Highlight

Annual Report 2004

The Swiss Highlight Group comprises companies exhibiting strong synergistic potential. It is one of the largest media companies listed on the German stock exchange.

Highlight Communications AG, Pfäffikon, Switzerland

Film	Home Entertainment	Sports & Event Marketing
Film production Film license trading Theatrical distribution VHS/DVD exploitation TV production	VHS/DVD sales and marketing VHS/DVD wholesale VHS/DVD distribution and retail	UEFA Champions League UEFA Super Cup UEFA Cup final U-21 European Championship Eurovision Song Contest

The Highlight Group's portfolio is studded with first-class entertainment: Successful movie releases and TV productions, an extensive library of attractive DVD and VHS releases, the top European football players in the UEFA Champions League and – not least of all – the venerable Eurovision Song Contest.

Highlight Communications AG, Pfäffikon, Switzerland

Film	Home Entertainment	Sports & Event Marketing
58 %	100 %	80 %
Constantin Film AG Munich, Germany Subsidiaries of Constantin Film AG	**Highlight Communications (Deutschland) GmbH** Munich, Germany **Rainbow Video AG** Pratteln, Switzerland **Rainbow Home Entertainment GmbH** Vienna, Austria	**Team Holding AG** Lucerne, Switzerland **T.E.A.M. Television Event And Media Marketing AG** Lucerne, Switzerland **Team Football Marketing AG** Lucerne, Switzerland

(CHF 000s)		2004	2003
Income statement	Revenues	518,208	282,904
	Earnings from operating activities	41,815	16,667
	Earnings before taxes	46,373	12,403
	Net consolidated earnings	18,120	10,282
	Earnings per share (CHF)	0.39	0.22
Balance sheet	Total assets	572,536	608,748
	Film assets	227,967	265,588
	Cash, cash equivalents and securities	200,665	167,581
	Equity capital	124,963	108,632
	Liabilities subject to interest	115,655	151,331
Cash flow statement	Cash flow before changes in net current assets	186,325	96,387
	Cash flow from operating activities	182,581	132,781
	Cash flow from investing activities	–97,235	–73,579
	Cash flow from financing activities	–43,896	15,854
	Net inflow of funds	40,357	75,441
Personnel	Headcount on December 31	425	540

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Preface

Dear shareholders and other interested parties,

It gives me great pleasure to be able to report to you on another successful year for the Highlight Group. Our operative business performed very well, with sales and profits well up for the third year in a row. Strategically, we also laid the foundations for our Company's future in a number of decisive areas in 2004.

Today – just under six years after our stock-market flotation – Highlight covers a broad spectrum ranging from its original core business of film license trading and home entertainment to cinema and TV productions as well as sports and event marketing. In all these areas, the Highlight Group companies figure amongst the market leaders in the German-speaking region.

Take Constantin for example: In my preface to last year's annual report, I told you that Highlight Communications had increased its stake in Constantin Film AG to 57.98 %, thus becoming the majority shareholder in a company which had evolved over decades into the most successful German independent distributor. What at that stage appeared to be a relatively loose merger of two companies, has been turned into a well organized group with a clear allocation of tasks and firm targets over the past twelve months.

The Highlight Group has been operating with three independent divisions since fiscal 2004. The Film division is overseen by Constantin Film AG, which is responsible for the entire Group's production, TV entertainment, license trading and cinema distribution activities. Highlight Home Entertainment handles the distribution and marketing of the Constantin DVD/VHS releases. In this way, we are able to fully harness the strengths of both companies to the mutual benefit of the entire Highlight Group. The Sports and Event Marketing division continues to comprise all of the activities of our subsidiary TEAM, which will become a 100 % subsidiary of Highlight Communications AG effective July 1, 2005.

Highlight and Constantin have also drawn closer together in organizational terms. Three members of Highlight's management – Bernhard Burgener, Martin Wagner and Dr. Paul Graf - have assumed positions on Constantin's Supervisory Board. At the same time, our long-standing Highlight employee Franz Woodtli was appointed to the Constantin Management Board, where he is responsible for the newly created Home Entertainment segment.

Backed by these revised structures, the Highlight Group experienced one of its best years ever in 2004. This was partially due to the fact that the markets of relevance to us outstripped forecasts in spite of widespread consumer restraint in Germany. At the same time, our business divisions performed extremely successfully in these markets. All in all, we were able to build on our leading positions in the Film, Home Entertainment and Sports and Event Marketing segments.

Constantin successful in movies and TV

After a restrained first quarter, the movie market picked up appreciably in the remaining nine months, with cinema audiences in Germany rising by 5.2 % to 156.7 million and sector sales widening to EUR 893 million, up roughly EUR 43 million. What was especially encouraging in this respect was the fact that German productions in particular enjoyed great popularity.

With an audience of 9.2 million, the science fiction parody "(T)Raumschiff Surprise – Periode 1", which was distributed by Constantin, proved to be by far the greatest screen success. Yet, the Bernd Eichinger production "The Downfall" also achieved an extraordinary response, attracting an audience of 4.5 million. With this production, Bernd Eichinger has written cinematographic history in Germany, just as he did with "The Name of the Rose" and "The Never-Ending Story". All told, Constantin's 20-strong slate was seen by 22.4 million people in German cinemas, giving the company a market share of 14.7 % and sending it to fourth place in the national box office charts. These figures impressively testify to our subsidiary's ability to compete with the Hollywood majors – the only independent capable of achieving this.

In addition to its unique standing in movie distribution activities, Constantin has since become a name to be reckoned with in TV entertainment. Constantin group companies are producing a number of different formats for nearly all major German TV stations ranging from TV films to police and comedy series as well as show and entertainment formats. Constantin Entertainment GmbH's "daily" formats are enjoying great success with consistently high ratings in the target group of relevance to advertisers. In pursuing these activities, Constantin is systematically implementing its strategy of shielding itself from the volatility of movie business by stepping up the volume of TV production work.

DVDs still booming

In 2004, the home entertainment industry performed even more successfully than the movie business, with virtually all major markets around the world reporting new records. In Germany alone, over 100 million units (DVDs and VHS cassettes) were sold for the first time, while total revenues from sales and rental business hit a new record of over EUR 1.7 billion. This is equivalent to an increase of around 12 % over the previous year and testifies to the prominent role now being played by home cinema. The DVD remains the driving force behind sector growth and, with its substantially greater quality and enhanced convenience, is driving conventional video tapes out of the market, generating steady new growth in the process. The DVD accounted for 92 % of for-sale and 89 % of for-rental business in 2004.

Against this favorable backdrop, the Highlight Group was able to additionally reinforce its dominant position in the GSA market. One of the factors spurring this trend was the successful launch of the new "Constantin Film" label, which we have been using to market Constantin box office successes since the beginning of January. The releases include, for example, the Mel Gibson epic "The Passion of the Christ", which sold 300,000 DVDs by the end of 2004 alone, as well as Oscar® winning cult comedy "Lost in Translation".

We also optimized our structures in 2004 to further enhance our efficiency. Thus, our two Munich-based subsidiaries Highlight Film und Home Entertainment GmbH and Highlight Filmproduktion und Werbeagentur GmbH were merged into a single company called Highlight Communications (Deutschland) GmbH in autumn 2004. At the same time, the number of outlets operated by our Swiss subsidiary Joe's Multimedia was reduced to less than ten in response to the contraction in rental business.

Impressive marketing of the UEFA Champions League and the Eurovision Song Contest

Our subsidiary TEAM achieved highly impressive results in 2004 in several different areas. In the sports marketing area, it was once again awarded the contract for the commercial exploitation of the rights to the UEFA Champions League. Thanks to its convincing marketing concept, it prevailed in the selection process over a group of strong international competitors. This new contract for the 2006/07, 2007/08 and 2008/09 seasons will allow TEAM to continue its long-standing partnership with UEFA seamlessly.

In a further bidding process in autumn 2004, TEAM additionally received the contract for marketing the UEFA Cup finals in 2005 and 2006 and the UEFA Super Cup 2005. Alongside the exploitation of the marketing rights, the contracts also include the sale of the European TV rights to this top European club football event for the first time.

TEAM's debut at the Eurovision Song Contest was also a complete success. The venerable music competition, the marketing rights to which TEAM exploited for the first time in 2004, achieved high TV ratings of up to 75.5% and active participation in the telephone and text-messaging voting processing. Over 4.3 million calls were registered and counted in a period of only ten minutes on the specially created European-wide televoting platform. This platform was designed and implemented by Deutsche Telekom subsidiary digame.de, which TEAM had been able to sign up as a partner ahead of the song contest. As well as this, the Europvision Song Contest logo, which TEAM had designed, also met with wide acclaim and has been used successfully for some time now in the merchandising activities of the event.

Revenues and profits entering new dimensions

The operative success of all the Group's divisions is reflected in the figures posted for the year. Thus, the Highlight Group's consolidated revenues rose to CHF 518.2 million, marking an increase of more than 83% over the previous year. The Film division contributed revenues of CHF 378.1 million. In addition to Constantin's very successful business performance in 2004, this increase is also due to the fact that our subsidiary had been consolidated for only six months in 2003. The Home Entertainment division reported revenues for the year of CHF 88.7 million, while Sports and Event Marketing contributed a figure of CHF 51.4 million.

Operating earnings, which had come under strain from the loss sustained by Constantin last year, improved substantially from CHF 16.7 million to CHF 41.8 million, with consolidated net profit coming in at CHF 18.1 million, up from CHF 10.3 million. As of December 31, 2004, the Highlight Group's equity stood at CHF 125 million (previous year: CHF 108.6 million), equivalent to an adjusted equity ratio (after netting the financial reserves against the liabilties subject to interest and film assets against advance payments received) of around 41%. In spite of a reduction by CHF 35.6 million in the liabilities subject to interest, we were also able to boost our liquidity. At the end of the year under review, the Highlight Group had cash, cash equivalents and securities of CHF 200.7 million, up from CHF 167.6 million in the previous year.

Highlight stock continuing on its upward trend

Spurred by the Company's economic success story, Highlight stock also fared very well. With a gain of 35.3%, it substantially outperformed the DAX (up 7.3%) and the SDAX (up 21.6%) for the second year running. Although the year-end closing price of EUR 3.64 does not match our idea of what the stock's fair value should be, it does mean that our Company's market capitalization (EUR 172 million) has more than doubled in the space of only two years.

Earnings per share rose from CHF 0.22 to CHF 0.39. This increase gives us the very pleasant task of being able to ask our shareholders to approve a dividend of CHF 0.10 per share at the Annual General Meeting on June 3. In this way, they will also be able to benefit from our Company's success.

Expansion with our feet on the ground

Looking forward to the current year, we will continue to systematically pursue our strategic goals. In particular, we will be focusing on ensuring the ongoing and profitable growth of our Company. We want to create lasting value for our shareholders and secure jobs for our employees.

Risk-conscious activity and a solid business model caused the Highlight Group to emerge strengthened from the crisis arising in the aftermath of the Neuer Markt collapse. I would particularly like to thank all our staff and shareholders for their patience, endurance and confidence in our Company. The Board of Directors remains committed to continuing the course which has been adopted.

B. Burgener

Bernhard Burgener

President and Delegate of the Board of Directors

Highlight stock

Blue chips outperformed by mid and small caps

Against the backdrop of fairly unfavorable underlying economic and political conditions (rising oil prices, terrorist attacks in Madrid and Iraq, etc.), 2004 was a largely unspectacular year for the international equities markets. On a particularly encouraging note, gains were registered on nearly all bourses around the world. Nonetheless, this favorable performance was marred by the fact that the leading indices advanced by only single-digit rates for the year as a whole. Closing the year up only 3.2%, the Dow Jones was at the bottom of the pile this year. By contrast, the Nikkei Index gained somewhat more than 7% and the technology-heavy Nasdaq Composite 8.6%.

The leading European benchmark indices painted a very mixed picture. Whereas Zurich and Amsterdam at most recorded moderate advances of around 3%, the Austrian ATX index surged by almost 60%. As a result, it has more than doubled in the past two years after being decidedly undervalued prior to this. With gains of around 7%, the leading stock-market indices in London, Paris and Frankfurt remained in the European middle field.

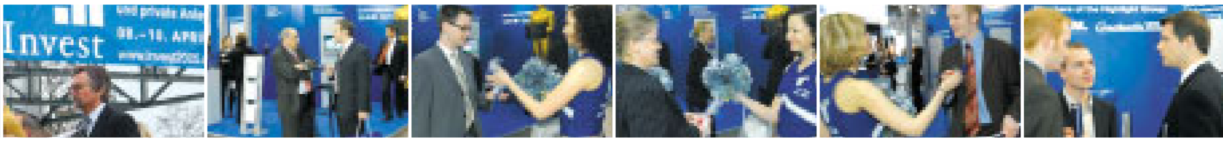
The muted increment of the DAX (7.3%), which tracks the performance of the 30 German blue chips, was particularly unusual given that with the exception of 2000 the last ten years had always seen double-digit advances or declines. However, throughout 2004, the DAX almost invariably moved within a relatively tight range, with only the Madrid bomb attack in March triggering a brief downside move. Other than this, it oscillated in a stable corridor between 3,700 and 4,200 points.

The clear winners in the German stock market were the small and mid caps, i.e. stocks not big enough to be included in the DAX. Thus, for example, the MDAX advanced by 20.2% and the SDAX by as much as 21.6% in the year as a whole. There are numerous reasons for the greater popularity of mid and small caps with investors compared with blue chips. One key argument was doubtless the fact that many of these stocks were favorably priced and thus offered greater upside potential.

In addition, most institutional market participants agreed that the intraday prices of SDAX stocks in particular were far less exposed to key determinants of stock market performance such as the price of oil and the value of the US dollar. As a result, an investment in such stocks has become more “calculable”. Finally, the revamped index hierarchy as of spring 2003 has significantly enhanced the appeal of small and mid caps. Specifically, the reduction in the size of the MDAX from 70 to 50 stocks pushed a number of renowned companies into the SDAX, which attracted noticeable higher interest of analysts and fund managers to the small-cap index.

General expectations for the 2005 stock market year are characterized by optimism. There is broad consensus on the part of institutional investors that last year’s trends will continue. A survey of fund managers conducted by Merryll Lynch in December 2004 revealed that 49% of all interviewees around the world expect equities to outperform all other types of investments in 2005. A similar sentiment can be found with private investors, with more than two thirds (68%) of German households expecting rising or at least sideways stock prices in the first half of 2005.

Highlight seaks contanct with investors – like here at INVEST in Stuttgart



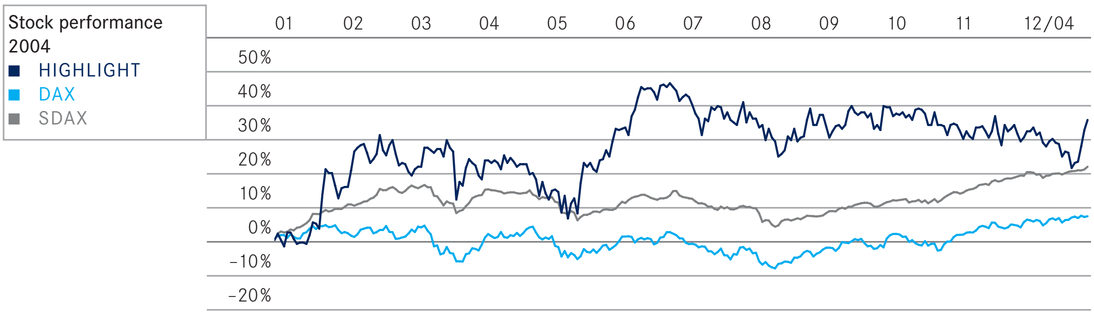
Highlight stock continuing on its upward trend

Following on from the previous year's substantial gains, Highlight stock continued to perform very well in 2004. At the end of the year, it was trading at EUR 3.64 in the XETRA system, i.e. up 35.3% on the last day of trading in 2003. Backed by these gains, the Highlight stock outperformed the benchmark indices for the second year running, these rising by only 7.3% (DAX) and 21.6% (SDAX). As a result, our Company's market capitalization widened to EUR 172 million, thus more than doubling within the space of only two years.

After closing 2003 (December 30) at EUR 2.69, the stock hit its low for the year of EUR 2.64 as early as on January 6. Following a brief sideways move, a substantial rise emerged towards the end of the month, with this trend receiving further sustenance by our ad-hoc bulletin in which we announced the acquisition of the remaining TEAM shares effective July 1, 2005. In mid-February, the stock reached a provisional high for the year at EUR 3.52 but then receded at the end of the quarter. Even so, it achieved gains of 19.0% in the first quarter, while the SDAX was up only 13.1%, with the DAX actually shedding 3.0%.

The second quarter primarily saw sagging prices for our stock up until mid May. However, the publication of our very favorable quarterly figures and, shortly thereafter, the announcement that the TEAM agency contract for marketing the UEFA Champions League had been renewed until the 2008/2009 season triggered a veritable rally, propelling the stock to an absolute high of EUR 3.93 on June 29. As a result, Highlight stock posted gains of 21.9% in the second quarter, far outpacing the DAX (up 5.1%) as well as the SDAX (up 1.1%).

Unfortunately, the stock was unable to hold onto this high level and slipped back to EUR 3.35 by mid-August. This downward trend was halted by the announcement of our very encouraging first-half figures, in the wake of which the stock bounced back to EUR 3.73. This was followed by a sideways move, during which the Highlight stock mostly oscillated in a corridor between EUR 3.43 and EUR 3.75.



Dividend payment planned for the first time

At the Annual General Meeting taking place on June 3, 2005, the Board of Directors will be asking the shareholders to approve a dividend of CHF 0.10 so that the shareholders are able to participate in the successful performance achieved by Highlight Group last fiscal year. Measured in terms of the stock's year-end price, this translates into a dividend return of 1.8%, assuming that the shareholders approve the proposed dividend. With this dividend – the first since the stock market flotation of Highlight Communications AG – we wish to acknowledge and reinforce investors' confidence in our Company's earnings capability and potential. The total payout would stand at CHF 4.7 million, equivalent to 26% of consolidated net earnings for 2004.

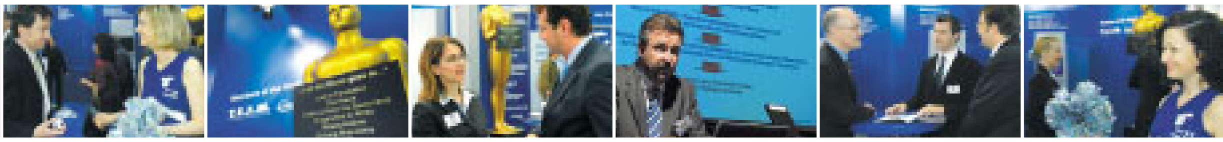
Stock buy-back program used successfully in 2004 again

Highlight Communications AG has been actively buying back its own stock since mid-2002 primarily to stabilize the price during weak spells. Under this scheme, a total of 3,041,445 shares were bought back in 2004. Of these, 2,785,000 were sold to long-term private and institutional investors. As at December 31, 2004, the Company's treasury stock comprised 787,646 shares, equivalent to around 1.7% of our Company's issued capital. The current number is updated regularly on Highlight's website at www.highlight-communications.ch.

