

Offering Prospectus Company Report



Non-binding translation

1998



DEUTSCHE ENTERTAINMENT AG
GROUP OF COMPANIES

Offering Prospectus/ Company Report

for the admission of

DM 10,917,000.00

composed of 2,183,400 no-par value bearer shares

– current theoretical par value of DM 5.00 per no-par value share
each carrying full dividend rights for fiscal year 1998

i.e. from January 1, 1998

Nos. 0 000 001 - 2 183 400

- Securities Code Number 551 390 –

of

DEUTSCHE ENTERTAINMENT AG, Hamburg

to the Geregelter Markt and Admission to Trading
on the Neuer Markt of the Frankfurter Wertpapierbörse
(Frankfurt Stock Exchange)

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DEUTSCHE ENTERTAINMENT GROUP

at a glance

Three year overview (IAS)

	Pro forma Group 1995 DM million	Pro forma Group 1996 DM million	Pro forma Group 1997 DM million	Change 1996 to 1997 (in %)
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Selected data from the Statement of Income

Sales	48.7	51.7	61.7	19.3
Event organization expenses	32.5	36.3	46.7	28.7
Personnel expenses	8.1	10.0	10.6	6.0
Depreciation on fixed assets	2.7	3.6	2.2	-38.9
Results from ordinary activities	-1.1	-2.2	0.2	-109.1
Net income/loss for the year	-1.2	-2.3	0.0	100.0
Cash flow (DVFA)	1.5	1.3	2.2	69.2

Selected data from the Balance Sheet

Fixed assets	12.4	11.5	10.0	-13.0
Current assets	13.8	16.2	69.8	330.8
Equity	5.8	5.8	5.8	0.0
Provisions	0.6	1.0	1.5	50.0
Payments on account	8.3	5.1	43.6	754.9
Liabilities	11.5	15.8	28.9	82.9
Balance sheet total	26.2	27.7	79.8	188.1
Equity ratio in %	22.3	20.9	7.3	
Gearing in %	77.7	79.1	92.7	

Employees

Annual average	191	215	237	10.2
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Risk factors

Before deciding to buy shares, prospective investors should read and consider carefully all the specific risk factors described below in conjunction with the other information presented in this Offering Prospectus/Company Report (hereinafter also referred to as the "Prospectus").

Market environment and competitors

DEUTSCHE ENTERTAINMENT AG (hereinafter also referred to as "DEUTSCHE ENTERTAINMENT" or the "Company") is the management holding of a group of companies (the "Group") operating in the entertainment industry. The Group and its 13 active subsidiaries operate in the following areas

1. Local events,
2. Venue management,
3. Variety theaters,
4. Service provider/services for all aspects of the entertainment business,
5. Shows/Tours.

The offerings on the leisure market have increased considerably as a result of the demographic and economic changes in recent years (increase in leisure time and per capita income, etc.). The companies of the DEUTSCHE ENTERTAINMENT GROUP are therefore competing against a large number of other leisure service providers.

In view of this competitive situation, there is no guarantee that the companies of the Group will be able to expand or even maintain their present market position.

The increased competition in the industry over the past few years has resulted in a series of alliances and acquisitions. We can not rule out further concentration of the market.

Short-term fluctuations in the number of theatergoers

DEUTSCHE ENTERTAINMENT'S business success is primarily dependent on the number of theatergoers. Based on experience, audience numbers fluctuate depending on the time of year and the weather, factors that affect both open-air and indoor events. While the usual seasonal fluctuations can only negatively impact sales and earnings trends during the year, unusually long and pleasant summers, for example, can lead to setbacks in sales and income for other business units (e.g. variety theaters).

Dependence on qualified staff

The successful implementation of the Company's corporate goals is particularly dependent on its ability to attract and keep highly qualified employees in management, customer service and marketing in the long-term. There is great demand for qualified staff in this industry and, as a result, frequently a high turnover rate as well.

The members of the Managing Board, Messrs. Schwenkow, Reinhardt and Ulrich, are the main contacts for the artists, and the people they relate to most. They are therefore vital to the success of the Company. Although this promotes a certain diversification in personnel, it cannot be ruled out that the loss of one or more of the above-mentioned people could have a lasting impact on business activity.

Dependence on existing business relations

The Company's business success and its business risk are mainly dependent on the selection of the artists engaged for an event. Therefore, business relations are essential, as are experience, talent and instinct required to select artists from the international market who appeal to the audience and are capable of generating high audience attendance. Poor judgement in choosing artists or in negotiating fees could negatively impact the Company's economic performance in the future.

Influence of the advertising market

Profits from event advertising and marketing have become one of the major sources of income for DEUTSCHE ENTERTAINMENT. The advertising industry is dependent on the development of the economy as a whole. It recorded disproportionately high growth in comparison to gross domestic product in the past, although this trend has clearly leveled off recently. Therefore, there is no guarantee that the Company will be able to increase its income from this source in the years to come, nor that the present volume can be sustained.

Influence of the previous owners and the members of Managing Board, concentration of shareholdings, future sale of shares

Following the capital increase and placement of shares as part of the Company's Initial Public Offering, around 35% of the Company's total share capital will be held by minor shareholders. The three above mentioned members of the Managing Board and a further former owner, who together hold approx. 65% of the Group's share capital, are the management personalities of DEUTSCHE ENTERTAINMENT who have been the driving force behind the Company's development to date. This situation is likely to continue in future.

By concentrating this share ownership, this group of people is in the position to control the outcome of important business decisions which require the approval of shareholders, without regard to the way other shareholders vote.

After the expiration of the market protection agreement, the above individuals will be able to sell their shares, which could have considerable negative consequences for the Company's share price.

Growth management

The development of DEUTSCHE ENTERTAINMENT, with projected high growth rates, places significant demands on the management in terms of its ability to integrate new employees and requires an organizational structure suitable to handle this growth. The organizational structures of the management company have not yet been sufficiently adapted to cope with the rapid growth in the past. Measures to build up the necessary staff and technical structures, particularly in accounting, budgeting and financial controlling, and to improve organisation structures and information systems, are presently in the implementation stage. They are necessary to meet the demands presented by growth and the new corporate structure.

Potential liability risks

The Company has taken out various insurance policies (e.g. against a lack of audience interest, cancellation of events, personal injury or property damage during an event, etc.). In the case of past losses, the amounts insured have always been sufficient. It cannot be ruled out, however, that the insurance cover might prove to be insufficient in a specific individual instance.

Exchange rate fluctuations

Although the majority of the fees paid by DEUTSCHE ENTERTAINMENT are invoiced in US dollars, the sales from each event are usually calculated in Deutsche Marks. Fluctuations of the DM/USD exchange rate may therefore impact business operations as well as the financial and earnings situation, especially regarding the Company's operating margins, and may lead to both exchange rate gains and losses. DEUTSCHE ENTERTAINMENT attempts to minimize the exchange risk by utilizing hedging instruments. However, there is no guarantee that the instruments the Group uses will turn out to be successful and that the Company's financial and earnings situation will not be impacted negatively by exchange rate fluctuations.

Tax position

The last external tax audit of the Company and/or its subsidiaries took place in 1997 and covered the years from 1993 to 1995. The Company believes that the tax returns prepared and submitted together with its tax advisors were complete and correct. In the event of a tax audit, it does not expect any significant changes to tax assessments which could result in payment of tax arrears. Nevertheless, differing approaches to facts and circumstances could result in additional tax demands by the tax authorities after the event.

Lack of a public market, fixing of the selling price, volatility of the market price

Before the public offering, there was no public market for the Company's shares. The selling price will be fixed by DG BANK Deutsche Genossenschaftsbank AG in agreement with the Company using the order book created during the bookbuilding process. No guarantee can be given that the selling price of the shares will correspond to the price at which the shares will be traded subsequent to the offering on the Neuer Markt of the Frankfurt Stock Exchange, or that active trading will result and continue after the offering. The number of free float shares, changes in the operating performance of the Company and its competitors, and changes in the general business environment in the industry, the economy as a whole or the financial markets may cause substantial fluctuations in share prices. In general, securities markets have experienced considerable fluctuations in price and sales volume in the past. This is particularly true for the Neuer Markt of the Frankfurt Stock Exchange, on which the Company's shares are to be traded after the IPO. Such fluctuations could have positive or negative effects on the share price in future, regardless of the operating performance or financial situation of the Company.

Reliability of opinions and projections

The opinions and projections expressed in the present prospectus are exclusively the opinions and projections of the management of DEUTSCHE ENTERTAINMENT. Opinions and projections are statements containing expressions such as "expects", "believes", "assumes", "the Company is of the opinion" and similar expressions. They represent the present understanding of the management with regard to possible future events which are of yet uncertain, and are therefore subject to risk. A large number of factors may result in actual situations that differ substantially from the projections. Neither DEUTSCHE ENTERTAINMENT nor the management can guarantee the accuracy of the opinions and projections expressed in the present prospectus.

The Neuer Markt

The Neuer Markt is designed to provide access to the capital market for innovative, small to medium-sized companies (also referred to as "issuers" in this section). This officially recognized and supervised trading segment at the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange) has been operating since March 10, 1997.

Trading of shares on the Neuer Markt takes place solely at the Frankfurt Stock Exchange, which has been open for trading every working day between 08.30 and 17.00 (Frankfurt time) since April 1, 1998. The trading model at the Neuer Markt combines a central order book with sponsors, who provide liquidity. The sponsors act as market makers during trading hours. Shares are traded both on the floor of the Neuer Markt and off the floor on the dealers' interbank market. Prices are fixed by open outcry or by telephone by independent brokers, who themselves are members of the Stock Exchange but generally do not trade with the public. After an appropriate application for listing has been made, the shares may be traded during trading hours, with prices being quoted on an ongoing basis. In general, a current price quotation is fixed for all shares at a specific point in time each trading day. Transactions are settled on the second working day after the trade day. Customer orders from German banks must generally be executed at a stock exchange, unless the customer has explicitly issued instructions to the contrary.

In the course of the switch to the Xetra trading system (Exchange Electronic Trading), which began at the end of November 1997, some Neuer Markt shares are now also traded on Xetra. Since April 1, 1998, the minimum number of shares traded continuously on the Neuer Markt has been one share.

The Neuer Markt is targeted at private and institutional investors who are willing to take risks.

In addition to satisfying the admission requirements for the "Geregelter Markt" (Second Trading Segment), the issuer must also meet the following additional admission requirements, designed to enhance transparency, among other factors:

- Minimum free float after listing 15%, 25% if possible;
- Ordinary shares must be the primary class of share;
- Annual financial statements in German and English complying with IAS (International Accounting Standards) or US-GAAP (US Generally Accepted Accounting Standards); reconciliation accounts between national accounting standards and IAS or US-GAAP are acceptable. An exemption from this admission requirement may be granted on request once for a maximum of two years;
- At least 50% of the placement must derive from a capital increase;

- Prohibition of the disposal of shares by existing shareholders for at least six months;
- Acceptance of the "Übernahmekodex" (German Takeover Code);
- An expected market value for the shares of at least ECU 5 million.

In addition, the following ongoing requirements apply to issuers:

- Preparation of quarterly reports in German and English;
- Publication of annual financial statements no later than three months (one-time extension to four weeks is possible), and publication of quarterly reports no later than two months after the relevant closing date;
- Publication of an annual corporate action calendar with all relevant dates;
- Presentations to analysts at least once a year;
- Publication of changes to the shareholdings of members of executive bodies, with separate disclosures for the Managing and Supervisory Boards, at least once a year;
- Recruitment of at least two permanent Sponsors ("Betreuer").

Sponsors ("Betreuer") are either companies authorized to trade on the Frankfurter Wertpapierbörse or dealers who function as market makers during trading sessions. The duties of the Sponsor include:

- Continuous provision of firm bid and ask prices to ensure a high level of share liquidity;
- Immediate execution of customer orders;
- Limitation of the bid/ask spread to max. 5% makes pricing as fair as possible;
- Continuous absorption of excess market positions not reflected in price fixing; at least 50% of inquiries by the ledger-broker must result in a bid/ask limit response;
- Regular analysis of the issuer from a capital market viewpoint;
- Advice to the issuer to ensure ad hoc publicity requirements are met and to provide continuous information coverage for its investors;

The ledger broker (price-fixing independent broker) continuously establishes estimated prices based on the aggregate volume for the issuer's shares.

Taxation

Taxation in the Federal Republic of Germany

The following section does not claim to present a comprehensive list of all tax considerations which could be of relevance in the acquisition of shares. The explanations are based on the taxation provisions effective in the Federal Republic of Germany at the time of preparation of this Prospectus; these are naturally subject to change at any time. These statements are limited to the treatment for tax purposes of dividends, profits resulting from disposals, and gifts and inheritances. Since it is not possible to treat all related tax questions comprehensively, these explanations do not address specific constellations which could be of importance to individual shareholders.

Potential investors are strongly advised to seek the advice of their own tax advisors in the event of questions about taxation

Taxation of shareholders with unlimited tax liability

a) Income and corporation tax

Dividends paid by an Aktiengesellschaft (a German public limited company) whose registered place of business is in the Federal Republic of Germany to its shareholders in Germany are subject to income or corporation tax on the gross dividend (cash dividend plus corporation tax imputation credit). In addition, the cash dividend (gross dividend minus corporation tax imputation credit) is subject to a capital gains tax of 25%, which can be offset against tax liability as part of the tax assessment process.

Since January 1, 1995, a "Solidarit tzuschlag" (solidarity surcharge) has been levied on the corporation tax liability in addition to income or corporation tax and investment income tax; this surcharge currently amounts to 5.5%. The tax levied on dividends is thereby increased to 26.375% (investment income tax plus 5.5% of investment income tax).

As part of the tax assessment procedure, the investment income tax and the solidarity surcharge levied on this tax are offset against total tax liability. The same applies to the corporation tax that was paid by the Company and levied on dividends in the corporation tax imputation procedure. This prevents double taxation of the Company's and the shareholder's profits. The result is that dividend income is taxed only at the individual income or corporation tax rate to which the shareholder is subject.

For example, if the Company pays out a dividend amounting to DM 70.00, the shareholder receives a cash amount of DM 51.54, or the total dividend less investment income tax of DM 17.50 and the solidarity surcharge on this tax of DM 0.96. The taxes levied (investment income tax plus solidarity surcharge) amounting to DM 18.46 and DM 30.00 for the corporation tax paid by the Company are offset against the shareholder's individual tax liability. If the shareholder's personal tax liability is greater than the imputation amounts, he/she owes tax; if the reverse situation applies, a tax refund is due.

Persons resident for tax purposes who receive income from capital assets as part of their personal assets are granted a savings allowance and a lump-sum business expenses allowance totaling DM 6,100.00 or DM 12,200.00 (single/married respectively). The gross dividend (cash dividend plus corporation tax imputation credit) is offset against this allowance. If an exemption application was submitted to the financial institution managing the securities account, the gross amount of the dividend is paid out regularly, provided that a sufficient amount of the allowance remains unused.

b) Taxation of profits from disposal

Gains from the disposal of shares held as part of the operating assets of a shareholder resident in Germany are subject to standard taxation.

Gains from the disposal of privately held shares are only subject to income tax if

- aa) disposal takes place within six months of acquisition of the shares. A tax allowance of DM 1,000.00 per year is granted on these windfall profits. Speculative losses can be offset against windfall profits up to the full amount of the windfall profits that the taxpayer achieved in the same calendar year.
- bb) the shareholder directly or indirectly held a significant interest in the nominal capital of the company (i.e. one exceeding 25%) at any time during the last five years. In this case, the profit from disposal is considered to be the amount by which the disposal price less disposal costs exceeds the acquisition price. Within certain limits, the profit from disposal is not subject to tax.

c) Inheritance and gift tax

The transfer of shares by a living person by way of a gift or as inheritance on account of death is only subject to German inheritance or gift tax if the testator or donor was a resident of Germany pursuant to Section 2 of ErbStG (German Inheritance Tax Law).

For family members and relatives, allowances in varying amounts are applicable. If the shares are privately held, a tax allowance of DM 500,000.00 is granted in the event of inheritance or acquisition by way of succession.

d) Wealth tax

As the situation now stands, wealth tax will not be levied for assessment periods after January 1, 1997 until further notice, because the new legislation required by the German Federal Constitutional Court due to the unconstitutionality of certain regulations relating to the Wealth Tax Law had not been enacted by December 31, 1996.

Taxation of shareholders with limited tax liability (non-residents for tax purposes)

a) Income and corporation tax

Shareholders who are residents of countries other than Germany are subject to a limited tax liability on their income from dividends in Germany, if the party liable has his/her habitual residence, company management, or registered place of business in Germany. However, the tax liability is considered to have been discharged on payment of investment income tax plus the solidarity surcharge.

This means that the cash dividend is subject to an investment income tax of 25% plus a solidarity surcharge amounting to 5.5% of the investment income tax levied, as is the case with shareholders who are residents of Germany. However, in numerous double taxation agreements, the right of the source state to levy a withholding tax is limited to a certain amount or is suspended. If this tax is lower than the investment income tax charged in the Federal Republic of Germany (currently 25%) plus solidarity surcharge, the non-resident shareholder may claim a reduction in the investment income tax. However, this reduction will only be granted in the form of a refund by the German tax authorities. Applications should be directed to the Federal Office of Finance, Friedhofsstrasse 1, 53225 Bonn, Germany.

Shareholders with a limited tax liability are eligible neither for a corporation tax imputation credit, nor for a savings allowance.

