Highlight

Annual Report 2005

Highlight Communications AG

Annual Report 2005

The Swiss Highlight Group is one of the largest media companies listed in the German stock exchange.

Highlight Communications AG, Pratteln, Switzerland

Film

- Film production
- Film license trading
- Theatrical distribution
- VHS/DVD exploitation
- TV production

Home Entertainment

- VHS/DVD sales and marketing
- VHS/DVD wholesale
- VHS/DVD distribution and retail

Sports & Event Marketing

- UEFA Champions League
- UEFA Super Cup
- UEFA Cup Final
- U-21 European Championship
- Eurovision Song Contest

As a media group with many years of experience, Highlight covers a bro
and TV productions as well as top-class DVD releases to premium footb
Eurovision Song Contest.

Highlight Communications AG, Pratteln, Switzerland

Film

65 %*

Constantin Film AG
Munich, Germany

Subsidiaries of
Constantin Film AG

* since January 19, 2006
over 90 %

Home Entertainment

100 %

Highlight Communications (Deutschland) GmbH
Munich, Germany

Rainbow Home Entertainment AG
Pratteln, Switzerland

Rainbow Home Entertainment GmbH
Vienna, Austria

Sports & Event Marketing

80 %

Team Holding AG
Lucerne, Switzerland

T.E.A.M. Television Event And Media Marketing AG
Lucerne, Switzerland

Team Football Marketing AG
Lucerne, Switzerland

oad range in the entertainment industry from top cinema movies
all in the UEFA Champions League and the unique European-wide

(in TCHF)		2005	2004
Income statement	Revenues	462,321	518,208
	Earnings from operating activities	43,004	41,815
	Earnings before taxes	43,621	46,373
	Net consolidated earnings (Highlight shareholders)	22,640	18,120
	Earnings per share (CHF)	0.49	0.39
Balance sheet	Total assets	734,009	572,536
	Film assets	303,434	227,967
	Cash and cash equivalents and securities	233,608	200,665
	Equity (Highlight shareholders)	95,456	124,963
	Liabilities subject to interest and loans	248,884	124,117
Cash flow statement	Cash flow before changes in net current assets	158,298	186,325
	Cash flow from operating activities	190,412	182,581
	Cash flow from investing activities	–200,362	–97,159
	Cash flow from financing activities	45,334	–43,972
	Net inflow of funds	36,349	40,357
Personnel	Headcount on December 31	388	425

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Preface

Dear shareholders and other interested parties,

Continuity, stability and resolve were the hallmarks of our business performance in fiscal 2005. Underlying conditions, particularly the slump in audience numbers in German and international cinemas, erosion in the price of new DVD releases and protracted general consumer restraint, were less than ideal. Yet, against this difficult backdrop, the Highlight Group achieved the best full-year figures to date in its history. As in the previous year, we easily exceeded our revenues and earnings forecasts.

Thanks to lean structures, which we additionally optimized in the year under review, e.g. by relocating our headquarters to Pratteln, we were able to boost earnings from operating activities to CHF 43.0 million, with the Highlight shareholders' return on equity coming in at almost 21 %, up from the previous year's figure of around 16 %. Earnings per share rose by more than 25 % to a current CHF 0.49.

Further extension in share of film and TV production business

We simplified the structure of the Highlight Group in 2005. Material minority interests were consolidated and the Group placed on a solid and broad footing. Back in June, our subsidiary Constantin Film acquired the remaining outstanding shares in Constantin Entertainment GmbH (CENT). Constantin Film thus gained full ownership of one of the leading TV production companies in the non-fiction and entertainment segment with economic effect as of January 1, 2005. Contracts with the management were renewed on a long-term basis to ensure business continuity.

On June 14, 2005, Highlight secured a call option on the 25.07 % stake held by Bernd Eichinger Holding GmbH & Co. KG. As you have since been able to read in the press, we exercised this option in mid January, meaning that we now hold more than 90 % of what for decades has been the most successful independent German film production and distribution company. At the same time, we signed a long-term production and consulting contract with top producer Bernd Eichinger. As a result, he will remain available to Constantin as a producer and consultant on an exclusive basis until March 31, 2009.

UEFA acquiring a stake in subsidiary TEAM

In the Sports and Event Marketing division, we acquired the remaining 20 % in Team Holding AG on July 1, 2005 as agreed and also tied the company's founders Klaus Jörgen Hempel and Jürgen Lenz to us on a long-term basis. To reinforce the business relations for the future, UEFA additionally acquired a 20 % stake in Team Holding AG. This transaction underpins the successful long-standing partnership between UEFA and our subsidiary Team Holding AG.

As a result, the agency contract for marketing the UEFA Champions League has been renewed until the 2011/12 season. On the strength of our subsidiary's convincing results in exploiting the rights to this event, UEFA has decided to assign TEAM with the marketing of the UEFA Cup as of the quarter final, too. The contract will be commencing with the 2006/07 season. Finally, as in 2004, TEAM will be selling the TV rights to the U-21 European Championship, which is taking place in Portugal from the end of May until the beginning of June.

The focus of TEAM's day-to-day business involved selling TV and marketing rights to the UEFA Champions League for the 2006/07 – 2008/09 seasons. Our subsidiary achieved successful signings throughout Europe as well as in Asia, the Middle East and in North and South America. In the sponsoring segment, which has been restructured and now comprises six principal sponsors, contracts were renewed with long-standing partners Heineken and MasterCard. At the same time, TEAM signed up two new renowned sponsors, namely Sony Electronics and Vodafone. Negotiations with Ford and Sony PlayStation concerning the two remaining packages were successfully completed in 2006.

TEAM achieved impressive results once more in marketing the Eurovision Song Contest, which was held in Kiev last year. The live transmission of this event attracted audiences across Europe numbering roughly 100 million, with market share in some countries reaching an almost unprecedented 80 % or more accompanied by record-breaking participation in televoting again. Preparations for this year's event in Athens are already well under way.

Awards for Constantin productions

Not only Germany but also international movie markets sustained what in some cases were severe slumps in box-office takings and audience numbers. In Germany, audience numbers fell by almost 30 million compared with the previous year, equivalent to a decline of around 19 % and roughly on par with the figure for 1995. This was accompanied by a drop of almost 17 % in box-office takings.

The market share of German productions contracted from just on 24 % in the previous year to somewhat over 17 %. Our subsidiary Constantin was not left unscathed by this trend, either. Even so, with a slate of 16 releases in the German movie theaters, it secured a respectable 6.4 % of the market for itself. The fact that the only German film to rank amongst the top ten films for 2005 was a Constantin production testifies yet again to Constantin Film's strong standing. “The White Massai” – an authentic film version of the top-selling book of the same name by Corinne Hofmann – spent four weeks in Number 1 slot, attracting audiences of over 2.2 million.

Constantin's quality is also reflected in its TV productions. Thus, the three-part mini-series "Die Patriarchin", which Constantin had produced for German TV broadcaster ZDF, was named "Best TV Movie" and received the coveted "DIVA" entertainment award in Munich at the end of January 2006. This family saga achieved ratings of between 8 and more than 9 million viewers with market shares well in excess of 20 %. The "Deutscher Fernsehpreis 2005" award went to Constantin Entertainment production "clever! – Die Show, die Wissen schafft". Broadcast by Sat.1 in a prime time slot, this science show received the coveted media prize in the "Best Entertainment Show/Best Entertainment Host" category.

Market conditions in the home entertainment segment growing more difficult

After booming for many years, the home entertainment industry lost steam slightly last year. Although more units than ever before were sold, the general erosion in retail prices caused revenues to decline by almost 3.5 %. With total revenues coming to EUR 1.7 billion, the market in Germany contracted for the first time since the launch of the DVD. This is due to several factors which converged in 2005. On the one hand, there was a further sharp decline in sales of conventional videocassettes, confirming once more that the end of this format is nigh; on the other hand, the average retail price of DVDs dropped by almost 9 %, meaning that it was not possible to recoup the losses arising in the VHS segment.

Despite these underlying conditions, the Highlight Group was able to further strengthen its market position. Together with our distribution partner Paramount, we commanded 10 % of the market, a significant improvement over the previous year. This performance was underpinned by the box-office hits of 2004, primarily the Bernd Eichinger production "The Downfall", which racked up sales of over 680,000 copies by year-end. However, historical epic "Alexander" (345,000 copies) and the international Constantin production "Resident Evil: Apocalypse" (325,000 copies) were also strong sellers.

The fact that we also produce top-quality home-entertainment products became evident during the "DVD Champion 2005" awards. In the final competition, new DVD releases from the Highlight/Constantin collection received a number of nominations, with the special edition of "The Downfall" receiving the coveted trophy in the "Best German Film" category.

Substantial improvement in earnings

The consolidated revenues of the Highlight Group came to CHF 462.3 million. Of this, the Film division contributed CHF 298.3 million, the Home Entertainment division CHF 109.5 million and the Sports and Event Marketing division CHF 54.5 million.

The steady improvement in earnings continued to play a prominent role last year. Thus, net consolidated earnings improved from CHF 30.1 million to CHF 31.2 million, while the share in earnings attributable to the Highlight shareholders increased from CHF 18.1 million to CHF 22.6 million.

Liquidity reserves (cash and cash equivalents and securities) rose from CHF 200.7 million in the previous year to a current CHF 233.6 million, while loans and liabilities subject to interest increased from CHF 124.1 million to CHF 248.9 million. This development results from the additions mentioned above to equity interests as well as the intensive production activity at Constantin Film. Thus, projects such as the large-scale Bernd Eichinger production "The Perfume – The Story of a Murderer" required considerable pre-financings.

Further gains by Highlight stock

Our performance is now also being reflected in the price of our stock. The investment by hedge fund manager Florian Homm aroused considerable public interest in the Highlight Group. The capital market responded favorably to the Group's performance and position in the German media industry. Even after the exit of the Florian Homm investor group, the market continued to reward the Highlight Group's achievement in the form of a full-year gain in the stock of more than 59 %. For the third time in a row, Highlight stock thus outperformed the DAX, which itself was up a considerable 27 % or so, as well as the SDAX, which advanced by as much as 35 %. The year-end closing price of EUR 5.80 marks the highest level since December 2001.

Focus on improving profitability

This year, we are continuing to give priority to improving our profitability step by step. In this way, we are able to strengthen our market position on a sustained basis, lead a strengthened Highlight Group into the future and face up to new challenges in a rapidly changing market.

Also on behalf of the other members of the Board of Directors, I would like to take this opportunity to thank you for the confidence which you showed our Company in 2005. We will be dedicating all our resources and capabilities to ensuring the continuation of the Highlight Group's success story. My thanks also go out to all shareholders, employees, business associates and friends for their loyalty, trust and support for the Company.

B. Burgener

Bernhard Burgener
Chairman of the Board of Directors

Highlight stock

Upbeat market sentiment in Europe and large parts of Asia

The optimistic expectations of a good stock market year in 2005 held by many institutional investors proved to be justified. Many stocks and indices hit levels not seen in many years, with some breaking one record after the other. Investors in the Japanese equities market in particular had every reason to rejoice given that the Nikkei index advanced by a remarkable 40 % for the year as a whole, thus achieving a gain of a magnitude not seen since 1999.

Yet, the benchmark indices of the leading European stock markets also all posted double-digit gains. Thus, for example, the UK FTSE 100 closed the year up just on 17 %, the French CAC 40 over 23 % and the Swiss SMI as a much as a good 33 %. However, with an increase of almost 51%, the top performer in Europe was the Austrian ATX once more. Over the past five years, the Austrian stock index has surged by an incredible 242 %.

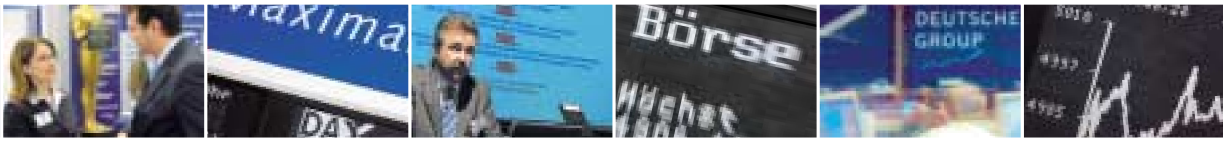
By international standards, the clear laggards this time were US stocks. Up by around 3 % and 1.4 % respectively, the Standard & Poor's index (S&P 500) and the Nasdaq Composite achieved only meager gains. In fact, the Dow Jones performed even more dismally and actually closed the year 0.6 % down, thus sustaining a year-on-year decline for the first time in three years. Accordingly, the very thing that had been considered unthinkable for a long time eventuated in 2005: The international stock markets detached themselves from Wall Street and corrected their relative undervaluation compared with the overrated US stock markets.

In the year under review, the German blue-chip DAX index achieved a gain of a good 27 %, closing the year at 5,408 points and thus hitting its highest level since March 2002. This is a remarkable development given that in the first half of the year many experts had seen the DAX at 4,500 points at most in view of rising interest rates and the muted economy. The fact that it climbed so substantially is due to a number of different factors. On the one hand, most DAX companies were inexpensively valued by international standards and, on the other, they had successfully completed restructuring and cost-cutting programs in earlier years, resulting in rising earnings in 2005.

According to analyses performed by Landesbank Rheinland-Pfalz, company earnings rose even more sharply than stock prices, causing the average price/earnings ratio (PER) for DAX stocks to actually drop to 13 by the end of 2005 (previous year: 16). Amongst the beneficiaries of this profit growth were shareholders, whose loyalty was rewarded in the form of high dividend payouts. All told, DAX companies paid dividends of a record EUR 16 billion to their shareholders in 2005. Accordingly, it comes as little surprise to learn that foreign investors in particular channeled more capital into Germany than ever before, propelling stocks upwards especially in the second half of the year.

Yet, it was not only the blue chips that benefited from this. Small and mid caps performed even better for the third year running, with the MDAX closing the year up 36 % and the SDAX, in which Highlight stock is included, only marginally lower at 35 %. However, it is doubtful whether this trend will continue this year as a number of small and mid caps are already trading at well over 20 times earnings and thus on overstretched valuations. On the other hand, there is general agreement that the DAX still possesses upside potential particularly in the first half of the year. In fact, optimists do not exclude the possibility of the 6,000 point mark being captured.

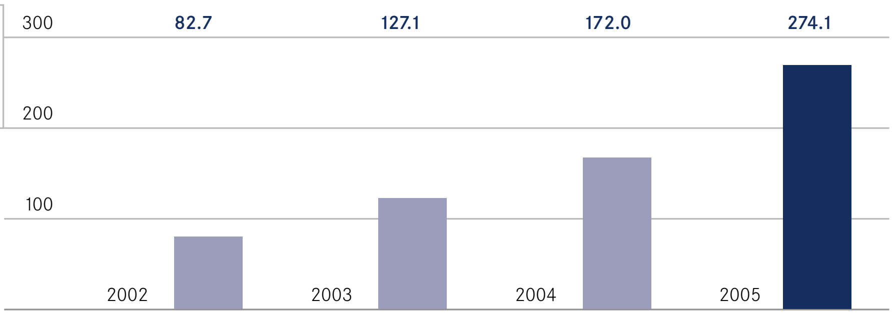
Highlight Group's IR work is characterized by up-to-the-minute and comprehensive information for the capital markets.



Highlight stock again outperforming the indices

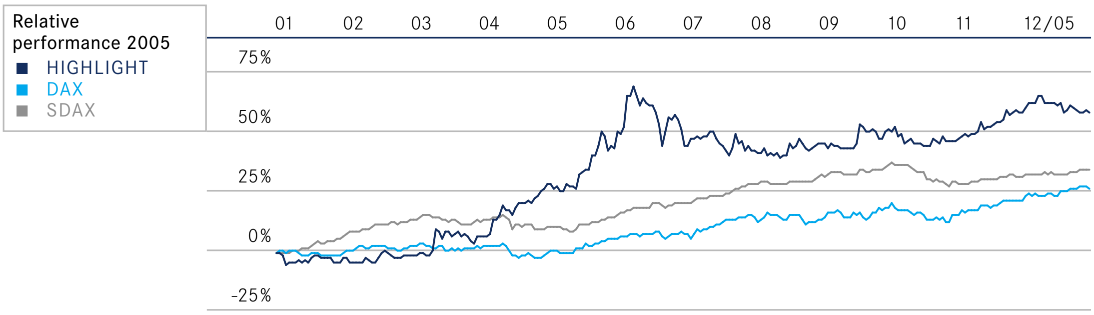
Against this favorable backdrop, Highlight stock again performed remarkably well. With a year-end XETRA price of EUR 5.80, the highest since 2000, our stock advanced by 59.3 % for the year as a whole. As a result, it outperformed both the DAX and the SDAX substantially for the third time running. Compared with the end of 2004, our market capitalization (i.e. number of shares times year-end price per share) increased to EUR 274.1 million, equivalent to a rise of over 230 % within the past four years.

Development of market capitalization (in EUR mn)



In the first quarter, the stock largely moved sideways. After commencing the new year at EUR 3.64 (XETRA closing price on December 30, 2004), it hit its low for the year of EUR 3.47 as early as on January 5. The stock recovered sharply in mid March, when investments by hedge fund manager Florian Homm triggered a veritable rally, particularly in the second quarter. This process was supported by the publication of our encouraging annual financial statements for 2004 as well as the similarly very gratifying figures for the first quarter of 2005.

In the wake of the heavy gains in the second quarter of the year, Highlight stock hit its high for the year of EUR 6.20 in mid June but way unable to defend this level by the end of the quarter. The third quarter initially saw a slight softening in the stock. However, this gave way to a renewed uptrend in mid September. The favorable performance of the stock gained momentum in the fourth quarter and peaked after the publication of our nine-month figures.



Dividend to be raised to CHF 0.12 per share

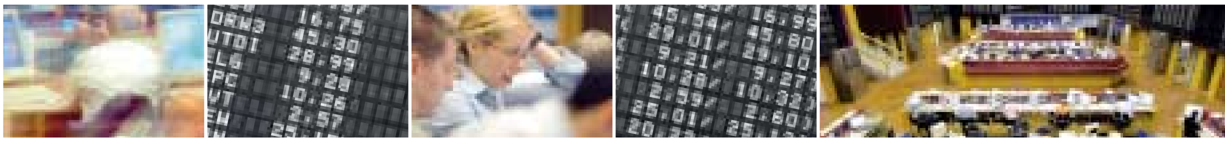
Last year, we were able to give our shareholders a share of our Company's profits and this is something that we of course want to do for fiscal 2005 again. At the Annual General Meeting scheduled for June 2, 2006, the Board of Directors will therefore be asking the shareholders to approve a dividend of CHF 0.12 per share, representing an increase of CHF 0.02 or 20 % over the previous year. With this increase, we wish to reward our shareholders for the trust which they have shown to date and also express our confidence in the Highlight Group's continued upbeat prospects for the future.

Stock buy-back program still providing added impetus

Our stock buy-back program, which – depending on prevailing conditions in the capital market – we have been using actively to stabilize our stock price since June 2002, was again used judiciously in 2005. All told, a total of 3,655,995 Highlight shares were bought back and 4,118,000 sold to long-term institutional and private investors. As a result, our treasury shares dropped to 319,536 shares compared with the previous year, equivalent to just on 0.7 % of Highlight Communications AG's share capital.

Stock data 2005

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, Hannover, Munich, Stuttgart, XETRA		
High for the year (XETRA) June 13			EUR 6.20
Low for the year (XETRA) January 5			EUR 3.47
Year-end price			EUR 5.80
Year-end market capitalization			EUR 274.1 million
Earnings per share			EUR 0.32
Operating cash flow per share			EUR 2.68
Year-end equity per share			EUR 1.31



Focus on communications

One of the main aspects of our investor relations activities involves providing investors, analysts and the business press with comprehensive information with minimum delay. The basis for this is constituted by the regular quarterly and annual reports, which provide a detailed insight into recent trends at the Company. In addition, we keep capital market participants abreast of all material developments at the Highlight Group by issuing press releases and ad-hoc bulletins.