Stock data 2004

Number of shares		47,250,000	
Stock class		Ordinary bearer shares	
Nominal value per share		CHF 1	
Market segment		SDAX	
WKN	920 299	ISIN	CH 000 653 9198
Ticker	HLG	Reuters ticker	HLGZ.DE
Traded at	Berlin, Düsseldorf, Frankfurt, Hamburg, Hanover, Munich, Stuttgart, XETRA		
High for the year (XETRA) June 29			EUR 3.93
Low for the year (XETRA) January 6			EUR 2.64
Year-end price			EUR 3.64
Year-end market capitalization			EUR 172 million
Earnings per share			EUR 0.25
Cash flow per share			EUR 2.58
Equity per share			EUR 1.74

Highlight provides with up-to-date and target-oriented information – like here at INVEST



IR activities stepped up again

Open dialog based on mutual trust with both current and potential shareholders forms a key element of the Highlight Group's mission statement. For this reason, we intensified the number of direct contacts with investors again in 2004. To this end, road shows targeted at institutional market participants were held at leading European financial centers (London, Paris, Frankfurt, Edinburgh). In addition, we presented our business model and our Company's strategic objectives and outlined the latest developments at several important investor conferences such as the Transatlantic Media Day (Paris), the media stock conference held by Seydler Wertpapierhandelsbank AG (Frankfurt), Deutsches Eigenkapitalforum (Frankfurt) and the Smart Equities Conference (Frankfurt). In the context of these activities we conducted almost 160 one-on-ones with investors and analysts.

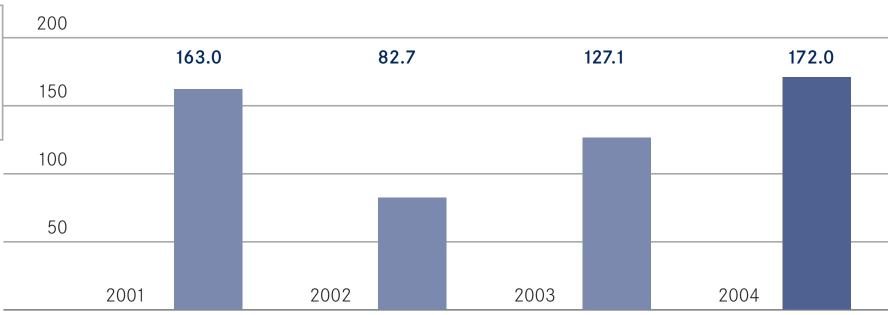
Deutsches Eigenkapitalforum in particular is increasingly emerging as the main investor conference for European small and mid caps. Held at the end of November, it attracted a record number of more than 170 listed companies, all of which presented their business models. In response to this strong interest, it was necessary to extend the forum from its original two days to three days, during which more than 2,900 visitors (fund managers, asset managers, investment strategists, etc.) were registered.

The Highlight Group again had stands of its own at the INVEST and GEWINN investor fairs in Stuttgart and Vienna, respectively, to maintain and extend contacts with private investors. In spite of the strong response at both events, however, Highlight's website remains the key instrument for communicating with our private investors. This is because the Internet is the only medium capable of conveying the latest news with minimum delay.

Analyst coverage of Highlight

Equinet	January 2004	Buy
Landesbank Baden-Württemberg	May 2004	Buy
Hot Stocks Europe	June 2004	Buy
ING BHF-Bank	July 2004	Buy
MainFirst	September 2004	Buy
Stadtsparkasse Köln	September 2004	Market performer
Berenberg Bank	November 2004	Buy
DZ-Bank	November 2004	Buy
Independent Research	November 2004	Buy
MWB Wertpapierhandelshaus	November 2004	Investment idea
DZ-Bank	March 2005	Buy

Market capitalization of Highlight Communications AG (in EUR mn)



For this reason, the “Investor Relations” section of Highlight’s website contains all relevant information on the Group’s business performance as well the stock. Annual and interim reports are available for downloading as PDF files or can be ordered in printed form directly from us. A calendar of events sets out the key events and publication dates for the current fiscal year. In addition to current and historical price data as well as other stock market data, the stock tool also includes a performance analyzer allowing investors to accurately track the return on their investment. The investor relations section of Highlight’s website additionally features a full directory of all ad-hoc bulletins published and a list of analyst ratings.

We are the champions:
the Valencia CF team after winning
the 2004 UEFA Super Cup

In operating terms, the Highlight Group entered new dimensions in fiscal 2004. Both consolidated revenues and earnings rose significantly over the previous year.

Report of the Board of Directors

Highlight Group systematically utilizing market growth

The eagerly awaited economic recovery, which appeared on the horizon at the end of 2003, actually emerged in 2004. Dynamic growth in Asia and North America – especially in the first half of the year – ushered in a substantial upswing. In Europe, the export sector in particular benefited from this. On the other hand, domestic demand remained muted as neither corporate nor consumer spending was able to generate any major impetus. Thus, in Switzerland, for example, the economic upswing continued but lost more momentum than expected as the year proceeded. A similar situation was evident in Austria, where total consumption was somewhat stronger than in earlier years, but on the part of households still only expanded by 1.5% in real terms.

In Germany, consumer spending again contracted by 0.4% year-on-year according to statistics office Destatis. A slight recovery in the second half of the year was not sufficient to recoup the declines of the first six months. As a result, 2004 was the third year in a row in which consumer spending failed to expand, marking the longest period of muted consumer spending since the establishment of the Federal Republic of Germany. One of the causes of this phenomenon is doubtless the substantial increase in savings ratios. To make matters worse, average incomes increased by only a weak 0.5% year-on-year in nominal terms in 2004. In fact, after deducting capital gains, wages and salaries were below 2002 levels on average.

The market segments in which the Highlight Group operates experienced a veritable upswing in spite of muted consumer confidence. For the first time since 2001, cinema audience numbers in Germany were up again, while the sustained DVD boom propelled home entertainment sales and revenues to new heights. As a result, this segment was able to further consolidate its position as the film exploitation level generating the greatest volume of sales. In the sports and event marketing area, the UEFA Champions League further strengthened its unique position in international club football.

The Highlight Group was able to benefit from these favorable conditions and closed fiscal 2004 on a very successful note. What proved to be extremely advantageous in particular was the strategic decision to split the former Film and Home Entertainment division into two separate segments. This clear separation of functions allows the Group to tap Constantin's film business expertise (production and distribution). On the other hand, Highlight's marketing skills in the home entertainment area can be used to the benefit of the entire Group.

As part of this re-alignment, we also optimized our organizational structures. For one thing, our two Munich-based subsidiaries Highlight Film und Home Entertainment GmbH and Highlight Filmproduktion und Werbeagentur GmbH were merged into a single company called Highlight Communications (Deutschland) GmbH. For another, the number of outlets operated by our Swiss subsidiary Joe's Multimedia was reduced to less than ten.

In the Sports and Event Marketing division, our subsidiary TEAM was once again awarded the contract for the commercial exploitation of the rights to the UEFA Champions League. This renewal means a continuation of TEAM's long successful partnership with UEFA until the 2008/09 season. In a further bidding process, TEAM additionally received the contract for marketing the UEFA Cup finals in 2005 and 2006 and the UEFA Super Cup 2006.

Revenues at a record level

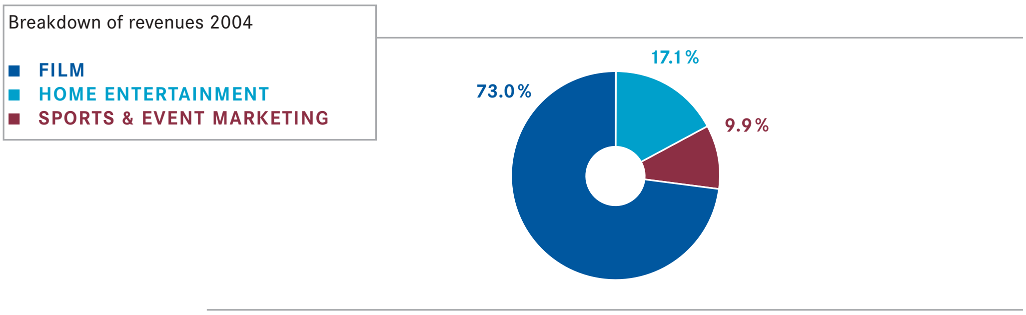
Consolidated revenues rose to CHF 518.2 million, equivalent to an increase of 83.2% over the previous year (CHF 282.9 million). In addition to the Group’s very successful business performance, this is partially also due to the fact that Constantin Film AG had only been consolidated for six months in 2003. Accordingly, the Film segment, where revenues surged from CHF 140.5 million to CHF 378.1 million, achieved by far the greatest top-line growth. Revenues in the Home Entertainment division widened to CHF 88.7 million, thus also marking a significant increase of 12.0% over the previous year (CHF 79.2 million).

In the Sports and Event Marketing division, however, revenues contracted to CHF 51.4 million, down from the previous year’s CHF 63.2 million. This development reflects the reduction in the competition format of the UEFA Champions League to 13 weeks now as opposed to 17 previously with the attendant slightly reduced revenues from the marketing contracts. At 73.0%, the Film division made the greatest contribution to total revenues, with the Home Entertainment division accounting for 17.1% and Sports and Event Marketing 9.9%.

Substantial rise in earnings

The full-year consolidation of Constantin Film AG for the first time resulted in what in some cases were substantial increases on the cost side. Thus, for example, license and merchandise expenses increased from CHF 193.4 million in 2003 to CHF 388.5 million in 2004, while personnel costs rose by CHF 9.7 million to CHF 51.5 million (2003: CHF 41.8 million). On the other hand, depreciation and amortization expense came to CHF 6.1 million, down by half on 2003 (CHF 12.1 million). All told, consolidated costs rose by 74.4% from CHF 276.1 million to CHF 481.4 million and thus less strongly than revenues growth.

As a result, operating earnings increased to CHF 41.8 million (previous year: CHF 16.7 million), with the gross margin widening substantially from 5.9% to 8.1%. Consolidated net profit climbed by 75.7% over the previous year (CHF 10.3 million) to CHF 18.1 million. The fact that the improvement at this level is not as pronounced as with operating earnings is primarily due to the tax expense of CHF 16.2 million (previous year: refund of CHF 1.3 million) as well as substantially higher minority interests of CHF 12.0 million (previous year: CHF 3.4 million). As a result, earnings per share rose from CHF 0.22 (EUR 0.14) in 2003 to CHF 0.39 (EUR 0.25).



Further improvement in balance sheet ratios

Consolidated total assets stood at CHF 572.5 million at year-end, CHF 36.2 million down on the previous year (CHF 608.7 million). The greatest change on the assets side concerned fixed assets, which contracted from CHF 344.0 million to CHF 286.3 million primarily as a result of film assets, which dropped by CHF 37.6 million over the previous year (CHF 265.6 million) to CHF 228.0 million. By its very nature, this item of the balance sheet is subject to heavy fluctuation in film business as it depends on the date of commencement of primary exploitation (normally the cinema release).

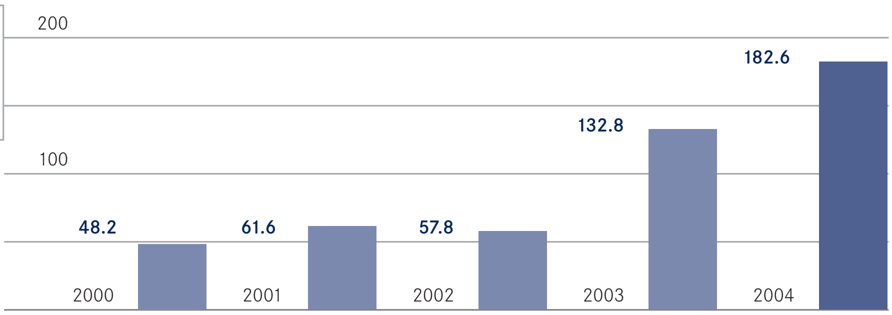
On the capital side, the volume of liabilities subject to interest was reduced by a total of CHF 35.6 million to CHF 115.7 million in the year under review. In addition to the interest savings already achieved, this reduction will have a positive impact on the Highlight Group's net financial result this fiscal year. Consolidated equity climbed to CHF 125.0 million (previous year: CHF 108.6 million) as a result of the net income for the year. As at December 31, 2004, this resulted in a notional equity ratio of around 22 % (previous year: 18 %). If the financial reserves are netted against the liabilities subject to interest and film assets against advance payments received, this produces an adjusted equity ratio of around 41 % (previous year: 37 %).

In the year under review, the Group's liquidity situation continued to improve in spite of the substantial cut in the volume of liabilities subject to interest. Financial reserves (cash, cash equivalents and securities) widened by CHF 33.1 million to CHF 200.7 million as of December 31, 2004. This was primarily due to the fact that net cash inflow from operating activities increased to CHF 182.6 million, up CHF 49.8 million on the previous year. This means that net cash inflow from operating activities has almost quadrupled in the past five years.

Headcount down in spite of growth

As of December 31, 2004, a total of 425 employees worked for the various Highlight Group companies, down 115 on the year-end figure for 2003 (540). This decline is primarily due to the reduction in the number of outlets operated by our subsidiary Joe's Multimedia. The Board of Directors would like to take this opportunity to thank all the staff of the Highlight Group for their commitment and strong dedication in 2004. Looking forward, their motivation, experience and expertise will continue to constitute a key basis for our economic success.

Cash flow from operating activities (in CHF mn)



Outlook for 2005

There is mounting economic evidence to suggest that consumer spending in Germany has now bottomed out. Surveys conducted by market research company Gesellschaft für Konsumforschung (GfK) revealed that consumer confidence had brightened considerably at the beginning of the year, with household spending and future expectations appreciably higher than in the previous year. This change of mood has been confirmed by German retail statistics, which pointed to a seasonally adjusted increase in sales of a nominal 1.9 % in January 2005 over December 2004.

Against this backdrop, we expect our business to remain stable and profitable this year. As in the previous year, our subsidiary Constantin is preparing a slate of 20 cinema releases comprising 12 licensed franchises and 8 own and co-productions. In addition, it plans to step up TV production activities. In the Home Entertainment division, further successful Constantin cinema releases from last year (e.g. “Alexander” and “Bibi Blocksberg 2”) are scheduled for release. Meanwhile, our subsidiary TEAM, which will become a 100 % subsidiary of Highlight Communications AG effective July 1, 2005, will be focusing on several major events: In addition to this year’s Eurovision Song Contest and work on organizing the UEFA Champions League up until the grand final, it will be focusing on marketing the TV rights for this top football competition for the 2006/07 – 2008/09 seasons.

With this portfolio, the Highlight Group is ideally positioned to operate successfully in all of its business areas and to continue maintaining its market leadership in 2005. Its equity resources and copious liquidity form a very solid basis for continued steady growth.

We project consolidated revenues of between CHF 410 and 430 million for 2005 in the light of the fact that there is no guarantee that Constantin will be able to repeat the cinema successes of 2004, which saw the release of films such as “(T)Raumschiff Surprise” and “The Downfall”. Nonetheless, we forecast growth in the other segments and, thanks to our optimized cost structures, expect to be able to post a substantial increase in earnings per share to EUR 0.25 – 0.27 (CHF 0.38 – 0.41).

Pfäffikon, April 2005

Bernhard Burgener	René Camenzind	Martin Hellstern
Thomas Klooz	Dr. Ingo Mantzke	Martin Wagner

Board of Directors

Bernhard Burgener (born 1957)

President and Delegate of the Board of Directors

Engaged in film business since 1982. He established Rainbow Video AG, Pratteln, in 1983. He has been a shareholder since 1994 and was Delegate of the Board of Directors until 1999. Since 1999, he has been managing the Highlight Group as President of the Board of Directors of Highlight Communications AG. Since January 2004 he has also been Delegate of the Board of Directors again.

René Camenzind (born 1951)

Member of the Board of Directors

Businessman. 1974 – commenced career at Mythen Center, Schwyz. 1990 – assumed management responsibility for Mythen Center. 2003 – elected President of the Board of Directors of Mythen Center Holding AG. Since January 2004 a member of Highlight Communications AG's Board of Directors.

Martin Hellstern (born 1934)

Member of the Board of Directors

Businessman. 1963 – joined Rialto Film AG, Zurich, turning the Group into the largest non-captive film company in Switzerland. Since 1990 member of the Board of Directors and shareholder of the largest Swiss cinema operator KITAG as well as Teleclub AG and CineStar SA, Lugano. Since 2003 key shareholder of Highlight Communications AG and since January 2004 member of the Board of Directors.

Thomas Klooz (born 1954)

Member of the Board of Directors

Attorney with a Master of Laws (LL.M) degree. 1985–1992 – legal counsel and Vice-President of ISL Marketing AG. Afterwards attorney in Zurich. Then active as the responsible of business & legal affairs and later as Managing Director of TEAM. Since February 1, 2004, Deputy CEO, member and Secretary of TEAM's Board of Directors and since January 2004 member of Highlight Communications AG's Board of Directors.

Dr. Ingo Mantzke (born 1960)

Member of the Board of Directors and Chief Investor Relations Officer

MBA. Dr. Mantzke was employed by BHF-Bank from 1987 until 1989, after which he worked on his doctorate degree between 1989 and 1991. From 1991 until 1996, he worked for KPMG Unternehmensberatung GmbH, most recently holding the position of senior manager in the financial services segment. In 1996, he became a Director at Deutsche Börse AG, where he was responsible for controlling and investor relations, before being named head of finance for the Deutsche Börse Group in January 1999.

Dr. Mantzke has been a member of Highlight Communications AG's Board of Directors since February 1999 and acted as Chief Financial Officer of the Highlight Group until mid 2002. He has been the Highlight Group's Chief Investor Relations Officer since mid-2002.

Martin Wagner (born 1960)

Vice-President of the Board of Directors and Head of Legal Affairs & Compliance

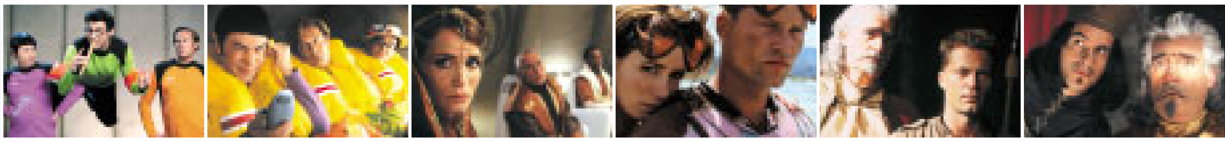
Attorney. Mr. Wagner is a specialist in commercial law and a partner at a leading international law firm in Basel specializing in stock, stock-market and media law. As a senior legal counsel, he advises a number of listed companies in Switzerland and other countries.

Mr. Wagner has been a member of Highlight Communications AG's Board of Directors since May 2000.

Author, actor, director and producer in one: The Golden Camera in the "Comedy" segment went to the multi-talented Michael "Bully" Herbig.

Constantin Film, in which Highlight holds a majority stake, widened its share of the German movie distribution market to almost 15 %. As a result, it remains the only independent capable of competing with the Hollywood majors.

The box-office hit of 2004: “(T)Raumschiff Surprise – Periode 1”



Division: **FILM**

Global upswing in cinema business

After what in some cases was a drastic decline in audience numbers in 2003, the situation improved for cinema operators in 2004. Both box-office takings and the number of tickets sold increased substantially in some markets compared with the previous year. In the United Kingdom, for example, ticket sales rose by 3.5% to roughly GBP 840 million, surging by 7.6% in Spain to almost EUR 690 million. With audience numbers coming to 196 million, a respectable 12% increase over 2003, French cinemas achieved their best performance in 20 years, while box-office takings in Australia hit a new record of more than AUD 690 million.