Where a non-resident shareholder's shares belong to the assets of an operating establishment or a permanent facility in the Federal Republic of Germany belonging to him/her, taxes are levied as in the case of a shareholder resident in Germany who holds shares in the assets of an operating establishment in Germany. (For more information, please see the section entitled "Taxation of shareholders with unlimited tax liability.") In this case, shareholders with limited corporation tax liability are subject to a reduced corporation tax rate of 42% (plus a solidarity surcharge amounting to 5.5% of the corporation tax).

b) Taxation of profits from disposal

Capital gains from the disposal of shares held by a shareholder with limited tax liability are not subject to German income tax, unless

- the shares belong to an operating establishment or permanent facility in the Federal Republic of Germany, or
- the shareholder directly or indirectly held an interest in the nominal capital of a domestic Kapitalgesellschaft (public limited company) exceeding 25% at any time during the last five years, and no exemption based on a double taxation agreement exists.

c) Inheritance and gift tax

The acquisition of shares held by shareholders with limited tax liability by way of a gift or as inheritance on account of death is only subject to German inheritance or gift tax if

- the testator, donor or recipient was a resident of Germany pursuant to Section 2 of the ErbStG (German Inheritance Tax Law), or
- at the time of transfer to the recipient, the shares belonged to the assets of an operating establishment or a permanent facility in the Federal Republic of Germany belonging to the shareholder, or
- the shareholder, either individually or together with other persons associated with him/her, directly or indirectly held an interest in the nominal capital of the company amounting to at least 10%.

d) Wealth tax

As in the case of shareholders resident in Germany, wealth tax will not be levied for assessment periods after January 1, 1997 until further notice, because the new legislation required by the German Federal Constitutional Court due to the unconstitutionality of certain regulations relating to the Wealth Tax Law had not been passed by December 31, 1996.

General Information

Liability for the content of this Offering Prospectus/Company Report

DEUTSCHE ENTERTAINMENT AG and the underwriting banks assume liability for the contents of this Offering Prospectus/Company Report in conjunction with section 77 and sections 45 ff. of the Börsengesetz (German Stock Exchange Act), and herewith state that to the best of their knowledge, the information contained in this Offering Prospectus/Company Report is accurate, and that no material circumstances have been omitted.

Inspection of documents

The Annual Reports and Interim Reports of the Company, as well as documents cited and quoted in this Offering Prospectus are available from/may be inspected at DEUTSCHE ENTERTAINMENT AG, Hohenzollernstr. 12, 14163 Berlin, and at DG BANK Deutsche Genossenschaftsbank AG, Am Platz der Republik, 60265 Frankfurt am Main (hereinafter also referred to as "DG BANK") during regular business hours.

Subject of the Offering Prospectus/Company Report

The subject of the Offering Prospectus is the DM 10,917,000.00 composed of 2,183,400 no-par value bearer shares of the Company each with a par value of DM 5.00.

Application was made for the admission of the total of DM 2,183,400.00 in no-par value bearer shares to the Geregelter Markt with admission to trading on the Neuer Markt of the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange) on August 12, 1998. The listing order was received on September 3, 1998. Trading in the above-mentioned no-par value bearer shares is expected to commence on September 14, 1998.

Placement

Of the 2,183,400 no-par value bearer shares of the Company, a banking consortium with DG BANK Deutsche Genossenschaftsbank AG as lead manager, and also comprising M.M. Warburg & CO. KGaA and Baden-Württembergische Bank AG, has underwritten 436,680 no-par value bearer shares from the capital increase against cash contributions in 1998, and 256,000 no-par value bearer shares from the current shareholders' holdings, and has assumed responsibility for placing these shares with a wide group of investors as part of a public offering in the period between September 8 and September 10, 1998 inclusive (with reservation of the right to curtail the offering period).

From the above mentioned placing-volume, up to 33,000 no-par value bearer shares are subject to a claim for preferential subscription for employees and business associates of the Company. If these shares are not utilized, they will be included in the placement.

The selling shareholders have also granted the banking consortium the option of underwriting a further amount of up to 70,000 no-par value bearer shares ("Greenshoe" shares) to cover additional allotments. These shares may be placed to cover additional allotments. If no additional allotments are made, the shares will be returned to the selling shareholders. This option may be exercised within 20 bank working days after the start of the price fixing.

The above-mentioned total of up to 762,680 no-par value bearer shares will be offered by means of a book-building process within a price range of DM 57,- to DM 69,- per ordinary bearer share.

The final placement price at which the no-par value bearer shares will be settled is expected to be fixed on September 11, 1998 by means of the order book created during the bookbuilding process and is scheduled to be published in the Börsen-Zeitung on September 12, 1998.

Investors are expected to be able to ascertain the number of shares allotted to them starting on September 14, 1998 at the financial institution managing their securities accounts.

Purchasers will probably be required to pay the purchase price for the up to 762,680 no-par value bearer shares plus securities commission on September 15, 1998.

DG BANK is entitled to make additional allocations or to take other measures as part of the allocation of the up to 762,680 no-par value bearer shares to be placed, in order to stabilize the market price of the up to 762,680 no-par value bearer shares, or to maintain this price at a level which they would not otherwise attain. Such stabilization measures may be discontinued at any time.

Net offering proceeds, issuing costs

The net offering proceeds from the placement of the total of up to 762,680 no-par value bearer shares consist of the placement price to be paid per ordinary bearer share and the number of shares placed, less the issuing and placement costs. The issuing and placement costs are anticipated to amount to between c. DM 2.7m and c. DM 3.1m, including the remuneration of the underwriting banks of between c. DM 2.2m and c. DM 2.6m. The net offering proceeds are expected to amount to between c. DM 40.8 and c. DM 49.5m .

The proceeds of the placement of 436,680 no-par value bearer shares from the capital increase against cash contributions in 1998 will be paid to the Company and will be used, among other things, to finance the further internal and external growth of the Company, especially in the shows/tours, local and international events as well as services provider units. The Company is assuming the costs of this placement.

The proceeds of the placement of the up to 326,000 no-par value bearer shares from the shareholdings of the selling shareholders will be paid to the selling shareholders and will be used to finance the acquisition of a shareholding held to date by Stella AG. The selling shareholders are assuming the costs of this placement.

Securities code number

Securities code number: 551 390
ISIN: DE 000 551 390 7

DEUTSCHE ENTERTAINMENT AG

Formation, registered office and duration of the Company

DEUTSCHE ENTERTAINMENT was founded in 1995 under the name "DEAG Deutsche Entertainment Aktiengesellschaft" and was entered in the Commercial Register of the Hamburg District court on August 31, 1995 under No. HRB 59354. Founder was Stella Musical Management GmbH. The Company was founded by Stella Musical Management GmbH. On September 12, 1995, the Company concluded a post formation acquisition contract in compliance with Section 52 (1) AktG (German Stock Corporation Act) with Wintergarten Varieté Theater Betriebs Gesellschaft mbH, Berlin, concerning the acquisition of 50% of the shares of Wintergarten at a purchase price of DM 4,000,000.00. The Supervisory Board examined the contract in accordance with Section 52 (3) AktG and prepared a post formation report. The legally required post formation audit in accordance with Section 52 (4) AktG, Section 33 (3) AktG was performed by Dr. Schreiber & Partner Treuhand GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, and a report issued on September 29, 1995, which contains the following statement:

"After the completion of our audit performed in accordance with Section 52 (4) AktG in conjunction with Section 34 AktG, and in accordance with professional standards, we have determined on the basis of the documents, accounts, and written material made available to us, and statements and evidence presented to us, that the information provided by the Supervisory Board in the post formation report is correct and complete, and that the value of the shares to be taken over by way of the post formation acquisition contract is at least equal to the purchase price to be paid."

On October 21, 1995, the Extraordinary General Meeting approved the above-mentioned contract. An entry was made in the Commercial Register on November 11, 1995.

By way of a merger agreement dated October 19/20, 1995, the Company - as acquiring legal entity - merged with Berlin Entertainment Services Holding GmbH. To this end, DEUTSCHE ENTERTAINMENT increased its share capital from DM 100,000.00 by an additional DM 100,000.00 for a total of DM 200,000.00 by issuing 2,000 new bearer shares with a par value of DM 50.00 each.

This merger agreement is a post formation acquisition contract as defined by Section 52 (1) AktG. The result of the post formation/merger audit performed by Dr. Schreiber & Partner Treuhand GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, was described in the report as follows:

"After the completion of our audit performed in accordance with Section 60 ff. UmwG (German Transformation Act) in conjunction with Section 52 (4) and Section 34 AktG, and in accordance with professional standards, we have determined on the basis of the documents, accounts, and written material made available to us, and statements and evidence presented to us, that based on the reasons presented, the suggested swap ratio, according to which the shareholders of Berlin Entertainment Services Holding GmbH, Berlin, would receive shares of DEAG Deutsche Entertainment Aktiengesellschaft, Hamburg, with a par value of DM 100,000.00 for all shares of their company with a par value of DM 100,000.00, is appropriate on the basis of the merger value ratio as of August 20, 1995. The value of the assets contributed as part of the merger amounts to at least the par value of the shares to be issued."

The registration of the increase in capital in the commercial register was at January 17, 1996, the registration of the merger at June 6, 1996.

DEUTSCHE ENTERTAINMENT acts as the management company for a group of companies in the entertainment industry. With its 13 active subsidiaries, the Group operates in the following areas

1. Local events,
2. Venue management,
3. Variety theaters,
4. Service provider for all aspects of the entertainment business,
5. Shows/tours.

The registered office of the Company is Hamburg at present, a branch is located in Berlin. In the meantime, the General Meeting of the Company has resolved to move the head office to Berlin; this will take place in the fourth quarter. The administrative address of the Company has already been changed to: Hohenzollernstraße 12, 14163 Berlin.

The Company is subject to the laws of the Federal Republic of Germany.

The Company has been formed for an unlimited duration.

Purpose of the Company

The purpose of the Company is to manage theaters, variety theaters and other entertainment venues in Germany and abroad, to organize entertainment events of all kinds and to integrate services in connection with such events, especially in the areas of catering and merchandising. The Company is authorized to acquire interests in other companies which pursue the purpose described above or any similar purpose. The Company is authorized to establish branches and subsidiaries in Germany and conduct all business which is suitable for directly or indirectly promoting the purpose of the company.

Capitalization

The nominal capital of the Company amounted to DM 100,000.00 at the time of its establishment in 1995 and was increased by DM 100,000.00 by resolution of the General Meeting on October 21, 1995 in order to conclude the merger with Berlin Entertainment Services Holding GmbH, Berlin. Another resolution of the General Meeting on August 27, 1996 resolved to increase the capital by DM 3,800,000.00 – bringing the total capital to DM 4,000,000.00. The capital was increased from corporate funds in accordance with Section 207 ff. AktG (German Stock Corporation Act).

By virtue of the resolution of the extraordinary General Meeting of the company on July 16, 1998 a further capital increase of DM 4,733,600.00 was entered in the Commercial Register on August 5, 1998, as was the conversion of the shares into no-par value shares. This capital increase was executed against non-cash contributions. In return for the acquired shares, the existing shareholders transferred their shares of *concert concept Veranstaltungen GmbH*, Berlin, and *coco TOURS Veranstaltungen GmbH*, Berlin to DEUTSCHE ENTERTAINMENT. This operation saw the transfer of 100% of the interests in the aforementioned companies. The value of the non-cash contributions was confirmed on the basis of an expert opinion dated July 20, 1998 by *Treuhand-Gesellschaft für Handel und Industrie mbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft*.

Finally, the General Meeting on August 6, 1998 resolved, among other things, to authorize the Managing Board, with the approval of the Supervisory Board, to increase the nominal capital of the Company against cash contributions by DM 2,183,400.00 to DM 10,917,000.00 by issuing 436,680 new no-par value shares and to preclude the statutory subscription rights of the existing shareholders. The Managing Board with the approval of the Supervisory Board has already made use of this authorization and resolved the capital increase. The new no-par value shares will carry full dividend rights for the 1998 fiscal year, i.e. from January 1, 1998.

The capital increase against cash contributions was entered in the Commercial Register of the District Court of Hamburg under HRB 59354 on September 1, 1998.

In addition, the Managing Board was authorized to increase the share capital of the Company once or several times in the period up until August 6, 2003, with the approval of the Supervisory Board, by a total of DM 5,438,500.00 by issuing new no-par value shares against cash or non-cash contributions. The Managing Board is authorized to determine the conditions under which the new shares are to be issued, with the approval of the Supervisory Board.

The Managing Board is also authorized to exclude the subscription rights of shareholders with the approval of the Supervisory Board in the following cases:

- (a) in order to round off fractions;
- (b) in order to issue the shares as employee shares to staff of the Company;
- (c) in order to generate non-cash contributions, particularly in the form of companies or parts of companies;
- (d) where the capital increase against cash contributions does not exceed 10 per cent of the nominal capital and the issuing price of the shares is not significantly less than the market price;

The Company's share capital now amounts to DM 10,917,000.00, composed of 2,183,400 no-par value bearer shares with a theoretical par value of DM 5.00 each.

All of the Company's shares are fully paid up.

The form of the share certificates and the dividend and renewal coupons will be determined by the Managing Board. A share certificate certifying several shares of the same type (global share) may be issued. The shareholders are not entitled to claim individual certification of these shares.

The DM 10,917,000.00 composed of no-par value shares is certificated by global certificates with dividend coupons nos. 0 000 001 - 2 183 400, which are deposited with the Deutsche Börse Clearing AG, Frankfurt am Main. There are no plans to print individual physical certificates. The shareholders are entitled to co-ownership shares of the global certificates with dividend coupons.

Major shareholders

After the capital increase and the placement of the shares, c. 68 % of no-par value bearer shares (or c. 65% in the case of full exercise of the Greenshoe option) will be owned by the existing shareholders or their family members. The individual interests which will be held by the members of the Managing Board are: Peter Schwenkow with c. 42.4% (40.0%), Frank Reinhardt with c. 8.1% (8.1%), Klaus Ulrich with c. 8.1% (8.1%) and by the Deputy Chairman of the Supervisory Board, Philipp Graf von Hardenberg, with c. 9.8% (8.9%). The above-mentioned current shareholders have undertaken to DG BANK not to sell or dispose of any shares in the Company within a period of twelve months starting from the date on which the Company's shares are first traded on the Neuer Markt, nor to announce such a sale or disposal or to take any other measures amounting in economic terms to such a disposal (with the exception of the up to DM 70,000.00 no-par value bearer shares relating to the Greenshoe option granted to the underwriting banks).

Executive bodies of the Company

According to the Articles of Association of the Company, **the Managing Board** consists of one or more persons. Alternate members of the Board may be appointed.

The Supervisory Board appoints the members of the Managing Board and determines their number as defined by the paragraph above. The Supervisory Board may appoint a Chairperson or Spokesman of the Managing Board as well as an additional member as his deputy.

The Company is represented in law by two members of the Managing Board or by one member of the Managing Board and one authorized signatory ("Prokurist"). The Supervisory Board can determine whether members of the Managing Board have the right to sole representation.

The current members of the Managing Board are:

Peter L.H. Schwenkow, Berlin, Impresario, Chairman of the Managing Board for Variety Theaters,
Strategic Affairs and Marketing

1954 Born in Hamburg
1976 Studied Advertising and Communication Sciences at *Hochschule der Künste (HdK)* (College of Arts) Berlin, and held a position as technical director and promotion coordinator for *Konzertdirektion Wolfgang Jänicke*
1978 Founded *concert concept*
Autumn 1993 Appointed as lecturer for the "Cultural Management" course of studies at the *Hochschule für Musik Hanns Eisler* (Hanns Eisler Conservatory)
November 1993 Received "Berliner Zeitung" culture prize for the variety theater *Wintergarten* as a *Gesamtkunstwerk* (synthesis of the arts)
1995 Founded Deutsche Entertainment AG and appointed as Chairman of the Board of the parent holding company for the variety theaters *Wintergarten* (Berlin), *Friedrichbau* (Stuttgart), *Etablissement Ronacher* (Vienna) and *Roncalli's Apollo Variété* (Düsseldorf)
May 1996 Elected "Most Outstanding Businessman of the Year 1996" by the Association of Self-Employed Businessmen
since 1996 Became a Member of the General Assembly of the Berlin Chamber of Commerce and Industry
Summer 1996 Founded *coco TOURS Veranstaltungen GmbH*, Berlin
August 1997 Founded *Velomax Berlin Hallen Betriebs GmbH* and concluded an agency agreement with the Berlin Senate to hold events in the *Max-Schmeling-Halle* and the *Velodrom*

Klaus Ulrich, Berlin, *Kaufmann* (Businessman), Member of the Managing Board for Shows and Tours

1960 Born in Stolberg
1977 – 1981 Studied at the Niederrhein Technology College, Mönchengladbach branch
1981 – 1983 Project manager for the concert agency *Peter Rieger Konzertagentur GmbH*
1984 – 1993 Director of the "Metropol" venue in Aachen
since 1984 Independent consultant for Herbert Grönemeyer, German pop star
1984 – 1995 Concert agent in the state of North-Rhine Westphalia, Germany
1991 Co-founder of the Aachen Cultural Summer festival under the patronage of the mayor of Aachen
1996 Founded *coco TOURS Veranstaltungen GmbH*, Berlin and appointed as Managing Director
1996 – 1998 Majority partner in *Musikkontor GbR*
Summer 1998 Member of the Association of German Concert Directors

Frank Reinhardt, Berlin, Journalist, Member of the Managing Board for Local Events, Venue Management and Service Provider

1956 Born in Berlin
from 1975 Studied Journalism at the Freie Universität Berlin, with minors in German Studies and Theater Science, graduated with a Master's Degree

1978 – 1979	Freelance employee for the Berliner Summer Festival (Berliner Festspiele GmbH) and for television productions of Berliner Union Film.
since April 1982	Various freelance positions for <i>Berliner Festspiele GmbH</i> in the following: <i>HORIZONTE/FESTWOCHE</i> n film festival, responsible for organizational preparation, production and technical execution; and <i>Sender Freies Berlin</i> (radio/TV broadcasting), responsible for technical execution
1984	Organizational manager of the 34th annual Berlin festival
from January 1, 1985	Full-time employee of Berliner Festspiele GmbH as organizational manager and deputy project manager for the Berlin city festival celebrating 750 years Berlin in 1987
1988	Director of the Youth Theater Festival in Berlin
since March 1990	Partner in <i>concert concept</i> and appointed as Managing Director
since December 13, 1990	Managing Director of <i>MVS werbeconcept GmbH</i>
since December 1991	Partner in <i>Berlin Entertainment Service Holding</i>
since July 7, 1992	Managing Director of <i>CTS Computer Ticket Service Betriebs GmbH</i> Berlin
since July 22, 1994	Managing Director of <i>Berlin Ticket Theaterkassen GmbH</i>
since September 28, 1994	Managing Director of <i>SMR Service Marketing Gesellschaft mbH</i> Reichssportfeld Berlin
since December 15, 1995	Managing Director of <i>Berlin Ticket Telefonischer Kartenservice GmbH</i>
since March 1996	Shareholder of DEUTSCHE ENTERTAINMENT AG
since May 7, 1996	Managing Partner of <i>coco TOURS Veranstaltungen GmbH</i>
since September 6, 1996	Managing Director of <i>OAC Open Air Classic Concert Veranstaltungen GmbH</i> , Berlin
since January 1, 1996	Member of the Managing Board of DEUTSCHE ENTERTAINMENT AG
since March 1998	Managing Director of <i>Velomax Berlin Hallenbetriebs GmbH</i>

Thomas Nedtwig, Blankenfelde, *Diplom-Kaufmann* (Graduate in Business Management),

	Member of the Managing Board for Finance, Personnel and Legal Affairs
1960	Born in Düsseldorf
7/1982 – 6/1986	Studied Business Administration at Cologne University, graduated as <i>Diplom-Kaufmann</i> (Graduate in Business Management)
1989	Certified as Tax Accountant
1991	Certified as Auditor
7/1986 – 4/1993	Various positions at several international tax accountancies
5/1993 – 10/1997	Commercial Director of <i>DE-Consult Deutsche Eisenbahn Consulting GmbH</i> , Berlin
12/1997 – 4/1998	Commercial Director for the Transportation Systems division of ALCATEL SEL AG in Stuttgart
May 1, 1998	Financial Director of DEUTSCHE ENTERTAINMENT AG
September 1, 1998	Member of the Managing Board for Finance of DEUTSCHE ENTERTAINMENT AG

The Chairman of the Managing Board has been granted powers of sole representation.