Yet, the core element of our investor relations activities continues to entail personal communications in the form of open and active dialog. To this end, we held presentations and road shows at international financial centers such as London, Paris and Madrid in 2005. In addition, we answered the questions of institutional investors and analysts at several conferences in New York, Frankfurt and Munich. In pursuing this publicity work, which is aimed at inspiring confidence, our declared goal is to achieve a fair valuation for Highlight stock and to convince prospective shareholders of the potential offered by an investment in the stock.

We again had our own stand at the INVEST investor fair in Stuttgart as a means of entering into direct contact with private investors. Still, the most important event of the year was the Annual General Meeting in Basel, which attracted an extraordinarily strong turnout in 2005. For the first time, we were able to welcome shareholders accounting for around 68 % of Highlight's share capital.

Analyst coverage of Highlight

Landesbank Baden-Württemberg	April 2005	Hold
Neo-Trade	May 2005	Buy
Berenberg Bank	May 2005	Buy
Equinet	June 2005	Buy
DZ BANK	June 2005	Buy
Berenberg Bank	August 2005	Hold
Equinet	August 2005	Buy
DZ BANK	August 2005	Buy
Pacific Continental Securities	November 2005	Accumulate
TradeCentre	December 2005	Remain invested
M. M. Warburg & Co	March 2006	Buy
DZ BANK	March 2006	Buy

Alongside these direct channels of communication, our website at www.highlight-communications.ch remains the key source of information on the Group for all interested parties. After being revamped in the year under review, it now provides all relevant facts on the history and current performance of the Highlight Group in a more convenient style. For example, the investor relations segment includes all key information (analyses, annual and interim reports, stock data, ad-hoc bulletins, etc.) of relevance for the capital market. To ensure equal treatment of all market participants, new documents are always made available on the website with minimum delay. An even more convenient source of information is the Highlight newsletter service, which is already being sent out to more than 1,000 recipients. Interested parties can register at the website to automatically receive all publications as soon as they appear.

Historical moments: CSKA Moscow victorious in the UEFA Cup Final, the first Russian team to get this far.

Never change a winning team – backed by the proven collaboration amongst its Film, Home Entertainment and Sports and Event Marketing divisions, the Highlight Group was able to exceed its own revenues forecasts and close 2005 with materially higher earnings.

Report of the Board of Directors

Continued economic weakness in Germany

Despite the substantial increase in commodity and energy prices in the course of the year, the global economy continued to grow in 2005, albeit at a somewhat slower rate than in the previous year. Once again, the greatest impetus came from Asia, where China and India in particular continued to grow dynamically. Yet, the economies of Russia and North America also achieved relatively high growth rates. By international standards, the European economic region was a good deal more restrained, although it benefited from a high trade surplus supported by the depreciation in the euro. Domestic demand – particularly consumer spending - continued to leave much to be desired, however.

In Germany, the economic recovery emerging in 2004 lost steam. According to the preliminary calculations of the German Federal Bureau of Statistics, gross domestic product widened by only 0.9 %, well below the previous year’s figure of 1.6 %. Among other things, this was due to protracted restraint in consumer spending in Germany, which remained flat at the previous year’s level. Persistently high unemployment, some sharp hikes in heating, electricity and petrol costs as well as a 0.3 % decline in gross wages and salaries provided little inducement for any increase in private consumption. At the same time, the savings ratio rose to around 10.6 %, hitting its highest level since 1995.

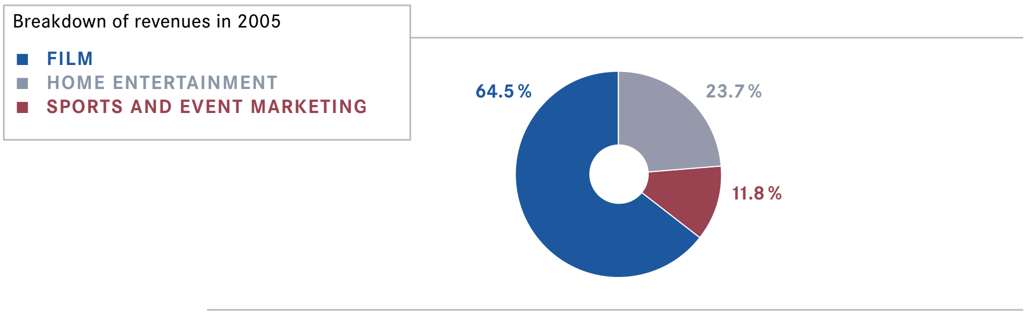
The economic situation in Austria and Switzerland proved to be substantially more buoyant than in Germany, with gross domestic product rising by 1.9 % in both countries according to preliminary calculations. Underpinned by strong foreign demand, brisk construction spending and greater private consumption, the Swiss economy strengthened in the second half of the year in particular. The same is true of Austria, where consumer spending showed clear signs of recovery after a muted first six months. Austrian exports also regained momentum as of mid-year.

On the other hand, the underlying conditions in the market segments of relevance to the Highlight Group – namely cinemas and home entertainment – were anything but straightforward. The cinema industry in the German-speaking region was forced to contend with drastic declines in box-office takings and audience numbers. In response to this, our subsidiary Constantin released only 16 films in 2005 (previous year: 20). At the same time, video piracy and sustained pressure on the prices of the market-dominant DVDs continued take their toll on the home entertainment industry. As a result, sales shrank in this market, which has been booming for many years in Germany.

Highlight Group stepping up consolidation

Strategically, the Highlight Group used fiscal 2005 to widen its portfolio of investments and to lay a number of key foundations for the future. First of all, Constantin Film AG acquired the remaining stake (41 %) in Constantin Entertainment GmbH, becoming the sole shareholder of one of the most successful TV production companies in the show and entertainment segment with retrospective effect as of January 1, 2005.

In mid June 2005, Highlight Communications AG signed an option agreement with Bernd Eichinger Holding GmbH & Co. KG concerning the purchase of a 25.07 % share in Constantin Film AG by the Highlight Group. The option provided for both parties to exercise the share transfer option in specified installments over a certain period of time after January 1, 2006. After exercising our call option on January 19, 2006, we now hold more than 90 % of the capital of the top independent German film production and distribution company.



Effective July 1, 2005, we also made use of our contractual right to acquire the remaining 20 % stake in Team Holding AG. This was then followed by an equity issue. The new shares were subscribed to in the autumn by UEFA, which now holds 20 % of Team Holding AG's capital, to further strengthen the long-standing and successful relations between our subsidiary and the European Football Association.

In order to ensure business continuity for the foreseeable future, long-term contracts have been signed with all key management staff to bind them to the Highlight Group.

Significant increase in revenues in the Home Entertainment division

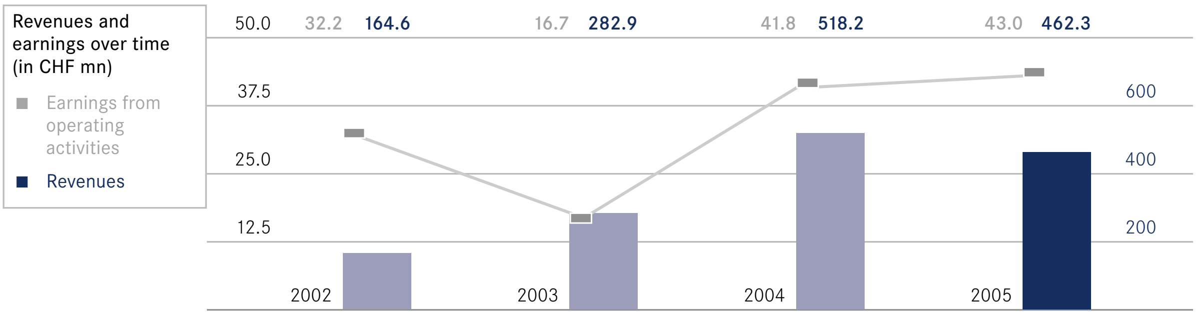
With consolidated revenues coming to CHF 462.3 million, we were able to exceed our forecasts for the year under review once more. However, this also amounted to a decline of 10.8 % compared with the previous year's record figure of CHF 518.2 million, which had primarily been spurred by outstanding Constantin box-office hits such as "(T)Raumschiff Surprise – Periode 1" and "The Downfall". Despite intensified activity with Constantin TV productions, it was not possible to completely recoup the loss caused by substantially weaker cinema releases in 2005. As a result, revenues in our Film division contracted from CHF 378.1 million in 2004 to CHF 298.3 million in the year under review. At the same time, the contribution made by this division to consolidated revenues shrank from 73.0 % to 64.5 %.

On the other hand, the Home Entertainment division achieved considerable growth in spite of difficult market conditions. With revenues coming to CHF 109.5 million, it was able to enter nine-digit territory for the first time, exceeding the previous year (CHF 88.7 million) by more than 23 %. The Sports and Event Marketing division also performed well with revenues rising by 6 % from CHF 51.4 million to CHF 54.5 million. Thus, the Home Entertainment division accounted for 23.7 % (previous year: 17.1 %) of consolidated revenues and the Sports and Event Marketing division for 11.8 % (previous year: 9.9 %).

Further improvement in earnings

All in all, consolidated expenditure dropped by CHF 56.7 million to CHF 424.7 million, a decline of 11.8 % over the previous year (CHF 481.4 million). Considerable savings were particularly achieved with license, merchandise and production expenses, which dropped from CHF 388.5 million to CHF 331.9 million due to Constantin's smaller film slate. At CHF 51.6 million, personnel expense remained essentially unchanged over the previous year (CHF 51.5 million), while advertising costs rose by CHF 1.4 million to CHF 7.2 million. Depreciation/amortization and various operating expenses were cut by CHF 0.9 million and CHF 0.7 million, respectively, over the previous year.

Thanks to the disproportionately large decline in expense in comparison with revenues, earnings from operating activities rose to CHF 43.0 million, an increase of 2.9 % over the previous year (CHF 41.8 million). As a result, the gross margin widened from 8.1 % to 9.3 %. At the same time, net consolidated earnings climbed by 3.6 % year on year to CHF 31.2 million (2004: CHF 30.1 million). Of this figure, CHF 22.6 million (previous year: CHF 18.1 million) is attributable to the Highlight shareholders and CHF 8.6 million (previous year: CHF 12.0 million) to minority interests. In other words, the share of profit attributable to the Highlight shareholders rose by 24.9 % compared to fiscal 2004. Accordingly, earnings per share rose from CHF 0.39 in the previous year to CHF 0.49 in 2005.



High production volume and acquisition of minority interests leaving traces on balance sheet

Compared with the previous year, consolidated total assets rose substantially in 2005. At CHF 734.0 million on December 31, 2005, they were CHF 161.5 million up on the same date one year earlier (CHF 572.5 million). This increase was primarily due to a significant rise in film assets (own and third-party productions) from CHF 228.0 million to CHF 303.4 million. At the same time, inventories and unfinished service productions rose from CHF 20.5 million in the previous year to CHF 45.7 million in the year under review. Both items reflect the intensified production activities of our subsidiary Constantin in 2005. In addition, there were notable changes in current and non-current receivables, which were up CHF 15.4 million and CHF 16.6 million, respectively. As of the end of 2005, liquidity reserves (cash and cash equivalents and securities) were valued at CHF 233.6 million, marking an increase of CHF 32.9 million over the previous year.

The improved liquidity was matched on the capital side by an increase in loans and liabilities subject to interest to CHF 248.9 million (previous year: CHF 124.1 million). The additional funds were primarily used to acquire the aforementioned minority interests and as advance financing for various film projects. By contrast, service productions are largely funded using advance payments made by the customer in question. The corresponding item of the balance sheet rose by CHF 61.4 million to CHF 210.4 million in the year under review.

Consolidated equity (excluding minority interests) contracted from CHF 125.0 million (December 31, 2004) to CHF 95.5 million due primarily to two factors: on the one hand, the increase of CHF 22.6 million from the allocation of net earnings for the year and, on the other, the withdrawals from capital reserves of CHF 50.0 million. Accordingly, on the basis of the substantial increase in total assets, the equity ratio at the end of 2005 stood at 13.0 % (previous year: 21.8 %).

Slight drop in staff numbers

At the end of fiscal year 2005, a total of 388 people were employed by the various entities within the Highlight Group, down 37 on the year-ago figure of 425 and particularly reflecting ongoing consolidation as well as the increasingly growing use of synergistic benefits within the Group. The Board of Directors wishes to take this opportunity to thank all the employees of the Highlight Group for their outstanding contributions to our Company's wellbeing in 2005 once more.

Favorable outlook

Leading economic experts largely agree that the German economy will finally pick up momentum once more in 2006. This optimism is based on several factors: Many industries expect higher profit and have already announced plans to step up capital spending in 2006. This even includes companies in problematic sectors such as food and advertising. Sporting-goods producers in particular as well as the telecommunications sector are expecting additional growth ahead of the World Football Cup. Finally, the influence of the increase in the rate of value added tax as of 2007 should not be underestimated as many consumers will bring forward purchases to escape the three percentage point tax increase.

Against this backdrop, we project a continuation of our favorable business performance and will be paying particular attention to achieving a further improvement in earnings. Our subsidiary Constantin currently has 15 new cinema releases planned, with the slate comprising nine own and co-productions and six licensed releases. The highlight of the year will doubtless be the Bernd Eichinger production "The Perfume – The Story of a Murderer", which is scheduled for German cinema release in the autumn. Impetus in the Home Entertainment division will be generated by the DVD release of Constantin box-office hits "The White Massai" and "Siegfried" as well as the growing repertoire of library releases.

In the Sports and Event Marketing division, our subsidiary TEAM will be organizing the recurring major annual events – namely the Eurovision Song Contest and the UEFA Champions League – and also selling the TV rights to the European Championship matches of the U-21 national teams and designing a uniform image for the 12 venues in Germany for the World Cup Organization Committee. In the light of this broad range of activities, we assume that this year's consolidated revenues will come up to CHF 500 – 520 million with earnings per share rising to EUR 0.33 – 0.35.

Pratteln, April 2006

Bernhard Burgener | René Camenzind | Martin Hellstern

Thomas Klooz | Dr. Ingo Mantzke | Martin Wagner

Board of Directors

Bernhard Burgener (born 1957)

Chairman of the Board of Directors
Engaged in film business since 1982. He established Rainbow Home Entertainment AG (formerly 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 Chairman of the Board of Directors of Highlight Communications AG.

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 and CineStar SA, Lugano. Since 2003 key shareholder of Highlight Communications AG and since January 2004 member of Highlight Communications AG's 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 as well as Deputy CEO of TEAM. Since January 1, 2006, CEO, member and Secretary of TEAM's Board of Directors. 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 2003. Since November 2003, amongst others, responsible for investor activities.

Martin Wagner (born 1960)

Vice Chairman 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.

The 2006 Bavarian Film Prize for Nina Hoss, who took the lead role in Constantin production “The White Massai”.

Highlight majority subsidiary Constantin Film AG again boasted the most successful German cinema release in 2005. With an audience of over 2.2 million, “The White Massai” was the only German movie to rank amongst the top ten.

Skillfully produced film version of a true story: “The White Massai”

Division: FILM

Declining audience numbers and box-office takings

Generally speaking, 2005 was not one of the best years for the movie industry given that cinema operators in nearly all key markets registered substantially lower audience numbers and sales. This situation was very largely due to weak box-office takings in the first nine months, which hits such as “Harry Potter and the Goblet of Fire” and “The Chronicles of Narnia: The Lion, the Witch and the Wardrobe” were unable to redress in the fourth quarter of the year.

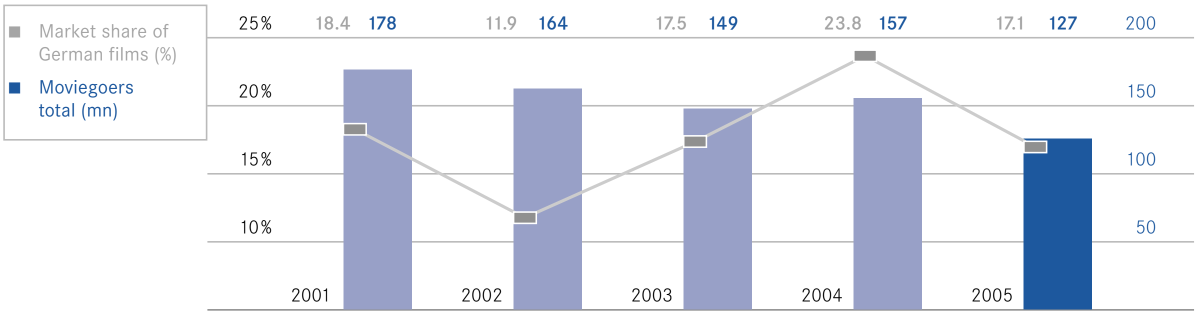
The world’s largest movie market, the United States, was not left unscathed either. According to preliminary figures, US box-office takings came to somewhat over USD 8.8 billion, down almost 6 % on the previous year and hitting their lowest level since 2001. With a decline of some 11 %, audience numbers slumped even more sharply.

The European movie market painted a similar picture, with audience numbers in France and Spain, for example, down by over 10 % and 12 %, respectively, while takings in Switzerland contracted by nearly 14 % to CHF 218 million. The mildest declines were registered in the United Kingdom, where figures for the year were down only just under 4 % on the record 2004 showing. There is no agreement – least of all amongst industry insiders – as to the reasons for the relatively solid performance of what is the world’s third largest movie market after the United States and Japan.

Substantial downward move in Germany as well

In Germany, cinema business was a good deal softer in 2005, with audience numbers totaling 127.3 million, roughly on a par with the 1995 figure and almost 19 % down on the previous year. With admission prices higher by an average of EUR 0.15 over the previous year, box-office takings contracted by only just on 17 % to EUR 745.0 million. This decline was reflected in the market as a whole as well as in the top performers. Whereas the top-ten films attracted total audiences of over 50 million in 2004, this figure sagged to just on 41 million in the year under review. The most successful production by far was “Harry Potter and the Goblet of Fire” with total audience numbers of 7.3 million, followed by the animation spectacle “Madagascar” with 6.7 million and “Star Wars: Episode III – Revenge of the Sith” with 5.6 million.

The market share of German films contracted to somewhat over 17 %, down from the previous year’s record 24 %. Even so, it is still well in excess of the average for the past ten years, thus providing clear proof that German film is still enjoying an upward trend. In this connection it should not be forgotten that in 2005 there was an absence of anything comparable to the 2004 German box-office hits such as “(T)Raumschiff Surprise - Periode 1”, “7 Zwerge – Männer allein im Wald” and “The Downfall”. These three films were seen by almost 20 million moviegoers and thus ranked on first, third and fifth place in the charts. Only one German film – the Constantin production “The White Massai”, which attracted an audience of over 2.2 million - made it into the Top Ten last year.



Source: Filmförderungs-anstalt (FFA)

Film crisis or cinema crisis?

The reasons for dwindling audience numbers are multifarious and – depending on the stance taken – of differing significance. Thus, cinema operators primarily blame the US film studios for the dire situation in which they find themselves, claiming that they are clearly out of touch with audiences. In addition, they are critical of the fact that too many films are being produced. As a result, more and more films are being released at the same time and must vie for the audience's favor from the outset. As a result, many productions disappear from the screen before audiences even become aware of them.

A further disadvantage is doubtless the fact that the delay between cinema release and DVD exploitation is growing shorter and shorter particularly in the case of Hollywood productions. This means that even interesting releases are removed from the screen after only a few weeks. As a result, many film buffs have no choice but to wait for the DVD release to be able to watch the film. To protest against this marketing strategy being pursued by the majors, cinema chains Cinestar and Kinopolis launched a remarkable campaign at the beginning of February: They took all copies of "King Kong" off their screens after learning that the DVD version would become available barely four months after the cinema release.

Producers and distributors, for their part, primarily cite Internet piracy as a reason for declining audience numbers. At the same time, they are critical of the surplus movie and screen capacity particularly in the case of multiplex cinemas, complaining that operators are primarily oriented to maximizing box-office takings and therefore overly confine themselves to the latest releases. They also see excessive passiveness and an absence of creativity in the advertising areas as well as a lack of any new ideas for boosting the appeal of cinemas.

