RTV Family Entertainment AG

Geschäftsbericht 2005

RTV Family Entertainment AG

Key financial data	FY 2005	FY 2004
Sales (K€)	7,403	6,439
EBITDA (K€)	25,160	1,825
EBIT (K€)	1,845	–2,860
EBT (K€)	894	–4,095
Financial result (K€)	–951	–1,235
Result per share	0.13	–0.63

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Security Identification Numbers	540891; 540893
International Security Identification Number	DE 000 540 8918
Quoted in	General Standard
Number of shares on 31.12.2005	6,525,488

Company calendar	
12/7/06	Shareholders' meeting
August 06	Half-yearly report

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CEO’s opening comments

Ladies and Gentlemen,

Dear Shareholders,

In my introduction to last year’s company report written in March 2005, I mentioned how absolutely crucial the development of the coming year would be for the continued existence of RTV Family Entertainment AG. I tried to make it clear that it was indeed possible to restructure the company, but also that it was essential that the main elements of this restructuring were carried out by the end of 2005 by on the one hand working together with the company’s current creditors to find solutions to the problems that the company had inherited from the past, and on the other by simultaneously pressing on with the already initiated strategy of consolidating the business’s operations.

We were completely able to achieve the goal that we had set ourselves. The company is largely free of debts and burdens inherited from the past. Building on this success, our aim should now be to achieve solid growth for the company with limited risks.

At the heart of this strategy lies the large internationally exploitable library of programmes. We already made a start last year in marketing this stock of programmes by strengthening the distribution of the “classic” sales areas, such as Free-TV and Pay-TV. We also place considerable emphasis on the continued expansion of an efficient distribution channel for the home entertainment area and for video and DVD licence rights. In order to expand and diversify the sales channels, we are currently working hard to set up distribution structures for all those areas of business opportunity that will arise or assume increased importance in the wake of technical progress in the multimedia field.

In addition to the efficient exploitation of our stock of rights, we regard the business-division production as one of our growth areas. In spite of the tense situation caused by the re-structuring, last year already witnessed a boom in this area; in 2006 we will devote renewed efforts to re-establishing the strong position the company once had in this business segment.

RTV also plans to carry out co-productions and the acquisition of licences in order to widen and reinvigorate the existing library. In doing this, RTV will only undertake low-risk investments. However, it should be emphasised that the initial steps in the co-production business will have a negative effect on the sales of this area. The time required to produce an animated television series is roughly two years, and a production of this size will not start to benefit from sales until the project is complete, during which time slumps in sales are unavoidable.

We are, however, convinced when we look at the measures we are planning or have already introduced that we will not only be able to consolidate the company this year, but also lift its importance on to a completely new plane. Whether or not we can achieve these goals depends largely on the conditions prevailing in the market. At the moment a clear growth trend may be recognised and the competition between the TV channels has also increased. In our opinion, these developments put the market situation on a very positive footing. Great potential can be discerned if one looks at the market beyond the – classic – licensing trade.

Against the background of our development goals, it is also planned to give the company a broader base and starting this year to focus RTV's market position more distinctly as a media company. As part of this strategy we intend to change the company's name during the course of 2006 and re-design its presence in the market.

Ladies and Gentlemen, dear Shareholders – following the changes made in the company's share structure the management has strengthened its long-term bond with the company and bears joint responsibility for measures to strengthen liquidity. Looking ahead to the fresh challenges facing the company, this will emphasise the responsibility for and the obligation to the company.

Looking back at 2005, I would like to take this opportunity of thanking once more all those business partners and shareholders involved in the restructuring process for the constructive way in which they all dealt with the problem and for the goal-oriented implementation of all the measures taken, which has led to the company being put back on a healthy footing.

My special thanks go out to the two retiring members of the Supervisory Board, Mr Frank Mallet and Dr Wolfram Freudenberg, for their long and energetic support and constructive co-operation.

Munich, March 2006

Markus R. Reischl

CEO

Report of the Supervisory Board

The Supervisory Board exercised its advisory and supervisory role continuously throughout the year 2005. The Board of Management kept the Supervisory Board informed comprehensively and punctually in verbal and written reports. The Supervisory Board and the Board of Management were also in constant contact with each other.
The Supervisory Board met on six occasions in 2005. During these meetings as well as in resolutions adopted in writing, all major matters of business policy, especially those relating to the company's commercial and financial development, its strategy and planning, important business events and matters requiring the consent of the Supervisory Board were subjected to detailed and empirical analysis, were deliberated upon and discussed with the Board of Management on the basis of prepared comprehensive and complete reports. Given the extremely difficult commercial situation of the company during the financial year 2005, the Supervisory Board made use of its right to inspect the company's books and correspondence and its assets on several occasions.

The core of the Supervisory Board's deliberations and its control function in the financial year 2005 was the restructuring of the company, which was based principally on negotiations with the creditors VIDEAL TV and Film Co-Produktions GmbH, Deutsche Bank AG, Baden-Württembergische Bank AG and Ravensburger AG. The Supervisory Board was closely involved in this process, both in its meetings and in a number of discussions with the Board of Management that took place outside the meetings of the Supervisory board. The Supervisory Board also closely monitored the company's current cash flow. The core of its supervisory and advisory activities in connection with the dispute with the co-production partner VIDEAL was on the one hand the question of the effects of litigation with VIDEAL and on the other the question of payments of the distribution guarantees to VIDEAL. Consideration was given in this context to the fact that the consent of VIDEAL was necessary as part of RTV's commissioning EM.TV to perform distribution functions. The Supervisory Board examined the deal made with the Spanish distribution company Planeta Junior S.L. and whether the liquidity flows which are of decisive importance for RTV are assured. The question as to the best possible structure for entering the markets in Italy, Spain and Portugal was also thoroughly discussed by the Supervisory board. The issue of the termination by way of an amicable settlement of the legal dispute, which was started in 2004 before a civil court in Barcelona with the long-standing Spanish co-production partner D'Ocon Films S.A. over the payment of co-production fees from the programmes „Fix & Foxi II", was also discussed. The Supervisory Board also became deeply involved in the question of the extension of the contract with Super RTL, which is of great importance for RTV's profit situation.

The Supervisory Board also examined the refinement of the company's Corporate Governance and the adherence to the recommendations of the German Corporate Governance Code. The declaration made by the Board of Management and the Supervisory Board in accordance with § 161 of the German Companies Act will be made permanently available to shareholders on the Internet under www.rtv-ag.de. The Supervisory Board has not established any sub-committees. The Supervisory Board requested Ernst & Young AG, public auditors of Stuttgart, to audit the accounting system, the annual financial statements – consisting of the balance sheet, statement of income, statement of shareholders' equity and notes to the financial statements –, the company financial statements in accordance with § 325 section 2a of the German Commercial Code – consisting of the balance sheet, statement of income, cash flow statement, statement of shareholders' equity and notes to the financial statements – and the management report for the financial year 2005. On the basis of this audit, the auditors granted the company their unqualified audit certificate with respect to all of these documents. The annual financial statements, company financial statements, the management report and the reports of the auditors were available to the Supervisory Board and were examined by it. The Supervisory Board thoroughly discussed the above-mentioned documents in its meeting, which was called to discuss the financial statements in the presence of the auditors who reported on the principle results of their audit. The Supervisory Board took note of and approved the results of the audit. Following the Supervisory Board's own examination, no objections were raised to the annual financial statements, company financial statements and management report for the financial year 2005. In its meeting held on 16.03.2005 the Supervisory Board approved the annual financial statements and the individual company financial statements of RTV Family Entertainment AG submitted by the Board of Management; the annual financial statements of RTV Family Entertainment AG are accordingly adopted. The Board of Management prepared a report on the company's relations with affiliated companies and submitted this report together with the auditors' report on this subject to the Supervisory Board. The auditor granted the following unqualified audit certificate:

„We confirm, following our obligatory examination and assessment, that

1. the factual details contained in the report are correct,
2. the services provided by the company in the legal transactions listed in the report were not excessive."

The auditors took part in the Supervisory Board's deliberations on the report dealing with relations with affiliated companies and reported on the principle results of its audit. The Supervisory Board's examination of the Board of Management's report and the audit report gave no cause for objections; the Supervisory Board agrees with the results of the audit. The Supervisory Board, having examined the matter, raised no objection to the declaration made by the Board of Management at the end of the report on the relations of RTV Family Entertainment AG with affiliated companies.

Mr Frank Mallet resigned his seat on the Supervisory Board with effect from 31.01.2006. Dr. Wolfram Freudenberg resigned his seat as a substitute member of the Supervisory Board with effect from 31.01.2006. The Board of Management and the Supervisory Board thank Mr Mallet and Dr Freudenberg for their long-standing and constructive work. The Board of Management and the Supervisory Board have applied to the Regional Court of Ravensburg in accordance with § 104 of the Companies Act to have Dr. Stefan Piëch appointed a member of the Supervisory Board with effect from 01.02.2006. The Regional Court in Ravensburg appointed Dr. Piëch to the Supervisory Board on 09.02.2006. The Supervisory Board appointed Dr. Piëch as its deputy chairman in its meeting held on 16.03.2006.

Ravensburg, in March 2006

The Supervisory Board

The development of the share price in 2005

1) Average share price in the respective month

Shareholding structure

RTV Family Entertainment AG, Ravensburg Shareholders' structure (540891;540893)	
	Shareholding in %
Free Float	10.73
F&M Film und Medien Beteiligungs GmbH	77.78
Markus Reischl	7.66
Raimund Köhler	3.83

Corporate Governance Code 2005

Joint declaration of the Board of Management and the Supervisory Board of RTV Family Entertainment AG on the recommendations of the "Government Commission on the German Corporate Governance Code" in accordance with § 161 of the German Companies Act:

The Board of Management and the Supervisory Board of RTV Family Entertainment AG declare that the recommendations of the "Government Commission on the German Corporate Governance Code" published by the German Ministry of Justice on 2nd June 2005 in the electronic federal gazette ("Bundesanzeiger") are observed subject to the following exceptions:

- Due to time constraints, it cannot be guaranteed that the published company report will be available at the time that the invitation to the shareholders' meeting is issued (Code section 2.3.1), that the group financial statements will be made publicly available within 90 days of the end of the financial year and the half-yearly report within 45 days of the end of the reporting period (Code section 7.1.2).

- A broadcast of the shareholders' meeting by means of modern telecommunications (Code section 2.3.4.) will not be made, since the expense required for this is out of proportion to the shareholding structure.

- Die D&O (Directors' and Officers') insurance for the members of the Board of Management and the Supervisory Board is not subject to any excess since this does not reflect general practice in the business (Code section 3.8).

- Due to the reduced scope of the company's activity since the completion of the restructuring measures in January 2003, the Board of Management consists of just one person(Code section 4.2.1).

- Due to the small size of the company and its Supervisory Board, no sub-committees have been established (Code section 5.3).

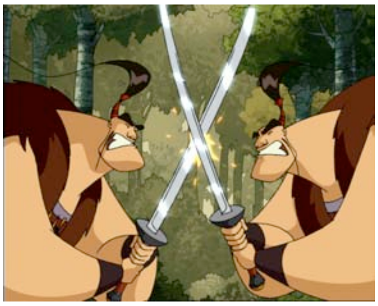
- The Supervisory Board receives a fee established by the shareholders' meeting. Performance-related components have so far not been considered in this fee (Code section 5.4.7).

- In accordance with the Guidelines for the Regulated Market, apart from the company report only a half-yearly report is published, both of these documents in accordance with International Accounting Standards (Code section 7.1.1).

Munich, December 2005

Prof. Dr Johannes Kreile
Chairman of the Supervisory Board

Markus R. Reischl
Chairman of the Board of Management



Management Report 2005

A. General

Contrary to the situation reported in the previous year's balance sheet, RTV Family Entertainment AG ("RTV") no longer holds shares in subsidiary companies. The 100% shareholdings it previously owned in RTV Film + TV GmbH in Ravensburg and RTV Family Entertainment Produktions GmbH in Munich were merged on 1st January 2005 (merger date) with RTV as the acquiring legal entity, in each case by notarised shareholders' resolution and merger agreement, both of which were concluded on 4th May 2005, through the transfer of all their assets together with associated rights and obligations and dissolved but not wound up in accordance with §§ 2 ff. of the German Company Reorganisation Law (UmwG) in conjunction with §§ 46 ff., 60 ff. of the same law (merger by absorption). The registration in the relevant Trade Registers took place in June 2005.

Golbach Productions GmbH (in liquidation) in Düsseldorf, the assets of which became subject to insolvency proceedings in May 2002, was dissolved in July 2005 by official order since the insolvency proceedings were ended due to the completion of the final distribution in accordance with § 200 of the Insolvency Code.

Thus, a group within the meaning of German commercial law no longer existed on the balance sheet cut-off date of 31st December.

RTV operates in the business lines licence sales/production, production-to-order and merchandising. The business division licence sales/production includes the whole value creation chain from acquisition through to production and the distribution of programmes. Merchandising concentrates all activities in the marketing of ancillary rights including the distribution of audio and video rights. In the business division production-to-order, RTV concentrates its activities on the development and realisation of entertainment programmes for children and young people.

B. Company financial statements in accordance with § 325 section 2a of the German Commercial Code (IFRS)

RTV used the possibility offered by § 325 section 2a of the German Commercial Code to prepare company financial statements for disclosure purposes in accordance with international accounting standards. These were based on the International Financial Reporting Standards (IFRS) as they are to be applied within the European Union.

1. Major events occurring in the financial year 2005

Following successful negotiations with all its main creditors, RTV was able to conclude and implement a comprehensive restructuring plan. By means of a remission of claims on the part of virtually all of its chief creditors at that time, the company was able to eliminate all of its major liabilities. The distribution contracts with EM. Entertainment GmbH ("EM.TV"), the implementation of which was held up by a dispute with the long-standing co-operation partner VIDEAL TV und Film Coproduktions GmbH ("Videal"), have been adjusted in agreement with EM.TV and Videal. A sale of all RTV programmes, including those made together with Videal, is now fully possible. It was possible to resolve all unsettled problems with Videal. RTV and Videal continue to seek long-term co-operation and the best possible marketing of jointly-produced programmes.

The following detailed measures were taken as part of the restructuring programme:

The F&M Film und Medien Beteiligungs GmbH ("F&M") of Vienna in Austria acquired the 5,825,385 RTV individual share certificates previously owned by Ravensburger AG. In this connection the German Federal Supervisory Agency for Financial Services (BaFin) had approved an application submitted by F&M and this company's sole shareholder, Dr Stefan Piëch, for exemption from the requirement to make an acquisition offer to the outside shareholders in accordance with § 37 of the German Securities Acquisition Law (WpÜG).