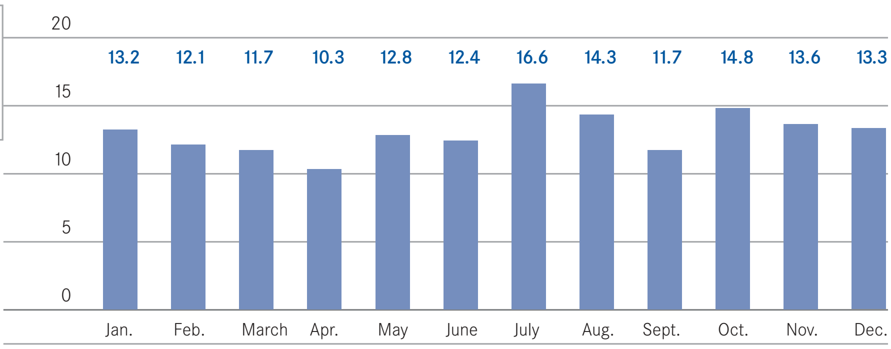
Yet, it was none other than North America (United States and Canada), by far the world’s largest movie market, which lagged behind. Although ticket sales remained very high at just under USD 9.4 billion, they rose by only around 2.3% over the previous year. Still, this increase conceals the fact that audience numbers declined as in 2003. The fact that this trend is not reflected in box-office takings is due to two factors: First, moviegoers had to pay more for tickets and, second, two independent films proved to be surprise box-office hits. The controversial Mel Gibson epic “The Passion of the Christ” achieved box-office takings of USD 370 million, making the film the third most successful release in North America, and Michael Moore’s anti-Bush documentary “Fahrenheit 9/11” ranked a remarkable 16th after grossing USD 119 million.

US majors focusing on foreign markets

The decline in audience numbers took its toll on the majors in particular. Whereas four studios had managed to pass the magic figure of USD 1 billion in box-office takings in the domestic market in 2003, only three repeated this feat last year. For this reason, foreign markets are increasingly growing in importance for the majors. Back in the eighties, the rule of thumb had been that US productions grossed more than two thirds of their takings in the United States and Canada. Now, however, there is evidence suggesting that this share will soon be achieved in the international markets. Consequently, no Hollywood studio launches a major production these days without first having assessed its global market potential.

Against this backdrop, it comes as little surprise that in 2004 only four films (“The Passion of the Christ”, “The Bourne Supremacy”, “Shark Tale” and “Fahrenheit 9/11”) grossed more in North America than abroad. Preliminary estimates indicate that international box-office takings of US productions came to roughly USD 12.5 billion in the year under review, an increase of USD 2.3 billion over the previous year. With gross takings totaling USD 2.6 billion, Warner Brothers was easily the world’s top distributor. In addition to blockbusters such as “Troy” and “Ocean’s Twelve”, Warner released “Harry Potter and the Prisoner of Askaban”, by far the year’s most successful film, which grossed USD 540 billion outside North America alone. UIP, the international movie dis-tribution partnership between Paramount, Universal and Dreamworks, ranked second, achieving USD 2.1 billion, the best figure in its history. The previous year’s No. 1, Buena Vista International, did not catch up to the competition until the second half of the year, thus coming in third in spite of box-office hits such as “The Incredibles” and “King Arthur”.

Number of German moviegoers in 2004 (mn)



Source: Filmförderungs-anstalt (FFA)

A good year for German films

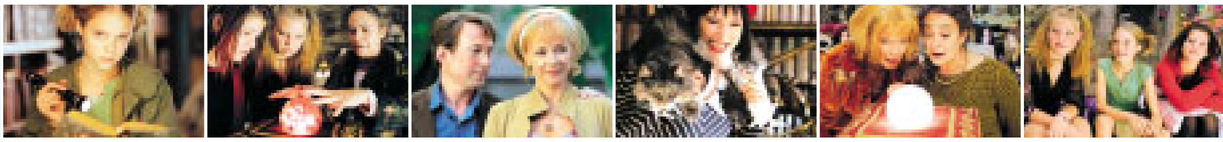
In 2004, German box-office takings also provided every reason for renewed optimism. This is because the industry started growing again for the first time since the record year of 2001. As this upswing was encouragingly strong, 2004 proved to be the third best year for German cinemas since reunification. Audience numbers totaled 156.7 million, an increase of 7.8 million or 5.2% over the previous year. Measured in terms of total population, each German thus theoretically went to the movies 1.9 times last year compared with an average of only 1.8 in 2003. With average admission prices virtually unchanged, movie operators' revenues thus increased sharply by 5.1% or around EUR 43 million to almost EUR 893 million.

Even so, the year had not gotten off to a favorable start by any means. The first four months of the year saw a seamless continuation of the decline emerging in 2003. In April in particular, audience numbers came to only 10.3 million, auguring poorly for the rest of the year. Yet, the release of Hollywood blockbusters by German star directors Wolfgang Petersen ("Troy") and Roland Emmerich ("The Day After Tomorrow") brought about the eagerly awaited turnaround. This was followed in monthly intervals by "Harry Potter and the Prisoner of Askaban", "Shrek 2", "Spider Man 2" and "I, Robot", all US blockbusters which helped to ensure that audience numbers in July almost doubled over the same month in the previous year.

Yet, it was not only the Hollywood productions which spurred audience numbers and takings. German films, which attracted a total audience of 36.7 million, also played a key role in the upswing. As a result, the market share of domestic productions widened to almost one quarter (23.8%), hitting the highest absolute figure in 15 years. On a particularly encouraging note, there is evidence of an increasingly stronger duel emerging between national and US productions: Of the total of 430 new releases in 2004, 121 were German and 179 from Hollywood, while UK, French and Italian productions hardly figured at all. If this trend continues, the German movie market as a whole will become substantially less dependent on the success of US productions.

An unprecedented event is reflected in the German movie charts for 2004: No less than three domestic productions ranked in the Top 5. The undisputed box-office hit was the science-fiction send-up "(T)Raumschiff Surprise – Periode 1" distributed by Constantin, which broke one record after another and attracted a total audience of 9.2 million. The third place was held by fairy-tale comedy "7 Zwerge – Männer allein im Wald", which with 6.5 million viewers fell only slightly short of "Harry Potter and the Prisoner of Askaban". Finally, in a feat which had previously been considered well-nigh impossible, the Bernd Eichinger production "The Downfall" achieved fifth position (or forth in terms of box-office takings). A bleak chronology recounting the final days in Hitler's Berlin bunker, this cinema release remained at the top of the German movie charts for four consecutive weeks in spite of the difficult subject matter, garnering an audience of over 4.5 million.

New adventures for the little witch: “Bibi Blocksberg 2”



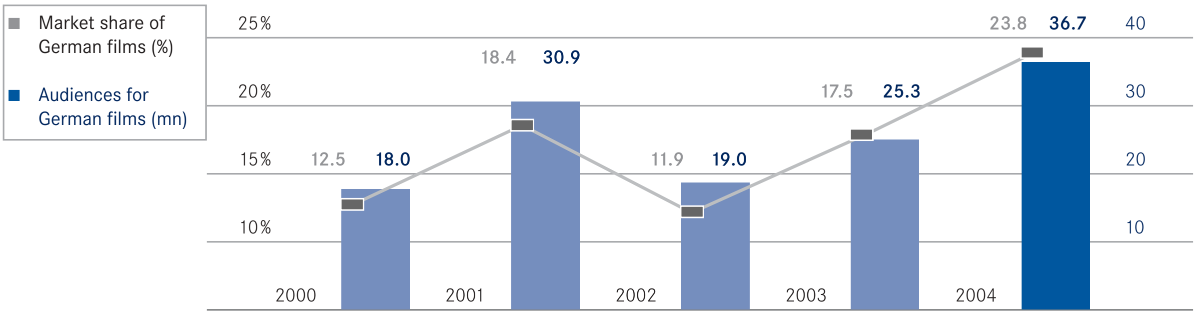
And this is not the end of the string of successes: A further three German productions exceeded the magic one-million mark in audience numbers, with the tongue-in-cheek Edgar Wallace parody “Der Wixxer” starring an ensemble of top German comedians (including Oliver Kalkofe, Bastian Pastewka, Olli Dittrich and Anke Engelke) proving to be a surprise hit with audience numbers of just under 1.9 million. The bitter-sweet animated feature “Lauras Stern” turned in a similarly surprising performance, racking up audience numbers of some 1.3 million. Following hot on the heels of the successful first installment of this fantasy film, the strong performance of the sequel “Bibi Blocksberg und das Geheimnis der blauen Eulen” (audience of over 1.2 million) came as less of a surprise.

National and international awards

In addition to their commercial success, German films also demonstrated their artistic merits. Never before had they received such glowing reviews on such a broad basis or as many awards as in 2004. By far the greatest number of rewards was garnered by the social critique “Gegen die Wand” by German-Turkish director Fatih Akin. After receiving the Golden Bear at the Berlin Film Festival completely unexpectedly, it was also awarded the German Film Prize in Gold and finally the European Film Prize as best film in 2004. With “Good Bye Lenin!” receiving the European Film Prize in the previous year, this marked the second year in a row that a German production achieved this distinction.

Teenage comedy “Die fetten Jahre sind vorbei” boasted a comparable feat by being nominated by an international jury as a competition entry at the Cannes film festival. An incredible eleven years had passed since a German production (Wim Wenders) had last been nominated for these coveted prizes. Although the film failed to win any of the awards, it did receive considerable applause during its showing and gained a critics’ commendation. What is more, the fact that the film was nominated at all is all the more remarkable considering that it was one of only 18 films shown out of a record number of 1,335 entries.

Yet, the pinnacle of the international recognition accorded the German movie industry was doubtless the two Oscar® nominations for German productions announced by the Academy of Motion Picture Arts and Sciences. The nomination of “Die Geschichte vom weinenden Kamel” in the best documentary category was nothing short of a sensation. The trek through the Gobi desert was filmed by three graduates of the Munich School of Cinematography as part of their final examinations and was completed under extremely trying financial and technical conditions. On the other hand, an Oscar® nomination for the drama “The Downfall” in the best non-English language film category had been hoped for but was not necessarily a foregone conclusion. This bleak epic prevailed over 49 entries from all around the world in the Academy’s selection process and was one of the five nominees in the final competition at the end of February.



Source: Film-förderungsanstalt (FFA)

Constantin films on a wave of success

2004 was one of the most successful years ever for our subsidiary Constantin. Releases distributed by Constantin generated total audience numbers of 22.4 million, equivalent to a market share of 14.7%. This made Constantin the fourth largest distributor in Germany only slightly behind Buena Vista but well ahead of Sony Columbia and Twentieth Century Fox. These results testify to the company's unique position amongst the independents.

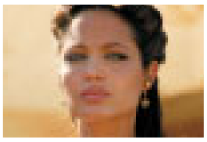
Of the total of 20 releases (seven own or co-productions and 13 licensed movies) in Constantin's slate, no less than five racked up audience numbers of over one million. Including Oliver Stone's monumental "Alexander", which was not released until the end of December but hit the one-million mark in January, six releases achieved this distinction. The first success of the year was the comedy "Lost in Translation", which now already enjoys cult status, followed by Mel Gibson's epic "The Passion of the Christ", which attracted an audience of 1.4 million. With an audience of over 1.2 million, fantasy adventure "Bibi Blocksberg und das Geheimnis der blauen Eulen" was not far behind.

Yet, the year's top hit was "(T)Raumschiff Surprise – Periode 1", the amusing science fiction send-up by and with Michael "Bully" Herbig. In the first twelve days of being released, it attracted over five million viewers in Germany and thus qualified for a platinum Box Office Germany Award (Bogey). After luring almost 12 million movie fans into the cinemas with "Der Schuh des Manitu", Michael Herbig and his cohorts Michael Tramitz and Rick Cavanian achieved an audience of 9.2 million with their new comedy. Never before had two films with almost the same cast but with a separate plot (i.e. not a sequel) proved so successful with audiences in Germany.

A further highlight of the German movie year in 2004 was doubtless Bernd Eichinger's blockbuster production "The Downfall". More than 4.5 million moviegoers were impressed by the authentic depiction of the final days of the Third Reich, making this the most popular film in Germany in September and October. The critical acclaim received by the film was reflected in the award of the 2004 Bavarian Film Prize in three categories: Above all, Swiss actor Bruno Ganz was named best actor in recognition of his impressive depiction of Adolf Hitler. In addition, Bernd Eichinger received the producer's prize, with the sought-after audience prize also awarded to "The Downfall".

In addition to its outstanding success in the domestic movie market, however, Constantin also fared very well internationally. "The Downfall" has since been released in twelve countries, including the United Kingdom, France and the United States, and has been attracting audience numbers far in excess of any other German film in the last twenty years. Although it is only being shown with the original sound track with subtitles in some cases, it is at the very top of the international movie charts. Thus, for example, a record 370,000 viewers in France watched the film in the first twelve days of its release.

History on
the big screen:
The epic
“Alexander”



Top family
entertainment:
The Constantin
TV productions

Constantin’s own international production “Resident Evil: Apocalypse” starring Milla Jovovich in the leading role has achieved similar successes. The high-tension action sequel grossed more than USD 24 million on its first weekend after being released in the United States and Canada, hitting No. 1 position on the charts. In Japan, it grossed a total of over USD 23 million, hitting a new record in the process. Around the world, “Resident Evil: Apocalypse” has so far generated box-office takings of some USD 130 million, making it even more successful than Part 1.

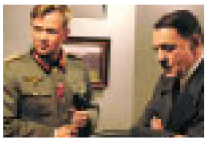
TV activities extended

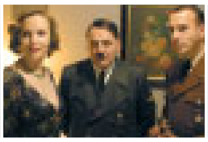
In the TV market, Constantin productions are also amongst the top formats. For example, all three episodes of the ZDF series “Kommissarin Lucas” starring Ulrike Kriener generated outstanding ratings of between 4.9 and 5.9 million, equivalent to between 18 and 22 % of the market. The three-part series “Die Patriarchin” starring much-loved actress Iris Berben, which Constantin also produced for ZDF in 2004, achieved even higher ratings, with Part 1 watched by roughly 8.2 million viewers (market share 23 %) on January 3, 2005. This was exceeded by Part 2 (8.3 million viewers, market share of 24 %) and Part 3 (9.4 million viewers).

The new Sat.1 series “Typisch Sophie” starring Sophie Schütt and Jochen Horst also got off to a very successful start. This is Constantin’s first fictional TV series and thusmarks a further foray into a new and attractive market segment. The first season with a total of eight episodes was broadcast as of the end of October in the prime time at 8:15 pm, with preparations for the second season already under way. Constantin subsidiary Rat Pack Filmproduktion GmbH produced for ProSieben the exciting two-part action series “Das Blut der Templer”, which also achieved ratings of between 3.7 and 4.5 million when it was broadcast in December.

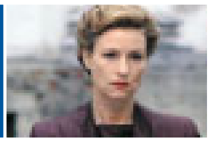
Constantin Entertainment GmbH is now a permanent fixture amongst the German market leaders in the show and entertainment segment. With a total of 19 formats which Constantin Entertainment is producing for nearly all of the major networks in Germany, it was able to further consolidate its market position last year. Its portfolio includes six daily formats such as the court shows “Richter Alexander Hold” (Sat.1) and “Das Strafgericht” (RTL) which hold market shares of substantially over 20 % of the relevant target group in their time slots. As well as this, Constantin Entertainment is producing extremely successful prime-time shows such as “clever! – Die Show, die Wissen schafft”, which is hosted by Barbara Eligmann and Wigald Boning, “Die Hit-Giganten” with Hugo Egon Balder and the comedy series “Die Dreisten Drei”.

Nominated for an Oscar®: The Bernd Eichinger production “The Downfall”





Top acting performances: Corinna Harfouch and Bruno Ganz



Upbeat outlook for 2005

These activities are to be further extended this year. As early as in January, Constantin Entertainment was responsible for producing the live benefit gala shown on Sat.1. The proceeds of the program, which reached a record EUR 10.6 million, were donated to assist the victims of the tsunami catastrophe in South East Asia. At the moment, a romantic couple show (“Der grosse Tag der Liebe”) is under preparation and is slated for prime-time showing on ARD at the beginning of April. The same thing applies to the real-life documentation “Eure letzte Chance”, which will also be premiering in early April on ProSieben. On the other hand, “Die Reise nach Jerusalem”, a new interactive game show, was aired for the first time in early March and is broadcast Mondays through Fridays in RTL II’s late-night roster.

As in the previous year, 20 new Constantin cinema releases (eight own and co-productions and 12 licensed releases) have been scheduled for 2005. Of these, some have already been released, e.g. “Napola – Elite für den Führer” directed by Dennis Gansel, who received the 2004 Bavarian Film Price for his superb work on this drama, and Constantin co-production “Vom Suchen und Finden der Liebe”. This new work by star director Helmut Dietl starring Alexandra Maria Lara and Moritz Bleibtreu in the leading roles has inspired more than 570,000 moviegoers since being released at the end of January.

Further highlights include two Constantin movie releases, which are slated for release in the autumn. “Die weisse Massai” is an adaptation of the bestselling novel by Swiss author Corinne Hofmann. Shot on location in Kenya, it tells the authentic story of her love of a Massai warrior. “Der Fischer und seine Frau – Warum Frauen nie genug bekommen können” is based on the children’s story of the same name and has been cast in celluloid with great imagination by successful director Doris Dörrie. A further treat in store for movie buffs is Bernd Eichinger’s production of the film version of Patrick Süskind’s international success “Das Parfum”, which is expected to be released in 2006. To be directed by Tom Tykwer, shooting is scheduled to commence in July of this year.

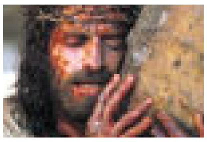
Germany's most prestigious media prize for the Bernd Eichinger production "The Downfall" starring Alexandra Maria Lara and Bruno Ganz at the BAMBI awards in Hamburg

In addition to its top-ranking position in the German-language movie market, Constantin has since also become a permanent fixture in the TV sector. Constantin subsidiaries produce six daily entertainment formats as well as prime-time programs for nearly all major TV stations.

Sales of over 300,000 units in only four months: The DVD version of Mel Gibson's drama "The Passion of the Christ"

In the high-growth home entertainment market, the Highlight Group has been able to consolidate its dominant position in the German-speaking region. The successful launch of the "Constantin Film" label has generated additional impetus.

Jesus' final hours in home cinemas: "The Passion of the Christ"



Touching homage to childhood: "Les Choristes"

Division: HOME ENTERTAINMENT

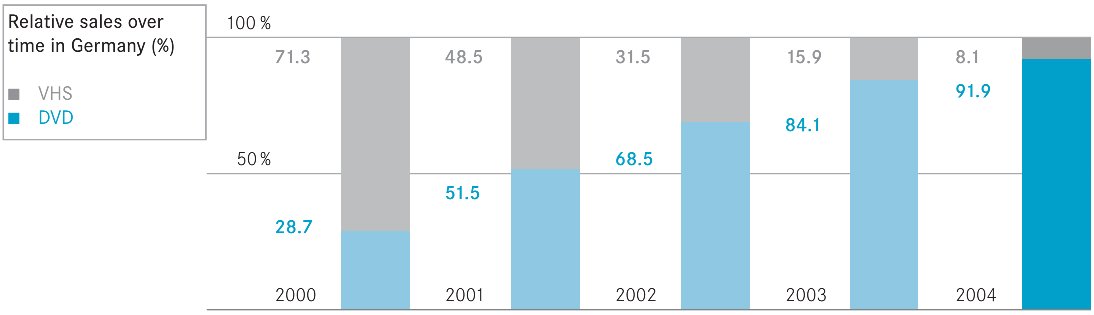
DVD sales at record levels

The DVD continued to go from strength to strength in 2004. As a growth driver behind home entertainment business, it helped to break new records in all key global markets. In the United States, for example, home entertainment sales surged by 8.5% year on year to USD 24.1 billion, with the DVD accounting for over 94% (2003: 85%) of this figure. Measured in volume terms, this means that each US consumer bought an average of almost 14 DVDs last year. A similarly high figure (12.2) was calculated for the UK, while France achieved an average of 7.5. As a result, the United Kingdom impressively defended its top position in the European market and toppled Japan from its rank as the world's second largest DVD market.

With an average of 5 DVDs bought, home entertainment fans in Germany were a little more restrained than their French neighbors. Even so, the German home entertainment market remained firmly on a growth course. Totaling 103.1 million units, VHS and DVD sales passed over the magic 100 million mark for the first time. DVDs accounted for the lion's share of 90.2 million units, marking an increase of 26 million or 41% over the previous year. As a result, the share of DVDs in total unit sales widened to over 87%, up from just under 76% in 2003.