As is so often the case, the truth is probably somewhere in between. Objectively, however, there is evidence to suggest that audiences' tastes are changing. The key determinant here is presumably the shift in audience demographics. Thus, the 30-plus age group already accounts for more than half of all moviegoers. This is probably the reason why action films with sophisticated special effects in particular met with considerably less interest than in previous years. Thus, Hollywood spectacles to which considerable hopes had been pinned – such as "Batman Begins", "The Island" or "The Legend of Zorro" – performed disappointingly at German box offices. On the other hand, there was far greater interest in narrative films such as the fantasy epic "The Chronicles of Narnia", which is already being viewed as a worthy successor to the very successful "Lord of the Rings" trilogy.

Another aspect which should plainly not be underestimated is protracted consumer restraint in Germany. Thus, it is frequently argued that movie tickets are generally too expensive and not worth their price. After all, a family of four must pay double the amount for a visit to the movies compared with the price of a DVD. A representative study published at the beginning of February by the German film promotion agency (Filmförderungsanstalt) clearly shows that half of all interviewees would greatly welcome price cuts or discounts on movie tickets. A further 25 % see room for improvement in the films shown and specifically the movie times.

Top movie comedy: the “Nibelungenlied” parody “Siegfried”

German films with continued high quality

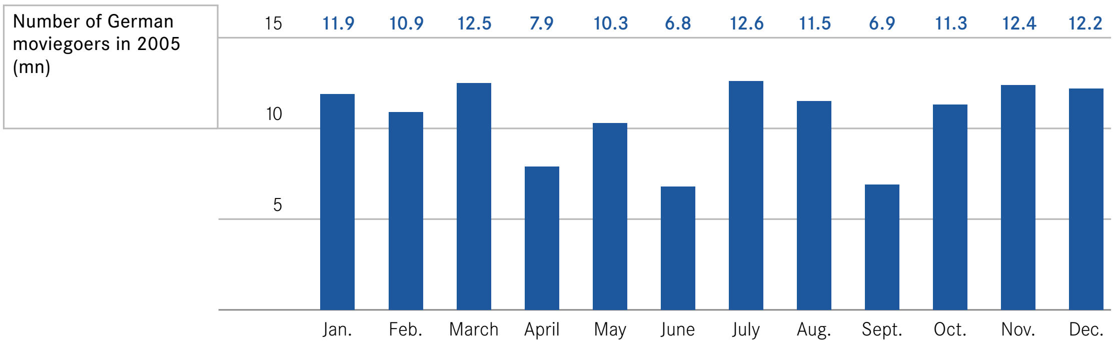
German films continued to gain ground against their Hollywood peers in terms of both quality and quantity. Thus, for the first time since 2000, more domestic (146) than US (139) productions were released in German cinemas. On a further optimistic note, the number of German films attracting audiences in excess of the magic one-million mark is rising steadily. Whereas in 2002, for example, only four films achieved this feat, this number rose to six in 2004 and to as high as ten last year. This includes such surprise hits as tragicomedy “Barfuss”, directed by Til Schweiger, or the multi-award winning “Alles auf Zucker”.

Less of a surprise was the success achieved by “Sophie Scholl – The Final Days” starring Julia Jentsch, who was verily inundated with awards for her performance. As early as February 2005, she was named best actress at the Berlinale. She then went on to win the German Film Prize in July and the European Film Prize as well as the Audience Prize in December. The culmination of the international recognition of the film, however, was the Oscar® nomination in the best foreign film category. After “Nowhere in Africa” (2003) and “The Downfall” (2005), this was the third time in four years that a German production figured amongst the best five foreign films. Yet, as if that were not already enough, during the Academy Awards at the beginning of March “Sophie Scholl – The Final Days” competed with two other German co-productions, the elaborate war epic “Merry Christmas” and Constantin-distributed “Paradise Now”, which had previously won a Golden Globe® for best non-English-language film.

A further German production – Ulrike Grote’s tragicomedy “Ausreisser” – was also nominated for an Oscar® in the best short film category. This evidently goes to show that Germany is being taken seriously by Hollywood as a film nation. What is more, German directors are more sought after in Hollywood than they have been for a long time. For example, Nicole Kidman selected Hamburg director Oliver Hirschbiegel for the science-fiction movie “The Visiting”, a remake of the classic “The Invasion of the Bodysnatchers”, while the Jodie Foster kidnapping drama “Flightplan” was directed by Robert Schwentke from Stuttgart.

Constantin still the top German independent

In response to the relatively lackluster market last year, our subsidiary Constantin released only 16 films (2004: 20). A total of 7.8 million tickets were sold for the 7 own and co-productions as well as 9 licensed-in films in the Constantin slate, translating into an impressive 6.4 % share of the market. Thus, our subsidiary was once again the top independent distributor in Germany after the five Hollywood majors. The lead over the national competition was considerable: Roughly one third of all tickets sold in 2005 for German productions were for films distributed by Constantin.



Source: Filmförderungs-anstalt (FFA)

By far the biggest hit with audiences was the Constantin production "The White Massai". Directed by Hermine Huntgeburth, this authentic story of an obsessive love was filmed on location in East Africa. With audiences of over 2.2 million, it was the year's most successful German film. In recognition of her outstanding performance, Nina Hoss, who starred in the lead role, was awarded the Bavarian Film Prize in January 2006. Achieving audience numbers of just on 1.3 million, comedy highlight "Siegfried" was a further success. A clever satire of the Nibelungen legend starring Tom Gerhardt, it was the top German film in the third quarter.

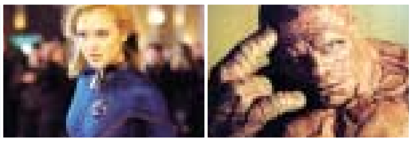
Constantin co-production "Vom Suchen und Finden der Liebe", directed by Helmut Dietl, was seen by almost 600,000 viewers. Starring a whole roster of the best German actors (including Alexandra Maria Lara, Moritz Bleibtreu, Heino Ferch and Uwe Ochsenknecht), this breezy romantic comedy explores all the heights and depths of a great passion. With an audience of over 680,000 in Germany, the action-packed science fiction spectacle "Fantastic Four" proved to be even more popular. In US cinemas, the screen adaptation of the much-loved Marvel Comic series, which Constantin co-produced with Twentieth Century Fox, was a good deal more successful, grossing more than USD 56 million on its first weekend and thus going to the top of the US movie charts. By year-end it had racked up takings of USD 155 million.

Promising deals

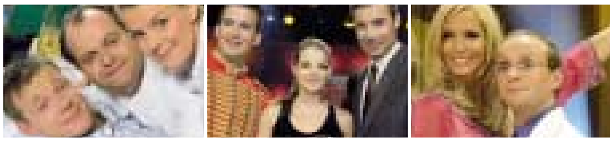
Strategically, the year under review saw two key highlights for Constantin. In February, Constantin subsidiary Constantin Film Verleih GmbH signed an output deal with the ProSiebenSat.1 group which primarily encompasses the free TV rights to all of the independently and co-produced releases of Constantin Film AG and its majority-held subsidiaries shot between July 1, 2004 and December 31, 2006. This includes last year's box-office hits "Siegfried" and "The White Massai". In addition, the deal provides for the free TV exploitation of numerous franchises licensed to Constantin including "The Dark", "The Passion of the Christ" and "The Grudge". Following on from the strategic alliance forged with Premiere in 2004 in the pay TV segment, this marks a further milestone for future license business for Constantin.

Another key event was the acquisition of the remaining 41% stake in Constantin Entertainment GmbH (CENT), as a result of which Constantin Film AG assumed full control with retrospective effect as of January 1, 2005. Within a very short space of time, CENT has established itself in the TV entertainment market as a supplier of innovative and high-quality program formats and is already one of the most successful show and entertainment producers. As a partner to nearly all German broadcasters, CENT designs, implements and optimizes all kinds of different programs all of which are market leaders in their respective slots. CENT owes its success to its good nose for audience preferences, optimized production processes and high product quality.

Action adventure with sophisticated special effects: “Fantastic Four”



Top ratings in their slots: the Constantin TV productions



Successful TV productions

In addition to CENT’s established daily formats, which accounted for about 1,000 hours of content last year, the science show “clever! - Die Show, die Wissen schafft” evolved into a hit. Spectacular experiments, celebrity guests and the perfectly matched host duo Barbara Eligmann and Wigald Boning are hallmarks of this popular production, which is broadcast on Sat.1 each Monday in a prime time slot. It deservedly won the German TV Prize in the “Best Entertainment Show/Best Host Entertainment” category for 2005 in mid October.

Comedy show “Die Dreisten Drei”, starring Mirja Boes, Markus Majowski and Mathias Schlung, which has a fixed weekly slot each Friday on Sat.1, also regularly achieved top ratings. In “Stars am Limit”, Kai Pflaume presented celebrities faced with extraordinary challenges which sometimes took them to their limits. This prime-time show, which features some amazing scenes, also gained excellent ratings.

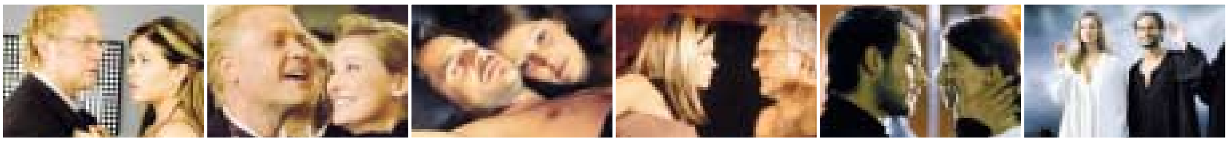
However, the TV highlight of the year in 2005 was the three-part family saga “Die Patriarchin”, a production by Constantin majority-held subsidiary MOOVIE - the art of entertainment GmbH, starring popular actress Iris Berben. Broadcast by ZDF at the beginning of January, the first part fascinated an audience of just under 8.2 million. In fact, ratings for the final episode stood at an incredible figure of almost 9.4 million, equivalent to over 24 % of the market. With these top results, “Die Patriarchin” ranked as the year’s most watched TV film. This success was also reflected at this year’s “DIVA” entertainment prize awards, where the production received the coveted German TV Movie Prize.

Strong film slate for 2006

At this stage, Constantin’s distribution slate for 2006 comprises 15 franchises (nine own and co-productions as well as six licensed releases) including several highlights. Foremost amongst these is the eagerly awaited Bernd Eichinger production “The Perfume – The Story of a Murderer”. The elaborate film version of the top-selling novel of the same name by Patrick Süskind is slated for cinema release in Germany in the autumn. It tells the story of the perfume apprentice Jean-Baptiste Grenouille, who becomes a serial murderer solely to create an irresistible perfume for himself. Directed by Tom Tykwer, the film stars Dustin Hoffman and British newcomer Ben Whishaw among others.

Fans of the erotically tinged thriller are in for a treat far earlier as March 30 marked the premiere of “Basic Instinct II”, the sequel to 1992’s legendary psychothriller. As in part I, Sharon Stone takes the lead role, which she embodies with an extraordinary blend of acting skills and sex appeal. By contrast, Constantin production “Hui Buh – Das Schlossgespenst” is targeted at younger audiences and is slated for release in summer. Backed by the latest animated graphics technology, audience favorite Michael “Bully” Herbig stars as a ghost in this first real film version of the children’s fiction classic.

Sentimentality combined with comedy: “Vom Suchen und Finden der Liebe”



In addition to the established formats, the TV production segment also has a number of new products in the offing this year. Thus, for example, “Die ProSieben Märchenstunde” – produced by Constantin subsidiary Rat Pack - made its debut in mid March with excellent ratings. Featuring comedy stars such as Christian Tramitz, Herbert Feuerstein and Annette Frier, the eight-part series sends up classic fairy tales in an extremely amusing manner. With an audience of 5.4 million and a market share of 15.2 %, the first episode achieved ratings far in excess of the average for the broadcaster. The music comedy “Chartbreak Hotel”, which was developed by CENT for Sat.1, has also been on air since March. After the pilot show hosted by Mirja Boes and Hugo Egon Balder achieved a creditable market share of 16.3 % when it was aired in June last year, Sat.1 decided to go ahead with the show on a regular basis each Saturday night at 10:00 pm.

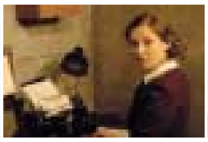
Berlinale 2006: Moritz Bleibtreu awarded
the “Silver Bear” as best actor in the
Bernd Eichinger production “Elementarteilchen”.

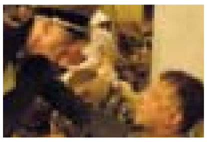
Constantin will be releasing a series of high-quality productions in 2006 ranging from film versions of best sellers such as “Elementarteilchen” or “The Perfume – The Story of a Murderer” to fairy tale classics like “Der Räuber Hotzenplotz” and “Hui Buh – Das Schlossgespenst”.

The new shooting star in the German film industry: Alexandra Maria Lara wowed audiences in "The Downfall", in which she played Hitler's secretary Traudl Junge.

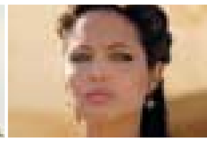
Despite difficult market conditions, the Highlight Group was able to further build on its position as one of the leading operators in the German-language home entertainment segment. The DVD version of Constantin box-office success "The Downfall" was one of the top-selling releases in 2005.

A bleak historical document: the Bernd Eichinger production “The Downfall”





Vivid images and monumental proportions: the historic epic “Alexander”



Division: HOME ENTERTAINMENT

VHS cassette on the verge of extinction

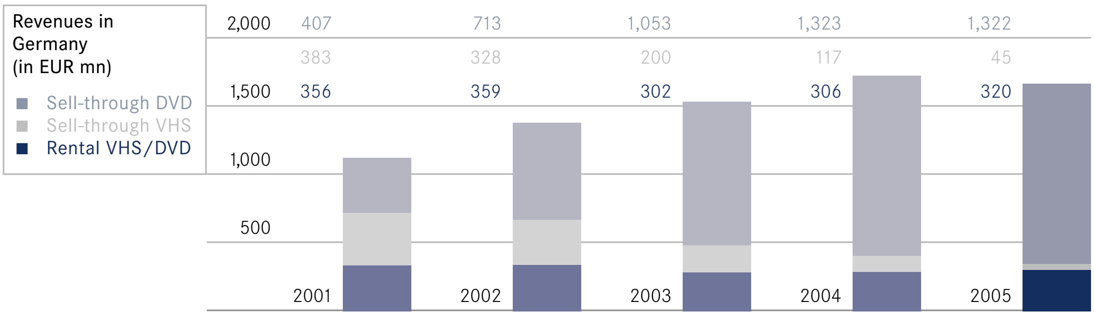
In 2005, the global home entertainment market was characterized by two divergent trends: On the one hand, volumes rose sharply again on the previous year while, on the other, sustained price erosion resulted in a decline in industry sales for the first time. Thus, in the United States, for example, sales volumes rose by roughly 10 %, while revenues contracted by just under 1 % to USD 24.3 billion. The amount spent by European consumers was down roughly 2 % on the previous year. On the other hand, a total of 732 million DVDs and VHS cassettes were sold, more than ever before. At the same time, however, the average price of the market-dominating DVD slipped by 11 % to less than EUR 15. Just five years ago, consumers in Europe were paying around EUR 25 per DVD.

In Germany, revenues also contracted for the first time by a total of almost 3.5 %, dropping from EUR 1,746 million in 2004 to EUR 1,686 million in the year under review. The greatest losses arose in the sell-through DVD market, where revenues were down by as much as 5.1 %. One of the key factors in this trend was the fact that the era of the VHS cassette is now presumably drawing to a close once and for all. Thus, sales volumes and revenues of this former success story shrank by roughly 60 % year on year in 2005. VHS cassettes accounted for only 5 % of volumes and generated revenues of a mere EUR 45 million or so, translating into only around 3 % of the market. This trend was accelerated by the fact that most new releases are not even available on VHS any more.

Pressure on sell-through DVD prices

The declines in VHS sales were not fully recouped by DVD business despite the fact that almost 100 million units were sold for the first time. What is conspicuous, however, is that only just on 7.1 million copies of the top ten DVDs of 2005 were sold, down from almost 8.6 million in 2004. At the same time, price erosion left deep traces – particularly on new releases. The average price dropped by almost 9 % from EUR 14.68 in the previous year to a current EUR 13.39, meaning that at somewhat over EUR 1.3 billion revenues were almost exactly on a par with the previous year.

The main reason for the price erosion is the cut-throat competition amongst retailers as well as the rapid rise in the number of DVD releases offered as supplements to magazines. A further source of strain came from continued consumer restraint, which resulted in only a marginal increase in buying intensity (i.e. the average number of DVDs acquired per consumer) from 5.0 to 5.2. This was in fact accompanied by a drop in the average amount spent from EUR 73 to EUR 70 due, among other things, to the appreciable upward shift in the age structure of DVD buyers in 2005. Whereas the amount spent by consumers in the over-40 age bracket continued to grow, sales in what was formerly the main target group of young consumers were flat or even lower. The main reasons for this are changed leisure preferences and the growing number of competing media such as mobile telephone games and other types of downloads.



Source: Gesellschaft für Konsumforschung (GfK)

Substantial recovery in rental business

On the other hand, home entertainment rental business was most encouraging in 2005. After years of contracting or flat sales, total revenues rose considerably year on year to EUR 320 million (previous year: EUR 306 million). At the same time, the number of rental transactions increased from 116 million to around 124 million. This favorable trend is put into even more positive relief if the figures for DVD rentals are viewed in isolation. Here, revenues rose by just under 16 % to EUR 315 million, with transaction numbers climbing by more than 18 % to roughly 122 million.

These facts clearly show that the measures taken just over two years ago to improve rental distribution are now paying off. Thus, for example, rental vending machines, which are available 24 hours a day, are enjoying growing popularity, with the percentage of transactions via this channel rising to 4 % in 2005. Internet merchants' business performed even better, with their share of the market now coming to 8 %.

The growing appeal of rental business is also reflected in the number of users, which grew by more than 7 % over the previous year and now stands at almost 10 million. At the same time, the average amount spent per consumer rose by 8 % to EUR 32. This trend is being spurred by the enormous technological advances being made in home cinema, with the vivid colors of flat-screen sets and Dolby surround systems etc. providing the illusion of a large cinema screen in the comfort of consumers' own living rooms.

Piracy problems worsening

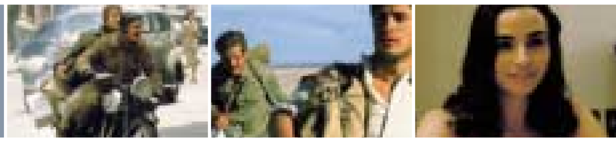
In addition to halting the erosion of prices, the greatest challenge facing the industry in the future will be to combat film piracy. This is because illegal downloading and copying of films on DVDs has since evidently evolved into a mass sport. Thus, for example, a recent study by German film development agency FFA indicates that in the first half of 2005 almost 12 million films were illegally downloaded from the Internet in Germany alone. This indicates that digital theft has risen by 16 % in the space of only a single year, while the number of people engaging in this activity has increased by as much as 30 % in the same period.

This growth is clearly being fueled by the fact that more and more German households have simple and inexpensive access to the Internet. Nearly 65 % of all Germans now have private Internet access, with two thirds of these possessing a broadband connection or at least an ISDN connection. At the same time, the technical features of PCs and thus the ability to archive and copy films are improving all the time. At the end of August 2005, around 7 million Germans, equivalent to 11 % of the entire population, owned a DVD burner and just under 3 million already had a DVD recorder. Both figures have thus more than doubled since the previous year.

Against the backdrop of these technical capabilities, more than 58 million copies of movie films were burned onto DVDs in the first half of 2005 – an increase of around 10 million over the previous year. However, the reliability of this FFA data is impaired by the fact that technically it is not possible to draw a clear distinction between legal and illegal copying. For example, copying movie films recorded off TV ranks relatively high up in the statistics –

Pure unadulterated horror, action and excitement: “Resident Evil: Apocalypse”

Masterfully filmed road movie: “The Motorcycle Diaries”



with over 15 million instances registered. Yet, under current law, this type of copying is clearly permissible. By far the main sources of most of the copies produced, however, are either the physical original DVDs borrowed from friends or colleagues or cost-free file sharing platforms on the Internet. In either case, the copies produced are very largely illegal.