Ravensburger AG, previously the main shareholder of RTV, transferred its 89.27% shareholding in RTV completely to F&M. In order to enable the restructuring of RTV and the introduction of the new investor F&M to take place, Ravensburger AG completely waived all of its claims from RTV for an amount of approximately K€ 10,126 and paid a capital contribution of K€ 1,200 into RTV's capital surplus.

The bank consortium, consisting of the Baden Württembergische Bank AG and Deutsche Bank AG, also remitted debts due from credit lines granted to a total value of K€ 12,007 against a payment of K€ 3,000 and released the securities it had been given (especially the assignment of rights and claims from film licence contracts).

RTV also benefited from a deferment until 31st August 2007 of part of distribution guarantees of K€ 1,500 owed to its co-production partner Videal. These deferred distribution guarantees were assumed by F&M as part of a debt-takeover. F&M has also paid on behalf of RTV part of the redemption fee for loan liabilities due to the bank consortium. The receivables due to F&M from RTV as a result of the above-mentioned assumption of debts and the partial payment of the redemption fee to the banks were converted into a shareholder loan, the repayment of which F&M immediately waived in part. Thus, there exists on the balance sheet cut-off date a shareholder loan from F&M for an amount of K€ 2,500, which is due for repayment on 1st January 2009. Most of RTV's film library has been transferred to F&M in order to provide security for the loan.

In addition, a final settlement with the co-production partner Videal was able to be reached regarding the distribution agreement between RTV and EM.TV. As part of the gradual company restructuring, Videal had fully approved the appointment of EM.TV as distributor – partially at amended conditions – of jointly-produced programmes, the distribution of which was previously prohibited to EM.TV. In return, RTV paid a part of the guarantee payments to Videal due in mid-2005. The other part of the open guarantee payments were – as described above – deferred by Videal and taken over by F&M by way of an assumption of debts. Thus, the situation that arose as a result of the judgement issued by the Regional Court in Hamburg in May 2005 making it impossible to market the programmes was resolved by mutual agreement. As already described in the 2004 company report, RTV had sued Videal in 2004 to secure its approval to the distribution agreement concluded with EM.TV. Videal had replied by submitting a counter-claim for the payment of its share of income. The judgement of the Regional Court rejected both pleas, so that that it was absolutely necessary that an amicable solution be reached.

As a result of the final settlement with Videal and the distribution agreement concluded with EM.TV, the payments due from EM.TV as part of the granting of distribution to RTV have now been completely paid. A small part of the film library was assigned to EM.TV. in order to provide security for pre-payments made. In addition, EM.TV. was granted the right to distribute in the licence territory of France during the reporting period.

RTV has also concluded a long-term distribution contract with the Spanish distribution company Planeta Junior S.L. relating to the distribution of RTV programmes. This agreement secures regular cash inflows for RTV from Planeta Junior for the distribution territories of Italy, Spain and Portugal. As a result of the distribution agreements reached with Planeta Junior and EM.TV, RTV was able to achieve the best possible access structures for the placement of its programmes in the individual markets.

In April 2005 a settlement was reached with the long-standing Spanish co-production partner D´Ocon Films, S.A. ("D´Ocon") in the Spanish civil court in Barcelona, according to which D´Ocon is required to pay RTV an amount of K€ 550. In 2004 RTV had submitted a claim against D'Ocon to the court for the payment of co-production fees relating to the programme "Fix + Foxi II", which D´Ocon had owed since 2002. So far D'Ocon has made a part-payment of K€ 50 and the payment of the major part of the receivable of K€ 500 is anticipated in the first quarter of 2006.

As a result of the comprehensive restructuring measures described above, RTV is largely debt-free and can continue with its core business in a secure environment with its costs covered, and may now pursue an expansion of its business by offering a diversified range of services.

F&M granted RTV's management, the sole Board member Markus Reischl and the company's senior employee vested with power of attorney ("Prokurist") and manager of legal affairs Raimund Köhler, a shareholding totalling 750,000 shares in RTV. These shareholdings relate solely to shares with the security identification number 540893, which may not be traded on the stock exchange. In return, the management has committed itself to further securing RTV's liquidity and to a long-term commitment to the company. The management waived part of its previously fixed salary in order to strengthen the company's liquidity. In addition, the management provides security for a credit line that will be granted to the company.

In the summer of 2005 a shareholder, Burkhardt Ceppa, resident in Munich, submitted an action for rescission against RTV to the Regional Court in Ravensburg. In this action for rescission, Mr Ceppa sought to have the resolution declared null and void that was passed under agenda item 3 at the shareholders' meeting held on 20th May 2005, approving the actions of the Supervisory Board. The action was rejected in all points by a judgement issued in October 2005 by the Regional Court of Ravensburg. Mr Ceppa has lodged an appeal against this judgement with the Higher Regional Court in Stuttgart.

2. Development of the individual business divisions

RTV Family Entertainment AG's sales increased from K€ 6,439 to K€ 7,403 over the reporting period. This corresponds to an increase of approximately 15% compared to 2004. Due to the comprehensive restructuring measures carried out in the past reporting period, RTV was able to carry out and complete fewer co-productions.

In spite of the restructuring programme it was possible to continue the development of the main divisions on a stable basis; a sales increase was achieved in the production-to-order sector.

The following sales were achieved during the past year in the individual business lines:

RTV Family Entertainment AG, Ravensburg Sales by division (IFRS)				
	FY 2005 K€	FY 2005 % of total	FY 2004 K€	FY 2004 % of total
Licence sales and production	4,555	62	4,004	62
Merchandising	2,848	38	2,435	38
Total	**7,403**		**6,439**	

On 31st December 2005 RTV owned a library of programmes which included a total of 4,374 episodes or 1,682 programme hours. This range of programmes is basically marketable in several cycles both in Europe and throughout the whole world.

Licence sales/production

The licence sales/production division achieved sales of K€ 4,555 in the past financial year, an increase of 14% compared with the sales in the year before (K€ 4.004). The production and the distribution of repertoire programmes generated sales of K€ 3,533 in the past year (previous year: K€ 3,588).

One co-production was completed in 2005 – a further thirteen episodes of "Dragon Hunters" (13 episodes each 26 minutes in length).

The RTL-Group, particularly Super RTL and RTL II, is the most important customer for programme licences. Other important customers are Fox Kids Europe, ORF (Austria), and in

Germany Kinderkanal, ARD and ZDF. With its Pay TV programme Junior.TV, EM.TV. has also proved to be a new customer for Pay-TV rights in Germany.

Sales derived from productions-to-order were more than doubled during the past year. Sales increased massively to K€ 1.022 compared with sales of K€ 416 achieved last year. The sixth series (13 episodes each 26 minutes in length) of the highly successful programme "Spielegalaxie" was produced during the past year. This children’s play programme, which has been broadcast since 2003 in a programme slot on Super RTL, distinguished itself again during the reporting year by consistently high viewing rates. A new format was successfully implemented with the production "Die Ravensburger Zauberschule" (16 episodes each 5 minutes long). This is an entertainment programme developed for children, in which conjuring tricks are demonstrated and the viewers shown how they are done.

RTV was also able to develop, produce and broadcast a 2-D animated cartoon film with another new format called “Miss Milly” (13 episodes each 7 minutes long) for children aged between five and nine.

Both "Missy Milly" and "Die Ravensburger Zauberschule" were broadcast as part of the programme slot in Super RTL.

Merchandising

In the reporting year 2005, approximately 38 % or K€ 2,848 (previous year: K€ 2,435) of RTV’s total sales were accounted for by the merchandising division. This also includes sales of the audio and video licence divisions as well as advertising fees from the Super RTL slot. Due to increased advertising sales, growth of approximately 17% in comparison with the previous year was achieved in this area.

The programme slot on Super RTL designed by RTV contributed roughly 90% or K€ 2,542 of this division’s sales. The present contract with Super RTL for a programme slot, which was initially to run until 31st December 2005, was extended in September 2005. In future, RTV will have a daily programme slot from 10 a.m. to 11 a.m. from Sunday to Friday, as well as 26 Sundays a year from 11 a.m. to 11.30 a.m. The costs incurred by RTV were reduced as part of a reduction in the programme playing platform. The term of the contract was extended by two years to 31st December 2007, whereby Super RTL has a special right of termination on 31st December 2006 if dictated by programming or advertising considerations.

RTV continues to concentrate its efforts in the field of merchandising on the design of the Super RTL programme slot, intensified marketing of audio and video rights and the co-ordination of the activities of agencies commissioned to market the merchandising rights.

Sales by segment

RTV's sales during the reporting period were made up as follows:

RTV Family Entertainment AG, Ravensburg Sales by Region (IFRS)				
	FY 2005 K€	**FY 2005 % of total**	**FY 2004 K€**	**FY 2004 % of total**
Domestic	7,108	96	5,229	81
International	295	4	1,210	19
Total	**7,403**		**6,439**	

Co-operation in distribution with EM.TV has proved to be highly effective in generating sales. Sales of K€ 1,982 were achieved by EM.TV. The sales achieved by EM.TV are shown as domestic sales from an accounting point of view, even though they relate almost exclusively to sales of licences in foreign licence territories.

3. Profit situation

Thanks to the successfully planned and implemented restructuring concept, RTV was able to end the crisis situation that had gone on for several years and was at last able to report positive figures again in its financial statements.

The results before depreciation, interest and taxes (EBITDA) increased by K€ 23,334 to K€ 25,160 (previous year: K€ 1,826). EBIT in the reporting year was K€ 1,845 compared with a loss of K€ 2.860 in the previous year. The pre-tax result was K€ 894 compared with a loss of K€ 4.095. Net income was K€ 876 compared with a loss of K€ 4,095 last year.

This improvement was mainly caused by non-recurring income of K€ 22,935 ensuing as a result of the restructuring programme. This derived chiefly from the remission of receivables on the part of Ravensburger AG, the bank consortium and F&M. Other operating income in the reporting year was K€ 689 (previous year: K€ 590).

Compared with the previous year, depreciation increased by K€ 4,685 from K€ 18,630 to K€ 23,315. This amount includes non-scheduled write-offs of film rights of K€ 20,823. This considerable write-off of film rights results partly from the fact that, due to the additional grant of distribution rights for the French distribution territory to EM.TV, sales estimates based on individual titles have had to be reduced by the distribution commission payable to EM.TV. An additional factor is that due to the additional grant of distribution rights to Planeta Junior S.L. for the important distribution territories in Italy, Spain and Portugal, sales estimates based on individual titles have had to be reduced by the distribution commission payable to Planeta Junior S.L. Moreover, due to the co-operation agreements concluded with Videal, from the middle of 2005 Videal is now entitled to 50% of the sales receipts from ten jointly produced programmes that had to be considered when valuing these programmes. The sales prices assumed in the last few years have had to be reduced due to changed market conditions and the assumptions regarding the classification of the programmes in the individual markets have also had to be adjusted.

4. Assets and finance situation

The total balance sheet amount declined in comparison with the previous year by K€ 24,048 to K€ 12,207 (prior year: K€ 36,255). The intangible assets (composed chiefly of assets in the form of films and other rights, including pre-payments made and goodwill) declined by K€ 22,422 to K€ 10,319 (prior year: K€ 32,741). The reduction of the balance sheet was due almost solely to the depreciation of film assets (see section B.3 above for the explanation of this development). K€ 881 was invested in film assets and other rights.

Short-term accounts receivable, trade were reduced from K€ 1,665 to K€ 1,415. They include accounts receivable due from purchasers of programmes by TV stations and distribution co-operation partners and also from D´Ocon.

Shareholders' equity increased in comparison with the previous year by K€ 2,134 to K€ 5,649 (previous year: K€ 3,515). On 31st December 2005, RTV therefore reported a subscribed capital of K€ 6,525 and an accumulated loss of K€ 2,134 versus an accumulated loss K€ 3,010 in the previous year. The shareholders' equity increased sharply due to the non-recurring injection of K€ 1.200 into the capital reserve resulting from the restructuring programme. Further changes in equity are reported in the schedule showing the development of equity.

RTV no longer reported bank liabilities of any kind on 31st December 2005. In the previous year these were K€ 17,121.

RTV has liabilities deriving from a shareholder loan of K€ 2,530 from F&M. The loan is due to be repaid on 31st December 2008.

Other reserves and accrued liabilities were reduced considerably in the course of the year to K€ 49, the high value at the end of last year being due to the creation of reserves of K€ 3,032 established to cover distribution guarantees to Videal, payable in the years 2005 and 2006. It was possible to end the reserves for Videal completely due to the agreement made with this distribution partner as part of the restructuring process.

5. Investments

Investments fell compared to 2004 to K€ 881 (previous year: K€ 1,910). As already explained, the number of international productions declined as a result of the time-consuming and comprehensive restructuring programme carried out in the reporting year.

6. Key financial data

RTV Family Entertainment AG, Ravensburg Key financial data (IFRS)		
	2005 **K€**	**2004** **K€**
Sales	7,403	6,439
EBITDA	25,160	1,826
EBIT	1,845	-2,860
Net profit	876	-4,095
Cash flow DVFA */ SG	-40	-2,071
Total balance sheet amount	12,207	36,255
Value of film assets including pre-payments made	10,319	32,741
Equity	5,649	3,515
Interest-bearing liabilities	2,530	22,421

* German Society for Financial Analysis and Investment Counselling

7. Employees

Seven employees with permanent contracts were on the company's payroll on the balance sheet cut-off date. Personnel expenses in the financial year 2005 were K€ 1,201 (prior year: K€ 932). This increase is due to agreed termination indemnities and the increased transfer to the accrual for bonuses.

RTV Family Entertainment AG, Ravensburg

Number of employees by function (on the balance sheet cut-off date)

	2005	**2004**
Board of Management	1	1
Development / production	1	1
Sales	1	2
Commercial area	2	2
Administration	2	2
Total number of employees	**7**	**8**

C. Annual financial statements in accordance with the German Commercial Code (=HGB)

1. Statement of income

RTV's sales increased by approximately 15% between 2004 and 2005. Personnel expenses are above those of the previous year. Depreciation of intangible assets includes K€ 20,823 for non-scheduled write-offs.