Total remuneration for the Managing Board in the 1998 fiscal year will amount to DM 2,650,000.00 including a performance-related bonus entitlement of up to DM 460,000.00.

The Managing Board currently owns a total of 1.449,302 no-par value bearer shares in the Company.

According to the Articles of Association of the Company, the **Supervisory Board** consists of three people. These are elected for the period up to the end of the General Meeting which passes the resolution on their discharge for the fourth fiscal year after they have taken office. The fiscal year in which they are elected is not counted for this purpose.

The Supervisory Board currently comprises the following people:

Prof. Peter Raue, Berlin,

– Chairman –

Lawyer and German Notary Public

Senior Partner in Berlin for the law firm *Oppenhoff & Rädler*

Member of the Supervisory Board of *Grund AG* and the *Hebbel Theater*, Berlin

Carl-Philipp Graf von Hardenberg, Berlin,

– Deputy Chairman –

Kaufmann (Businessman)

Partner and Member of the Advisory Board of *Celler Residenz Hotels GmbH*, Hotel Fürstenhof, Celle

Member of the Supervisory Board of *Berlin-Potsdam International Schule* (BPS)

Willy Rudolph Weck, Berlin,

Diplom-Oeconom (Graduate in Economics)

Member of the Managing Board of *Vobis Microcomputer AG*

Member of the Board of Directors of *Award Software International*, California, USA

The members of the Supervisory Board receive a fixed amount of remuneration amounting to DM 18,000.00 per individual, payable at the end of the fiscal year, for each full fiscal year in which they serve as members. The Chairman receives triple and the Deputy Chairman receives double this amount. Members of the Supervisory Board who have not belonged to the Supervisory Board for a full fiscal year receive remuneration in proportion to the amount of time they have served on the Supervisory Board. In addition, the members of the Supervisory Board receive reimbursement for all expenses incurred, as well as any value added tax payable on their remuneration and expenses.

The members of the Supervisory Board currently hold 278,428 no-par value bearer shares in the Company.

According to the Articles of Association of the Company, the **General Meeting** is held at the registered office of the Company or at the registered office of one of the German Stock Exchanges.

Each par value share entitles the bearer to one vote.

Fiscal year, official notices, paying agents and depositories

The fiscal year of the Company is the calendar year.

According to the Articles of Association of the Company, the Company's **official notices** are published in the *Bundesanzeiger* (Federal Gazette). In addition, the Company will publish its official notices in a supra-regional journal of the Frankfurt Stock Exchange for statutory stock market notices. Publication in the *Bundesanzeiger* is sufficient for the legal validity of the official notice.

The Company will appoint and announce the appointment of at least one paying agent and one depository in Germany, at whose counters all measures concerning the shares may be effected. The paying agent and depository are the financial institutions that are currently members of the consortium and listed later on in this prospectus.

Appropriation of profits

The General Meeting decides on the appropriation of the balance sheet profit arising out of the approved annual financial statements. The General Meeting is also authorized to determine an appropriation different from that laid down in Section 58 (3) sentence 1 of the Aktiengesetz (German Stock Corporation Act).

In the context of a decision to increase the Company's capital, the appropriation of the profits for new shares may be determined in a manner different from that laid down in Section 60 (2) clause 3 of the Aktiengesetz (AktG - German Stock Corporation Act).

	1997*	1996*	1995*
	DM	DM	DM
Dividends paid to the shareholders in the last three fiscal years	0	0	0
Notional dividend per share	0	0	0
Earnings per share in the last three fiscal years (IAS)	-0.02	-1.31	-2.28

The Company is pursuing a dividend policy which takes both the interests of shareholders and those of the Company into account. In the future, this policy will be dependent on the Company's earnings and financial situation, liquidity requirements, general economic conditions in the markets in which DEUTSCHE ENTERTAINMENT is active, and on the legal, tax and regulatory aspects of the general business environment.

Auditors

The annual financial statements of DEUTSCHE ENTERTAINMENT for 1995, 1996 and 1997 were audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Katharina-Heinroth-Ufer 1, 10787 Berlin, and were granted an unqualified audit opinion.

The pro forma consolidated financial statements for 1995, 1996 and 1997 were also audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft; the result was issued as a written report. The pro forma consolidated financial statements for 1997 were also issued an audit certificate.

Of the annual financial statements combined in the pro forma consolidated financial statements, four, five, and seven were audited by the financial statement auditor in 1995, 1996 and 1997, respectively. The companies were audited by the following financial statement auditors. The remaining annual financial statements were prepared by tax advisors.

* Calculated on the basis of shares with a par value of DM 5.00

Year	Company	Financial Statement Auditor
1995	Deutsche Entertainment AG	Deloitte & Touche GmbH
	Friedrichsbau Varieté Theater Betriebs GmbH	Deloitte & Touche GmbH
	MVS Werbeconcept	HTG Handels- u. Finanztreuhand GmbH
	concert concept Veranstaltungen GmbH	Wirtschaftsprüferin/Steuerbüro Beate Otto
1996	Deutsche Entertainment AG	Deloitte & Touche GmbH
	Wintergarten Varieté Theater Betriebs GmbH	Deloitte & Touche GmbH
	Friedrichsbau Varieté Theater Betriebs GmbH	Deloitte & Touche GmbH
	concert concept Veranstaltungen GmbH	Central Treuhand AG
	MVS Werbeconcept	HTG Handels- u. Finanztreuhand GmbH
1997	Deutsche Entertainment AG	Deloitte & Touche GmbH
	Wintergarten Varieté Theater Betriebs GmbH	Deloitte & Touche GmbH
	Friedrichsbau Varieté Theater Betriebs GmbH	Deloitte & Touche GmbH
	Roncalli's Apollo Varieté Betriebs GmbH	Deloitte & Touche GmbH
	MVS Werbeconcept	HTG Handels- u. Finanztreuhand GmbH
	concert concept Veranstaltungen GmbH	Central Treuhand AG
	coco TOURS Veranstaltungen GmbH	Central Treuhand AG

Annual Financial Statements of DEUTSCHE ENTERTAINMENT AG*

– Pro forma consolidated financial statements
for fiscal years 1997, 1996 and 1995 (IAS)

* Also referred to as DEAG in the annual financial statements

IAS pro forma consolidated balance sheets as of December 31, 1997, 1996 and 1995

ASSETS	December 31, 1997 DM thousand	December 31, 1996 DM thousand	December 31, 1995 DM thousand
A Fixed assets			
I. Intangible assets:			
1. Concessions, industrial property rights, similar rights and licenses in such rights	18	298	281
2. Goodwill	7,690	8,792	7,739
II. Property, plant and equipment			
1. Land, land rights and buildings including buildings on third-party land	1,367	1,576	2,217
2. Machinery and technical equipment	91	1	1
3. Other facilities, operating and office equipment	320	285	302
4. Advance payments and assets under construction	20	46	20
III. Financial assets			
1. Affiliated companies	63	257	1,785
2. Associated companies	455	212	27
B Current assets			
I. Inventories			
1. Finished goods and merchandise	156	62	76
2. Advance payments	113	0	0
II. Receivables and other assets			
1. Trade receivables	6,147	2,552	5,254
2. Receivables from related parties	12,068	8,817	2,385
3. Other assets	2,810	2,544	2,595
III. Securities	0	57	0
IV. Checks, cash-in-hand and bank balances	46,886	1,715	2,259
C Prepaid expenses	1,663	438	1,257
TOTAL ASSETS	79,867	27,651	26,197

EQUITY AND LIABILITIES	December 31, 1997 DM thousand	December 31, 1996 DM thousand	December 31, 1995 DM thousand
A Equity			
I. Subscribed capital	8,734	8,734	2,728
II. Capital reserves	100	100	3,900
III. Minority interests	438	357	314
IV. Retained earnings/accumulated loss brought forward	-3,397	-1,120	137
V. Net income/net loss for the year	-40	-2,282	-1,244
B Provisions			
1. Provisions for taxes	693	304	53
2. Other provisions	835	730	498
C Liabilities			
1. Liabilities to banks	5,264	3,860	284
2. Payments received on account of orders	18,127	1,076	606
3. Trade payables	5,521	2,065	4,992
4. Liabilities to related parties	10,178	6,515	1,901
5. Other liabilities	7,975	3,311	4,347
D Deferred income	25,441	4,001	7,680
TOTAL EQUITY AND LIABILITIES	79,867	27,651	26,197

IAS pro forma consolidated statements of income for 1997, 1996 and 1995

	Jan. 1 to Dec. 31 1997 DM thousand	Jan. 1 to Dec. 31 1996 DM thousand	Jan. 1 to Dec. 31 1995 DM thousand
1. Sales	61,724	51,678	48,679
2. Other operating income	9,292	5,835	5,132
3. Cost of materials			
a) Cost of organizing and arranging events	31,123	28,289	26,302
b) Cost of purchased services	15,600	7,984	6,198
4. Personnel expenses			
a) Wages and salaries	9,009	8,698	7,139
b) Social security and other pension costs	1,547	1,319	968
5. Depreciation			
a) on intangible fixed assets and property, plant and equipment	2,137	1,979	2,100
b) on non-standard current assets	0	390	663
6. Other operating expenses	11,587	9,640	10,780
7. Income from investments	0	72	0
8. Net income from associated companies	243	150	17
9. Other interest and similar income	817	336	242
10. Depreciation on financial assets	57	1,604	604
11. Interest and similar expenses	709	316	247
12. RESULTS FROM ORDINARY ACTIVITIES	307	-2,148	-932
13. Extraordinary income	17	0	0
14. Taxes on income	155	87	103
15. Other taxes	128	4	23
16. Consolidated net income/net loss for the year	41	-2,239	-1,058
17. Minority interest in earnings	-81	-43	-186
18. Consolidated net income	-40	-2,282	-1,244

IAS pro forma cash flow statement for the period January 1 to December 31, 1997 and 1996

	December 31, 1997 DM thousand	December 31, 1996 DM thousand
Consolidated net loss for the year	-40	-2,282
+ Depreciation	2,193	3,973
+/- Increase/decrease in provisions	494	483
+/- Other non-cash expenses and income:		
Income from shares in associated companies	-243	-150
Change in minority interests	81	43
Cash flow	2,485	2,067
-/+ Increase/decrease in inventories	-207	14
-/+ Increase/decrease in trade receivables	-3,594	2,444
-/+ Increase/decrease in receivables from related parties	-3,250	-6,564
-/+ Increase/decrease in other assets	-1,491	869
+/- Increase/decrease in trade payables	3,456	-2,927
+/- Increase/decrease in payments on account	17,051	470
+/- Increase/decrease in liabilities to related parties	3,662	4,614
+/- Increase/decrease in other liabilities	4,663	-1,037
+/- Increase/decrease in deferred income for ticket sales	21,439	-3,679
Inflow/outflow of funds from current operating activities	44,214	-3,729
Loss on the disposal of assets	188	0
Cash outflows		
for acquisitions of intangible assets	-9	-19
for acquisitions of property, plant and equipment	-688	-378
for contributions from the change in consolidated companies (coco TOURS GmbH)	0	50
Inflow/outflow of funds from investing activities	-509	-347
Increase in liabilities to banks	1,404	3,576
Changes in accumulated loss brought forward due to other changes in equity	5	13
Inflow/outflow of funds from financing activities	1,409	3,589
Net cash increase in funds	45,114	-487
Funds at the start of the fiscal year	1,772	2,259
Funds at the close of the fiscal year	46,886	1,772
- thereof trust accounts for concerts	43,506	0

Consolidated statement of fixed asset movements in accordance with IAS – 1997

Fixed assets	Cost of acquisition			
	as of	Additions	Disposals	as of
	Jan. 1, 1997			Dec. 12, 1997
	DM thousand	DM thousand	DM thousand	DM thousand
I. Intangible assets				
1. Software	759	9	0	768
2. Goodwill	10,828	0	0	10,828
Total				
intangible assets	11,586	9	0	11,595
II. Fixed assets				
1. Land and buildings	6,948	298	0	7,246
2. Technical equipment and machinery	377	107	0	484
3. Low-value assets up to DM 800.00	5	56	9	52
4. Other equipment, operating and office equipment	1,241	207	106	1,342
5. Payments on account and assets under construction	66	20	46	40
Total property, plant and equipment	8,637	688	162	9,163
III. Financial assets				
1. Other investments in corporations	2,464	0	138	2,327
2. Associated companies	212	243	0	455
Total financial assets	2,676	243	138	2,782
Total	22,900	940	299	23,540

Accumulated depreciation				Net book value	
as of Jan. 1, 1997	Additions	Disposals	as of Dec. 12, 1997	as of Dec. 12, 1997	as of Dec. 12, 1996
DM thousand	DM thousand	DM thousand	DM thousand	DM thousand	DM thousand
461	288	0	749	18	298
2,035	1,102	0	3,137	7,690	8,792
2,496	1,391	0	3,886	7,709	9,090
5,371	507	0	5,878	1,367	1,576
376	17	0	393	91	1
5	56	9	52	0	0
960	166	105	1,021	320	281
20	0	0	20	20	46
6,733	746	114	7,365	1,798	1,905
2,208	57	0	2,264	63	257
0	0	0	0	455	212
2,208	57	0	2,264	517	469
11,436	2,193	114	13,516	10,025	11,463

Management Report for the Pro Forma Consolidated Financial Statements For Fiscal Year 1997

Preliminary remarks

The companies *concert concept Veranstaltungen GmbH* and *coco TOURS Veranstaltungen GmbH*, both in Berlin, together with their subsidiaries, are to be merged with DEUTSCHE ENTERTAINMENT AG (hereinafter DEAG) by way of non-cash contributions against the granting of shareholder's rights in compliance with section 183 of the AktG (German Stock Corporation Act). The merger will be completed in July 1998, but will be undertaken retroactively to January 1, 1998 for tax purposes.

In preparation for this merger, DEAG prepared the pro forma consolidated annual financial statements in which DEAG is shown with its subsidiaries and participations as if the Group had already been in existence on December 31, 1997. Please refer to the Notes to the consolidated annual financial statements as of December 31, 1997 for further assumptions.

Business Trends and Situation of the DEAG Group

The DEAG Group activities are focused mainly on three business units:

- Organization of local concerts domestically
- Organization of concert tours in Germany and Europe
- Operating of variety theaters

Further support for these business units is provided by the venue management and services units.

1. Local concert events

The Group organizes concerts in Berlin, Saxony and North-Rhine Westphalia. The concerts attract a wide audience with the diverse selection of musical styles. Past highlights included concerts with the Berlin Philharmonic Orchestra, Celine Dion, Joe Cocker and Michael Jackson. In fiscal year 1997, capacity utilization was good to very good and led to earnings of DM 0.6m in this business unit.

DEAG, in cooperation with two partners, was able to win the invitation to tender for the operation of two new stadiums in Berlin, the *Velodrom* and the *Max-Schmeling-Halle* against international competition. The contract runs for ten years and secures the Group's position on the local market, as does the operation of the *Waldbühnen* in Berlin and in Schwarzenberg (Saxony), which are both important venues in their respective local markets.

2. Shows/Tours

In the second year after its establishment, this business unit was able to achieve positive net income amounting to DM 2m. In addition to several tours with German and international artists in 1997, it should be mentioned that DEAG was able to conclude a contract to manage the German concerts of the 1998 Rolling Stones tour. By providing services for other partners, this business unit was able to contribute substantially to 1997 earnings. Results in the Shows/Tours business unit were adversely affected by the concerts organized in Majorca for the first time in 1997. The expenses incurred here are considered investments in a new market outside Germany.

3. Variety theater

The Group has been involved in this business unit for several years with the operation of the *Wintergarten Varieté* in Berlin and the *Friedrichsbau Varieté* in Stuttgart. Due to the weak economic environment in Germany, both theaters were unable to make a positive contribution to earnings in 1997. A company was established with Bernhard Paul in Düsseldorf to take over operations of the newly renovated *Apollo Theater*. Roncalli's *Apollo Varieté* began operating in October. Due to capacity utilization of around 78% in the first months, this venue was able to achieve a positive operating result in its founding year. Overall, however, this business unit suffered a loss of DM 1.5m in 1997.