Highlight Group extending market leadership in the German-speaking region

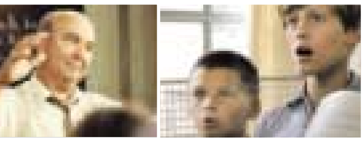
Despite the difficult market conditions, the Highlight Group was able to further reinforce its position amongst the top operators in the German-speaking region. Together with our distribution partner Paramount Home Entertainment, we achieved a double-digit share of the market of 10 % for the first time in terms of DVD sales revenues. In Austria and Switzerland, where our Rainbow distribution companies also operate very successfully, our market share at the end of 2005 was well in excess of 20 %.

One of the main underpinnings of this success last year was the marketing of the Constantin film slate again. Since being established in January 2004, the “Constantin Film” label has carved out a niche for itself as one of the leading product names. Our most successful DVD release last year was easily the Bernd Eichinger production “The Downfall”, which went straight to the top of the “media control” DVD chart after shipping to retailers in March. Together with the special edition released in October, it had racked up total sales of more than 680,000 units by the end of the year, making it one of the top selling DVD releases of 2005.

We enjoyed similar success with the international Constantin production “Resident Evil: Apocalypse”, among others. A total of more than 325,000 copies of this thrilling action-packed sequel starring Milla Jovovich were sold in the German-speaking region. With sales coming to 345,000 units, the Oliver Stone historical epos “Alexander” starring Colin Farell and Angelina Jolie fared even better. Although it was not released until the beginning of December, the Constantin co-production “Fantastic Four” proved to be a veritable hit, with sales of this action spectacle, which is based on the legendary Marvel Comic series, hitting almost 200,000 units in the space of only four weeks.

In the fourth quarter we launched two treats for TV entertainment fans - Season 2 (total of 13 episodes) of the cult series “Hausmeister Krause” starring Tom Gerhardt and – in cooperation with ARD – “The Best of Harald Schmidt”, a selection of the six best shows of 2005 featuring the undisputed king of German night talk.

The fact that for all its commercial success the Highlight Group also markets premium quality was confirmed by the “DVD Champion 2005” awards, which were presented in Munich in mid October. In addition to nominations in eight different categories, the special edition of “The Downfall” received the coveted award in the category “Best German Film”.



Sentimental direction with top-class music: “Les Choristes”

Poetic images and breathtakingly perfect battle scenes: “House of Flying Daggers”

Outlook for 2006

This year, market research company “Gesellschaft für Konsumforschung” (GfK) forecasts slight contraction in the home entertainment market. Despite the palpable improvement in the overall economy and distinctly brighter consumer sentiment, market researchers do not expect these two factors to completely offset the negative determinants, namely protracted price erosion and piracy. In addition, the growth hitherto resulting from households’ increasing hardware facilities is expected to weaken. What will play an even greater role in the first half of the year in particular, however, is the fact that 2005’s relatively weak cinema lineup will be due for marketing on DVD.

Still, the Highlight Group does not consider the outlook for 2006 to be quite as dismal especially as a number of high-caliber DVD releases are slated for release in the first few months. This particularly includes the star-studded (Keira Knightley and Kris Kristofferson) psycho thriller “The Jacket”, produced by George Clooney and Steven Sonderbergh, which has been in stores since the end of February. Following on from this at the end of March was the DVD launch of the most successful German movie of 2005 – “The White Massai”, an authentic film version of the best seller written by Swiss author Corinne Hofmann.

An artistic highlight in the form of “Paradise Now” is scheduled for release in April. This extraordinary film about two Palestinians recruited for a suicide bombing was awarded a Golden Globe® this year for best non-English language film and nominated for an Oscar® in the best foreign language film at this year’s Academy Awards. Also slated for an April release is “Der Fischer und seine Frau” by top director Doris Dörrie, an amusing story about four lovable but extremely different people with all their wishes, aspirations and dreams.

Awarded the 2005 German Television Prize: the Constantin Entertainment production "clever! – Die Show, die Wissen schafft".

The TV productions of the various Constantin subsidiaries are also increasingly ensuring guaranteed success. Constantin Entertaiment GmbH's daily formats alone account for around 1,000 hours of content and regularly achieve top ratings in the target group of relevance for advertisers.

No match for the highly nervous: Liverpool FC did not emerge as winner of the UEFA Champions League until the penalty shootout.

Highlight subsidiary TEAM has largely completed the global sale of the TV rights to the UEFA Champions League for the 2006/07 – 2008/09 seasons. UEFA has extended the TEAM agency contract until the 2011/12 season and acquired a 20 % interest in Team Holding AG.

Still a spectator magnet: the UEFA Champions League

Division: **SPORTS & EVENT MARKETING**

Additional marketing opportunities thanks to broader range of media

Despite the competition coming from new media, television will remain the driving force in the sports license market in the future. Live transmissions of sports events consistently generate high ratings and therefore continue to form a key element of TV broadcasters' program portfolios. At the same time, the sport license industry is experiencing additional impetus from the growing globalization of sport and general economic growth, particularly in Asia and Latin America.

With the progressing spread of digital television and resultant program diversity, new approaches will be possible. Thus, models not only targeted at subscriber and advertising revenues but also taking account of changes in the media industry are being developed. Examples include interactive games, televoting and merchandising. However, use of the Internet and mobile telephones as two new forms of mass media is also opening up new business options for holders of sports licenses.

All main markets are still characterized by fragmented media channels such as satellite and cable television, broadband Internet and Internet TV. This program diversity may exert pressure on free TV content. However, the new range of content available for broadcasting and the new technology are opening up additional business opportunities.

TEAM agency contract renewed without any invitation for tenders

The year under review saw a number of highlights for our subsidiary TEAM. Strategically, the most important event was doubtless the early renewal of the agency contract for marketing the UEFA Champions League. With the new contract signed, TEAM is now able to continue its successful collaboration with UEFA until the 2011/12 season free of any interruptions. In fact, to reinforce the continuity in the relations between the two sides still further, UEFA acquired a 20 % stake in Team Holding AG.

TEAM's activities primarily revolved around the sale of the commercial rights to the UEFA Champions League for the 2006/07 – 2008/09 seasons. Successful signings for TV rights were achieved in all key European markets. Thus, the contracts with the previous partners ITV and BSkyB in the United Kingdom and with TF1 and Canal+ in France were renewed. In Germany, the exclusive free and pay TV rights for the live transmission of the matches were assigned to Premiere. Premiere has developed a new format ("Champions TV") for the free-TV broadcast, which will be making its debut on sports channel DSF as of the 2006/07 season. "Champions TV" will be broadcasting one top encounter live on free TV on each UEFA Champions League day together with a roundup of the highlights of the other matches.

In Italy, new partner RAI will be broadcasting a live match on free TV each Wednesday. At the same time, the previous partner Mediaset will be offering the matches in a terrestrial pay-per-view format. Pay-TV broadcaster Sky Italia will continue to hold the satellite rights in the future. In Spain, the free TV rights were assigned to Antena3 for the first time, while Sogecable remains our pay-TV partner. Negotiations for the other European markets have also been completed successfully, with final results also already achieved in Asia, North and South America as well as the Middle East. This ensures that in the future it will still be possible to view the UEFA Champions League anywhere in the world.

Traditional opening of the new season in Monaco: the UEFA Super Cup

Year after year, enthusiastic fans and packed stadiums testify to the strong appeal of the UEFA Champions League.

In the sponsoring area, we simplified the marketing structures. Instead of four main sponsors plus three equipment suppliers, six main sponsors will be nominated for the elite class of European club football as of the 2006/2007 season. The contracts with the previous two partners Heineken and MasterCard were renewed. At the same time, two renowned new sponsors, namely Sony Electronics, the world’s largest producer of consumer electronics, and Vodafone, one of the leading mobile communications companies, have been signed up. The two remaining packages have been assigned to Ford and Sony PlayStation this year.

New TV technology in use

At the operative level, our subsidiary was able to demonstrate the expertise which it has gained over many years as well as its organizing talents with large-scale sports events. The traditional start was marked by the UEFA Cup Final, which pitted CSKA Moscow against Sporting Lisbon in Lisbon on May 18. A week later, the highlight of the season took place, namely, the grand final of the UEFA Champions League.

In Istanbul, AC Milan encountered Liverpool FC in a dramatic and thrilling match in which there was no obvious victor. However, Liverpool FC, which was three goals down with no goals of its own at the break, was able to catch up in the second half and finally prevail in the penalty shootout. This inspiring final attracted enormous media interest once more, with the printed media alone represented by 750 accredited journalists and 150 photographers, while 83 TV broadcasters with a production and technical staff numbering over 1,000 ensured global live coverage of the match. For the first time, the digital HDTV (high definition TV) broadband standard was used, providing highly detailed images, vivid colors and enormous depth of field.

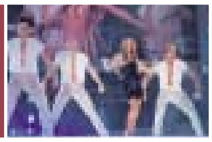
Continued strong interest in the Eurovision Song Contest

Event marketing activities concentrated on the Eurovision Song Contest, which took place on May 19 (semifinal) and on May 21 (grand final) in Kiev. With a record number of 39 countries participating, the 50th edition of what is the top European entertainment competition was also the largest and most complex. The live transmission of the event, which was watched by some 100 million TV viewers again, fetched an extraordinarily high market share in many countries. Thus in Greece, for example, whose entry won this year’s Song Contest, an average market share of 88 % was registered.

Participation in televoting, via which viewers in all countries taking part in the contest have been able to directly select their favorites since 2004, was also strong. As decreed by tradition in the final, the results of the individual votes were announced in live transmissions from each of the countries. The countries which had not qualified for the final stated their scores first, followed by the 24 countries taking part in the final.

Kiev welcomes Europe: the Eurovision Song Contest 2005

The Greek entry performed by Elena Paparizou won the competition with a sizeable lead.



TEAM was also responsible for marketing the celebration on the occasion of the 50th anniversary of the Eurovision Song Contest, which was held on October 22 in Copenhagen in the form of a large show. During the celebration, which was broadcast live in 31 countries, viewers across Europe were also able to select their all-time favorite Grand Prix song via televoting. The public's clear favorite quickly emerged as “Waterloo”, the winner of the 1974 competition, which launched Swedish superstar group ABBA's international career.

TEAM also involved in Football World Cup

This year, TEAM will be completing the sales process for the remaining rights to the UEFA Champions League for the 2006/07 – 2008/09 seasons. In addition, it will be selling the TV rights to the U-21 European Championship taking place at the end of May/beginning of June in Portugal on behalf of UEFA, just as it did two years ago.

On top of this, TEAM will be conducting an interesting project during the Football World Cup in Germany in 2006. The World Cup Organization Committee has assigned our subsidiary the task of designing and implementing a uniform look for the total of twelve venues.

Finally, preparations for three European highlights are now at fever pitch: the UEFA Cup final on May 10 in Eindhoven, the UEFA Champions League final on May 17 in Paris and the Eurovision Song Contest on May 18 and 20 in Athens. As in the past, all these events will benefit from TEAM's expertise and high professionalism.

Cell phones expressly permitted: continued strong participation in tele-voting at the Eurovision Song Contest

With a record number of 39 participating countries, the live TV broadcast of the Eurovision Song Contest achieved top ratings across Europe again. TEAM has been marketing this popular traditional event since 2004.

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 complies with the rules issued by SWX Swiss Exchange. The following corporate governance disclosures are confined to details which are of material importance for market participants. Information given on the Company's organization and structure is correct as of the time of going to press.

1. Group structure

Pursuant to a resolution passed by the shareholders at the Annual General Meeting held on June 3, 2005, Highlight Communications AG adopted a tax-privileged holding structure and moved its headquarters from Pfäffikon/SZ to Pratteln/BL.

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 Pratteln/BL (formerly 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 as of December 31, 2005, stood at EUR 274 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). As of December 31, 2005, Constantin Film AG had a market capitalization of EUR 139 million.

With an interest of 65.48 % as of December 31, 2005, Highlight Communications AG is the largest shareholder. Bernd Eichinger, producer and founder of the company, controlled 25.07 % of Constantin Film AG's share capital via Bernd Eichinger Holding GmbH & Co. KG as of December 31, 2005. On June 14, 2005, Highlight Communications AG acquired a call option on the 25.07 % share held by Bernd Eichinger Holding GmbH & Co. KG. As reported in the ad-hoc bulletin dated January 19, 2006, Highlight Communications AG exercised this call option in January 2006. The other shares are held by various institutional investors, funds and private individuals.

On June 5, 2003, Highlight Communications AG entered into a shareholder agreement with Bernd Eichinger concerning Constantin Film AG. With the acquisition of the 25.07 % share from Bernd Eichinger Holding GmbH & Co. KG, this shareholder agreement was terminated. Bernd Eichinger will remain involved with Constantin Film AG in the long term by virtue of a multi-year producer and consulting contract.

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 of December 31, 2005:

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 Home Entertainment AG Pratteln, Switzerland	CHF	200,000	100 %
KJP Holding AG Lucerne, Switzerland	CHF	100,000	100 %
Team Holding AG Lucerne, Switzerland	CHF	250,000	80 %
Team Football Marketing AG Lucerne, Switzerland	CHF	6,340,000	76.214 %
T.E.A.M. Television Event And Media Marketing AG Lucerne, Switzerland	CHF	200,000	80 %

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, three natural persons and institutional investor groups hold blocks of shares in excess of 5 %. The most important shareholders are Drueker & Co. with 28.44 %, Bernhard Burgener with 7.41 % and the R. Camenzind estate with 5.30 %. The rest is held by various institutional investors and funds as well as private investors. The Board of Directors is aware of no other shareholders with an interest of over 5.00 %.

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 3,655,995 shares were bought back and 4,118,000 placed with institutional and private investors. The maximum volume of treasury shares came to 6.16 % of the Company’s issued capital. On December 31, 2005, treasury shares comprised 319,536 shares, equivalent to 0.67 % of the Company’s issued capital.

The current figure is updated regularly on Highlight Communications AG's website.

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.

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, Chairman of the Board of Directors,
member of the Board of Directors since 1994
Swiss national, businessman, entrepreneur;
responsible for investors and the Highlight Group's strategy, executive member.

Martin Wagner, Vice Chairman, member of the Board of Directors since 2000
Swiss national, attorney;
Head of Legal Affairs & Compliance, executive member.

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

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

Thomas Klooz, member of the Board of Directors since 2004
Swiss national, attorney;
CEO of TEAM, executive member.

Dr. Ingo Mantzke, member of the Board of Directors since 1999
German national, MBA;
Chief Investor Relations Officer, 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 Holding AG, Schwyz, Switzerland*
Martin Hellstern	*Board of Directors of KITAG Kinotheater AG, Zurich, Switzerland* *Board of Directors of CineStar SA, Lugano, Switzerland* *Board of Directors of Atlantic Cinema AG, 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 Wiederkehr Recycling AG, Waltenschwil, Switzerland* *Board of Directors of Atlantis Investment AG, Wil, Switzerland* *Board of Directors of M.H. Movie Holding AG, Glarus, Switzerland* *President of the 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 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* *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* *Vice-President of the Board of Directors of Swissfirst Bank AG*

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 Chairman, the Vice Chairman and the Secretary. It issues the code of conduct, which was last amended on April 2, 2004.

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 met a total of five times.

3.5.3. Committees

Pursuant to a resolution which it passed on June 2, 2005, the Board of Directors established an audit committee comprising Bernhard Burgener (chairman), René Camenzind and Martin Hellstern.

At its meeting on June 2, 2005, the Board of Directors passed a resolution to establish a compensation committee comprising René Camenzind, Martin Hellstern and Bernhard Burgener (chairman) to decide on matters concerning compensation for the Board of Directors and management.

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 is structured as follows: The financial statements (income statement, balance sheet and cash flow statement) for the individual subsidiaries are prepared on a quarterly basis. These figures are consolidated and condensed per segment and for the Group. At the same time, the figures are compared with 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 3, 2006.

4.1. Members of management

4.1.1. Corporate

Bernhard Burgener, Chairman of the Board of Directors

Swiss national, responsible for Group strategy, established Rainbow Home Entertainment AG (formerly Rainbow Video AG), Pratteln in 1983. Shareholder since 1994, Delegate of the Board of Directors until 1999, Chairman of the Board of Directors since 1999.

Martin Wagner, Vice Chairman 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 Home Entertainment AG (formerly 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)

Thomas Klooz was appointed CEO effective January 1, 2006, and replaced Richard Worth. The original founders of the company, Klaus Jörgen Hempel und Jürgen Lenz, will remain on the Boards of Directors of the TEAM Group companies until June 30, 2009 and be responsible for strategic business performance.

Klaus Jörgen Hempel, President 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 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.

Thomas Klooz, member of the Board of Directors, 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.

Frank Leenders, Managing Director Event Operations

Dutch national, lic. oec. and MBA, 1992 until 2001 Marketing Manager and Director Television with TEAM, after which Director Sports Rights Acquisitions with STREAM Television in Italy; since October 2002, he has been with TEAM, initially as Managing Director Business Development, and today as Managing Director Event Operations.

Tom Liston, Managing Director Marketing

British national, he attended business school in England, was engaged in sports marketing activities in Saudi Arabia and with ISL Marketing AG in Lucerne; since 1992, he has been with TEAM, today in his function as Managing Director responsible for the Marketing division.

Simon Thomas, Managing Director Television

New Zealand national, lawyer and MBA, he worked as a lawyer in the UK, from 1995 until 1997 he was Manager Legal with TEAM and after that as Marketing Manager with NIKE Australia as well as Manager Football Operations and Senior TV Manager with the Organisation Committee of the Summer Olympics in Sydney; since 2001 he has been back at TEAM, today as Managing Director Television.

David Tyler, Managing Director Business Affairs

British national, lawyer, from 1995 until 1997 he worked as a lawyer with Bird & Bird in London and since 1997 he has been with TEAM as Manager Legal and Director Legal, today as Managing Director Business Affairs.

4.1.3. Home Entertainment (Home Entertainment division)

Franz Woodtli, Managing Director home entertainment

Swiss national, businessman, with Rainbow Home Entertainment AG (formerly 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.

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, shares and loans

The Board of Directors oversees the compensation paid to members of the management bodies. The compensation committee established by the Board of Directors determines the amount of compensation paid to members of management, who in turn 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, social security benefits and dissolution settlements came to CHF 3.751 million (previous year: CHF 5.579 million) and was paid to six 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. Shareholdings

As at December 31, 2005, the Directors held the following shares in the Company:

	Number of shares	Share in capital
Bernhard Burgener	3,500,000	7.41 %
René Camenzind (Reinhold Camenzind estate)	2,502,550	5.30 %
Martin Hellstern (M.H. Movie Holding 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 member of the Board of Directors with the highest total compensation in the year under review received a sum of CHF 1.08 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 Sections 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 UEFA relating to the UEFA Champions League.

8. Auditing

8.1. Duration of auditor 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 fees

A sum of CHF 250,000 was provided for auditing services of PricewaterhouseCoopers in fiscal 2005. Additional fees of CHF 92,500 were charged by PricewaterhouseCoopers AG for assistance with and the preparation of projects (incl. taxes) relating to the AG 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, 2005 of Highlight Communications AG, Pratteln

The information within our annual report is originally published in German. Discrepancies or differences created in the translation are not binding and have no legal effect for compliance or enforcement purposes. If any questions arise related to the accuracy of the information contained in the translation, please refer to the German version of our annual report, which is the official and only binding version.

Consolidated balance sheet for the year ended December 31, 2005

Highlight Communications AG, Pratteln

ASSETS (in TCHF)	Notes	Dec. 31, 2005	Dec. 31, 2004
Non-current assets			
Property, plant and equipment	14	3,976	3,899
Film assets			
– Own productions	15	224,768	177,348
– Third-party productions	15	78,666	50,619
Goodwill	16	21,481	24,233
Other intangible assets	17	171	279
Non-current receivables	19	15,613	213
Securities	20	457	455
Deferred taxes	22	25,827	29,233
		370,959	**286,279**
Current assets			
Inventories and unfinished service productions	18	45,717	20,523
Current receivables	19	81,127	64,572
Current tax assets		2,598	497
Securities	20	25,659	29,065
Cash and cash equivalents	21	207,949	171,600
		363,050	**286,257**
Total assets		**734,009**	**572,536**

The Notes on page 54–91 are an integral part of the consolidated financial statements.