RTV Family Entertainment AG, Ravensburg Statement of income (according to German Commercial Code/HGB)		
	FY 2005 K€	**FY 2004 K€**
Sales	7,403	6,439
Other operating income	1,582	995
	8,985	**7,434**
Cost of materials	-1,132	-456
Personnel expenses	-1,114	-1,019
Other operating expenses /other taxes	-4,473	-4,151
EBITDA	**2,266**	**1,808**
Depreciation	-23,315	-4,686
EBIT	**-21,049**	**-2,878**
Financial result	-951	-1,248
Extraordinary income/ expense	22,995	45
Taxes	18	-
Net income (previous year net loss)	**977**	**-4,081**
Loss brought forward	-2,989	-2,406
Withdrawals from other profit reserves	-	3,498
Accumulated loss	**-2,012**	**-2,989**

2. Balance sheet

Intangible assets were K€ 10,319 on 31st December 2005 compared with K€ 32,741 in the previous year and decreased accordingly by approximately 68.5%. The write-down of film rights was mainly responsible for this decline. Unscheduled depreciation of film assets was K€ 20,823. Accounts receivable, trade were K€ 1,426 (previous year: K€ 1,748) and include mainly receivables due from the RTL-group and from D'Ocon.

As a result of the restructuring measures carried out, liabilities to banks, which on 31st December 2004 amounted to K€ 17,121, were completely eliminated during the course of 2005. Further, as a result of the restructuring, liabilities due to affiliated companies were reduced from K€ 5,799 to K€ 2,530. Accounts payable, trade were also reduced considerably, from K€ 3,220 to K€ 1,760.

RTV Family Entertainment AG, Ravensburg

Balance sheet on 31st December 2005 (according to German Commercial Code/HGB)

	31/12/05 K€	31/12/04 K€
ASSETS		
Intangible assets	10,319	32,741
Property, plant and equipment	25	37
Financial assets	–	129
Accounts receivable, trade	1,426	1,748
Accounts due from affiliated companies	27	–
Other assets	75	56
and deferred charges and prepaid expenses		
Liquid funds	323	1,670
Total assets	**12,195**	**36,381**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Capital subscribed	6,525	6,525
Capital surplus	1,200	–
Accumulated loss	-2,012	-2,989
Reserves and accrued liabilities	824	5,804
Liabilities to banks	–	17,121
Advance payments received	1,168	504
Accounts payable, trade	1,760	3,220
Accounts due to affiliated companies	2,530	5,799
Other liabilities	200	397
Total liabilities and shareholders' equity	**12,195**	**36,381**

D. Report on business risks

1. General business risk

Fluctuations of future business results

Fluctuations in RTV's sales and operating profit during the year and also from year to year are certainly possible – as they are generally with film and television production companies. These fluctuations have a variety of causes such as, for example, the degree and timing of the completion of new productions, the degree and timing of the sales of films and television rights, as well as market and competitive influences on the demand for products and consequently on sales prices.

2. External risks/ market risk

Competition-related risks

Even though the first signs of an increase in demand are discernable, the film and television market in which RTV operates is still characterised by a process of consolidation and concentration both among producers and customers. These developments can have implications on the demand for productions. TV stations and groups of stations in particular look far more thoroughly at the profit contributions of the programmes they broadcast than they did in the past. This, together with the increasing number of repeats of individual programmes in the industry, leads to a more efficient use of companies' own programme resources and accordingly to reduced investment in new projects. This process is particularly marked in the field of children's programmes. Moreover, external factors such as current consumer and leisure behaviour and basic shifts in the advertising market influence the stations' purchasing policy.

3. Business performance risks / litigation risk

a) Risks in the production of programmes

The development and production of formats and television broadcasts is generally highly cost-intensive and consequently entails a considerable financial risk. The availability of adequate resources for the development of programmes and their production is therefore a basic pre-condition for the company's business actions.

Co-production risk:

RTV hedges its risks in completing co-productions on the one hand by the careful selection of established and reliable co-production partners and service-providers as well as by hedging instruments such as insurance policies or completion bonds. RTV also carries out regular checks during the production on both finances and content. Nevertheless, completion time slippages can occur on individual projects, which can lead to the postponement of sales and profit from one accounting period to the next.

Production-to-order:

As the producer of a made-to-order production, the company is responsible for carrying out the production according to contract and generally receives a fixed price in return from the client. Should the producer have wrongly estimated the costs of the production or should unplanned costs arise, he therefore carries the risk of possible budget overruns. In the case of a licence production, the producer carries the full financing risk right through to the delivery of the complete product. Should the production be delivered according to contract, the costs of production and, where applicable, profit are covered by the licence fee. However, should the budget not be covered or not fully covered by licence sales, then the producer carries the risk of the resulting loss.

b) Risks in the purchase and marketing of programmes

RTV tries to recognise trends in the programme area and in TV stations' requirements as early as possible and to design its own product range accordingly. In doing this, the company has to take account of TV stations' currently restrictive purchasing policy and its own limitations as regards investment possibilities and the provision of security for its productions. The company has concluded a variety of contracts with licensors for the licensing of programmes. The company carries in the first instance the general contractual risk, such as the risk of (non)-fulfilment. Moreover, a variety of copyrights and ancillary copyrights have to be transferred to the relevant customers as part of the contract. The company must therefore ensure in its contracts with those involved in the production of the particular programme that in order to avoid infringements of industrial property rights (e.g. rights of copyright, licence and personality), the necessary copyrights and ancillary copyrights are transferred to it. Even though the company uses internal and external legal advice, the possibility can never be excluded that third-parties will assert claims relating to the above-mentioned rights, something which could have extremely negative implications for the company's asset, financial and profit situation.

4. Financial risks

a) Access to external sources of finance

Thanks to the successful implementation of the restructuring programme, all liabilities to banks have been paid off. No external financing in the form of bank loans is currently used. However, as part of the planned expansion of its business activity, the company is considering using external financial sources again.

b) Exchange rate fluctuation, exchange rate hedging transactions

Since RTV's programmes are generally produced abroad, a large part of the costs are incurred in currencies other than the Euro, i.e. chiefly in US dollars. RTV concludes, as the situation requires, currency forward contracts in order to hedge the risk of currency fluctuations and interest rate swaps against the risk of interest rate fluctuations.

5. Risk management

In accordance with German Law requirements on Control and Transparency Within Companies (abbreviated in German to KonTraG), all general and business risks are regularly listed, evaluated and measures established in order to minimise risks.

In particular, RTV's risk management is based on three basic considerations: liquidity and cash management, control of distribution and sales and balance sheet controlling. All major operating and structural risks of RTV's business activity are monitored by ensuring the regular and systematic control of these areas. The overall responsibility for monitoring these risks lies with the company's CEO.

The goal of liquidity and cash management is the continuous examination and assurance of the company's ability to meet its obligations. Liquidity and cash management is based on three reports – the cash flow plan, business planning and a report on the management of debtors – which are constantly updated.

The goal of controls in the areas of distribution and sales is to recognise, to quantify and to tap the company's sales potential though the planning and the co-ordination of sales activities. This ensures that realisable medium-term sales potential is recognised, that in the medium-term expenses and investments are covered by realisable income and that a realistic cash flow plan can be prepared. In addition, the company's sales activities are planned on the basis of the sales budget. Parallel to this, these figures are checked for their plausibility against the company's rights.

The goal of balance sheet controlling is the monitoring of balance sheet items in order to recognise necessary corrective measures in time, especially an under-recovery of equity. Balance sheet controlling has three pillars - the audited financial statements, the half-yearly financial statements and continuous checks on the balance sheet.

E. Events of particular significance after the end of the financial year

On 10th February 2006, the company published under the following ad hoc notice under the title "Restructuring of RTV formally and successfully concluded" in accordance with § 15 of the German Securities' Trading Law (abbreviated in German to WpHG):

"The Federal Financial Services Supervision Authority (abbreviated in German to BaFin) had in its judgement of Friday 14th October 2005 approved an application lodged by F&M Film und Medien Beteiligungs GmbH ("F&M") in Vienna and F&M's sole shareholder, Dr. Stefan Piëch, to secure exemption from the requirement to offer to buy the shares of the outside shareholders in accordance with § 37 of the of the German Securities' Trading Law. This exemption was subject to the dissolving condition and the proviso of cancellation that the essential contributions of the parties involved in the restructuring programme be carried out by 31st December 2005. RTV Family Entertainment AG ("RTV") hereby announces that all contributions in the restructuring concept have been carried out by all the participants and that the dissolving conditions have not arisen. The applications approved by the Federal Agency for the Supervision of Financial Services to secure exemption from the requirement to offer to buy the shares of the outside shareholders therefore retain their validity ..."

On 16th February 2006, the company published the following ad hoc notice under the title "Change in the membership of RTV Family Entertainment AG's Supervisory Board" in accordance with § 15 of the German Securities' Trading Law:

"By judgement of the District Court - Registrar of Companies I - in Ravensburg passed on 9th February 2006 and received by the company today, Dr. Stefan Piëch, resident in Vienna, is appointed as the new Supervisory Board member of RTV Family Entertainment AG ("RTV") in accordance with § 104 of the German Companies Act (AktG) in conjunction with § 145 of the

German Voluntary Jurisdiction Law (FGG). The previous deputy chairman of the Supervisory Board, Frank Mallet, chairman of Ravensburger AG in Ravensburg, and the substitute Supervisory Board member, Dr. Wolfram Freudenberg, resident in Stuttgart, had earlier resigned their Supervisory Board posts with effect from 31st January 2006. The resignation of Mr Mallet and Dr Freudenberg and the appointment of Dr Piëch as the new member of the Supervisory Board are to be viewed in the context of the successful restructuring of RTV. As explained in the ad hoc notice issued on 14th October 2005, Ravensburger AG had sold its majority shareholding in RTV to F&M Film und Medien Beteiligungs GmbH in Vienna. Dr Stefan Piëch is the managing director and sole shareholder of F&M Film und Medien Beteiligungs GmbH. The CEO and the Supervisory Board warmly thank both retiring members for their long-standing activity and especially for their constructive support of the restructuring programme last year."

F. Outlook

Based on an almost complete elimination of debt, the year 2006 will be marked by a low-risk growth strategy. The strengthening of the company's existing core business lines will be governed largely by liquidity aspects.

RTV can fall back on its internationally marketable library of children's programmes, its potential in the home video/DVD field, which has to date only been partially exploited, and its experience in the production and programme business and the relationships that have grown up over this period.

The company's plans foresee that it will continue to operate in the established business lines of license trading, co-productions and productions-to-order. RTV has concluded long-term distribution agreements with EM.TV and Planeta Junior S.L. These ensure that RTV will receive regular cash inflows from sales in the relevant distribution territories during next year.

A further goal is the extension of RTV's core business division, production-to-order. The trend initiated last year of developing and producing externally-financed entertainment programmes is to be continued and expanded. The goal here is to increase the number of formats implemented in the last reporting period.

It is planned to prepare for future sales areas by extending RTV's range of programmes on offer to new business lines.

The strategic considerations underlying the company's new direction are based on the development of the market during the last few years and the changes observed in TV supply. The contents of programmes for children and for young people are considerably more similar than in the past. This extended segment of children's / young persons' target groups is again enjoying greater interest in sellers' station and programme strategies than was the case some years ago. New viewing areas have been created in both Free-TV and Pay-TV, for which attractive programme contents are required.

RTV's long-term goal is to once again attain the position of a strong player in this market.

During the course of 2006 the company's name will be changed and a new corporate identity designed.

G. Dependent companies' report

The Board has prepared the report on RTV's relations with affiliated companies (dependent companies' report) for the financial year 2005 and submitted it to this auditors. The chairman declares that, under the circumstances known to it at that time, the company received an adequate return for all legal transactions listed in this report.

Ravensburg, 17th February 2006

The Board of Management

Company financial statements

RTV Family Entertainment AG, Ravensburg

Balance Sheet on 31st December 2005 (IFRS)

ASSETS	Notes (III)	31/12/05 €	31/12/04 €
LONG-TERM ASSETS			
Intangible assets			
IT-software		–	–
Film assets and other rights	1	10,319,372.10	32,740,803.93
Goodwill	2	–	–
		10,319,372.10	32,740,803.93
Property, plant & equipment			
Other equipment, operational and office equipment		25,307.00	37,339.00
Financial assets	3		
Shares in affiliated companies		–	–
Investments		–	–
Other long-term receivables	5	62,311.22	121,466.82
		10,406,990.32	**32,899,609.75**
CURRENT ASSETS			
Accounts receivable and other assets			
Accounts receivable, trade		1,414,696.46	1,664,521.84
Accounts due from affiliated companies	6	27,023.00	–
Other assets	7	35,168.28	17,645.96
		1,476,887.74	1,682,167.80
Cash on hand and balances at banks	8	322,943.05	1,673,433.30
		1,799,830.79	**3,355,601.10**
Total assets		**12,206,821.11**	**36,255,210.85**

RTV Family Entertainment AG, Ravensburg Balance Sheet on 31st December 2005 (IFRS)			
LIABILITIES & SHAREHOLDERS' EQUITY	**Notes (III)**	**31/12/05 €**	**31/12/04 €**
SHAREHOLDERS' EQUITY	9		
Capital subscribed	10	6,525,488.00	6,525,488.00
Capital reserve	11	1,257,939.39	–
Accumulated loss		–2,134,206.44	–3,010,160.33
		5,649,220.95	**3,515,327.67**
LONG-TERM RESERVES & ACCRUED LIABILITIES AND LIABILITIES			
Reserves and accrued liabilities			
Pension reserves	17	410,844.84	360,710.93
Other reserves & accrued liabilities	18	26,100.00	1,450,012.00
		436,944.84	1,810,722.93
Liabilities	19		
Accounts due to affiliated companies	20	2,530,000.00	–
		2,966,944.84	**1,810,722.93**
SHORT-TERM RESERVES & ACCRUED LIABILITIES AND LIABILITIES			
Reserves and accrued liabilities			
Pension reserves	17	28,946.16	29,482.07
Other reserves & accrued liabilities	18	22,900.00	3,119,800.00
		51,846.16	3,149,282.07
Liabilities	19		
Liabilities due to banks	21	–	17,121,037.88
Advance payments received on account of orders		1,168,317.78	504,091.78
Accounts payable, trade		1,759,427.93	3,219,490.26
Accounts due to affiliated companies	20	–	5,673,544.12
Other liabilities	22	611,063.45	1,261,714.14
		3,538,809.16	27,779,878.18
		3,590,655.32	**30,929,160.25**
Total liabilities and shareholders' equity		**12,206,821.11**	**36,255,210.85**