The fact that DVDs are increasingly driving VHS out of the market is reflected even more clearly in revenues: DVDs contributed 92% (previous year: 84%) to total revenues for the year, meaning that only one euro out of twelve was spent on VHS cassettes. Fortunately, the decline in VHS sales (down EUR 83 million) was more than made up for by additional DVD sales (up EUR 270 million). Thus, all told, the German home entertainment market grew by 15% to over EUR 1.4 billion. These figures impressively testify to the fact that home entertainment has now become the film exploitation channel generating the greatest volume of sales.

Yet, DVD owners conspicuously bought back catalog titles a good deal more frequently than new releases. Whereas both segments had more or less attracted an equal portion of consumers' favor two years ago, the ratio shifted to around 60 to 40 last year. DVD releases of TV productions also proved very popular and recorded above-average growth rates. In fact, this segment is already growing twice as quickly as the market for DVD movies in the United States, while in Germany, for example, the DVD edition of the TV cult series "Sex and the City" unleashed a veritable boom.



Source: Gesellschaft für Konsumforschung (GfK)

Slight recovery in rental business

After years of flat or even declining revenues, the tide also turned for German video rental stores in 2004. With total revenues for the year of EUR 306.4 million, the market rebounded, recording an increase of 1.4 % over the previous year. This turnaround was primarily underpinned by the increase in revenues from DVD rentals (up EUR 60.5 million), which more than compensated for declines in VHS rentals (down EUR 56.1 million). Reflecting the sales market, DVDs are also making further substantial inroads into rental business. In fact, they accounted for 89 % of total revenues in 2004, up from 70 % in the previous year. On the demand side, there were 0.4 million fewer rental store customers than in the previous year. However, this decline was offset by the number of transactions per person, which climbed from an average of 9.5 to 10.

Rental business was doubtless also spurred by the extended opening times for rental stores, which are now permitted to open on Sundays and public holidays in nine out of 16 German federal states. The evaluations released by consumer research company Gesellschaft für Konsumforschung (GfK) clearly show that the number of rental transactions rose by 6 % in these states and shrank by 4 % in the rest of the country. Additional momentum was generated by the ongoing automation of rental transactions, with customer acceptance rising sharply. Nearly 11 % of transactions are now handled via the Internet (6.7 %) or on an automatic basis (2.9 %), up from less than 5 % in 2003.

What are the reasons for the success of the DVD?

There is no single answer to this question as several factors are involved. First of all, the currently unrivaled technology – the data stored on a DVD offers the best possible video and audio quality and is read by a laser. For this reason, DVDs are not subject to any wear or tear in contrast to VHS tapes. In addition, the DVD can store data on both sides of up to four hours each. A further major factor is that each film is divided into several chapters which can be accessed directly via remote control. This completely obviates the need for the time-consuming fast-forwarding or rewinding activities known to VHS users. However, what really sets the DVD apart from conventional video tapes is the inclusion of bonus material (trailers, interviews, background information, etc.), which can be accessed directly in what in some cases are highly imaginative menus using a remote control.

In addition to the technical superiority, the incredibly swift acceptance of the necessary hardware has fueled the boom in DVD business. After sales of 90 million DVD players in 2003, this figure surged to well over 125 million in 2004. A study conducted by market research institute “Research and Markets” shows that this figure will increase to 200 million by 2008 at the latest. At the end of 2004, one half of all households in Europe on average owned a DVD player or even a DVD recorder. The greatest penetration was found in France, the United Kingdom and Iceland at 60 %, while Germany with a rate of just under 50 % still has come catching up to do.

Top position in German DVD charts: “Resident Evil: Apocalypse”

Oscar® for the best film song: “The Motorcycle Diaries”

This growth is primarily being spurred by the sharp decline in retail prices. These days, DVD players are selling for less than EUR 100, while DVD recorders, which had cost almost EUR 1,500 just three years ago, can be bought for prices starting at EUR 200. For this reason, “Research and Markets” projects a sharp increase in demand for DVD recorders over the next few years, with a market share of 48% likely in 2008.

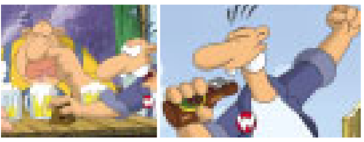
One factor contributing to the success of the DVD which should not be underestimated is the all too human instinct to collect things. Thus, in the past five years film fans all over the world have been replacing their VHS collections with far more robust DVDs. A study conducted by major studio Universal revealed in this connection that, for example, US consumers had not played an average of one tenth of all the DVDs which they owned. Universal concludes from this that the DVD is increasingly also being seen as an art object which consumers like to put on display in their homes. The main beneficiaries of this trend are the large US studios, which dominate the global market in the same way that they control the movie business. The boom in DVD sales is allowing them to exploit the rights to film classics which have long since been amortized, thus generating strong margins.

Price erosion and piracy spoiling the picture

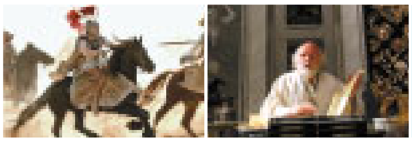
Yet, shadows are also being cast on the otherwise perfect DVD world. One of these concerns the strong price erosion: Since the emergence of substantial volumes of DVD sales in 1999, prices have contracted by a total of 40% across Europe. According to market researchers at “Screen Digest”, prices declined by an average of 13% last year alone. Regionally, the French market was hit the hardest, with local prices slumping by more than 20%, while the United Kingdom, the leading DVD market in Europe, had to content with a drop of only 7%. With averages prices down roughly 11% on the previous year, Germany was mid-field.

There are many different reasons for this price pressure. For one thing, consumer electronics retail chains such as Saturn or Media Market are waging an aggressive price-driven war in a bid to lure customers into their stores. On the other hand, DVDs are increasingly being sold as super-market fodder. Tie-ins with newspapers and magazines have now also become commonplace and are also stoking the pressure on prices. To make matters worse, new editions of old films are being thrown onto the market in frequently very careless packaging and with an inferior quality. Much to the consternation of DVD marketers, this has made it necessary to cut prices on new film releases as well. Thus, for example, the DVD version of the action drama “Last Samurai” was released at a price of under EUR 10 at the beginning of May 2004 even though blockbusters of this caliber would have retailed for twice the price barely a year ago.

The second problem facing the DVD industry, which is at least as serious, is illegal copying. According to a study conducted by the “Informa Media Group”, the movie industry sustained a loss of almost USD 4.4 billion as a result of this in 2004 alone. The damage being caused by Internet downloads is estimated at USD 0.9 billion and is thus the lesser evil as these films are very largely of such a poor quality that they cannot seriously compete with an evening out at the movies or a legally purchased DVD.



Modern animation technology combined with attention to detail: “Werner – Gekotzt wird später”



A monumental work in a class of its own: “Alexander” starring Colin Farrell and Anthony Hopkins

What is far more dire, however, is the harm being caused by professionally produced pirated copies which mostly originate in Asia and are sold on the black market. These copies are estimated to have caused losses of around USD 3.5 billion last year. Looking ahead over the next few years, the “Informa Media Group” projects a drastic rise in the number of illegal DVDs. Given the growing number of DVD burners in home PCs, market researchers expect to see an above-average rise in the incidence of Internet piracy in particular, with losses caused by such illegal private practices feared to come to USD 1.7 billion in 2010. By contrast, the loss from pirated copies is projected to rise only relatively moderately to USD 4.5 billion.

Highlight Group with extended portfolio

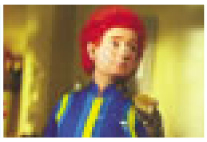
Thanks to its strong market position in the German-language region, the Highlight Group continued to benefit from the DVD boom in 2004. The successful launch of the “Constantin Film” label generated additional momentum. As a result, the decision to jointly exploit the Constantin DVD/VHS rights using the combined expertise of Highlight and Constantin as of January 2004 proved to be a wise and effective step.

As early as in the first quarter, the DVD versions of the animated feature-length movie “Werner – Gekotzt wird später” and the stirring action spectacle “Hero” shot into the Top 10. Similar success was achieved in spring with the release of the children’s film “Sams in Gefahr”, which had received the Bavarian Film Prize in 2003, and the special edition of “Werner”, which included all four films, giving the fans of this cult figure a “full load of Werner” for their enjoyment at home. The highlight of the third-quarter slate was the DVD release of the Mel Gibson epic “The Passion of the Christ”, which had racked up sales of over 300,000 units by the end of December. Further top releases in the second half of the year included the Constantin box office hits “Lost in Translation” and “Vergiss mein nicht!”.

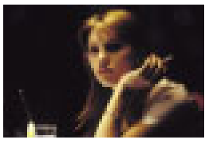
These and other top sellers – together with the Columbia Tristar and Paramount Home Entertainment labels – made a crucial contribution to an improvement in the market share of the Highlight Group to over 20% in German-speaking Switzerland. In Austria, where the Universal label is additionally distributed, our market share widened to as much as roughly 23%. In Germany as well, further momentum was created thanks to the close collaboration with our distribution partner Paramount Home Entertainment, whose label remained in the Top Six.

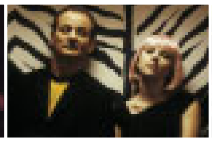
In organizational terms, the structures of the Highlight Group were further streamlined. In Germany, our two Munich-based subsidiaries Highlight Film und Home Entertainment GmbH and Highlight Filmproduktion und Werbeagentur GmbH were merged under a single roof. Known as Highlight Communications (Deutschland) GmbH, the new company was established in autumn 2004 and performs the activities of its two predecessors. In the retail segment, which is being particularly hit by Internet piracy, we responded to the shrinking market of the last few years by selling more than 21 of the formerly 31 outlets operated by our subsidiary Joe’s Multimedia.

The return of the anarchical troll: “Sams in Gefahr”



Following on from the box office success: The cult comedy “Lost in Translation”





Outlook for 2005 – pronounced growth

This fiscal year is set to offer a continuation of last year’s successes as a number of high-quality DVD and VHS Constantin titles are scheduled for release. Sales of the action thriller “Resident Evil: Apocalypse”, which is available in both a normal and a premium edition, have been extremely encouraging, with both versions entering the German DVD charts upon being released. The same thing applies to “Les Choristes”, by far the most successful film in the French movies in 2004, which was released on DVD at the beginning of March.

March also saw the eagerly awaited release of Oscar® nominated masterpiece “The Downfall” and the TV family saga “Die Patriarchin”, which had achieved outstanding ratings when it was shown at the beginning of January. The second-quarter slate is also studded with highlights including the awe-inspiring historical epic “Alexander” by top director Oliver Stone and the poetic road movie “The Motorcycle Diaries”, based on the diaries of Latin-American revolutionary Ernesto “Che” Guevara.

Pure unadulterated emotion: FC Porto was the winner of the 2004 UEFA Champions League.

Highlight subsidiary TEAM again won the bidding process for the commercial exploitation of the rights to the UEFA Champions League. The new contract covers the 2006/07, 2007/08 and 2008/09 seasons.

The highlight of any UEFA Champions League season: The grand final

Division: SPORTS & EVENT MARKETING

Strong demand for TV rights to major sporting events

High-publicity TV formats are rare and cannot be conjured up at will. In the battle amongst TV broadcasters for viewers' favor, attractive content thus plays a crucial role.

Rights to major sports events such as the Olympic Games, the UEFA Champions League, Formula 1 or the Football World or European Cup are highly coveted in the TV market and generate substantial revenues. The reason for the high price levels is the keen viewer interest in live broadcasts of major sports events. This is particularly the case with international football competitions, which have consistently attracted high viewer ratings over the past few years.

Alongside the top competitions of the national teams, the UEFA Champions League is doubtless a major audience draw in professional football. In the 2003/04 season, over 4 billion football fans all over the world watched the broadcasts, which totaled almost 23,000 hours of TV. This strong viewer response marks a new record considering that under the new rules the number of matches has been cut by roughly 20% compared with the previous season.

In Germany, an average of 7.3 million viewers watched the 13 live matches, equivalent to a market share of over 24%. Peak ratings were achieved with the match pitting Real Madrid against Bayern München, which attracted an average audience of almost 12.5 million (40% market share).

TEAM contract renewed by UEFA

Against this backdrop, our subsidiary TEAM experienced what was both an eventful and successful year. Strategically, it landed a key success as early as in May when the UEFA executive committee announced that it had awarded the commercial exploitation of the rights to the UEFA Champions League to TEAM again. This renewal meant a continuation until the 2008/09 season of TEAM's successful partnership with UEFA, which goes back to 1992. The decision had been preceded by an extensive bidding process in which solely agencies with a proven track record in marketing major sports events on TV participated. As part of this selection process, TEAM again presented an innovative marketing concept taking full account of the future challenges arising in the market place.

Yet, as if that were not already enough, TEAM was additionally awarded the contract for marketing the UEFA Cup finals in 2005 and 2006 and the UEFA Super Cup 2005 as a result of a further bidding process in autumn 2004. These contracts not only involve exploiting the marketing rights to these internationally renowned sporting events but also the sale of European TV rights for the first time.

The highlight in the football area was the UEFA Champions League final, which took place at the spectacular "Auf Schalke" arena at the end of May. The organizational activities in connection with this match, the live broadcast of which attracted an audience of roughly 6 million in Germany alone, has set high standards for the future. On the one hand, over 4,300 guests of the TV partners and sponsors received first-class attention in six different hospitality areas. On the other hand, there was enormous media interest, with 140 radio and TV commentators backed up by some 1,000 production assistants ensuring top-class global coverage of the event. In addition, there were a total of 450 journalists and 170 photographers representing the printed media.

Major media presence at the “Auf Schalke” arena

Perfect video and audio coverage thanks to the latest transmission technology

A further key aspect of TEAM’s operative activities concerned the organization of the UEFA Cup final in Göteborg and the marketing of and organizational support for the U-21 European Championship, which took place from the end of May until the beginning of June in Germany. In keeping with tradition, the 2004/05 season was opened with the UEFA Super Cup in Monaco. At the end of August, UEFA Champions League victor FC Porto played against UEFA Cup holder Valencia CF. However, the framework program for this event attracted the greatest attention, with the top European players receiving the coveted “UEFA European Football Awards” at a gala held on the eve of the match. In addition, lots were drawn for the UEFA Champions League groups for the current season and the parties for the first UEFA Cup round.

First-time marketing of the Eurovision Song Contest

The Eurovision Song Contest, which was marketed by TEAM in 2004 for the first time, proved to be a full success. More than 7,000 people flooded to the arena in Istanbul, where the final was held on May 15. The event was broadcast live in 51 countries, achieving extraordinarily high TV ratings. In Germany alone, an average of 11.1 million viewers watched the show, i.e. the highest number in six years. In the main target group aged between 14 and 49 years, a record market share of just on 56 %, peaking at 71 %, was registered. Even better ratings were recorded in countries such as Greece (75.5 %) and Belgium (71.4 %).

This strong viewer response was doubtless attributable to two factors: For one thing, the contest rules had been altered. To give all contestants a chance of taking part, a semifinal was held before the actual contest. Here, artists from 22 countries vied for one of the top ten positions qualifying them for participation in the final. The second change which had a far greater impact, however, was the introduction of a new voting system. Thus, viewers from all participating countries were able to select their favorites by means of televoting (telephone or text-messaging).

This initially involved overcoming logistic and technical challenges. However, TEAM was able to find in diagame.de, a subsidiary of Deutsche Telekom, a very competent partner for designing and implementing the voting system relatively quickly. The upshot of these joint efforts was the largest ever televoting platform, allowing millions of calls and text messages from the 36 participating countries to be handled simultaneously. This particularly involved speed and reliability as TV viewers only had a window of ten minutes for lodging their votes after the final song had been presented. Roughly 4.3 million calls were received during this relatively short period, during which scores were registered for each country at a substantially faster rate than in the previous year.

Not surprisingly, the organizers of the contest, the European Broadcasting Union (EBU), were highly satisfied with the results achieved. In this connection, the Eurovision Song Contest logo developed by TEAM to reflect the redesigned format also met with strong approval. It integrates the national flag of the country in which the contest is held in an appealing style and thus seeks to generate long-term brand identity. The logo has been featured on the official Eurovision Song Contest website since 2004 and is being used very successfully in connection with merchandising activities (DVDs, T-shirts, etc.).

A TV tradition for almost 50 years: The Eurovision Song Contest

More than 7,000 excited spectators at the Istanbul arena

Focus on 2005 Song Contest and sale of TV rights for the UEFA Champions League

Preparations for this year's contest, which will be taking place for the 50th time, are already in full swing. In fact, the event promises to break new records: It will be taking place at the Sports Palace in Kiev, which seats some 7,000 people, who will be able to experience the event close up. In addition, 39 countries – three more than last year – have registered. The semifinal, in which 25 countries will be taking part this time, is scheduled for May 19, with the final to be broadcast in the prime time on the following Saturday (May 21) in keeping with tradition.

A further focus of TEAM's activities this year concerns the sale of the commercial rights to the UEFA Champions League for the 2006/07 to 2008/09 seasons. As in the past, efforts will primarily concentrate on selling the TV rights. As the proceeds from the sale of these rights constitute the most important source of income for the competition, the timing of the sale in the individual markets plays a crucial role. In accordance with the agreement between UEFA and the EU Commission, the TV rights will be offered in different packages which may be acquired independently of each other. As well as this, a comprehensive bidding process will ensure that all interested broadcasters are able to submit an offer.

From the qualifying round straight to the top: The Ukrainian singer Ruslana won the Eurovision Song Contest in Istanbul.

TEAM also landed a success with the marketing of the Eurovision Song Contest. The high viewer ratings and strong participation in televoting right across Europe exceeded the expectations of the European Broadcasting Union (EBU).

Corporate governance

Introduction

The Highlight Group welcomes the corporate governance rules as they heighten transparency for shareholders. As a Swiss company, Highlight Communications AG largely follows the rules issued by SWX Swiss Exchange. The following corporate governance disclosures are confined to details which are of material importance for market participants. The following information given on the Company's organization and structure was correct as of the time of going to press.

1. Group structure

1.1. Operative group structure

Highlight Communications AG and its group companies make up the Highlight Group, hereinafter referred to as the "Highlight Group".

1.2. Listed companies

1.2.1. Highlight Communications AG

Highlight Communications AG has its registered offices in Pfäffikon/SZ, Switzerland and has been listed on the Frankfurt stock exchange since May 11, 1999. It is included in the SDAX index (ISIN: CH 000 653 9198, German WKN number: 920 299, ticker: HLG). Market capitalization on December 31, 2004 stood at EUR 172 million.

1.2.2. Constantin Film AG

Highlight Communications AG holds a majority stake in Constantin Film AG, Munich, Germany. This company has been listed on the Frankfurt stock exchange since September 30, 1999. The stock is included in the CDAX index (ISIN: DE 000 580 0809, German WKN number: 580 080, ticker: CFA). Highlight Communications AG held 57.98 % of Constantin Film AG's capital on December 31, 2004. The market capitalization of Constantin Film AG on December 31, 2004 stood at EUR 108 million.

With a share of 57.98 % in Constantin Film AG's issued capital, Highlight Communications AG is the largest shareholder. Mr. Bernd Eichinger, the company's founder, holds a further 25.07 % of the company's issued capital. The balance is held by various institutional investors, funds and private investors.

Highlight Communications AG entered into a shareholder agreement with Bernd Eichinger concerning Constantin Film AG on June 5, 2003.