SHAREHOLDERS' EQUITY AND LIABILITIES (in TCHF)	Notes	Dec. 31, 2005	Dec. 31, 2004
Equity			
Share capital	23	47,250	47,250
Capital reserves		10,188	60,161
Treasury shares		-319	-787
Cumulative other capital		-301	-300
Retained earnings		36,411	16,909
Currency translation differences		2,227	1,730
		95,456	**124,963**
Minority interests		34,659	55,786
		130,115	**180,749**
Non-current liabilities			
Loans	24	51,062	8,462
Other liabilities		50	0
Deferred taxes	22	15,877	11,319
Retirement benefit obligations	25	506	700
		67,495	**20,481**
Current liabilities			
Trade payables and other liabilities	26	112,308	94,709
Liabilities subject to interest	24	197,822	115,655
Advance payments received		210,406	148,961
Current tax liabilities		2,285	6,883
Provisions	27	13,578	5,098
		536,399	**371,306**
Total shareholders' equity and liabilities		**734,009**	**572,536**

The Notes on page 54–91 are an integral part of the consolidated financial statements.

Consolidated income statement for 2005

Highlight Communications AG, Pratteln

(in TCHF)	Notes	2005	2004
Revenues			
Sales		164,467	116,955
License income		85,250	190,484
Service income		191,355	184,695
Subsidies		21,249	26,074
		462,321	**518,208**
Other income	5	5,384	4,987
		467,705	**523,195**
License expense	15	116,473	142,755
Merchandise and production expense	6	215,388	245,695
Personnel expense	7	51,611	51,482
Advertising		7,185	5,779
Depreciation/amortization	8	5,259	6,137
Various operating expenses		28,785	29,532
		424,701	**481,380**
Earnings from operating activities		**43,004**	**41,815**
Financial expense	9	-2,222	-2,200
Financial income	9	1,859	1,503
Net foreign exchange result		980	5,023
Earnings from investments in associates	10	0	232
Earnings before taxes		**43,621**	**46,373**
Taxes	11	-12,409	-16,225
Net consolidated earnings		**31,212**	**30,148**
of which: Highlight Communications AG shareholders	12	22,640	18,120
Minority interests		8,572	12,028
		31,212	**30,148**

(in CHF)		2005	2004
Earnings per share (basic)	12	0.49	0.39
Earnings per share (diluted)	12	0.49	0.39

The Notes on page 54–91 are an integral part of the consolidated financial statements.

Statement of changes in equity for 2005

Highlight Communications AG, Pratteln

(in TCHF)	Share capital	Capital reserves	Treasury shares	Cumu-lative other capital*	Accrued deficit / retained earnings	Currency translation differ-ences	Subtotal	Minority interests	Total
Balance as at Dec. 31, 2003	**47,250**	**61,262**	**–531**	**0**	**–1,211**	**1,862**	**108,632**	**53,045**	**161,677**
Net consolidated earnings					18,120	-4	18,116	12,028	30,144
Currency translation differences						–128	–128	-944	–1,072
Purchases of treasury shares		–12,544	–3,041				–15,585		–15,585
Sale of treasury shares		11,443	2,785				14,228		14,228
Other changes				–300			-300	–217	-517
Dividends							0	-7,970	-7,970
Purchase of minority interests							0	–156	–156
Balance as at Dec. 31, 2004	**47,250**	**60,161**	**–787**	**–300**	**16,909**	**1,730**	**124,963**	**55,786**	**180,749**
Net consolidated earnings					22,640		22,640	8,572	31,212
Currency translation differences						497	497	293	790
Purchases of treasury shares			-3,656		–25,735		-29,391		–29,391
Sale of treasury shares			4,124		27,134		31,258		31,258
Other changes				35			35	25	60
Dividends					–4,537		-4,537	-8,724	–13,261
Purchase of minority interests		-49,973		-36			-50,009	–21,293	-71,302
Balance as at Dec. 31, 2005	**47,250**	**10,188**	**–319**	**–301**	**36,411**	**2,227**	**95,456**	**34,659**	**130,115**

** The amount reflects the fair value of the open forward transactions (cash flow hedges) after taxes.*

The Notes on page 54 – 91 are an integral part of the consolidated financial statements.

Consolidated cash flow statement for 2005

Highlight Communications AG, Pratteln

(in TCHF)	Notes	2005	2004
Cash flow from operating activities			
Net consolidated earnings		31,212	30,148
Depreciation of property, plant and equipment	8	2,280	2,245
Amortization of license rights	15	111,425	142,094
Goodwill amortization	8	2,815	3,712
Amortization of other intangible assets	8	164	180
Market value changes on securities		763	195
Non-charged transfers of treasury shares		53	2
Changes in accruals of licenses	15	0	26
Changes in provisions and other non-cash items		8,380	4,082
Changes in current and deferred taxes		1,239	3,332
Net earnings from associates after taxes	10	0	-232
Net earnings from the sale of equity interests		0	459
Gains from disposal of property, plant and equipment	14	-33	82
Cash flow from operating activities before changes in net current assets		**158,298**	**186,325**
Change in net current operating assets			
Inventories and unfinished service productions		-24,957	4,313
Receivables		-15,650	6,319
Liabilities		12,562	-3,823
Advance payments received		60,159	-10,553
Cash flow from operating activities		**190,412**	**182,581**

The Notes on page 54–91 are an integral part of the consolidated financial statements.

(in TCHF)	Notes	2005	2004
Investment and disinvestment activities			
Acquisition of film assets	15	–184,984	–106,749
Acquisition of property, plant and equipment	14	–2,527	–1,865
Acquisition of other intangible assets	17	–54	–203
Acquisition of financial assets		–258	–21,110
Sale of financial assets		14,500	28,183
Changes in receivables and loans		–15,341	227
Sale of equity interests (not consolidated)		0	232
Acquisition of equity interests net of cash and cash equivalents acquired (changes to scope of consolidation)		–11,934	0
Sale of equity interests net of cash and cash equivalents sold (changes to scope of consolidation)		0	–88
Sale of property, plant and equipment		236	4,199
Sale of other intangible assets		0	15
Cash flow from investing activities		**–200,362**	**–97,159**
Financing activities			
Dividends paid to Highlight shareholders		–4,537	0
Dividends paid to minority interests		–8,724	–7,970
Capital contribution by minority interests		50	0
Purchase of minority interests		–59,381	–76
Sale/purchase of treasury shares		1,814	–1,359
Acceptance/repayment of liabilities subject to interest and loans		116,112	–34,567
Cash flow from financing activities		**45,334**	**–43,972**
Currency translation differences		965	–1,093
Net inflow of funds		**36,349**	**40,357**
Cash and cash equivalents at beginning of period		**171,600**	**131,243**
Cash and cash equivalents at end of period		**207,949**	**171,600**
Additional cash flow disclosures			
Interests paid		4,198	2,358
Taxes paid		10,283	11,954
Interests received		1,469	901
Tax reimbursements received		1,023	0

The Notes on page 54–91 are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements for 2005

Highlight Communications AG, Pratteln

1. General

Highlight Communications AG and its subsidiaries (hereinafter referred to as the "Highlight Group" or "Group") own and exploit film rights. Moreover, the Group is active in sports and event marketing, a field in which it markets the UEFA Champions League as its main project. Highlight Communications AG holds a share in Constantin Film AG, among others. 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 388 people as at December 31, 2005 (previous year: 425).

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

Netzibodenstrasse 23b
4133 Pratteln
Switzerland

The consolidated financial statements were released for publication by the Board of Directors on April 24, 2006 and will be submitted for approval by the shareholders at the Annual General Meeting on June 2, 2006.

2. Accounting principles

Basis of preparation of consolidated financial statements

The consolidated financial statements of the Highlight Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations issued by the International Accounting Standards Board, as they have to be applied in the European Union, and comply with Swiss law. The accounts are based on historical costs with the exception of certain items such as financial assets as well as other financial instruments (see separate comments on financial assets), which are recognized at their fair value.

Film assets are recognized in accordance with US-GAAP (SOP 00/2) in line with standard industry practice.

The "fair value" is defined as the amount for which an asset, a liability or a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. The fair value is calculated on the basis of market prices or through the application of acknowledged methods such as option price models and discounting expected cash flow.

It is assumed that the fair value of trade receivables and payables equals the nominal amount less any provision.

Consolidation principles

The consolidated financial statements comprise the annual financial statements of Highlight Communications AG and its subsidiaries.

Subsidiaries are defined as entities which Highlight Communications AG controls directly or indirectly. Control means the power to govern the financial and operating activities and to derive benefits from these.

This is normally the case if Highlight Communications AG holds more than 50 % of the voting rights or potential voting rights of the entity either directly or indirectly. Entities which are acquired in the course of the year under review are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Please refer to Note 29 (Acquisition/ sale of equity interests, changes to scope of consolidation) and Note 30 (List of consolidated companies) for details of changes to scope of consolidation.

Intragroup balances, transactions and liabilities as well as unrecognized gains and losses are eliminated in full from the consolidated accounts. The individual annual financial statements have been adjusted where they deviate from Group accounting principles.

Investments in associates are accounted for by the equity method of accounting. Associates are entities over which the Group has or could have significant influence but not control, generally accompanied by a shareholding of between 20 % and 50 % of the voting rights or potential voting rights. Unrecognized gains and losses from transactions with associates are eliminated in accordance with the size of the Group's investment in associates.

Foreign currency translation

The Group entities use their functional currency for reporting purposes. However, some Group entities have a functional currency which is not identical to their local currency if this is not the currency of the primary economic environment in which such Group entity primarily operates.

Local transactions in other currencies are recognized by the Group entities using the exchange rate applicable on the date of transaction. Gains and losses from the settlement of these transactions as well as from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

For consolidation purposes, the assets and liabilities of all Group entities that report in a functional currency other than the Swiss franc (foreign Group entities) are translated at year-end exchange rates. Sales, expenses, net earnings for the year and cash flow are translated at annual average exchange rates. Translation differences arising from changes in exchange rates between the beginning and the end of the year and deviations between net earnings for the year translated at average exchange rates and year-end exchange rates are included in equity as a matter of principle. If the foreign entities are non-independent sub-units, the translation differences are charged to the income statement. When a foreign Group entity is sold, the cumulative translation differences of that entity are recognized in the income statement via its own funds as part of the gain or loss on sale.

Foreign-currency translation within the Group was based essentially on the following exchange rates:

	Year-end exchange rates		Annual average exchange rates	
	2005	2004	2005	2004
Euro (EUR)	1.5544	1.5433	1.5483	1.5441
US dollar (USD)	1.3183	1.1313	1.2459	1.2429
Canadian dollar (CAD)	1.1322	0.9400	1.0295	0.9551
Pound sterling (GBP)	2.2671	2.1830	2.2642	2.2788

Film assets

Film assets are recognized in accordance with the US-GAAP rules in the consolidated financial statements of the Highlight Group. 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-service productions exploited by the Group.

Genuine service 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 recognized as “Inventories and unfinished service productions”. They are carried at their cost of production.

As a matter of principle, the acquisition costs for third-party productions include minimum guarantees, which 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, 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 carrying amount 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 revenue from the film. The Highlight Group examines and revises revenue forecasts and depreciation expenses upon any changes to previous forecasts occurring.

Capitalized 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.

Business combinations

Business combinations are recognized in accordance with the purchase method of accounting. The cost of a business combination comprises the consideration provided in exchange for control over the identifiable assets, liabilities and contingent liabilities of the acquiree. Consideration comprises cash payments as well as the fair value of the assets given, liabilities accepted or assumed and equity instruments issued by the Group on the transaction date. The cost of a business combination also includes any costs directly attributable to the business combination. The net assets acquired comprising the identifiable assets, liabilities and contingent liabilities are recognized at their fair value. If the Group does not acquire a 100 % share in the acquiree, the minority interests are recognized as a share in the fair value of the net assets acquired. Goodwill is the difference between the cost of the business combination and the Group's interest in the fair value of the net assets acquired. Goodwill and the fair value adjustments to the net assets are recognized in the assets and liabilities of the acquiree in the acquiree's local currency. Goodwill can also arise from interests in associates and equals the difference between the cost of acquiring the investment in the associate and the acquirer's interest in the identifiable net assets. This goodwill is recognized as investments in associates.

Goodwill is not amortized but is tested for impairment on each balance sheet date or if there is anything to indicate that it may be impaired. Goodwill is allocated to the corresponding cash generating units. If the recoverable amount of the cash generating unit, which is the higher of its fair value less costs to sell and its value in use, is less than its carrying amount, the carrying amount is written down. The method used to test cash generating units for impairment is described in Note 16.

Negative goodwill is recognized as income after a further test of the net assets.

When shares in entities which are already controlled are acquired, they are recognized using the entity concept at the shareholder level, meaning that the acquisition is charged to equity.

Other intangible assets

These comprise software and related licenses. Intangible assets acquired are carried at cost. Intangible assets are amortized on a straight-line basis over their estimated useful lives of three years as of the date on which the benefit passes to the Group. The estimated useful life is the legal or economic useful life, whichever is the shorter. The estimated useful lives of intangible assets are regularly reviewed.

Property, plant and equipment

Property, plant and equipment are recognized at historical cost less depreciation necessary for business purposes.

Depreciation is calculated on a straight-line basis over the estimated useful lives of these assets. The following useful lives (in years) are assumed:

Office equipment (including IT)	3 – 13
Motor vehicles	4 – 5
Fixtures	12
Buildings	27.5

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

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

The residual carrying amounts and useful lives are reviewed on each balance sheet date and, if necessary, adjusted.

Impairment of intangible assets and property, plant and equipment

If there is any indication of a possible impairment in an asset, the recoverable amount of such asset is calculated in order to determine the impairment. If the recoverable amount of the asset, which is the higher of its fair value less costs to sell and its value in use, is less than its carrying amount, the carrying amount is reduced to the recoverable amount. This impairment loss is recognized in the income statement. For the purpose of impairment testing, assets are combined to form the smallest identifiable group of assets that generate cash inflows (cash generating units).

If the reasons for the impairment no longer apply, the impairment loss is reversed. A reversal of impairment losses on goodwill is not possible.

Leases

Leased property, plant and equipment in connection with which all material risks and rewards pass to the Group are recognized as finance leases. Finance leases are recognized at the commencement of the lease term at their fair value or, if lower, the present value of the minimum lease payments. The lease liability less financing costs is recognized as a loan. The assets acquired by means of a finance lease are written down in accordance with the above principles for calculating the depreciation of property, plant and equipment. The interest component of the lease payment is included in the consolidated income statement for the period of the lease using the effective interest rate method.

Leases under which all material risks and rewards are retained by the lessor are classified as operating leases. The payments made under operating leases are charged to the consolidated income statement in equal installments over the period of the lease.

Inventories and unfinished service productions

Inventories and unfinished service productions are shown at the lower of purchase or production cost and net realizable value. Purchase cost is determined by the first-in first-out method (FIFO). The net realizable value is the estimated revenue to be achieved from a sale minus the estimated costs necessary to make the sale. Genuine service 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 recognized as “Unfinished service productions” within “Inventories and unfinished service productions”.

Trade receivables / non-current receivables

Trade receivables are recognized at amortized cost. Allowances are made for doubtful receivables. Irretrievable receivables are written off as a loss. Non-current receivables are discounted to their present value if the effects are significant. Provisions are set aside for expected returns of merchandise and the reimbursement of sales deferred in liabilities.

What are known as project promotion loans are used to finance film productions. They are loans that have to be repaid under specific conditions. With some funding organizations, the repayment of a loan may lead to an automatic right to a loan for new production of the size of the repayment. This new loan has to be granted by the funding organizations.

New promotion loans that have been applied for and granted are included as sales on theatrical release of the respective film production. Inclusion of the repayment in the accounts is made dependent on the nature of the rights to subsequent loans. If a legal right to a subsequent loan is created by the repayment of the original loan, this is included as a receivable with no effect on the income statement. If the right to a subsequent loan depends on the satisfaction of one or more conditions, an expense is posted if repayment of the original loan is foreseeable. The subsequent loan that is approved on request after the relevant conditions have been satisfied is included in revenues.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at bank, deposits held at call with banks and term deposits with banks and other financial institutes. These are only recognized as cash and cash equivalents if they can be converted at any time into cash and cash equivalents of an amount capable of being determined in advance, are exposed to only minor fluctuations in value and have an original maturity of three months or less as of the date of acquisition. This definition is also applied to the cash flow statement.

Financial assets

Financial assets, also including securities and investments in non-consolidated associates, are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “held-to-maturity financial assets” and “loans and receivables”.

Financial assets at fair value through profit or loss are classified either as financial assets held for trading or those designated at fair value through profit or loss at inception. Financial assets held for trading are acquired principally for the purpose of deriving a profit from short-term price fluctuations. Financial assets are designated at fair value through profit or loss at inception if they are used to remove recognition and measurement inconsistencies and thus provide more relevant information.

Held-to-maturity investments are securities with a fixed period which the Group wants to and is able to hold until maturity.

Loans and receivables are loans granted by the Group or acquired from an issuer in a primary market and other non-current receivables held by the Group. They are non-derivative financial assets with fixed or determinable payments. All other financial assets are categorized as available-for-sale.

All financial assets are initially recognized at their fair values including transactions costs with the exception of those designated at fair value through profit or loss, for which transaction costs are not included. All purchase and sales of investments are recognized on the trade date, i.e. the date of transfer of the asset. Following initial recognition, the financial assets at fair value through profit or loss are recognized at their fair value and all changes in fair value taken to the income statement for the reporting period in question.

Following initial recognition, held-to-maturity investments are recognized at amortized cost using the effective interest method.

After initial recognition, available-for-sale financial assets are carried at their fair value and all unrealized gains and losses resulting from changes in fair value recognized in equity. In the event of the sale, impairment or any other disposal of available-for-sale financial assets, the gains and losses accumulating in equity since the purchase are taken to the income statement for the period in question. After initial recognition, loans and receivables are measured at amortized cost. Financial assets are tested for impairment on each balance sheet date. In the event of any objective evidence of impairment, such as insolvency, payment defaults or other significant financial difficulties on the part of the issuer, impairment loss is charged to the consolidated income statement.

Financial assets are not recognized if the contractual claim to consideration from the assets has expired or the Group sells its contractual rights to consideration. This also applies if the Group retains the contractual rights but accepts a contractual obligation to assign the consideration to a third party.

Derivative financial instruments

As a matter of principle, the Group uses derivative financial instruments solely to hedge currency and interest risks.

Derivatives are initially recognized at fair value and are subsequently remeasured at their fair value. With the exception of derivative financial instruments designated as qualified cash flow hedging instruments (see below), all changes in fair value are recognized in the income statement for the period in question. Embedded derivative financial assets are recognized separately if they are not closely related to the economic characteristics and risks of the host contract and the host contract is recognized at amortized cost.

The Group distinguishes between two types of hedging relationships. Fair value hedges are used to hedge exposure to changes in the fair value of a recognized asset or liability. Cash flow hedges are used to hedge exposure to risks associated with a recognized asset or liability or variability in future cash flows.

A hedging relationship only qualifies for hedge accounting if certain conditions concerning documentation, likelihood of occurrence, effectiveness and reliable measurement are satisfied. If these requirements are not satisfied, the hedging relationship does not qualify for hedge accounting. In this case, the hedge and the hedged asset are recognized separately as if there were no hedging relationship. Derivative financial instruments used for this purpose are recognized at their fair values and any changes in the fair value taken to the income statement. In the case of qualified fair value hedges, the hedge is recognized at its fair value and the hedged asset at its original carrying amount adjusted for any changes in the fair value of the hedged risk. Unrealized gains or losses from changes in the fair value are taken to the income statement. This also applies to pending hedged items (firm commitment). Fair value hedges are primarily used in connection with the purchase of licenses for international productions.

