior year results from the partial settlements and exchange rate effects.

The management still regards as valuable the asset reported as damages, despite the fact that Franchise Pictures and other parties have instituted insolvency proceedings. The value derives on the one hand from the fact that part of the claims can be met by the insolvency settlement and from the proceeding against Elie Samaha. On the other hand, the management also regards the prospects for success in the impending arbitration proceedings against Comerica Bank as extremely positive, see item B.1.4 of the Management Report. If Intertainment succeeds in asserting its claims against Comerica Bank, Comerica Bank would also, in the view of the management, be liable for the damages sustained by Intertainment which were already successfully asserted in the trial against Franchise Pictures and other companies.

All items relate to a residual term of less than one year

1.3 Inventories

The FILM RIGHTS AND LICENSES are valued at 2,624 (p.y. 4,408) TEuros:

V. 1.3 FILM RIGHTS		in TEuros
	2005	2004
Balance at January 1	4,408	7,100
Additions	0	13,603
Scheduled amortization	- 830	-14,233
Non-scheduled amortization	- 1,763	- 1,552
Writeups	809	0
Disposals	0	-510
Balance at December 31	2,624	4,408

The writeups relate to various film rights which had been the subject of non-scheduled amortization. Writeups could be carried out in the reporting year as a result of the improved net sales values.

Scheduled amortization relates to film rights for which license sales have been carried out in the business year 2005.

Non-scheduled writedowns on film rights were incurred as a result of writing down at the lower fair value. The expected net sales revenues for the relevant films rights were below the amounts capitalized under assets to date.

2. Non-current assets

2.1 Fixed assets

With regard to the presentation of the development of FIXED ASSETS we refer to the schedule of fixed assets.

Payments on account for intangible fixed assets include payments for the acquisition of secondary rights in the thriller "Twisted" for various territories amounting to 2,147 (p.y. 2,147) TEuros.

Property, plant and equipment essentially consists of office and business equipment from Intertainment AG and INTERTAINMENT Licensing GmbH.

The financial assets consist of the participation in the US company SightSound Technologies Inc. which has been written down in full.

2.2 Capitalized deferred taxes

The deferred tax assets include an amount of 9,628 (p.y. 15,924) TEuros. Apart from valuation differences between HGB and IFRS, they relate in particular to the capitalization of deferred taxes and loss carry-forwards in the amount expected from

realization. The amount recognized is based on an estimated tax rate of 40% (p.y. 38%) for municipal trade earnings and corporate income tax. The decrease compared with the prior year is based on a changed forecast for proceeds and the consequent utilization of loss carry-forwards.

3. Current liabilities

3.1 Debts

The TRADE LIABILITIES amount to 1,552 (p.y. 911) TEuros and result in particular from repayment obligations for related services.

The other liabilities amounting to 88 (p.y. 54) TEuros include liabilities from wages and salaries amounting to 29 (p.y. 0) TEuros, liabilities to the tax authorities for wage and church tax amounting to 13 (p.y. 20) TEuros and liabilities for social security amounting to 8 (p.y. 11) TEuros.

The liabilities have overall a residual term of less than one year.

3.2 Provisions

The other provisions developed as follows:

V. 3.2 PROVISIONS					in TEuros
	Balance at 1/1/2005	Utilization	Release	Allocation	Balance at 31/12/2005
Type of provision	17,935	0	-3,210	25	14,750
Contractual disputes	4,750	0	0	610	5,360
Legal/consultancy fees	3,200	-2,080	0	1,480	2,600
Reorganization	935	0	0	185	1,120
Outstanding invoices	331	-95	-158	140	218
Other	36	-4	-2	3	33
Total	27,187	-2,179	-3,370	2,443	24,081

The provision for LITIGATION REVENUE PARTICIPATIONS relates to the participation of third parties in the litigation revenues flowing to Intertainment. This provision is directly connected with the damages receivable under item V.1.2. The amount of the participations is defined by the contractually agreed percentages based on the expected inflows of funds. The litigation revenue participations are only due at the point in time when the inflows of funds are received. The release amounting to 3,210 TEuros is reported in the income statement under other operating earnings.

The provision for CONTRACTUAL DISPUTES is for risks arising in the settlement of agreements which in the opinion of the management are binding and concluded. The provision for LEGAL AND CONSULTANCY COSTS comprises the estimated costs still due for all the pending legal disputes. Apart from the provision for trial costs, no provisions were made for any payment obligations arising from the arbitration proceedings because the management is not assuming any further outflows of funds.

The provision for REORGANIZATION includes obligations to contractual partners for the settlement and termination of existing contracts.

The provision for OUTSTANDING INVOICES consists of payment obligations for supplies and services obtained during the reporting year that have not yet been invoiced and for expenses incurred for the annual financial statements.

The provision for PERSONNEL relates to meeting vacation entitlements for employees who had not yet taken holiday owing to them on the balance sheet date. In the prior year, this item also included obligations relating to severance payments.

Overall, provisions have a residual term of less than one year.

4. Non-current liabilities

4.1 Deferred tax liabilities

Deferred tax liabilities amount to a value of 19,168 (p.y. 18,202) TEuros and were formed for consolidation measures with effect on income that will probably be cancelled out in the subsequent periods and also valuation differences between HGB and IFRS. The amount recognized is determined by applying a combined tax rate of 40% (p.y. 38%) comprising municipal trade tax and corporate income tax.

The calculation is essentially based on an effect related to debt consolidation. During previous years, Intertainment AG carried out adjustments in individual financial statements on intercompany accounts to its subsidiaries. In the context of debt consolidation, the difference led to a deferred tax asset.

5. Equity

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

5.1 Subscribed capital

The nominal capital remained unchanged at 15,005 TEuros on the balance sheet date. It is held in the form of 11,739,013 issued no-par shares.

AUTHORIZED CAPITAL

The Board of Management is authorized until September 23, 2008 to increase the nominal capital by issuing, once or more than once, new bearer no-par shares against cash contribution and/or contribution in kind by a total of up to 3,203 TEuros with the consent of the Supervisory Board. (authorized capital 2003/I).

The approved capital dated January 18, 1999 (authorized capital 1999/I) was cancelled.

The Board of Management is authorized furthermore until June 26, 2006, to increase the nominal capital, once or more than once, against cash contribution and/or contribution in kind by a total of up to 4,300 TEuros with the consent of the Supervisory Board (authorized capital /II).

The Board of Management is authorized, with the consent of the Supervisory Board, on exercise of the authorized capital 2003/I and the authorized capital II to exclude partially or wholly the subscription right of the shareholders under certain conditions.

CONTINGENT CAPITAL

The nominal capital may be raised contingently by up to 511 TEuros (contingent capital I) and a further 383 TEuros (contingent capital II). It serves for the exercise of option rights by employees, members of the management and members of the Board of Management of the company and affiliated enterprises according to the share option program adopted by the Annual General Meeting.

The nominal capital is furthermore contingently increased by 6,002 TEuros (contingent capital III). The contingent capital increase is only carried out insofar as the creditors make use of their convertible and option bonds by June 26, 2006.

In order to grant option rights to employees, members of the management and members of the Board of Management of the company and affiliated enterprises, the nominal capital was increased contingently by a further 383 TEuros (contingent capital IV) according to the resolution adopted by the shareholders' meeting on September 22, 2003 for the share option program 2003.

5.2 Capital reserve

At the balance sheet date, the capital reserve was 44,089 (p.y. 46,989) TEuros.

The change compared with the prior year resulted from utilization of 3,030 (p.y. 23,303) TEuros to balance the annual deficit of Intertainment AG in accordance with Article § 150 (3) and (4) AktG ("Aktiengesetz", "Stock Corporation Act"). Share options issued to the Board of Management and staff were capitalized under assets. This resulted in an increase in capital reserve amounting to 130 (p.y. 186) TEuros.

5.3 Revenue reserve

The revenue reserve in the amount of 116 (p.y. 116) TEuros relates exclusively to the statutory reserve.

5.4 Accumulated loss

At December 31, 2005, an accumulated loss amounting to -31,435 (p.y. -24,158) TEuros is reported. The consolidated annual deficit amounts to -10,307 (p.y. -22,151) TEuros.

VI. Explanations to the Group income statement

1. Sales revenues

Sales revenues amount to 1,290 TEuros following 17,854 TEuros in the prior year. They are made up of license revenues amounting to 1,281 (p.y. 17,819) TEuros.