1.3. Non-listed subsidiaries

1.3.1. Non-listed subsidiaries of Highlight Communications AG

The following non-listed companies are included in Highlight Communications AG's consolidated financial statements as at December 31, 2004:

Subsidiary	Issued capital		Size of share
Highlight Communications (Deutschland) GmbH Munich, Germany	EUR	256,000	100%
Rainbow Home Entertainment GmbH Vienna, Austria	EUR	363,364	100%
Rainbow Video AG* Pratteln, Switzerland	CHF	200,000	100%
Team Holding AG Lucerne, Switzerland	CHF	200,000	80%
Team Football Marketing AG Lucerne, Switzerland	CHF	6,340,000	76.2%
T.E.A.M. Television Event And Media Marketing AG Lucerne, Switzerland	CHF	200,000	80%

** Rainbow Video AG was renamed Rainbow Home Entertainment AG on February 4, 2005.*

1.3.2. Non-listed subsidiaries of Constantin Film AG

Please refer to Constantin Film AG's annual report for details of its subsidiaries and equity interests.

1.4. Principal shareholders

As far as the Company is aware, four natural persons and institutional investor groups hold blocks of shares in excess of 5%. The largest shareholders are Bernhard Burgener with 7.4%, Andreas Fallscheer with 6.2%, René Camenzind with 5.3% and Schroder Investment Management Ltd. with 5.01%. The rest is held by various institutional investors and funds as well as private investors. The Board of Directors is aware of no other material shareholdings (over 5.0%).

As stated in the ad-hoc bulletin dated June 24, 2002, Highlight Communications AG maintains an active stock buy-back program. Depending on market conditions, stock of up to a maximum of 10% of the Company's issued capital as stipulated by Swiss law is bought back.

In the year under review, a total of 3,041,445 shares were bought back and 2,785,000 sold to institutional and private investors. The maximum volume of treasury stock came to 3.29% of the Company's issued capital. On December 31, 2004, treasury stock comprised 787,646 shares, equivalent to 1.67% of the Company's issued capital.

This figure is regularly updated on Highlight Communications AG's website at www.highlight-communications.ch.

1.5. Cross shareholdings

There are no cross shareholdings.

2. Capital structure

2.1. Capital

Highlight Communications AG's issued capital equals CHF 47,250,000 and is divided into 47,250,000 bearer shares with a nominal value of CHF 1 each. All shares issued are paid up in full.

2.2. Authorized capital

At the Annual General Meeting held on May 30, 2000, the shareholders established authorized share capital of CHF 12,750,000 and empowered the Board of Directors to execute a capital increase by issuing 12,750,000 bearer shares at CHF 1 each by May 30, 2002. At the Annual General Meeting held on May 24, 2002, this period was renewed by a further two years until May 30, 2004.

At the Annual General Meeting held on June 8, 2004, a resolution was passed to extend the period for the issue of up to 12,750,000 fully paid-up bearer shares with a nominal value of CHF 1 each by a further two years until June 8, 2006.

No use has been made of the authorized capital to date.

2.3. Changes in capital – changes in nominal value

On June 3, 2003, the shareholders passed a resolution at the Annual General Meeting to change the nominal value of the share from CHF 10 to CHF 1. As a result, the shares themselves and not fractional rights are traded. This conversion took effect on August 7, 2003. Aside from this share split, there has been no change in the Company's share capital in the past three years.

2.4. Shares, participating and profit-sharing rights

There are no preferential, participating or profit-sharing rights.

2.5. Restrictions on the transferability of shares and registration of nominees

There are no restrictions on the transferability of shares. The bylaws of Highlight Communications AG do not provide for any percentage clauses or conditions for shareholder registration; no nominees are registered.

3. Board of Directors

The duties of the Board of Directors are primarily governed by the Swiss law of obligations, the Company's bylaws and the code of conduct adopted by the Board of Directors.

3.1. Members of the Board of Directors

The Board of Directors currently comprises the following members:

Bernhard Burgener, President and Delegate (member since 1994)
Swiss national, businessman, entrepreneur;
CEO of Highlight Communications AG, executive member.

René Camenzind (member since 2004)
Swiss national, businessman, entrepreneur, non-executive member;
no material business relations are maintained with the Highlight Group.

Martin Hellstern (member since 2004)
Swiss national, businessman, entrepreneur, non-executive member;
no material business relations are maintained with the Highlight Group.

Thomas Klooz (member since 2004)
Swiss national, attorney;
Deputy CEO of TEAM, executive member.

Dr. Ingo Mantzke (member since 1999)
German national, MBA;
Chief Investor Relations Officer, executive member.

Martin Wagner, Vice-President (member since 2000)
Swiss national, attorney;
Head of Legal Affairs & Compliance, executive member.

3.2. Further (corporate) activities and interests

Bernhard Burgener	*Supervisory Board of Constantin Film AG, Munich, Germany* *President of the Board of Directors of Team Holding AG, Lucerne, Switzerland* *Board of Directors of Team Football Marketing AG, Lucerne, Switzerland* *Board of Directors of T.E.A.M. Television Event And Media Marketing AG, Lucerne, Switzerland* *President of the Board of Directors of Rainbow Home Entertainment AG, Pratteln, Switzerland* *Managing director of Rainbow Home Entertainment GmbH, Vienna, Austria* *Board of Directors of Escor Casino & Entertainment SA, Düdingen, Switzerland* *President of the Board of Directors of Lechner Marmor SA, Laas, Italy*
René Camenzind	*President of the Board of Directors of Mythen Center AG, Schwyz, Switzerland*
Martin Hellstern	*Board of Directors of KITAG AG, Zurich, Switzerland* *Board of Directors of Teleclub AG, Zurich, Switzerland* *Board of Directors of CineStar SA, Lugano, Switzerland* *Board of Directors of Praesens Film AG, Zurich, Switzerland* *Board of Directors of AVO Auto- und Metallverwertung Ostschweiz AG, Schwarzenbach, Switzerland* *Board of Directors of Atlantis Investment AG, Wil, Switzerland* *Board of Directors of M.H. Movie Consulting AG, Zurich, Switzerland* *President of Swiss Cinema Association, Berne, Switzerland*
Thomas Klooz	*Board of Directors and Secretary of Team Holding AG, Lucerne, Switzerland* *Board of Directors and Secretary of Team Football Marketing AG, Lucerne, Switzerland* *Board of Directors and Secretary of T.E.A.M. Television Event And Media Marketing AG, Lucerne, Switzerland*
Dr. Ingo Mantzke	*Chairman of the Supervisory Board of CornerstoneCapital AG, Frankfurt, Germany*
Martin Wagner	*Supervisory Board of Constantin Film AG, Munich, Germany* *Board of Directors of Rainbow Home Entertainment AG, Pratteln, Switzerland* *Board of Directors of Escor Casino & Entertainment SA, Düdingen, Switzerland* *President of the Board of Directors of Jean Frey AG, Zurich, Switzerland* *Board of Directors of the Birkhäuser Group*

3.3. Cross shareholdings

There are no cross shareholdings.

3.4. Election and tenure

The Board of Directors comprises at least three members who are generally elected at the ordinary shareholders' meeting for the period of one year. Re-election is possible at all times.

3.5. Internal organization

3.5.1. Constituent meeting and allocation of duties

The Board of Directors is responsible for supervising, monitoring and overseeing management activities. It is the Company's highest body and is self-constituting. It comprises the President, Vice-President and the Secretary. It issues its own code of conduct, which was last revised on April 2, 2004.

The President of the Board of Directors, Bernhard Burgener, is responsible for the Company's management and is thus the Board of Directors' Delegate. Martin Wagner is Vice-President and in charge of legal affairs and compliance for the entire Group.

3.5.2. Meetings of the Board of Directors

The Board of Directors meets at least once a quarter. Resolutions are passed with an absolute majority of the votes present. In the year under review, the Board of Directors was convened a total of six times.

3.5.3. Committees

At its meeting held on June 8, 2004, the Board of Directors passed a resolution to establish an audit committee comprising the Directors Bernhard Burgener (chairman), Martin Wagner (legal affairs & compliance) and Dr. Ingo Mantzke (financial expert).

3.6. Allocation of duties

The allocation of duties on the Board of Directors is governed in the code of conduct dated April 2, 2004.

3.7. Management information and supervision instruments

The Highlight Group's management information system comprises the following elements: The financial statements for the individual subsidiaries (income statement, balance sheet and cash flow statement) are prepared on a quarterly basis. These figures are collated and consolidated per segment and for the Group as a whole. In this connection, they are compared with the figures for the previous year and the budget. The Chief Financial Officer informs the Board of Directors of the Company's business performance and trends in the relevant business indicators. External controlling instruments are provided by the auditors.

4. Management

The following disclosures were correct as of April 19, 2005.

4.1. Members of management

4.1.1. Corporate

Bernhard Burgener, President and Delegate of the Board of Directors

Swiss national, responsible for Group strategy, established Rainbow Video AG, Pratteln in 1983. Shareholder since 1994, Delegate of the Board of Directors until 1999, President of the Board of Directors since 1999, President and Delegate (CEO) of the Board of Directors since 2004.

Martin Wagner, Vice-President of the Board of Directors, Head of Legal Affairs & Compliance

Swiss national, responsible for all the Group's legal affairs, partner and business attorney in an international law firm in Basel, advises various listed companies in Switzerland and abroad.

Dr. Ingo Mantzke, member of the Board of Directors

German national, responsible for investor relations at the Highlight Group, previously CFO and Director of Deutsche Börse Group, a member of the Highlight Group's Board of Directors since February 1999.

Antonio Arrigoni, Managing Director, Chief Financial Officer

Swiss national, Swiss-certified accountant, previously auditor at KPMG in Zurich and Miami/FL, with the Highlight Group since June 2004.

Peter von Büren, Managing Director, Head of IT and Human Resources

Swiss national, businessman, many years of management experience at the Highlight Group, a member of the management of Rainbow Video AG since 1994.

Dr. Paul Graf, Managing Director, Secretary-general of the Board of Directors

Swiss national, businessman, previously Managing Director of electronics at Ciba Specialty Chemicals, with the Highlight Group since July 2000 and a member of the Supervisory Board of Constantin Film AG since August 2004.

4.1.2. TEAM (Sports and Event Marketing division)

On January 27, 2004, the Highlight Group signed an agreement to retain the management and supervisory services of Klaus Jörgen Hempel and Jürgen Lenz within the Highlight Group until June 30, 2009. On February 1, 2004, Richard Worth assumed the position of CEO and replaced Klaus Jörgen Hempel and Jürgen Lenz, who, however, will be retaining their functions as Directors of the TEAM Group companies until June 30, 2009 and will be responsible for business strategy.

Klaus Jörgen Hempel, President and Delegate of the Board of Directors of TEAM

German national, MBA, many years of experience at Unilever and Adidas, from 1981 until 1991 President and CEO of ISL Marketing AG in Lucerne, 1991 establishment of TEAM with Jürgen Lenz.

Jürgen Lenz, President and Delegate of the Board of Directors of TEAM

German national, MBA, many years of experience at McCann-Erickson and Adidas, from 1981 until 1991 Executive Vice-President and COO of ISL Marketing AG in Lucerne, 1991 establishment of TEAM with Klaus Jörgen Hempel.

Richard Worth, CEO of TEAM

UK national, degree in economics at Brighton, England, activities with ITV, particularly as executive producer for sports, with TEAM since 1995, initially in charge of TV operations and then COO.

Thomas Klooz, member of the Board of Directors, Deputy CEO of TEAM

Swiss national, attorney, from 1985 until 1992 legal advisor and Vice-President at ISL Marketing AG, then attorney in Zurich, later counsel for business & legal affairs and Managing Director at TEAM.

4.1.3. Home Entertainment (Home Entertainment division)

Franz Woodtli, Managing Director home entertainment

Swiss national, businessman, with Rainbow Video AG since 1985, Managing Director in charge of video/DVD since 1999, many years of management experience within the Highlight Group and a member of the Management Board of Constantin Film AG since 2004.

Rolf Lanz, Managing Director Joe's Multimedia

Swiss national, businessman, member of management of Joe's Multimedia since 1992, many years of management experience within the Highlight Group, with the Company since 1983.

4.1.4. Constantin Film (Film division)

The Management Board is the top executive body of Constantin Film AG. It comprises Fred Kogel, Thomas Peter Friedl, Martin Moszkowicz, Franz Woodtli and Hanns Beese. Please refer to Constantin Film AG's annual report for further information and details.

4.2. Further corporate activities and interests

None.

4.3. Management contracts

There are no management contracts with third parties.

5. Compensation, equity interests and loans

The Board of Directors oversees the compensation paid to members of the management bodies. The Delegate of the Board of Directors determines the amount of compensation paid to the members of the management, who in term determine the compensation payable in the individual operative units.

Please refer to Constantin Film AG's annual report for information on its compensation and remuneration policies.

5.1. Compensation for the Board of Directors

Of the six Directors, four are executive Directors. In the year under review, total compensation including fees, expenses and dissolution settlements came to CHF 5.394 million (previous year: CHF 7.995 million) and was paid to seven people.

5.2. Allocation of shares in the year under review

In the year under review, no shares were allocated to the Board of Directors or management.

5.3. Share holdings

As at December 31, 2004, the Directors held the following shares in the Company:

	Number of shares	Share in capital
Bernhard Burgener	3,500,000	7.41
René Camenzind (Estate of Reinhold Camenzind)	2,502,550	5.30
Martin Hellstern (M.H. Movie Consulting AG)	2,300,000	4.87
Dr. Ingo Mantzke	81,010	0.17
Martin Wagner	37,500	0.08
Thomas Klooz	25,000	0.05

5.4. Options

There are currently no option programs.

5.5. Additional fees and compensation

None.

5.6. Loans to Directors

In the period under review, no loans were granted to any Directors.

5.7. Maximum total compensation

The Director with the highest total compensation in the year under review received a sum of CHF 1.8 million.

6. Shareholders' rights

6.1. Restrictions on voting rights, voting by proxy

6.1.1. All restrictions on voting rights

There are no restrictions on voting rights. At the Annual General Meeting, there is one vote per share held. All shareholders may vote by proxy at the Annual General Meeting.

6.1.2. Statutory rules on participation in the Annual General Meeting

The provisions of the Swiss law of obligations apply.

6.2. Statutory quorum

The statutory provisions apply.

6.3. Procedure for convening the Annual General Meeting

The provisions of the Swiss law of obligations apply.

6.4. Agenda

The provisions of the Swiss law of obligations apply.

6.5. Registration in the share book

The shares issued by Highlight Communications AG are bearer shares and are therefore not registered.

7. Change of control and defense measures

7.1. Duty to bid

A party acquiring shares in the Company is not required to lodge a public bid pursuant to Articles 32 and 52 of the Federal Act on Stock Exchanges and Stock Trading.

7.2. Change-of-control clauses

The shares in TEAM Holding AG are encumbered by a call option in favor of UEFA. This call option may be exercised if a person or group acquires Highlight shares accounting for more than 50 % of the voting rights. The option price comprises the inherent value of the shares on the date on which the option is exercised plus projected earnings until the expiry of the agency agreement with the UEFA regarding the UEFA Champoins League.

8. Auditing

8.1. Duration of auditing mandate

The office of auditor for Highlight Communications AG is held for a period of one year subject to a resolution passed by the shareholders. PricewaterhouseCoopers AG in Lucerne (PWC) audited our annual financial statements for the year ending December 31, 2001 for the first time. The head auditor is Mr. Urs Renggli.

8.2. Auditing fee

A sum of CHF 250,000 was paid to PricewaterhouseCoopers for auditing services in fiscal 2004. Additional fees of CHF 95,000 were invoiced by PricewaterhouseCoopers for assistance with and the preparation of tax projects concerning the Parent Company and the Group.

9. Information policy

As a listed company and a member of the Prime Standard, the Highlight Group is subject to the strict stock-market rules issued by Deutsche Börse AG. This includes compulsory quarterly reporting, the issue of an annual report as well as the publication of ad-hoc bulletins.

These documents are distributed via defined channels and issued on demand. In addition, the website at www.highlight-communications.ch is kept continuously updated and includes all key information and references to media reports.

Publications are available from the IR department, which will also accept requests for inclusion in the distribution list. This is also possible via the Company's website.

Consolidated financial statements

for the year ended December 31, 2004 of Highlight Communications AG, Pfäffikon

Consolidated balance sheet for the year ended December 31, 2004

Highlight Communications AG, Pfäffikon

ASSETS (CHF 000s)	Note	Dec. 31, 2004	Dec. 31, 2003
Fixed assets			
Long-term receivables	17	213	433
Tangible fixed assets	12	3,899	8,767
Film assets			
– Own productions	13	177,348	209,899
– Third-party productions	13	50,619	55,689
Securities	19	455	455
Goodwill	14	24,233	28,056
Other intangible assets	15	279	354
Deferred taxes	21	29,233	40,383
		286,279	**344,036**
Current assets			
Inventories	16	20,523	24,935
Short-term receivables	17	65,069	72,196
Securities	19	29,065	36,338
Cash and cash equivalents	18	171,600	131,243
		286,257	**264,712**
Total assets		**572,536**	**608,748**

The Notes on pages 54–83 constitute an integral part of the consolidated financial statements.

LIABILITIES (CHF 000s)	Note	Dec. 31, 2004	Dec. 31, 2003
Equity capital			
Share capital	20	47,250	47,250
Capital reserves		60,161	61,262
Own shares		–787	–531
Accumulated other equity		–300	0
Retained earnings/accumulated deficit		16,909	–1,211
Currency translation differences		1,730	1,862
		124,963	**108,632**
Minority interests		**55,786**	**53,045**
Long-term liabilities			
Loans	23	8,462	8,678
Deferred taxes	21	11,319	17,037
Provisions	24/25	700	0
		20,481	**25,715**
Current liabilities			
Trade payables and other liabilities	22	94,709	98,259
Liabilities subject to interest	23	115,655	151,331
Advance payments received		148,961	160,862
Tax liabilities		6,883	9,170
Provisions	24	5,098	1,734
		371,306	**421,356**
Total liabilities		**572,536**	**608,748**

The Notes on pages 54–83 constitute an integral part of the consolidated financial statements.

Consolidated income statement for 2004

Highlight Communications AG, Pfäffikon

(CHF 000s)	Note	2004	2003
Revenues			
Sales		116,955	106,421
License income		190,484	65,577
Service income		184,695	99,893
Subsidies		26,074	11,013
		518,208	**282,904**
Other income	4	4,987	9,819
		523,195	**292,723**
License expense	13	142,755	90,097
Merchandise and production expense		245,695	103,269
Personnel expense	5	51,482	41,805
Advertising		5,779	4,736
Depreciation/amortization	6	6,137	12,059
Various operating expenses		29,532	24,090
		481,380	**276,056**
Earnings from operating activities		**41,815**	**16,667**
Financial expense	7	-697	-1,212
Currency gains/losses		5,023	-2,417
Earnings from shares in associated companies	11	232	-635
Earnings before taxes		**46,373**	**12,403**
Taxes	8	-16,225	1,303
Net earnings after taxes		**30,148**	**13,706**
Minority interests		-12,028	-3,424
Net consolidated earnings		**18,120**	**10,282**

(CHF)	Note	2004	2003
Undiluted earnings per share	9	0.39	0.22
Diluted earnings per share	9	0.39	0.22

The Notes on pages 54-83 constitute an integral part of the consolidated financial statements.

Statement of changes in equity for fiscal 2004

Highlight Communications AG, Pfäffikon

(CHF 000s)	Share capital	Capital reserves	Own shares	Accumulated other equity*	Accumulated deficit/ retained earnings	Currency translation differences	Total
Balance as at December 31, 2002	**47,250**	**59,606**	**–1,033**	**0**	**–11,493**	**–399**	**93,931**
Currency translation differences						2,502	2,502
Buy-back of own shares		–11,224	–4,993				–16,217
Sale of own shares		12,880	5,495				18,375
Other changes							0
Net consolidated earnings					10,282	–241	10,041
Balance as at December 31, 2003	**47,250**	**61,262**	**–531**	**0**	**–1,211**	**1,862**	**108,632**
Currency translation differences						–128	–128
Buy-back of own shares		–12,544	–3,041				–15,585
Sale of own shares		11,443	2,785				14,228
Other changes				–300			–300
Net consolidated earnings					18,120	–4	18,116
Balance as at December 31, 2004	**47,250**	**60,161**	**–787**	**–300**	**16,909**	**1,730**	**124,963**

** The amount reflects the fair value of the outstanding cash flow hedges after tax.*

The Notes on pages 54–83 constitute an integral part of the consolidated financial statements.