In the case of qualified cash flow hedges, the hedge is recognized at its fair value. Of the unrealized gains or losses from changes in the fair value of the hedge, the part effective for the hedge is taken to equity and the remaining non-effective part is taken to the income statement. If the hedge is for a firm commitment or a planned transaction with a high probability of occurrence resulting in the recognition of a non-monetary asset or liability, the unrealized gains and losses from changes in the fair value of the hedge accumulating under equity are released on the date of initial recognition of the hedged item and included in the initial carrying amount of such item. In the case of all other qualified cash flow hedges, the unrealized gains and losses from changes in the fair value of the hedge accumulating under equity are recognized on the date on which the planned transaction is taken to the income statement.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

The provisions calculated are based on the best possible estimate of the final obligation. Possible obligations whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events or obligations whose amount cannot be reliably estimated are disclosed as contingent liabilities. Contingent assets are not capitalized but – like contingent liabilities – disclosed if an economic benefit is likely for the Group.

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. They are discounted if the effects are material.

Retirement benefit obligations

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 retirement benefit plans are fundamentally subject to the rules for defined-benefit plans. The value of contracts which are subject to the rules for defined-benefit plans pursuant to IFRS was measured dynamically as at December 31, 2005 using the accrued benefit valuation method. Details of this valuation are set out in Note 25 (Retirement benefit obligations).

In addition, the TEAM Group maintains a support foundation for its management staff organized as a so-called savings institute. 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.

The other entities do not have any material post-retirement benefit plans as defined in IAS 19.

Financial liabilities

Financial liabilities are initially recognized at their fair value net of transaction costs and subsequently remeasured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Treasury shares

The treasury shares held by the Group are deducted from equity. The acquisition costs, proceeds from resale and other movements in treasury shares are recognized as changes in equity.

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. The amount of the revenues is directly related to the number of movie visitors. In line with standard practice in the industry, the film rental 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 service productions are recognized upon the material being delivered to the customer. The percentage-of-completion method is not applied to service productions.

With respect to global distribution, the Group generally receives a minimum guarantee for the exploitation rights sold (cinema, video/DVD, TV rights). These are allocated to the various revenue types. 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 cinema rights, 15 % to video/DVD rights and 60 % to TV rights. The corresponding revenues are recognized as follows: Movie revenues upon cinema release in Germany, video/DVD revenues 6 months after cinema release, TV revenues 24 months after cinema release. If the date on which the license commences is close to the balance-sheet date, the general rates are recognized on an accrual basis. In the case of territories not subject to holdback restrictions, the entire minimum guarantee is 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 contingently repayable public-sector 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.

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 expense and deferred in the balance sheet.

Allowance is made in the balance sheet for deferred taxes resulting from temporary differences between any tax base values and book values. Deferred tax assets from tax loss carryforwards are reported if the taxable income which can be used to offset the tax loss carryforwards 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 recognized if the intention is indeed to make a distribution.

Critical accounting estimates and assumptions

In preparing the consolidated financial statements in accordance with IFRS, management is required to estimate values and make assumptions influencing the income and expenses, assets and liabilities and contingent liabilities reported as of the balance sheet date. These estimates and assumptions are based on management's best possible assessment based on past experience and other factors including estimates of future events. Estimates and judgments are continually evaluated. Changes to estimates are necessary if the circumstances on which they are based have changed or new or additional information has become available. Such changes are recognized in the reporting period in which the estimate is modified.

The key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to income and expenses, assets and liabilities and contingent liabilities within the next financial year are discussed below.

Revenue recognition: The Group has set aside provisions of TCHF 7,540 (see Note 27) for expected returns of merchandise as of December 31, 2005. Such estimates are based on an analysis of contractual or legal obligations as well as historical trends and the Group's experience. On the basis of information currently available, management considers these provisions to be adequate. As they are based on management estimates, they may have to be revised upon better information becoming available. Such adjustments could have an effect on the provisions recognized and the sales reported in future periods.

Film assets and goodwill: The Group has film assets with a carrying amount of TCHF 303,434 (see Note 15) and goodwill with a carrying amount of TCHF 21,481 (see Note 16). As described above, these assets are tested annually for impairment. To determine the existence of any impairment, estimates concerning the expected future cash flows per cash generating unit from the use and possible sale of these assets are calculated. The actual cash flows may differ significantly from the discounted future cash flows based on these estimates. Changes in revenue and cash flow forecasts could lead to impairment.

Provisions for litigation: The Group entities are involved in various disputes. The provisions for litigation referred to in Note 27 stood at TCHF 5,538 as of December 31, 2005. On the basis of current knowledge, the Group assumes that these provisions are adequate. However, further litigation resulting in costs which exceed the existing provisions or insurance cover may arise. In addition, there is no certainty that the volume of disputes will not grow and that future disputes, claims, litigation and examinations will not be insignificant. Such changes may impact the provisions set aside for litigation in future reporting periods.

Deferred taxes: As of December 31, 2005, deferred tax assets were valued at TCHF 25,827 and deferred tax liabilities at TCHF 15,877 (see Note 22). Extensive estimates are required to determine deferred tax assets and liabilities. Some of these estimates are based on an interpretation of existing tax law and rules. Management is of the view that the estimates are appropriate and sufficiently take account of any uncertainty in the tax assets and liabilities. In particular, the deferred tax assets arising from nettable loss carryforwards are dependent upon future profits being generated. Deferred tax assets arising from remeasurement are also dependent on future profits. Moreover, tax loss carryforwards are forfeited after a certain number of years in some jurisdictions. Actual profit may differ from estimates. Such changes may affect the deferred tax assets and liabilities recognized in future reporting periods.

Changes to basis of preparation

At the end of 2003, the International Accounting Standards Board (IASB) published “Improvements to International Accounting Standards”, which affected 15 existing standards:

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events After The Balance Sheet Date
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 31	Interests in Joint Ventures
IAS 32	Financial instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 39	Financial instruments: Recognition and Measurement
IAS 40	Investment Property

In the first quarter of 2004, the IASB published the International Financial Reporting Standards IFRS 2, Share-based Payment, IFRS 3, Business Combinations, IFRS 4, Insurance Contracts and IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, as well as revised versions of IAS 36, Impairment of Assets, and IAS 38, Intangible Assets, and further amendments to IAS 39. In mid 2005, the IASB published a further revision to IAS 39 concerning the fair value option. The Group adopted these modifications as of January 1, 2005. A description of these amendments as well as their effects on the Highlight Group's consolidated financial statements is set out below. At the same time, the comparable figures from the consolidated financial statements for the previous year have been restated or supplemented.

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors: In addition to other requirements, the revised standard calls for changes to accounting policies resulting from the adoption of new or revised standards or interpretations to be applied retrospectively in the absence of any requirements to the contrary in the transitional rules or interpretations for the standard in question. Previously, the Group had applied all changes prospectively in the absence of any requirements to the contrary in the transitional rules. Retrospective adoption means that the figures for the year-ago comparison period and the opening balance sheet for this comparison period must be restated as if the new accounting policies had always been applied. Prospective application means that the new accounting policies are only applied to the figures for the current reporting period and the figures for the comparison period are not restated.

IFRS 2, Share-based Payment: In addition to other requirements, the new standard calls for share-based (i.e. equity-instrument-based) staff participation programs to be recognized at the fair value of the remuneration granted to staff on the date of such grant and taken to the income statement over a period ending upon such entitlement vesting. In accordance with the Group's previous accounting policy, equity-based remuneration was not included in the income statement. There are certain restrictions to the retrospective adoption of the new standard. The transitional rules required companies to apply the new standard retrospectively to all payments granted after November 7, 2002 not yet vested as of December 31, 2004 and additionally to all cash payments not yet executed as of December 31, 2004. No options have yet been issued in the only stock option program established after November 7, 2002. Accordingly, this does not have any effect on the financial statements.

IFRS 3, Business Combinations: In addition to other requirements, the new Standard together with IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets) stipulates that goodwill cannot be amortized after recognition but continues to be tested for impairment. The previous amortization as of December 31, 2004 was eliminated by reducing the acquisition cost of the goodwill. These standards would also have applied to transactions occurring on or after March 31, 2004 had any such transactions been engaged in by the Group. This change has a positive impact on operating profit in 2005 as the scheduled goodwill charges have disappeared in their entirety. The impairment tests to be performed at least annually will result in impairment losses on goodwill. This revision will result in greater volatility in the income statement.

IAS 32 (revised) and IAS 39 (revised), Financial Instruments: Up until December 31, 2004 the Highlight Group reported foreign-currency forwards transacted to reduce possible fluctuations in future cash flows from firm commitments as cash flow hedges in accordance with IAS 39. This means that any gains or losses from the measurement of the fair value of foreign-currency forwards were recognized directly in equity. Pursuant to the changes in connection with the improvement project, there is an option to account for these currency forwards either as cash flow hedges or as fair value hedges. The Highlight Group has decided to make use of this option and to report the transactions concerned (foreign-currency forwards and pending underlying transactions) as fair value hedges. With fair value hedges, the foreign-currency forwards and the underlying hedged transaction are recognized in the income statement and carried in the balance sheet as other assets or other liabilities. Cash flow hedges continue to be used.

IAS 1 (revised) Presentation of Financial Statements: In addition to other requirements, the revised standard stipulates that a company must as a matter of principle present current and non-current assets and liabilities as separate classifications on the face of its balance sheet.

IAS 27 (revised) Consolidated and Separate Financial Statements: In addition to other requirements, the revised standard stipulates that minority interests in the company's assets and liabilities must be presented as separate items within equity but shown separately from equity. The reclassification of minority interests as components of equity must also be included in the equity reconciliation statement and shown in a separate column.

The Group is currently reviewing the possible effects of the revised and new standards which took effect on January 1, 2006. It does not expect the other new and revised standards to have any material effect on its earnings and financial condition although additional reporting will be necessary in certain areas.

The following new standards as well as revisions to existing standards will take effect in future periods:

IAS 19 (revised)	Employee Benefits (from January 1, 2006)
IAS 39 and IFRS 4 (revised)	Accounting for financial guarantees (from January 1, 2006)
IFRS 7	Financial instruments: Disclosures (as of January 1, 2007)
IFRIC 4	Determination whether an arrangement contains a lease (from January 1, 2006)
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (from January 1, 2006)

Management will assess the effects of these revisions in 2006.

Reclassification and additions: The balance sheet additionally contains tax assets. The adjustment results in a reclassification of the previous year's figures of TCHF 497 from receivables to tax assets. This also affects the previous year's cash flow statement.

3. Financial risk management

The Group's business and financing activities expose it to a variety of financial risks. The most significant financial risks to which the Group is exposed arise from changes in foreign currency exchange rates, interest rates, liquidity risks as well as the credit standing and solvency of the Group's counterparties.

Exchange-rate risk

The Group engages in currency hedging particularly for the US dollar in order to reduce its exposure to the exchange-rate risks arising from its business activities. Derivative financial instruments are transacted 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 hold 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.

Risk of change in interest rates

The risk of change in interest rates to which the Group is exposed primarily relates to the liabilities subject to interest. The Group currently does not utilize financial instruments to hedge the risk of changes in interest rates, although interest pooling arrangements are available for bank overdraft liabilities.

Liquidity risk

The Group entities require sufficient liquidity to settle their financial obligations. Generally speaking, the Group entities are independently responsible for raising their own liquidity including the short-term investment of excess liquidity and the procurement of loans for bridging liquidity shortfalls. In addition, the Group's international credit rating allows the efficient utilization of the international capital markets for raising finance.

Credit risk

Credit risks arise from the possibility of the counterparty to a transaction being unable or unwilling to settle its obligations, as a result of which the Group sustains a financial loss. Trade receivables are subject to active risk management with a focus on the assessment of country risks, determination of available credits, ongoing assessment of credit risks and monitoring of receivables.

4. Segment information

The segmentation criteria applied by the Group for segment reporting are primarily based on the divisions and secondarily on geographic segments. The income and risks of the Group are for the most part derived from products made by the Group and less from the geographic location of the Group's facilities. This is reflected in the management and organizational structure as well as the Group's internal reporting. The Group comprises three divisions – "Film", "Home Entertainment" and "Sports and Event Marketing".

The Film division handles the production, exploitation and distribution of films and film rights as well as for related products in the cinema, video/DVD and TV areas.

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

The Sports and Event Marketing division refers to the activities of Team Holding AG and its subsidiaries. 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 refer to bank liabilities.

The figures for the previous year have been restated to allow for a change in the allocation of expenses. As a result, the holding-company costs for 2004 are TCHF 396 lower. At the same time, the effects on the figures of the individual segments are as follows:

Film	TCHF	92
Home Entertainment	TCHF	–244
Sports and Event Marketing	TCHF	–244

If direct allocation to the Film and Home Entertainment divisions 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 below.

Primary segment reporting format – divisions

(in TCHF)	Film 2005	Film 2004	Home Entertainment 2005	Home Entertainment 2004	Sports & Event Marketing 2005	Sports & Event Marketing 2004	Consolidated 2005	Consolidated 2004
Income								
Income with third parties	298,285	378,068	109,487	88,744	54,549	51,396		
	298,285	**378,068**	**109,487**	**88,744**	**54,549**	**51,396**	**462,321**	**518,208**
Result								
Segment result	6,019	19,051	15,694	6,268	25,622	22,502	47,335	47,821
Earnings from investments in associates	0	232	0	0	0	0	0	232
Central holding company costs							-4,331	-6,006
Net financial/currency translation result							617	4,326
Earnings before taxes							**43,621**	**46,373**
Taxes							-12,409	-16,225
Net consolidated earnings							**31,212**	**30,148**
Segment assets	569,693	312,184	70,928	54,275	4,886	4,957	645,507	371,416
Holding company assets							88,502	201,120
							734,009	**572,536**
Segment liabilities	514,607	249,783	16,963	6,310	11,568	17,416	543,138	273,509
Holding company liabilities							60,756	118,278
							603,894	**391,787**
– Investments in property, plant and equipment	1,786	812	403	356	338	697	2,527	1,865
Holding company investments							0	0
							2,527	**1,865**
– Investments in film assets	157,196	90,766	27,788	15,983	0	0	184,984	106,749
– Investments in other intangible assets	54	203	0	0	0	0	54	203
Holding company investments							0	0
							185,038	**106,952**
Depreciation/amortization								
– Property, plant and equipment	1,154	970	445	542	681	733	2,280	2,245
Holding company depreciation							0	0
							2,280	**2,245**
– Licenses								
ordinary amortization	96,766	133,823	10,908	5,210	0	0		
impairment charge	3,751	3,061	0	0	0	0		
	100,517	**136,884**	**10,908**	**5,210**	**0**	**0**	**111,425**	**142,094**
– Others								
ordinary amortization	164	2.645	0	246	0	0		
impairment charge	2,815	1,001	0	0	0	0		
	2,979	**3,646**	**0**	**246**	**0**	**0**	**2,979**	**3,892**
Holding company amortization							0	0
							2,979	**3,892**

Other depreciation and amortization include impairment charge on goodwill of TCHF 2,815 and ordinary amortization of other intangible assets of TCHF 164.

Segment assets comprise all operational assets used by the segment 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 current trade payables, bank liabilities, personnel-related liabilities and taxes.

Secondary segment reporting – geographic segments

The following table shows the breakdown of consolidated revenues across geographical markets irrespective of the country of manufacture. A large portion of the revenues generated in the Film division in Switzerland is for recipients in Germany.

(in TCHF)	2005	2004
Switzerland	82,237	88,546
Other countries	380,084	429,662
	462,321	**518,208**

The following table sets out the book values of segment assets and investments in property, plant and equipment and intangible assets according to the geographic location of the assets:

	Carrying amount of segment assets		Investments in PPE and intangible assets	
(in TCHF)	Dec. 31, 2005	Dec. 31, 2004	2005	2004
Switzerland	108,757	88,790	615	1,150
Other countries	625,252	483,746	186,950	107,667
	734,009	**572,536**	**187,565**	**108,817**

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

5. Other income

(in TCHF)	2005	2004
Reversal of liabilities/accruals	817	1,627
Compensation for legal disputes and other contracts	1,644	0
Other	2,923	3,360
Total	**5,384**	**4,987**

“Other” includes income from the sale of property, plant and equipment, advertising tie-ins, proceeds from collection activities, insurance compensation, dispatch and personnel costs charged onwards etc.

6. Merchandise and production expense

Merchandise and production expense primarily relates to expenditure on videos and DVDs, release costs for the exploitation of a film, production costs for film copies and costs related to service productions. In 2005, these came to TCHF 215,388.

7. Personnel expense

(in TCHF)	2005	2004
Wages and salaries	44,002	43,247
Social security	5,378	5,102
Expenditure on retirement benefit plans	1,180	2,318
Miscellaneous personnel costs	1,051	815
Total	**51,611**	**51,482**

Year-end headcount		
Switzerland	148	159
Germany	212	240
Austria	20	18
Others	8	8
	388	**425**

Actual expense on defined benefit plans differs from that carried. The value of contracts which are subject to the rules for defined benefit plans pursuant to IFRS was measured on a dynamic basis on January 1, 2005 and rolled over to December 31, 2005. Details of this valuation are set out in Note 25 (Retirement benefit obligations). The decrease in expenses on retirement benefit plans is largely due to the initial recognition of retirement benefit obligations in the income statement in the previous year.

8. Depreciation/amortization

(in TCHF)	2005	2004
on property, plant and equipment *(see Note 14)*	2,280	2,245
on goodwill *(see Note 16)*		
– ordinary	0	2,711
– impairment charge	2,815	1,001
	2,815	3,712
on other intangible assets *(see Note 17)*	164	180
	5,259	**6,137**

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

9. Financial result

(in TCHF)	2005	2004
Interest expense		
– on current bank liabilities	–3,118	–2,338
– less capitalized borrowing costs	2,875	885
	–243	**–1,453**
– on non-current bank liabilities	–1,067	0
Miscellaneous interest and expenses	–105	–230
Expense on securities	–807	–517
Total financial expense	**–2,222**	**–2,200**
Interest income		
– on bank and fixed-term deposits	1,016	696
– on bonds	257	189
Miscellaneous interest	221	12
Dividends	306	284
Income on securities	59	322
Total financial income	**1,859**	**1,503**
Total financial result	**–363**	**–697**

Interest is shown net in some cases on account of interest pooling arrangements. See details in Note 24 (Liabilities subject to interest and loans).

Expense on securities primarily relates to unrealized capital losses as a result of the change in the market value of various shares. Income on securities primarily comprises unrealized gains. Securities are recognized at their fair value through the income statement.

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

in CHF	0.25% – 0.85%
in EUR	1.50% – 2.00%
in CAD	6%

10. Investments in associates

In the first quarter of the previous year, the equity investment in Hahn Film AG was sold to the majority shareholder. As of December 31, 2005, the Group did not have any investments in associates.

11. Taxes

Income taxes relate to Highlight Communications AG as the parent company as well as the consolidated subsidiaries. Tax expense for 2005 and 2004 is set out in the following table:

(in TCHF)	2005	2004
Income tax expense	–4,404	–10,646
Deferred tax charges	–8,005	–5,579
Taxes as per income statement	**–12,409**	**–16,225**

Deferred tax charges of TCHF 8,005 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 carryforwards.

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 entity. The Group tax rate is assumed to equal 25 % (previous year: 20 %) on account of the relocation of the parent company's domicile. This expected tax expense differs from effective tax expense as follows:

(in TCHF)	2005	2004
Earnings before taxes	43,621	46,373
Tax at notional Group tax rate of 25 % (previous year: 20 %)	–10,905	–9,275
Unrecorded tax losses	0	–780
Applied/applicable tax losses	1,158	35
Revaluation of loss carryforwards	–1,718	–1,354
Non-deductible expenses added back	–707	–361
Income not subject to tax	52	383
Tax refunds, reversals and expense attributable to earlier years	221	–495
Difference between notional Group tax rate and local tax rates	–510	–4,378
Taxes as per income statement	**–12,409**	**–16,225**

12. Earnings per share

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

	2005	2004
Net consolidated earnings attributable to shareholders in TCHF	22,640	18,120
Weighted average number of shares	45,893,350	46,708,012
Undiluted earnings per share in CHF	0.49	0.39
Undiluted earnings per share in EUR	0.32	0.25
Diluted earnings per share in CHF	0.49	0.39
Diluted earnings per share in EUR	0.32	0.25

13. Dividend per share

Proposed dividends are not recorded in the books until the annual financial statements have been approved by the Annual General Meeting. The Board of Directors will be advising the shareholders to approve a dividend of CHF 0.12 per share for 2005, equivalent to an increase of 20 % compared to previous year (2004: CHF 0.10). Subject to approval by the shareholders, this will be the second dividend distributed by Highlight Communications AG since its initial public offer.