2. Other operating income

Other operating income amounts to 4,309 (p.y. 4,408) TEuros and comprises:

VI. 2 OTHER OPERATING INCOME in TEuros		
	2005	2004
Valuation of litigation revenue participations	3,210	1,863
Writeups on film rights	809	0
Release of provisions	160	210
Currency gains	100	388
Tax rebates	0	939
Miscellaneous	30	1,008
Total	4,309	4,408

The values of other operating income for the prior year have been adapted appropriately because extraordinary earnings are not reported.

3. Cost of materials

The cost of materials amounts to 2,704 (p.y. 17,059) TEuros and includes expenses for film rights and associated services amounting to 2,671 (p.y. 17,033) TEuros and expenses for related goods and services amounting to 33 (p.y. 26) TEuros. Overall, the cost of materials is made up as follows:

VI. 3 COST OF MATERIALS in TEuros		
	2005	2004
Non-scheduled writedowns of film rights	1,763	1,552
Scheduled writedowns on film rights	830	14,233
Marketing costs	77	1,219
Miscellaneous	34	55
Total	2,704	17,059

4. Depreciation and amortization

Amortization and depreciation on intangible assets and fixed assets amount to 42 (p.y. 55) TEuros and comprise exclusively scheduled depreciation and amortization. In the previous year, adjustments on receivables from INTERENTAINMENT Licensing GmbH amounting to 5,363 TEuros were recognized under depreciation on current assets, insofar as these exceed other depreciation normal in the company.

5. Other operating expenses

Other operating expenses comprise 4,387 (p.y. 9,293) TEuros and comprise:

VI. 5 OTHER OPERATING EXPENSES in TEuros		
	2005	2004
Legal and consultancy costs	1,805	1,067
Expenses for contractual disputes	635	2,368
Valuation of claims for damages	298	4,015
Rents and accommodation costs	228	280
Currency losses	215	185
Miscellaneous	1,206	1,378
Total	4,387	9,293

6. Interest result

The interest result amounts to 3 (p.y. 5) TEuros and includes interest in the sum of 16 (p.y. 5) TEuros and interest expenses in the sum of 13 (p.y. 0) TEuros. All outsourced services were recorded under expenses.

7. Taxes

Overall tax expenses amounting to 7,302 (p.y. 822) TEuros were recorded. They are made up as follows:

VI. 7 TAXES in TEuros		
	2005	2004
Current taxes on income and earnings	41	0
Deferred tax income	7,261	822
Total	7,302	822

Deferred taxes are formed on temporary differences between the commercial and tax accounts and on the differences arising from uniform Group valuation and consolidation. The Group tax rate corresponds to the average domestic tax rate, since more than 95% of the Group's pre-tax result is generated domestically. Taking into consideration the municipal trade tax as well as corporate income tax including the solidarity surcharge, it comes to 40%.

Expected tax savings from the use of loss carry-forwards which are estimated to be realizable are capitalized. There were unused corporate income tax losses of 164,724 TEuros and municipal tax loss carry-forwards of 176,112 TEuros. The accrued losses can be carried forward without limitation in accordance with the applicable legislation. However, current profits from a period can only be offset up to 60% on loss carry-forwards (so-called minimum taxation). This is applicable to amounts above 1,000 TEuros. Capitalization of the deferred taxes is justified by the surplus of deferred tax liabilities resulting from the capitalization of the deferred tax assets. The management is of the view that earnings from future business activity will probably generate sufficient taxable profits in order to realize this tax asset carried out. The following deferred tax assets and liabilities reported are attributable to differences in recognition and valuation in the individual balance sheet items:

VI. 7 DEFERRED TAXES in TEuros				
	31/12/2005		31/12/2004	
	Assets	Liabilities	Assets	Liabilities
Loss carry-forwards	9,628	0	15,924	0
Debt consolidation	0	19,168	0	18,207
Trade receivables	0	0	0	-5
Total	9,628	19,168	15,924	18,202

The deferred tax assets on loss carry-forwards consist of:

VI. 7 DEFERRED TAX ASSETS ON LOSS CARRY-FORWARDS		in TEuros
	31/12/2005	31/12/2004
Corporate income tax	7,146	9,637
Municipal trade tax	2,482	6,287
Total	9,628	15,924

Reconciliation of expected actual earnings tax expense (IAS 12.81c.ii)

VI. 7 EARNINGS TAX EXPENSE: RECONCILIATION		in TEuros
	31/12/2005	31/12/2004
Result before taxes on earnings	-3,005	-21,329
Group tax rate	40%	38%
Expected income tax expense	1,202	8,105
Tax effects as a consequence of:		
Release of deferred tax assets	-6,296	0
Increase of deferred tax liabilities	-965	0
Non-capitalizable deferred taxes from losses in the current year	-1,170	-3,164
Utilization of loss carry-forwards	149	18
Loss carryback	-23	0
Writedowns on financial assets	0	-5,714
Other additions and deductions	-199	-67
Taxes on income and earnings	-7,302	-822

VII. Other information

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

The consolidated financial statements for the business year 2005 were prepared on the assumption that the Intertainment AG Group still has the ability to continue as a going concern. The management of Intertainment has a positive assumption regarding its ability to continue as a going concern, so that the Group will in all probability be able to continue its business activities in the current and the subsequent business years and meet its payment obligations.

The positive assumption of the Intertainment AG Group's ability to continue as a going concern is based on an integrated corporate plan, from which the detailed finance plan was derived. This is made up of the financing of future business activity, the planned investments and other financing activities. Overall, the assumption regarding Intertainment's ability to continue as a going concern is qualified by four main areas of uncertainty that cannot be judged definitively at the present time. In particular, these are:

- Outflows of funds arising from the exercise of the right of termination of Kinowelt GmbH with respect to Intertainment AG and INTERTAINMENT Licensing GmbH in connection with the failure in the search for an alternative investor.
- Cash inflows arising from the settlement of legal disputes against Franchise Pictures, Comerica Bank and other parties.
- No cash outflows from current arbitration proceedings for the payment of second installments of the disputed film rights.
- Fulfillment of the other assumptions of the finance plan including cash inflows planned over the short term.

If the inflows of funds, the outflows of funds or the assumptions on which the financial plan is based fail to materialize as planned, the ability to continue as a going concern of Intertainment AG, INTERTAINMENT Licensing GmbH and Intertainment Animation & Merchandising GmbH is highly endangered because of being unable to fulfill their payment obligations and the associated risk of filing for insolvency proceedings.

We refer to item F.1.4 of the Management Report of the Intertainment AG Group for further information.

2. The Franchise Pictures case and other arbitration proceedings

We refer to our statements in item B.1 in the Management Report.

3. Legal dispute of HypoVereinsbank against Intertainment

On September 6, 2005, HypoVereinsbank (HVB) filed a partial claim for payment of 10,000 TEuros against Intertainment AG and INTERTAINMENT Licensing GmbH in a proceeding for documentary evidence. The partial claim related to a residual loan of INTERTAINMENT Licensing GmbH amounting to around 14,000 TEuros on the date when the claim was filed. In 2001, Intertainment AG had given a surety on the underlying loan for the residual debt. Some of this loan resulted from finance provided for Franchise Pictures films.

In the opinion of Intertainment, HVB and Intertainment had reached an arrangement for settlement of the residual debt. In the view of the management, this guarantee was extinguished by the agreement.

The new arrangement provided for HVB issuing a debt waiver on a deferred debt based on previous negotiations. In this

connection, Intertainment wrote off the outstanding residual loan amounting to 13,583 TEuros in the business year 2003. In accordance with the key items of the agreement, the film rights that have been assigned, not yet sold, and the resulting exploitation revenues remain assigned as security to HVB. The bank was also assigned 15 % of net income for the business years 2004 to 2006 and a further 15 % of the litigation revenues arising from the litigation against Franchise Pictures as security.

Since in the view of the management the security link between the receivables originally assigned as security and the residual debt to the bank no longer existed, trade receivables were assigned by INTER-TAINMENT Licensing GmbH to Intertainment AG during the business year 2003. Netting with trade receivables was therefore carried out at Intertainment AG.

A legal opinion for appraisal of the facts was obtained from a law firm. This formed the basis for the assessment by the management of Intertainment.

HVB had called in the loan by two letters in March and at the end of June 2004, despite the new arrangement. In the opinion of Intertainment, this was no longer possible on account of the new arrangement. However, after the two letters were received, Intertainment recommenced negotiations with the bank in the business year 2004, with the aim of bringing the matter to a successful conclusion. Although these negotiations initially came to nothing, they started up again over the course of the business year. The last negotiations took place at the beginning of September 2005.