Consolidated cash flow statement for 2004

Highlight Communications AG, Pfäffikon

(CHF 000s)	Note	2004	2003
Inflow of funds from operating activities			
Net consolidated earnings		18,120	10,282
Minority interests in net earnings		12,028	3,424
Reversal of negative goodwill	14	0	–4,255
Depreciation of tangible fixed assets	6	2,245	2,626
Depreciation of license rights	13	142,094	90,067
Amortization of goodwill	6	3,712	8,984
Amortization of other intangible assets	6	180	449
Market-value changes in securities	19	195	190
Non-charged issue and buy-back of own shares		2	19
Changes in accruals on licenses	13	26	–5,181
Changes in accruals/tax liabilities		1,835	–3,563
Changes in deferred taxes	8	5,579	–7,291
Net earnings from associated companies after tax	11	–232	635
Net earnings from the sale of equity interests		459	0
Gains from disposal of tangible fixed assets	12	82	–58
Net earnings from disposal of other intangible assets		0	59
Cash flow from operating activities before changes in net current assets		**186,325**	**96,387**
Changes in net current operating assets			
Inventories		4,313	–5,238
Receivables		6,319	–7,933
Liabilities		–3,823	14,508
Advance payments received		–10,553	35,057
Cash flow from operating activities		**182,581**	**132,781**

The Notes on pages 54–83 constitute an integral part of the consolidated financial statements.

(CHF 000s)	Note	2004	2003
Investment and dis-investment activities			
Acquisition of film assets	13	-106,749	-154,788
Acquisition of tangible assets	12	-1,865	-847
Acquisition of other intangible assets	15	-203	-260
Acquisition of financial assets	19	-21,110	-20,301
Sale of financial assets	19	28,183	300
Changes in loans		227	0
Sale of equity interests (not consolidated)	11	232	0
Increase in equity interests		-76	0
Acquisition of equity interests excluding cash and cash equivalents acquired (change in consolidation perimeter)		0	102,093
Sale of equity interests excluding cash and cash equivalents sold (change in consolidation perimeter)		-88	0
Sale of tangible fixed assets		4,199	224
Sale of other intangible assets		15	0
Cash flow from investing activities		**-97,235**	**-73,579**
Financing activities			
Payment of dividends (minority interests)		-7,970	-8,515
Purchase/sale of own shares		-1,359	2,139
Repayment/granting of other loans		-136	-64
Repayment/acceptance of bank debts		-34,431	22,294
Cash flow from financing activities		**-43,896**	**15,854**
Currency translation differences		-1,093	385
Net inflow of funds		**40,357**	**75,441**
Cash and cash equivalents at beginning of year		**131,243**	**55,802**
Cash and cash equivalents at end of year		**171,600**	**131,243**

Additional cash flow disclosures			
Interest paid		2,358	2,034
Tax paid		11,954	12,404
Interest received		901	747
Tax reimbursements received		0	361

The Notes on pages 54–83 constitute an integral part of the consolidated financial statements.

Notes to the consolidated financial statements 2004

Highlight Communications AG, Pfäffikon

1. General

Highlight Communications AG and its subsidiaries (hereinafter referred to as the "Highlight Group" or "Group") own and exploit film rights in various European countries and operate a chain of video rental stores in German-speaking Switzerland. Moreover, the Group is active in sports and event marketing, a field in which it markets the UEFA Champions League as its main project. The share in Constantin Film AG was increased step by step in fiscal 2003. Since July 1, 2003, Constantin Film AG has been fully consolidated (previously carried at equity). Together with its subsidiaries and equity interests, Constantin Film AG is a leading German producer and distributor of cinema, video/DVD and TV films. Constantin Film AG's directly held foreign subsidiaries are involved in international proprietary productions. In addition to own and co-productions, Constantin Film AG also acquires the exploitation rights to third-party productions. As well as this, Constantin and its subsidiaries produce fictional and non-fictional products for TV stations. The Highlight Group is primarily active in the German-speaking region and employed 425 people as at December 31, 2004 (previous year: 540).

The Group parent company is Highlight Communications AG, a joint stock corporation domiciled in Pfäffikon, Switzerland. The Company has registered offices in:

Churerstrasse 168
CH-8808 Pfäffikon
Switzerland

2. Accounting principles

Basis for the preparation of the financial statements

The financial statements have been prepared in keeping with the International Financial Reporting Standards (IFRS) as promulgated by the International Accounting Standards Board (IASB) as well as the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). The accounts are based on historical costs with the exception of listed securities which are carried at their market value, as well as other financial instruments (see separate comments on financial instruments) which are recognized at their fair values as well as film assets which are recognized in accordance with the strict sector rules provided for in US-GAAP (SOP 00/2). No material IFRS principles of relevance to the Highlight Group were modified or applied for the first time in fiscal 2004 or in the previous year.

The new standards (IFRS 1 to 5) as well as the existing standards in the revised form ("improvement projects") have not been applied prematurely.

Consolidation

The Group financial statements include the financial statements of Highlight Communications AG as well as those of all Group companies in which Highlight Communications AG directly or indirectly holds more than 50 percent of the voting rights. Revenues, expenses and income as well as receivables and liabilities between the individual consolidated companies were eliminated. Interim profits or losses from internal deliveries not realized by sales to third parties were eliminated. The individual annual financial statements have been adjusted where they deviate from Group accounting principles.

Please refer to Note 27 (Acquisition/sale of equity interests) and Note 28 (List of consolidated companies) for details of changes to the consolidation perimeter.

Associated companies, in which Highlight Communications AG holds between 20 and 50 percent of the voting rights, are carried at their pro-rated equity value (equity method) provided that it is intended for these interests to be retained over a long term. On the basis of this method, the companies' pro-rated earnings are recorded as a change in the book value of the holding after they are acquired. Any other changes to the equity of the company in question are reported under the Group's equity. Any translation-rate differences arising from the pro-rated equity are charged to equity as a translation-rate difference and not reported in the income statement.

The consolidated annual financial statements were approved by the Board of Directors on April 19, 2005 and released for publication.

Film assets

Film assets are recognized on the face of the Highlight Group's consolidated balance sheet in accordance with strict US-GAAP rules. Highlight Communications AG applied SOP 00/2 for the first time in fiscal 2003, while Constantin Film AG has been using it since 2001. Highlight Communications AG has particularly opted to apply this new system in order to establish a uniform group-wide accounting and recognition method and to provide interested parties with more readily understandable data comparable with that of other media companies. As IFRS does not provide for any specific rules for the film sector, a decision was made to adopt the specific US-GAAP rules for the film industry.

Film assets include acquired rights to third-party productions (i.e. films produced outside the Group) as well as the production costs of films produced within the Group (own and co-productions) and the cost of developing new projects. Third-party productions normally encompass cinema, video/DVD and TV rights. Own productions also include pseudo-commissioned productions exploited by the Group.

Genuine commissioned productions which have not been completed or delivered to the customer as of the balance sheet date and have hence not generated any revenues are carried as "Inventories". They are carried at their cost of production.

As a matter of principle, the acquisition costs for third-party productions include minimum guarantees. They are capitalized in full upon the delivery of the material.

Own productions are carried at cost. This does not include the release costs, which are expensed when incurred. Release costs include the costs arising from the exploitation of the film, e.g. including press and marketing costs. The production costs for film copies etc. are deferred and expensed when the related cinema revenues are received. Directly attributable financing costs are capitalized.

Film rights (both third-party and own productions) are written down using the "individual film forecast method", according to which the depreciation for a film in a given period is calculated on the basis of the quotient of the revenues achieved from the film during the period divided by the estimated remaining total income of the film multiplied by its residual book value. The revenues used as a basis for calculating the depreciation charges include all income generated by the film. In the case of video revenues, the video costs are eliminated from the external revenues used as a basis for calculating the depreciation charge. For films carried as film assets and not classed as "library products", the maximum period for which revenues are estimated is ten years as of the date of primary exploitation.

The estimate of the total revenues is reviewed at the end of each quarter and, if necessary, adjusted. The quotient for the depreciation charge for the period is determined on the basis of any (adjusted) total revenues. An impairment test is performed for each film. If the acquisition costs or book value plus any related release costs for a film are not covered by the estimated total revenues, the value of the film in question is written down on the basis of the impairment test. Estimated revenues can be significantly influenced by a number of factors including market acceptance and likely advertising revenue from the film. The Highlight Group examines and revises revenue forecasts and depreciation expenses upon any changes to previous forecasts occurring.

Capital costs for the development of new projects (particularly rights to scripts) are regularly reviewed to determine whether they can still be used as a basis for film productions. If, three years after the costs of a project have been capitalized for the first time, there is still no commencement date scheduled for the production or the sale of the rights, the costs are written off in full.

Goodwill/badwill

The assets and liabilities of newly-acquired Group member companies are valued at the estimated market value on the date of acquisition. The difference arising between the purchase price and the newly-valued net assets of a newly-acquired company (all sums in foreign currencies are translated into Swiss francs at the rate applicable on the date of acquisition) comprises the goodwill/badwill. Goodwill is written down on a straight-line basis over its expected useful life, provided that it does not exceed 15 years. If there is any evidence to suggest an impairment in value, an impairment test is conducted and appropriate non-scheduled charges determined.

Goodwill from the acquisition of associated companies is reported together with the book value of the shares in associated companies. The amount carried on the books is subjected to an impairment test each year and a provision made for any sustained impairment. Negative goodwill (badwill) is released to the income statement in an amount equaling the expected losses and expenses on acquisition. Any remaining negative goodwill is released over the expected useful life of the non-monetary assets acquired.

Other intangible assets

These comprise software and related licenses. Intangible assets acquired are carried at cost. Software and licenses are written down on a straight-line basis over their expected useful lives of three years. Where necessary, non-scheduled charges are also taken into account.

Currency translation

The balance sheet figures of the consolidated foreign companies are converted to Swiss francs and reported at end-of-year exchange rates in the balance sheet and at average annual exchange rates in the income statement. Any resultant currency translation differences are normally taken directly to equity capital under the caption “Currency translation differences” and are not recognized in the income statement. If the foreign companies are non-independent sub-units, the translation-rate differences are charged to the income statement.

Transactions denominated in foreign currencies are translated at the exchange rates of the day. Currency translation differences arising from the settlement of such business transactions are taken to the income statement.

Currency translations within the Group were based essentially on the following exchange rates:

	Year-end rates		Average rates for year	
	2004	2003	2004	2003
Euro (EUR)	1.5433	1.5577	1.5441	1.5208
US dollar (USD)	1.1313	1.2351	1.2429	1.3463
Canadian dollar (CAD)	0.9400	0.9570	0.9551	0.9606
Pound sterling (GBP)	2.1830	2.2020	2.2788	2.1984

Financial instruments

The financial instruments in the balance sheet include cash and bank balances, short-term securities, non-consolidated equity interests, long-term receivables, trade receivables and trade payables, as well as third-party debt. Financial instruments are recorded in the books at the date of transaction. Financial instruments are categorized as follows depending on their purpose: loans and receivables, assets held for trading, being held-to-maturity and available-for-sale financial assets. Investments held for the purpose of deriving short-term gains from changes in value are categorized as assets held for trading. If the Group intends to hold assets until maturity and is able to do so, such assets are classified as held-to-maturity assets. On the other hand, assets held for an indefinite period are classified as available-for-sale financial assets. Reference should be made to the principles relating to the individual items for details of allocation and measurement.

Financial liabilities are carried at amortized cost except those held for trading purposes as well as derivative financial instruments.

As a matter of principle, the Group uses derivative financial instruments solely to hedge currency and interest risks. According to IAS 39, all derivative financial instruments, such as foreign exchange future transactions, must be recognized and measured at their fair value regardless of the purpose or intention followed in concluding them. Changes in the fair value of derivative financial instruments to which hedge accounting is applied, are shown under equity capital as part of accumulated other equity provided that only cash flow hedges are involved. The purpose of cash flow hedges is to reduce possible fluctuations in future cash flows from firm commitments or forecast transactions. The fair values included in accumulated other equity are reclassified at the same time as the hedged transaction is recorded. Any part of the change in fair value not covered by the hedged instrument is taken directly to the income statement. If the conditions for hedge accounting are not met, derivative financial instruments are shown at their fair values and taken in full to the income statement as part of the production costs.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, postcheque and bank balances, cheques as well as time deposits with a remaining term of up to three months.

Securities

Securities held as current assets and non-current assets are carried at their market value. Adjustments for changes in market value have been taken to the income statement. Securities are classified as available-for-sale financial assets. Securities held as non-current assets are intended to be held over an extended period of time.

Trade receivables/long-term receivables

Short-term receivables are shown at their nominal value.

Receivables with a term of more than one year are carried as long-term receivables. If the receivables do not attract any interest, they are discounted to their present value and the relevant sales reduced by the same amount.

The necessary value adjustments have been made for doubtful receivables.

Inventories

Inventories are shown at the lower of purchase or production cost and net market value. Purchase cost is determined by the first-in first-out method (FIFO). The net market value is the estimated revenue to be achieved from a sale minus the estimated necessary selling costs. Genuine commissioned productions which have not been completed or delivered to the customer as of the balance-sheet date and have hence not generated any revenues are carried as “Unfinished commissioned productions” within “Inventories”. They are carried at their cost of production.

Equity interests (not consolidated)

Non-consolidated equity interests are carried as available-for-sale financial assets. If there is an active market for such interests or market values can be determined in some other way, they are shown at their market value. If the market value cannot be reliably calculated, they are shown at actual cost less any necessary value impairment adjustments.

Value adjustments and write-downs are recorded in the income statement.

Tangible fixed assets

Tangible fixed assets are valued at cost less depreciation necessary for business purposes.

These assets are written down on a straight-line basis over their estimated useful lives. The following life spans (in years) are assumed:

Office equipment (including IT)	3 – 13
Motor vehicles	2 – 5
Fixtures	12
Buildings	27.5

If the book value of a tangible fixed asset is higher than its estimated remaining useful value, then the book value is adjusted by means of extraordinary depreciation to the estimated realizable value. If the reasons for the non-scheduled charge no longer exist, the value is replenished.

Gains and losses from the disposal of assets are taken to the income statement at an amount equaling the difference between the proceeds of sale and the book value.

Repairs and maintenance costs which do not enhance the value of the asset in question are charged directly to the income statement.

Accruals

Accruals are set aside if the Group has an existing legal or factual obligation towards a third party due to a past event, an outflow of resources is probable to meet the obligation and it is possible to reliably estimate the amount of the obligation.

Advance payments received

As a basic rule, revenues are recognized on the date on which the license commences or on which the licensee is able to exploit the film rights. If payments are received from licensees prior to the realization dates or if licenses are invoiced prior to this date, they are initially classified as advance payments received.

Provisions for employee benefits

The Highlight Group has various post-retirement benefit plans in Switzerland and other countries. The most important post-retirement benefit plans are in Switzerland. Virtually all employees in Switzerland are members of a benefit plan based on the Swiss defined-contribution system which exceeds the minimum requirements specified by Swiss law. Contributions are paid by the individual companies and employees. The employees' contributions are defined as a percentage of their assessable annual salary and deducted on a monthly basis. The amounts deducted from salaries to cover the post-retirement benefits vary according to age. The post-retirement benefits are calculated on the basis of the last assessable salary. The benefits cover old-age pensions, invalidity benefits, benefits in the event of death and benefits for surviving dependants.

Pursuant to IFRS, these pension plans are fundamentally subject to the rules for defined-benefit plans. The value of essential contracts which are subject to the rules for defined-benefit plans pursuant to IFRS was measured on December 31, 2004 using the accrued benefit valuation method. Details of this valuation method are set out in Note 25 (Pension provisions).

There are no pension plans in Germany.

Revenue recognition

Group revenues are derived from services rendered and sales invoiced to third parties excluding value-added tax and minus sales returns.

In the case of cinema films, revenues are recognized as of the cinema launch of the film. In line with standard practice in the industry, the film rental based on the number of visitors reported by the cinema operator to the distributor is recognized as the distribution component of the total cinema grossings. Film rentals are calculated on the basis of a percentage of the box office takings.

In video/DVD wholesale operations, revenues are recognized upon delivery and invoicing.

Revenues arising from licenses for video/DVD and TV (pay/free) rights are recognized as of the date on which the license takes effect, generally 6 – 32 months after the commencement of movie exploitation. With this form of exploitation of film rights, revenues are realized upon the expiry of the contractual holdback period. Accordingly, they are realized as of the date on which the applicable license becomes available.

Revenues from contract productions are recognized upon the material being delivered to the customer. The percentage-of-completion method is not applied to contract productions.

With respect to global distribution, the Group generally receives a minimum guarantee for the exploitation rights sold (cinema, video/DVD, TV rights). This is allocated to the various revenue types, with revenues recognized upon the commencement of the exploitation license in question. Revenues are allocated on the basis of historical figures in accordance with corporate planning at the following general rates for cinema, video/DVD and TV rights: 25% to video rights, 15% to video/DVD rights and 60% to TV rights. If the date on which the license commences is close to the balance sheet date, the general rates are periodized. In the case of territories not subject to holdback restrictions, revenues are recognized on the cinema release date.

Revenues from global distribution sales without any minimum guarantee are recognized upon the royalty settlements being received from the licensees.

Income from subsidies and public-sector contingently repayable film funding loans is recognized as revenue upon these being granted, provided that this is no earlier than the date on which cinema exploitation commences. As soon as repayment of the loan becomes likely, the effect of the expected repayment is charged to the income statement.

Interest

With the exception of borrowing costs directly attributable to film assets, interest is recognized as income or expense, as the case may be, on the date on which it is incurred.

Taxes and deferred taxes

All taxes relating to the consolidated financial statements for the year under review are charged to the income statement as expenses and deferred in the balance sheet.

Allowance is taken in the balance sheet for deferred taxes resulting from differences between any tax base values and book values. Deferred tax assets from tax-loss carry-forwards are reported if the taxable income which can be used to offset the tax-loss carry-forwards is likely to be available. Deferred tax assets and liabilities are calculated using the tax rates expected to apply in the years in which these timing differences are reversed or settled on the basis of the currently prevailing tax laws. The effect of changes in tax rates on deferred tax assets and liabilities is taken to the income statement in the period in which the legislation is passed or in the period for which a legislative amendment already passed is to apply. Tax liabilities in relation to non-recoverable withholding taxes on future dividend distributions by subsidiaries are only carried if the intention is indeed to make a distribution.

3. Segment information

The Group now comprises three divisions - “Film”, “Home Entertainment” and “Sports and Event Marketing”. In the previous year, it comprised two sectors – “Film” and “Sport”. The previous year’s figures have been restated to allow for the new segmentation.

The Film sector handles the production, exploitation and distribution of films and film rights for related products in the theater and TV areas.

The operating business of the Home Entertainment sector comprises the wholesale and retail distribution of video and DVD.

Operations in the Sports and Event Marketing sector consist of the activities of Team Holding AG, in which Highlight Communications AG has held an 80% stake since July 1, 1999. The TEAM Group is, among other things, exclusively responsible on a world-wide basis for marketing the UEFA Champions League.

The central holding-company management activities are shown separately in the segmentation. These primarily comprise management, IT and investor-relations costs which cannot be broken down by segment. Assets are primarily made up of cash and securities holdings. Liabilities mostly relate to bank liabilities.

If direct allocation to the Film and Home Entertainment sectors is not possible, amounts are assigned on the basis of historical figures in accordance with corporate planning at the following general rates for cinema, video/DVD and TV rights: 25% to cinema rights, 15% to video/DVD rights and 60% to TV rights. This is primarily applied to film assets, film investments and depreciation charges on licenses.

