# Your Family Entertainment AG

Annual Report 2007

yourfamilyentertainment

# Key data at a glance

| Key financial data in K€ | 2007 | 2006 |
|---|---:|---:|
| | | |
| Sales | 1,514 | 3,663 |
| EBITDA | 821 | 1,254 |
| EBIT | 1,044 | 1,227 |
| Net income | 907 | 1,011 |
| Cash flow from business operations | 438 | 477 |
| | | |
| Total balance sheet amount | 12,736 | 12,131 |
| Value of film assets | 11,300 | 10,323 |
| | | |
| Shareholders' equity | 7,630 | 6,723 |

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# 1. CEO's opening comments

Dear Shareholders,
In spite of a considerable reduction in sales in the 2007 financial year, we are able to report positive results and, what was even more important to us, a positive cash flow (K€ 438), so that we can look forward to the future with confidence. We were also able to set a number of significant milestones to counter the negative development of sales and the dependency of the company on its business partners.

Our own pay-TV station "yourfamily" went on air on November 5th 2007. This creates additional important access to our final consumers and lays the basis for future sales. We are particularly proud that the station was set up within just a few months and entirely from our own funds.

Also worthy of mention are the first positive developments in the field of video-on-demand (VoD). We acquired, amongst others, partners such as Maxdome (Germany), Teleclub (Switzerland) and ReelTime (USA) and Your Family Entertainment AG is currently engaged in negotiations with further well-known companies. Although VoD sales are still small, the growth potential of this field becomes more evident from quarter to quarter, a trend which is confirmed by a number of market studies. We recognised in time that the final consumer himself increasingly decides when and where he watches which programmes. This is not a contradiction to having our own station "your family", but rather complements Your Family Entertainment AG's product range.

In order to promote this growth process, Your Family Entertainment AG's Board of Management resolved, on November 22nd 2007, to use the authority granted to it under § 4 section (3) of the company's statutes and, subject to the approval of the Supervisory Board, to use the current approved capital of € 6,525,488.00 to increase the share capital by up to € 2,174,512.00 to up to € 8,700,000.00 through the issue of 2,174,512 new bearer share certificates (ordinary shares) in return for cash with an arithmetic share in the capital of € 1.00 per share.

In spite of the difficult overall situation prevailing on the capital market, we were able to place all of these shares. We would like at this point to thank our loyal existing shareholders who, in spite of the difficult conditions in the market, exercised more than 50% (based on the free float shares) of their subscription rights. The capital increase was recorded in the commercial register on March 18th 2008. The company's share capital is now € 8,700,000. The gross proceeds of the issue were € 3,261,968.

We are highly gratified at the positive feedback received about our company and the values we stand for in our numerous discussions with potential investors. We feel ever more confirmed in our conviction that children especially have a right to quality entertainment and that there is a demand for our high-quality, educational family product range in addition to the numerous programmes on offer.
Our activities continue to be dominated by the company's continued development through profitable growth in existing and new business fields, the increase in the company's profits over the long-term and thereby the creation of permanent values for you.

I would like to take this opportunity to thank you, our valued shareholders, for your trust. I would also like to thank the members of Your Family Entertainment AG's Supervisory Board for their continued counsel and support.

May I also pay particular tribute to the high level of performance of all our employees. All the achievements described above would not have been possible without their dedication. In saying this, I am fully aware that changes of this kind continue to demand considerable personal involvement which makes it all the more enjoyable to lead a team that grasps problems as opportunities with originality and initiative and is able to look beyond the immediate situation.

Our business is in a state of upheaval as the industry's previous structures disintegrate. New opportunities present themselves with increasing frequency to a company such as ours with a large rights library and low fixed costs. Your Family Entertainment AG wishes to exploit these opportunities profitably, both for you and together with you, our valued shareholders.

Munich, April 2008.

Yours faithfully,

Dr. Stefan Piëch
CEO

**YFE is a dependable supplier of good and high-quality entertainment of lasting value for both parents and children.**

**The brand "yourfamily" sees itself as a seal of approval for family entertainment.**

## 2. About us...

Your Family Entertainment AG (YFE) is one of Germany's longest-established television and film production companies in the field of entertainment formats for children, teenagers and the whole family. The company YFE, which was started in the mid-1980s as part of Ravensburger AG, embodies traditional "Ravensburger values" in parts of its product range and has more than 3,500 half-hour programmes at its disposal.

As an international co-production partner, a large part of its programmes are distributed both in Germany and abroad on more than 100 channels. That is why the contents of these programmes are trusted, known and popular with children and parents.

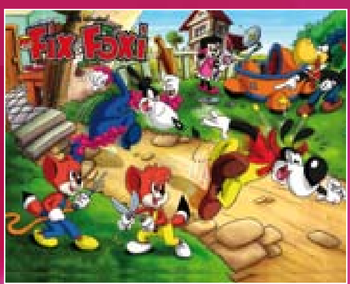
To help you to get to know us, we would like to introduce you to some examples from our range of programmes:


**Wilf, der Hexenhund**
The series is based on short stories written and illustrated by Frank Rodgers about a dog who wishes to become a witch's pet. In order to achieve his ambition, he learns magic spells, how to fly a broom and everything else which goes towards making a real witch's life.

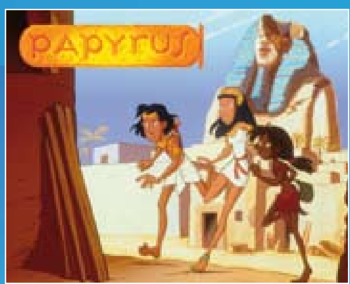

**Tobias Totz**
Tobias Totz is a retired zoo-keeper who is always called in to help when there are problems at the zoo. Together with his friend the lion, he solves problems with the necessary composure and a lot of humour.


**Donkey Kongs Abenteuer**
Based on the famous Nintendo computer-game, this series invites the viewer to share some exciting adventures. Donkey Kong is a kind-hearted monkey who wouldn't hurt a fly, that is unless someone threatens his friends.


**Spirou und Fantasio**
Together with his friend Spirou, the reporter Fantasio experiences the most exciting adventures all over the world. The two friends overcome even the most ticklish situations with humour and fantasy. "Spirou & Fantasio" is based on the comic albums which have been sold successfully for decades.




**Fix & Foxi**
Follow world-famous cartoon foxes Fix and Foxi in their most fantastic and exciting adventures.

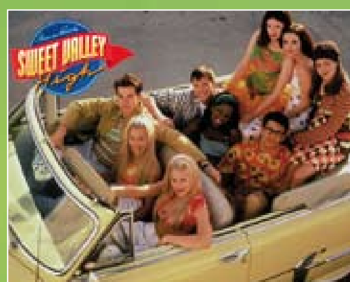



**Papyrus**
The story of young Papyrus takes place in ancient Egypt. He fights against the Pharaoh's enemies on orders from the gods. Brave Papyrus is helped by his magic sword, which he always has with him on his dangerous adventures.


**Commando Stoertebeker**
Nice Mr Bommel has lost a great deal of his company's money due to his passion for gambling. He believes that he can pay back this money with a treasure map he owns showing the way to the legendary pirate Störtebeker's treasure.


**Air Bud**
Following the death of his father, eleven-year old Josh moves to the idyllic little town of Fernfield with his mother and younger brother. Josh misses his father very much and often feels lonely. His life is transformed as he meets the stray dog Buddy one day. Josh finds a true friend here.


**Enid Blyton - Secret Series**
In these famous detective stories we can follow the adventures of Thaddäus Arnold, his four children, their dog Price and the beautiful and lively news photographer Charlotte Clancy. Together they follow up every mysterious clue.




**Sweet Valley High**
The sixteen-year-old twins Liz und Jess experience the absolutely normal madness of an American high school in Sweet Valley in California. We follow the teenagers on their path to adulthood through lovesickness, stress at school and arguments with their parents.

# 3. Report of the Supervisory Board

Dear Shareholders,

The Supervisory Board regularly monitored, controlled and advised the work of the Board of Management during the 2007 financial year. The Board of Management kept the Supervisory Board comprehensively and punctually informed by means of both verbal and written reports. The Supervisory Board and the Board of Management were also in constant contact between meetings. The Supervisory Board was therefore informed at all times on intended business policy, the company's planning including financial, investment and human resources planning as well as on the development of the business and its current situation.

A total of six meetings of the Supervisory Board were held in the 2007 financial year at which, with two exceptions, every member of the Supervisory Board took part. All of the members of the Supervisory Board have therefore participated in at least half of its meetings during their period of office in the 2007 financial year. During these meetings 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, deliberated upon and discussed with the Board of Management on the basis of comprehensive and complete reports prepared by the Board of Management. In view of the company's continuing difficult commercial situation during the 2007 financial year, the Supervisory Board made use, on several occasions, of its right to inspect the company's books and correspondence as well as its assets. The Board of Management was available at all times to answer questions and to give explanations.