14. Property, plant and equipment

(in TCHF)	Operating equipment (including IT) 2005	2004	Motor vehicles 2005	2004	Land/buildings 2005	2004	Total 2005	2004
Acquisition costs:								
January 1	10,230	15,965	2,087	2,017	0	3,778	12,317	21,760
Currency translation differences	15	–32	1	–2	21	4	37	–30
Changes in scope of consolidation	0	–142	0	0	0	0	0	–142
Additions	1,680	1,463	400	402	447	0	2,527	1,865
Disposals	–686	–7,024	–492	–330	0	–3,782	–1,178	–11,136
December 31	**11,239**	**10,230**	**1,996**	**2,087**	**468**	**0**	**13,703**	**12,317**
Depreciation:								
January 1	–7,365	–12,125	–1,053	–903	0	35	–8,418	–12,993
Currency translation differences	–5	2	0	0	0	–37	–5	–35
Additions	–1,897	–1,835	–375	–410	–8	0	–2,280	–2,245
Disposals	646	6,593	330	260	0	2	976	6,855
December 31	**–8,621**	**–7,365**	**–1,098**	**–1,053**	**–8**	**0**	**–9,727**	**–8,418**
Net carrying amounts January 1	**2,865**	**3,840**	**1,034**	**1,114**	**0**	**3,813**	**3,899**	**8,767**
Net carrying amounts December 31	**2,618**	**2,865**	**898**	**1,034**	**460**	**0**	**3,976**	**3,899**

Gains of TCHF 69 (previous year: TCHF 640) and losses of TCHF 36 (previous year: TCHF 722) were generated from the sale of property, plant and equipment.

Fire insurance values (in TCHF)	Dec. 31, 2005	Dec. 31, 2004
Office equipment (including IT)	9,480	8,420

15. Film assets

(in TCHF)	Third-party productions 2005	Third-party productions 2004	Own productions 2005	Own productions 2004	Total 2005	Total 2004
Acquisition costs:						
January 1	358,301	339,837	324,803	256,486	683,104	596,323
Currency translation differences	879	–595	2,839	–2,408	3,718	–3,003
Additions	54,956	30,382	130,028	76,367	184,984	106,749
Disposals	–4,544	–11,323	–2,470	–5,642	–7,014	–16,965
December 31	**409,592**	**358,301**	**455,200**	**324,803**	**864,792**	**683,104**
Ordinary amortization:						
January 1	–203,453	–179,946	–141,571	–43,058	–345,024	–223,004
Currency translation differences	–377	194	–1,333	450	–1,710	644
Additions	–25,230	–34,428	–82,444	–104,605	–107,674	–139,033
Disposals	2,345	10,727	2,470	5,642	4,815	16,369
December 31	**–226,715**	**–203,453**	**–222,878**	**–141,571**	**–449,593**	**–345,024**
Impairment charges:						
January 1	–104,229	–104,202	–5,884	–3,529	–110,113	–107,731
Currency translation differences	–51	50	–49	34	–100	84
Additions	–2,130	–672	–1,621	–2,389	–3,751	–3,061
Disposals	2,199	595	0	0	2,199	595
December 31	**–104,211**	**–104,229**	**–7,554**	**–5,884**	**–111,765**	**–110,113**
Net carrying amounts January 1	**50,619**	**55,689**	**177,348**	**209,899**	**227,967**	**265,588**
Net carrying amounts December 31	**78,666**	**50,619**	**224,768**	**177,348**	**303,434**	**227,967**

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

(in TCHF)	2005	2004
Amortization of licenses (ordinary)	107,674	139,033
Impairment charges	3,751	3,061
Changes in accruals for licenses	0	26
Miscellaneous license expenses/overages	5,048	635
License expense recognized in income statement	**116,473**	**142,755**

Film rights (both third-party and own productions) are written down using the “individual film forecast method”.

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 carrying amount 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 revenue from the film. The Highlight Group examines and revises revenue forecasts and depreciation expenses upon any changes to previous forecasts occurring. A general sensitivity analysis of the entire film library was not performed as management's estimates refer to each individual film and exploitation level.

The impairment charge of TCHF 3,751 (previous year: 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 amount in the light of expected future net earnings.

Direct borrowing costs of TCHF 2,875 (previous year: TCHF 885) were capitalized in fiscal year 2005.

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 20 million (previous year: CHF 23 million).

16. Goodwill

The Group adopted IFRS 3, Business Combinations on January 1, 2005. In addition to other requirements, this Standard stipulates that goodwill is no longer amortized after recognition but is tested for impairment. The new standard is applied prospectively. If it had been applied in 2004, the absence of ordinary goodwill amortization would have reduced expenses by TCHF 2,711.

(in TCHF)	2005	2004
Acquisition values:		
January 1	195,460	198,422
Currency translation differences	71	–133
Additions	3	0
Disposals	0	–2,829
Netting as of January 1	–171,227	0
December 31	**24,307**	**195,460**
Ordinary amortization:		
January 1	–47,071	–44,813
Currency translation differences	0	45
Additions	0	–2,711
Disposals	0	408
Netting as of January 1	47,071	0
December 31	**0**	**–47,071**
Impairment charges:		
January 1	–124,156	–125,553
Currency translation differences	–11	–23
Additions	–2,815	–1,001
Disposals	0	2,421
Netting as of January 1	124,156	0
December 31	**–2,826**	**–124,156**
Net carrying amounts January 1	**24,233**	**28,056**
Net carrying amounts December 31	**21,481**	**24,233**

Impairment testing of goodwill

The amount of TCHF 21,481 shown as goodwill is allocated to several cash generating units. The recoverable amount used to test goodwill for impairment is based on the value in use. This is calculated on the basis of cash flow projections derived from business plans. The business plans are based on conservative assumptions of the individual managements and do not provide for any material organizational changes in the entities. They take account of management's latest estimates concerning quantities and prices, sales as well as production costs and other operating expenses. The business plans incorporate historical data and include projections for the next five years. After five years, growth of a maximum of 1 % is assumed. Cash flows were discounted using various cost-of-capital rates from 7.5 % to 10 % before tax depending on the cash generating units. On the basis of the test outlined above, an impairment loss of TCHF 2,815 was calculated for the goodwill of four cash generating units. The amortization is attributable to the Film division.

A test of the cash generating units using a cost-of-capital rate of 10 % before tax would not have led to any additional impairment losses on goodwill.

17. Other intangible assets

(in TCHF)	IT software 2005	IT software 2004	Concessions, industrial rights 2005	Concessions, industrial rights 2004	Total 2005	Total 2004
Acquisition cost:						
January 1	670	628	245	186	915	814
Currency translation differences	4	–7	2	–3	6	–10
Changes to scope of consolidation	0	–49	0	–28	0	–77
Additions	31	110	23	93	54	203
Disposals	0	–12	0	–3	0	–15
December 31	**705**	**670**	**270**	**245**	**975**	**915**
Amortization:						
January 1	–480	–446	–156	–14	–636	–460
Currency translation differences	–3	4	–1	0	–4	4
Additions	–101	–38	–63	–142	–164	–180
Disposals	0	0	0	0	0	0
December 31	**–584**	**–480**	**–220**	**–156**	**–804**	**–636**
Net carrying amounts January 1	**190**	**182**	**89**	**172**	**279**	**354**
Net carrying amounts December 31	**121**	**190**	**50**	**89**	**171**	**279**

18. Inventories and unfinished service productions

(in TCHF)	Dec. 31, 2005	Dec. 31, 2004
Video cassettes/DVD – Retail	220	349
Video cassettes/DVD – Wholesale	2,872	1,483
Unfinished service productions	42,911	18,860
	46,003	**20,692**
Impairment provisions	–286	–169
Total	**45,717**	**20,523**

The increase in videocassettes/DVDs is due to a new distribution contract with a partner. Unfinished service products contain productions which are not yet completed or delivered to the customer. They are recognized at cost or net realizable value, whichever is the lower.

19. Receivables (current and non-current)

(in TCHF)	Dec. 31, 2005	Dec. 31, 2004
Current		
Trade receivables		
– due from third parties	75,663	51,806
less impairment provisions	–10,876	–8,165
	64,787	**43,641**
Current loans to third parties	935	1,361
Receivables for subsidization loans and reference funds	5,078	7,590
Prepaid expenses	2,651	1,081
Other receivables due from third parties	7,676	10,899
Total current receivables	**81,127**	**64,572**
Non-current		
Trade receivables	15,197	0
Non-current loans to third parties	416	213
Total non-current receivables	**15,613**	**213**
Total	**96,740**	**64,785**

The increase in impairment provisions is primarily due to receivables from cinema operators and from video business.

Receivables for subsidization loans and reference funds 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 tax reimbursement claims (excluding income tax), current account credit balances, advance payments and deposits paid as well as deferrals of positive fair values of derivative financial instruments.

Non-current trade receivables primarily relate to receivables due from TV broadcasters and cinema operators.

20. Securities

	Current assets		Non-current assets	
(in TCHF)	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004
Financial assets at fair value through the income statement				
- Shares	5,512	6,057		
- Bonds	11,624	7,046	457	455
- Fixed-term deposits with a term of more than 3 months	8,523	15,962		
Total financial assets at fair value through the income statement	**25,659**	**29,065**	**457**	**455**

Securities are primarily held to procure liquidity. Their carrying amounts are equivalent to their market values on the balance-sheet date. Fixed-term deposits of TCHF 8,523 are required to repay liabilities arising from film productions. The year-end portfolio of securities held as non-current assets valued at TCHF 457 is used as collateral for bank liabilities.

21. Cash and cash equivalents

(in TCHF)	Dec. 31, 2005	Dec. 31, 2004
Cash holdings	374	225
Postal giro balances	6	88
Bank balances	142,074	142,296
Call money	24,995	19,991
Fixed-term deposits up to 90 day	40,500	9,000
Total	**207,949**	**171,600**

See Note 9 for details of interest rates.

22. Deferred taxes

Movements in deferred tax assets and liabilities are as follows:

(in TCHF)	Deferred tax assets	Deferred tax liabilities
January 1, 2005	29,233	11,319
Currency translation differences	186	98
Changes through income statement	–3,592	4,413
Changes through equity	0	47
December 31, 2005	**25,827**	**15,877**

Temporary differences:

(in TCHF)	Dec. 31, 2005	Dec. 31, 2004
Lower depreciation for tax purposes on property, plant and equipment	11	79
Capitalization of tax loss carryforwards	20,849	21,963
Valuation adjustments		
– Advance payments received	105,051	52,861
– Film assets	–99,534	–46,114
– Others	–550	444
Deferred tax assets	**25,827**	**29,233**

(in TCHF)	Dec. 31, 2005	Dec. 31, 2004
Valuation adjustments		
– Film assets	15,707	11,197
– Others	170	122
Deferred tax liabilities	**15,877**	**11,319**

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 amortization 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 carryforwards 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 non-capitalized tax loss carryforwards of CHF 110 million (2004: CHF 132.9 million) expire between 2006 and 2011. In addition, there are deferred tax assets from valuation differences of TCHF 1,258, which were not capitalized.

23. Share capital

	Bearer shares	
	Number of shares	TCHF
December 31, 2003	47,250,000	47,250
Capital increase	0	0
December 31, 2004	47,250,000	47,250
Capital increase	0	0
December 31, 2005	**47,250,000**	**47,250**

On June 8, 2004, the Annual General Meeting 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 within a period of two years. A partial increase is permitted. No such capital increase has been implemented to date.

As at December 31, 2005, the authorized share capital comprises 60,000,000 bearer shares with a nominal value of CHF 1 each (December 31, 2004: 60,000,000 bearer shares with a nominal value of CHF 1 each). All shares outstanding are paid up in full.

In 2005, a total of 3,655,995 shares were bought at an average price of CHF 8.04 per share, resulting in a total of TCHF 29,391. 4,118,000 shares were sold at an average price of CHF 7.58 for a total sum of TCHF 31,205. In accordance with IFRS, the treasury shares and also gains and losses from treasury share transactions are assigned to equity. In addition, 6,105 treasury shares were transferred to staff. On the balance sheet date, the Company's treasury shares comprised 319,536 (December 31, 2004: 787,646) shares.

24. Liabilities subject to interest and loans

(in TCHF)	Dec. 31, 2005	Dec. 31, 2004
Liabilities to banks, financial and credit institutes	107,397	103,617
Loans from banks, financial and credit institutes	125,425	12,038
Other liabilities	16,062	8,462
Total	**248,884**	**124,117**
Recognized as		
– non-current loans	51,062	8,462
– current liabilities subject to interest	197,822	115,655
Total	**248,884**	**124,117**
Repayable amounts after maturity		
Within one year	197,822	115,655
Between 1 and 2 years	24,953	0
Between 2 and 3 years	13,554	8,462
Between 3 and 4 years	12,555	0
Between 4 and 5 years	0	0
In more than 5 years	0	0
Total	**248,884**	**124,117**

Interest pooling arrangements have been established for Constantin Film AG's overdraft liabilities.

Depending on their term and currency, non-current loans are subject to interest of between 1.85 % and 6 % (previous year: 6 %) as of the balance-sheet date. The carrying amounts of the liabilities subject to interest differ only marginally from their fair values.

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:

(in TCHF)	Dec. 31, 2005	Dec. 31, 2004
Syndicate loans, production finance	131,830	113,130
Credit facilities	90,544	28,000
Guarantee credit facilities	55,958	0
License trading and operating equipment	62,176	35,496

Credit facilities (production revolvers and license trading facilities) are secured by film rights of TCHF 303,434 carried as film assets and the resultant proceeds from exploitation.

The credit and guarantee credit facilities are secured with 8,015,533 shares in Constantin Film AG.

25. Retirement benefit obligations

The Highlight Group maintains various retirement benefit 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 entities and their employees pay contributions, the amount of which is defined as a percentage of the employees' salaries, to several foundations.

The liabilities under defined benefit plans are calculated by using the projected unit credit method. Any gains or losses arising from a change in actuarial assumptions are recognized as income or expense over the expected average remaining working lives of the employees participating in the plan if such gains or losses exceed the corridor (10 % of fair value of the plan assets or 10 % of the present value of the retirement benefit obligation, whichever is the greater).

The defined benefit plans are measured on the basis of the following main assumptions:

Assumptions	Dec. 31, 2005	Dec. 31, 2004
Technical interest rate	3.25 %	3.75 %
Long-term return on assets	3.50 %	4.00 %
Future wage developments	1.00 %	1.00 %
Future pension adjustments	0.50 %	0.50 %

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

(in TCHF)	Dec. 31, 2005	Dec. 31, 2004
Retirement benefit obligations	18,960	12,601
Assets	17,197	12,022
Shortfall	1,763	579
Unrecognized losses (-)/gains (+)	–1,257	0
Unrecognized assets	0	121
Retirement benefit obligations	**506**	**700**

The retirement benefit obligations recognized in the balance sheet are determined as follows:

(in TCHF)	2005	2004
Retirement benefit obligations as of December 31	700	0
Employer costs of retirement benefits	1,067	1,852
Employer contributions	–1,261	–1,152
Retirement benefit obligations as of December 31	**506**	**700**

Retirement benefit expenses as defined in IAS 19 are determined as follows:

(in TCHF)	2005	2004
Service cost	1,836	1,534
Interest rate	601	456
Expected return on assets	–509	–389
Non-recurring inclusion of shortfall from conversion of prior or new benefit plans	153	898
Restriction on account of Art. 58 b	0	121
Employee contributions	–1,014	–768
Pension benefit expense	**1,067**	**1,852**
Other benefit plans	113	466
Expenditure on retirement benefit plans	**1,180**	**2,318**

26. Trade payables and other liabilities

(in TCHF)	Dec. 31, 2005	Dec. 31, 2004
Trade payables	35,865	48,004
Liabilities to shareholders and related parties	248	303
Other liabilities	24,762	21,033
Deferred income and accruals	51,433	25,369
Total	**112,308**	**94,709**

As a matter of principle, liabilities are recognized at their settlement or redemption amount. Other liabilities also include deferrals of derivative financial instruments, see Note 28 (Financial Instruments).

27. Provisions

(in TCHF)	Litigation provisions	Returns provisions	Other	Total
January 1, 2004	1,734	0	0	1,734
Currency translation differences	–18	0	0	–18
Additions	3,382	0	0	3,382
Consumption	0	0	0	0
Reversal	0	0	0	0
December 31, 2004	**5,098**	**0**	**0**	**5,098**
January 1, 2005	5,098	0	0	5,098
Currency translation differences	38	0	0	38
Additions	421	7,540	500	8,461
Consumption	–19	0	0	–19
Reversal	0	0	0	0
December 31, 2005	**5,538**	**7,540**	**500**	**13,578**
of which				
– current component of provisions	5,538	7,540	500	13,578
– non-current component of provisions	0	0	0	0
Total provisions	**5,538**	**7,540**	**500**	**13,578**

Litigation provisions have been set aside to cover risks arising from license disputes. In the year under review, various disputes were settled, resulting in expense of around TCHF 780.

The additions to provisions for expected merchandise returns are related to a new distribution contract with a partner. The provisions cover the risk of any returns of videos and DVDs sold and are based on an analysis of the contractual or statutory obligations as well as historical trends and the Group’s own experience.

28. Financial instruments

The Group engages in currency hedging transactions, which generally have a term 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, 2005, foreign-currency forwards and options are outstanding. As a matter of principle, the strict conditions for hedge accounting pursuant to IAS 39 in a cash flow hedge relationship as well as in a fair value hedge relationship are complied with. The hedges relate to the purchase of rights as well as expected income from own international productions and expire in January/February 2006.

The nominal amount of all outstanding foreign-currency forwards and options equals TCHF 29,796. The fair value is TCHF –30. The fair value is calculated on the basis of the exchange rate prevailing on the day on which the transaction is entered into and the rate on the balance-sheet date. Changes in the fair value of cash flow hedges net of tax come to TCHF –460 and are recognized as cumulative other capital, whereas the changes in the fair value of the fair value hedges of TCHF –138 have been taken to the income statement. As an opposing effect, the change in the valuation of the outstanding hedged item is recognized in the income statement.

29. Acquisition/sale of equity interests/changes to scope of consolidation

All material subsidiaries and associates are included in Highlight Communications AG's consolidated financial statements. The following changes to the scope of consolidation arose in the year under review:

Constantin Entertainment GmbH

Constantin Film AG acquired the remaining 41 % interest in Constantin Entertainment GmbH on June 30, 2005.

Constantin Entertainment GmbH has been consolidated in full in accordance with IFRS since September 30, 2003. The corresponding minority interests in the equity at the date of initial consolidation and of the earnings generated by Constantin Entertainment GmbH since then are carried as minority interests in the consolidated financial statements as at June 30, 2005 in accordance with IAS 1 (new). The shareholders of the parent company are entitled to all of the earnings generated by Constantin Entertainment GmbH from July 1, 2005 onwards.

The acquisition is accounted for using the entity concept and is therefore charged to the equity.

Constantin Film Services GmbH

Constantin Film Services GmbH is a wholly owned subsidiary of Constantin Film Produktion GmbH and offers the Group various film production services. The company was acquired for TCHF 42 and initially consolidated as of July 13, 2005. Net cash outflow from the acquisition stands at TCHF 3. Accordingly, it did not have any material effect on net consolidated earnings.

bob Film GmbH

bob Film GmbH is a wholly owned subsidiary of Olga Film GmbH. The company was acquired and initially consolidated as of December 1, 2005. The cost of purchase comes to TCHF 39. Accordingly, it did not have any material effect on net consolidated earnings.

KJP Holding AG / Team Holding AG

On July 1, 2005, Highlight Communications AG acquired KJP Holding AG, which, among other things, holds the remaining 20 % stake in Team Holding AG. In addition to this minority stake, the following net assets were acquired.

	(in TCHF)
Cash and cash equivalents	20,577
Securities	11,535
Receivables	512
Liabilities	–116
Total net assets acquired	**32,508**
Net cash outflow from acquisition	**11,931**

The profit generated by KJP Holding AG since July 1, 2005 which is included in the consolidated financial statements amounts to TCHF 206.