RTV Family Entertainment AG, Ravensburg

Income Statement 2005 (IFRS)

	Notes (IV)	FY 2005 €	FY 2004 €
Sales	1	7,403,148.76	6,439,098.83
Other operating income	2	688,990.28	590,157.54
		8,092,139.04	**7,029,256.37**
Cost of materials	3		
a) Cost of raw materials, supplies and trading stock		178.02	187.16
b) Cost of purchased services		1,131,898.89	455,644.47
		1,132,076.91	455,831.63
Personnel expenses	4		
a) Salaries		1,046,919.27	805,556.64
b) Social security contributions		74,073.59	94,091.37
c) Pension expenses		80,470.79	32,415.07
		1,201,463.65	932,063.08
Depreciation, amortisation and write-offs of intangible assets and property, plant & equipment		23,315,011.42	4,685,589.00
Other operating expenses	5	3,593,642.19	3,816,153.41
Income from the re-structuring programme	6	22,995,342.59	-
Earnings before interest and tax (EBIT)		**1,845,287.46**	**-2,860,380.75**
Other interest and similar income		5,499.61	21,024.68
Interest and similar expenses	7	956,971.82	1,255,696.98
Result of financial operations		-951,472.21	-1,234,672.30
Result from ordinary operations (EBT)		**893,815.25**	**-4,095,053.05**
Taxes on income	8	17,861.36	58.02
Net income (Previous year: net loss)		**875,953.89**	**-4,095,111.07**
Result per share per IAS 33 (diluted and undiluted)	9	0.13	-0.63
Weighted number of shares	9	6,525,488	6,525,488

RTV Family Entertainment AG, Ravensburg Cash flow statement (IFRS)		
	2005 **K€**	**2004** **K€**
1. Cash flow from current business activities		
Net income for the year before taxes	894	-4,095
Write-off of film assets and other rights	23,303	4,665
Depreciation of other items of fixed assets	12	20
Interest income	-5	-21
Interest expense	957	1,256
Change in long-term reserves & accrued liabilities	50	-1,838
Income from the restructuring programme	-22,995	–
Other expenses and income not affecting cash flow	-1,304	-809
Cash flow before changes in net current assets	912	-822
Decrease of accounts receivable, trade	747	1,583
Increase in accounts due to affiliated companies	-27	–
Increase / decrease in other assets	-19	112
Decrease in accounts payable, trade	-858	-128
Increase / decrease in short-term reserves & accrued liabilities	-2,830	2,681
Increases in other liabilities	1,164	619
Cash flow generated from current business activity	-911	4,045
Ingoing payments of interest	5	24
Outgoing payments of interest	-745	-995
Outgoing payments of taxes	-18	–
Cash flow from current business activity	**-1,669**	**3,074**
2. Cash flow from investment activities		
Outgoing payments for investments in property, plant & equipment	–	-8
Outgoing payments for investments in film assets and other rights (including pre-payments made)	-881	-1,902
Cash flow from investment activities	**-881**	**-1,910**
3. Cash flow from financing activities		
Incoming payments from equity injections	1,200	–
Cash flow from financing activities	**1,200**	**–**
4. Cash resources at the end of the accounting period		
Changes affecting cash flow	-1,350	1,164
Cash resources at the end of the accounting period	1,673	509
Cash resources at the end of the accounting period	**323**	**1,673**

RTV Family Entertainment AG, Ravensburg

Development of shareholders' equity (IFRS)

	Capital subscribed K€	Capital reserve K€	Earned surplus K€	Accumulated profit/loss K€	Shareholders' equity K€
31.12.2003 / 1.1.2004	**6,525**	**–**	**3,498**	**–2,413**	**7,610**
Withdrawals from other earned surplus	–		–3,498	3,498	–
Net income for the year	–	–	–	–4,095	–4,095
31.12.2004/1.1.2005	**6,525**	**–**	**–**	**–3,010**	**3,515**
Payment from Ravensburger AG	–	1,200	–	–	1,200
Transfer in accordance with IFRS 2	–	58	–	–	58
Net income for the year	–	–	–	876	876
31/12/05	**6,525**	**1,258**	**–**	**–2,134**	**5,649**

RTV Family Entertainment AG, Ravensburg

Development of fixed assets 2005 (IFRS) Costs of acquisition and manufacture

	Costs of acquisition and manufacture (historic costs)					
	1/1/2005 €	Cancellation of goodwill €	Additions €	Rebooking €	Disposals €	31/12/05 €
Intangible assets						
IT-software	123,965.05	–	–	–	–	123,965.05
Film assets and other rights	133,047,306.68	–	881,547.59	–	281,967.24	133,646,887.03
Goodwill	2,000.00	–2,000.00	–	–	–	–
	133,173,271.73	–2,000.00	881,547.59	–	281,967.24	133,770,852.08
Property, plant and equipment						
Other equipment, operational and office equipment	835,254.82	–	–	–	–	835,254.82
Financial assets	1,598,954.39	–	–	–	1,598,954.39	–
	135,607,480.94	**–2,000.00**	**881,547.59**	**–**	**1,880,921.63**	**134,606,106.90**

RTV Family Entertainment AG, Ravensburg

Development of fixed assets 2005 (IFRS) Accumulated depreciation and value in the balance sheet

	Accumulated depreciation					Balance sheet value 31/12/05 €
	1/1/2005 €	Cancellation of goodwill €	Additions €	Disposals €	31/12/05 €	
Intangible assets						
IT-software	123,965.05	–	–	–	123,965.05	–
Film assets and other rights	100,306,502.75	–	23,302,979.42 [1)]	281,967.24	123,327,514.93	10,319,372.10
Goodwill	2,000.00	–2,000.00	–	–	–	–
	100,432,467.80	–2,000.00	23,302,979.42	281,967.24	123,451,479.98	10,319,372.10
Property, plant and equipment						
Other equipment, operational and office equipment	797,915.82	–	12,032.00	–	809,947.82	25,307.00
Financial assets	1,598,954.39	–	–	1,598,954.39	–	–
	102,829,338.01	**–2,000.00**	**23,315,011.42**	**1,880,921.63**	**124,261,427.80**	**10,344,679.10**

1) Including unscheduled depreciation of €20.823.078,54

RTV Family Entertainment AG, Ravensburg

Development of fixed assets 2004 (IFRS) Costs of acquisition and manufacture

	Costs of acquisition and manufacture (historic costs)					
	1/1/2004	Cancellation of goodwill	Additions	Rebooking	Disposals	31/12/04
	€	€	€	€	€	€
Intangible assets						
IT-software	123,965.05	–	–	–	–	123,965.05
Film assets and other rights	131,052,528.14	–	1,902,307.42	92,471.12	–	133,047,306.68
Goodwill	2,000.00	–	–	–	–	2,000.00
Pre-payments made	92,471.12	–	–	-92,471.12	–	0.00
	131,270,964.31	–	1,902,307.42	–	–	133,173,271.73
Property, plant and equipment						
Other equipment, operational and office equipment	827,047.34	–	8,207.48	–	–	835,254.82
Financial assets	1,598,954.39	–	–	–	–	1,598,954.39
	133,696,966.04	**–**	**1,910,514.90**	**–**	**–**	**135,607,480.94**

RTV Family Entertainment AG, Ravensburg

Development of fixed assets 2004 (IFRS) Accumulated depreciation and value in the balance sheet

	Accumulated depreciation					Balance sheet
	1/1/2004	Cancellation of goodwill	Additions	Disposals	31/12/05	value 31/12/04
	€	€	€	€	€	€
Intangible assets						
IT-software	122,692.05	–	1,273.00	–	123,965.05	–
Film assets and other rights	95,641,056.23	–	4,665,446.52 2)	–	100,306,502.75	32,740,803.93
Goodwill	2,000.00	–	–	–	2,000.00	–
Pre-payments made	–	–	–	–	–	0.00
	95,765,748.28	–	4,666,719.52	–	100,432,467.80	32,740,803.93
Property, plant and equipment						
Other equipment, operational and office equipment	779,046.34	–	18,869.48	–	797,915.82	37,339.00
Financial assets	1,598,954.39	–	–	–	1,598,954.39	–
	98,143,749.01	**–**	**4,685,589.00**	**–**	**102,829,338.01**	**32,778,142.93**

Notes to the company financial statements

I. General notes

1. General information

RTV Family Entertainment AG has its registered offices in Ravensburg, Germany at Robert-Bosch-Strasse 1. The company runs its business operations chiefly from rented premises in Munich at Cuvilliéstr. 14a. The company is registered in the Commercial Register of the District Court of Ravensburg under HRB 2027. The company's activities include the production of television films, the trade in films and rights and the marketing of its own and third-party ancillary rights. The company's business activities are divided into the fields of licence sales/production and merchandising.

The company has prepared financial statements for the year ending 31st December 2005 for publication purposes in accordance with § 325 section 2a of the German Commercial Code, based on the international accounting standards as described in § 315a section 1 of the Code. The commercial law requirements applicable under § 325 section 2a of the Code were also taken into account. The accounting rules considered to be valid were those established in IFRS (International Financial Reporting Standards) as they are required to be applied within the EU. In the previous year the company prepared consolidated financial statements in accordance with international accounting standards on the basis of the IFRS of the IASB (International Accounting Standards Board). Since the company no longer had any subsidiary companies as of 31st December 2005, the conditions for the preparation of group financial statements within the meaning of § 290 of the German Commercial Code no longer existed.

Since there exists a commercial identity with the group financial statements produced on 31st December 2004 following the merger of RTV Film + TV GmbH and RTV Family Entertainment Produktions GmbH with RTV Family Entertainment AG on 1st January 2005, the data contained in the consolidated financial statements on 31st December 2004 was adopted as the prior year data.

2. Accounting

a) IFRS rules

RTV Family Entertainment AG’s company financial statements for the financial year from 1st January to 31st December 2005 were prepared on the basis of International Financial Reporting Standards (IFRS) laid down by the International Accounting Standards Board (IASB). All of the standards valid within the EU on the balance sheet cut-off date were applied.

However, the company has not applied the following standards and IFRIC interpretations, which have been issued but whose application is not yet mandatory:

IAS 39 and IFRS 4 Amendments to IAS 39
"Financial Instruments: Recognition and Measurement"
- Amendments "Fair Value Option and Cash Flow Hedge Accounting"
  Amendments to IFRS 4 "Insurance Contracts" - Amendments
"Financial Guarantee Contracts"

IFRS 6 "Exploration for and evaluation of mineral resources"
IFRS 7 "Financial Instruments: Disclosures"
IFRIC 4 "Determining whether an arrangement contains a lease"
IFRIC 5 "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds"
IFRIC 6 "Liabilities arising from participating in a specific market - waste electrical and electronic equipment"

However, these standards and interpretations will probably have no major impact on the company’s financial statements.

In addition, the following standards have already been approved by the IASB but have not yet been endorsed by the European Union:

IAS 21 "The Effects of Changes in Foreign Exchange Rates" -
Amendment "Net investment in a foreign operation"

IFRIC 7 "Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies"
IFRIC 8 "Scope of IFRS 2"

The company also anticipates no material impact on its financial statements from the application of these standards in the future.

The management report on the financial statements was prepared in accordance with § 289 of the German Commercial Code. As required by § 325 section 2a sentence 4 of the Commercial Code, the management report also dealt in sufficient detail with the company financial statements, which were prepared in accordance with IFRS accounting standards.

The company's financial statements were prepared under the going-concern assumption.

The statement of income was prepared in accordance with the cost-summary method.

The company financial statements were prepared in Euro. Should nothing to the contrary be stated, the amounts reported in the notes to the financial statements, the schedule of shareholders' equity and the cash flow statement are basically shown in thousand Euros (K€).

With the exception of financial assets available for sale, which are shown at their fair value, the company financial statements were prepared on the basis of the historic costs of acquisition.

b) Particular factors specific to the industry

Since neither the provisions of the German Commercial Code nor those of IFRS take account of factors specific to the film and media industry, the valuation and the accounting treatment of film assets and other rights was, as in the previous year, carried out on the basis of the US ruling SOP 00-2 (Accounting by Producers or Distributors of Films). The stipulations of US-GAAP were only applied to the extent that are not contrary to existing IFRS requirements.

II. Accounting treatment and valuation principles

1. Balance sheet

Film assets and other rights are shown at their updated costs of acquisition. Depreciation is booked in line with the use of the film rights. A share of depreciation is posted in every accounting period, based on the share of sales achieved during the financial year in relation to the use still planned for the film rights including the sales achieved during the financial year. A maximum period of use of ten years is assumed in calculating the use still planned for the film rights.

In previous years, the film rights were depreciated over a uniform period of ten years as a matter of principle according to the straight line depreciation method.

IT software is shown at the cost of acquisition minus scheduled depreciation. A depreciation period of three years is applied.

Property, plant and equipment are shown at the costs of acquisition less scheduled depreciation. The period of depreciation reflects the useful life of the assets customary in the industry. In the case of operational and office equipment, this is ten years.

The sustainability of the book values of all intangible assets and all items of property, plant and equipment is checked at the end of each financial year if the situation or changing circumstances suggest that the book value of these assets could not be achieved. A value impairment is treated as a charge on current profit if the realisable value is lower than the book value. The realisable value is the higher of the net sale price of the asset and its value in use. The net sale price is the amount that could be realised on the sale of the asset under normal market conditions, minus the costs of the sales transaction. The value in use is the present value of the estimated future cash flows, which may be anticipated from the continued use of an asset and its disposal at the end of the period of use. The realisable value is calculated individually for each asset or, should this not be possible, for the cash-generating unit to which this asset belongs.

A write-up is made when there are indications that the value impairment no longer exists or may have been reduced. The write-up is shown as income in the statement of income. However, the increase in value or reduction of the value impairment of an asset is only carried out to the extent that it does not exceed the book value that would have resulted, taking account of the effects of depreciation, when no impairment of value had been recorded in previous years.

According to IAS 39, financial assets are classified into the following categories, (a) financial assets to be held until maturity, (b) financial assets held for trading purposes and (c) financial assets available for sale and loans granted by the company and receivables.

Financial assets with fixed or determinable payments and fixed terms that the company intends to hold and can hold to maturity are, with the exception of loans granted by the company and receivables, classified as financial assets to be held until maturity. Financial assets that were acquired chiefly to realise profits on short-term price or rate fluctuations are classified as financial assets held for trading purposes. All other financial assets, with the exception of loans granted by the company and receivables, are classified as financial assets available for sale.