**Key subjects discussed by the Supervisory Board**
In view of the new orientation of the company already initiated in 2005, the main emphasis of the Supervisory Board's discussions and control function during the 2007 financial year lay on the one hand in the stabilisation of the company's core business and on the other hand in discussions on the development of new business fields. The Supervisory Board therefore became closely involved in the expansion of the business field "home entertainment" and in the establishment of the company's own TV station, "your family". The German-language pay-TV channel broadcasts children's and family programmes 24 hours a day via satellite, cable and DSL (IPTV) and went on air on November 5th 2007. The Supervisory Board also closely followed the conclusion of an agreement between the company and The Walt Disney Company (Germany) GmbH and Buena Vista International Germany GmbH which was signed in the middle of the year and which resolved a legal dispute. The reasons for the decline in sales in comparison with the previous years and particularly the measures taken to counter this trend were also thoroughly discussed with the Board of Management. These discussions were dominated by the lower than anticipated performance of the company's distribution partners. The Board of Management submitted a revised and comprehensive Business Plan to the Supervisory Board which was also thoroughly discussed.

A key aspect of the Supervisory Board's work lay in a close interest in the cash increase in capital initiated by the company last year. The basic concept and purpose of the capital increase and the practical details of its execution were the subject of thorough discussions in several meetings of the Supervisory Board and also outside these meetings and with the Board of Management. In particular, in its meeting held on November 24th 2007, the Supervisory Board approved the resolution covering the execution of the capital increase passed by the Board of Management on November 22nd 2007.

The continuous monitoring of the company's current cash flow also occupied a large part of the Supervisory Board's attention. The Board of Management submitted regular reports on this subject. A contract for a loan facility from the Commerzbank in order to ensure the repayment of a loan from the majority shareholder including interest due on January 01st 2009 was signed, about which the Board of Management carried out extensive consultations with the Supervisory Board.

**Human Resources**
In a resolution passed on September 12th 2007, the Supervisory Board appointed Dr. Stefan Piëch as CEO of the company for an additional year, namely until December 31st 2008.

**Changes in the Supervisory Board**
The shareholders' meeting elected Dr Hans-Michel Piëch of Vienna in Austria as a member of the Supervisory Board on July 18th 2007. Dr Andreas Aufschnaiter of Munich was elected substitute member. Each election took place separately. The term of office of the newly appointed members of the Supervisory Board runs until the end of the shareholders' meeting in 2009 called to approve the actions of the Board of Management in 2008. In its constitutive meeting held on July 18th 2007, the Supervisory Board elected Dr Hans-Sebastian Graf von Wallwitz of Munich as Chairman of the Supervisory Board and Johannes Thun-Hohenstein of Vienna as his deputy.

Dr Hans-Michel Piëch resigned his office on December 31st 2007 and has left the Supervisory Board. The previous substitute member, Dr Andreas Aufschnaiter replaced Dr. Hans-Michel Piëch's as a full member with effect from January 01st 2008.

**Sub-committees of the Supervisory Board**
The Supervisory Board has not established any sub-committees.

Report on the audit of the annual financial statements
The annual financial statements and the management report of Your Family Entertainment AG were prepared in accordance with the provisions of the German Commercial Code (HGB).

In accordance with the Supervisory Board's instructions, Ernst & Young AG, auditors and tax advisers in Stuttgart, audited the company's accounting system and its financial statements and management report for the 2007 financial year. The auditors issued their unqualified audited certificate on the basis of this audit. The company's annual financial statements and management report as well as the audit reports were submitted to the members of the Supervisory Board and examined by them. The Supervisory Board discussed these documents in detail at its meeting held on March 10th 2008 to discuss the financial statements in the presence of the auditors who reported on the principle findings made in their audit. The Supervisory Board took note of and approved the results of the audit. Following its own conclusive examination, the Supervisory Board established no grounds for objecting to the company's financial statements and management report for the 2007 financial year. In its meeting of March 10th 2008, the Supervisory Board approved Your Family Entertainment AG's financial statements submitted by the Board of Management. Accordingly, the company's financial statements are adopted. The Board of Management has prepared its report on the company's relationships 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 Your Family Entertainment AG with affiliated companies.

The auditor also carried out an examination in accordance with § 317 section 4 of the German Commercial Code and concluded that the Board of Management had installed a monitoring system, that the legal requirements as regards the early recognition of risks threatening the existence of the company are fulfilled and that the Board of Management has taken appropriate measures to recognise developments at an early stage and to counter risks.

The auditors submitted the independence declaration required by the Corporate Governance Code to the Supervisory Board and disclosed the audit and consultancy fees in the current year to the Supervisory Board.

**Corporate governance and the compliance declaration**
The subject of corporate government has a high priority for the Supervisory Board. The Supervisory Board involved itself with the refinement of the Corporate Governance principles in the company, thereby taking account of amendments to the German Corporate Governance Code of June 2007. The declaration given by the Board of Management and the Supervisory Board in accordance with § 161 of the German Companies Act is reproduced in the chapter of the company report dealing with Corporate Governance and is also to be found on the company's web-site (www.yf-e.com) under Investor Relations.

Additional information on the subject of Corporate Governance is contained in the company report on pages 9 to 10 (Corporate Governance Report).

The Supervisory Board thanks the Board of Management and all employees for their commitment during 2007.

Munich, March 2008

Dr. Hans-Sebastian Graf von Wallwitz
Chairman of the Supervisory Board

# 4. The share

## 4.1 Summary

Your Family Entertainment AG is quoted under the security identification number 540891/ISIN: DE0005408918 and the abbreviation "RTV" on the regulated market of the Frankfurt Stock Exchange.

Securities trading centres:
The regulated market in Frankfurt (General Standard)

| | |
|---|---|
| Number of shares (before the capital increase): | 6,525,488 units |
| Number of shares (after the capital increase*): | 8,700,000 units |
| Subscribed capital (before the capital increase): | € 6,525,488 |
| Subscribed capital (after the capital increase*): | € 8,700,000 |

(* Recorded in the Commercial Register on March 18th 2008)

| | |
|---|---|
| First quoted: | June 8th 1999 |
| Designated Sponsor: | Schnigge AG |
| Industry: | Media & Entertainment |

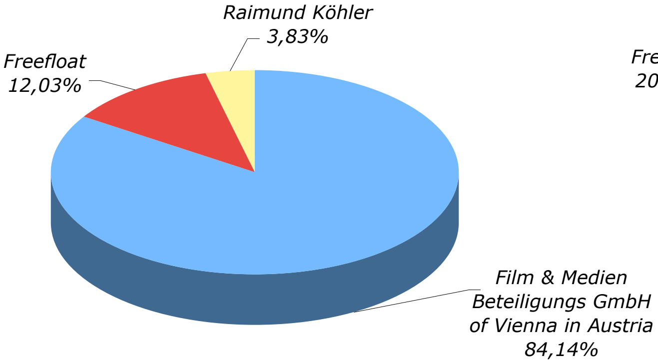
## 4.2 Development of the price of the share

During the period from January 1st to December 31st 2007, the price of the Your Family Entertainment AG share on the Frankfurt Stock Exchange developed as follows:

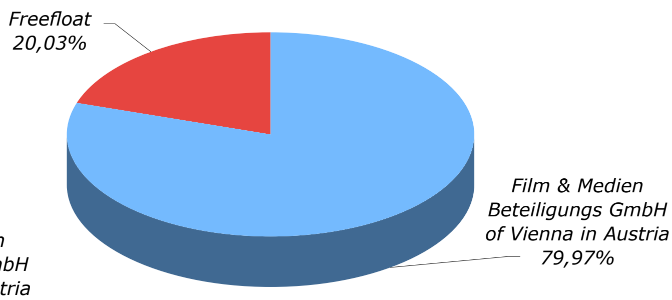

**Source: www.ariva.de**

## 4.3 Shareholding structure

The shareholding structure was as follows on the balance sheet cut-off date (December 31st 2007):




The shareholding structure changed as follows after the registration of the capital increase on March 18th 2008:



# 5. Corporate governance report

Your Family Entertainment AG continued to develop its corporate governance practice in 2007 and also complies as far as possible with the changes in the code introduced in the version issued on June 14th 2007, for example as regards compliance. Your Family Entertainment AG publishes the documents demanded by law for the shareholders' meeting in an easily accessible manner on its website. The consent of the shareholders' meeting to the electronic distribution of documents is to be sought and implemented in 2008. Your Family Entertainment AG already complies with the adjustments of the Corporate Governance Code to changes in the Securities' Trading Law and the company's internal processes have already been restructured accordingly.

