yourfamilyentertainment

Annual Business and Financial Report 2010

yourfamily entertainment

Key data Your Family Entertainment AG		2010	2009
Sales	T €	2,325	3,783
EBITDA	T €	506	1,448
EBIT	T €	726	837
Net Income	T €	665	774
Total balance sheet amount	T €	15,827	15,981
Value of film assets	T €	15,022	14,156
Shareholders' equity	T €	12,977	12,486
Interest-bearing liabilities	T €	1,350	1,130

Table of Contents

Dear Shareholders,

Again this year, we are happy to give you a positive report on the progress of our Company. Despite a challenging environment, the 2010 financial year was a good one.

This financial year began with an agreement for a long-term cooperation with the Australian animation company Ettamogh LMD Pty Ltd. to distribute worldwide its animation series outside Australia and New Zealand. Other distribution agreements highlighted the first half of the year, including one with Al Jazeera in the Middle East and KidsCo in Western European countries. In addition, Russian state television has been showing the Your Family Entertainment animated series Country Mouse and City Mouse since June 2010.

Our pay-TV channel, yourfamily, started in late 2007, also continued its growth. Since April 2010, yourfamily can be received on France's IPTV platform SFR. It now reaches 45 percent of all French television-viewing households. We also intensified our cooperation with the Baden-Wuerttemberg cable provider Kabel BW and, since July 2010, yourfamily is also a part of the 24entertainment line-up at CITYCOM in Graz, Austria. Since February 2011, yourfamily is on the new Vodafone DSL plus TV roster of channels.

And 2010 was also the year of new, innovative distribution formats. Thanks to a cooperation with Hutchison 3G Austria GmbH, over the course of the year two new mobile TV channels – Cosmo & Wanda and Country Mouse & City Mouse – joined the successful yourfamily in our channel offerings. This means that Your Family Entertainment's high-quality programming can be viewed by every "3" customer in Austria who has an iphone or an ipad, Android Tab or a Smartphone.

On September 16th, 2010, in the stunning Hunting Plateau in Vienna's Hofburg Palace, Your Family Entertainment AG had the opportunity to celebrate 30 years in business – the four most recent of those as Your Family Entertaiment AG – and the 3rd anniversary of its yourfamily launch. The occasion gave us the pleasure of enjoying a huge amount of positive feedback about our company, and what we stand for, from channel partners, competitors and the industry press alike.

One such feedback came in the form our most joyous moment of 2010, when, on November 19th in Venice, an independent, well-respected jury chose our yourfamily channel to win the HOT BIRD™ TV Award for excellence and innovation.

The primary focus of our activities remains the continuation of the company's development through growth in existing and new business sectors, based on the principle of increasing our company's sustainable value for you, our shareholders. Proof that we are on the right track lies in the fact that in 2010, for the first time in our history as a listed company, we paid out a tax-free dividend in the amount of two euro cents per share.

At this time, we would like to take the opportunity to thank you, our shareholder, for your trust in our company. I would also like to thank the members of the Supervisory Board of Your Family Entertainment AG, who have supported and continue to support the company in both word and deed.

I would also like to express my sincerest thanks to all of our employees. Without the dedication and performance you bring to work every day, all of the aforementioned achievements would not have been possible. I am overjoyed to work with a team that, with great imagination and personal commitment, masters all the challenges faced each and every day.

Munich, April 2011

Dr. Stefan Piëch
CEO

2. About us

The listed company Your Family Entertainment AG boasts a more than 30 year history in the business of license sales and the production of quality programming for children, teens and the whole family. Its portfolio of around 3,500 half-hour shows counts among Europe's largest aimed at the child, youth and family market. The company's children and family channel, yourfamily, on air since 2007 and a 2010 HOT BIRD™ TV Award winner, broadcasts shows with educational value for pre-schoolers, high-quality animation series for children and engaging programs for the whole family.

winner
HOT BIRD™ TV AWARDS 2010

Mission Odyssey

After his glorious victory over Troy, our young hero, Ulysses, sets off to reunite with his family. But on the long trip to Ithaca, he is forced to contend with the vengeful wrath of the merciless Poseidon. Together with his travel companions and true friends, Ulysses must fight against such mythological creatures as Cyclopes, Sirens and Centaurs and cleverly and bravely defeat them.