Financial investments to be held to maturity are classified under long-term assets unless they mature within twelve months of the balance sheet cut-off date. Financial assets held for trading purposes are shown under current assets. Financial assets available for sale are shown as current assets should the company intend to realise them within twelve months of the balance sheet cut-off date.

Sales or purchases of financial assets are shown in the financial statements with the value they had on the trading day.

A financial asset is shown at its cost of acquisition on the first occasion that it is recorded in the accounts, which corresponds with the fair value of what was given in return for it; transaction costs are included unless they relate to financial assets acquired for trading purposes.

Financial assets available for sale and financial assets held for trading purposes are thereafter valued at their fair value based on their quoted market price on the balance sheet cut-off date, without the deduction of possible transaction costs. Gains or losses on financial assets available for sale occurring as a result of subsequent valuations should be shown in a manner that does not impact current profit in a separate equity position. However, gains or losses on financial assets held for trading purposes occurring as a result of subsequent valuations do impact current profit and are shown in the statement of income.

Financial assets are shown at their attributable fair values.

Deferred taxes are established to reflect differences between the fiscal values of assets and liabilities and their values in the company’s financial statements, on the balance sheet cut-off date especially for differences on pension reserves and other reserves and accrued liabilities. Deferred tax assets arising on benefits from loss carry-forwards that have not yet been used are capitalised, provided that future taxable profits can be anticipated with sufficient certainty. Deferred taxes are calculated in the manner laid down in IAS 12.47 on the basis of the tax rates valid in Germany at the time of realisation or applicable in future. Income taxes on items recorded directly under shareholders’ equity should be shown in equity and not in the statement of income. Deferred tax claims and deferred tax liabilities may be set off against each other, provided that a right exists to offset actual tax refund claims against actual tax liabilities that is enforceable in law and that these relate to taxes on the same subject matter and are levied by the same fiscal authority.

Receivables and other assets should be shown at their updated costs of acquisition. Account should be taken of all items to which any risk is attached through the establishment of specific bad debt provisions. Non interest-bearing receivables with a term longer than one year should be discounted.

The pension reserves are calculated in accordance with actuarial principles based on the projected unit credit method. The “Orientation Tables 2005 G” produced by Dr Klaus Heubeck serve as the basis for the calculation. The reserve for the company pension scheme shown in the balance sheet represents the present values of benefits under the scheme. The full amounts of actuarial profits and losses are posted immediately to current income.

Other reserves and accrued liabilities reflect all discernable risks arising from uncertain liabilities. They should be shown with the amount that sensible commercial judgement estimates is required to fulfil them. Reserves and accrued liabilities should be discounted if the resulting effects are material.

Contingent liabilities within the meaning of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” are defined as possible obligations, the actual existence of which must be confirmed by the occurrence of one or several uncertain future events, which cannot be completely influenced. This category covers obligations where there is only a small likelihood that they will result in an outflow of assets or where the degree of asset outflow cannot be reliably qualified. IAS 37 does not require that contingent liabilities be shown in the balance sheet. They should, however, be mentioned should the possibility of an outflow of resources having commercial value be not unlikely.

Liabilities are shown at their updated costs of acquisition.

The company has applied the transitional regulations of IFRS 2 with respect to equity-based pension plans. The company accordingly only applies IFRS 2 in the case of equity-based rights granted after 7th November 2002. Share options granted before 7th November 2002 are therefore not shown either in the balance sheet or in the statement of income (see the notes to conditional capital I and II under III.14/15). Accordingly, these items are not shown in the company financial statements until the options are exercised.

The management of the company receives share-based remuneration for its services in the form of equity instruments (“transactions compensated by equity instruments"). Expenses arising as a result of transactions compensated by equity instruments are valued with the attributable fair value of the equity instruments at the time they were granted. The attributable fair value is calculated on the basis of the current share price on the day of the grant less a liquidity discount (see notes to III.16). Apart from conditions, if any, attached to the company’s share price, no other performance-related conditions for the exercise of the option are considered in valuing transactions compensated by equity instruments.

The expenses arising from transaction compensated by equity instruments are shown with a simultaneous increase in equity by the same amount over the period in which the performance or service conditions are fulfilled. This period ends at the time that the relevant employee becomes irrevocably entitled to benefits. The accumulated transactions compensated by equity instruments reflect the part of the accumulation period already elapsed as well as the number of equity instruments that will ultimately become non-forfeitable at any time in the reporting process up to the time of the first opportunity to exercise the option. The amount charged or credited to the statement of income reflects the development of the accumulated expenses recorded at the beginning and at the end of the reporting period.

Leasing payments made as part of an operating lease arrangement are spread evenly over the term of the leasing relationship, unless some other logical system reflects the flow over time of the benefits to the company as lessee. A leasing relationship is classified as an operating lease when the commercial element in the leasing agreement does not essentially transfer all risks and opportunities associated with ownership of the underlying asset to the company.

All leasing relationships should be regularly reviewed with regard to whether criteria are present to show them as an operating or a finance lease arrangement.

Transactions in foreign currencies are initially converted at the spot exchange rate between the Euro and the foreign currency in question on the day of the transaction. Receivables and liabilities in a foreign currency are valued at the exchange rate on the balance sheet cut-off date. These currency-exchange differences are posted to the current income statement.

Events occurring after the balance sheet cut-off date that supply additional information on the circumstances prevailing at this time should be reflected in the balance sheet. Events after the balance sheet cut-off date that do not result in an adjustment, but which are material should be mentioned in the notes to the financial statements.

2. Statement of income

Sales achieved through trading in TV rights are recorded at the time of their transfer to the licensee, provided that all obligations may essentially be regarded as having been fulfilled, i.e. the TV series or TV programmes are at the disposal of the licensee or only have to be requested by him. It is irrelevant for the timing of the realisation of the sale that the rights are not used by the licensee until a later date. Sales from co-productions are realised after the completion of the film. In the case of productions-to-order, sales are realised on the completion and the acceptance of the individual episodes.

In the merchandising area, the guaranteed income is shown at the time the contract is signed or at the beginning of the relevant license period. Income that is solely sales-related is shown as realised at the time the licensee realises sales.

According to IAS 18, discounting of trade accounts receivables by a company during the financial year should be deducted from sales revenue, so that financing aspects are considered in reporting the sales revenue.

III. Detailed information on the balance sheet

The development of the individual items of fixed assets may be seen in the special summary "Development of fixed assets".

1. Film assets and other rights

Due to the impairment tests carried out every year, K€ 20,823 (previous year: K€ 2,227)of unscheduled write-offs of film assets were carried out. Each individual film right was considered in this process and its realisable value estimated. The key assumptions used at the individual title level are the possibility of placing the film, its category (ABC-analysis), the realisable sales in each country and the remittable distribution commissions. As a basic rule, the present value of the estimated future cash flows are used (9.5% p.a.).

2. Goodwill

The goodwill shown in last year's group financial statements, which has since been fully written off, related to RTV Family Entertainment Produktions GmbH in Ravensburg.

During the reporting period, RTV Family Entertainment GmbH - as the transferring legal entity - was merged on 1st January 2005 (merger date) with RTV Family Entertainment AG as the acquiring legal entity by notarised shareholders' resolution and merger agreement of 4th May 2005 through the transfer of all its assets together with associated rights and obligations and dissolved but not wound up in accordance with §§ 2 ff. of the German Company Reorganisation Law (UmwG) in conjunction with §§ 46 ff., 60 ff. of the same law (merger by absorption). The entry in RTV Family Entertainment AG's Trade Register took place on 2nd June 2005.

The wholly-owned RTV Film + TV GmbH in Ravensburg, which was also consolidated- as the transferring legal entity - in the previous year, was merged on 1st January 2005 (merger date) with RTV Family Entertainment AG as the acquiring legal entity by notarised shareholders' resolution and merger agreement of 4th May 2005 through the transfer of all its assets together with associated rights and obligations and dissolved but not wound up in accordance with §§ 2 ff. of the German Company Reorganisation Law (UmwG) in conjunction with §§ 46 ff., 60 ff. of the same law (merger by absorption). The entry in RTV Family Entertainment AG's Trade Register took place on 2nd June 2005.

3. Financial assets

The item reported related to the fully written-off shares in Golbach Productions GmbH (in liquidation) in Düsseldorf. Insolvency proceedings on the company were opened on 22nd May 2002. The company was wound up and dissolved in 2004. The final distribution of assets took place on 20th January 2005. The company's extinction was entered in the Commercial Register on 12th July 2005.

4. Deferred taxes

Deferred tax assets were provided for as follows:

RTV Family Entertainment AG, Ravensburg Deferred taxes (IFRS)		
	31/12/05 **K€**	**31/12/04** **K€**
Temporary differences from the company financial statements	73	1,494
Loss carry-forwards	29,933	29,933
	30,006	**31,427**
Value adjustment	30,006	31,427
	-	-

Since the utilisation of the deferred tax assets is not anticipated in the near future, the full amount was value adjusted. Loss carry-forwards which were not considered at the time the capitalisation was made amount to K€ 6,764 (previous year: K€ 2,552) for Corporation Tax and K€ 5,469 (previous year: K€ 1.572) for Trade Tax. Due to the non-recognition of fiscal loss carry-forwards, the previous year's figures were reduced by K€ 5,115 and K€ 5,138 respectively. The temporary differences not considered at the time of the capitalisation are K€ 0 (previous year: K € 839).

The deferred taxes in the company financial statements arising due to temporary differences are made up as follows:

RTV Family Entertainment AG, Ravensburg Deferred taxes (IFRS)		
	31/12/05 **K€**	**31/12/04** **K€**
Deferred tax liabilities		
Accounts receivable, trade	-5	-
Deferred tax assets		
Other assets	6	-
Pension reserves	40	17
Other reserves and accrued liabilities	32	1,820
	73	**1,837**

Deferred tax assets and liabilities were netted against each other. The resulting overhang of deferred tax assets was value adjusted.

5. Other long-term receivables

All receivables having a term of more than one year are classified as long-term. The discounted amount on 31st December 2005 is K€ 8 (previous year: K€ 13). These receivables relate to licence sales and covering capital funds in connection with re-insurance policies.

6. Accounts due from affiliated companies

The accounts due from affiliated companies relate to the principle shareholder F&M Film und Medien Beteiligungs GmbH in Vienna in Austria. They result from transactions on the current clearing account.

7. Other assets

The item "other assets" mainly includes turnover tax claims. An amount of K€ 13 shown in the previous year related chiefly to tax claims in connection with advance payment of investment income tax and solidarity Surcharge for the years 2002 to 2004.

8. Cash on hand and balances at banks

The amount shown of K€ 323 (previous year: K€ 1,673) relates to cash in hand of K€ 1 (previous year: K€ 1), balances on current accounts with banks of K€ 254 (previous year: K€ 1.072) and money-at call of K€ 68 (previous year: K€ 600).

9. Shareholders' equity

For information on this item, we refer to the special statement on changes in shareholders' equity.

10. Capital subscribed

On the balance sheet cut-off date, RTV Family Entertainment AG's share capital remains divided into 6,525,488 individual shares, each with a stake of € 1.00 in the share capital. The company's share capital is therefore unchanged on 31st December 2005 at € 6,525,488.00. The shares are bearer shares. The shares are fully subscribed. The share capital has not changed for the last three years.

Ravensburger AG in Ravensburg sold its 5,825,385 shares (= 89.27 % of the share capital) and the membership rights in F&M Film and Medien Beteiligungs GmbH associated with these shares as part of the comprehensive restructuring plan. The Board of Management of RTV Family Entertainment AG published the following announcements in the German Stock Exchange Gazette ("Börsenzeitung") in accordance with § 25 section 1 of the German Securities Transfer Law on 3rd November 2005:

"Dr Stefan Piëch (of Vienna in Austria) has informed us in accordance with §§ 21 section 1, 22 section 1 sentence nr. 1 of the German Securities Transfer Law that the share of voting rights held by F&M Film und Medien Beteiligungs GmbH (of Vienna in Austria) in RTV Family Entertainment AG (security identification numbers 540891 and 540893), attributed to him in accordance with § 22 section 1 sentence 1 no. 1 of the above law, exceeded the thresholds of 5%, 10%, 25%, 50% and 75% of the voting rights on 26th October 2005 and is now 89.27%."

"F&M Film und Medien Beteiligungs GmbH (of Vienna in Austria) has informed us in accordance with §§ 21 section 1 of the German Securities Transfer Law that its share of the voting rights in RTV Family Entertainment AG (security identification numbers 540891 and 540893) exceeded the thresholds of 5%, 10%, 25%, 50% and 75% of the voting rights on 26th October 2005 and is now 89.27%."

"Ravensburger AG (of Ravensburg in Germany) has informed us in accordance with §§ 21 section 1 of the German Securities Transfer Law that its share of the voting rights in RTV Family Entertainment AG had dropped below the threshold of 75% on 26th October 2005 and that it no longer has voting rights in RTV Family Entertainment AG at its disposal."

Up to the sale of shares by Ravensburger AG, the annual financial statements of RTV Family Entertainment AG were included in the group financial statements of Ravensburger AG on 31st December 2005.

On 31st December 2005, F&M Film und Medien Beteiligungs GmbH owned 89.27% of the share capital.

On 20th January 2005 the Board of Management published a further announcement in the German Stock Exchange Gazette ("Börsenzeitung") in accordance with § 25 section 1 of the German Securities Transfer Law with the following text:

"Mr Markus Rudolf Reischl, resident in Munich in Germany, has informed us in accordance with §§ 21 section 1 of the German Securities Transfer Law that his share of the voting rights in RTV Family Entertainment AG (security identification numbers 540891 and 540893) had exceeded the threshold of 5% of the voting rights on 16th January 2006 and is now 7.66%."

The company announced on 25th January 2006 in the electronic Federal Gazette ("Bundesanzeiger") that Mr Raimund Köhler had informed the company on 16th January 2006 that he had acquired shares in RTV Family Entertainment AG and that his share of the voting rights in the company was now 3.83%. Mr Köhler is a senior employee vested with power of attorney ("Prokurist") and head of its legal department.

11. Capital reserve

As part of the re-structuring plan, Ravensburger AG undertook to make a supplementary payment of K€ 1,200 into RTV Family Entertainment AG's share capital. This amount, which was paid on 18th October 2005, is shown as a capital reserve.