The fees paid to the Board of Management and the Supervisory Board are shown on page the pages 19-20 of the notes to the financial statements. No conflicts of interest arose in 2007 in either the Board of Management or the Supervisory Board. A possible conflict of interest in connection with the Supervisory Board member Dr Sebastian Graf von Wallwitz was avoided in that a resolution sought by the company on co-operation with the legal firm of Schwarz Kelwing Wicke Westphal, in which Graf von Wallwitz is a partner, was submitted for approval to the 2007 shareholders' meeting.

It is still the case that the Board of Management does not hold any Supervisory Board or comparable office. The Supervisory Board monitors the efficiency of its own activities every year. It is the Supervisory Board's opinion that it has a sufficient number of independent members.

A comparison of the compliance declaration with the Corporate Governance Code which was actually implemented in 2007 did not reveal any discrepancies. Your Family Entertainment AG complies as far as possible with the recommendations of the government-appointed commission on the Corporate Governance Code, departing from the Code only in areas where this appears justified due the company's size, the usefulness of such measures and the financial possibilities of such a medium-sized company.

The rules of business procedure under which the Board of Management and the Supervisory Board operate were not changed in 2007. The shareholders' meeting changed one item in the statutes. 30 shareholders or 89.47 % of the voting capital took part in the shareholders' meeting. All items on which resolutions had been submitted were approved. Your Family Entertainment AG has issued seven ad hoc announcements in accordance with §15 of the German Securities' Trading Law during the past year.

The compliance declaration required by § 161 of the German Companies Act was published on the Internet (www.yf-e.com) in December 2007 under the heading Investor Relations / Corporate Governance:

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

The Board of Management and Supervisory Board of Your Family Entertainment AG declare that the recommendations of the "Government Commission on the Corporate Governance Code" as amended on June 14th 2007 published by the Federal Ministry of Justice in the electronic Federal Gazette on June 20th 2007 is either already complied with or will be complied with, subject however to the following exceptions:

Due to time constraints, it cannot be guaranteed that the published company report will be available at the time the invitation to the shareholders' meeting is issued (section 2.3.1 of the Code), it also cannot be guaranteed 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 (section 7.1.2 of the Code).

Section 2.3.2. of the Code cannot be complied with since the transmission of information to the owners of authorised shares by means of electronic data transmission in accordance with § 30b section 3.1 a of the German Securities' Trading Law has not been approved by the shareholders' meeting.

The transmission of the shareholders' meeting via modern means of communication (section 2.3.4. of the Code) has not been carried out since the company's shareholding structure does not warrant the required expense.

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

Following the conclusion of the company's restructuring in January 2003 and due to the reduced volume of business, the Board of Management is composed of one person only (section 4.2.1. of the Code).

Section 4.2.4. of the Code is not complied with. The shareholders' meeting passed an appropriate resolution with the required three-quarters majority on July 18th 2007.

Section 4.2.5. of the Code is not complied with.

Due to the limited size of the company and the Supervisory Board, no committees have been created (section 5.3. of the Code).

Section 5.4.5. sentence 2 of the Code requiring that supervisory board members belonging to the board of management of a quoted company may not exercise more than five supervisory board posts in quoted companies is not complied with.

The Supervisory Board receives a fee which is laid down in § 16 of the company's statutes. Performance-related components have not so far been included in this remuneration (section 5.4.7. of the Code).

In accordance with the Guidelines for the Regulated Market, apart from the company report, only a half-yearly report and interim announcements are published.

Quarterly reports are not prepared. For reasons of economy, the annual financial statements and semi-annual finance reports are prepared in accordance with the requirements of the German Commercial Code, but not in accordance with international accounting standards (section 7.1.1. of the Code).

Munich, December 2007

Dr. Hans-Sebastian
Graf von Wallwitz
Chairman of the Supervisory Board

Dr. Stefan Piëch
CEO

# 6. Annual financial report 2007
(in accordance with the German Commercial Code / HGB)

(from January 1st to December 31st 2007)

## 6.1 Balance sheet

### 6.1.1 ASSETS

| | 31.12.2007 € | € | € | 31.12.2006 € |
|---|---|---|---|---|
| **A. FIXED ASSETS** | | | | |
| **I. Intangible assets** | | | | |
| 1. IT Software | 39,113.00 | | | 11,132.00 |
| 2. Film assets and other rights | 11,299,834.80 | | | 10,322,521.09 |
| | | 11,338,947.80 | | 10,333,653.09 |
| **II. Property, plant and equipment** | | | | |
| Other equipment, operational and office equipment | | 65,929.00 | | 54,172.00 |
| | | | 11,404,876.80 | 10,387,825.09 |
| **B. CURRENT ASSETS** | | | | |
| **I. Inventories** | | | | |
| Finished goods | | 1,752.82 | | 0.00 |
| **II. Accounts receivable and other assets** | | | | |
| 1. Accounts receivable trade | 777,003.78 | | | 984,669.52 |
| 2. Other assets | 22,001.70 | | | 26,150.64 |
| | | 799,005.48 | | 1,010,820.16 |
| **III. Cash on hand and balances at banks** | | 523,585.66 | | 728,707.78 |
| | | | 1,324,343.96 | 1,739,527.94 |
| **C. PREPAID EXPENSES** | | | 6,611.79 | 4,123.78 |
| | | | 12,735,832.55 | 12,131,476.81 |

## 6.1.2 LIABILITIES

| | 31.12.2007 € | € | 31.12.2006 € |
|---|---|---|---|
| **A. SHAREHOLDERS' EQUITY** | | | |
| **I. Capital subscribed**<br>Conditional capital € 65,534.00 (Previous year K€ 66) | 6,525,488.00 | | 6,525,488.00 |
| **II. Capital reserve** | 1,200,000.00 | | 1,200,000.00 |
| **III. Accumulated loss** | -95,367.20 | | -1,002,119.38 |
| | | 7,630,120.80 | 6,723,368.62 |
| **B. RESERVES & ACCRUED LIABILITIES** | | | |
| 1. Pension reserves | 345,984.00 | | 355,386.00 |
| 2. Accrued taxes | 5,586.00 | | 4,900.00 |
| 3. Other reserves and accrued liabilities | 174,050.00 | | 163,900.00 |
| | | 525,620.00 | 524,186.00 |
| **C. LIABILITIES** | | | |
| 1. Advance payments received on account of orders | 1,038,797.49 | | 1,235,071.99 |
| 2. Accounts payable, trade | 628,118.10 | | 745,273.81 |
| 3. Accounts due to affiliated companies | 2,830,000.00 | | 2,680,000.00 |
| 4. Other liabilities<br>thereof for taxes € 35,844.59 (previous year K€ 16)<br>thereof for social security € 0.00 (previous year K€ 3) | 83,176.16 | | 223,576.39 |
| | | 4,580,091.75 | 4,883,922.19 |
| | | 12,735,832.55 | 12,131,476.81 |

## 6.2 Income statement

| | 2007 € | 2007 € | 2007 € | 2006 € |
|---|---|---|---|---|
| 1. Sales | | 1,514,459.79 | | 3,663,502.14 |
| 2. Other operating income | | 3,288,763.00 | | 2,022,258.31 |
| | | | 4,803,222.79 | 5,685,760.45 |
| 3. Cost of materials | | | | |
| a) Cost of licences, commissions and materials | | 251,624.67 | | 1,705,098.77 |
| b) Cost of purchased services | | 127,512.18 | | 434,277.73 |
| | | | 379,136.85 | 2,139,376.50 |
| | | | 4,424,085.94 | 3,546,383.95 |
| 4. Personnel expenses | | | | |
| a) Salaries | 529,911.86 | | | 526,180.71 |
| b) Social security expenses | 64,275.40 | | | 62,834.33 |
| c) Pension expenses | 19,571.48 | | | 22,901.53 |
| | | 613,758.74 | | |
| 5. Depreciation of intangible assets and property, plant and equipment | | 1,754,364.51 | | 953,287.20 |
| 6. Other operating expenses | | 1,012,321.12 | | 752,021.24 |
| | | | 3,380,444.37 | |
| | | | 1,043,641.57 | 1,229,158.94 |
| 7. Other interest and similar income | | 14,370.52 | | 6,451.51 |
| 8. Interest and similar expenses | | 150,310.97 | | 154,715.21 |
| | | | -135,940.45 | -148,263.70 |
| 9. Result from ordinary operations | | | 907,701.12 | 1,080,895.24 |
| 10. Taxes on income | | 702.94 | | 67,712.33 |
| 11. Other taxes | | 246.00 | | 2,480.32 |
| | | | 948.94 | 70,192.65 |
| 12. Net income | | | 906,752.18 | 1,010,702.59 |
| 13. Previous year's loss brought forward | | | -1,002,119.38 | -2,012,821.97 |
| 14. Accumulated loss | | | -95,367.20 | -1,002,119.38 |

## 6.3 Notes to the financial statements

**I. General information**

The annual financial statements of Your Family Entertainment AG in Munich for the financial year 2007 were prepared in accordance with §§ 242 ff., 264 ff. of the German Commercial Code and the relevant provisions of the German Companies Law. The rules applicable to larger companies limited by shares were applied.