Oscar, the Balloonist

26-part German/Canadian/Hungarian animation series, 2010

Oscar, a curious little scientist, travels around the world in a hot air balloon with his friend Kalli. They discover the wonder of nature. Oscar poses humorous questions that engage every child. With these, he couples factual content with exciting adventures.

Tales of the South Seas

Based on Jack London's classic story and set in the early 20th century, David Grief and his Polynesian friend sail the waters surrounding a South Sea island. Beautiful and exotic scenery provides the lush backdrop to one adventure after another.

3. Report of the Supervisory Board

Dear Shareholders,

the Supervisory Board regularly monitored, controlled and advised on the work of the Board of Management during the 2010 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 of intended business policy, the company's planning, including financial, investment and human resources, as well as on the development of the business and its current situation.

A total of four meetings of the Supervisory Board were held in the 2010 financial year. With the exception of June 17th, 2010, when the Chairman was unable to attend, all members were in attendance for each meeting. All members of the Supervisory Board therefore participated in at least half of its meetings during their period of office in the 2010 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. During the 2010 financial year, on several occasions, the Supervisory Board also made use of its right to inspect the books and correspondence as well as the company's assets. The Board of Management was available at all times to answer questions and to give explanations.

Key subjects discussed by the Supervisory Board

As in previous years, the Supervisory Board's deliberations and control activities in the 2010 financial year were dominated by, on the one hand, the sales development in the company's core business and, on the other, the development of newly initiated business segments by the company.

Unlike in previous years, the 2010 financial year was characterized by the fact that there are no extraordinarily significant items to report. What does stand out, however, is the continually pleasing development of the pay-TV channel yourfamily, which won the prestigious HOT BIRD™ TV Award in the outstanding programming for children and teen category. Conversely, the sales figures in the area of licensing to TV broadcasters in the company's core market are still unsatisfactory. In terms of cost, the company began to introduce the appropriate compensatory measures. The situation was numerously discussed with the Board of Management and continues to be an area of intensive monitoring by the Supervisory Board.

The Supervisory Board has become more deeply involved in matters concerning the pending law suit with the company in Canada regarding "Robinson Sucroe". The supervisory Board presumes that a judgement will be reached in the second instance sometime in 2011. At present, the Supervisory Board does not feel the lawsuit poses substantial risks for the company. As soon as a judgement is available, the potential impacts on the company will be revaluated.

As in previous years, the ongoing monitoring of the company's liquidity situation remained a main focus of the Supervisory Board. The Board of Management reported regularly on the subject. The bank financing set to expire on December 31st, 2010, was extended until June 30th, 2011, with the aim of rescheduling debt.

Human Resources

In a resolution passed on October 29th, 2010, the Supervisory Board appointed Dr. Stefan Piëch as CEO of the company for an additional year, namely until December 31st, 2011.

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 GmbH, auditors and tax advisors in Stuttgart, audited the company's accounting system and its financial statements and management report for the 2010 year. The auditors issued an unqualified audit based on their 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 31st, 2011 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 2010 financial year. In its meeting of March 31st, 2010, 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 opinion:

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

1. The factual details contained in the report are correct,
2. In the year 2010, there were no legal transactions subject to reporting requirements or actions subject to reporting requirements, between the company and affiliated companies.

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 recognize developments at an early stage to counter risks.

The auditors submitted the independence declaration required by the Corporate GovernanceCode 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. 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 website (www.yf-e.com) under Investor Relations.