Controlling for these segments is undertaken centrally.

The primary segment information is set out on the following page.

Primary segment reporting – business segments

(CHF 000s)	Film 2004	Film 2003	Home Entertainment 2004	Home Entertainment 2003	Sports & Event Marketing 2004	Sports & Event Marketing 2003	Consolidated 2004	Consolidated 2003
Income								
Income with third parties	378,068	140,541	88,744	79,213	51,396	63,150		
	378,068	**140,541**	**88,744**	**79,213**	**51,396**	**63,150**	**518,208**	**282,904**
Results								
Segment results	18,959	-7,980	6,512	1,402	22,746	27,777	48,217	21,199
Results from shares in associated companies	232	-635	0	0	0	0	232	-635
Central holding-company costs							-6,402	-4,532
Net financial/currency translation results							4,326	-3,629
Group earnings before taxes							**46,373**	**12,403**
Income taxes							-16,225	1,303
Minority interests							-12,028	-3,424
Group profit							**18,120**	**10,282**
Segment assets	312,184	374,642	54,275	59,336	4,957	6,734	371,416	440,712
Holding-company assets							201,120	168,036
							572,536	**608,748**
Segment liabilities	249,783	270,895	6,310	6,965	17,416	17,880	273,509	295,740
Holding-company liabilities							118,278	151,331
							391,787	**447,071**
– Investments in tangible fixed assets	812	416	356	197	697	234	1,865	847
Holding-company investments							0	0
							1,865	**847**
– Investments in film rights	90,766	131,570	15,983	23,218	0	0	106,749	154,788
– Investments in intangible fixed assets	203	6,039	0	0	0	0	203	6,039
Holding-company investments							0	0
							106,952	**160,827**
Depreciation/amortization								
– Tangible fixed assets	970	702	542	1,174	733	750	2,245	2,626
Holding-company depreciation/amortization							0	0
							2,245	**2,626**
– Licenses								
Ordinary amortization	133,823	82,355	5,210	2,386	0	0		
Extraordinary amortization/value adjustment	3,061	5,326	0	0	0	0		
	136,884	**87,681**	**5,210**	**2,386**	**0**	**0**	**142,094**	**90,067**
– Others								
Scheduled amortization	2,645	1,715	246	474	0	5,635		
Non-scheduled amortization	1,001	1,609	0	0	0	0		
	3,646	**3,324**	**246**	**474**	**0**	**5,635**	**3,892**	**9,433**
Holding-company depreciation/amortization							0	0
							3,892	**9,433**

Other depreciation and amortization include goodwill amortization of TCHF 3,712 and amortization of other intangible assets of TCHF 180.

Segment assets cover all operational assets used by the segment in question and essentially cover receivables, inventories of goods and tangible fixed assets minus discounts and value adjustments as well as intangible assets. Segment liabilities comprise all liabilities from operations and mainly cover short-term trade payables, personnel-related liabilities and taxes.

Secondary segment reporting - geographic segments

The following table shows the breakdown of consolidated sales across geographical markets irrespective of the country of manufacture. A large portion of the revenues generated in the Film sector in other countries are for recipients in the German-speaking region.

(CHF 000s)	2004	2003
Switzerland	88,546	98,384
Other countries	429,662	184,520
	518,208	**282,904**

The following table sets out the book values of segment assets and capital spending on tangible and intangible assets according to the geographic location of the assets:

	Book value of segment assets		Investments in tangible and intangible fixed assets	
(CHF 000s)	Dec. 31, 2004	Dec. 31, 2003	2004	2003
Switzerland	88,790	107,042	1,150	9,687
Other countries	483,746	501,706	107,667	151,987
	572,536	**608,748**	**108,817**	**161,674**

The Group is predominantly active in the German-speaking countries Germany, Switzerland and Austria. The activities of the individual segments are described above.

4. Other income

(CHF 000s)	2004	2003
Reversal of liabilities/accruals	1,627	3,463
Reversal of negative goodwill	0	4,255
Others	3,360	2,101
Total	**4,987**	**9,819**

“Others” includes income from the sale of tangible fixed assets, advertising tie-ins, proceeds from collection activities, insurance compensation, dispatch costs charged onwards etc.

5. Personnel expense

(CHF 000s)	2004	2003
Wages and salaries	43,247	35,105
Social contributions	5,102	4,004
Pension plan expenses	2,318	1,519
Various staff costs	815	1,177
Total	**51,482**	**41,805**

Number of employees at end of year:		
Switzerland	159	243
Germany	240	275
Austria	18	15
Others	8	7
	425	**540**

Actual expense on fixed-benefit pension plans differs from that carried. The value of essential contracts which are subject to the rules for defined-benefit plans pursuant to IFRS was measured on a dynamic basis on January 1, 2004 using the accrued benefit valuation method and rolled over to December 31, 2004. Details of this valuation are set out in Note 25 (Pension provisions).

In connection with the comparison of personnel expenses with the year-end head count, it should be noted that the Constantin Group was not consolidated in full until July 1, 2003.

6. Depreciation/amortization

(CHF 000s)	2004	2003
of tangible fixed assets *(see Note 12)*	2,245	2,626
of goodwill *(see Note 14)*		
– ordinary	2,711	7,375
– extraordinary	1,001	1,609
	3,712	8,984
of other intangible fixed assets (*see Note 15)*	180	449
	6,137	**12,059**

Details of the individual depreciation items are set out in the notes relating to the corresponding asset.

7. Financial results

(CHF 000s)	2004	2003
Interest expense		
– on short-term bank liabilities	–2,338	–1,977
– less capitalized borrowing costs	885	608
	–1,453	**–1,369**
Various forms of interest and expense	–230	–579
Securities costs	–517	–1,010
	–2,200	**–2,958**
Interest income		
– from fixed-term deposits and bank accounts	696	419
– from bonds	189	237
Miscellaneous interest	12	27
Dividends	284	243
Income from securities	322	820
	1,503	**1,746**
Total net financial expense	**–697**	**–1,212**

Interest is shown net in some cases on account of interest pooling arrangements. See also explanations in Note 23 (Liabilities subject to interest).

Securities expense primarily relates to unrealized capital losses as a result of the change in the market value of various shares. Securities income primarily comprises non-realized gains. The securities are available for sale.

Fixed-term deposits were made in CHF, EUR and CAD. Investments generated the following average interest rates:

in CHF	0.30%	in EUR	1.50%
in CAD	6.00%		

8. Taxes

Income taxes relate to Highlight Communications AG as the parent company as well as the consolidated subsidiaries. Tax expense or income for 2004 and 2003 is set out in the following table:

(CHF 000s)	2004	2003
Income tax expense	–10,646	–5,972
Pro-rated tax from associated companies	0	–16
Deferred tax charges/releases	–5,579	7,291
Tax charges/releases as per income statement	**–16,225**	**1,303**

Deferred tax charges of TCHF 5,579 arise from adjustments to deferred tax assets and liabilities as a result of temporary differences as well as the deferred tax asset arising from tax-loss carry-forwards.

Expected tax expense is calculated by multiplying the applied notional Group tax rate (expected average tax charge for the Group) with the pre-tax earnings of each individual Group company. This expected tax expense differs from effective tax expense as follows:

(CHF 000s)	2004	2003
Earnings before tax	46,373	12,403
Consolidated tax at notional rate of 20%	-9,275	-2,481
Unrecorded tax losses	-780	-963
Applied/applicable tax losses	35	319
Revaluation of loss carry-forwards*	-1,354	0
Non-deductible expenses added back	-361	-1,963
Income not subject to tax	383	1,855
Restructuring contributions added back	0	-558
Tax refunds, reversals of provisions and expenses for earlier years	-495	83
Difference between notional consolidated tax rate and local tax rates	-4,378	5,027
	-16,225	**1,319**
Prorated tax from associated companies	0	-16
Tax charges/releases as per income statement	**-16,225**	**1,303**

** Loss carry-forwards have been revalued on account of the re-assessment of the netting of tax-loss carry-forwards.*

9. Earnings per share

Undiluted earnings per share are calculated by dividing the consolidated earnings for the year available for distribution to the shareholders by the weighted number of bearer shares outstanding during the period under review.

	2004	2003
Group earnings attributable to shareholders (in CHF 000s)	18,120	10,282
Weighted average number of shares	46,708,012	47,091,199
Undiluted earnings per share in CHF	0.39	0.22
Undiluted earnings per share in EUR	0.25	0.14
Diluted earnings per share in CHF	0.39	0.22
Diluted earnings per share in EUR	0.25	0.14

10. Dividends per share

The proposed dividends are not recorded in the books until the annual financial statements have been approved by the Annual General Meeting. No dividend was paid for fiscal 2003. The Annual General Meeting is responsible for approving a dividend for fiscal 2004.

11. Shares in associated companies

In the first quarter of the year under review, the share in Hahn Film AG was sold to the majority shareholder. The share was consolidated at equity until the share was sold. The share was carried at a book value of CHF 0. The proceeds from the sale came to TCHF 232.

12. Tangible fixed assets

(CHF 000s)	Operating and EDP equipment	Vehicles	Properties/buildings	Total
Acquisition costs:				
January 1, 2004	15,965	2,017	3,778	21,760
Currency translation differences	-32	-2	4	-30
Changes to consolidation perimeter	-142	0	0	-142
Additions	1,463	402	0	1,865
Disposals	-7,024	-330	-3,782	-11,136
December 31, 2004	**10,230**	**2,087**	**0**	**12,317**
Depreciation:				
January 1, 2004	-12,125	-903	35	-12,993
Currency translation differences	2	0	-37	-35
Depreciation for the year	-1,835	-410	0	-2,245
Disposals	6,593	260	2	6,855
December 31, 2004	**-7,365**	**-1,053**	**0**	**-8,418**
Net book values at January 1, 2004	**3,840**	**1,114**	**3,813**	**8,767**
Net book values at December 31, 2004	**2,865**	**1,034**	**0**	**3,899**

The decline in tangible fixed assets is primarily due to the sale of an item of real estate in Los Angeles as well as the sale of operating equipment for branches of the video rental store chain.

A profit of TCHF 640 and a loss of TCHF 722 was generated from the sale of tangible fixed assets in the course of the financial year.

Fire insurance values (CHF 000s)	Dec. 31, 2004	Dec. 31, 2003
Operating and EDP equipment	8,420	7,516

13. Film assets

(CHF 000s)	Third-party productions	Own productions	Total
Acquisition costs:			
January 1, 2004	339,837	256,486	596,323
Currency translation differences	–595	–2,408	–3,003
Additions	30,382	76,367	106,749
Disposals	–11,323	–5,642	–16,965
December 31, 2004	**358,301**	**324,803**	**683,104**
Ordinary depreciation:			
January 1, 2004	–179,946	–43,058	–223,004
Currency translation differences	194	450	644
Additions	–34,428	–104,605	–139,033
Disposals	10,727	5,642	16,369
December 31, 2004	**–203,453**	**–141,571**	**–345,024**
Extraordinary depreciation (remeasurement/impairment charges):			
January 1, 2004	–104,202	–3,529	–107,731
Currency translation differences	50	34	84
Additions	–672	–2,389	–3,061
Disposals	595	0	595
December 31, 2004	**–104,229**	**–5,884**	**–110,113**
Net book values at January 1, 2004	**55,689**	**209,899**	**265,588**
Net book values at December 31, 2004	**50,619**	**177,348**	**227,967**

The license expense shown in the income statement also reflects the changes in license accruals. These accruals take into account the expense components for license rights which have been exploited or written down but not yet paid for. The license expense in the income statement breaks down as follows:

(CHF 000s)	2004	2003
Amortization of licenses (ordinary)	139,033	84,741
Reversal of impairment charges	0	–3,359
Depreciation (as a result of remeasurement/impairment charges)	3,061	8,685
	3,061	**5,326**
Changes in accruals for licenses	26	–5,181
Various license expenses/overages	635	5,211
License expense as per income statement	**142,755**	**90,097**

The extraordinary charge of TCHF 3,061 is for films which have not yet been exploited as of the balance sheet date and for which an impairment test revealed the need for an appropriate write-down in their carrying value in the light of expected future net earnings.

Direct borrowing costs of TCHF 885 (previous year: TCHF 608) were capitalized in fiscal year 2004.

The Group obtains access to future film rights by concluding license contracts. Film purchasing and production preparations lead to future financial commitments valued at around CHF 23 million (previous year: CHF 34 million).

14. Goodwill

(CHF 000s)	2004	2003
Acquisition values:		
January 1	198,422	175,124
Currency translation differences	–133	229
Changes to consolidation perimeter	0	7,919
Reclassification of goodwill	0	15,515
Reclassification of negative goodwill	0	–3,989
Additions to goodwill	0	5,779
Disposals of goodwill	–2,829	0
Additions to negative goodwill	0	–2,155
December 31	**195,460**	**198,422**
Ordinary amortization:		
January 1	–44,813	–42,348
Currency translation differences	45	–71
Reclassification of goodwill	0	–1,163
Reclassification of negative goodwill	0	1,889
Ordinary amortization for year	–2,711	–7,375
Disposals of goodwill	408	0
Reversal of negative goodwill	0	4,255
December 31	**–47,071**	**–44,813**
Extraordinary amortization:		
January 1	–125,553	–123,944
Currency translation differences	–23	0
Extraordinary amortization for year	–1,001	–1,609
Disposals of goodwill	2,421	0
December 31	**–124,156**	**–125,553**
Net book values at January 1	**28,056**	**8,832**
Net book values at December 31	**24,233**	**28,056**

The extraordinary amortization in the year 2004 is primarily related to the goodwill impairment test on INNOVUM Smart Products GmbH. The gross disposal also relates to INNOVUM Smart Products GmbH. The movements in the previous year primarily relate to the partial acquisition of Constantin Film AG.

15. Other intangible assets

(CHF 000s)	EDP software	Concessions, industrial rights	Total
Acquisition costs:			
January 1, 2004	628	186	814
Currency translation differences	–7	–3	–10
Changes to consolidation perimeter	–49	–28	–77
Additions	110	93	203
Disposals	–12	–3	–15
December 31, 2004	**670**	**245**	**915**
Amortization:			
January 1, 2004	–446	–14	–460
Currency translation differences	4	0	4
Amortization for the year	–38	–142	–180
Disposals	0	0	0
December 31, 2004	**–480**	**–156**	**–636**
Net book values at January 1, 2004	**182**	**172**	**354**
Net book values at December 31, 2004	**190**	**89**	**279**

16. Inventories

(CHF 000s)	Dec. 31, 2004	Dec. 31, 2003
Video cassettes/DVD – Retail	349	2,634
Video cassettes/DVD – Wholesale	1,483	2,568
CDs	0	18
Games/CD-Rom	0	218
Unfinished contract productions	18,860	19,647
Others	0	8
	20,692	**25,093**
Impairment provisions	–169	–158
Total	**20,523**	**24,935**

Used cassettes and DVDs for hire and sale are already carried at the lower market prices.
The decline in video cassettes/DVDs is due to restructuring of the video rental store chain and the related reduction in the number of branches.

17. Receivables (short- and long-term)

(CHF 000s)	Dec. 31, 2004	Dec. 31, 2003
Short-term		
Trade receivables		
– due from third parties	51,806	59,548
less impairment provisions	–8,165	–8,200
	43,641	**51,348**
Short-term loans to third parties	1,361	352
Subsidization receivables	7,590	10,707
Prepaid expenses	1,578	2,202
Other receivables		
– due from third parties	10,899	7.587
Total short-term receivables	**65,069**	**72,196**
Long-term		
Long-term loans to third parties	213	433
Total long-term receivables	**213**	**433**
Total	**65,282**	**72,629**

Subsidization receivables relate to subsidization loans and reference funds which had been agreed as of the balance sheet date but not yet paid but to which the Group is entitled.

Other receivables due from third parties primarily comprise receivables due from the tax authorities (excluding income tax), current account balances and deposits paid. Other receivables also include the deferral of the positive market value of derivative financial instruments.

18. Cash and cash equivalents

(CHF 000s)	Dec. 31, 2004	Dec. 31, 2003
Cash holdings	225	259
Postal giro balances	88	53
Bank balances	142,296	121,217
Call money	19,991	9,506
Term deposits up to 90 days	9,000	208
Total	**171,600**	**131,243**

See Note 7 for details of interest rates.

19. Securities

(CHF 000s)	Current assets 2004	Current assets 2003	Fixed assets 2004	Fixed assets 2003
Securities at beginning of year				
Book value January 1	36,338	16,525	455	0
Changes to consolidation perimeter	0	0	0	450
Additions	20,962	20,000	148	301
Disposals	–28,039	0	–144	–300
Losses/gains				
– unrealized	–195	–190	0	0
– realized	0	0	0	0
Currency translation differences	–1	3	–4	4
Securities at end of year				
Book value at December 31	**29,065**	**36,338**	**455**	**455**

The year-end portfolio of securities held as current assets include shares of listed companies valued at TCHF 6,057, non-listed securities of TCHF 46 and bonds/deposits for a fixed term of over 90 days of TCHF 22,962. The book values are equivalent to the market values on the balance sheet date. Term deposits of TCHF 8,461 are required to repay liabilities arising from film productions.

The year-end portfolio of securities held as non-current assets comprise non-listed securities valued at TCHF 455 which are used as collateral for bank liabilities.

20. Share capital

	Bearer shares Number of shares	Bearer shares TCHF
December 31, 2002	4,725,000	47,250
Capital increases	0	0
December 31, 2003*	47,250,000	47,250
Capital increases	0	0
December 31, 2004	**47,250,000**	**47,250**

** Share split, see details below*

On May 24, 2002, the Annual General Meeting extended the period for the authorized share capital of CHF 12,750,000 established on May 30, 2000, and accordingly empowered the Board of Directors to effect a capital increase by issuing 12,750,000 (originally 1,275,000) bearer shares at CHF 1 (originally CHF 10) each by May 30, 2004. No such capital increase has been implemented by that date.

On June 8, 2004, the Annual General Meeting established authorized share capital of CHF 12,750,000 and empowered the Board of Directors to effect a capital increase by issuing 12,750,000 bearer shares at CHF 1 each within a period of two years. A partial increase is permitted. No such capital increase has been implemented todate.

On June 3, 2003, the shareholders passed a resolution at the Annual General Meeting to change the nominal value of the share from CHF 10 to CHF 1. As a result, the shares themselves and not fractional rights are traded. Consequently, the number of shares increased from 4,725,000 to 47,250,000.

As at December 31, 2004, the authorized share capital comprised 60,000,000 bearer shares with a nominal value of CHF 1 each (December 31, 2003: 60,000,000 bearer shares with a nominal value of CHF 1 each). All shares outstanding are paid up in full.

In 2004, a total of 3,041,445 shares were bought at an average price of CHF 5.12 per share, resulting in a total of TCHF 15,585. 2,785,000 shares were sold at an average price of CHF 5.11 for a total sum of TCHF 14,228. The Group derived a gain from these transactions. Pursuant to IFRS, treasury stock and the results of transactions are recognized within equity. In addition, 735 of the Company's own shares were taken back from staff as a result of employment-contract terminations and 1,050 ceded. At the balance sheet date, the Company's treasury stock comprised 787,646 (December 31, 2003: 531,516) shares.

21. Deferred taxes

Temporary differences:

(CHF 000s)	Dec. 31, 2004	Dec. 31, 2003
Lower depreciation for tax purposes on tangible fixed assets	79	84
Capitalization of tax-loss carry-forwards	21,963	18,851
Valuation adjustments		
– Advance payments received	52,861	63,914
– Film assets	–46,114	–41,464
– Others	444	–1,002
Deferred tax assets	**29,233**	**40,383**

(in TCHF)	31.12.2004	31.12.2003
Valuation adjustments		
– Film assets	11,197	16,915
– Others	122	122
Deferred tax liabilities	**11,319**	**17,037**

The valuation adjustments are primarily due to differences between the tax accounts and the consolidated financial statements with respect to the recognition of income and depreciation charges taken on film assets.