On September 6, 2005, HVB filed a partial claim for payment of 10,000 TEuros in addition to specifically defined interest against Intertainment AG and INTER-TAINMENT Licensing GmbH in a proceeding for

documentary evidence. Within the scope of the documentary proceeding filed by HVB, two oral court hearings were held before the State Court I (Landgericht I) on October 21, 2005 and November 10, 2005. No witness testimonies are taken in a proceeding for documentary evidence and only documentary evidence is permissible.

In a tentative ruling rendered on December 22, 2005 and a judgment handed down in the subsequent proceeding on March 23, 2006, the Munich State Court (Landgericht München I) found Intertainment AG and INTER-TAINMENT Licensing GmbH jointly and severally liable to pay the disputed amount without protection against enforcement. This decision meant that INTER-TAINMENT Licensing GmbH and Intertainment AG were subject to a very high risk of insolvency. On December 23, 2005, following an extraordinary meeting of the Supervisory Board, the Supervisory Board recommended that the Board of Management, immediately conduct constructive negotiations with all parties in order to prevent insolvency and ensure continuation of the company as a going concern. Immediately after the tentative ruling, was rendered on December 22, 2005, the legal representative of the bank also submitted a letter stating that the judgment would not be enforced if and insofar as Intertainment make specific declarations and an offer be submitted for short-term discharge of the liabilities. As a result, Intertainment commenced intensive negotiations with the bank through its legal representative in Germany and through its legal representative in the USA. The US lawyers of Intertainment conducted settlement negotiations with the inclusion of the legal representatives of Comerica Bank, in order to achieve an overall settlement between the

parties Intertainment, Comerica Bank and HVB. After these negotiations initially proceeded extremely positively and an agreement directly with Comerica/HVB had seemed to be within reach shortly before expiry of the three-week insolvency submission deadline, this agreement ultimately failed to materialize before expiry of the three-week deadline on January 12, 2006 at 12.00 midnight, so that Intertainment had to apply to open insolvency proceedings on account of inability to meet its payment obligations on the same day. Independently of the negotiations, Intertainment appealed against the judgments handed down by the Munich State Court I (Landgericht München I), which means that the judgments are not legally binding. Intertainment continues to maintain its legal opinion and will attempt to assert this opinion in higher courts of law, insofar as this is necessary and appropriate.

For further developments in relation to this matter, we refer to our statements on events occurring after the balance sheet date under item E of the Management Report.

4. Lawsuit against AIG Europe

In the business year 2005, Intertainment AG filed a claim against insurance company AIG Europe S.A. before the State Court (Landgericht) Frankfurt. In October 1999, Intertainment had taken out a D&O policy (Directors and Officers policy) with AIG Europe S.A. This policy insured the Members of the Board of Management of Intertainment AG and the Managing Directors of INTER-TAINMENT Licensing GmbH for the event that a claim was filed against them for financial loss in their capacity as an executive officer of Intertainment AG or INTER-TAINMENT Licensing GmbH on account of statutory liability pro-

visions. In particular, the policy covered the costs of defense against claims filed against the insured persons for compensation in court and out of court.

During the Franchise Pictures proceeding, the opposing parties asserted counterclaims against Intertainment. They had also filed claims against Rüdiger Baeres, at the time Chairman of the Board of Management of Intertainment AG, in person. This counterclaim was rejected unanimously by the jury of nine. In the opinion of Intertainment, AIG should have been responsible for paying the costs of the legal defense of Mr. Baeres. However, the insurance company refused to make any payment. Intertainment believed there was no alternative to filing a claim. It involved a claim amounting to 2.7 million euros plus interest. No judgment was handed down in respect of the claim up to the date when these financial statements were prepared.

5. Segment reporting

Intertainment no longer has any segments subject to reporting obligations under IAS 14. All information relates to the segment film production and trading in film rights to feature films.

6. Earnings per share

According to IAS 33, the earnings per share are calculated by dividing the earnings for the period by the weighted average of the shares in circulation.

The number of shares remained unchanged at 11,739,013 on the balance sheet date. In 2005, the Group recorded a deficit of 10,307 TEuros, following a deficit of 22,151 TEuros in the prior year. Hence, the earnings per share deteriorated in 2005 to -0.88 euros, after -1.89 euros in 2004. The diluted earnings per share amounts to -0.88 euros following -1.89 euros in the prior year.

7. Employee share program

The share option programs of 1991, 2001 and 2003 authorize Entertainment AG to offer to employees or members of the Board of Management, or employees and members of the management of affiliated enterprises, with the consent of the Supervisory Board, rights to subscribe to no-par bearer shares. The entitlement to subscribe and the number of subscription rights are determined for the members of the Board of Management by the Supervisory Board alone, and in other cases by the Board of Management together with the Supervisory Board. Shareholders do not have a legal entitlement to subscription.

The prerequisite for the exercise of option rights is that the options have not expired and that the average rate of the Xetra mid-day auction on the first five stock market days after the ordinary shareholders' meeting has increased by at least 30% in comparison with the average rate of the Xetra midday auction of the Entertainment share which was used as the basis for the exercise price when the subscriptions rights concerned were issued. This income target must be reached for those subscription rights which can be exercised for the first time in this exercise period. If the earnings target for these subscription rights is reached, they may also be exercised, independently of further price development, at a later point in time.

The offer to subscribe the option rights under the share option program 1999 may be made in each case within six weeks of the ordinary shareholders' meeting of the company or after publication of the result of the third quarter and may be purchased by those with entitlement. Under the share option programs 2001 and 2003, the offer to subscribe the option rights may only be made within two weeks of publication of

an annual, half-yearly or quarterly report of the company. The offer can be subscribed only within four weeks after issue of the offer. The subscription rights may be exercised, on observance of the corresponding waiting periods and exercise conditions, annually during the fourth quarter and the following 15 stock market days after the ordinary shareholders' meeting and after publication of the result for the third quarter. Up to 25% of the subscription rights may be exercised for the first time two years from the time of issue of the subscription rights. In the following three years, a further 25% per annum may be exercised. If subscription rights are not exercised at this last point in time, they lapse.

The development of share options is as follows:

VII.7 DEVELOPMENT OF SHARE OPTIONS	in no-par shares	
	2005	2004
Options issued at January 1	688,000	458,000
New options issued to employees	70,000	230,000
Options issued at December 31	758,000	688,000
of which lapsed options	438,000	4,000
Options still available	242,000	312,000

The issued share options have been charged to expenditure in accordance with IFRS 2. In the business year 2005, 130 (p.y. 186) TEuros were reported in this connection under personnel expenses.

For purposes of valuation, the fair current value of the share options was calculated on the basis of the Black Scholes option price model. The measurement date is the grant date of the share options. The current fair value determined in this way is allocated uniformly over the vesting period under personnel expenses to the capital reserve. The vesting period entails that 25% of the share options can be exercised after two years and a further 25% each year during each of the following three years from this point in time. The vesting conditions are defined in the introductory section to this item. In accordance with the transitional regulations under IFRS 2, only the share options granted after November 7, 2002 are included in the valuation.

The valuation parameters for the Black Scholes option price model are as follows:

VII.7 VALUATION PARAMETERS FOR THE BLACK SCHOLES OPTION PRICE MODEL	2005	2004
Risk-free interest rate (in %)	5	5
Expected duration to exercise (in years)	5	5
Expected volatility (in %)	120	120

The expected volatility is based on the historic development of the share price of Entertainment AG. It is based on the period of the last 250 days.

Further information on share options:

VII.7 FURTHER SHARE OPTIONS	Number	Exercise price Weighted averag
Options outstanding at the start of the reporting period	688,000	2.0
Options granted in the year under review	70,000	0.72
Lapsed options in the year under review	-438,000	2.0
Options outstanding at the end of the reporting period	320,000	1.84

8. Other financial commitments and contingent liabilities

At December 31, 2005, the following future payment obligations were recorded:

VII. 8 OTHER FINANCIAL COMMITMENTS	in TEuros		
	Remaining term less than 1 year	Remaining term greater than 1 year	Total
Obligations arising from lease and rental contracts	501 (p.y. 928)	331 (p.y. 534)	832 (p.y. 1.462)

OTHER OBLIGATIONS ARISING FROM LEASING AND RENTAL CONTRACTS

The obligations from the rental contracts relate to the business premises in Ismaning and Los Angeles. Both contracts have a fixed term of 5 years, with the rental contract for the offices in Los Angeles expiring on April 30, 2006. There are no obligations arising from leasing contracts in the year under review.