Your Family Entertainment AG has its registered office at Nordendstraße 64 in Munich in Germany. The company's activities include the production of television films, trade in films and rights as well as the marketing of its own and third parties' subsidiary rights. The company's business activities are split into the business divisions production and licence sales.

**II. Accounting and valuation methods**

The presentation and valuation principles applied in the preparation of the financial statements are unchanged and are as follows:

**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.
The approach used here is based on US standard SOP 00-2 (Accounting by Producers or Distributors of Films) which is specific to our industry. The German Commercial Code does not include any such regulations specific to the industry.
In addition, an impairment test is carried out every year-end on the cut-off date.
A revaluation takes place when indications are present which show that the reduction in value no longer applies or may have been reduced. The revaluation is shown as income in the statement of income. The increase in value or the reduction of the value impairment of an asset is however only carried out to the extent that it does not exceed the book value which would have resulted, taking account of the effects of depreciation, had no impairment of value been recorded in previous years.
Computer software and fixed assets are shown at their costs of acquisition less scheduled depreciation. Computer software is depreciated pro rata temporis in accordance with the straight-line method. Movable fixed assets are depreciated pro rata temporis at the highest rates permissible for tax purposes in accordance with the declining-balance method. A change to depreciation at equal depreciation rates takes place as soon as this gives rise to higher amounts of depreciation. The period of depreciation is governed by the useful lives of the assets customary in the business. This is three years in the case of computer software, three to four years in the case of motor vehicles and two to ten years in the case of fixtures, fittings and equipment.
Low-value items whose cost of acquisition is below € 410.00 are completely depreciated and shown as disposals in the year of acquisition.
Receivables and other assets are shown at their nominal values. Account is taken of all items subject to risk through the establishment of specific bad debt provisions. The overall credit risk is also taken account of through a general bad debt provision of 1%. Non-interest-bearing receivables with a term longer than one year are discounted.
The pension reserves are calculated in accordance with actuarial principles using an interest rate of 5.5%. Dr Klaus Heubeck's "2005 G Tables" are used as the basis for the calculation.
Other reserves and accrued liabilities are established to take account of all uncertain liabilities and threatened losses from pending transactions. They are shown with the amounts which sensible commercial judgement considers to be necessary.
Liabilities are shown with the amounts due for repayment.
Amounts in foreign currency are converted at the rate prevailing when they were acquired or at a less favourable exchange rate on the balance sheet cut-off date.

**Statement of income**

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

Sales achieved through trading in TV rights (in the licence sales business line) are shown as realised at the time of their transfer to the licensee, provided however that all obligations can 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. In the case of merchandising sales (licence sales business line) the guaranteed income is shown when the contract is concluded or at the beginning of the particular licence period. Income which is dependent solely on sales is realised when the licensee realises these sales.
Sales in the business line production are, in the case of co-productions, shown as realised when the film is completed and, in the case of productions-to-order, on completion and acceptance of each individual episode.

**III. Explanations of the balance sheet**

**Fixed assets**

The development of the individual items of fixed assets may be seen in the separate summary "Development of fixed assets in 2007".

**Receivables and other assets**
Trade accounts receivable include items with a term of more than one year for an amount of K€ 0 (previous year K€ 9) and other assets for an amount of K€ 13 (previous year K€ 12).
Non-interest-bearing trade accounts receivable with a term of more than one year are discounted at a rate of 5.5% p.a.

**Shareholders' equity**
The company's share capital on the balance sheet cut-off date was still composed of 6,525,488 unit shares each with a share in capital of € 1.00. The company's share capital was therefore unchanged on 31st December 2007 at € 6,525,488.00. The shares are bearer-shares. They are fully paid up.
On November 3rd 2005 the Board of Management of the company then trading under the name of RTV Family Entertainment AG issued the following three announcements in the German stock exchange newspaper ("Börsenzeitung") in accordance with § 25 section 1 of the German Securities' Trading Law:
"Dr Stefan Piëch (of Vienna in Austria) has informed us, in accordance with §§ 21 section 1, 22 section 1.1.1 of the German Securities' Trading 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 1.1.1. of the German Securities' Trading Law had, on October 26th 2005, exceeded the thresholds of 5 %, 10 %, 25 %, 50 % and 75 % of the voting rights 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' Trading Law, that its share of the voting rights in RTV Family Entertainment AG (security identification numbers 540891 and 540893) had, on October 26th 2005, exceeded the thresholds of 5 %, 10 %, 25 %, 50 % and 75 % of the voting rights and is now 89.27%."
"Ravensburger AG (of Ravensburg in Germany) has informed us, in accordance with § 21 section 1 of the German Securities' Trading Law, that its share of the voting rights in RTV Family Entertainment AG had fallen below the threshold of 75 % and that it no longer has voting rights in RTV Family Entertainment AG."
With effect from December 31st 2007, F&M Film und Medien Beteiligungs GmbH of Vienna in Austria owns 84.14 % of the share capital.

**Approved capital IV**
The shareholders' meeting held on July 12th 2006 authorised an approved share capital (approved capital IV). The Board of Management was empowered, with the Supervisory Board's approval, to increase the company's share capital by July 12th 2011 through the issue of new bearer share certificates against cash and/or contributions in kind by up to € 3,250,000.00. The shareholders are to be granted the right to subscribe to this capital. The Board of Management may however, with the Supervisory Board's consent, exclude the shareholders' right to subscribe should the new shares be issued in return for contributions in kind.
The Board of Management may also, with the approval of the Supervisory Board, exclude the shareholders' right to subscribe with respect to fractional amounts.
The Board of Management is also entitled, with the consent of the Supervisory Board, to exclude the shareholders' right to subscribe to capital increases in cash should the issue price of the new shares not be materially lower than the stock exchange price. This authority is however subject to the condition that the newly issued shares from which subscription rights, in accordance with §§ 203 section 1, 186 section 3.4 of the German Companies Act, are excluded may not exceed 10% of the share capital, neither at the time the exclusion comes into force nor at the time it is exercised.
On November 22nd 2007, the Board of Management resolved, with the Supervisory Board's consent, to use the approved capital and to increase the share capital through a capital increase in cash by up to € 2,174,512.00 to up to € 8,700,000.00 through the issue of up to 2,174,512 new bearer share certificates. By a Board of Management resolution passed on January 16th 2008, the existing shareholders' shares will be offered for sale over the period February 8th to 22nd 2008 at a subscription price of € 1,50 per share. Shares not taken up will then be offered for sale by auction over the period February 26th to March 11th 2008.

**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 (a maximum of 45% of the option rights) and the company's employees (a maximum of 55%).
The issue of option rights shall 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 June 30th 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 shall decide whether to exercise this option, or the Supervisory Board, if members of the Board of Management are personally involved.
The shareholders' meeting of May 4th 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 199,500 new shares. The date by which the option rights must be exercised was extended to June 30th 2004.
Following the capital increase from the company's own resources (officially registered on May 23rd 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 May 23rd 2001 decided 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 August 12th 2002 resolved 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 providing 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 May 6th 1999, amended and extended by resolutions passed by the regular shareholders' meetings held on May 4th 2000 and May 23rd 2001 and the extraordinary shareholders' meeting of August 12th 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 October 9th 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.

**Conditional capital II**

On May 4th 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 (a maximum of 25% of the option rights) and employees of the company, members of the company's management bodies and employees of subordinated affiliated companies (a maximum of 75% of the option rights).
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 July 1st up to November 15th 2000
second tranche: 200,000 option rights in the period from July 1st up to November 15th 2001
third tranche: 200,000 option rights in the period from 1st July up to November 15th 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 November 15th 2002, those under the second tranche not before November 15th 2003 and those under the third tranche not before November 15th 2004. The dates November 15th 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 May 23rd 2000), the number of option rights and the individual tranches had to be doubled. The share option plan thus con-

tained 1,600,000 option rights.
711,500 option rights were issued as part of the first tranche on August 4th and November 15th 2000. The average price for the exercise of the option was fixed at € 22.56.
The shareholders' meeting, which took place on May 23rd 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 November 15th 2011, for the option rights under the second tranche to November 15th 2012 and for the option rights under the third tranche to November 15th 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 July 30th 2001 at an issue price of € 1.27

The extraordinary meeting of the shareholders held on August 12th 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 May 4th 2000, amended and extended by resolutions passed by the regular shareholders' meeting held on May 23rd 2001 and the extraordinary shareholders' meeting of August 12th 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 October 9th 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:

| | **Number of option rights granted in 2007** | **Average subscription price per unit in Euro 2007** | **Number of option rights granted in 2006** | **Average subscription price per unit in Euro in 2006** |
|---|---|---|---|---|
| | | | | |
| Number at the beginning of the financial year | 11.200 | 302,00 | 24.467 | 286,16 |
| expired | 1.200 | 355,90 | 13.267 | 272,79 |
| | | | | |
| Number at the end of the financial year | 10.000 | 295,53 | 11.200 | 302,00 |
| thereof exercisable | 10.000 | | 11.200 | |

**Reserves and accrued liabilities**
The other reserves and accrued liabilities relate chiefly to personnel matters, outstanding invoices and the reserve created for the costs of the annual close and the audit.