12. Approved capital II

The shareholders' meeting of 4th May 2000 authorised an approved share capital (approved capital II). The Board of Management was empowered, with the Supervisory Board's approval, to increase the share capital by 3rd May 2005 through the issue of new shares against cash, once or on several occasions, up to a maximum nominal amount of € 2,387,500.00. The Board of Management could, with the Supervisory Board's approval, exclude the shareholders' legal subscription right should the issue price of the new shares not have fallen materially below the stock exchange price of the company's shares. The Board of Management has not made use of this authorisation, so the approved capital II expired on 3rd May 2005.

13. Approved capital III

The shareholders' meeting of 23rd May 2001 authorised additional approved share capital (approved capital III). The Board of Management was empowered, with the Supervisory Board's approval, to increase the company's share capital by 22nd May 2006 through the issue of new shares against cash or contributions-in-kind up to € 7,005,885.50. The Board of Management may, with the Supervisory Board's approval, exclude the shareholders' legal subscription right should and to the extent that the new shares have been issued against contributions-in-kind.

The Board of Management may also, with the approval of the Supervisory Board, exclude the subscription right of shareholders on account of fractional amounts.

14. Conditional capital I

On 6th May 1999, an extraordinary meeting of the shareholders authorised a conditional increase in capital of up to € 400,000.00 through the issue up to 400,000 new shares. The new shares are entitled to participate in profits from the beginning of the financial year in which the issue is made. The purpose of the conditional capital increase is to grant (share) option rights to members of the Board of Management and employees of the company. The option rights are not transferable and may not be sold. They may be exercised only as long as the beneficiary is not under notice of termination.

Those entitled to benefit include the members of the Board of Management (at the most 45% of the option rights) and the company's employees (at the most 55%).

The issue of option rights is to take place in annual tranches over a period of three years:

first tranche:	200,000 option rights	up to 30th June 1999
second tranche:	100,000 option rights	up to 30th June 2000
third tranche:	100,000 option rights	up to 30th June 2001

199,500 option rights were issued on 30th June 1999 as part of the first tranche. The average price for the exercise of the share option was fixed at € 51.12.

Those entitled to purchase receive the right to subscribe to one new share of the company for each option right. The option rights may not be exercised until two years after they have been granted. The last year in which the rights may be exercised is restricted to five years after the scheduled date of issue.

The beneficiary may be paid a cash amount instead of the subscription to new shares. The Board of Management decides on whether to exercise this option, or the Supervisory Board, if members of the Board of Management are personally involved.

The shareholders' meeting of 4th May 2000 resolved that of the first tranche of 200,000 option rights, only 199,500 should be issued and the issue of the further 200,000 option rights should be terminated. The share option plan is therefore only valid for the option rights to 199,5000 new shares. The date by which the option rights must be exercised was extended to 30th June 2004.

Following the capital increase from the company's own resources (officially registered on 23rd May 2000), the number of option rights had to be doubled and the issue price halved. The share option plan therefore includes 400,000 option rights, of which 399,000 have been issued. The issue price was accordingly € 25.56.

The shareholders' meeting that took place on 23rd May 2001 decided that that the conditional increase in capital should only be carried out to the extent that the holders of option rights make use of their rights. The new shares participate in profits from the beginning of the financial year in which they were created as a result of the exercise of option rights. The date by which the option rights must be exercised was extended to 30th June 2009. Departing from the rule according to which option rights may only be exercised as long as the beneficiary is not under notice of termination, the option rights for which the waiting period had already expired at the time the letter of termination was received may be exercised by the holder within a further grace period of six months from the date the letter of termination was received.

An extraordinary meeting of the shareholders held on 12th August 2002 resolved that that the conditional capital I should now be € 17,267.00 instead of € 400,000.00. The conditional capital increase will only be carried out provided that the holders of option rights make use of their option right issued under a share option plan in accordance with the resolutions passed by the extraordinary shareholders' meeting on 6th May 1999 amended and extended by resolutions passed by the regular shareholders' meetings held on 4th May 2000 and 23rd May 2001 and the extraordinary shareholders' meeting of 12th August 2002. The new shares are entitled to participate in profits from the beginning of the financial year in which the option rights are exercised.

Following the simplified capital reduction (officially registered on 9th October 2002), the number of option rights had to be divided by 15 and the issue price multiplied by a factor of 15. The share option plan thus includes 17,267 option rights at an issue price of € 383.40.

15. Conditional capital II

On 4th May 2000 an extraordinary meeting of the shareholders authorised a conditional increase in capital of up to € 800,000.00 through the issue of up to 800,000 new shares (conditional capital II). The new shares are entitled to participate in profits from the beginning of the financial year in which the issue is made. The purpose of the conditional capital increase is to grant (share) option rights to members of the Board of Management, employees of the company, members of the company's management bodies and employees of subordinated affiliated companies. The option rights are not transferable and may not be sold. They may be exercised only as long as the beneficiary is not under notice of termination.

Those entitled to benefit include the members of the Management Board (at the most 25% of the option rights) and employees of the company, members of the company's management bodies and employees of subordinated affiliated companies (75% of the option rights at the most).

The issue of option rights is to take place in annual tranches over a period of three years:

first tranche: 400,000 option rights in the period from 1st July up to 15th November 2000

second tranche: 200,000 option rights in the period from 1st July up to 15th November 2001

third tranche: 200,000 option rights in the period from 1st July up to 15th November 2002

Those entitled to purchase receive the right to subscribe to one new share of the company for each option right. Several waiting periods were established for the exercise of the option rights. The waiting period is two years for 40% of the total amount of option rights issued to the individual beneficiaries, three years for a further 30% and four years for the remaining 30%. The option rights under the first tranche may not be exercised before 15th November 2002, those under the second tranche not before 15th November 2003 and those under the third tranche not before 15th November 2004. The dates 15th November 2005, 2006 and 2007 were established as the last dates on which rights may be exercised.

The beneficiary may be paid a cash amount instead of the subscription to new shares. The Board of Management decides on the exercise of this choice, or the Supervisory Board, if members of the Board of Management are personally involved.

Following the capital increase from the company's own resources (officially registered on 23rd May 2000), the number of option rights and the individual tranches had to be doubled. The share option plan thus contained 1,600,000 option rights.

711,500 option rights were issued as part of the first tranche on 4th August and 15th November 2000. The average price for the exercise of the option was fixed at € 22.56.

The shareholders' meeting which took place on 23rd May 2001 resolved that the conditional increase in capital should only be carried out to the extent that the holders of option rights make use of their rights. The new shares participate in profits from the beginning of the financial year in which they arose as a result of the exercise of share options. The date by which the option rights must be exercised was extended for the option rights under the first tranche to 15th November 2011, for the option rights under the second tranche to 15th November 2012 and for the option rights under the third tranche to 15th November 2010. In the event of a termination of the contract of employment, the option rights for which the waiting period had already expired at the time the letter of termination was received may be exercised within a further grace period of six months from the time the letter of termination is received.

396,500 option rights were issued as part of the second tranche on 30th July 2001 at an issue price of € 1.27

The extraordinary meeting of the shareholders held on 12th August 2002 resolved that the conditional capital II should now be € 48,267.00 instead of € 1,600,000.00. The conditional capital increase will only be carried out provided that the holders of option rights make use of their option right issued under a share option plan in accordance with the resolutions passed by the extraordinary shareholders' meeting held on 4th May 2000 amended and extended by resolutions passed by the regular shareholders' meeting held on 23rd May 2001 and the extraordinary shareholders' meeting of 12th August 2002. The new shares are entitled to participate in profits from the beginning of the financial year in which the option rights are exercised.

Following the simplified capital reduction (registered on 9th October 2002) the number of option rights had to be divided by 15 and the issue price multiplied by a factor of 15, so that thereafter the share option plan contains 48,267 option rights at an issue price of € 19.05.

Following the capital reduction, the share option programme (conditional capital I and II) may be summarised as follows:

RTV Family Entertainment AG, Ravensburg
Share Option Programme

	Number of option rights granted 2005	Average subscription price €/unit 2005	Number of option rights granted 2004	Average subscription price €/unit 2004
Stock at the beginning of the financial year	32,600	299.61	36,000	282.89
Expired	8,133	340.07	3,400	119.24
Stock at the end of the financial year	24,467	286.16	32,600	299.61
thereof redeemable	24,467		32,600	

16. Share-based payment transactions in accordance with IFRS 2

Non-tradable shares (security identification number 540893) were sold to the management by F&M Film und Medien Beteiligungs GmbH (see notes under section 10. Subscribed capital). This purchase is covered by IFRS 2.10 ff. The shares purchased must be shown at the attributable fair value of the shares granted. The distribution of the shares and the agreed periods they must be held are as in the following summary.

RTV Family Entertainment AG, Ravensburg Shares held by management				
	Number of shares acquired	**Unrestricted availability from 1st July2006**	**Unrestricted availability from 1st July 2007**	**Unrestricted availability from 17th December 2010**
Markus Reischl	500,000	60,000	90,000	350,000
Raimund Köhler	250,000	30,000	45,000	175,000
Total	**750,000**	**90,000**	**135,000**	**525,000**

Management undertook as a further condition to declare a salary waiver and, should the situation require it, to provide the company with additional liquidity. There are also certain restrictions on availability and re-transfer obligations until 16th December 2010.

In accordance with IFRS 2.11, the date of the grant was 1st December 2005. Since the shares were not tradable, a discount of 22.35% was given on the stock exchange price of the RTV Family Entertainment AG share on the day of the grant (€ 2.38) on account of the lack of liquidity. This discount is derived from the FMV Restricted Stock Study for the years 1980 to 1997 (continuation of an SEC Study).

The attributable fair value of the shares of € 1,387,500.00 is derived from the stock exchange price after deduction of the liquidity discount on the day of the grant (= € 1.85) multiplied by the number of shares purchased (= 750,000 units).

According to IFRS 2, the attributable fair value is to be accumulated pro rate temporis over the term of the share-based remuneration transaction. The expense is shown under personnel expenses and a transfer to the capital reserve of the same amount is made. K€ 58 personnel expense and transfer to capital reserve was shown in the reporting year.

17. Pension reserves

There are on the one hand individual pension commitments and on the other obligations under a pension scheme. The individual commitments relate to pledges made to an eligible employee and to a pensioner, and three commitments deriving from the conversion of bonus entitlements. The individual pension commitments foresee a retirement pension independent of salary developments.

The pension pledges are valued actuarially by means of the projected unit credit method (IAS 19). The following actuarial assumptions are applied in this valuation:

RTV Family Entertainment AG, Ravensburg Actuarial assumptions		
	2005 **%**	**2004** **%**
Interest rate	4.25	5.25
Salary momentum	–	–
Pension adjustments	1.50	1.50
Personnel fluctuation		
Individual commitments	–	–
Pension scheme	–	–

The "Orientation Tables 2005 G" issued by Dr. Klaus Heubeck (previous year "Orientation Tables 1998" issued by Dr. Klaus Heubeck) served as the biometric basis for the calculation.

The present value of K€ 440 of the commitments corresponds to the liability shown in the balance sheet. Current expenses are included fully in the item pension expenses.

The development of the pension reserves is as follows:

RTV Family Entertainment AG, Ravensburg Development of the pension reserves (IFRS)		
	2005 **K€**	**2004** **K€**
1.1.	390	387
Pension payments	29	29
Transfer to the pension reserve	79	32
31.12.	**440**	**390**
Shown under long-term reserves and accrued liabilities	411	361
Shown under short-term reserves and accrued liabilities	29	29

The personnel expenses included in the transfer to the pension reserve is made up as follows:

RTV Family Entertainment AG, Ravensburg		
	2005 **K€**	**2004** **K€**
Expenses of current service	2	1
Interest expense	18	31
Actuarial losses	59	-
	79	**32**

18. Other reserves and accrued liabilities

The other reserves and accrued liabilities developed as follows:

RTV Family Entertainment AG, Ravensburg Other reserves and accrued liabilities (IFRS)	1/1/05 K€	Use K€	Release K€	Increase K€	31/12/05 K€
Long-term reserves & accrued liabilities					
Custody of year-end close documents	26	–	–	–	26
Personnel expenses	1	–	1	–	–
Sales guarantees	1,423	–	1,423	–	–
	1,450	**–**	**1,424**	**–**	**26**
Short-term reserves & accrued liabilities					
Personnel expenses	29	27	2	–	–
Custody of year-end close documents	3	–	–	–	3
Costs of litigation	56	56	–	10	10
Other	–	–	–	10	10
Sales guarantees	3,032	2,767	265	–	–
	3,120	2,850	267	20	23
	4,570	**2,850**	**1,691**	**20**	**49**

Some years ago the company agreed an income guarantee with two contractual partners. The company established in the previous years a reserve for pending losses since, based on sales forecasts, the contractually agreed income could not be reached. Ravensburger AG waived the payment of the income guarantee as part of the restructuring concept so that the long-term portion of the reserve could be released into income. The short-term portion was largely used and relates to the second partner.

19. Liabilities

RTV Family Entertainment AG, Ravensburg Liabilities (IFRS)				
Situation on 31.12.2005	**Remaining term**			**Total**
	less than 1 year	**1 to 5 years**	**More than 5 years**	
	K€	**K€**	**K€**	**K€**
Liabilities to banks	–	–	–	–
Advance payments received on account of orders	1,168	–	–	1,168
Accounts payable, trade	1,760	–	–	1,760
Accounts due to affiliated companies	–	2,530	–	2,530
Other liabilities	611	–	–	611
	3,539	**2,530**	**–**	**6,069**
Situation on 31.12.2004	27,780	–	–	27,780

20. Accounts due to affiliated companies

The accounts payable due to affiliated companies on 31st December 2005 relate solely to F&M Film und Medien Beteiligungs GmbH (K€ 2,530, previous year: K€ 0). This position concerns a loan of € 2,500,000.00 granted as part of the restructuring programme in a contract concluded on 17th October 2005. The loan attracts interest at the rate of 6% p.a. and expires on 31st December 2008. The loan and the interest thereon (2005: K€ 30) must be repaid by 1st January 2009. The overwhelming part of the film library was transferred to the lender by way of security (see the notes under section 21. Liabilities to banks).

The accounts due to affiliated companies shown on 31st December 2004 related almost exclusively to Ravensburger AG. In a declaration made on 6th October 2005, Ravensburger AG waived all of its receivables due from RTV Family Entertainment AG as part of the restructuring plan. These receivables related largely to claims for the repayment of shareholder loans plus interest, trademark licences, distribution guarantees and transfers of income as well as the claim to repayment of the loan amount paid by Ravensburger AG to the Deutsche Bank AG (see the notes under section 21. Liabilities to banks). The total amount of the claims waived was K€ 10,126.