In addition to the total expenses of the holding company, there was a consolidated loss of DM 40 thousand in 1997 for the pro forma Group.

The Group's financial situation was heavily impacted by the financing required for the 1998 Rolling Stones Tour. In order to secure the required fees, trust accounts were installed to settle accounts from ticket sales, collateral for local operators and bank loans.

Due to losses, equity was fully eroded as of December 31, 1997 at the subsidiaries *Friedrichsbau Varieté Theater Betriebs GmbH*, Stuttgart, *Give&Take Handelshaus für Kultur, Sponsoring und Marketing GmbH*, Berlin, *Berlin Ticket Theaterkassen GmbH*, as well as *Unicorn Entertainment Services GmbH*, Berlin. DEAG signed a comfort letter for *Give&Take GmbH*, *concert concept GmbH* and *Berlin Ticket Theaterkassen GmbH*. The book overindebtedness of Friedrichsbau Varieté was eliminated through the receipt of a grant by the L-Bank¹. The overindebtedness of the other participations is covered by the receivables due to other companies in the DEAG Group².

Events of particular importance after the close of the business year

There are plans to relocate the registered offices of DEAG from Hamburg to Berlin to the site of the branch office currently located there.

Projected development of the Company

Due to the Rolling Stones Tour in the concert tours business unit, total Group sales are expected to increase by over DM 100m in fiscal year 1998. The earnings situation is expected to improve in the local concerts business unit due to a slight increase in sales. The variety theater business unit will be able to make a positive contribution to 1998 earnings as a result of internal reorganization as well as positive developments in the variety theater market.

All of this will also lead to a marked improvement in the financial situation of the Company due to positive cash flow.

Berlin, June 1998

Peter Schwenkow
Chairman, Managing Board

Frank Reinhardt
Member, Managing Board

Klaus Ulrich
Member, Managing Board

¹⁾ This refers to a contractually agreed financial contribution with a term up to 1998 for the purpose of outfitting a variety theater, and, starting in 1999, a sponsoring agreement with a term to the year 2003.

²⁾ These receivables are not currently being called due and are expected to be repaid by the end of 1998.

Notes to the pro forma consolidated financial statements for fiscal year 1997 (IAS)

I. General information

DEUTSCHE ENTERTAINMENT AG (DEAG) plans defined external financing measures for 1998. For this reason, preliminary pro forma consolidated financial statements were drawn up for fiscal year 1995 comprising the companies which will be included as future subsidiaries under the uniform or common management of DEUTSCHE ENTERTAINMENT AG. Due to the size of the DEAG Group was no obligation to compile consolidated financial statements in the past.

The selection of the companies included as of December 31, 1997 was made on the basis of the organizational structure planned for the future, as it will stand in 1998. The objective of this is to create a basis for comparison of the Group figures for 1997 with the economic circumstances which will exist from 1998 onwards.

The pro forma consolidated financial statements of DEUTSCHE ENTERTAINMENT AG were prepared for the first time in 1997 according to the standards promulgated by the International Accounting Standards Committee as of December 31, 1997. It was refrained from taking into account IAS to be used after December 31, 1997, but which would also have been valid previously.

The consolidated financial statements are based on the annual financial statements of the companies in the Group, which were prepared according to the *Handelsgesetzbuch* (HGB - German Commercial Code) and the *Aktiengesetz* (AktG - German Stock Corporation Act). The transition to the IAS rules was performed at the level of the individual companies.

Application of IAS produced income of DM 37 thousand in 1997 (1996: DM 73 thousand) which was eliminated against earnings brought forward, and expenses of DM 185 thousand (1996: DM 36 thousand) which were eliminated against the Group's net income for the year.

The subsidiaries are generally under the uniform management of DEAG. Three subsidiaries are managed jointly.

II. Assumptions

The pro forma consolidated financial statements are based on the following assumptions:

1. It is assumed that all of the companies to be included in the pro forma consolidated financial statements and their subsidiaries are subsidiaries of DEAG from the time they became affiliated companies, either from January 1, 1995 or from the date on which they were established or acquired. It is also assumed that DEAG is entitled to collect profits.
2. The acquisition costs of the investments as well as the value of the planned nominal capital increase were set at DM 2,528,384.00 for *concert concept* and DM 2,205,240.00 for *coco TOURS*. A court-appointed expert on non-cash contributions confirmed that these values are appropriate.
3. In connection with the acquisition of 51% of the shares in *B.E.S.T Veranstaltungsdienste GmbH*, which was acquired with contractual effect as of December 31, 1997 and with real effect on conclusion of the contract, it is assumed that beneficial ownership was transferred to DEAG on January 1, 1995 and that DEAG has been entitled to collect profits since that time.

4. For the participation structure defined as such, it is assumed that a single-entity relationship existed for tax purposes (corporation tax, trade tax and value added tax), as is planned for the future. Profit and loss transfers have been reversed, because although profit and loss transfer agreements existed with companies in the past, they were not consolidated as they are and will not be affiliated companies in the future.

5. We have prepared a separate Management Report for 1997.

The assumptions described above were necessary in order to be able to compare the figures with those of future fiscal years. We would like to point out that the equity recorded in the pro forma consolidated financial statements differs from the actual equity. The cumulative implications are listed in the following reconciliation account (in DM thousand):

Equity according to the pro forma consolidated financial statements as of December 31, 1997	5,834
Reversal of the adjustment for non-cash contributions	-4,733
Reversal of the remaining adjustments (especially tax adjustments)	-3,064
Reversal of consolidating entries due to pro forma preparation	1,651
Reversal of adjustments due to pro forma preparation	380
Actual equity for the consolidated financial statements as of December 31, 1997	68

III. Disclosures on the consolidated companies

Disclosures on the consolidated companies and the companies included are contained in the following separate listing:

Companies included in consolidation

In addition to DEAG as parent company, the following companies are included in the consolidated financial statements in accordance with the principles of full or proportional consolidation.

Companies	Interest held
<i>Wintergarten Varieté Theater Betriebs GmbH, Berlin</i>	100 %
<i>Friedrichsbau Varieté Betriebs- und Verwaltung GmbH, Stuttgart</i>	100 %
<i>Neue Scala Varieté Betriebs GmbH, Berlin</i>	100 %
<i>Roncalli's Apollo Variete Betriebs GmbH, Düsseldorf</i>	50 %
<i>Broadway Berlin Gesellschaft für Musical und Event Marketing mbH, Berlin</i>	100 %
<i>Give & Take Handelshaus für Kultur, Sponsoring und Marketing GmbH, Berlin</i>	100 %
<i>concert concept Veranstaltungen GmbH, Berlin</i>	100 %
with the following subsidiaries:	100 %
<i>MVS Werbeconcept GmbH, Berlin</i>	50 %
<i>B.E.S.T. Veranstaltungsdienste GmbH, Berlin</i>	51 %
<i>Berlin Ticket Theaterkassen GmbH, Berlin</i>	100 %
<i>Berlin Ticket Telefon. Kartenserv. GmbH, Berlin</i>	100 %
<i>Velomax Berlin Hallen Betriebs GmbH, Berlin</i>	33,3 %
<i>Leipzig Dome, Gesell. f. Verant. und Marketing, Berlin</i>	100 %
<i>Unicorn Entertainment Services GmbH, Berlin</i>	100 %
<i>Trattoria dell' Arte Rossini, Puccini, Verdi & Co.</i>	
<i>Restaurations GmbH, Berlin (subsidiary of Unicorn)</i>	100 %
<i>coco TOURS Veranstaltungen GmbH, Berlin</i>	100 %
<i>La Isla Entertainment S.L., Palma de Mallorca, Spain</i>	100 %

concert concept Veranstaltungen GmbH and *coco TOURS Veranstaltungen GmbH* will be included within the first eight months of 1998 by way of non-cash contributions to DEAG in return for the granting of shareholder's

rights in compliance with section 183 AktG (German Stock Corporation Act). The tax treatment will comply with section 20 UmwStG (German Transformation Tax Act).

MVS Werbeconcept GmbH (50% interest), *Roncalli's Apollo Varieté Betriebs GmbH* (50% interest) and *Velomax Berlin Hallen Betriebs GmbH* (33.3% interest) are listed as joint ventures and are included in the consolidated financial statements on the basis of the equity interest held by the Group parent, in accordance with the principles of proportional consolidation.

Schillertheater Betriebs GmbH, Berlin, and *SIE LIEBT MICH, sie liebt mich nicht GmbH*, which were affiliated companies of DEAG, are not included in the consolidated financial statements as they will not belong to the DEAG Group in future. The expense incurred by DEAG as part of the sale of *Schillertheater Betriebs GmbH* were removed from the present consolidated financial statements for this reason.

DEAG owns a 33.4% interest in *CTS Betriebs GmbH*, Berlin. Since it is not jointly managed, *CTS* was considered an associated company.

Musikkontor NRW GbR, Aachen, was also considered an associated company in 1997 since it was already in operation in 1997 and transferred its operations, but not its assets, to the newly-established *Musikkontor NRW GmbH* in 1998. DEAG holds a 70% interest in the equity of the new GmbH (DM 50 thousand).

IV Consolidation methods

1. Capital consolidation

The capital was consolidated using the book value method on the basis of the value at the time of establishment or acquisition of the respective subsidiary.

Since *Berlin Ticket Theaterkassen GmbH* and *MVS Werbeconcept GmbH* were established by *concert concept* in the past, the earnings brought forward from January 1, 1995 were not included in the equity liable to consolidation, but rather remained as generated capital in the Group's earnings brought forward.

In the course of proportional consolidation, the assets and liabilities of each company are included in the consolidated financial statements according to the equity interest held by the parent company.

The asset-side adjustment items resulting from capital consolidation were recorded as goodwill in the DEAG consolidated financial statements. The amounts were written down on a straight-line basis over the projected useful life of ten years, or eight years for *Friedrichsbau Unicorn* goodwill was written down in full in 1995.

DEAG recorded the following goodwill as of January 1, 1995:

<i>Friedrichsbau Varieté GmbH</i>	962,000.00 DM
<i>Wintergarten Varieté GmbH</i>	4,844,591.31 DM
<i>B.E.S.T. Veranstaltungsdienste GmbH</i>	467,271.00 DM
<i>Unicorn Entertainment Serv. GmbH</i>	46,224.38 DM
<i>concert concept Veranstaltungen GmbH</i>	2,352,194.00 DM

As of January 1, 1996 the following goodwill was added

<i>coco TOURS Veranstaltungen GmbH</i>	2,155,240.00 DM
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In the pro forma financial statements as of January 1, 1995, additions were assumed for the DEAG companies *Friedrichsbau Varieté GmbH*, *Wintergarten Varieté GmbH*, with the subsidiary *Neue Scala GmbH*, requiring the amortization of goodwill since then. *Friedrichsbau* is written down yearly by DM 120,250.00 and *Wintergarten* by DM 484,459.13, both on the basis of a projected useful life of eight years.

concert concept Veranstaltungen GmbH is initially carried at a value of DM 2,528,384.00 and *coco TOURS Veranstaltungen GmbH* at a value of DM 2,205,240.00. In 1998, a capital increase was also performed for these amounts to subscribed capital in the amount of DM 8,733,624.00. As these companies will only be included in the future, but the affiliation is assumed retroactively to January 1, 1995, the goodwill on *concert concept* is written down in the amount of DM 235,219.40 on and *coco TOURS* in the amount of DM 215,524.00.

concert concept Veranstaltungen GmbH will acquire a 51% interest in *B.E.S.T Veranstaltungsdienste GmbH* in 1998 for a price of DM 600,000.00. As this interest will be acquired in the future, but the inclusion is assumed to take effect as of January 1, 1995, the goodwill is amortized over 10 years in the amount of DM 46,727.10.

2. Elimination of intercompany profits, elimination of intercompany balances, income and expenses

Intercompany profits were not eliminated.

Receivables, liabilities and provisions between the companies included in the consolidated financial statements are generally eliminated.

The interest accounted for by minority interests in the case of proportional consolidation is carried as "Trade receivables/payables" or "Other assets/liabilities".

Income between the companies included in the consolidated financial statements was generally eliminated against the expenses incurred.

3. Taxes on income

The taxes carried in the individual financial statements for the companies not covered by a profit and loss transfer agreement as of December 31, 1997 were not included in the consolidated financial statements, as no tax burden would have arisen if such profit and loss transfer agreements had existed. In addition to the restructuring of shareholder rights, the Group intends to conclude profit and loss transfer agreements with various companies, which will result in an affiliation agreement for tax purposes. Therefore, tax expenses were eliminated in the individual financial statements of the companies concerned, as no tax burden would have arisen from if such profit and loss transfer agreements had existed.

The taxes on income relate to the companies with a 50% interest or less, as affiliation agreements do not apply to corporation tax and trade tax purposes.

Tax deferrals were not set up.

V. Accounting and valuation policies

The following accounting and valuation policies were applied when preparing the pro forma consolidated balance sheet and the pro forma consolidated statement of income:

The individual financial statements of the companies included in the consolidated financial statements are prepared according to uniform accounting and valuation policies.

The method of classification complies with IAS.

The total cost (type of expenditure) format was used to prepare the pro forma consolidated statement of income. The consolidated financial statements of DEUTSCHE ENTERTAINMENT AG were prepared in compliance with the valuation principles of IAS.

Foreign currency holdings were carried at their acquisition cost or translated using the lower exchange rate on the balance sheet date.

I. Notes to the balance sheet

The classification and movements of fixed assets are shown in the statement of fixed asset movements.

Intangible assets (e.g. software) acquired for a consideration are capitalized at their cost of acquisition and, if subject to wear and tear, reduced by straight-line depreciation over the projected useful life.

Property, plant and equipment is carried at its acquisition or manufacturing cost, plus incidental acquisition costs, less reductions in acquisition cost, and less depreciation for depreciable assets. Financing costs are not capitalized. Depreciation is charged using the straight-line method over the projected useful life.

Expenses for maintenance, when they occur, represent expenses as long as no major changes or extensions to the probable useful life result.

Moveable fixed assets up to a value of DM 800.00 (low-value assets) are written down in full in the year of acquisition.

Shares in associated companies are carried at the pro rata par value of the shares plus the shares in earnings attributable to them.

Inventories are valued at the cost of acquisition in compliance with the principles of lower of cost or market and loss-free valuation.

Receivables, other assets and liquid funds are carried at their principal amount. No specific or global value adjustments were made.

The receivables include receivables of DM 12,968 thousand with a remaining maturity of more than one year (1996: DM 3,375 thousand). Liquid funds include DM 43,506 thousand (previous year: DM 0 thousand) in balances in trust accounts for concerts.

Prepaid expenses are carried at the amounts paid in advance.

Subscribed capital is carried at its nominal value. It is composed of 80,000 DEAG bearer shares each with a par value of DM 50, as well as the retroactive non-cash contributions of *concert concept* and *coco TOURS* in the amount of DM 4,733 thousand.

Provisions are set up in the amount required by prudent business practice and according to the expected expenditure. The provisions take account of all recognizable risks and uncertain liabilities at the balance sheet date.

Liabilities are carried at their redemption amount.

Payments on account include advance payments from concert promoters for artists' fees. The advance payments relate to concerts after the balance sheet date and are valued at their principal amount.

Liabilities include liabilities in the amount of DM 809 thousand with a remaining maturity of more than one year (1996: DM 250 thousand). Other liabilities include social security contributions in the amount of DM 207 thousand (1996: DM 148 thousand) and taxes in the amount of DM 931 thousand (1996: DM 780 thousand).

No collateral was furnished.

Prepaid income includes income from prepaid ticket sales for concerts after the balance sheet date and is carried at the principal amount including VAT.

There were no contingent liabilities subject to reporting requirements at the balance sheet date.

Other financial obligations recorded at the balance sheet date were as follows:

	1997	1996
	DM thousand	DM thousand
Rental and leasing fees	20,178	15,264
Events after the balance sheet date	<u>1,134</u>	<u>1,027</u>
Total	<u>21,312</u>	<u>16,291</u>

2. Notes to the statement of income

All income from services already rendered is recorded under sales. Services for a concert, a show or a tour are considered rendered when the concert or the show is ended. For tours, this applies on a pro rata basis for those concerts already held.

Segment reporting

	Local concerts	Shows/Tours	Variety theaters
	DM million	DM million	DM million
Sales	28.6	17.4	15.7
Earnings	0.6	2.0	- 2.6
Employees	40	9	188

The following goodwill amortization is included in the earnings of the individual segments (in DM million):

0.3	0.2	0.6
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Services rendered between Group companies are eliminated on the basis of standard market prices.

Other operating income principally comprises income from the following (in DM thousand):

	1997	1996
Consulting services	360	0
Rent subsidies for variety theaters	1,646	1,646
Insurance payments	355	32
Sales loading charge	804	775
Rent	1,079	975
Other	4,672	2,407

Other operating expenses consist of the following (in DM thousand):

	1997	1996
Rental and incidental rental expenses	3,054	2,452
Advertising expenses	1,318	1,117
Consulting	886	940
Debt waiver	0	253
Travel costs	1,073	813
Licensing fees	971	984
Other	3,908	3,083

3. Other disclosures

Relationships with related parties

Shareholders

A consulting contract existed at the balance sheet date between Peter Schwenkow and *Wintergarten Varieté* for his services as director (remuneration DM 317 thousand). A contract existed in the fiscal year between *Stella Musical Management GmbH* and *Friedrichsbau Varieté* for management consulting for the theater (remuneration: DM 240 thousand).

Related parties

A contract existed between *Friedrichsbau Varieté* and *V.A.R.I.E.T.E. Veranstaltungsagentur für Repertoire und internationales Entertainment in Theatern und Etablissements GmbH*, Berlin for artistic consulting for the theater (remuneration DM 240 thousand) in the fiscal year. The shareholders Schwenkow, Reinhardt and Graf von Hardenberg together own an 84% interest in *V.A.R.I.E.T.E. GmbH*.