**Liabilities**

| | Remaining term | | | Total |
|---|---|---|---|---|
| | Less than 1 year | 1 to 5 years | More than 5 years | |
| | K€ | K€ | K€ | K€ |
| 1. Advance payments received in account of orders | 1,039 | 0 | 0 | 1,039 |
| 2. Accounts payable, trade | 628 | 0 | 0 | 628 |
| 3. Accounts due to affiliated companies | 0 | 2,830 | 0 | 2,830 |
| 4. Other liabilities | 83 | 0 | 0 | 83 |
| thereof for taxes | 36 | | | |
| (previous year) | (16) | 0 | 0 | |
| thereof for social security | 0 | | | |
| (previous year) | (3) | 0 | 0 | |
| | 1,750 | 2,830 | 0 | 4,580 |
| (31.12.2006 | 2,204 | 2,680 | 0 | 4,884) |

The liabilities with a remaining term of 1 to 5 years relate solely to liabilities due to affiliated companies.

**Accounts due to affiliated companies**
The accounts due to affiliated companies on December 31st 2007 relate solely to F&M Film und Medien Beteiligungs GmbH (K€ 2,830, previous year K€ 2,680). This position concerns a loan of € 2,500,000.00 granted as part of the restructuring programme in a contract concluded on October 17th 2005. The loan attracts interest at the rate of 6% p.a. and expires on December 31st 2008. The loan and the interest thereon (2007: K€ 150, previous year K€ 180) must be repaid by January 1st 2009.

The lender was given the following security as collateral for its claims:

- 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

18 programmes were excluded from the collateral granted. Title to these programmes was passed to EM.Entertainment GmbH as security for the pre-payments of future sales income made by EM.Entertainment GmbH to the company (advance payments received on account of orders). 11 programmes were transferred back to the company by an addendum signed on September 11th and 12th 2007 so that only seven programmes are assigned as collateral to EM.Entertainment GmbH.

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

**Other financial commitments**
In a contract concluded on March 15th 2006, the company agreed the tenancy of new commercial premises in Munich with effect from June 15th 2006. This rental contract gives rise to annual rental commitments of K€ 57. The contract is concluded for a fixed term ending on May 31st 2011.
Leasing contracts (for cars, telephone equipment, copiers) give rise to commitments of K€ 68 over the period from 2008 to 2011, of which K€ 28 relates to 2008.

## IV. Explanations of the income statement

### Sales

Sales of K€ 1,420 (previous year K€ 3.395) were achieved in the domestic market and K€ 94 (previous year K€ 268) outside Germany. The sales of K€ 230 (previous year K€ 922) achieved with EM.Entertainment GmbH in Unterföhring as a result of the sales co-operation agreement is shown as domestic sales, even though the sales relate almost wholly to sales of licences in foreign licence territories.
Of these sales, K€ 955 (previous year K€ 3,106) were achieved by the licence sales business division and K€ 559 (previous year K€ 557) by the productions division.

### Other operating income

This item primarily includes income of K€ 133 (previous year K€ 852) from the write-off of liabilities and from revaluations of intangible assets to the amount of K€ 1,977 (previous year K€ 926). The revaluations resulted chiefly from the development of the home entertainment division (DVDs, video on demand, Pay TV).
A further K€ 1,000 relates to the resolution of a legal dispute in connection with the conclusion of a first look agreement between the company and The Walt Disney Company (Germany) GmbH.

### Cost of materials

This position relates to sales-related costs for licences, commissions and materials. These are principally the costs of licences (authors' shares) to the amount of K€ 128 (previous year K€ 399), commissions (K€ 71, previous year K€ 287) and the Super RTL slot (K€ 0, previous year K€ 875). The costs of purchased services relate mainly to the costs of shooting films and other costs incurred in making films.

### Personnel expenses

An average of nine salaried employees (of which one is the CEO) were employed over the year.

### Depreciation

Unplanned write-offs of film assets K€ 1,108 (previous year K€ 662) had to be made as a result of so-called impairment tests. In addition, write-offs of K€ 609 (previous year K€ 260) were made on film assets as a result of the use made of the assets.

### Other operating expenses

This collective item includes chiefly the costs of repairs and administration (especially legal, court, audit and consultancy costs), rental and leasing costs as well as press, advertising and industrial fair costs.

### Interest and similar expenses

Interest expense to affiliated companies was K€ 150 (previous year K€ 150).

## V. Information on the company's statutory bodies

### The members of the Supervisory Board during the financial year were:

*Dr. Hans-Sebastian Graf von Wallwitz of Munich*
Lawyer
Chairman

*Johannes Thun-Hohenstein of Vienna in Austria*
Media consultant
Deputy chairman

*Dr. Hans-Michel Piëch of Vienna in Austria*
Lawyer
Supervisory Board member
(until December 31st 2007)

*Dr. Andreas Aufschnaiter of Munich*
Business consultant
Supervisory Board member
(from January 1st 2008)
Substitute member of the Supervisory Board
(from July 18th to December 31st 2007)

The total remuneration of the Supervisory Board in the financial year 2007 was K€ 30. In accordance with § 16 of the company's statutes, K€ 12 of this amount is due to the chairman, K€ 9 to the deputy chairman and K€ 6 to the other members. Due to the changes which took place on the Supervisory Board, the remuneration was calculated on a pro rata temporis basis. The members of the supervisory Board owned 100 shares on December 31st 2007.

The members of the Supervisory Board hold the following positions on other supervisory boards and control bodies within the meaning of § 125 section 1.3 of the German Companies Act:

*Dr. Hans-Michel Piëch:*
Full supervisory board member of the following companies:

- Porsche Automobil Holding SE in Stuttgart
- Dr. Ing.h.c. F. Porsche AG in Stuttgart
- Porsche Bank AG in Salzburg, Austria
- Porsche Holding GmbH in Salzburg, Austria
- Porsche Cars North America Inc. Wilmington, USA
- Porsche Cars Great Britain Ltd., Reading, Great Britain
- Porsche Italia S.p.A., in Padua, Italy
- Porsche Ibérica S.A., Madrid in Spain
- Porsche Ges.m.b.H, Salzburg in Austria
- Volksoper Wien GmbH, Vienna in Austria

*Dr. Andreas Aufschnaiter:*
Full board member of the following companies:

- GCI Financial Services AG in Munich
- PFAFF Industrie Maschinen AG in Kaiserslautern
- MEA Meisinger AG in Aichach
- Konsortium AG in Augsburg
- STEMAS AG in Munich
- Vantargis AG in Munich (Chairman)

**Board of Management**

Dr. Stefan Piëch of Vienna in Austria
The Board of Management's total remuneration in the financial year 2007 was K€ 124. They were made up of fixed benefits and benefits-in-kind. A reserve created in the previous year for outstanding salary was reversed (minus K€ 15). The Board of Management held 1,000 shares on the balance sheet cut-off date. The total remuneration of former members of the Board of Management was K€ 120.
The pension reserves for former members of the Board of Management and their dependents are fully provided for and amounted to K€ 303 on December 31st 2007.

**VI. Audit and consultancy fees**
The auditors' fee for the audit of the financial statements in accordance with the German Commercial Code and of the dependency report for the period ending December 31st 2007 shown as expense in the financial year amounted to K€ 30 and the fee for other services to K€ 17.