OBLIGATIONS ARISING FROM FILM PRODUCTIONS

A master contract was restructured with a US producer as a result of the reorganization measures carried out at the start of the business year 2004. The claims arising from the license sales of the film “Twisted” were assigned to the producer in order to settle the resulting obligations. In addition, current earnings from exploitation from specified territories are offset against the obligations of Intertainment. It is possible that other financial obligations will arise from this restructuring for Intertainment in the future.

OBLIGATIONS ARISING FROM ARBITRATION PROCEEDINGS

The arbitration proceeding that originally related to the film “Driven” was extended to all the disputed films financed by Comerica Bank and all claims for damages being asserted by Intertainment against Comerica Bank. Comerica Bank is demanding in this arbitration proceeding all outstanding installments for the films it financed. The total amount is more than 70 million US DOLLARS. We refer to item B.1.4 of the Management Report for further information.

OTHER OBLIGATIONS ARISING FROM LITIGATION REVENUE PARTICIPATIONS

Insofar as cash-inflows of funds from the legal dispute with Franchise Pictures and other parties exceed the damages receivable amounting to 57,880 (p.y. 59.110) TEuros reported under other assets, other contractual obligations for litigation revenue participations arise on the basis of contractual agreements for which no provisions have been formed during the business year 2005.

9. Other contingent obligations

RENTAL PAYMENT GUARANTEE FOR OFFICE PREMISES

A rental payment guarantee was granted for office premises in Munich amounting to 43 TEuros. In the prior year, there was a rental payment guarantee of 76 TEuros for the rental of office premises in Ismaning.

ASSIGNMENTS AS SECURITY

Within the scope of the reorganization measures agreed in the previous year and the restructuring of contracts, there are comprehensive assignments of existing assets as security to contractual partners. They serve to hedge against possible financial obligations arising in the future.

10. Risk management

Intertainment has examined the business processes and has identified, analyzed, and evaluated the risks arising. It has also developed measures under an ongoing risk monitoring regime which are designed to minimize these risks. Building on this, the risk monitoring system for the detection of dangerous influences is being further developed and supplemented. In this connection, we refer to item F of the Management Report.

11. Supplementary information on the cash flow statement according to IAS 7

During the business year 2005, no payments were made for income tax. Intertainment received interest in the sum of 16 (p.y. 5) TEuros and paid interest amounting to 13 (p.y. 0) TEuros. In the business years 2005 and in the prior year, there were no “non-cash transactions” affecting exclusively equity.

12. Executive bodies

BOARD OF MANAGEMENT

- Hans-Joachim Gerlach, businessman, Berlin

The fixed remuneration package of the Board of Management amounted to 238 (p.y. 679) TEuros in the business year 2005. There is also an agreement by which the Board of Management receives an additional performance-related remuneration element which is likely to be 1,216 (p.y. 2,488) TEuros at the balance sheet date. This is dependent on the cash inflows of funds arising from the successful legal dispute against Franchise Pictures and other parties. The payment of the remuneration is only made when the cash inflows on which it is based are received.

The reduction in the fixed remuneration package compared with the previous year is due to the fact that Mr. Rüdiger Baeres resigned from the Board of Management on October 29, 2004. As a former Member of the Board of Management, Mr. Baeres also receives a litigation revenue participation amounting to 1,216 TEuros following his resignation as a Member of the Board of Management. This remuneration is dependent on the actual cash inflows received arising from the successful legal dispute against Franchise Pictures and other parties. Payment of this remuneration will only be made when the cash inflows on which it is based are received.

On December 31, 2005, the figures on shares and options rights held by members of the Board of Management were as follows:

VII.12 SHARE OWNERSHIP AND OPTIONS		
BOARD OF MANAGEMENT	Shares	Options
Achim Gerlach	10,000	100,000

The number of options held by Mr. Gerlach has reduced from 200,000 to 100,000 since the balance sheet date for 2004. This is due to the fact 100,000 options have lapsed in the course of the business year. The existing 100,000 options originate from the share option program of Intertainment AG. The fair current value at the date when the share options were granted amounts to 170,000 euros. The conditions of exercise have not changed.

SUPERVISORY BOARD

- Ernst Rüdiger Baeres, lawyer, Munich (Chairman), until March 6, 2006
- Dr. Matthias Heisse, lawyer, Munich (Deputy Chairman, from May 15, 2006, Chairman)
- Wolfgang Blauburger, businessman, Munich
- Dr. Ernst Pechtl, businessman, Wolfratshausen, from May 4, 2006

During the business year 2005, Dr. Matthias Heisse was also a member of the Supervisory Board of Firestorm AG, Munich. Rüdiger Baeres and Wolfgang Blauburger did not hold any further Supervisory Board offices during the business year 2005.

For the business year 2005, Supervisory Board compensation in the amount of 23 (p.y. 23) TEuros was paid. On December 31, 2005, the figures on shares and options rights held by members of the Supervisory Board were as follows:

VII.12 SHARE OWNERSHIP AND OPTIONS		
SUPERVISORY BOARD	Shares	Options
Rüdiger Baeres*	6,762,031	0
Dr. Matthias Heisse	12,980	0
Wolfgang Blauburger	670	0

* and Baeres family

During the business year 2005, the Chairman of the Supervisory Board Rüdiger Baeres sold a total of 150,000 shares attributable to Alkmäon Vermögensverwaltungsgesellschaft mbH outside the stock market on February 17, 2005. Intertainment was informed of the sale on February 21, 2005. In addition, Alkmäon sold a further 729,396 Intertainment shares outside the stock market. These shares were purchased by the wife of Mr. Baeres, Saskia Baeres-Goud, and by his mother, Marianne Baeres-Ortner. These two people each acquired 364,698 shares. Intertainment was informed of the sale on September 8, 2005.

The shareholdings and option rights of the other members of the executive bodies have not changed since December 31, 2004. At December 31, 2004, the company did not hold any own shares.

13. Related companies and persons

Ernst Rüdiger Baeres should be regarded as a naturally related person. On the balance sheet date, he held 57.60 % of the voting rights in Intertainment AG. During the business year 2004 an apartment in Los Angeles was placed at the disposal of Mr. Baeres, which Intertainment AG leased from Alkmäon Vermögensverwaltungsgesellschaft mbH, whose shares are held by Mr. Baeres. The rent amounted to 146 TEuros. During the business year 2005, fees of 149 (p.y. 224) TEuros were paid to the law firm Heisse Kursawe Eversheds, in which Dr. Heisse is a partner, under the framework of a separate consultancy contract (pursuant to §114 AktG). Under separate consultancy contracts (pursuant to §114 AktG) 208 (p.y. 35) TEuros were paid to Mr Ernst Rüdiger Baeres and fees amounting to 21 (p.y. 47) TEuros were paid to the auditing firm Wolfgang Blauburger, in which Wolfgang Blauburger is managing partner. Mr. Ernst Rüdiger Baeres additionally receives the participation in trial proceeds described under item VII.12.

14. Employees

On average during the business year 2005, the Group employed 10 (p.y. 13) staff.

15. Company headquarters

Intertainment AG was located at Osterfeldstraße 84, 85737 Ismaning, in the district of Munich, until June 30, 2005. On July 1, 2005 the headquarters was transferred to Frauenplatz 7, in 80331 Munich.

16. Events occurring after the balance sheet date

We refer to our statements on the events occurring after the balance sheet date under item E of the Management Report.

17. Audit by the Financial Reporting Panel

In the business year 2006, an audit was carried out at Intertainment by the Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung, DPR) for the business year 2004. At the time when the annual financial statements for 2005 were drawn up, the DPR informed Intertainment in a statement that the claims for compensation arising from legal disputes (see item V.2.2) were overvalued.

The management does not share this view and will not accept the finding because the reasons put forward by the Financial Reporting Enforcement Panel do not justify, in the opinion of the management, the writedown of claims for compensation. In order to clarify the facts of the case, the notice issued by the Federal Financial Supervisory Authority (BaFin) on December 21, 2006 ordered an audit pursuant to Article § 37p (1) Sentence 2 No. 1 Securities Trading Law (WpHG) in conjunction with Article § 37o (1) WpHG. The audit had not started by the time this Management Report was drawn up.

18. Statement on the German Corporate Governance Code

The Board of Management and Supervisory Board of Intertainment AG only made the declaration of compliance required by Article § 161 AktG on the German Corporate Governance code and made it available to shareholders permanently on the website of the company (www.intertainment.de) on September 7, 2006. The reason for this delay was the fact that the insolvency proceeding of Intertainment AG had meantime been instigated.