Berlin, June 1998

DEUTSCHE ENTERTAINMENT AG
The Managing Board

Audit report

Due to the restructuring planned in fiscal year 1998, the Managing Board of DEAG DEUTSCHE ENTERTAINMENT AKTIENGESELLSCHAFT resolved to present the DEAG Group as if the structure planned for company law and tax law purposes in the future had already been legally valid in the past on the basis of pro forma consolidated financial statements, in order to enhance comparability and to better assess the past three fiscal years.

The assumptions prevailing for accounting purposes as well as for the reconciliation to the actual equity of the Group as of December 31, 1997 are outlined in the Notes.

The pro forma consolidated financial statements were prepared in accordance with the provisions of the International Accounting Standards Committee (IASC) valid on December 31, 1997. Accounting standards which were not required to be used until after December 31, 1997 were not used.

We are submitting the following report on the pro forma consolidated financial statements for DEAG DEUTSCHE ENTERTAINMENT AKTIENGESELLSCHAFT as of December 31, 1997:

"We have audited the pro forma consolidated financial statements for fiscal year 1997 of DEAG DEUTSCHE ENTERTAINMENT AKTIENGESELLSCHAFT, including the cash flow statement. The preparation and contents of these financial statements are the responsibility of the Company's Managing Board. Our responsibility is to express an opinion in this report, based on our audit, as to whether the pro forma consolidated financial statements present in all material respects a true and fair view of the net worth, financial position and results, in compliance with the assumptions applied and with International Accounting Standards.

We conducted our audit in compliance with generally accepted auditing principles. These principles require that we plan and perform the audit to obtain reasonable assurance that the pro forma consolidated financial statements are free of material misstatement. The Group audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the pro forma consolidated financial statements. It also includes an assessment of the accounting principles used and of significant estimates made by the Managing Board, as well as an evaluation of the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The company prepared the present pro forma consolidated financial statements, including the cash flow statement, in accordance with the assumptions outlined in the Notes and with the Standards issued by the International Accounting Standards Committee valid on December 31, 1997. In our opinion, the pro forma consolidated financial statements, including the cash flow statement, give a true and fair view in all material respects of the net worth and financial position as well as the results of DEAG DEUTSCHE ENTERTAINMENT AKTIENGESELLSCHAFT for the fiscal year then ended, and comply with the Standards issued by the International Accounting Standards Committee."

Berlin, June 30, 1998

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Corzilius
Wirtschaftsprüfer

Fabis
Wirtschaftsprüfer

Annual Financial Statements of DEUTSCHE ENTERTAINMENT AG

- Individual financial statements for
fiscal years 1997, 1996 and 1995 (HGB)

Balance Sheets as of December 31, 1997, 1996 and 1995

ASSETS	Dec. 31, 1997 DM	Dec. 31, 1996 DM	Dec. 31, 1995 DM
A. Fixed assets			
I. Intangible assets			
Concessions, industrial and similar rights and assets and licenses in such rights and assets	1,014.00	2,027.00	0.00
II. Property, plant and equipment			
Other equipment, operating and office equipment	10,411.00	16,811.00	0.00
III. Financial assets			
1. Shares in affiliated companies	4,275,000.00	4,275,000.00	4,125,000.00
2. Investments in other affiliated companies	16,700.00	0.00	0.00
	4,303,125.00	4,293,838.00	4,125,000.00
B. Current assets			
I. Receivables and other assets			
1. Receivables from affiliated companies, thereof with more than one year to maturity: DM 0.00 (1996: DM 0.00, 1995: DM 0.00)	136,535.73	1,211,002.10	77,514.78
2. Receivables from shareholders thereof with more than one year to maturity: DM 0.00 (1996: DM 0.00, 1995: DM 0.00)	0.00	0.00	27,222.22
3. Receivables from related parties thereof with more than one year to maturity: DM 7,294,469.42 (1996: DM 0.00, 1995: DM 0.00)	7,574,623.59	5,026,646.68	120,000.00
4. Other assets, thereof with more than one year to maturity: DM 0.00 (1996: DM 0.00, 1995: DM 0.00)	559,523.14	237,000.72	201,031.27
	8,270,682.46	6,474,649.50	425,768.27
II. Cash-in-hand, bank balances	123.55	157,235.81	0.00
	8,270,806.01	6,631,885.31	425,768.27
C. Prepaid expenses	6,712.50	3,340.00	0.00
	12,580,643.51	10,929,063.31	4,550,768.27

EQUITY AND LIABILITIES	Dec. 31, 1997 DM	Dec. 31, 1996 DM	Dec. 31, 1995 DM
A. Equity			
I. Share capital	4,000,000.00	4,000,000.00	200,000.00
II. Capital reserves	100,000.00	100,000.00	3,900,000.00
III. Balance sheet loss	3,453,103.62	295,850.05	48,749.50
	<u>646,896.38</u>	<u>3,804,149.95</u>	<u>4,051,250.50</u>
B. Provisions			
1. Tax provisions	226,628.45	226,628.45	0.00
2. Other provisions	150,800.01	140,807.90	42,750.00
	<u>377,428.46</u>	<u>367,436.35</u>	<u>42,750.00</u>
C. Liabilities			
1. Liabilities to banks thereof with more than one year to maturity: DM 3,094,270.75 (1996: DM 1,484,260.41, 1995: DM 151,730.26)	3,094,270.75	1,484,260.41	151,730.26
2. Trade payables, thereof with more than one year to maturity: DM 202,619.21 (1996: DM 21,577.27, 1995: DM 143,626.26)	202,619.21	21,577.27	143,626.26
3. Payable to affiliated companies, thereof with more than one year to maturity: DM 2,407,443.61 (1996: DM 928,401.44, 1995: DM 64,816.39)	2,407,443.61	928,401.44	64,816.39
4. Payable to related parties, thereof with more than one year to maturity: DM 5,274,884.75 (1996: DM 4,199,158.71, 1995: DM 53,779.26)	5,274,884.75	4,204,379.07	53,779.26
5. Other liabilities, thereof with more than one year to maturity: DM 577,100.35 (1996: DM 118,858.82, 1995: DM 42,815.60), of which taxes: DM 16,718.80 (1996: DM 116,094.94, 1995: DM 22,565.60), of which relating to social security and similar obligations: DM 9,980.86 (1996: DM 0.00, 1995: DM 0.00)	577,100.35	118,858.82	42,815.60
	<u>11,556,318.67</u>	<u>6,757,477.01</u>	<u>456,767.77</u>
	<u>12,580,643.51</u>	<u>10,929,063.31</u>	<u>4,550,768.27</u>

Statement of Income for 1997, 1996 and 1995

	Jan. 1 to Dec. 31 1997 DM	Jan. 1 to Dec. 31 1996 DM	Jan. 1 to Dec. 31 1995 DM
1. Sales	0.00	360,000.00	0.00
2. Other operating income of which to affiliated companies: DM 651,153.12 (1996: DM 60,585.22, 1995: DM 0.00)	1,037,591.01	60,646.04	120,000.00
3. Cost of materials: Cost of purchased services	0.00	93,800.00	0.00
4. Personnel expenses			
a) Salaries	858,520.00	468,773.33	0.00
b) Social security and other pension costs, of which in respect of old age pensions: DM 460.00 (1996: DM 2,760.00, 1995: DM 0.00)	37,931.69	30,309.09	0.00
	896,451.69	499,082.42	0.00
5. Depreciation on intangible fixed assets, property, plant and equipment	13,918.74	11,006.42	0.00
6. Income from profit and loss transfer agreements	0.00	813,105.03	0.00
7. Other operating expenses, of which to affiliated companies: DM 93,015.93 (1996: DM 374,984.58, 1995: DM 0.00)	988,020.48	709,396.23	174,966.72
8. Other interest and similar income, of which from affiliated companies: DM 99,054.35 (1996: DM 68,536.38, 1995: DM 0.00)	537,031.04	91,733.13	36,289.11
9. Cost of loss absorption	1,002,867.75	44,898.82	0.00
10. Interest and similar expenses, of which to affiliated companies: DM 118,220.21 (1996: DM 42,300.15, 1995: DM 21,077.78)	588,268.65	126,274.41	30,140.91
11. Results from ordinary activities	-1,914,905.26	-158,974.10	-48,818.52
12. Extraordinary income	516,700.00	0.00	0.00
13. Extraordinary expense	1,803,530.77	0.00	0.00
14. Extraordinary result	-1,286,830.77	0.00	0.00
15. Taxes on income	65.54	88,126.45	0.00
16. Net loss for the year	-3,201,801.57	247,100.55	48,818.52
17. Accumulated loss brought forward (1996: Retained earnings brought forward, 1995 DM 0.00)	251,302.05	48,749.50	69.02
18. Balance sheet loss	-3,453,103.62	295,850.05	48,749.50

Cash flow statement for the period January 1 to December 31, 1997 and 1996

	1997 DM thousand	1996 DM thousand
1. Net loss for the year	-3,202	-247
2. Depreciation on fixed assets	14	11
3. Cash flow	-3,188	-236
4. Increase/decrease in trade receivables and other assets		
- Receivables	-1,796	-6,049
- Prepaid expenses	-4	-3
5. Increase/decrease in trade payables and other equity and liabilities		
- Provisions	11	324
- Liabilities	3,189	4,969
6. Outflow of funds from current operating activities	-1,788	-995
7. Cash outflows for investment in fixed assets		
- Intangible assets	0	-3
- Property, plant and equipment	-7	-27
- Financial assets	-17	-150
8. Outflow of funds from investing activities	-24	-180
9. Changes in liabilities to banks	1,610	1,332
10. Adjustment of loss brought forward	45	0
11. Inflow of funds from financing activities	1,655	1,332
12. Net cash increase in funds	-157	157
13. Funds at the start of the reporting period	157	0
14. Funds at the close of the reporting period	0	157

Statement of fixed asset movements as of December 31, 1997

	as of Jan. 1, 1997 DM	Cost of acquisition and manufacture Additions DM	Disposals DM	as of Dec. 31, 1997 DM
I. Intangible assets				
Acquired concessions, industrial property rights, similar rights and assets, and licenses thereunder	3,040.00	0.00	0.00	3,040.00
II. Property, plant and equipment				
Other equipment, operating and office equipment	25,217.00	6,505.74	3,897.50	27,825.24
III. Financial assets				
1. Shares in affiliated companies	4,275,000.00	50,000.00	50,000.00	4,275,000.00
2. Investments in other affiliated companies	0.00	16,700.00	0.00	16,700.00
Total sum	4,303,257.00	73,205.74	53,897.50	4,322,565.24

as of Jan. 1, 1997 DM	Accumulated depreciation		as of Dec. 31, 1997 DM	Net book value	
	Additions DM	Disposals DM		as of Dec. 31, 1997 DM	as of Dec. 31, 1996 DM
1,013.00	1,013.00	0.00	2,026.00	1,014.00	2,027.00
8,406.00	12,905.74	3,897.50	17,414.24	10,411.00	16,811.00
0.00	0.00	0.00	0.00	4,275,000.00	4,275,000.00
0.00	0.00	0.00	0.00	16,700.00	0.00
9,419.00	13,918.74	3,897.50	19,440.24	4,303,125.00	4,293,838.00

Notes 1997

I. General information and explanations of the accounting, valuation and currency translation methods

1. Classification

The classification complies with sections 266 and 275 of the HGB (German Commercial Code) as well as sections 150 to 159 of the AktG (German Stock Corporation Act). The total cost (type of expenditure) format was used to prepare the statement of income.

All of the companies of the DEAG Group are considered affiliated companies. All companies of the Stella Group as well as the companies in the groups of the DEAG shareholders, especially Peter Schwenkow, Berlin, and Rolf Deyhle, Weil im Schönbuch, are considered related parties. Related parties as referred to in the financial statements relate to those private individuals who, directly or via their groups, hold shares in DEAG or in companies in which DEAG owns at least 50% of the shares. These are in particular Messrs. Rolf Deyhle, Weil im Schönbuch, Peter Schwenkow, Berlin, Carl-Philipp Graf von Hardenberg, Berlin, and Bernhard Paul, Cologne.

2. Accounting and valuation policies

The annual financial statements were prepared in compliance with the general valuation regulations of sections 252 to 256 of the HGB (German Commercial Code) and with the special valuation provisions for stock corporations (sections 269 to 274, 279 to 284 of the HGB).

Assets

Intangible assets, property, plant and equipment are carried at their cost of acquisition or manufacture and are reduced by straight-line depreciation based on a projected useful life of 2 to 10 years. Depreciation complies with tax law. Low-value assets are written down in full in the year of their acquisition. Financial assets are carried at their acquisition cost. Receivables, other assets and cash and cash equivalents are carried at their principal amount, less any specific value adjustments required. No global value adjustments were set up. Prepaid expenses are carried at the amounts paid in advance.

Equity and liabilities

Share capital is carried at the principle value and is fully paid up. The provisions are set up in the amount required by prudent business practice. They take into account all of the doubtful debt, losses and risks known upon compilation of the financial statements which impact the fiscal year then ended. Liabilities are carried at their repayment amount. Foreign currency receivables and liabilities are translated at the rate prevailing at the time of acquisition or at the less favorable rate at the balance sheet date.

II. Disclosures and notes to the balance sheet

1. Assets

The classification and development of the assets is outlined in the statement of fixed asset movements (Annex to the Notes).

Interests held in the following companies are disclosed under "Shares in affiliated companies":

Name of the Company	Registered office of the Company	Equity interest %	Equity without annual results DM thousand	Result of the last fiscal year DM thousand
<i>Wintergarten Varieté Theater Betriebs GmbH</i>	Berlin	100	50	0
<i>Friedrichsbau Varieté Stuttgart Betriebs- und Verwaltungs GmbH</i>	Stuttgart	100	-843	0
<i>Apollo Varieté Betriebs GmbH,</i> <i>„SIE LIEBT MICH, . . . sie liebt mich nicht?“</i>	Düsseldorf	50	100	274
<i>Musical Produktions GmbH</i>	Berlin	100	50	0
<i>Give and Take Handelshaus für Kultur, Sponsoring und Marketing GmbH</i>	Berlin	100	0	-137
<i>Broadway Berlin GmbH</i>	Berlin	100	46	-4

The 33.4% interest in *CTS Betriebs GmbH*, Berlin, is disclosed as an investment in other affiliates.

Receivables from related parties

DM 7,294 thousand of the receivables are attributable to *Musikantenland*³⁾. The DEAG shareholders introduced substantial safeguards in 1998 in order to guarantee the value of this receivable. It should be noted that the success of these safeguards depends substantially on the inflow of funds expected from the planned external financing measures.

³⁾ Freizeitpark Musikantenland GmbH, Weil im Schönbuch, an affiliated company of Rolf Deyhle Holding KG.

2. Equity

The subscribed capital is composed of 80,000 ordinary shares with a par value of DM 50.00 each.

The shareholdings in DEAG are broken down as follows:

	Equity interest held	
	Number of shares	%
Rolf Deyhle <i>Medien Beteiligungs GmbH & Co. KG</i>	40,000	50.0
Peter Schwenkow	27,200	34.0
Frank Reinhardt	6,400	8.0
Carl-Philipp Graf von Hardenberg	6,400	8.0
	<u>80,000</u>	<u>100.0</u>

Due to the final completion of the B.E.S.H. annual financial statements as of August 30, 1995 in the course of 1997, there were tax adjustments to the above-mentioned annual financial statements which, because of the merger B.E.S.H. with DEAG in 1995, are disclosed under DEAG in the Company's annual financial statements. The former shareholders of B.E.S.H. have provided a declaration of indemnity, waiving any changes to the conversion ratio arising from the merger. For this reason, the Company's accumulated loss brought forward was adjusted in the year under review as follows:

	1997 DM
Accumulated loss brought forward as of Jan. 1, 1997	295,850.05
– Adjustment B.E.S.H. trade tax 1995	-16,428.00
– Adjustment B.E.S.H. corporation taxes 1995	-26,159.00
– Adjustment B.E.S.H. solidarity surcharge 1995	-1,961.00
Accumulated loss brought forward as of Dec. 31, 1997	<u>251,302.05</u>

3. Provisions

The tax provisions are attributable to corporation tax in the amount of DM 213 thousand and trade tax in the amount of DM 14 thousand, all relating to 1996.

The other provisions include amounts for Supervisory Board remuneration (DM 63 thousand), auditing and consulting costs (DM 71 thousand), vacation (DM 11 thousand) and contributions to the occupational health and safety agency (DM 6 thousand).

4. Liabilities

There are directly enforceable guarantees by Stella Musical (DM 1,500 thousand) and by Messrs. Peter Schwenkow (DM 1,020 thousand), Frank Reinhardt and Carl-Philipp Graf von Hardenberg (DM 240 thousand each) for the liabilities to banks (DM 3,094 thousand).

All other liabilities are unsecured. There are no liabilities with more than five years to maturity.

III. Disclosures and notes to the statement of income

1. Sales

The remuneration for management consulting of the shareholder and remuneration for artistic consulting of related parties (DM 360 thousand) recorded in the previous year as sales are reporting under other operating income in the year under review in order to enhance presentation.

2. Other operating expenses

Other operating expenses (DM 988 thousand) consist mainly of costs from on-debiting for affiliated (DM 93 thousand) and associated companies (DM 468 thousand), Supervisory Board remuneration (DM 81 thousand), auditing and consulting costs (DM 73 thousand), expenses relating to other accounting periods (DM 60 thousand), write-downs on specific receivables (DM 57 thousand), other services (DM 57 thousand), travel expenses (DM 47 thousand) and telephone, fax and postage (DM 23 thousand).

3. Net income from investments

The income from investments is attributable to loss absorption due to the profit and loss transfer agreement with *Friedrichsbau* (DM -488 thousand), *Wintergarten* (DM -446 thousand) and *Sie liebt mich, . . .* (DM -69 thousand).

4. Financial result

The interest income results from affiliated companies (DM 99 thousand), related parties (DM 436 thousand) and others (DM 1 thousand).