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

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

Munich, February 1st 2008

The Board of Management

## 6.4 Development of fixed assets in 2007 (fixed asset schedule)

**Development of fixed assets in 2007**

| | Costs of acquisition | | | | Write-ups | Accumulated | Book value | Depreciation |
|---|---|---|---|---|---|---|---|---|
| | 1.1.2007 € | Additions € | Disposals € | 31.12.2007 € | 2007 € | depreciation € | 31.12.2007 € | for the year € |
| **I. Intangible assets** | | | | | | | | |
| 1. IT software | 135,415.05 | 40,673.10 | 123,965.05 | 52,123.10 | 0.00 | 13,010.10 | 39,113,00 | 12,692.10 |
| 2. Film assets and other rights | 132,803,255.43 | 717,348.00 | 0.00 | 133,520,603.43 | 1,977,375.59 | 124,198,144.22 | 11,299,834.80 | 1,717,409.88 [1)] |
| | 132,938,670.48 | 758,021.10 | 123,965.05 | 133,572,726.53 | 1,977,375.59 | 124,211,154.32 | 11,338,947.80 | 1,730,101.98 |
| **II. Property, plant & equipment** | | | | | | | | |
| Other equipment, operational and office equipment | 885,902.66 | 36,019.53 | 731,332.84 | 190,589.35 | 0.00 | 124,660.35 | 65,929.00 | 24,262.53 |
| | 133,824,573.14 | 794,040.63 | 855,297.89 | 133,763,315.88 | 1,977,375.59 | 124,335,814.67 | 11,404,876.80 | 1,754,364.51 |

[1)] Including unscheduled depreciation of € 1,108,004.71.

# 6.5 Management report

## A. General

Your Family Entertainment AG (YFE) in Munich, a company quoted on the regulated market of the Frankfurt Stock Exchange under security identification number 540891 (ISIN DE0005408918) is one of Germany's longest-established companies engaged in the production of entertainment programmes for children, young people and families and trade in the licences for these products.

YFE, which previously traded as RTV Family Entertainment AG (RTV) and which has its origins in Ravensburger AG, focuses its activities on educational, non-violent programmes for the whole family. The company's high-quality library of programmes currently consists of more than 3,500 half-hour programmes and is therefore one of the largest of its kind in Europe. YFE uses and markets this library of rights in free-TV, pay-TV, via DVD, Video on Demand (VoD) and in merchandising. The library was built up by the Ravensburger Group over a period of 25 years and is being continued by YFE with the same traditional values.

The company's business divisions are still divided between licence sales and productions. The business division's home entertainment, merchandising as well as Internet and the new media are still in the introductory phase.
The business division licence sales include the trade in licences for free-TV and pay-TV as well as the whole value creation chain of ancillary rights marketing. The division "productions" is divided into two sub-divisions, productions-to-order and so-called repertoire productions and extends from the pure development of programmes through to full-service productions. This spectrum includes both animation and live-action programmes on the one hand and game and quiz shows and infotainment programmes on the other. The company also develops and produces television series as co-producer together with international partners. YFE also strengthens its involvement in the production of shows and infotainment programmes as a supplier of entertainment programmes for the whole family.
Since the end of the 2006 financial year, Your Family Entertainment AG has also been engaged in the production and distribution of DVD and audio products in the field of home entertainment with its own label "yourfamilyentertainment".
Since November 5th 2007, YFE has also been represented in the market with its own pay-TV station "yourfamily" and has, in this way, been able to establish additional direct access to the final customer. The German-language station broadcasts YFE's programmes 24 hours a day via satellite, cable and DSL (IPTV).

## B. Annual financial statements (in accordance with the German Commercial Code)

### 1. The overall economic situation

The economic situation both internationally and in the Euro-zone is losing pace. Real gross domestic product in the Euro-zone will grow by 2.0% in 2008 (2007: 2.6%). The German economy is still on an upward trend, which is however restrained by, amongst other things, such factors as the restrictive financial policy, the increase in oil prices and the revaluation of the Euro. The underlying conditions have however markedly improved (source: ifo-Institut in Munich).
The entertainment and media industry generally reacts to fluctuations in the overall economy more strongly than the rest of the economy. The entertainment and media industry therefore experiences stronger growth in phases of economic upturn than the economy as a whole. The continued positive assessment of the current phase of economic development and the economic growth for 2008 forecast by the Ifo-Institut in Munich therefore allow us to anticipate positive development in the entertainment and media industry.
The German television market is in a state of upheaval. Telecommunications companies and cable network operators are forcing themselves onto the market with their own programmes and television channels. The sale of television programmes via the Internet and mobile telephones is becoming a reality and video-on-demand products are gaining in significance.

### 2. Key events during the 2007 financial year

The company's reorientation which was already started in 2005 was continued in 2007. The sustained expansion of the new business area home entertainment and the establishment of the company's own TV station "yourfamily" received particular emphasis as part of this policy. "yourfamily" went on air on November 5th 2007 and is an important factor in marketing the company's product range.
In the "productions" business division the second phase of the series "Dragon Hunters" was partially completed and delivered in co-operation with the partner Futurikon. The series will probably be finally completed in the first half of 2008. A legal dispute with The Walt Disney Company (Germany) was resolved as part of an agreement concluded in the first half of 2007. The Walt Disney Company (Germany) GmbH paid an amount of K€ 1,000 in order to resolve the dispute which is shown under other operating income. In addition, a first-look agreement was signed with The Walt Disney Company (Germany) GmbH according to which the Walt Disney Company (Germany) GmbH is granted an option to negotiate first on all rights to YFE's entertainment programmes and associated merchandising.

As already described in the 2005 company report, a settlement was reached in April 2005 with our long-standing co-operation partner D'Ocon Films, S.A. ("D'Ocon") before the civil court in Barcelona, according to which D'Ocon is required to pay an amount of K€ 550 to RTV. In 2004, RTV had lodged a writ against D'Ocon for the payment of co-production fees in connection with the programme "Fix + Foxi II" which D'Ocon had owed since 2002. So far D'Ocon has made a part-payment of K€ 50. The company had anticipated the payment of the principle claim of K€ 500 in 2006 . Foreclosure of the claim was initiated through the courts after D'Ocon, without giving any reasons, refused payment. Litigation on the matter is still proceeding. It is currently not possible to say when the matter will finally be settled.

In December 2005, one of the company's shareholders – together with three other parties – began litigation for alleged intentional illegitimate injury in connection with transactions during the period 1999 to 2002. The regional court of Ravensburg totally rejected this writ in a judgement issued on November 20th 2006. The amount at issue in the first instance was approximately K€ 31. The shareholder has submitted an appeal against this judgement. The appeal proceedings are still in progress.

In August 2007, a shareholder submitted a writ to the regional court in Munich I to quash the resolutions passed at the company's annual general meeting on July 18th 2007 relating to item 2 on the agenda "approval of the Board of Management's actions in financial year 2006" and item 3 "approval of the Supervisory Board's actions in financial year 2006". The plaintiff bases his case on the lack of information given. A hearing to reconcile differences took place before the regional court of Munich I on November 22nd 2007. The writ was rejected in a judgement issued on January 31st 2008.

**3. The development of the individual business divisions**

Your Family Entertainment AG's sales declined in the reporting period from K€ 3,663 to K€ 1,514. This represents a reduction versus 2006 of 59%.
The following sales were achieved in the individual business segments during the past year:

| Sales by business division | 2007 | | 2006 | |
|---|---|---|---|---|
| | in K€ | in % | in K€ | in % |
| License Sales | 955 | 63 | 3,106 | 85 |
| Productions | 559 | 37 | 557 | 15 |
| Total | 1,514 | 100 | 3,663 | 100 |

**License Sales**

The business division licence sales achieved sales during the past financial year of K€ 955, corresponding to a decline of 69% compared with the previous year (K€ 3,106). This reduction is partially due to the ending of the programme slot with Super RTL (sales of K€ 1,222 were achieved with this programme slot in the previous year). A further reason for the reduction in total sales in the business division licence sales is to be found in the selling-related cycle and reflects the overall assessment of our existing sales co-operation agreement with EM.Entertainment GmbH in Unterföhring. Sales of K€ 230 (previous year K€ 922) were achieved in this area and additional sales of K€ 72 (previous year K€ 246) were again achieved by the distribution partner Planeta Junior in the sales territories Italy, Spain and Portugal.

**Productions**

Roughly 37% or K€ 559 (previous year K€ 557) of total sales were accounted for by the productions division.
These sales were achieved principally through the completion and delivery to Super RTL of the first 13 episodes of the second series of Dragon Hunters.

**Sales by region**

YFE's sales during the reporting period were accounted for as follows:

| Sales by region | 2007 | | 2006 | |
|---|---|---|---|---|
| | in K€ | in % | in K€ | in % |
| Domestic | 1,420 | 94 | 3,395 | 93 |
| Foreign | 94 | 6 | 268 | 7 |
| Total | 1,514 | 100 | 3,663 | 100 |

The sales made by EM.Entertainment GmbH for YFE are shown for accounting purposes as domestic sales, even though these sales relate almost wholly to the sale of licences in foreign licence territories.