The deferred tax assets and liabilities arising in the individual consolidated companies are netted.

In addition to capitalized tax credits, the Group also has deferred tax assets from tax-loss carry-forwards not carried on the balance sheet. These are not recognized due to the uncertainty as to whether sufficient taxable income will be generated as well as the absence of Group taxation. The tax-loss carry-forwards of CHF 132.9 million (2003: CHF 164.9 million) expire between 2005 and 2011. As of December 31, 2004, these tax-loss carry-forwards include tax losses from Germany of around CHF 1.6 million (2003: CHF 1.8 million) which may be carried forward free of any restrictions.

22. Trade payables and other liabilities

(CHF 000s)	Dec. 31, 2004	Dec. 31, 2003
Trade payables	43,983	44,785
Liabilities to shareholders and related parties	303	96
Other liabilities	21,033	8,201
License liabilities	4,021	5,878
Deferred income and accruals	25,369	39,299
Total	**94,709**	**98,259**

Other liabilities also include the deferral of the negative market value of derivative financial instruments.

23. Liabilities subject to interest

(CHF 000s)		Maturity	Dec. 31, 2004	Dec. 31, 2003
Short-term				
	Current account bank liabilities		103,617	74,394
	Bank loan (short-term portion)	2005	12,038	76,937
			115,655	**151,331**
Long-term				
	Loan	2007	8,462	8,678
			8,462	**8,678**

Interest pooling arrangements have been established for Constantin Film AG's current account bank liabilities.

As of the balance sheet date, the long-term loan is subject to an interest rate of 6%. Interest pooling arrangements also apply with respect to a bank credit balance.

The following table sets out the credit facilities available to the Group as of the balance sheet date. These have partially been utilized with the banks in question.

(CHF 000s)	Dec. 31, 2004
Syndicate loan, production financing	113,130
Credit facilities	28,000
License trading and working capital	35,496

24. Provisions

(CHF 000s)	Jan. 1, 2004	Changes to consolidation perimeter	Currency translation differences	Consumption	Reversal	Additions	Dec. 31, 2004
Short-term provisions							
Provisions for litigation risks	1,734	0	–18	0	0	3,382	5,098
Long-term provisions							
Pension provisions	0	0	0	0	0	700	700

Litigation risks relate to license disputes. The increase is due to the risks estimated.

Details of the pension provisions are set out in Note 25 (Pension provisions).

25. Pension provisions

The Highlight Group maintains various pension plans for its employees in Switzerland based on the Swiss defined-contribution system. Pursuant to IFRS, these pension plans are fundamentally subject to the rules for defined-benefit plans. The value of the main contracts which are subject to the rules for defined-benefit plans pursuant to IFRS was measured on a dynamic basis for the first time on January 1, 2004 by qualified actuaries. The figures as of December 31, 2004 were rolled over in accordance with IAS 19. Actuarial reports will be sought for the main benefit plans in periodic intervals in the future.

The valuation of the defined-benefit plans is based on the following main assumptions:

Assumptions	December 31, 2004
Technical interest rate	3.75%
Long-term return on assets	4.00%
Wage developments	1.00%
Pension adjustments	0.50%

A comparison of the pension obligations calculated and the assets is set out in the following table:

(CHF 000s)	December 31, 2004
Pension obligations	12,601
Assets	12,022
Shortfall	579
Non-realized losses (–) / gains (+)	0
Non-realized assets	121
Pension provisions	**700**

The provisions required as at December 31, 2004 are charged to the income statement.

The pension benefit expense pursuant to IAS 19 breaks down as follows for 2004:

(in TCHF)	2004
Service cost	1,534
Interest rate	456
Expected return on assets	- 389
Once-only inclusion of shortfall from conversion of prior benefit plans	898
Restriction on account of Art. 58b	121
Employee contribution	–768
Pension benefit expense	**1,852**
Other benefit plans	466
Benefit plan expense	**2,318**

In addition, the TEAM Group maintains a support foundation for its management staff organized as a so-called savings fund. The foundation holds a share in the capital of Team Football Marketing AG. The dividend income is added to the savings deposits of the members of management. There were no contributions charged to the income statement.

26. Financial instruments

The carrying value of cash and cash equivalents, trade receivables, short-term bank liabilities and trade payables roughly corresponds to the market value reflecting the short maturities involved.

Risk of change in interest rates

The risk of change in interest rates primarily relates to the liabilities subject to interest. The Group currently does not utilize financial instruments to hedge the risk of change in interest rates.

Liquidity risks

The Group is primarily financed via short- and medium-term financial liabilities. However, it hedges its liquidity risks by means of long-term master funding agreements.

Exchange-rate risk

The Group engages in currency hedging transactions, which generally have a term of less than one year, in order to reduce its exposure to exchange-rate risks particularly with respect to the US dollar. Derivative financial instruments are arranged with banks. The financial instruments are related to future flows of payments in foreign currencies for film projects. The Group does not engage in or holds any derivative financial instruments for trading purposes. As a matter of principle, the Group ensures that the amount of the hedge does not exceed the value of the hedged item.

As of December 31, 2004 foreign-currency forwards were outstanding. The strict conditions for hedge accounting pursuant to IAS 39 in a cash flow hedge relationship were complied with. The hedges related to the purchase of rights as well as expected income from own international productions.

The nominal amount of all outstanding foreign-currency forwards equaled TCHF 17,023. The net market value before tax of these transactions equaled to TCHF 875. Of this, TCHF 93 comprised other receivables and TCHF 968 other liabilities. The market value after tax was TCHF 517. The market value was calculated on the basis of the exchange rate prevailing on the day on which the transaction was entered into and the rate on the balance sheet date. In accordance with IAS 39, changes in the market value were carried as part of accumulated other equity (Group share TCHF 300).

Payment default risks

The amount of financial assets carried on the balance sheet indicates the maximum default risk notwithstanding the provision of collateral in the event that counterparties fail to comply with their contractual duties of payment. With respect to all contractual relations underlying the financial instruments, exposure to payment default risks is minimized depending on the type and amount of the receivable by requesting collateral, obtaining credit information/references or using historical data from the previous business relations – particularly payment practices to avoid payment defaults.

If any payment default risks are discernible with individual receivables, these items are adjusted accordingly.

With respect to derivative financial instruments, the Group is additionally exposed to a credit risk arising from the failure of the contractual partner to perform its obligations. This credit risk is minimized by entering solely into transactions with partners with a first-class credit rating. For this reason, the general credit risk is not considered to be material. There is no evidence of any clustering of payment default risks arising from business relations with individual debtors or groups of debtors.

27. Acquisition/sale of equity interests (changes to consolidation perimeter)

INNOVUM Smart Products GmbH

As part of a management buyout, Constantin Film AG sold its 51% stake in INNOVUM Smart Products GmbH. As a result, INNOVUM was deconsolidated effective October 21, 2004. This transaction resulted in a loss including the prorated share of earnings of TCHF 2,024 in Constantin Film AG's consolidated financial statements. The disposal of net assets was valued at TCHF 539, including cash and cash equivalents of TCHF 88.

28. List of consolididated companies

	Activity	Country	Issued capital		Share in capital*	Voting rights of the respective parent company
Team Holding AG	*Sports marketing*	CH	CHF	200,000	80 %	80 %
– Team Football Marketing AG	*Exploitation of sports licenses*	CH	CHF	6,340,000	76.214 %	95.268 %
– T.E.A.M. Television Event And Media Marketing AG	*Marketing of sports and cultural events*	CH	CHF	200,000	80 %	100 %
Rainbow Video AG	*Distribution*	CH	CHF	200,000	100 %	100 %
Highlight Communications (Deutschland) GmbH	*Marketing*	GER	EUR	256,000	100 %	100 %
Constantin Film AG	*Film production and distribution*	GER	EUR	12,742,600	57.98 %	57.98 %
– Constantin Script & Development GmbH	*Acquisition and development of content*	GER	EUR	26,000	57.98 %	100 %
– Constantin Media GmbH audiovisuelle Produktionen	*Acquisition and development of content*	GER	EUR	26,000	57.98 %	100 %
– Constantin Film Produktion GmbH	*Film and TV production*	GER	EUR	105,100	57.98 %	100 %
– – Constantin Film Development Inc.	*Acquisition and development of content*	US	USD	530,000	57.98 %	100 %
– – – Constantin Productions Services Inc.	*International film production*	US	USD	50,000	57.98 %	100 %
– – Constantin Film (UK) Ltd.	*International film production*	UK	GBP	1,000	57.98 %	100 %
– Constantin Film International GmbH	*International film production*	GER	EUR	105,000	57.98 %	100 %
– – Constantin Pictures GmbH	*International film and TV production*	GER	EUR	25,000	57.98 %	100 %
– Constantin Entertainment GmbH	*TV entertainment and production*	GER	EUR	200,000	35.37 %	61 %
– Olga Film GmbH	*Film and TV production*	GER	EUR	603,000	29.57 %	51 %
– MOOVIE – the art of entertainment GmbH	*Film and TV production*	GER	EUR	104,000	29.57 %	51 %
– Rat Pack Filmproduktion GmbH	*Film and TV production*	GER	EUR	103,000	29.57 %	51 %
– Westside Filmproduktion GmbH	*Film and TV production*	GER	EUR	103,000	29.57 %	51 %
– Constantin Film Verleih GmbH	*License trading and cinema distribution*	GER	EUR	250,000	57.98 %	100 %
– Classic Media Werbeagentur GmbH	*Advertising and event marketing*	GER	EUR	105,000	57.98 %	100 %
– Constantin International B.V.	*License trading*	NL	EUR	18,151	57.98 %	100 %
– Constantin Music Verlags-GmbH	*Exploitation of music rights*	GER	EUR	70,000	57.98 %	100 %
– Constantin Propaganda GmbH	*License trading*	GER	EUR	100,000	57.98 %	100 %
– Constantin Inter@ctive GmbH	*Development and production of Internet content*	GER	EUR	100,000	57.98 %	100 %
Rainbow Home Entertainment GmbH	*Distribution*	A	EUR	363,364	100 %	100 %

** direct and/or indirect share held by the Group*

Highlight Film und Home Entertainment GmbH

The company was renamed Highlight Communications (Deutschland) GmbH in the 3rd quarter of fiscal year 2004.

Highlight Filmproduktion und Werbeagentur GmbH

This company merged with Highlight Communications (Deutschland) GmbH in the 3rd quarter of 2004.

Joe's Multimedia AG

This company merged with Rainbow Video AG with retroactive effect as of July 1, 2004.

Engram Pictures GmbH

This company merged with Constantin Film Produktion GmbH in the 3rd quarter 2004 with retroactive effect as of January 1, 2004.

Constantin Film Development Inc.

This company merged with Constantin Holdings Inc. in the 1st quarter of 2004. Following the merger, Constantin Holdings Inc. was renamed Constantin Film Development Inc.

The shares in TEAM Holding AG are encumbered by a call option in favor of UEFA. This call option may be exercised if a person or group acquires Highlight shares accounting for more than 50% of the voting rights. The option price comprises the inherent value of the shares on the date on which the option is exercised plus projected earnings until the expiry of the agency agreement with the UEFA regarding the UEFA Champions League.

Highlight Communications AG entered into an agreement with KJP Holding AG under the terms of which it undertakes to acquire the remaining 20% stake in Team Holding AG on July 1, 2005. Thereafter, Highlight Communications AG will hold all of Team Holding AG's capital as of July 1, 2005.

The following 10 subsidiaries (previous year: 8) are individually and collectively of subordinate importance for providing a fair view of the Group's assets, financial state and earnings. Accordingly, they are not consolidated by Highlight Communications AG:

	Country	Issued capital		Share in capital
Société Nouvelle Torii S.A.R.L.*	France	EUR	247,577	57.98 %
Laurentic Cement Garden Ltd.*	UK	GBP	1,000	57.98 %
Greenland Film Production A.B.*	Sweden	SKR	100,000	57.98 %
Smilla Film A.S.*	Denmark	DKR	500,000	57.98 %
She's French LLC**	US	USD	1,000	57.98 %
ProCon Pictures LLC**	US	USD	1,000	57.98 %
Impact Pictures LLC**	US	USD	1,000	29.57 %
Impact Pictures Ltd.***	UK	GBP	1,000	29.57 %
The Dark Film Ltd.****	UK	GBP	100	29.57 %
Sheep Ltd.****	UK	GBP	2,000	29.57 %

* *share held by Constantin Film Produktion GmbH, Germany*
** *share held by Constantin Pictures GmbH, Germany*
*** *share held by Impact Pictures LLC, United States*
**** *share held by Impact Pictures Ltd., UK*

These non-consolidated shares are carried at a book value of TCHF 0. The companies are currently inactive and not engaged in any operative business. The approximate market value equals the book value.

29. Staff participation program at Constantin Film AG

Constantin Film AG currently has the following staff participation programs providing for the issue of Constantin shares to staff. The grant of stock options has no effect on the balance sheet or the income statement.

1999 stock-option program:

The first stock-option program was established in connection with the stock-market flotation in 1999. The first stock-option program was discontinued in 2001 and no further options have been issued. In 2003, all options previously issued under the first stock-option program were waived.

2001 stock-option program:

In fiscal 2001, a second stock-option program was established, on the basis of which stock options have been granted to the staff of Constantin Film AG since fiscal 2001. The second stock-option program was discontinued in 2003 and no further options have been issued. The options granted pursuant to the second stock-option program in 2001 have a term of five years and grant staff the right to exercise one third of the option at a time two, three and four years after the grant. Accordingly, the options granted in 2001 will expire on August 27, 2006 at the latest.

The strike price for the 350,000 options issued in 2001 equals the average price of Constantin Film AG stock on the last ten trading days prior to the date of the grant, i.e. EUR 9.72 for August 27, 2001. No more options were granted in 2002.

The options granted authorize their holders to subscribe to a total of 350,000 shares, including 120,000 for the Management Board of Constantin Film AG. Exercise of the option is contingent upon the stock price of Constantin Film AG exceeding the vesting price by at least 15 percent on at least one day prior to the exercise of the options, i.e. at least EUR 11.18 for the options granted in 2001. Moreover, an option may only be exercised as long as the holder remains employed by the company and has not given or received notice of termination. Accordingly, the options held by staff leaving the company are forfeited in the year in question and are deducted from the total. Pursuant to the terms of the stock-option program, 101,600 option rights have been forfeited, meaning that 248,400 are still outstanding. Contingent capital of EUR 291,600 is available for the options granted under the 2001 stock-option program.

Option program 2001	Number in 2001	Number in 2002	Number in 2003	Number in 2004
Options granted	350,000	350,000	350,000	350,000
Options outstanding on Jan. 1	0	342,500	329,500	291,600
Additions in fiscal year	350,000	0	0	0
Options exercised	0	0	0	0
Options forfeited	-7,500	-13,000	-37,900	-43,200
Outstanding options at Dec. 31	**342,500**	**329,500**	**291,600**	**248,400**

	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2004
Strike price in EUR	9.72	9.72	9.72	9.72
Stock price in EUR	4.15	2.56	3.92	8.48
Residual term of options (years)	5	4	3	2
Exercisable options	0	0	0	0

2003 stock-option program:

In fiscal 2003, a third stock-option program was established. No options were granted under the 2003 stock-option program as of the end of fiscal 2004. The options granted pursuant to the third stock-option program in 2003 have a term of five years and grant staff of Constantin Film AG the right to exercise one third of the option at a time two, three and four years after the grant.

The options under the 2003 stock-option program grant their holders the right to subscribe for a total of 600,000 shares, including 200,000 for the Management Board of Constantin Film AG. Exercise of the option is contingent upon the stock price of Constantin Film AG exceeding the vesting price by at least 15 percent on at least one day prior to the exercise of the options. The vesting price is the average price of Constantin Film AG stock on the last ten trading days prior to the date of the grant. Moreover, an option may only be exercised as long as the holder remains employed by the company and has not given or received notice of termination. Contingent capital of EUR 600,000 is available for the options granted under the 2003 stock-option program.

30. Related party transactions

The following transactions were handled with related parties:

(CHF 000s)	Dec. 31, 2004	Dec. 31, 2003
Liabilities		
Directors	303	68
Related parties	0	28
	303	**96**

(CHF 000s)	2004	2003
Income		
Related parties	0	72
	0	**72**

Total compensation (including expenses) of TCHF 5,394 (previous year: TCHF 7,995) was paid to seven (previous year: nine) members of the Board of Directors of Highlight Communications AG, four of whom hold executive positions with Group companies. Of this amount, termination settlements accounted for TCHF 1,800.

The transactions with related parties complied with “arm’s length” principles.

31. Shareholdings of the Board of Directors

	Shares
Bernhard Burgener, President	3,500,000
Martin Wagner, Vice-President	37,500
René Camenzind, member (Estate of Reinhold Camenzind)	2,502,550
Martin Hellstern, member (M.H. Movie Consulting AG)	2,300,000
Thomas Klooz, member	25,000
Dr. Ingo Mantzke, member	81,010

Other shareholders with material shareholdings over 5%:
Andreas Fallscheer
Schroder Investment Management Ltd.

The Board of Directors is aware of no other material shareholdings (over 5%).

32. Contingent liabilities and obligations

As part of the restructuring and sale of individual video rental branches, rental guarantees of TCHF 1,352 were granted.

In addition, there is a rental guarantee for office space leased by Constantin Film AG of TCHF 208 (previous year: TCHF 208). In addition, guarantees totaling TCHF 3,945 (previous year: TCHF 5,583) have been issued to various TV broadcasters for contract productions.

Constantin Film AG guarantees various banks the repayment of license fees in an amount of GBP 49,442,000 in connection with finance for international film productions. The guarantees may be exercised if banks of an investment-grade rating with which sufficient funds for repayment have been deposited fail to disburse these funds.

Credit facilities (production revolvers and license trading facilities) are secured by the film rights carried as film assets and the resultant proceeds from exploitation.

The impact on the Group’s net assets, financial condition and results of operations as of 2006 cannot be estimated with any reliability as of this date.

33. Operating leases and rental agreements

The following minimum lease obligations were in force as of December 31:

(CHF 000s)	Dec. 31, 2004	Dec. 31, 2003
Up to 1 year	2,747	2,691
From 1 to 5 years	3,771	6,592
Over 5 years	0	0
Total	**6,518**	**9,283**

These obligations primarily comprise long-term leases for the operation of video stores of Rainbow Video AG and for offices on the part of the TEAM Group and the Constantin Group.

Leasing expenditure (including rentals) for the financial year amounted to TCHF 6,541 (previous year: TCHF 5,145).

34. Events after the balance sheet date

No events materially impacting the reliability of these consolidated annual financial statements for 2004 have occurred between December 31, 2004 and the date on which they were approved for publication.

Report of the Group auditors

to the General Meeting of Highlight Communications AG, Pfäffikon

As auditors of the Group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows, statement of changes in equity and notes) included on pages 48 to 83 of Highlight Communications AG for the year ended December 31, 2004.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Urs Renggli Josef Stadelmann

Lucerne, April 19, 2005

Calendar of events 2005

Film	
Berlinale	February 10 – 20
Academy Awards	February 27
Cannes Film Festival	May 11 – 22
Venice Film Festival	August 31 – September 10

Sports and Event Marketing	
UEFA Cup Final	May 18
Eurovision Song Contest, semifinal	May 19
Eurovision Song Contest, final	May 21
UEFA Champions League Final	May 25
UEFA Super Cup	August 26

Investor relations	
INVEST investor fair, Stuttgart	April 8 – 10
Annual General Meeting	June 3
Smart Equities Conference	November 15 – 16
Deutsches Eigenkapitalforum	November 21 – 23
Quarterly reports	May / August / November

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