Interest and other expenses includes interest payments to banks in the amount of DM 165 thousand, to affiliated companies (DM 118 thousand) and to related parties (DM 305 thousand).

5. Extraordinary result

The extraordinary result refers to the liquidation result of a subsidiary.

IV. Other disclosures

1. Contingent liabilities and other financial obligations

Contingent liabilities

DEAG and Berliner Bank AG concluded a contract for an overdraft facility in the amount of DM 3,000 thousand on June 9, 1996, for which DEAG, *Wintergarten*, *Friedrichsbau*, *Schillertheater*, *Sie liebt mich, . . .*, *Give & Take*, *Neue Scala* and *Apollo* are jointly and severally liable.

Two identical agreements on the right to the use of the names of the licensor were concluded between DEAG, *Wintergarten* (licensee), *Friedrichsbau* (licensee), André Heller and Bernhard Paul on August 27, 1996. In these agreements, DEAG undertakes to serve as joint and several debtor in addition to the licensees. The contingent liability amounts to DM 100 thousand.

In the course of project financing for *Apollo*, the Company undertook to provide a loan of up to DM 700 thousand; this loan can be called in at any time. In addition, as part of the rental contract for *Apollo*, there is a directly enforceable guarantee by DEAG in the amount of DM 740 thousand as well as

an independent rent guarantee from the rental of a parking lot amounting to 15 times the annual rent of DM 140 thousand (DM 2,100 thousand).

In addition, DEAG issued a comfort letter for Give & Take, in which the Group takes responsibility to continually provide the company with sufficient financing to fulfill its financial obligations in the period from Jan. 1 and Dec. 31, 1998.

The outstanding deposit in *Apollo* in the amount of DM 25 thousand, which has not yet been called in, was disclosed under liabilities to affiliated companies.

Other financial obligations

	Leasing fees DM thousand
1997	6
1998–2001	24
Total (DM thousand)	<u>30</u>

Information on the Executive Bodies of the Company

The members of the Managing Board were

Peter Schwenkow, Berlin, Chairman

Carl-Philipp Graf von Hardenberg, Berlin

The members of the Managing Board received remuneration in the amount of DM 660 thousand in the year under review.

Members of the Supervisory Board were

Günter Irmeler, Hamburg, Chairman of the Supervisory Board

Jürgen Bremer, Stuttgart, Deputy Chairman of the Supervisory Board

Prof. Peter Raue, Berlin

The members of the Supervisory Board of DEAG DEUTSCHE ENTERTAINMENT AKTIENGESELLSCHAFT received remuneration in the amount of DM 81 thousand.

2. Information on employees

The average number of employees amounted to 4 salaried employees in the year under review.

3. Consolidated financial statements

The Company prepared pro forma consolidated financial statements for fiscal year 1997. The Company refrained from preparing statutory consolidated financial statements as it was exempt on the basis of size (section 293 of the HGB (German Commercial Code)).

4. Appropriation of profits

The Managing Board proposes carrying forward the net loss for the year in the amount of DM 3,201,801.57 to new account.

Berlin, April 1998

DEAG Deutsche Entertainment
Aktiengesellschaft
The Managing Board

Management Report for fiscal year 1997

Business development and the situation of the Company

1997 was the second full fiscal year in which the Company existed as a holding company for the affiliated companies in the variety theater business unit in Berlin and Stuttgart. As holding company, the Company generates income by performing management duties for the affiliated companies, by supporting these companies with regard to marketing and sales as well as general business tasks and from the profit and loss transfer agreements in effect.

The fiscal year was impacted by the closing of the play "Brel" at the *Schillertheater*, Berlin, and the sale of the *Schillertheater Betriebs GmbH* on September 30, 1997. In cooperation with *Stella Musical Management AG*, Hamburg, the Company staged a small musical in the *Schillertheater* in Berlin. Although the production received a positive response from the audience, it was unable to maintain the audience volumes necessary for economically sound operation. This led to the decision to cancel the production and sell the *Schillertheater Betriebs GmbH*, which resulted in the extraordinary negative result of DM 1.3m.

The second major event of the 1997 fiscal year was the establishment and development of the *Apollo Varieté* in Düsseldorf in cooperation with Bernhard Paul and his *Roncalli Regenbogen Cirkus Andenken GmbH*, Cologne. The premiere on October 17th aroused great interest throughout Germany and led to capacity utilization of over 78% in the first months. *Apollo Varieté* was able to achieve a positive operating result in 1997 which, however, could not be distributed to the shareholders due to the dividend pay-out restriction in effect from the capitalization of the set-up expenses.

The loss increased to DM 3,202 thousand over the 1996 fiscal year. The main reasons for this are the loss described above due to the sale of the *Schillertheater Betriebs GmbH* and higher loss absorption costs due to the profit and loss transfer agreements with the variety theaters in Berlin and Stuttgart.

The Company's subscribed capital was eroded by over half as a result of this loss. The Managing Board informed the shareholders of the situation at the General Meeting on May 25, 1998 and made suggestions as to possible solutions (cf. "Events of particular importance occurring after the business year").

The equity of both subsidiaries *Friedrichsbau Varieté Theater Betriebs GmbH*, Stuttgart, and *Give & Take Handelshaus für Kultur, Sponsoring und Marketing GmbH*, Berlin, was completely eroded as of December 31, 1997 due to the losses incurred. DEAG issued a comfort letter for Give & Take. The book overindebtedness of *Friedrichsbau Varieté* was eliminated upon receipt of a grant from L-Bank.

Events of particular importance occurring after the business year

The Company plans to incorporate the shares of *concert concept Veranstaltungen GmbH* and *coco TOURS Veranstaltungen GmbH*, both Berlin, into DEAG by way of a non-cash contribution in return for the granting of shareholder's rights as of December 31, 1997 in compliance with section 183 of the AktG (German Stock Corporation Act). In addition, a profit and loss transfer agreement will be concluded. For this purpose, a capital increase will be resolved to increase the share capital by DM 4.7m. There are no serious doubts, including by experts, with regard to the regularity of this capital increase.

The subscribed capital will be increased by this measure and DEAG's earnings power will grow substantially.

There are also plans to relocate DEAG's registered offices from Hamburg to the present location of the branch office in Berlin.

Forecast development of the Company

Due to the merger between DEAG and *concert concept* and *coco TOURS*, we expect an increase in sales of over DM 100m and a positive earnings situation for the 1998 fiscal year. In 1998, a large portion of the sales increase will result from the organization of the Rolling Stones tour in Germany. In the following years the Company will achieve this level of earnings again with, above all, concert tours with other international artists.

We also expect positive earnings for the variety theaters in Berlin and Stuttgart. *Apollo Variété* in Düsseldorf developed positively in 1998 as well, allowing us to forecast a distribution of profits to DEAG for the first time in 1998. This will all lead to a major improvement in the Company's financial situation as a result of positive cash flow.

As a consequence of the merger, DEUTSCHE ENTERTAINMENT AG in 1998 will provide services in the three business units variety theaters and local concert events, each in various German cities, as well as concert tours in Germany and abroad. These business units are further complemented by the operation of concert halls and venues as well as services for every aspect of the concerts.

Berlin, June 6, 1998

Peter Schwenkow
Chairman of the Managing Board

Frank Reinhardt
Member of the Managing Board

Klaus Ulrich
Member of the Managing Board

Audit opinion^{*)}

"The accounting and the annual financial statements, which we have audited in accordance with professional standards, comply with the legal regulations. In compliance with generally accepted accounting principles, the annual financial statements present a true and fair view of the net worth, financial position and results of DEAG Deutsche Entertainment Aktiengesellschaft. The management report is in agreement with the annual financial statements."

Düsseldorf/Berlin, June 30, 1998

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Corzilius
Wirtschaftsprüfer

Fabis
Wirtschaftsprüfer

^{*)} as of December 31, 1997

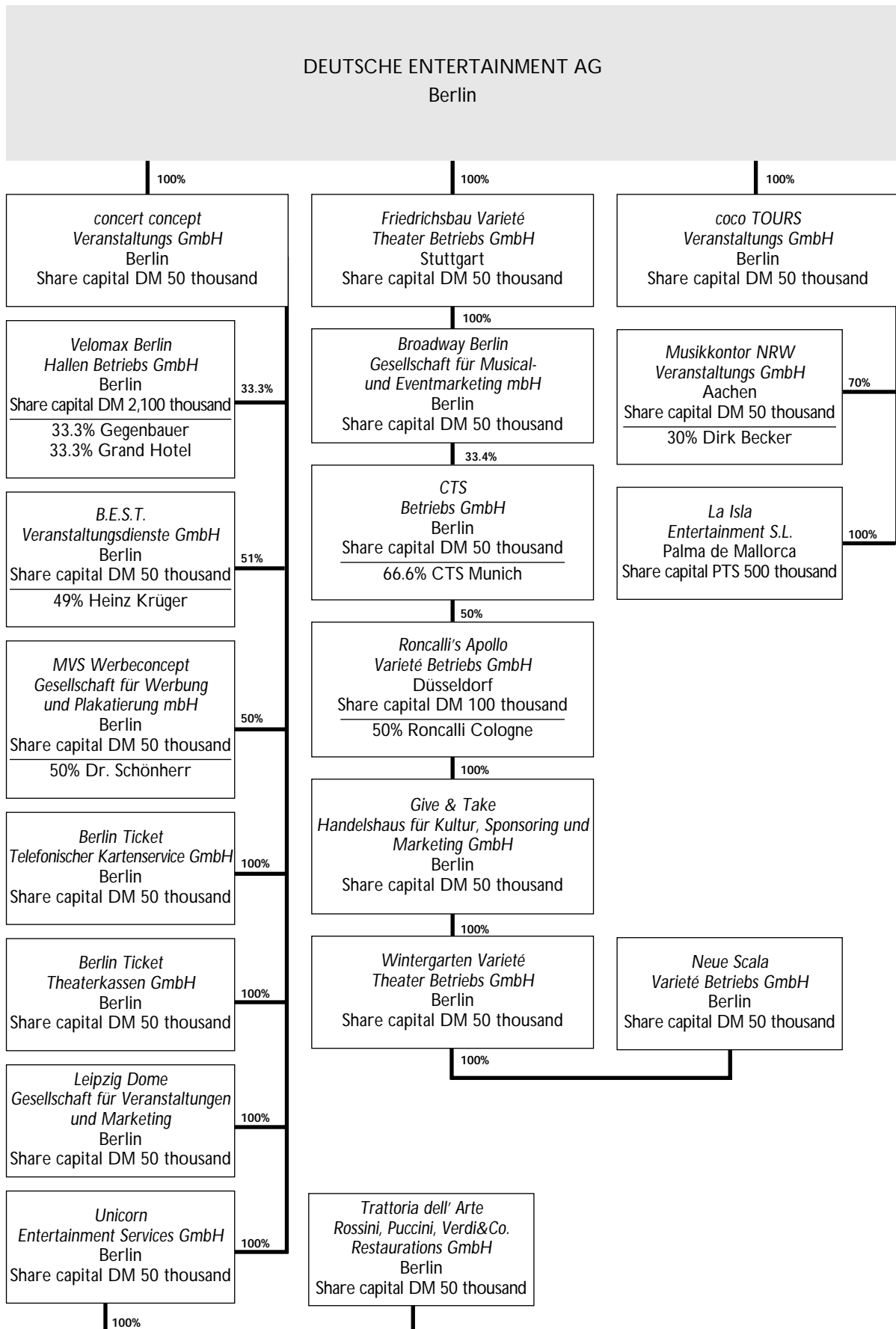
Historical overview

- 1978 Establishment of *concert concept Veranstaltungs GmbH* in Berlin.
Main focus: organizing local rock and pop concerts.
- 1981 Conclusion of an exclusive venue contract for the *Berliner Waldbühne*.
Revival of this open air venue unique in Berlin and Germany.
(Capacity: 22,120 visitors) with regular rock and pop concerts.
- 1984 Implementation of the first tourism and city marketing concept Berlin Midsummer Night's Dream, with ANDRÉ HELLER'S FIRE THEATER in front of the Berlin Reichstag in close cooperation with the Berlin Senate Administration for Cultural Affairs.
- 1984 First open air concert of the BERLIN PHILHARMONIC ORCHESTRA at the *Berliner Waldbühne*.
Since then, this concert traditionally takes place every year before the summer holidays. The concert is regularly recorded and broadcasted internationally.
- 1987 Establishment of the first service provider for all aspects of the entertainment business:
– *B.E.S.T. Veranstaltungsdienste GmbH* => professional maintenance and security service for events of all kinds.
– *Berlin Ticket Theaterkassen GmbH* (founded as *Ticket Team Entertainment Services Theaterkassen Betriebs GmbH*) => Ticket sales service.
- 1987 Introduction of OPEN AIR CINEMA, event series at the *Berliner Waldbühne*:
This series takes place regularly and attracts between 70,000 and 100,000 visitors annually.
- 1987-91 Organization of the first tours, with Mary, Justus Frantz, Clowns, among others.
- 1989 Open air classical concerts in Germany, Austria and Switzerland with Leonard Bernstein, Sir Yehudi Menuhin, Lorin Maazel and Justus Frantz.
- 1989 "Berlin Celebration Concert" under the direction of Leonard Bernstein with a worldwide television broadcast.
- 1990/91 André Heller's *Wintergarten Varieté* toured all of Europe and made a guest appearance on Broadway in New York.
- 1991 Establishment of *Berlin Entertainment Services Holding GmbH*.
Establishment of additional service companies providing services for the entertainment industry.
- 1990 *MVS werbeconcept Gesellschaft für Werbung und Plakatierung mbH*, provides billboard and advertising space at construction sites– mainly for cultural events or culture-related projects.
- 1991 Establishment of *CTS Betriebsgesellschaft mbH* Berlin: local partner (Berlin-Brandenburg) of the national computer ticket office CTS Munich. Main focus: acquisition of further event planners/events and venues as well as expansion of the sales network in the local market.
- 1992 Establishment of *Wintergarten Varieté Theater Betriebs GmbH* and opening of André Heller's and Bernhard Paul's *Wintergarten Varieté* in Berlin. (Capacity: 560 seats).
Over 27 productions and 1 million visitors since then.
- 1993 Transformation/restructuring of *Berlin Ticket Theaterkassen GmbH* from a network of ticket sales offices (12 ticket offices) for the future-oriented market of telephone and Internet ticket sales.

- 1993 Start of a new series of opera performances at the *Berliner Waldbühne*.
Debut: New production of "The Magic Flute" directed by Prof. August Everding in cooperation with the Berlin opera house *Deutsche Staatsoper Unter den Linden*. Regular opera performances at the *Berliner Waldbühne* since then.
- 1994 Expansion of the variety theater segment: establishment of *Friedrichsbau Varieté Theater Betriebs GmbH* and opening of *Friedrichsbau Varieté* in Stuttgart (Capacity: 369 seats). 25 productions since then with over 500,000 visitors.
- 1995 Establishment of DEUTSCHE ENTERTAINMENT AG by the incorporation of *Berlin Entertainment Services Holding* and acquisition of an interest in *Stella Musical Management GmbH*, Hamburg.
- 1996 Establishment of *Give & Take Handelshaus für Kultursponsoring und Marketing GmbH*: sponsor acquisition and support.
- 1996 Expansion into the national and international tour business by the establishment of *coco Tours Veranstaltungen GmbH* Berlin: this turned the tour business, which was previously run "on the side" by *concert concept*, into a more professional and active operation. Since then, there have been tours with Andrea Bocelli, Jean Michel Jarre, Udo Lindenberg, Modern Talking and the Rolling Stones.
- 1997 Expansion of activities in venue management by the conclusion of a 5 year operating contract, with the option to extend to 10 years, for another large open air arena in Saxony, the *Waldbühne Schwarzenberg*, with capacity of 15,200 seats. Since the 1997 summer season, rock, pop and classical concerts have been held there with increasing success. In 1998 and 1999 the owner, the city of Schwarzenberg, plans to invest DM 1.2m for improvement of the infrastructure in and around the venue.
- 1997 Further expansion in the variety segment. Opening of *Roncalli's Apollo Varieté* (Founded *Apollo Varieté Betriebs GmbH*).
- 1997 Expansion of the international tour business and first concerts held in Majorca. Establishment of *La Isla Entertainment S.L.*
- 1998 Expansion in local concert business by extending the operations of *Musikkontor* in the Aachen area to include the whole of North-Rhine Westphalia. Transformation of the company into *Musikkontor Nordrhein-Westfalen GmbH*.
- 1998 Expansion in the venue management area of the Berlin market by the conclusion of a 10 year rental and operating contract with the state of Berlin to operate the multi-functional sports and concert arenas *Velodrom* and *Max-Schmeling-Halle*, which were both newly constructed during the application process for the 2000 Olympics. (Capacity: approx. 10,000 each).
The newly founded *Velomax Berlin Hallenbetriebs GmbH* was awarded the contract after a Europe-wide tender.
- 1998 Initial Public Offering on the Neuer Markt.