**4. Earnings situation**

YFE was once more able to report positive results in the second year following the successful implementation of the restructuring programme.
Earnings before depreciation, write-ups, interest and taxes (EBITDA) are K€ 821 (previous year K€ 1,254). EBIT in the reporting period is K€ 1,044 compared with K€ 1,227 in the previous year. The results of ordinary business operations are K€ 908 compared with K€ 1,081. Net income in 2007 is K€ 907 compared with K€ 1,011 in the previous year. Total other operating income during the reporting period was K€ 3,289 (previous year K€ 2,022). This position includes in the reporting year, amongst other things, the write-ups of film assets to the amount of K€ 1,977 (previous year K€ 926) and K€ 1,000 (previous year K€ 0) from the agreement with The Walt Disney Company (Germany). The write-ups of film assets resulted primarily from changes in the estimate of income in the business division "home entertainment" and were calculated on the basis of each individual title. Compared with the previous year, depreciation increased by K€ 801 from K€ 953 to K€ 1,754. This position includes unscheduled depreciation of film rights to the amount of K€ 1,108 (previous year K€ 662).

**5. Asset and financial situation**

The total balance sheet amount increased in comparison with the previous year to K€ 12,736 (previous year K€ 12,131). The intangible assets (primarily film assets and other rights) increased to K€ 11,339 (previous year K€ 10,334).

Short-term receivables were reduced from K€ 993 to K€ 793. This item includes receivables due from customers of programmes of the TV stations and distribution co-operation partners as well as from D'Ocon. Shareholders' equity increased in comparison with the previous year by K€ 907 to K€ 7,630 (previous year K€ 6,723). YFE therefore reported a subscribed capital of K€ 6,525 on December 31st 2007, a capital reserve of K€ 1,200 and an accumulated loss of K€ 95 versus an accumulated loss of K€ 1,002 in the previous year.
YFE has liabilities resulting from a shareholder loan granted by F&M Film und Medien Beteiligungs GmbH in Vienna in Austria ("F&M") of K€ 2,830. The term of the loan ends on December 31st 2008. It has been agreed that the loan will be repaid on January 1st 2009.
Other reserves and accrued liabilities which stood at K€ 164 at the previous year's balance sheet cut-off date increased slightly to € 174. Liquid funds consisting of bank balances declined from K€ 729 in the previous year to K€ 523 on the balance sheet cut-off date. This decline is chiefly due to the high cash flow required by investment activities with a net outflow of K€ 644 (previous year only K€ 71) - (K€ 150 of the additions to fixed assets were offset against receivables) accompanied by a positive cash flow of K€ 438 (previous year K€ 477) from current business activities.

**6. Investments**

Investments of K€ 794 were carried out during the reporting year (previous year K€ 71). Investments related chiefly to film assets to the amount of K€ 717.

### 7. Key financial data

| Key financial data in K€ | 2007 | 2006 |
|---|---|---|
| | | |
| Sales | 1,514 | 3,663 |
| EBITDA | 821 | 1,254 |
| EBIT | 1,044 | 1,227 |
| Net income | 907 | 1,011 |
| Cash flow from business operations | 438 | 477 |
| | | |
| Total balance sheet amount | 12,736 | 12,131 |
| Film assets | 11,300 | 10,323 |
| | | |
| Shareholders' equity | 7,630 | 6,723 |
| Interest-bearing liabilities | 2,500 | 2,500 |

### 8. Employees

At K€ 614, personnel expenses in the financial year 2007 were slightly above the value in the previous year (in 2006: K€ 612).
YFE employed 13 people (including the CEO) on the balance sheet cut-off date.

## C. Report on business risks

### 1. General business risk

*Fluctuations of future business results*
Fluctuations in YFE'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 YFE operates is still characterised by a process of consolidation and concentration, among both 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 production of programmes – produced both by the company itself and co-productions – involves a range of operational risks. The production of programmes and television broadcasts is generally highly cost-intensive and entails a correspondingly high financial risk. Should, for example, in spite of a careful selection of co-production partners and service-providers. delays in completion occur then this may give rise to postponements of the sales and profit planned by the company to a later accounting period. The risk can also not be excluded that YFE will not have sufficient financial resources available for the development of programmes and their production, something which is a basic condition for the company's ability to act commercially.

**Co-production:**
YFE ensures the completion of its co-productions by the careful selection of established and reliable co-production partners and service-providers as well as by means of insurance policies or completion bonds.

YFE also carries out regular checks on both finances and content during the production. 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 from the client in return. The producer therefore carries the risk of possible budget overruns should he have wrongly estimated the costs of the production or should unplanned costs arise. In the case of a licence production, the producer carries the full financing risk right through to the delivery of the complete product. The costs of production and, where applicable, profit are covered by the licence fee if the production is delivered according to contract. Should, however, 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 purchasing and marketing of programmes***
YFE 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.
The depreciation of film assets (that is the rights of use and exploitation referred to above) and the other rights is governed by the use made of the film rights. Depreciation is calculated in accordance with the sales realised in the financial year in proportion to total planned future sales from the use of the film rights including the sales in the current financial year. Moreover, a test of the lowest cost or market value (a so-called impairment test) is carried out on every balance sheet cut-off date. It is impossible to completely exclude the risk that impairment tests carried out in the future will considerably reduce the value of the film library. Two-thirds of the company's catalogue of film rights, which currently consists of approximately 170 titles, derives from licences from third parties, whilst only a third of the titles were produced by the company itself or co-produced. The licences from third parties in YFE's possession have not been granted indefinitely but generally for a limited time period. YFE may no longer use these licences should it not be possible to renew a large part of them on expiry. An essential part of the library and thereby the basis of the company would then cease to exist. This can have negative implications for the company's asset, financial and earnings situation. EM. Sport Media AG, the legal successor of EM.TV AG, has decided to end its business activities in the field of entertainment for children and young people and has decided, as part of this policy, amongst other measures, to sell its subsidiary EM.Entertainment GmbH. There is currently a sales co-operation agreement between YFE and EM.Entertainment GmbH which is now up for sale. The sale of this company to a new owner and thereby indirectly the sale of the programme rights distributed by EM.Entertainment GmbH on behalf of YFE could have profound effects on YFE's asset, financial and earnings situation.

**4. Financial risks**

***a) Access to external means of financing***
Liabilities to banks have been completely eliminated as a result of the restructuring project successfully carried out in 2005. No external financing in the form of bank loans is currently used.
As part of the sales co-operation agreement with EM.Entertainment GmbH, the loan agreement with F&M and the loan facility contract with Commerzbank AG, YFE has however provided securities to these companies in the form of rights and claims.
YFE's chances of acquiring additional loans could be made considerably more difficult should valuable securities not be released. Should the company be unable to acquire additional loans when these are required, this could have considerable implications for the company's asset, financial and earnings situation.

***b) Exchange rate fluctuation, exchange rate transactions***
The company's current and future activities outside the area of the European currency union are partly transacted in currencies other than the Euro, either by YFE itself or by its sales distribution partners. The exchange rates in this area are subject to fluctuations which are entirely unpredictable and which may possibly prevent the company from generating a stable income. The basic risk of losses from such exchange rate fluctuations

does exist. Unfavourable exchange rate fluctuations or costs incurred in the future for exchange rate transactions could therefore negatively impinge upon the development of sales and thereby the company's asset, financial and earnings situation.

**5. Risk management**

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

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

The aim 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. A daily liquidity report is also prepared.

The aim 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 aim 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 is supported by three pillars – the audited financial statements, the half-yearly financial statements and continuous checks on the balance sheet. In addition, a monthly report is prepared showing a calculation of profit contributions. The development of the particular market and company is also updated in an internal rolling forecast. Short-term budgeting is therefore used both as an important early-warning system and as the basis for variance analyses and budget control.

**D. Events of particular significance occurring after the end of the financial year**

**1. Change in the Supervisory Board**

Dr Andreas Aufschnaiter, a management consultant based in Munich, became a full member of YFE's Supervisory Board on January 1st 2008. Dr Aufschnaiter had already been elected a substitute member of the Supervisory Board at the company's shareholders' meeting on July 18th 2007.

Dr Hans Michel Piëch, a lawyer based in Vienna in Austria, resigned his office as a full member of YFE's Supervisory Board on December 31st 2007.

**2. Loan facility contract**

YFE signed a contract for a loan facility with Commerzbank AG in Stuttgart (lender) on January 14th 2008. The lender granted a loan facility of € 3,500,000.00. YFE may use the facility either for overdraft purposes or as a money market loan. The complete or partial use of the facility for overdraft purposes is currently, and until further notice, subject to an interest rate of 8 % p.a. The Commerzbank AG charges the company interest at the rate of EURIBOR plus a margin of 1 % p.a. on the outstanding loan amount for the partial or complete use of the facility as a money market loan. The lender receives a commitment fee and a processing fee at the normal market level for providing the facility. The purpose of the loan is chiefly the repayment of the existing loan plus interest provided to the company by F&M which is due for repayment on January 1st 2009. The loan facility also serves to finance working capital. The loan facility expires on December 30th 2010. The loan facility is secured by the assignment of rights and claims from film licence and sales contracts, insurance claims and the transfer of the rights to film material.