19. Auditor fees

Total fees amounting to 80 (p.y. 109) TEuros were reported for auditing the individual financial statements of the subsidiary companies consolidated within the Intertainment Group and the consolidated financial statements of Intertainment AG.

Munich, February 9, 2007
Intertainment AG

Hans Joachim Gerlach
Board of Management

Intertainment Group: Schedule of fixed assets

Gross

In TEuros	ACQUISITION OR PRODUCTION COSTS				ACCUMULATED AMORTIZATION AND DEPRECIATION				CARRYING VALUE	
	1/1/2005	Additions	Disposals	31/12/2005	1/1/2005	Amortization and depreciation in the business year	Disposals	31/12/2005	31/12/2005	31/12/2004
I. Intangible assets										
1. Licenses, commercial property rights and similar rights as well as licenses in such rights	131	0	0	131	130	1	0	131	0	1
2. Payments made on account	2,147	0	0	2,147	0	0	0	0	2,147	2,147
	2,278	0	0	2,278	130	1	0	131	2,147	2,148
II. Tangible assets										
Other plant, business and office equipment	540	48	-295	293	418	41	-245	214	79	122
III. Financial assets										
Participations	20,048	0	0	20,048	20,048	0	0	20,048	0	0
	22,866	48	-295	22,619	20,596	42	-245	20,393	2,226	2,270

Auditor's report

We have audited the Consolidated Financial Statements comprising the balance sheet, the income statement, the statement of changes in shareholders' equity, the cash flow statement and notes, as well as the Consolidated Management Report prepared by Intertainment Aktiengesellschaft, Munich, for the business year from January 1, to December 31, 2005.

The preparation of the Consolidated Financial Statements and the Consolidated Management Report in accordance with the International Financial Reporting Standards (IFRS) as they are applicable in the EU and the supplementary provisions applicable in accordance with Article § 315a (1) German Commercial Code (HGB) is the responsibility of the Company's management. Our responsibility is to express an opinion on the Consolidated Financial Statements and the Consolidated Management Report.

We conducted our audit of the Consolidated Financial Statements in accordance with Article § 317 German Commercial Code (HGB) and taking into account German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that that we plan and perform the audit such that misstatements and irregularities that could materially affect the presentation of the net assets, financial position and results of operations in the Consolidated Financial Statements in accordance with the applicable accounting principles and in the Consolidated Management Report are identified with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and the evaluations of possible misstatements are taken into account in the determination of audit procedures.

The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the Consolidated Financial Statements and in the Consolidated Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the Annual Financial Statements of the group of companies included in the Consolidated Financial Statements, the determination of the companies to be included in the consolidation, the accounting and consolidation principles and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the Consolidated Financial Statements and the Consolidated Management Report.

We believe that our audit provides a reasonable basis for our opinion.

With the exception of the following qualifications, our audit has not led to any reservations:

We draw attention to the statements provided by the Company in the section "Receivables and other assets" in the Notes to the Consolidated Financial Statements. It is stated that the claims for compensation arising from legal disputes amounting to EUR 57.9 million are a valuable asset. The Board of Management believes that the claims against Franchise Pictures and the affiliated companies and persons confirmed in the judgment rendered in 2004 can be realized in this amount. The Board of Management assumes that additional liability claims exist against Comerica Bank and that these can be asserted. An arbitration proceeding in the USA will decide on the existence of joint and several liability of Comerica Bank and this proceeding is currently in the discovery phase. It was not possible to obtain reasonable certainty concerning the value of the claims for

compensation - and the deferred taxes consequently recognized as a result - against Franchise Pictures and the other parties found liable and about the existence of a liability relationship of Comerica Bank in the context of joint and several liability, even by means of alternative auditing procedures, so that we are unable to provide a conclusive opinion on this matter. It is not therefore possible to exclude the possibility that the Consolidated Financial Statements should have been changed because of the audit obstacles referred to above.

Intertainment AG did not make the declaration of compliance by the Board of Management and the Supervisory Board required under Article § 161 AktG on the German Corporate Governance Clause permanently available to shareholders in good time, i.e. within one year of the last published declaration.

In our opinion, subject to the qualifications referred to and based on the findings of our audit the Consolidated Financial Statements are in accordance with the International Financial Reporting Standards (IFRS) as they are applicable in the EU and the supplementary provisions applicable in accordance with Article § 315a German Commercial Code (HGB) and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these principles of accounting. The Consolidated Management Report is consistent with the Consolidated Financial Statements and provides an appropriate understanding of the Group's position and suitably presents the risks and opportunities of future development.

Without further qualifying this opinion, we draw attention to the statements in the Consolidated Management Report concerning the risks relating to the ability to con-

tinue as a going concern. It is stated that there are substantial uncertainties relating to the assumptions on which the financial budget is based. If the assumptions fail to materialize as planned, the Group will not be able to fulfill its current payment obligations also at very short notice. We refer to the statements in the Consolidated Management Report in the section "F. Risk and opportunity report of Intertainment AG Group". If the events referred to below fail to materialize as planned, the ability of the Group to continue as a going concern is significantly endangered - also at very short notice:

- Outflows of funds from the exercise of the right of termination of Kinowelt GmbH with respect to Intertainment AG and INTERTAINMENT Licensing GmbH in connection with the failure in the search for an alternative investor
- Cash inflows arising from the settlement of legal disputes against Franchise Pictures, Comerica Bank, and affiliated companies and persons
- No cash outflow of funds from the current arbitration proceedings for the payment of the second installment for the disputed film rights
- Fulfillment of the other assumptions of the financial plan including further incoming payments planned for the near future.

Munich, February 9, 2007

PSP Peters Schönberger GmbH
Wirtschaftsprüfungsgesellschaft

Harald Dörfler Stephan Nowack
Wirtschaftsprüfer Wirtschaftsprüfer

Consolidated Balance Sheet

as at December 31, 2005

ASSETS		in TEuros	
	31/12/2005	31/12/2004	
A. FIXED ASSETS			
I. Intangible assets			
Payments made on account	2,147	2,147	
II. Property, plant & equipment			
Other plant, business and office equipment	35	2	
III. Financial assets			
Shares in affiliated enterprises	8,896	9,001	
	11,078	11,150	
B. CURRENT ASSETS			
I. Inventories			
Film rights	2,253	4,250	
II. Receivables and other assets			
1. Trade receivables	12	461	
2. Receivables from affiliated enterprises	59,898	58,165	
3. Other assets	45	97	
III. Cash on hand, bank balances	89	1,613	
	62,297	64,586	
	73,375	75,736	

EQUITY & LIABILITIES		in TEuros	
	31/12/2005	31/12/2004	
A. EQUITY			
I. Subscribed capital	15,005	15,005	
II. Capital reserve	56,052	59,082	
III. Earnings reserves			
Statutory reserve	116	116	
IV. Retained earnings	0	0	
	71,173	74,203	
B. PROVISIONS			
Other provisions	1,526	1,268	
	1,526	1,268	
C. LIABILITIES			
1. Trade accounts payables	201	106	
2. Liabilities from affiliated enterprises	406	114	
3. Other liabilities	69	45	
	676	265	
	73,375	75,736	

Income Statement for the period

from January 1, 2005 to December 31, 2005

	in TEuros	
	2005	2004
1. Sales revenues	1,193	17,829
2. Other operating income	1,053	822
3. Cost of materials	-2,761	-16,883
4. Personnel expenses		
a) Salaries	-523	-991
b) Social security contributions and other pension costs	-32	-52
	-555	-1,043
5. Depreciation on property, plant & equipment and amortization on intangible fixed assets	-15	-6
6. Depreciation of current assets	0	-5,363
7. Other operating expenses	-1,875	-2,157
8. Other interest and similar income	35	10
9. Writedowns on financial assets	-105	-15,394
10. Result of ordinary business activities	0	0
11. Result of ordinary business activities	-3,030	-22,185
12. Extraordinary expenses	0	-1,118
13. Net loss	-3,030	-23,303
14. Withdrawal from capital reserves	3,030	23,303
15. GROUP RETAINED EARNINGS	0	0

Intertainment AG: Notes to the Annual Financial Statements for 2005

I. General information

Since February 18, 1999, Intertainment AG (hereinafter also referred to as Intertainment) has been quoted on the Frankfurt Stock Exchange - until January 15, 2003 in the "Neuer Markt" and since then in the "Prime Standard segment". The company is a large company pursuant to Article § 267 (3) sentence 2 HGB ("Handelsgesetzbuch", "German Commercial Code"). The annual financial statements of Intertainment AG have been prepared according to the regulations of the Commercial Code and the Stock Corporation Act. The type of expenditure method has been chosen for the income statement.