21. Liabilities to banks

Credit lines and their use are as follows:

RTV Family Entertainment AG, Ravensburg Credit lines and their use					
	Remaining term	Credit line		Use	
		31/12/05 K€	31/12/04 K€	31/12/05 K€	31/12/04 K€
Deutsche Bank AG, Ravensburg					
Syndicated credit facility A 53.30 %	31/12/05	–	4,904	–	4,904
Syndicated credit facility B 67.37 %	31/12/05	–	2,884	–	2,631
Deferment agreement					
Interest rate swap		–	825	–	825
Deferment agreement interest		–	541	–	541
Cash advance		–	2,500	–	2,507
Baden-Württembergische Bank AG, Ravensburg					
Syndicated credit facility A 46.70 %	31/12/05	–	4,296	–	4,296
Syndicated credit facility B 32.63 %	31/12/05	–	1,396	–	1,417
		–	**17,346**	–	**17,121**

Syndicated loans/securities:

In a contract concluded on 7th November 2001, RTV Family Entertainment AG was granted a credit facility of K€ 33,230 by the Ravensburg branch of the Deutsche Bank and the Ravensburg branch of the Baden-Württembergische Bank AG managed by the Deutsche Bank. A part of this facility of K€ 23,000 (facility A) was used to pay off the banks' claims relating to an old syndicated loan. The remainder of K€ 10,230 (facility B) served to finance working capital. A part of facility B amounting to K€ 2,560 could only be taken up after the fulfilment of certain pre-conditions. These were fulfilled in February 2002.

Due to the considerable deterioration in the company's commercial situation and the submission of a recovery and restructuring plan, the Deutsche Bank AG and Baden-Württembergische Bank AG waived a part of their claims as lenders of K€ 11,241 and K€ 8,543 respectively in an agreement signed on 20th September 2002. Thereafter, the syndicated loans were available to the company as facility A (K€ 9,200) and facility B (K€ 4,088).

In a credit commitment dated 19th June 2002, the Ravensburg branch of the Deutsche Bank AG granted the company a further facility of K€ 2.500 against a credit order of Ravensburger AG.

It was arranged in the agreement of 20th September 2002 waiving receivables that these loans need not be repaid until after 31st December 2005.

In a contract concluded on 4th/7th/13th/25th July 2003, the credit line of facility B was increased to K€ 4,280 and was agreed once more that repayment of facilities A and B shall not begin until 31st December 2005. Separate repayment agreements will be made between the banks and RTV Family Entertainment AG at the latest by this date. The syndicated quota of facility B was changed from 65.00% to 67.37% (Deutsche Bank AG) and from 35.00% to 32.63% (Baden-Württembergische Bank AG).

Due to the company's threatened insolvency and the submission of a recovery and restructuring plan an agreement to waive receivables was reached on 13th October with the former principle shareholder, Ravensburger AG, the new principle shareholder F&M Film und Medien Beteiligungs GmbH, the Deutsche Bank AG and the Baden-Württembergische Bank, a subsidiary institution of the Baden-Württemberg State Bank, as the legal successor of the Ravensburg branch of the Baden-Württembergische Bank AG. On payment of a redemption fee for the credit order of K€ 3,000, the bank syndicate waived all the receivables to which it was entitled (amongst other things loan claims, deferred interest, interest rate swap) to a total value of K€ 12,007. The loan of K€ 2,500 granted to the company by the Ravensburg branch of the Deutsche Bank in its credit commitment of 19th June 2002 against the credit order of Ravensburger AG was settled by Ravensburger AG on 19th October 2005 in accordance with the agreement to waive receivables mentioned above. Ravensburger AG waived the repayment of the loan amount in a remission agreement of 6th October 2005 with the company.

The loans granted by the bank syndicate were accordingly eliminated in the financial year 2005.

RTV Family Entertainment AG has undertaken to provide, among other things, the following securities as part of the credit order:

- Assignment of all present and future claims and rights from contracts to purchase copyright-protected rights to use film material, ancillary copyrights and other rights
- Assignment of all present and future claims and rights arising from sales contracts relating to marketing and exploitation rights to film material, agency and consignment contracts and sub-licence contracts with other film distribution companies or other third-parties to sell rights of use
- Assignment of all present and future claims and rights from co-operation, production and co-production contracts
- Transfer of all rights of property and possession and claims to the delivery of the relevant film material

In accordance with the above-mentioned agreement of 13th October 2005 to waive receivables and with the company's consent, the securities listed above were transferred by the bank syndicate to F&M Film und Medien Beteiligungs GmbH. 18 programmes were excluded from the transfer of securities to F&M Film und Medien Beteiligungs GmbH. These programmes were transferred by way of security to EM. Entertainment GmbH in order to secure advance payments of future distribution fees made by EM. Entertainment GmbH to the company.

22. Other liabilities

This position relates chiefly to liabilities to employees, liabilities for employee income tax still to be remitted and outstanding supplier invoices.

23. Contingent liabilities

There were no contingent liabilities at the balance sheet cut-off date.

24. Other financial commitments

In a contract concluded on 23rd April 2003, the company arranged the tenancy of new commercial premises in Munich from 1st July 2003. This rental contract gives rise to annual rental commitments of K€ 90. The notice period is six months to the end of a calendar month.

Leasing contracts (cars, IT equipment) give rise to commitments of K€ 44 during the period from 2006 to 2009, of which € 26 relates to 2006.

K€ 46 (previous year: K€ 54) was expensed from operating leases.

Engaged as it is throughout the world in different business lines, the company is subject to a variety of legal risks. In particular, these may include risks in the fields of license law, tax law and other legal disputes. The results of cases currently pending or of future litigation cannot be foreseen with absolute certainty, such that expenses occur as a result of decisions which are not fully covered by insurance policies and could have major implications for the business and its results. In the opinion of the Board of Management, beyond those risks shown as liabilities, no judgements with major negative consequences for the company's asset and profitability situation are to be anticipated from current litigation.

IV. Detailed information on the statement of income

1. Sales

The classification of sales by business line and by region may be found in the divisional reporting section (section VI).

2. Other operating income

This position includes income from the write-off of liabilities and gains on foreign currency transactions of K€ 16 (previous year: K€ 48).

3. Cost of materials

Materials used in the production of films are shown under the cost of raw materials, supplies and trading stock. The expenses of services purchased include chiefly licences, the costs of shooting as well as other costs for the production of the film.

4. Personnel expenses

The company employed 7 people (previous year: 9) on average during the year, of which one (previous year: 1) was the CEO.

5. Other operating expenses

The other operating expenses are made up as follows:

RTV Family Entertainment AG, Ravensburg Other operating expenses (IFRS)	FY 2005 K€	FY 2004 K€
Distribution costs	3,228	3,008
Administration costs	575	531
Rental and leasing costs	139	151
Repairs and maintenance	6	15
Other expenses	195	110
Release of specific bad debt provisions into income	-550	-
Other taxes	1	1
	3,594	**3,816**

Exchange losses were K€ 60 (previous year: K€ 62) an. The transfers to bad debt reserves for accounts receivable, trade was K€ 89 (previous year: K€ 77) and the losses on debtors were K€ 48 (previous year: K€ 0).

6. Income from the restructuring programme

Income from the restructuring refers to the remission of claims on the part of several creditors as part of the comprehensive restructuring plan. Particularly worthy of mention here is Ravensburger AG with K€ 10,126, the Deutsche Bank AG with K€ 7,468 and the Baden-Württembergische Bank with K€ 4,539.

7. Interest and similar expenses

The expense of interest payments to affiliated companies was K€ 212 (previous year: K € 261).

8. Taxes on income

This item includes taxes on income (K€ 18, previous year: € 58.02) and deferred taxes (K€ 0, previous year: K€ 0).

The following postings were made to deferred taxes:

RTV Family Entertainment AG, Ravensburg Booking of deferred tax expense (IFRS)		
	FY 2005 K€	**FY 2004 K€**
Change in deferred tax assets impacting profit	5	–
Change in deferred tax liabilities impacting profit	–5	–
	–	–

K€ 0 (previous year: K€ 0) was deducted from equity without impacting current profit.

RTV Family Entertainment AG, Ravensburg Transition calculation (IFRS)		
	FY 2005 K€	**FY 2004 K€**
Result before taxes on income	894	–4,095
Theoretical tax expense (previous year: tax income) calculated at a tax rate of 40.9% (previous year: 40.9%)	–366	1,675
Change of the theoretical tax income due to:		
foreign withholding taxes	–18	–
non-deductible expenses	–7	–478
non-taxable income	334	–
reversal effect on temporary differences, for which in prior years no deferred tax assets were established or were value adjusted	1,698	–
non-capitalised loss carry-forwards	–1,659	–1,197
Actual tax expense / tax income	**–18**	**–**
Effective tax rate in %	2.0	0.00

The theoretical tax rate (40.9%, previous year: 40.9%) was calculated using a Trade Tax multiplier of 490 (previous year 490), a Corporation Tax rate of 25% (previous year: 25.0%) and the Solidarity Surcharge (5.5% of the Corporation Tax).

9. Earnings per share

The earnings per share is derived according to IAS 33 from the division of the net income for the year by the weighted number of shares.

RTV Family Entertainment AG, Ravensburg Result per share (IFRS)		
	FY 2005	**FY 2004**
Net income for the year in K€	876	-4,095
Weighted number of shares in units	6,525,488	6,525,488
Result per share € (diluted and non-diluted)	0.13	-0.63

No fluctuations in the stock of shares had to be considered in calculating the average number of shares in 2005. A dilution effect did not occur, so that the diluted earnings per share corresponds to the undiluted earnings per share.

V. Notes to the individual positions in the cash flow statement

The company's financial resources include solely liquid funds and are made up as follows:

RTV Family Entertainment AG, Ravensburg Cash resources (IFRS)		
	31/12/05 K€	**31/12/04 K€**
Cash on hand	1	1
Credit balances with banks		
Credit balances on current accounts	254	1,072
Time deposits	68	600
	323	**1,673**

VI. Reporting by business segment

The company's business activities include licence sales/production and merchandising. The division licence sales and programming includes the production-to-order of television films that are shown both by private and public service TV stations, as well as the trading of film rights. The merchandising division includes the full range of services for the marketing and merchandising rights both at home and abroad as performed by an agency.

The business lines constitute the company's primary reporting format. Accordingly, the information required by IAS 14.50 ff. for the company's business lines licence sales / production and merchandising are given.

There are no sales between the divisions.

1. Information by business segment 2005

Information by business line (primary reporting format)

RTV Family Entertainment AG, Ravensburg Sales by segment 2005 (primary reporting format) (IFRS)			
	Lic. sales/prod. **K€**	**Merchandising** **K€**	**Total** **K€**
Sales	4,555	2,848	7,403
Other operating income	589	100	689
Total turnover	5,144	2,948	8,092
Expenses of the division	26,985	2,257	29,242
Divisional results (= operating profit)	**-21,841**	**691**	**-21,150**
Income from the restructuring programme			22,995
Results of financial operations			-951
Taxes on income			18
Net income for the year			**876**
Segment assets 1)	11,884	-	11,884
Segment liabilities 2)	4,028	-	4,028
Investments	881	-	881
Depreciation 3)	23,315	-	23,315

[1] Segment assets = assets side of the balance sheet with the exception of liquid funds.

[2] Segment liabilities = liabilities and reserves and accrued liabilities without financial liabilities.

[3] Thereof non-scheduled depreciation K€ 20,823.

Information by region (secondary reporting format)

The allocation of sales by region is made according to the geographical location of the customers and the allocation of segment assets and investments according to the company's headquarters:

RTV Family Entertainment AG, Ravensburg Segment information by region 2005 (secondary reporting format) (IFRS)				
	Germany K€	Europe K€	Rest of the world K€	Total K€
Sales	7,108	289	6	7,403
Segment assets	11,884	–	–	11,884
Investments	881	–	–	881

2. Segment information 2004

Divisional information by business line (primary reporting format)

RTV Family Entertainment AG, Ravensburg Sales by segment 2004 (primary reporting format) (IFRS)			
	Lic. sales/prod. K€	Merchandising K€	Total K€
Sales	4,004	2,435	6,439
Other operating income	587	3	590
Total turnover	4,591	2,438	7,029
Expenses of the division	7,537	2,352	9,889
Divisional results (= operating profit)	**–2,946**	**86**	**–2,860**
Results of financial operations			1,235
Taxes on income			–
Net income for the year			**–4,095**
Segment assets 1)	34,582	–	34,582
Segment liabilities 2)	10,319	–	10,319
Investments	1,910	–	1,910
Depreciation 3)	4,686	–	4,686

[1] Segment assets = assets side of the balance sheet with the exception of liquid funds.

[2] Segment liabilities = liabilities and reserves and accrued liabilities without financing liabilities.

[3] Thereof non-scheduled depreciation K€ 2,227.

Information by region (secondary reporting format)

The allocation of sales by region is made according to the geographical location of the customers and the allocation of segment assets and investments according to the company's headquarters:

RTV Family Entertainment AG, Ravensburg Segment information by region 2004 (secondary reporting format) (IFRS)				
	Germany **K€**	**Europe** **K€**	**Rest of the world** **K€**	**Total** **K€**
Sales	5,229	1,200	10	6,439
Segment assets	34,582	–	–	34,582
Investments	1,910	–	–	1,910

VII. Financial instruments

RTV Family Entertainment AG is subject to a variety of risks in its financial activities. The company monitors these risks and carries out, wherever necessary, hedging transactions.

Foreign currency risks

The company is active throughout the world and is therefore subject to exchange rate fluctuations that impact assets, liabilities and expenses denominated in a foreign currency.

The largest part of the sales, however, take place in the Euro area. The whole exchange rate risk is therefore limited, so that only a few hedging transactions are necessary in this area. Costs in the production area generally occur in currencies other than the Euro. Currency-forward contracts are concluded wherever necessary in order to provide cover against this risk.

Interest rate risks

Interest risks arise due to changes in interest rates that could have a negative impact on the company's asset, financial and profitability situation. Interest rate fluctuations lead to changes in the interest income and interest expense on interest-bearing assets and liabilities. The accounts due to affiliated companies (loan from F&M Film und Medien Beteiligungs GmbH) carry a fixed interest rate. Fluctuations in interest rates therefore have no impact on the profitability situation.