**3. Capital increase**

The Board of Management decided on November 22nd 2007, with the consent of the Supervisory Board, to use the approved capital and to carry out an increase in share capital from K€ 6,525 by up to K€ 2,175 to up to K€ 8,700 in cash through the issue of up to 2,174,512 new bearer share certificates with an arithmetic share of capital of € 1.00 per share.

The Board of Management announced on January 16th 2008, with the Supervisory Board's consent, the following basic data on the planned capital increase: the shares will be offered to existing shareholders during the period February 8th to 22nd 2008 at a subscription price of € 1.50 per unit share. The new shares are fully entitled to participate in profit from January 1st 2007.

The new shares not subscribed for will be offered publicly for subscription by auction during the period February 26th to 2 p.m. CET on March 11th 2008. The minimum price will be € 1.50 per unit share and may only be increased in steps of 5 cents. A subscription offer of € 1.50; € 1.55; € 1.60, etc. may therefore be submitted. The minimum subscription is 300 unit shares.

Both the beginning of the subscription period for existing shareholders and that of the public offer mentioned above are subject to the approval of the company's share project by the German Federal Agency for the Supervision of Financial Services ("BaFin") by the end of

January 2008. The Agency approved the share prospect submitted on January 28th 2008. The subscription is not binding should the execution of the capital increase not have been recorded in the company's Commercial Register by June 30th 2008.

Your Family Entertainment AG intends to use the net proceeds of the issue to continue the development of the operational business. It is intended that investments should be made chiefly in new programmes, synchronisations and the company's own pay-TV station "yourfamily".

**4. New sales co-operation agreement in the field of home entertainment**

YFE and the Foreign Media Group Germany GmbH have been partners in DVD distribution in the German market since January 2008. Accordingly, from March 10th 2008 the Foreign Media Group will distribute "yourfamilyentertainment's" new products throughout the whole of Germany. The sales co-operation agreement between M.i.B Medienvertrieb in Buchholz and Your Family Entertainment AG has been terminated.

## E. Forecast

2007 will also be marked by low-risk growth based on YFE's completed restructuring programme. Increased efforts in existing core business lines will be guided chiefly by cash flow considerations. YFE intends to use the net proceeds of the emission from the capital increase for investments in the operational business and for general financing purposes.
The optimisation of distribution channels plays a central role in the company's future development. The first steps in this direction have already been undertaken with the establishment of the pay-TV station "yourfamily" and the company's own DVD label "yourfamilyentertainment". An additional goal is the expansion of the core business of production. The trend towards the development and production of externally financed entertainment programmes already signalised last year will be continued and expanded.
Distribution partnerships have already been established for DVD sales and the marketing of audio rights. The strategic direction chosen is the continued expansion of additional distribution partnerships and the optimum use of the potential present in our stock of programme rights in the fields of video-on-demand, internet protocol television and DVD.
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.
YFE's long-term goal is to once more attain the position of a strong player in this market.

## F. Principles of the company's remuneration system in accordance with § 285 section 1.9 of the German Commercial Code

The remuneration of the members of the Board of Management complies with the legal requirements of the German Companies Law. The members of the Board of Management receive a fixed salary which also includes benefits-in-kind, such as the use of a company car. These fixed elements ensure a basic remuneration enabling the board member to exercise his office in the interests of the company as properly understood and to fulfil the obligations of a conscientious businessman without falling prey to the pursuit of purely short-term performance goals. The contracts of employment also contain a variable remuneration element, dependent on the commercial results achieved by the company.

## G. Reporting in accordance with § 289 section 4 of the German Commercial Code

**1. Composition of the subscribed capital**

The company's share capital on the balance sheet cut-off date was still composed of 6,525,488 unit shares, each with a share in capital of € 1.00. The company's share capital was therefore unchanged on December 31st 2007 at € 6,525,488.00. The shares are bearer-shares. They are fully paid up.

**2. Limitations concerning the voting rights and transfer of shares**

The management owns a total of 250,000 non-negotiable shares (security identification number 540893). Of this number, 105,000 shares were subject to a holding period on the balance sheet cut-off date as part of limitations on disposal. This limitation period for 35,000 of these shares expires on December 15th 2008, on December 15th 2009 for an additional 35,000 shares and on December 15th 2010 for the remaining 35,000 shares.

**3. Direct or indirect participation in the company's capital**

F&M Film und Medien Beteiligungs GmbH in Vienna in Austria owned 84.14 % of the company's share capital on December 31st 2006.

**4. Owners of shares with special rights**

There were no shares with special rights on December 31st 2006.

**5. Nature of controls on voting rights in the event of employee shareholdings**

There were no such controls on voting rights on December 31st 2006.

**6. Rules laid down by law and in the articles of association concerning the appointment and dismissal of members of the Board of Management and changes to the articles of association**

The appointment and dismissal of members of the Board of Management occurs in accordance with §§ 84 and 85 of the German Companies Law. Changes to the articles of association occur in accordance with §§ 133 and 179 of the German Companies Law.

**7. Rights of the Board of Management to issue and to buy back shares**

The annual general shareholders' meeting, which took place on July 12th 2006, established an authorised capital (authorised capital IV). The Board of Management was empowered, with the approval of the Supervisory Board, to increase the company's share capital by up to € 3,250,000.00 by July 12th 2011 through the issue of bearer-shares in return for cash and/or payments-in-kind. Shareholders shall be granted the right to subscribe to these shares. The Board of Management may however, with the consent of the Supervisory Board, exclude shareholders' rights to subscribe should the new shares be issued in return for payments-in-kind.
The Board of Management may also, with the Supervisory Board's approval, exclude shareholders' rights to subscribe to shares to eliminate fractional amounts in their shareholdings.
The Board of Management is also empowered, with the Supervisory Board's approval, to exclude the right of shareholders to subscribe to capital increases in return for cash when the offering price of the new shares is not markedly below the stock exchange price. This authority is however subject to the proviso that the new shares issued, excluding subscription rights in accordance with §§ 203 section 1, 186 section 2.4 of the German Companies Law, may not exceed 10% of the share capital, neither at the time that it comes into effect nor at the time it is exercised.

**8. Important agreements conditional on a change in control as a consequence of a take-over offer**

There were no such agreements on the balance sheet cut-off date.

**9. Compensation agreements**

On the balance sheet cut-off date there were no compensation agreements with the members of the Board of Management or employees in the event of a take-over offer.

**H. Dependent company report**

The Board of Management has prepared and submitted a report on the relations of Your Family Entertainment AG with subsidiary companies (dependent company report) for the 2007 financial year to the year-end auditors. The Board of Management declares that the company received an appropriate return for the legal transaction, given the circumstances which were known to it at the time the legal transaction was carried out.

Munich, February 1st 2008

The Board of Management

# 7. Auditors' certificate - Ernst & Young, Ravensburg

**Auditors' certificate**

We have audited the financial statements – consisting of the balance sheet, statement of income and the notes to these financial statements – including the accounting system and the management report of Your Family Entertainment AG in Munich for the financial year from January 1st to December 31st 2007. The accounting system and the preparation of the financial statements and management report in accordance with the provisions of German commercial law 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 group financial statements and the group management report.

We conducted our audit of the financial statements in accordance with § 317 of the German Commercial Code 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 on 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 acquired during the course of the audit, the financial statements comply with the requirements of the law and give a true and fair picture of the group's assets, financial position and income in accordance with generally-accepted accounting principles. The management report is consistent with the annual financial statements, correctly reflects the company's current situation and accurately presents the risks present in future development.

Ravensburg, February 1st 2008
Ernst & Young AG
Auditors and tax advisers

Dr. Oechsle
Certified auditor

Liebe
Certified auditor

# 8. Assurance given by the company's legal representative

"I certify that, to the best of my knowledge and in accordance with the applicable accounting principles, the annual financial statements convey a true and fair picture of Your Family Entertainment AG's asset, financial and earnings situation and that the management report presents the development of the business and its results and the company's current situation in such a way that a true and fair picture is conveyed and that major risks and opportunities of the company's probable development are described."

Munich, February 1st 2008

Dr. Stefan Piëch
CEO

# 9. Financial calendar

- Interim announcement for the first half-year of 2008 on May 16th 2008
- Annual general shareholders' meeting on July 9th 2008
- Semi-annual financial report on August 18th 2008
- Interim announcement for the second half-year of 2008 on November 14th 2008

# 10. Impressum / How to contact us

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