Intertainment presents the figures in these Notes in thousand euros (TEuros). Alongside the figures for the business year 2005, the corresponding figures for the prior year are given for purposes of comparison, which are shown in brackets. The abbreviation "p.y." stands for "prior year".

II. Accounting and valuation methods

1. Fixed assets

INTANGIBLE ASSETS are shown at their acquisition cost less amortization. Where the acquisition costs of an asset relate to different portions of the rights, as often occurs in the case of film rights, the acquisition costs are divided on the basis of the forecast revenues of each rights portion. The acquisition costs are amortized normally in accordance with economic life or causation.

Payments for the acquisition of film rights which are available for an indefinite period of time and have not yet been delivered and the technical quality accepted are reported as payments under intangible assets.

The capitalized costs are regularly examined as to their value and, if necessary, recorded as a non-scheduled writedown. This writedown at a lower fair value is necessary when it is not sufficiently probable that an adequate future economic benefit can be generated from the assets.

PROPERTY, PLANT AND EQUIPMENT are stated at acquisition costs less scheduled linear depreciation. The scheduled linear depreciation is based on the normal useful life for the business. Low value economic goods of fixed assets with acquisition costs up to 410 euros are depreciated in full during the year of acquisition and are shown in the fixed asset schedule as disposals.

The FINANCIAL ASSETS are stated at the lower of acquisition costs and fair value.

2. Current assets

FILM RIGHTS that are acquired for a limited period of time are recorded under current assets. The valuation is based on the acquisition costs less amortization of the exploited portions of the rights. The acquisition costs are broken down according to the rights portions cinema, video/DVD, Pay TV and Free TV. The measurement base for this breakdown relates to the revenues forecast for the defined subsegments. The Free TV rights portions are broken down into up to three exploitation cycles. Together they will cover a period of up to 25 years. If individual subsegments for film rights are not exploited, the acquisition costs are broken down into the remaining exploitation stages with modified allocation percentages.

The film license rights are capitalized when an independent laboratory has accepted the technical quality of the film material supplied.

The scheduled amortization of film rights is based on economic life or exploitation of the film rights. In addition, non-scheduled writedowns are made in the context of loss-free valuation, if it is determined that the forecast revenues from disposal, less a reasonable profit reduction, amount to less than the residual book value of a film right. The STOCKS OF MERCHANDISE were valued at acquisition costs less depreciation. RECEIVABLES AND OTHER ASSETS were stated at nominal value. Foreign currency receivables are valued at the exchange rate in force at the time when the receivable arises or, if lower at the rate on the balance sheet date. Adjustments are formed to take account of the risk of the receivable not being paid.

CASH IN HAND and bank balances are stated at their nominal values. For current accounts, bank balances in foreign currency are valued at the euro exchange rate on the balance sheet date, while deposits in fixed term accounts are recorded at the lower of the exchange rate on the closing date and the rate when the booking entry is made.

3. Outside capital

OTHER PROVISIONS include all risks identifiable and uncertain obligations on the balance sheet date and should be valued on the basis of a reasonable commercial assessment.

LIABILITIES are recognized at the repayment amount. Foreign-currency liabilities are valued at the exchange rate in force at the time when the invoice is received or the higher rate on the balance sheet date.

III. Explanations to the balance sheet

1. Fixed assets

With regard to the presentation of the development of fixed assets we refer to the schedule of fixed assets. Payments on account for intangible fixed assets include payments for the acquisition

of secondary rights in the thriller “Twisted” for various territories amounting to 2,147 (p.y. 2,147) TEuros. Property, plant and equipment essentially consist of office and business equipment, and other assets. The financial assets amount to 8,896 (p.y. 9,001) TEuros and include the following participations:

III.1 FINANZANLAGEVERMÖGEN				in TEuros	
Participation	Headquarters	Share (in %)	Subscribed capital 2005 (p.y)	Equity 2005 (p.y)	Annual result 2005 (p.y)
INTERENTAINMENT Licensing GmbH	Munich	100	946 (946)	-73,051 (-73,381)	329 (-3,586)
Intertainment Animation & Merchandising GmbH	Munich	100	358 (358)	20 (0)	20 (0)
USA-Intertainment, Inc.	Los Angeles (USA)	100	105 (105)	98 (48)	41 (42)

During the business year 2005, the value reported for USA-Intertainment, Inc. was written down in full in the amount of 105 (p.y. 0) TEuros. In addition the participation of Intertainment Animation & Merchandising GmbH was written off during the previous year in the amount of 358 TEuros. The financial assets also include the participation in US company Sight-Sound Technologies Inc. In the amount of 0 (p.y. 0) TEuros. On account of the substantial uncertainties that exist in connection with the implementation and marketing of the patents of SightSound Technologies, the management decided to continue to retain the written-off shareholding.

2. Inventories

The film rights and licenses are valued at 2,253 (p.y. 4,250) TEuros. They developed as follows:

III.2	FILM RIGHTS	in TEuros
	2005	2004
Balance at January 1	4,250	6,308
Additions	105	13,603
Scheduled amortization	-909	-14,233
Non-scheduled amortization	-1,758	-1,428
Writeups	565	0
Balance at December 31	2,253	4,250

Scheduled amortization was carried out for license sales of film rights effected in the business year 2005. Non-scheduled write-downs and writeups on film rights were incurred as a result of the loss-free valuation of film rights. The expected sales revenues, taking into account a reasonable profit reduction, which was essentially derived from license sales that had taken place, are below or above the capitalized costs of the relevant film rights on the balance sheet date.

3. Receivables and other assets

The TRADE RECEIVABLES amount to 12 (p.y. 461) TEuros. The reduction compared to the prior year results from payment of outstanding items.

The RECEIVABLES FROM AFFILIATED ENTERPRISES amount to 59,898 (p.y. 58,165) TEuros and comprise:

III.3	RECEIVABLES SUBSIDIARY COMPANIES	in TEuros
	2005	2004
INTERENTAINMENT Licensing GmbH	59,868	58,165
Intertainment Animation & Merchandising GmbH	30	0
Total	59,898	58,165

The receivables from subsidiary companies result from current intercompany accounts. Adjustments amounting to 47,913 (p.y. 47,913) TEuros were carried out on the receivables from INTERENTAINMENT Licensing GmbH. Intertainment AG also waived interest on the receivables from INTERENTAINMENT Licensing GmbH amounting to 85,000 TEuros.

The OTHER ASSETS amount to 45 (p.y. 97) TEuros and are comprised in particular of tax rebate claims.

As in the prior year, all receivables have a residual term of less than one year.

4. Bank balances

Liquid funds totaling 89 (p.y. 1,613) TEuros are made up of current accounts.

5. Equity

5.1 Subscribed capital

The SUBSCRIBED CAPITAL of Intertainment AG remained unchanged at 15,005 TEuros on the balance sheet date and it is held in the form of 11,739,013 issued no-par shares.

Authorized capital

The Board of Management is authorized until September 23, 2008 to increase the nominal capital, once or more than once, shares against cash contribution and/or contribution in kind by a total of up to 3,203 TEuros with the consent of the Supervisory Board. (authorized capital 2003/I).

The approved capital dated January 18, 1999 (authorized capital 1999/I) was cancelled.

The Board of Management is authorized furthermore until June 26, 2006, to increase the nominal capital, once or more than once, against cash contribution and/or contribution in kind by a total of up to 4,300 TEuros with the consent of the Supervisory Board (authorized capital II).

The Board of Management is authorized, with the consent of the Supervisory Board, on exercise of the authorized capital to exclude partially or wholly the subscription right of the shareholders under certain conditions.

Contingent capital

The nominal capital may be raised contingently by up to 511 TEuros (contingent capital I) and a further 383 TEuros (contingent capital II). It serves for the exercise of option rights by employees, members of the management and members of the Board of Management of the company and affiliated enterprises according to the share

option programs adopted by the Annual General Meeting.

The nominal capital is furthermore contingently increased by 6,002 TEuros (contingent capital III). The contingent capital increase is only carried out insofar as the creditors of convertible and option bonds make use of their convertible and option rights by June 26, 2006.