Additional information on the subject of Corporate Governance is contained in the Corporate Governance Report of the Annual Business and Financial Report 2010.

The Supervisory Board thanks the Board of Management and all the employees for their commitment during 2010.

Munich, March 2011

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

4. The share

1. Overview

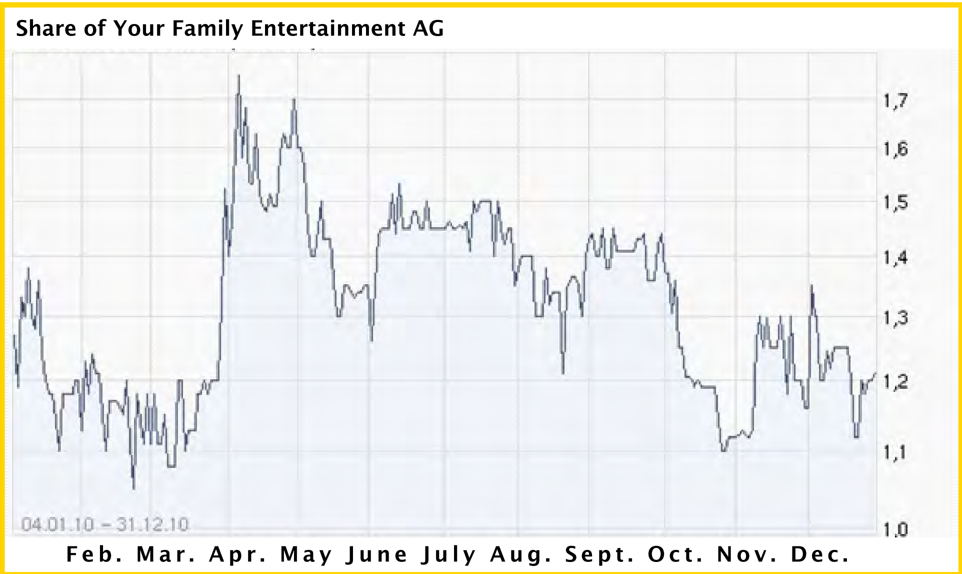
Your Family Entertainment AG is quoted under the security identification number 540891/ISIN: DE0005408918 and the abbreviation "RTV" on the regulated market of the Frankfurt Stock Exchange (General Standard).

Share of Your Family Entertainment AG

Number of shares:	8,700,000 units
Subscribed capital:	€ 8,700,000
Initial Notice:	8th June 1999
Industry:	Media & Entertainment

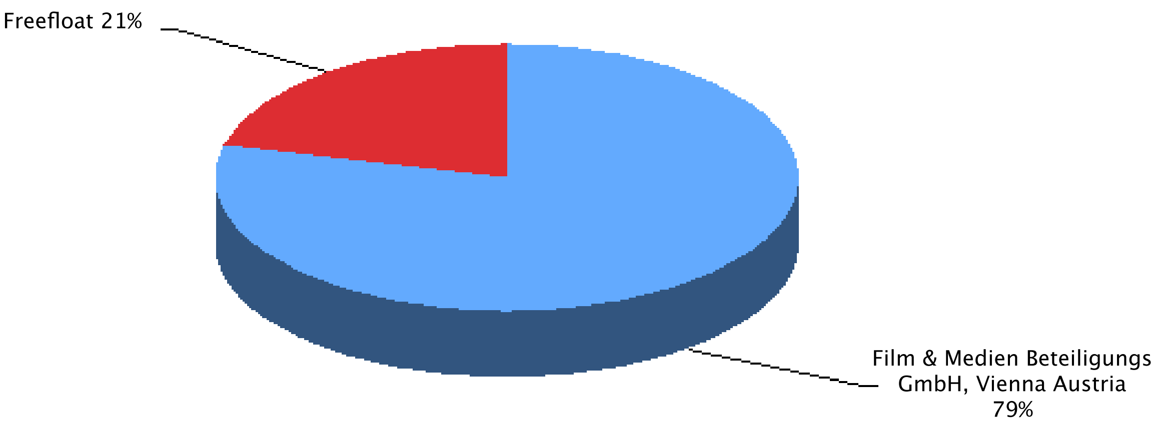
2. Development of the price of the share in 2010