Overview of the Group

(after the capital increase) as of September 3, 1998



Subsidiaries at a glance (pro forma)

	Ordinary share capital		Net income/loss		Book value	
	1997	1996	1997	1996	1997	1996
	DM thousand		DM thousand		DM thousand	
<i>Wintergarten Varieté GmbH</i>	50	50	0	55*	4,025	4,025
<i>Neue Scala Varieté GmbH</i>	50	50	-3	-1	50	50
<i>Friedrichsbau Varieté GmbH</i>	50	50	0	0*	50	50
<i>Roncalli's Apollo Varieté GmbH (50 %)</i>	75**	0	-37	0	50	0
<i>Give and Take GmbH</i>	50	50	-137	-79	50	50
<i>Broadway Berlin GmbH</i>	50	50	-4	-4	50	50
<i>CTS Betriebs GmbH (33.4 %)</i>	17	17	0	0	34	30
<i>concert concept Veranstaltungs GmbH</i>	50	50	686	-208	2,528	2,528
<i>Berlin Ticket Theaterkassen GmbH</i>	50	50	36	23	25	25
<i>Berlin Ticket Tel. Kartenservice GmbH</i>	50	50	-4	-4	0	0
<i>Leipzig Dome GmbH</i>	50	50	-2	-1	50	50
<i>Unicorn Entertainment Services GmbH</i>	25	25**	-10	-98	44	44
<i>Trattoria dell' Arte Restaurations GmbH</i>	25	25**	-1	-3	38	25
<i>B.E.S.T. Veranstaltungsdienste GmbH (51 %)</i>	50	50	166	87	600	600
<i>MVS werbeconcept GmbH (50%)</i>	50	50	54	77	49	49
<i>Velomax Berlin Betriebs GmbH (33.3 %)</i>	175***	0	63	0	700	0
<i>coco TOURS Veranstaltungs GmbH</i>	25	25	2,726	-612	2,205	2,205
<i>Musikkontor NRW Veranstaltungs GbR (70 %)</i>	0	0	0	0	0	0
<i>La Isla Entertainment, S.L.</i>	6	0	-694	0	6	0

* A profit and loss transfer agreement is in effect

** Outstanding capital contribution (uncalled) DM 25 thousand

*** Outstanding capital contribution (uncalled) DM 525 thousand

Liabilities to DEAG		Receivables from DEAG		Sales		Employees	
1997	1996	1997	1996	1997	1996	1997	1996
DM thousand		DM thousand		DM thousand		DM thousand	
10	185	0	326	8,623	9,452	74	84
0	0	37	0	0	0	0	0
0	859	761	0	5,617	6,273	88	84
0	0	190	0	1,381	0	20	0
127	50	0	0	66	57	2	2
0	0	48	0	0	0	0	0
0	0	0	0	186	220	0	0
0	0	224	0	21,668	30,834	22	24
0	0	0	0	67	370	0	4
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	67	0	0
0	0	0	0	0	0	0	0
0	0	0	0	3,489	2,975	16	8
0	0	0	0	961	1,030	1	1
0	0	0	0	2,400	0	1	0
0	0	0	0	17,452	260	9	6
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0

Business Activities

General

DEUTSCHE ENTERTAINMENT is one of the major entertainment service providers in Germany. With its 13 active subsidiaries, DEUTSCHE ENTERTAINMENT is active in five different market segments (1–5 below). Responsibility for further development and implementation of strategy at business unit level, and coordination of acquisition projects, strategic alliances and joint ventures as well as networking, especially with artists, agents and managers, are concentrated in DEUTSCHE ENTERTAINMENT AG. Other important functions of the Company include cooperation with the media on events the Company organizes, Group financing and executive recruitment.

A major focus of DEUTSCHE ENTERTAINMENT AG is managing the national and Europe-wide expansion of the entire Group in the medium and long term.

DEUTSCHE ENTERTAINMENT employed a total of 237 people in 1997 (calculated according to the HGB). The half-year figure for 1998 increased to 281.

DEUTSCHE ENTERTAINMENT believes that it provides a unique mix of entertainment services in the 5 different market segments described below:

1. Local Events

concert concept Veranstaltungen GmbH has been active in the organizing local rock, pop and classical concerts and as producers of large events in Berlin and Brandenburg for the past 20 years. Past events include:

- The extremely popular 1987 and 1988 "CONCERTS FOR BERLIN" with David Bowie, Michael Jackson and Pink Floyd.
- In 1992, *concert concept* put on one of the biggest shows of the GENESIS Germany tour with an audience of over 100,000 at the *Maifeld* in Berlin.
- In 1994, *concert concept* achieved Herbert Grönemeyer's largest open air turnout with over 70,000 fans at the open air arena in the outlying areas of Berlin near Ahrensfelde.

In total, *concert concept* organizes around 100 events annually, from rock and pop to jazz and classical, to cinema and special events or galas. There are between 15 and 18 concerts in the *Berliner Waldbühne* alone, with superstars such as Celine Dion, Elton John, Phil Collins, Herbert Grönemeyer, Tina Turner, Marius Müller-Westernhagen, Depeche Mode and many more, as well as the 14 open air cinema performances. According to the Company, *concert concept* has become market leader in this entertainment segment since the *Waldbühne* reopened in 1981. Around one million tickets are sold each year in Berlin and its suburbs.

concert concept has also become involved in eastern Germany, where it has organized concerts, primarily rock and pop shows, in every major city in the former GDR. *concert concept* has concentrated mainly on Saxony since the mid 1990s – more specifically on a region south of Chemnitz. The *Waldbühne Schwarzenberg* is located in the small town of Schwarzenberg, in the heart of the *Erzgebirge* (a mountain chain in that area). This venue offers extraordinary possibilities and is part of the amusement and recreation park *Rockelmann*, located in a very picturesque, yet culturally deprived region.

Musikkontor Nordrhein-Westfalen Veranstaltungen GmbH, previously *Musikkontor GbR*, has also been active as a local concert promoter in the Aachen region since March 1996. *Musikkontor* has made a name for itself in the area, especially with the exclusive annual shows in the "Katschhofs", in the city center, during the "Aachener Kultursommer" (Aachen cultural summer festival).

2. Venue management

concert concept is not only active as a local promoter, but also as a venue manager. *concert concept* began its activities in venue management with the exclusive contract to operate the *Berliner Waldbühne* in 1981. This contract authorizes *concert concept* to put on up to 18 concerts (rock, pop and classical) as well as 14 open air cinema performances at this venue. These events can either be individual productions (e.g. "oldies nights"), in cooperation with other concert promoters in Berlin (e.g. the Berlin Philharmonic Orchestra concerts), or in cooperation with tour promoters. In accordance with the contractual agreement with the state of Berlin, *concert concept* is responsible for managing the selection of dates and individual events for the venue to put together the highest quality program which also appeals to the audience. *Waldbühne Berlin* can only be played through *concert concept*.

Venue management also includes coordinating the services required in connection with putting on events at the *Waldbühne* (with the exception of catering), security services, venue preparation and settlement of the financial details with the owner, the State of Berlin.

Waldbühne Schwarzenberg followed in 1997 with a ten-year contract. In this case, *concert concept* is also responsible for marketing the venue, but there is no limit to the number of events. *concert concept* ensures that the venue is appropriately prepared for the show and coordinates all of the services required in connection with the events, including security services and catering.

The subsidiary *Velomax Berlin Hallenbetriebs GmbH* has been operating the multifunctional arenas *Velodrom* and the *Max-Schmeling-Halle* since 1998. They were both built by the state of Berlin and have a capacity for an audience of up to 10,000. Since the *Deutschlandhalle* closed on December 31, 1997, these arenas are not only the most modern arenas in Berlin, but also the largest. The secondary space (*Dreifachsporthallen* - arenas for three different sports) of each arena are used regularly by the state of Berlin for school and club sports. In addition, ALBA, Berlin's team from the national basketball league, has a long-term rental agreement in the *Max-Schmeling-Halle* and the Berlin bicycle club occupies the *Velodrom* over 100 days a year.

With the *Waldbühne*, the *Max-Schmeling-Halle* and the *Velodrom*, DEUTSCHE ENTERTAINMENT has access to the most important arenas in the sports and entertainment markets in the capital city of Berlin, one of Germany's most important sites for events, cultural and otherwise.

Venue management, and the management opportunities in connection with it, guarantee a high level of quality in organizing events, especially for the incidental areas such as security services, catering, cleaning services, first-aid services, visitor services, etc., which are of major importance for the overall image of an event.

3. Variety theaters

According to Company information, DEUTSCHE ENTERTAINMENT AG is market leader in this market segment with its 3 variety theaters in Stuttgart, Düsseldorf and Berlin with over 1,000 shows and approximately 430,000 theatergoers per year.

Since the *Wintergarten* opened with its one hundred original circus acts (from the Bernhard Paul - Circus Roncalli collection), the art of variety theater, which had lost importance in the performing arts area in the past, has experienced a renaissance. Variety theater is international, by no means an elite art form and is entertaining for young and old alike. It appeals to the growing desire in the modern society of today to "experience". The total experience, delving into an intact, perfectly designed and organized world of experience, is more in demand than ever, where everything fits — from the atmosphere to the service, to catering and the show itself.

The variety theater business unit comprises operation of each theater including all of the services involved, such as catering, merchandising, etc. as well as offering gala and incentive events.

After the success of the Wintergarten in the first years, the Company resolved to expand this business unit through consistent and logical development, opening the *Friedrichsbau* in Stuttgart in 1993 and building the *Roncalli Apollo Varieté* in Düsseldorf in 1997.

4. Service provider/Services

With its subsidiaries in the service area, DEUTSCHE ENTERTAINMENT AG provides the major services which contribute substantially to the total experience and the total impression of events. In particular, these include ticket sales, offered by *Berlin Ticket Theaterkassen GmbH* and *Berlin Ticket Telefonischer Kartenservice GmbH* or via the Internet and the national Computer Ticket System CTS, as well as the security services provided by *B.E.S.T. Veranstaltungsdienste GmbH*. A friendly, customer-oriented sales service is instrumental in the customer's decision-making process. Well-organized and friendly security services are essential to the professional operation of events in today's world and also contribute to the positive impression the venues make on the audience as well as the tenants.

- **Berlin Ticket Theaterkassen GmbH:** Berlin Ticket Theaterkassen GmbH was founded in 1987 as a ticket sales and theater box office organization to sell tickets of all kinds. *Berlin Ticket's* business activities were integrated into the area of operations of *Wintergarten Varieté Betriebs GmbH* in 1996. Since that time, *Berlin Ticket Theaterkassen GmbH* has limited its business activities to a franchising agreement with *Wintergarten*.
- **CTS Computer Ticket Service Betriebs GmbH, Berlin:** CTS Berlin is a joint venture with Germany's largest computer ticket sales provider in the rock and pop segment, CTS München. *CTS Computer Ticket Service GmbH* in Berlin concentrates mainly on canvassing new promoters and venues to link with the CTS ticket sales system in the Berlin and Brandenburg region.
- **B.E.S.T. Veranstaltungsdienste GmbH:** The area of operations of B.E.S.T. comprises: event security services, coat check services and box office cashiers. B.E.S.T. operates on the local Berlin market as well as in the tour security area.
- **MVS werbeconcept GmbH:** *MVS werbeconcept GmbH*, with its over 20,000 DIN A1 format spaces is Berlin and Potsdam's largest provider of publicly offered rental advertising space. *MVS werbeconcept* offers its customers other advertising space as well, e.g. advertising pillars or store-front and restaurant advertising. *MVS werbeconcept GmbH* has also made a name for itself with its innovative projects, such as the establishment of a special advertising network for the Berlin fringe scene¹ called "Szene-Info" (in cooperation with *VVR Berek*²) or the development of new advertising media, such as the "Kulturbus"³ (cultural bus), and with its leader position in the area of construction site advertising.
- **Give & Take Handelshaus:** *Give & Take Handelshaus für Kultursponsoring und Marketing GmbH* creates a bridge between private industry and culture. It aids private industry in finding the right event for its needs, as well as the promoters and producers in finding the right sponsors and associates. In addition, *Give & Take* actively markets venues and tours.
- **Berlin Ticket:** Berlin Ticket sells tickets for virtually all of the events in Berlin, both in Berlin and elsewhere in Germany. CTS is Germany's leading computer ticket sales network in the rock, pop and entertainment segment.

¹⁾ Fringe scene = outside of the established cultural scene.

²⁾ VVR Berek = Vereinigte Verkehrsreklame

³⁾ Kulturbus = public bus with primarily cultural advertising on the outside walls.

DEUTSCHE ENTERTAINMENT AG's service providers operate mainly in Berlin and the outlying areas. Their activities are not limited to this region, however, but are being expanded to other cities and regions where the opportunity arises. *MVS werbeconcept*, for instance, is already active in Hamburg, B.E.S.T. has taken on security services in the tour business, e.g. for the Rolling Stones, and *Give & Take* is also not limited to companies in the Berlin area.

In general, the service providers strive to attract a high proportion of external contracts (i.e. not only for internal Company business). *MVS werbeconcept's* largest customer is *HGM Neue Medien* in Düsseldorf, for example. B.E.S.T. offers its services to Berlin's second open air arena in Berlin, *Wuhlheide*, and works for the local competitor of concert concept, *Downtown*.

5. Shows/Tours

This is a relatively new business unit for DEUTSCHE ENTERTAINMENT but it has expanded rapidly and achieved a higher level of professionalism since *coco TOURS GmbH* was founded in 1996. It represents the business unit with the highest growth potential.

Within a very short time, the *coco TOURS* subsidiary was able to secure a substantial market share with the first, smaller tours. *coco TOURS* does not limit itself to a specific area, but rather organizes every kind of event – from popular German music (*Musikantenstadt*) to classical concerts (Andrea Bocelli – 20 open air classical concerts) to pop (e.g. Modern Talking, 36 performances in Germany) and rock music legends, the Rolling Stones, on their "Bridges to Babylon" tour.

coco TOURS has advanced into a market segment which until recently was dominated by only a few select companies in Germany.

The Market

Market overview: tour business

- *Marek Lieberberg GmbH*, Frankfurt
estimated annual sales: approx. DM 80m
- *Mama Concerts & Rau GmbH*, Munich
estimated annual sales: approx. DM 65m
- *Peter Rieger Konzerte GmbH*, Cologne
estimated annual sales: approx. DM 35m
- *Karsten Jahnke GmbH*, Hamburg
estimated annual sales: approx. DM 30m

In 1998, *coco TOURS* plans to achieve sales of around DM 70.5m in this segment.

The market in general

The market on which COCO TOURS is active as tour promoter, as well as *concert concept* and *Musikkontor* as local promoters is a growth market. Germany's is the world's third largest ticket market after the US and Great Britain, and the world's fourth largest recorded music market after the US, Great Britain and Japan¹⁾.

Public interest in rock and pop events, as well as in variety theaters and classical concerts is growing steadily.

"The market places and county fairs in past centuries are the mass events in the cultural and entertainment areas of the future: a combination of yearning for experience and action, for both a sensation and a happening. Today, 27 million German citizens, that's 43% of the population over 14 years of age, flock to such events at least once a year, promising enjoyable experiences and a certain feeling of togetherness: the total consumer experience.

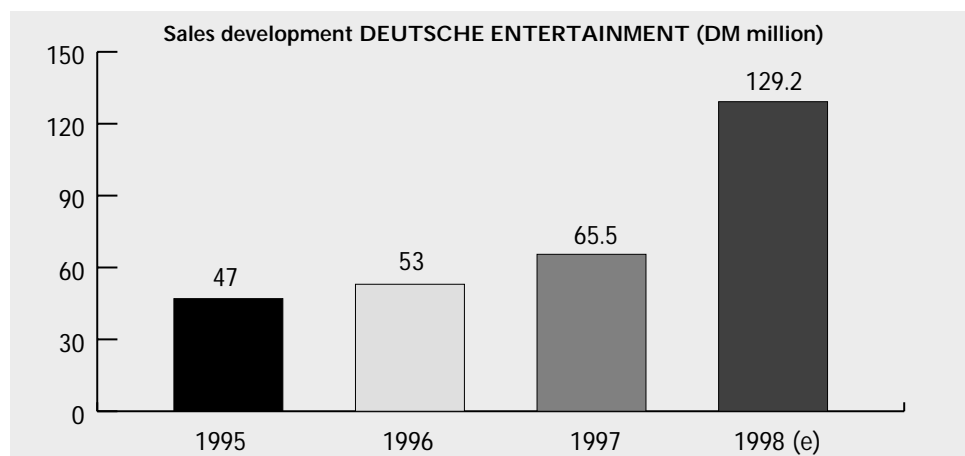
Open air concerts are in great demand at the moment. One person in eight (13%) went to an open air event in the past 12 months, or 8.2 million German residents²⁾."

In addition, the range of visitors is becoming wider and wider. Rock and pop concerts had an audience of:

- 35% aged 10 to 19 years,
- 63% aged 20 to 29 years,
- 38% aged 30 to 39 years,
- 17% aged 40 to 49 years,
- 0.3% aged over 50 years³⁾

The current market situation and the emerging trends toward the continuing expansion of the age structure of concertgoers not only present a positive outlook for the tour business, meaning the number of potential tours and ticket pricing, but also for the local business of *concert concept* and *Musikkontor*. The number of potential events and the expansion of the offering to include diverse musical styles and to appeal to a wider age range of audience members enable us to project an increase in sales for the local market.

Despite the continuing economic slump and high unemployment figures, ticket sales and the leisure market generate DM 5 billion in sales each year. The market segments in which DEUTSCHE ENTERTAINMENT is active generate sales of DM 1.2 billion a year, and DEUTSCHE ENTERTAINMENT currently controls around 11% of that market.



¹⁾ Source: Musikmarkt 1997.

²⁾ Quote: Germany 2010 "How we'll live tomorrow - Scientific predictions of the future of our society", Horst W. Opaschowski, page 150.

³⁾ Source: Der Musikmarkt 1997.

The question is: What makes these leisure and cultural events so appealing?

⁴⁾	Rock/pop	Open air	Revue/Variety
The live experience	68%	73%	42%
Special atmosphere	42%	50%	34%
Diversion from everyday activities	31%	35%	33%
Entertainment character	30%	32%	33%
Visual/acoustic impression	34%	41%	21%
Artists/Idols	40%	38%	17%
Dream world/illusions	10%	10%	22%

Experiencing something "live" and the trend that goes along with it of making large open air productions into "events", appears to be one of the major factors responsible for the sustained success of the entertainment business, despite several other negative economic factors.