In order to grant option rights to employees members of the management and members of the Board of Management of the company and affiliated enterprises, the nominal capital was increased contingently by a further 383 TEuros (contingent capital IV) according to the resolution adopted by the Annual General Meeting on September 22, 2003 for the share option program 2003.

5.2 Capital reserve

At the balance sheet date, the capital reserve was 56,052 (p.y. 59,082) TEuros. The change of amounting to -3,030 (23,303) TEuros resulted from utilization of the capital reserve to balance the annual deficit pursuant to Article §150 (4) No. 1 AktG.

At December 31, 2005, as in the previous year, Intertainment AG did not show an accumulated loss due to withdrawals from the capital reserve.

5.3 Revenue reserve

The revenue reserve continues at 116 (p.y. 116) TEuros and relates exclusively to the legal reserve.

6. Provisions

Other provisions

The other provisions developed as follows:

III. 6 PROVISIONS					in TEuros
	Balance 1/1/2005	Utilization	Release	Allocation	31/12/2005
Reorganization	935	0	0	185	1,120
Year-end closing costs	70	-70	0	80	80
Miscellaneous	263	-2	-1	66	326
Total	1,268	-72	-1	331	1,526

The provision for REORGANIZATION relates to obligations to contractual partners for the settlement and termination of contracts.

The provision for YEAR-END CLOSING costs relates to the audit of the annual financial statements for the business year 2005.

Overall, provisions, as in the prior year, have a residual term of less than one year.

7. Liabilities

The TRADE LIABILITIES amount to 201 (p.y. 106) TEuros and result in particular from repayment obligations for related services.

The LIABILITIES FROM AFFILIATED enterprises amount to 406 (p.y. 114) TEuros from USA-Intertainment, Inc.

The OTHER LIABILITIES amount to 69 (p.y. 45) TEuros and include liabilities for wages and salaries amounting to 18 (p.y. 0) TEuros, liabilities to the tax authorities for outstanding wage and church tax of 11 (p.y. 17) TEuros and liabilities relating to social security amounting to 3 (p.y. 6) TEuros.

The liabilities all have a residual term of less than one year.

IV. Explanations to the income statement**1. Sales revenues**

The sales revenues amount to 1,193 (p.y. 17,829) TEuros. They result in particular from the sale of TV license rights and other proceeds from the ongoing exploitation of film rights.

2. Other operating income

The other operating income amounts to 1,053 (p.y. 822) TEuros and is comprised as follows:

IV.2 OTHER OPERATING INCOME			in TEuros
	2005	2004	
Writeups on film rights	565	0	
Release of adjustments on receivables	363	320	
Income from currency differences	100	387	
Cost allocations	14	0	
Release of provisions	1	93	
Miscellaneous	10	22	
Total	1,053	822	

3. Cost of materials

The cost of materials amounts to 2,761 (p.y. 16,883) TEuros and includes expenses for film rights and associated services amounting to 2,743 (p.y. 16,880) TEuros and expenses for related goods and services amounting to 18 (p.y. 3) TEuros. Overall, the cost of materials is made up as follows:

The expenses for film rights and associated services are comprised as follows:

IV.3 COST OF MATERIALS			in TEuros
	2005	2004	
Non-scheduled writedowns of film rights	1,758	1,428	
Scheduled writedowns on film rights	909	14,233	
Marketing costs	76	1,219	
Total	2,743	16,880	

4. Depreciation and amortization

Amortization and depreciation on intangible assets and fixed assets amount 15 (p.y. 6) TEuros and comprise exclusively scheduled depreciation and amortization.

In the previous year, adjustments from INTERTAINMENT Licensing GmbH amounting to 5,363 TEuros were recognized under depreciation on current assets, insofar as these exceed other depreciation normal in the company.

5. Other operating expenses

Other operating expenses comprise 1,875 (p.y. 2,157) TEuros and include:

IV. 5 OTHER OPERATING EXPENSES			in TEuros
	2005	2004	
Legal and consultancy costs	282	455	
Services for USA-Intertainment, Inc.	422	496	
Expenses for exchange rate losses	187	171	
Costs for financial statements and audit	106	66	
Miscellaneous	878	969	
Total	1,875	2,157	

6. Writedowns on financial assets

Writedowns on financial assets include the diminution in value of the participation in USA-Intertainment, Inc. amounting to 105 (p.y. 0) TEuros. During the previous year, the shares in SightSound Technologies Inc. were written down in the amount of 15,036 TEuros and in Intertainment Animation & Merchandising GmbH in the amount of 358 TEuros.

7. Interest result

The interest result in the sum of 35 (p.y. 10) TEuros comprises exclusively interest income as in the prior year.

8. Extraordinary expenses

Extraordinary expenses amounted to 1,118 TEuros in the prior year and are comprised in particular of expenses for premature settlement of long-term contracts.

V. Other information

1. Other financial commitments

Other financial commitments comprise:

OBLIGATIONS ARISING FROM FILM PRODUCTIONS

A master contract was restructured with a US producer as a result of the reorganization measures carried out at the start of the business year 2004. The claims arising from the license sales of the film "Twisted" were assigned to the producer in order to settle the resulting obligations. In addition, current earnings from exploitation in specified territories are offset against the obligations of Intertainment. It is possible that other financial obligations will arise from this restructuring for Intertainment in the future.

2. Other contingent obligations

SETTLEMENT OF A RESIDUAL DEBT TO A BANK

During the financial year 2001, Intertainment AG assumed a guarantee to Hypo-Vereinsbank (HVB). This served as security for a loan taken out by INTERTAINMENT Licensing GmbH. In the view of the management, this guarantee has been extinguished within the framework of the new negotiations with the bank. In the view of the company, a rescheduling arrangement was agreed with the bank in 2003. This rescheduling provides for HVB issuing a debt waiver on a deferred debt basis. In this connection, the outstanding residual loan was written off in the business year 2003 in the amount of 13,583 TEuros.

In accordance with the key items in the agreement, the film rights that have been assigned, not yet sold and the resulting exploitation revenues remain assigned as security. The bank is also assigned 15% of net income for the business years 2004 to 2006 and a further 15% of the litigation revenues arising from the litigation against Franchise Pictures as security.

In the view of the management, the security link between the receivables originally assigned and the residual debt to the bank as security no longer exists. As a result the trade receivables were assigned by INTERTAINMENT Licensing GmbH to Intertainment AG during the business year 2003. Netting with trade receivables was therefore carried out at Intertainment AG.

HVB disputes the rescheduling from the year 2003 and continues to proceed on the basis that a claim exists against Intertainment. Following repeated requests for payment, the bank filed a partial claim for payment of 10 million euros in addition to specifically defined interest within the scope of a proceeding for documentary evidence on September 6, 2005. In a tentative ruling rendered on December 22, 2005 and a judgment handed down in the subsequent proceeding on March 23, 2006, the Munich State Court I (Landgericht München I) found Intertainment AG and INTERTAINMENT Licensing GmbH jointly and severally liable to pay the disputed amount without protection against enforcement.

Immediately after the tentative ruling was rendered on December 22, 2005, the legal representative of the bank submitted a letter stating that the judgment would not be enforced if and insofar as Intertainment make specific declarations and an offer be submitted for short-term discharge of the liabilities. As a result, Intertainment commenced intensive negotiations with the bank through its legal representative in Germany and through its legal representative in the USA. The US lawyers of Intertainment conducted settlement negotiations with the inclusion of the legal representative of Comerica Bank, in order to achieve an overall settlement between the parties Intertainment, Comerica and HVB. After these negotiations initially proceeded extremely very positively and an agreement directly with Comerica/HVB seemed to be within reach shortly before expiry of the three-week insolvency submission deadline, this agreement ultimately failed to materialize before expiry of the three-week deadline on January 12, 2006 at 12.00 midnight, so that Intertainment had to apply on the same day to open insolvency proceedings on account of inability to meet its payment obligations. Independently of the negotiations, Intertainment appealed against the judgments handed down by the Munich State Court I (Landgericht München I), which means that the judgments are not legally binding. Intertainment continues to maintain its legal opinion and will attempt to assert this opinion in higher courts of law, insofar as this is necessary and appropriate. If it emerges in future that this legal opinion is flawed, there is a risk that the guarantee of Intertainment AG originally provided for the settlement of the loan (13,583 TEuros) is not extinguished and significant outflows of funds will result

from take-up of the guarantee. There would also be the risk that the security link to the receivables originally assigned has not lapsed. We refer to item G of the Management Report for further information. On 13/16 February 2006, the bank sold its claims to Albis Finance AG. Intertainment and Albis Finance AG consequently agreed a new payment plan. Alongside other measures, this agreement enabled the insolvency applications to be withdrawn on June 29, 2006. On the basis of this agreement, the proceeding was suspended in view of the ongoing appeal proceeding. For further development in relation to this matter, we refer to our statements on events occurring after the balance sheet date under item E of the Management Report.