As a result of this acquisition, Highlight Communications AG holds 100 % of Team Holding AG's capital in an initial step (see below).

Team Holding AG has been fully consolidated in accordance with IFRS since its acquisition on July 1, 1999. The corresponding minority interests in the equity at the date of initial consolidation as well as its earnings since then are carried as minority interests in the consolidated financial statements as at June 30, 2005 in accordance with IAS 1 (new). Highlight Communications AG is entitled to all earnings generated by Team Holding AG from July 1, 2005 onwards in a preliminary step (see below) and they will be shown completely in the net income. The transaction has been charged to equity in the same way as with Constantin Entertainment GmbH.

On July 15, 2005, Team Holding AG completed an ordinary equity issue, as a result of which its share capital rose by 25 %. In accordance with the agreements entered into on May 25, 2005 and in September 2005 with UEFA, this 25 % share (20 % of increased capital) was acquired by UEFA. At the same time, UEFA has undertaken to sell the shares to Highlight Communications AG at the same price upon the termination of the agreement or the UEFA Champions League agency contract. Initially, UEFA will only take a share in the profit arising from new business. As of the 2009/2010 season UEFA will participate in full in Team Holding AG's profit commensurate with the size of its share.

This agreement has been placed on the balance sheet in accordance with the economic view stipulated by IFRS. As UEFA will not have full profit allocation rights until the 2009/2010 season and does not have unrestricted rights to its 20 % share in Team Holding AG, the agreement is not treated as profit participation for accounting purposes. Instead, the annual share in earnings attributable to UEFA will be carried as an expense in the consolidated financial statements. The stock buyback obligation is recognized as an "other liability".

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 UEFA relating to the UEFA Champions League.

Constantin Film AG

In the fourth quarter of 2005, the Highlight Group increased its share in Constantin Film AG by 7.5 % in various transactions. These transactions have been charged to equity in the same way as with Constantin Entertainment GmbH and Team Holding AG.

30. List of consolidated companies

	Activity	Country	Issued capital		Share in share*	Voting rights of the respective parent company
Team Holding AG	Sports marketing	CH	CHF	250,000	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 %
KJP Holding AG	Holding company	CH	CHF	100,000	100 %	100 %
Rainbow Home Entertainment AG**	Distribution	CH	CHF	200,000	100 %	100 %
Highlight Communications (Deutschland) GmbH	Marketing	D	EUR	256,000	100 %	100 %
Constantin Film AG	Film production and distribution	D	EUR	12,742,600	65.48 %	65.48 %
Constantin Script & Development GmbH	Acquisition and development of content	D	EUR	26,000	65.48 %	100 %
Constantin Media GmbH audiovisuelle Produktionen	Acquisition and development of content	D	EUR	26,000	65.48 %	100 %
Constantin Film Produktion GmbH	Film and TV production	D	EUR	105,100	65.48 %	100 %
Constantin Film Services GmbH****	Service-provider	D	EUR	25,000	65.48 %	100 %
Constantin Film Development Inc.	Acquisition and development of content	USA	USD	530,000	65.48 %	100 %
Constantin Productions Services Inc.	International film production	USA	USD	50,000	65.48 %	100 %
DoA Production Ltd.***	International film production	GB	GBP	1,000	65.48 %	100 %
Constantin Film International GmbH	International film production	D	EUR	105,000	65.48 %	100 %
Constantin Pictures GmbH	International film and TV production	D	EUR	25,000	65.48 %	100 %
Constantin Entertainment GmbH******	TV entertainment production	D	EUR	200,000	65.48 %	100 %
Olga Film GmbH	Film and TV production	D	EUR	603,000	33.39 %	51 %
bob Film GmbH*****	Film and TV production	D	EUR	25,000	33.39 %	51 %
MOOVIE – the art of entertainment GmbH	Film and TV production	D	EUR	104,000	33.39 %	51 %
Rat Pack Filmproduktion GmbH	Film and TV production	D	EUR	103,000	33.39 %	51 %
Westside Filmproduktion GmbH	Film and TV production	D	EUR	103,000	33.39 %	51 %
Constantin Film Verleih GmbH	License trading and cinema distribution	D	EUR	250,000	65.48 %	100 %
Classic Media Werbeagentur GmbH	Advertising and event marketing	D	EUR	105,000	65.48 %	100 %
Constantin International B.V.	License trading	NL	EUR	18,151	65.48 %	100 %
Constantin Music Verlags-GmbH	Exploitation of music rights	D	EUR	70,000	65.48 %	100 %
Constantin Propaganda GmbH	License trading	D	EUR	100,000	65.48 %	100 %
Rainbow Home Entertainment GmbH	Distribution	A	EUR	363,364	100 %	100 %

**direct and/or indirect share held by the Group **Rainbow Video AG was renamed Rainbow Home Entertainment AG in the 1st quarter of 2005 ***Constantin Film (UK) Ltd. was renamed DoA Production Ltd in the 2nd quarter of 2005 ****Constantin Film Services GmbH was acquired in the 3rd quarter of 2005 *****bob Film GmbH was acquired in the 4th quarter of 2005 ******Constantin Entertainment GmbH merged with Constantin Inter@ctive GmbH in the 3rd quarter. Following the merger, Constantin Inter@ctive GmbH was renamed Constantin Entertainment GmbH*

The following 9 subsidiaries (previous year: 10) 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		Percentage
Société Nouvelle Torii S.A.R.L.*	France	EUR	247,577	65.48 %
Greenland Film Production A.B.*	Sweden	SKR	100,000	65.48 %
Smilla Film A.S.*	Denmark	DKR	500,000	65.48 %
She's French LLC**	US	USD	1,000	65.48 %
ProCon Pictures LLC**	US	USD	1,000	65.48 %
Impact Pictures LLC**	US	USD	1,000	33.39 %
Impact Pictures Ltd.***	UK	GBP	1,000	33.39 %
The Dark Film Ltd.****	UK	GBP	100	33.39 %
Sheep Ltd.****	UK	GBP	2,000	33.39 %

* *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*

Laurentic Cement Garden Ltd. was liquidated in the second quarter 2005.

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.

31. Stock option program (SOP) of 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 plan:

The first stock option plan was introduced in connection with the IPO in 1999. It was terminated in the 2001 fiscal year, so that no more options have been issued on the basis of it. All the options still outstanding in connection with the first stock option plan were waived in the 2003 fiscal year.

2001 stock option plan:

A second stock option plan was agreed in the 2001 fiscal year, on the basis of which stock options were issued to employees in the 2001 fiscal year. The second stock option plan was terminated in the 2003 fiscal year, so that no more options are being issued on the basis of it. The options which were issued on the basis of the second stock option plan that was introduced in 2001 have a term of almost 5 years and enable the company's staff to exercise one third of their options after waiting for periods of 2, 3 and 4 years respectively after the options were granted. This means that the options issued in 2001 will expire on July 12, 2006.

The price at which the 350,000 options issued in 2001 can be exercised corresponded to the average stock exchange price of the company's share during the last ten stock exchange trading days before they were granted, i.e. before August 27, 2001, which was EUR 9.72. No more options were issued in 2002 and 2003.

The options issued entitle the company's employees to buy a total of 350,000 shares – 120,000 of them being reserved for the Management Board. The options can be exercised if the stock market price of the company share exceeded the exercise price by at least 15 % on at least one day before the options are exercised, i.e. amounted to at least EUR 11.18 in the case of the options issued in 2001. This level was exceeded for the first time in the course of the 2005 fiscal year. Another rule is that the option can only be exercised as long as the owner of the options has an unterminated employment contract; the options of staff who leave the company in the course of a year therefore expire and have to be deducted again in each case. 122,100 option rights have already expired in accordance with these rules of the 2001 stock option plan. This means that 227,900 options are still in force. Conditional capital totaling EUR 291,600 is available to permit the option rights granted on the basis of the 2001 stock option plan to be exercised. No options from the 2001 stock option plan have been exercised as yet.

Option program 2001	Number in 2001	Number in 2002	Number in 2003	Number in 2004	Number in 2005
Options granted	350,000	350,000	350,000	350,000	350,000
Options issued as per January 1	0	342,500	329,500	291,600	248,400
Additions in the fiscal year	350,000	0	0	0	0
Options exercised	0	0	0	0	0
Options expired	–7,500	–13,000	–37,900	–43,200	–20,500
Options issued as per December 31	**342,500**	**329,500**	**291,600**	**248,400**	**227,900**

	Dec 31, 01	Dec 31, 02	Dec 31, 03	Dec 31, 04	Dec 31, 05
Exercise price in EUR	9.72	9.72	9.72	9.72	9.72
Share price in EUR	4.15	2.56	3.92	8.48	10.94
Remaining term of options (years)	5	4	3	2	0.6
Options than can be exercised	0	0	0	0	227,900

2003 stock option plan:

A third stock option plan was agreed in the 2003 fiscal year. Up to the end of the 2005 fiscal year, no options were issued in connection with the stock option plan introduced in 2003. The options which can be issued on the basis of the 2003 stock option plan have a term of 5 years and enable the company's staff to exercise one third of their options 2, 3 and 4 years respectively after the options are granted.

The options issued in the 2003 stock option plan entitle the company's employees to buy a total of 600,000 shares – 200,000 of them being reserved for the Management Board. The options can be exercised if the stock market price of the company share exceeded the original price by at least 15 % on at least one day before the options are exercised. The average stock market price of the company share during the last 10 stock exchange trading days before the option is granted is taken to be the original price. Another rule is that the option can only be exercised as long as the owner of the option has an unterminated employment contract. Conditional capital totaling EUR 600,000 is available to permit the option rights granted on the basis of the 2003 stock option plan to be exercised.

32. Related party transactions

The following transactions were handled with related parties:

(in TCHF)	Dec. 31, 2005	Dec. 31, 2004
Liabilities		
Members of the Board of Directors	248	303
Related parties	0	0
	248	**303**

In fiscal 2005, a motor vehicle with a Eurotax value of TCHF 83 was sold to a member of the Board of Directors.

Total compensation paid to the six (previous year: seven) members of the Board of Directors of Highlight Communications AG, four of whom hold executive positions with Group companies, is as follows:

(in TCHF)	2005	2004
Remuneration		
Short-term benefits including flat-rate expenses	3,552	3,594
Social security and pension provisions	199	185
Termination benefits	0	1,800
	3,751	**5,579**

33. Shareholdings of the Board of Directors

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

Other shareholders with material shareholdings of over 5 %	
Drueker & Co. GmbH	28.44 %
Robur AB	unknown

The Board of Directors is not aware of any other material shareholdings (over 5 %).

34. Contingent liabilities and obligations

As part of the restructuring and sale of individual video rental outlets, rental guarantees of TCHF 322 (previous year: TCHF 1,352) were granted.

In addition, there is a rental guarantee for office space leased by Constantin Film AG of TCHF 356 (previous year: TCHF 208). Moreover, guarantees totaling TCHF 13,627 (previous year: TCHF 3,945) have been issued to various TV broadcasters for service productions and guarantee credit facilities of TCHF 11,068 taken out with two banks.

Highlight Communications AG has a guarantee credit facility of TCHF 55,958 to finance the purchase of the 25.1 % interest in Constantin Film AG from Bernd Eichinger Holding GmbH & Co. KG. Please refer to Note 36 for more details.

Credit facilities (production revolvers and license trading facilities) are secured by film rights of TCHF 303,434 carried as film assets and the resultant proceeds from exploitation.

The credit and guarantee facilities are secured with 8,015,533 shares in Constantin Film AG.

Constantin Film AG guarantees various banks the repayment of license fees in an amount of CHF 112.1 million 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.

In addition, Constantin Film AG has issued a completion bond to the co-producers for two productions.

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.

35. Operating leases and rental agreements

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

(in TCHF)	Dec. 31, 2005	Dec. 31, 2004
Up to 1 year	2,283	2,747
From 1 to 5 years	4,680	3,771
Over 5 years	11,143	0
	18,106	**6,518**

Lease obligations primarily relate to non-current rental obligations.

Lease expenditure (including rentals) came to TCHF 5,961 (previous year: TCHF 6,541) in the year under review.

36. Events after the balance-sheet date

No events of a material impact on the reliability of these consolidated annual financial statements for 2005 have occurred between December 31, 2005 and their approval for release.

On January 19, 2006, Highlight Communications AG exercised the option granted on June 14, 2005 to acquire the 25.1 % interest in Constantin Film AG from Bernd Eichinger Holding GmbH & Co. KG. As a result of this acquisition, it now directly holds over 90 % of Constantin Film AG's capital. The purchase price will be paid in cash and equals roughly EUR 11.27 per share. In accordance with the terms of the contract, the existing shareholder agreement will be terminated upon the acquisition of the shares.

In addition, a new company, Constantin Television GmbH was incorporated and a 25 % interest in record label Königskinder Schallplatten GmbH acquired.

Report of the Group auditors

to the General Meeting of Highlight Communications AG, Pratteln

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 91 of Highlight Communications AG for the year ended December 31, 2005.

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 Swiss Auditing Standards 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 24, 2006

Financial statements

for the year ended December 31, 2005 of Highlight Communications AG, Pratteln

The information within our annual report is originally published in German. Discrepancies or differences created in the translation are not binding and have no legal effect for compliance or enforcement purposes. If any questions arise related to the accuracy of the information contained in the translation, please refer to the German version of our annual report, which is the official and only binding version.

Balance sheet for the year ended December 31, 2005

Highlight Communications AG, Pratteln

ASSETS (in TCHF)	Dec. 31, 2005	Dec. 31, 2004
Current assets		
Cash and cash equivalents	10,437	11,925
Securities	5,438	6,061
Trade receivables		
from third parties	0	2,403
from group entities	106	1,887
Other receivables		
from third parties	272	370
Prepaid expenses/accrued income	476	111
	16,729	**22,757**
Non-current assets		
Investments	192,161	118,492
Property, plant and equipment	0	330
Film assets	232	6,438
	192,393	**125,260**
Total assets	**209,122**	**148,017**

SHAREHOLDERS' EQUITY AND LIABILITIES (in TCHF)	Dec. 31, 2005	Dec. 31, 2004
Liabilities		
Trade payables		
to third parties	1,030	224
to group entities	196	3,802
Current bank liabilities	23,944	0
Advance payments	117	6,687
Other current liabilities		
to third parties	409	1,039
to related parties	80	0
to group entities	1,012	0
Current provisions	500	1,127
Deferred income/accrued expenses	854	1,796
Non-current loans	35,000	0
	63,142	**14,675**
Shareholders' equity		
Share capital	47,250	47,250
Legal reserves		
General reserve	63,773	62,609
Reserve for treasury shares	2,846	4,009
Retained earnings		
Profit/loss carry forward	14,860	-829
Profit for year	17,251	20,303
	145,980	**133,342**
Total shareholders' equity and liabilities	**209,122**	**148,017**

Income statement for 2005

Highlight Communications AG, Pratteln

(in TCHF)	2005	2004
Sales	0	29,853
License income	12,558	18,826
Miscellaneous revenues	9,299	10,177
Sales deductions	-9	-54
Total operating income	**21,848**	**58,802**
Cost of production	-80	-24,301
License expense	-6,846	-15,007
Distribution costs	0	-4,445
Personnel expense	-2,090	-3,178
Office and administrative expense	-5,640	-9,874
Advertising	0	-3,087
Depreciation on property, plant and equipment	-97	-155
Depreciation on investments	-3,168	-1,798
Operating earnings before interest and taxes	**3,927**	**-3,043**
Financial income		
Interest income	356	698
Income on securities	13	606
Income on investments	15,920	22,080
Financial expense		
Interest expense	-2,161	-669
Expense on securities	-804	-517
Earnings before taxes	**17,251**	**19,155**
Reversal of adjustments for receivables	0	1,148
Net profit before taxes	**17,251**	**20,303**
Income taxes	0	0
Profit for year	**17,251**	**20,303**

Notes to the financial statements 2005

Highlight Communications AG, Pratteln

1. Main changes compared with previous year

As a result of the abandonment of operating business, reclassification and restructuring to form a holding company, the comparability of the figures for the year under review with those for the previous year is impaired.

2. Pledged assets as collateral for own obligations

(in TCHF)	2005	2004
8,015,533 shares in Constantin Film AG	76,788	0
Credit facility utilized	10,944	0

3. Fire insurance values of property, plant and equipment

(in TCHF)	2005	2004
Furniture and equipment	20	20
Computer equipment	850	735
	870	**755**

4. Notes on main investments

Company, domicile, purpose	Percentage	Issued capital	
Team Holding AG, Lucerne *Investments in sports and event marketing companies*	80.00%	TCHF	250
KJP Holding AG, Lucerne *Holding company*	100.00% (previous year: 0%)	TCHF	100
Rainbow Home Entertainment AG, Pratteln (formerly Rainbow Video AG, Pratteln) *Distribution*	100.00%	TCHF	200
Highlight Communications (Deutschland) GmbH, Munich (formerly Highlight Film und Home Entertainment GmbH, Munich) *Marketing*	100.00%	TEUR	256
Constantin Film AG, Munich *Production and distribution of films and holding company*	64.73% (previous year: 57.98%)	TEUR	12,743
Rainbow Home Entertainment GmbH, Vienna *Distribution*	100.00%	TEUR	363

5. Share capital / authorized capital

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 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 to date.

6. Shareholdings of the Board of Directors

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

Other shareholders with holdings of over 5 %	
Drueker & Co. GmbH	28.44 %
Robur	unknown

The Board of Directors is not aware of any other material shareholdings (over 5%).

7. Treasury shares

	Number of shares	Average transaction price CHF	Transaction value TCHF	Reserve for treasury shares TCHF
Balance on January 1, 2005	787,646	0	0	4,009
Sales	–4,118,000	7.58	–31,205	–30,503
Purchases	3,655,995	8.04	29,391	29,391
Transfer to staff	–6,105	0	-53	–51
Balance on December 31, 2005	**319,536**			**2,846**

8. Material events after the balance-sheet date

No events of a material impact on the reliability of these financial statements for 2005 have occurred between December 31, 2005, and their approval for release.

On January 19, 2006, Highlight Communications AG exercised the option granted on June 14, 2005, to acquire the 25.1 % interest in Constantin Film AG from Bernd Eichinger Holding GmbH & Co. KG. As a result of this acquisition, Highlight Communications AG now directly holds over 90 % of Constantin Film AG's capital. The purchase price will be paid in cash and equals roughly EUR 11.27 per share. In accordance with the terms of the contract, the existing shareholder agreement will be terminated upon the acquisition of the shares.

There are no other matters subject to compulsory disclosure pursuant to Art. 663 b of the Swiss Law of Obligations.

Proposal for the appropriation of available retained earnings

Highlight Communications AG, Pratteln

(in TCHF)	2005
Profit carried forward	14,860
Profit for year	17,251
Retained earnings	**32,111**

The Board of Directors recommends the following resolution for the appropriation of retained earnings:

Payment of a dividend of CHF 0.12 per share	5,670
Amount to be carried forward	26,441
	32,111

The dividend proposal applies to all shares issued. The treasury shares as of the date of payment of the dividend are not dividend-entitled. Accordingly, the amount of the dividend depends on the number of shares held as treasury shares as of the date on which the dividend is paid.

Report of the statutory auditors

to the General Meeting of Highlight Communications AG, Pratteln

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) included on pages 94 to 98 of Highlight Communications AG for the year ended December 31, 2005.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these 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 Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers AG

Urs Renggli Josef Stadelmann

Lucerne, April 24, 2006

Calendar of events 2006

Film	
Berlinale	February 9 – 19
Academy Awards	March 5
Cannes Film Festival	May 17 – 28
Venice Film Festival	August 30 – September 9

Sports and Event Marketing	
UEFA Cup Final	May 10
UEFA Champions League Final	May 17
Eurovision Song Contest, semifinal	May 18
Eurovision Song Contest, final	May 20
U-21 European Championship	May 23 – June 4
UEFA Super Cup	August 25

Investor relations	
Annual General Meeting	June 2
DVFA Smart Equities Conference	November 15 – 16
Deutsches Eigenkapitalforum	November 27 – 29
Quarterly reports	May / August / November

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