"The world is oversaturated with the everyday cultural offerings, so large-scale events are like a modern consumer drug for the visitors. 5 million Germans visit a music festival at least once a year. Young people between 14 and 34 years of age represent the group of people who expect one thing from these events: A LOT! A lot of people. A lot of crowds. And a lot to see. Young people are also prepared to sacrifice a lot: time and money ... Large-scale events with a high level of "experience" can persuade people to make decisions to get to the events at all costs, sometimes defying the laws of reason. Young adults, for example, will accept an average of 2.4 hours driving time to visit an open air concert."⁵⁾

This means that the markets DEUTSCHE ENTERTAINMENT operates in have great growth potential. Especially in Germany, where people are willing to spend a bit more for quality entertainment. Even venues in sparsely populated areas, such as Waldbühne Schwarzenberg, are not disadvantaged, because visitors are willing to cover great distances to attend an event, provided, of course, that they get a high quality show. The sold-out Herbert Grönemeyer and Joe Cocker concerts at this venue, in addition to experiences made in several other local markets, have proved this to be true.

Based on a 1993 study by B.A.T. Freizeit Forschungsinstitut (leisure research institute) ⁶⁾, the following potential audience will exist in future for "areas of cultural entertainment", i.e. DEUTSCHE ENTERTAINMENT'S target segment:

Events	Attend more often	Future potential
Rock/pop concerts	12%	32%
Open air concerts	11%	25%
Classical concerts	6%	21%
Revue/Variety theater	3%	16%

⁴⁾ Source: B. A.T. 1992.

⁵⁾ Quote: Germany 2010 "How we'll live tomorrow - Scientific predictions of the future of our society", Horst W. Opaschowski, pages 151 and 152.

⁶⁾ Source: Leisure and quality of life: perspectives for Germany, B.A.T. *Freizeitforschungsinstitut*, Horst W. Opaschowski.

Business strategy

In view of the developments emerging on the leisure and entertainment markets in Germany and the considerable potential for the future, especially in the area of rock and pop concerts or open air events, DEUTSCHE ENTERTAINMENT is pursuing a business strategy focused on growth in the tour and local event business units. This growth will also encourage expansion in the services area as well as stabilize the present market position by improving quality and sales in the venue management and variety theater business units.

DEUTSCHE ENTERTAINMENT has specific core competencies (contact to agents and artists, professionalism, 20 years experience) and a number of unique selling points (e.g. competitive advantage through exclusive venue contracts) in the show/tour and local events business units. The business policies of DEUTSCHE ENTERTAINMENT aim to further develop these core competencies on the business unit level and to expand specific competitive advantages. Therefore it is not a priority of the strategy to implement fundamentally new product or service concepts on the market in the short-term. The main focus of business development is to achieve deeper market penetration and to enter new markets with the highly competitive products of our present product range.

DEUTSCHE ENTERTAINMENT plans to utilize growth potential which was inaccessible in the past due to limited resources.

In the show/tour business unit, this applies especially to expansion of the following:

- the market position in Germany
- the tour segment to include all of Europe with focus on Austria, Switzerland and the Benelux.

In the local events unit, the priority will be to stabilize and expand the local event markets of Berlin-Brandenburg, North Rhine Westphalia and Saxony.

The market position in terms of attracting audience and artists will improve on the basis of the market competence and market domination which has already been achieved and the Company's own venues and service providers as well as continued quality assurance.

An important element of the business strategy in this regard is the active pursuit of alliances, joint ventures and acquisitions. They will enable the Company to expand on the domestic market as well as to enter foreign markets. In the Company's opinion, two other factors will also facilitate this expansion: the succession issues facing individual competitors due to the Companies' age structures, and the fact that the business of handling big national and international stars rests in the hands of a few tour promotion companies which share the total show/tour segment sales of DM 210m among themselves.

When making acquisitions in Germany and abroad, DEUTSCHE ENTERTAINMENT will concentrate consciously on the pursuit of projects that offer an immediate and apparent advantage for the existing companies. Each acquisition will also be evaluated to find out if it would also achieve satisfactory results in a "stand-alone" basis.

In the variety theater business unit, the DEUTSCHE ENTERTAINMENT management intends to improve quality and sales at the Berlin, Düsseldorf and Stuttgart locations by improving national marketing and sales measures, by expanding the gala and incentive business, and by adapting the programs as well as the changes in the programs to meet local demands.

In the services business unit, B.E.S.T. will not only improve its market position on the local Berlin market, but, in the course of national expansion, become active on other markets, especially North-Rhine Westphalia. In addition, the tour security area of operations should be developed further.

Berlin Ticket and *CTS Betriebsgesellschaft Berlin* intend to transform the local Berlin market, especially in the areas of theater, exhibits and other events in order to increase market share.

Give & Take, along with the other service providers, will also extend its activities to the expanding local markets of North Rhine Westphalia (*Musikkontor*) and Saxony (*concert concept* with the *Waldbühne Schwarzenberg*).

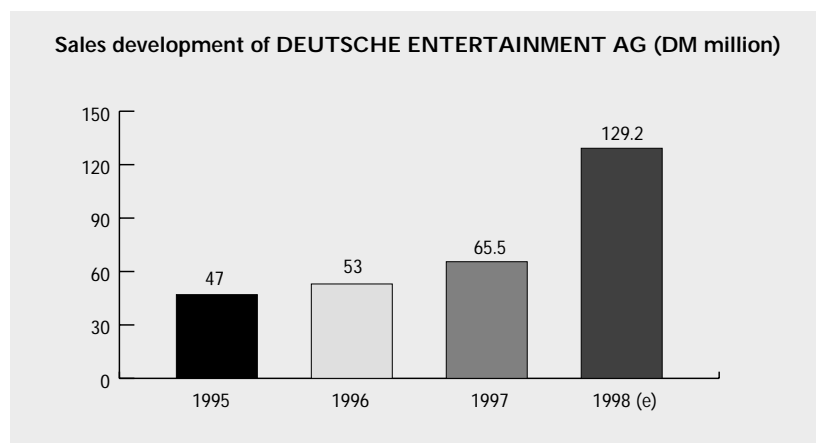
MVS werbeconcept also intends to expand into these markets and plans to introduce its innovative advertising concepts such as the "KulturBus" in other cities.

Another major task of Deutsche Entertainment is to identify potential for synergy and utilize it more intensely in the future. Therefore, the exploitation of rights/live broadcasts as well as the merchandising segment should be utilized more intensely in future to optimize the returns in the concert business.

It is also vital to integrate new technologies such as the Internet in our efforts to achieve better marketing results for live concerts.

Sales overview / sales trends

DEUTSCHE ENTERTAINMENT has set itself the goal of more than doubling total consolidated sales from DM 65.5m in 1997 to approximately DM 157.1m in the year 2000.



Investments

In the past three years, DEUTSCHE ENTERTAINMENT has invested primarily in the show/tour and venue management business unit. The Company invested approx. DM 1.2m in *coco TOURS* to establish the company, in particular to recruit personnel, and to gain market share. During the same period of time, the venue management business unit invested approximately DM 850,000.00 in the conclusion of the *Waldbühne Schwarzenberg* contracts as well as the operating agreements for the *Max-Schmeling-Halle* and the *Velodrom*.

In view of the strategic goals of DEUTSCHE ENTERTAINMENT AG in investments in the next few years will concentrate mainly on acquisitions of national and international competitors as well as joint ventures in terms of merchandise marketing and exploitation of rights/licenses.

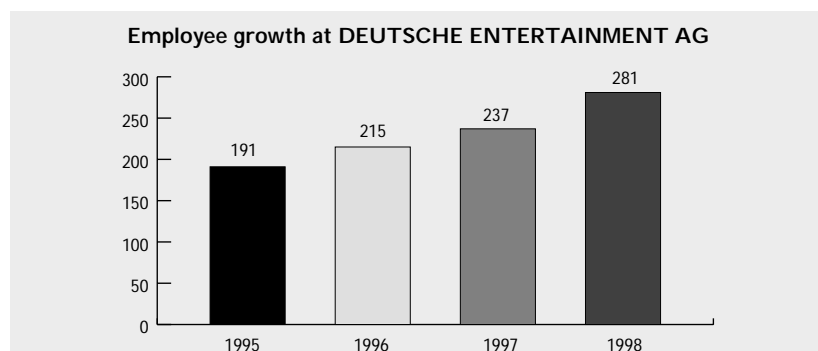
Investments in this regard will amount to approx. DM 10m, attributable mainly to the tour area (national and international expansion), the local event business (merchandising, exploitation of rights and licenses) as well as the service provider *MVS werbeconcept* ("Kulturbus").

Smaller investments will be made to ensure quality in the variety theaters as well as the open air venues *Berliner Waldbühne* and *Waldbühne Schwarzenberg*. The total volume planned for all five venues is not to likely exceed DM 1.5m.

In accordance with the lease and the operating contract concluded with the state of Berlin, the Company will invest a total of DM 12m in both multi-functional arenas (*Velodrom* and *Max-Schmeling-Halle* in Berlin) for retrofitting, equipment improvements and additional service facilities. Financing is being provided by the state of Berlin. DM 6.5m of the total sum was already invested in 1998.

Employees

The average number of people employed by the Company in the course of the fiscal year was 218. The following graph illustrates the personnel development of the DEUTSCHE ENTERTAINMENT Group:



COMPOSITION	1995	1996	1997	1998
1. Local events	30	24	21	21
2. Venue management	0	0	1	31
3. Variety theaters	157	172	188	201
4. Services	4	13	18	18
5. Shows/tours	0	6	9	10
Gesamt:	191	215	237	281

Patents/Licenses

DEUTSCHE ENTERTAINMENT AG holds various license and trademark rights. These include the following

1. Registered utility patterns

MVS werbeconcept GmbH

Fence component for producing a (chain-link) fence.

Primary category: E04H 17/16

Secondary categories: G09F 19/22 / G09F 15/00

MVS werbeconcept GmbH

Advertising system for mobile advertising media

IPC: G09F 21/04

2. Registered trademarks in written and graphic form

DEUTSCHE ENTERTAINMENT registered a total of 44 trademarks in written and graphic form as of mid-1998. The oldest registration e.g. 09/93 => *Wintergarten* in written and graphic form.

Aside from these registered utility patterns and trademarks, the Company is materially dependent neither on patents, licenses or contracts, nor on new production processes.

Real property

DEUTSCHE ENTERTAINMENT AG and DEUTSCHE ENTERTAINMENT Group does not own any real property.

Litigation

In connection with the sale of the interest held in the *Schillertheater Betriebs GmbH* to Wolfgang Bocksch, there is a legal dispute over financial obligations in the amount of DM 450,000.00 owed by Schiller Theater Betriebs GmbH to DEUTSCHE ENTERTAINMENT AG. No legal proceedings have yet been initiated. No legal or arbitration proceedings which might have a significant influence on the economic situation of the Company or its subsidiaries, or which could have had such influence in the past two fiscal years are currently pending, nor did they occur in the previous two years. According to the information supplied by the Company and its subsidiaries, no such proceedings are pending, threatened, or expected.

Business activities and Outlook

For the past 20 years, DEUTSCHE ENTERTAINMENT AG has been expanding in one of Germany's most interesting sectors – the leisure and entertainment market.

Shorter working hours mean more leisure time and, for many, the desire to experience something extraordinary. Leisure activities allow people to escape from day-to-day cultural consumer traps, especially into "communicative events" – those which give you a tale to tell. According to the management of the Company, these societal desires and developments in the market are especially instrumental in the business areas in which DEUTSCHE ENTERTAINMENT operates, creating stability and growth in a market that is therefore virtually unaffected by economic trends.

Especially the tour business in German-speaking regions has substantial growth potential, targeted towards young and old, for inside and out door, with large open airs and extraordinary events. DEUTSCHE ENTERTAINMENT has secured substantial market share in this market segment within a very short time. The radical changes or restructuring and redistribution taking place in the entire industry in Germany offers outstanding future prospects. The variety theaters are also able to fulfill today's demands for recreation and experiences. Moreover, the local Berlin market will profit from the new political and economic power it attains as Germany's new capital. The *Wintergarten Varieté* near Potsdamer Platz and the government complex as well as the *Berliner Waldbühne*, the *Max-Schmeling-Halle* and the *Velodrom*, which are all well-known beyond Berlin's borders, will encounter growing demand as important sports and entertainment venues. The service providers will also benefit from this development.

DEUTSCHE ENTERTAINMENT is market leader with the service package it offers. It pursued diversification at an early stage in order to spread the risks across a wide range of entertainment services. DEUTSCHE ENTERTAINMENT has a highly-motivated, professional staff with a very low turnover who will be even more closely tied to the Company in the future through the planned issue of employee shares.

All in all, these are an essentially sound basis for implementing DEUTSCHE ENTERTAINMENT'S clearly defined expansion goals.

In the first two quarters of this year, the projected sales (DM 56m) were exceeded by DM 1.3m, even though three Rolling Stones concerts were postponed to the third quarter. The results achieved proved more positive than expected despite the considerable strain imposed by the IPO costs. In the Company's opinion, this trend will continue throughout the year and lead to good results.

The Company is pursuing a balanced dividend policy which takes both the interests of shareholders and those of the Company into account. In the future, this policy will be dependent on the Company's earnings and financial situation, liquidity requirements, general economic conditions in the markets in which DEUTSCHE ENTERTAINMENT is active, and on the legal, tax and regulatory aspects of the general business environment.

The Company's strategic goals with respect to planned acquisitions and joint ventures will play a particularly important role in the future.

Interim Report for the period January 1 to June 30, 1998 (unaudited)

IAS pro forma consolidated statement of income for the period January 1 to June 30, 1998

	Jan. 1 to June 30, 1998 DM thousand
1. Sales	57,244
2. Other operating income	4,815
3. Cost of materials	
a) Cost of organizing and arranging events	15,152
b) Cost of purchased services	27,836
4. Personnel expenses	
a) Wages and salaries	5,417
b) Social security and other pension costs	839
5. Depreciation	
a) On intangible fixed assets and property, plant and equipment	1,351
6. Other operating expenses	9,598
7. Other interest and similar income	184
8. Interest and similar expenses	288
9. Results from ordinary activities	1,762
10. Taxes on income	648
11. Other taxes	3
12. Consolidated net income/net loss for the year	1,111
13. Minority interests	-183
14. Consolidated balance sheet as of June 30, 1998	928

IAS pro forma consolidated balance sheet as of June 30, 1998

ASSETS	June 30, 1998 DM thousand
A Fixed assets	
I. Intangible assets:	
1. Concessions, industrial property rights and similar rights and licenses in such rights	36
2. Goodwill	7,139
II. Tangible assets	
1. Land, land rights and buildings including buildings on third-party land	1,111
2. Machinery and technical equipment	178
3. Other facilities, operating and office equipment	390
4. Advance payments and assets under construction	20
III. Financial assets	
1. Associated companies	34
B Current assets	
I. Inventories	
1. Finished goods and merchandise	102
2. Advance payments	1,768
II. Receivables and other assets	
1. Trade receivables	8,128
2. Receivables from related parties	7,353
3. Other assets	4,714
III. Checks, cash-in-hand and bank balances	46,165
C Prepaid expenses	5,677
TOTAL ASSETS	82,815

EQUITY AND LIABILITIESJune 30, 1998
DM thousand

A Equity	
I. Subscribed capital	8,734
II. Capital reserves	100
III. Minority interests	635
IV. Retained earnings/accumulated loss brought forward	-3,492
V. Net income/net loss for the year	928
B Provisions	
1. Provisions for taxes	880
2. Other provisions	2,830
C Liabilities	
1. Liabilities to banks	5,306
2. Payments received on account of orders	17,690
3. Trade payables	9,584
4. Liabilities to related parties	1,634
5. Other liabilities	10,522
thereof taxes	(6,942)
thereof social security and similar obligations	(201)
D Deferred income	27,464
TOTAL EQUITY AND LIABILITIES	82,815

Cash flow statement for the period January 1 to June 30, 1998

	June 30, 1998 DM thousand
Consolidated net income	928
+ Depreciation on property, plant and equipment	966
+/- Increase/decrease in provisions	2,182
+/- Other non-cash expenses and income:	
Income from investments in associated companies	385
Change in minority interests	182
Cash flow	4,643
-/+ Increase/decrease in inventories	-1,601
-/+ Increase/decrease in trade receivables	-1,982
-/+ Increase/decrease in receivables from related parties	4,715
-/+ Increase/decrease in other assets	-5,919
+/- Increase/decrease in trade payables	4,063
+/- Increase/decrease in payments on account	-437
+/- Increase/decrease in liabilities to related parties	-8,543
+/- Increase/decrease in other liabilities	2,546
+/- Increase/decrease in deferred income	2,024
Inflow/outflow of funds from current operating activities	-491
Loss on disposal of assets	62
Cash outflows	
for acquisitions of intangible assets	-24
for acquisitions of property, plant and equipment	-310
Inflow/outflow of funds from investing activities	-272
Increase in debt	42
Other changes in equity	0
Inflow/outflow of funds from financing activities	42
Change in funds	-721
Funds at the start of the fiscal year	46,886
Funds as of June 30, 1998	46,165
(- thereof trust accounts)	40,729)

Developments since June 30, 1998

The development of the audience volumes in the third quarter confirms the positive trend experienced in the first half-year. In addition to our plans, a number of concerts were organized for the Modern Talking European tour. Preliminary contracts were also concluded in July for a tour in 1999. We therefore expect to achieve the sales and income targets set for 1998.

DEUTSCHE ENTERTAINMENT AG has not been affected by the heavily publicized cyclical downturn on the entertainment market.

Berlin, September 1998

DEUTSCHE ENTERTAINMENT AKTIENGESELLSCHAFT

On the basis of the above Offering Prospectus/Company Report, the

DM 10,917,000.00

2,183,400 no-par value bearer shares

– with a current theoretical par value of DM 5.00 per share

each carrying full dividend rights for fiscal year 1998

i.e. as of January 1, 1998

Nos. 0 000 001 – 2 183 400

Securities Code Number 551 390

of

DEUTSCHE ENTERTAINMENT AG

have been admitted to the Geregelter Markt and to trading on the Neuer Markt of the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange).

Frankfurt am Main, Hamburg and Stuttgart, September 1998

DG BANK

Deutsche Genossenschaftsbank AG

M. M. Warburg & CO

Kommanditgesellschaft auf Aktien

Baden-Württembergische Bank

Aktiengesellschaft



DEUTSCHE ENTERTAINMENT AG

GROUP OF COMPANIES

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