RENTAL PAYMENT GUARANTEE FOR OFFICE PREMISES

A rental payment guarantee was granted for office premises in Munich amounting to 43 TEuros.

ASSIGNMENTS AS SECURITY

Within the scope of the reorganization measures described under item V.1 and the restructuring of contracts, there are comprehensive assignments of existing assets as security to contractual partners. They serve to hedge against possible financial obligations arising in the future.

SUBORDINATION TO INTERENTAINMENT LICENSING GMBH

The company and Intertainment AG gave a qualified subordination declaration in the amount of 85,000 TEuros in order to eliminate over-indebtedness of INTERENTAINMENT Licensing GmbH. On the basis of this agreement, Intertainment AG withdraws its claims amounting to 85,000 TEuros in settlement of its receivables from the intercompany account.

3. Employees

On average during the business year 2005, the company employed 4 (p.y. 6) staff at its headquarters in Munich.

4. Composition of the executive bodies

DURING THE BUSINESS YEAR 2005, MEMBER OF THE BOARD OF MANAGEMENT WAS:

- Hans-Joachim Gerlach, businessman, Berlin

The fixed remuneration package of the Board of Management amounted to 238 (p.y. 679) TEuros for the business year 2005. There is also an agreement by which the Board of Management receive an additional performance-related remuneration element which is likely to be 1,216 (p.y. 2,488) TEuros at the balance sheet date. This is dependent on the cash-inflows of funds arising from the successful legal dispute against Franchise Pictures and others parties. The payment of this remuneration is only made when the cash-inflows on which it is based are received.

The reduction in the fixed remuneration package compared with the previous year is due to the fact that Ernst Rüdiger Baeres resigned from the Board of Management on October 29, 2004. As a former Member of the Board of Management, Mr. Baeres also receives a litigation revenue participation amounting to 1,216 TEuros following his resignation as a Member of the Board of Management. The payment of this litigation revenue participation depends on the cash inflows from the legal disputes referred to.

During the business year 2005, the members of the Supervisory Board were: Ernst Rüdiger Baeres, lawyer, Munich (Chairman)

Dr. Matthias Heisse, lawyer, Munich (Deputy Chairman)

Wolfgang Blauburger, businessman, Munich

During the business year 2005, Dr. Matthias Heisse was also a member of the Supervisory Board of Firestorm AG, Munich. Rüdiger Baeres and Wolfgang Blauburger did not hold any further Supervisory Board offices during the business year 2005.

For the business year 2005, Supervisory Board compensation in the amount of 23 (p.y. 23) TEuros was paid.

5. Consolidated financial statements

Intertainment Aktiengesellschaft prepares in accordance with Article § 315a HGB consolidated financial statements in accordance with IFRS including its subsidiaries.

6. Statement on the German Corporate Governance Code

The Board of Management and Supervisory Board of Intertainment AG only made the declaration of compliance required by Article § 161 AktG on the German Corporate Governance code and made it available to shareholders permanently on the website of the company (www.intertainment.de) from September 7, 2006 (www.intertainment.de). The reason for this delay was the fact that the insolvency proceeding of Intertainment AG had meantime been instigated.

Intertainment AG
Munich, February 9, 2007

Hans Joachim Gerlach
Vorstand

Intertainment AG: Schedule of Fixed Assets

Gross

In TEuros	ACQUISITION OR PRODUCTION COSTS				ACCUMULATED AMORTIZATION AND DEPRECIATION				CARRYING VALUE	
	1/1/2005	Additions	Disposals	31/12/2005	1/1/2005	Amortization and depreciation in the business year	Disposals	31/12/2005	31/12/2005	31/12/2004
I. Intangible assets										
1. Licenses, commercial property rights and similar rights as well as licenses in such rights	117	0	0	117	117	0	0	117	0	0
2. Payments made on account	2,147	0	0	2,147	0	0	0	0	2,147	2,147
	2,264	0	0	2,264	117	0	0	117	2,147	2,147
II. Property, plant and equipment										
1. Low-value assets	0	8	-8	0	0	8	-8	0	0	0
2. Office and business equipment	20	40	-6	54	18	7	-6	19	35	2
	20	48	-14	54	18	15	-14	19	35	2
III. Financial assets										
1. Shares in affiliated companies	9,359	0	0	9,359	358	105	0	463	8,896	9,001
2. Participations	20,048	0	0	20,048	20,048	0	0	20,048	0	0
	29,407	0	0	29,407	20,406	105	0	20,511	8,896	9,001
	31,691	48	-14	31,725	20,541	120	-14	20,647	11,078	11,150

Independent auditor's report

We have audited the Annual Financial Statements - comprising the balance sheet, income statement and Notes to the Financial Statements - together with the bookkeeping system and Management Report of Intertainment Aktiengesellschaft for the business year from January 1 to December 31 2005. The maintenance of the books and records and the preparation of the Annual Financial Statements and Management Report in accordance with German commercial law and the supplementary provisions in the articles of incorporation 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 Article § 317 German Commercial Code (HGB) and taking into account German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW, Institute of Independent Auditors). Those standards require that we plan and perform the audit such that misstatements and irregularities that could materially affect 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 identified with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and the evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the

accounting-related internal control system and the evidence supporting the disclosures in the bookkeeping, Annual Financial Statements and 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 the legal representatives, as well as evaluating the overall presentation of the Annual Financial Statements and the Management Report. We believe that our audit provides a reasonable basis for our opinion.

With the exception of the following qualifications, our audit has not led to any reservations:

We draw attention to the explanations provided by the Company in the sections "Fixed assets" and "Receivables and other assets" in the Notes. It is stated that on the balance sheet date the company has a participation in the subsidiary company INTERTAINMENT Licensing GmbH amounting to EUR 8.9 million and a receivable from the intercompany account amounting to EUR 60.0 million. It was not possible to obtain reasonable certainty concerning the value of the participation book value and the intercompany account within the framework of our audit, even by means of alternative auditing procedures, so that we are unable to provide a conclusive opinion on this matter. The value critically depends on the proceeds to be expected from the legal disputes between INTERTAINMENT Licensing GmbH and Franchise Pictures, Comerica Bank and the affiliated companies and persons and from the materialization of the other assumptions in the financial budget of the subsidiary company.

It is therefore not possible to exclude the possibility that the Annual Financial Statements should have been changed because of the audit obstacles referred to above.

The Company did not make the declaration of compliance by the Board of Management and the Supervisory Board required under Article § 161 AktG on the German Corporate Governance Code permanently available to shareholders in good time, i.e. within one year of the last published declaration.

In our opinion, subject to these qualifications referred to and based on the findings of our audit the Annual Financial Statements are in accordance with the statutory regulations. 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 for proper accounting. In our opinion, on the whole, the Management Report is consistent with the Annual Financial Statements and provides an appropriate understanding of the Company's position and suitably presents the risks and opportunities of future development.

Without further qualifying this opinion, we draw attention to the statements by the Company in the Management Report concerning the risks relating to the ability to continue as a going concern. It is stated that there are substantial uncertainties relating to the materialization of the assumptions on which the financial budget is based. If the assumptions fail to materialize as planned, the Company will not be able to fulfill its current payment obligations - also at very short notice. We refer to the statements in the Management Report in the

section "G. Risk and opportunity report of Intertainment AG". If the events referred to below fail to materialize as planned, the ability of the Company to continue as a going concern is significantly endangered - also at very short notice:

- Outflows of funds from the exercise of the right of termination of Kinowelt GmbH with respect to Intertainment AG and INTERTAINMENT Licensing GmbH in connection with the failure in the search for an alternative investor
- Cash inflows arising from the settlement of legal disputes against Franchise Pictures, Comerica Bank, and affiliated companies and persons
- No cash outflow of funds from the current arbitration proceedings for the payment of the second installment for the disputed film rights
- Fulfillment of the other assumptions of the financial plan including further incoming payments planned for the near future.

Munich, February 9, 2007

PSP Peters Schönberger GmbH
Wirtschaftsprüfungsgesellschaft

Harald Dörfler	Stephan Nowack
Wirtschaftsprüfer	Wirtschaftsprüfer



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