Credit risks

An active risk management policy is pursued with respect to the financial instruments capitalised in the balance sheet together with an assessment and a monitoring of receivables. The credit risks of the remaining financial assets are checked by means of credit checks. The measures taken ensure that sales are only made to customers who have shown themselves in the past to be credit-worthy and that the risk of non-collection of sales made is restricted to a tolerable level. Since no general netting agreements are made with customers, the total amount of accounts receivable, trade and other assets also constitutes the maximum risk of non-collectible debts.

Liquidity risks

The company requires sufficient resources in order to fulfil its financial commitments. Due to the difficult market environment, the management of the company last year was dictated primarily by cash considerations.

The company's financial instruments that are not capitalised at their fair value include primarily accounts receivables trade, other short-term assets, other long-term assets, accounts payable trade, other liabilities and long-term loans.

The book value of assets and liabilities arising as a result of normal trade credit conditions, which are based on the historic costs of acquisition, approximate very closely to the fair value.

The fair value of long-term liabilities is based on the currently available interest rates for outside borrowing with the same maturity and credit rating profile. The values shown in the balance sheet approximate very closely to the fair value.

VIII. Relations with affiliated companies and persons

1. Ravensburger AG and companies affiliated to Ravensburger AG

Until the sale of the company's shares, its immediate parent company was Ravensburger AG in Ravensburg and the senior parent company is Ravensburger Holding GmbH & Co. KG in Ravensburg.

In 2005 Ravensburger AG invoiced the company with a sales-related trademark licence fee of K€ 128 (previous year: K€ 128) under a licence agreement concluded in December 2000 and amended in December 2001 concerning the use of the word "Ravensburger" as a trademark and the word-picture combination "Ravensburger in triangle" for the area “music and video” taken over on 1st January 2001.

We refer to the notes concerning liabilities due to affiliated companies (III section 20) regarding the loan from Ravensburger AG.

In 2001 Ravensburger AG participated in the financing of several film series through co-finance agreements to the value K€ 6,455, of which K€ 3,871 was paid in 2001. The outstanding portion of the financial contribution of K€ 2,584 was paid in January 2002. As part of the restructuring plan, two productions were ended by an addendum agreed in August 2002. The two series were terminated in return for a payment on account to the co-production partner to which Ravensburger AG contributed in proportion to its share (K€ 279). Ravensburger AG participated in two new series with the remaining amounts which the company would have had to have paid back to Ravensburger AG. In accordance with contractual agreements, in 2005 the company remitted its share of co-production income to Ravensburger AG to the value of K€ 9 (previous year: K€ 46) for all series.

The company carried out a production-to-order for Ravensburger AG in 2005 with a value of K€ 398 (previous year: K € 393).

Ravensburger AG charged the company K€ 22 (previous year: K€ 22) for services (IT etc.).

In an agreement concluded in October 2005, Ravensburger AG waived all of its claims against RTV Family Entertainment AG at that time, especially claims to the repayment of a shareholder loan plus all interest and deductions, all other interest expenses, claims for IT services, trademark licences and income remittances for the current year as well as the repayment of a loan of K€ 2,5000 granted by Ravensburger AG to the company as part of the restructuring measures.

Ravensburger AG also waived income remittance liabilities of RTV Family Entertainment AG deriving from the sale of various film rights to a total value of K€ 100, which became due following the effective date of the transfer contract. Should the income remittance claims be less than K€ 100 for the period up to 31st December 2008, then Ravensburger AG only waives the smaller amount.

The company had business relations in the financial year 2005 with Ravensburger Spieleverlag GmbH and Ravensburger Spieleland AG. It earned income of K€ 4 (previous year: K€ 7) from the sale of licence rights.

The company carried out a production-to-order on behalf of Ravensburger Spieleverlag in 2005 with a value of K€ 125 (previous year: € 0).

The company paid licence fees of K€ 2 (previous year: K€ 1) on the subject of "Scotland Yard".

The prices charged in each case corresponded with market prices.

2. F&M Film und Medien Beteiligungs GmbH of Vienna in Austria

F&M Film und Medien Beteiligungs GmbH became the immediate parent company of RTV Family Entertainment AG as the result of the purchase of the shares in the company sold by Ravensburger AG.

F&M Film und Medien Beteiligungs GmbH assumed liabilities of RTV Family Entertainment AG as part of an assumption of debts. It also paid a part of the redemption fee on behalf of RTV Family Entertainment AG for the loans owed to the bank syndicate. F&M Film und Medien Beteiligungs GmbH's receivables against RTV Family Entertainment AG, which arose as a result of this transaction, were converted into a shareholder loan, K€ 817 of which F&M Film und Medien Beteiligungs GmbH immediately waived. The remainder of the loan of K€ 2,500 matures on 31st December 2008 and attracts interest at the rate of 6% p.a. The loan and the interest are due for repayment on 1st January 2009.

Costs of K€ 27 in connection with the expert appraisal required as part of the application to the Federal Financial Services Supervisory Agency for exemption from the provision of § 37 of the German Securities Trading Act were re-invoiced to F&M Film und Medien Beteiligungs GmbH.

The prices charged in each case corresponded with market prices.

3. Other related natural persons

The total remuneration of the Board of Management in the financial year was K€ 350 (previous year: K€ 250). It is made of fixed remuneration (K€ 250) and the accrual established for 2005 for management bonuses (K€ 100). In order to conserve the company's liquidity, payment of the 2005 bonus (K€ 100) is currently not planned. A total of 0 option rights (unchanged versus the prior year) had been issued to the Board of Management on the balance sheet cut-off date. In 2005 the company granted the Board of Management a permanent travel advance of € 1,500.00.

The expenses of management in accordance with IFRS 2 are K€ 58 (see notes under III.16).

The total remuneration paid to former members of the Board of Management was K€ 156 (previous year: K€ 160).

The pension reserves for former members of the Board of Management and their surviving dependents are fully provided for and amounted to K€ 387 (previous year: K€ 364) on 31st December 2005.

The development of the shares owned by members of the Board of Management and Supervisory Board is shown in the following table:

RTV Family Entertainment AG, Ravensburg Shares owned by members of the Board of Management and Supervisory Board					
	1/1/05	Purchase	Sale	Disposal	31/12/05
Prof. Kreile	280	–	–	–	280
Kröhne	17	–	–	–	17

The total remuneration of the Supervisory Board in the financial year 2005 was K€ 36, of which K€ 12 relates to the chairman, K€ 9 to his deputy and K€ 9 and K€ 6 respectively to the other members. In the financial year 2005 several members of the Supervisory Board renounced claims to remuneration for the current year and previous years to a total value of K€ 45.

K€ 166 (previous year: K€ 73) was paid to the lawyers' office Nörr & Stiefenhöfer & Lutz (Prof. Dr. Johannes Kreile) in 2005 for consultancy services. These consultancy services were approved by the Supervisory Board. K€ 5 related to expenses in connection with the application for exempted status submitted by F&M Film und Medien Beteiligungs GmbH and Dr. Stefan Piëch to the Federal Financial Services Supervisory Agency in matters relating to RTV Family Entertainment AG. These expenses were re-invoiced by the company to F&M Film und Medien Beteiligungs GmbH.

IX. Information on the company's official bodies

The members of the supervisory board during the financial year were:

Prof. Dr. Johannes Kreile resident in Munich – chairman – Attorney-at-law
Frank Mallet resident in Ravensburg – deputy chairman – (to 31st January 2006) Member of the board of Management of Ravensburger AG, Ravensburg

Jochen Kröhne, resident in Munich
CEO of Get-on-Air GmbH in Munich
CEO of Tele 5 TM-TV & Co. KG in Munich (until October 2005)

Dr Stefan Piëch, resident in Vienna in Austria (from 9th February 2006)

Commercial film specialist

CEO of F&M Film und Medien Beteiligungs GmbH of Vienna

Dr Wolfram Freudenberg resident in Stuttgart (substitute member until 31st January 2006)

Former member of the Boards of Management of the Württembergische Versicherungsgruppe in Stuttgart

Other posts in supervisory boards and other control bodies held by members of the Supervisory Board within the meaning of § 125 section 1 sentence 3 of the German Companies Act (AktG) are:

Prof. Dr. Johannes Kreile:
- Member of the administrative council of the Bavarian State Centre for New Media in Munich

Frank Mallet:
- Member of the Supervisory Board of Ravensburger Spieleland AG, Ravensburg

Dr. Wolfram Freudenberg:
- regular member of:
    - IBB Internationales Bankhaus Bodensee AG, Friedrichshafen
    - Ravensburger AG, Ravensburg
    - Pensions-Sicherungs-Verein VvaG, Cologne

    - Freudenberg & Co., Weinheim, member of the shareholders' committee

Board of Management:

Markus Rudolf Reischl, Munich

X. Audit and consultancy fees

The total auditors' fee recorded as expense in the financial year for the year-end audit on 31st December 2005 (covering annual financial statements in accordance with the German Commercial Code, company financial statements in accordance with § 325 section 2a of the Commercial code as well as the audit of the dependent companies' report) was K€ 57, K€ 22 for other services and K€ 19 for tax advice. The expenses of other services relate to an expert appraisal carried out in connection with the application for exempted status submitted by F&M Film und Medien Beteiligungs GmbH and Dr. Stefan Piëch to the German Federal Financial Services Supervisory Agency relating to RTV Family Entertainment AG. These expenses were re-invoiced by the company to F&M Film und Medien Beteiligungs GmbH.

XI. Events of particular significance after the end of the financial year

On 10th February 2006, under the title "Restructuring of RTV formally and successfully concluded", the company published under the following ad hoc notice in accordance with § 15 of the German Securities' Trading Law (abbreviated in German to WpHG):

"The Federal Financial Services Supervisory Agency had in its judgement of Friday 14th October 2005 approved an application lodged by F&M Film und Medien Beteiligungs GmbH ("F&M") in Vienna and F&M's sole shareholder, Dr. Stefan Piëch, to secure exemption from the requirement to offer to buy the shares of the outside shareholders in accordance with § 37 of the German Securities' Trading Law. This exemption was subject to the dissolving condition and the proviso of cancellation that the essential contributions of the parties involved in the restructuring programme be carried out by 31st December 2005. RTV Family Entertainment AG ("RTV") hereby announces that all contributions in the restructuring concept have been carried out by all the participants and that the dissolving conditions have not arisen. The applications approved by the Federal Agency for the Supervision of Financial Services to secure exemption from the requirement to offer to buy the shares of the outside shareholders therefore retain their validity."

On 16th February 2006 the company published the following ad hoc notice in accordance with § 15 of the German Securities' Trading Law under the title "Change in the membership of RTV Family Entertainment AG's Supervisory Board":

"By judgement of the District Court – Registrar of Companies I – in Ravensburg passed on 9th February 2006 and received by the company today, Dr. Stefan Piëch, resident in Vienna, is appointed as the new Supervisory Board member of RTV Family Entertainment AG ("RTV") in accordance with § 104 of the German Companies Act (AktG) in conjunction with § 145 of the German Voluntary Jurisdiction Law (FGG). The previous deputy chairman of the Supervisory Board, Frank Mallet, CEO of Ravensburger AG in Ravensburg, and the substitute Supervisory Board member, Dr. Wolfram Freudenberg resident in Stuttgart, had earlier resigned their Supervisory Board posts with effect from 31st January 2006. The resignation of Mr. Mallet and Dr. Freudenberg and the appointment of Dr Piëch as the new member of the Supervisory Board are to be viewed in the context of the successful restructuring of RTV. As explained in the ad hoc notice issued on 14th October 2005, Ravensburger AG had sold all of its majority shareholding in RTV to F&M Film und Medien Beteiligungs GmbH in Vienna. Dr. Stefan Piëch is the managing director and the sole shareholder of F&M Film und Medien Beteiligungs GmbH. The CEO and the Supervisory Board warmly thank both retiring members for their long-standing activity and especially for their constructive support of the restructuring programme last year."

XII. Declaration in accordance with § 161 of the German Companies Act (AktG) relating to the Corporate Governance Code

RTV Family Entertainment AG in Ravensburg has issued and made available to the shareholders the declaration prescribed in § 161 of the Companies Act.

The present company financial statements were prepared by the Board of Management, approved on 17th February 2006 and then submitted to the Supervisory Board for examination.

Ravensburg, 17th February 2006

The Board of Management

Auditors' certificate

We have audited the company financial statements prepared in accordance with § 325 section 2a of the German Commercial Code – consisting of the balance sheet, statement of income, cash flow statement, development of equity schedule and notes to the financial statements – including the accounting system and management report of RTV Family Entertainment AG in Ravensburg for the financial year from 1st January to 31st December 2005. The accounting system and the preparation of the company financial statements and management report in accordance with IFRS, as it is to be applied within the EU, and the additional commercial law provisions applicable under § 325 section 2a of the German Commercial Code are the responsibility of the company's legal representatives. It is our responsibility, on the basis of our audit, to express an opinion on the company's financial statements including the accounting system and on the management report.

We conducted our audit of the company's financial statements in accordance with § 317 of the German Commercial Code (HGB) and in conformity with the generally accepted auditing standards laid down by the German Institute of Auditors (IDW = Institut der Wirtschaftsprüfer). These standards require that the audit be planned and carried out in such a way so as to identify with reasonable certainty inaccuracies and infringements that significantly impact the presentation of the assets, financial position and income given by the company's financial statements in compliance with generally accepted accounting principles and by the management report. In determining auditing activities, account is taken of knowledge of the business activity and of the commercial and legal environment in which the company operates as well as of the likelihood of possible errors. As part of the audit scope, the efficiency of the internal control system as well as the evidence supporting the facts contained in the accounting system, company financial statements and the management report are evaluated largely on the basis of random tests. The audit includes an assessment of the accounting principles applied, as well as the principle judgements expressed by the legal representatives and also an evaluation of the overall presentation of the company's financial statements and management report. We believe that our audit provides a sound basis for our judgement.

Our audit did not give rise to any objections.

In our opinion, based on the knowledge we obtained during the audit, the company's financial statements are in accordance with IFRS, as it is to be applied within the EU, and the additional commercial law provisions applicable under § 325 section 2a of the German Commercial Code and give a true and fair picture of the company's assets, financial position and income in accordance with generally-accepted accounting principles. The management report agrees with the company's financial statements, correctly reflects the company's current situation and accurately presents the risks present in future development.

Ravensburg, 17th February 2006

Ernst & Young AG

Auditing company

Nover	Liebe
Auditor	Auditor