During the period from January 1st to December 31st 2010, the price of the Your Family Entertainment AG share on the Frankfurt Stock Exchange developed as follows:



Source: www.ariva.de

3. Shareholding structure / December 31st, 2010



5. Corporate Governance Report

The Your Family Entertainment AG (YFE) continued to develop its corporate governance practice in 2010. We thoroughly examined the amendments made to the German Corporate Governance Code released on May 26th, 2010, and have complied with some of the new recommendations. For instance, Your Family Entertainment AG welcomes the recommendation to strive for diversity in management level positions, with a particular emphasis on the advancement of women. YFE had already implemented this in the past, independent of the Code – based, however, solely on professional qualifications. At the same time, because of its company-specific situation, YFE can only conditionally follow the recommendation for diversity within the Board of Management and the Supervisory Board. YFE has a sole director – something that is appropriate, given the current size of the company. Further comments about diversity within the Supervisory Board will be made in the compliance declaration.

The fees paid to the Board of Management and the Supervisory Board are shown in the appendix to the 2010 financial report. No conflicts of interest arose in 2010 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 cooperation with the legal firm of Schwarz Kelwing Wicke Westphal, in which Graf is a partner, was submitted to the 2007 shareholders' meeting as a resolution and appropriate approval given.

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 previous compliance declaration with the Corporate Governance Code, which was actually amended in 2010, 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 to the company's size, the usefulness of such measures and the financial parameters of a medium-size company.

The rules of business procedure under which the Board of Management and the Supervisory Board operate remained unchanged in 2010. Approximately 50 shareholders and guests, representing 80.9% of the voting share capital, took part in the 2010 shareholders' meeting. All items upon which resolutions had been submitted were accepted.

The compliance declaration required by § 161 of the German Companies Act was published on the internet (www.yf-e.com) in 2010 under the heating Investor Relations/Corporate Governance:

§ 161 of the German Companies Act requires that the Board of Management and Supervisory Board of a listed company declare annually that the recommendations made by the Government Commission on the German Corporate Governance Code, published by the Federal Ministry of Justice in the official part of the electronic Federal Gazette, have been and will be complied with or which recommendations were not and will not be applied.

The company's Board of Management and Supervisory Board welcome the German Corporate Governance Code and declare the following:

1. Your family entertainment AG will comply with German Corporate Governance Code recommendations, amended May 26th, 2010, with the following exceptions:

Supporting shareholders in voting by absentee ballot (Section 2.3.3, sentence 2)

Because, at the time of this compliance declaration, we are still involved in ongoing internal discussions on whether or not the company will authorize the use of absentee ballots for voting by the time of the next shareholder's meeting, we must declare temporary non-compliance. Your Family Entertainment AG already allows the shareholder to send a proxy familiar to the company to vote on his or her behalf, so shareholders already have the opportunity to vote before the shareholder's meeting.

D&O Insurance for the Supervisory Board (Section 3.8, paragraph 3)

The D&O insurance policy for Supervisory Board members is not subject to any excess. The company does not consider an excess as necessary to strengthen the work ethic and sense of responsibility in Supervisory Board members who perform the tasks and functions they are assigned. Legal requirements are complied with in the case of the Board of Management.

Composition of the Board of Management (Section 4.2.1, sentence 1)

Owing to the scope of business operations and the size of the company, the Board of Management currently comprises one individual.

Remuneration report (Section 4.2.5)

Because of the size of Your Family Entertainment AG's Board of Management, disclosure of management remuneration will not be presented in the remuneration report which, along with more general information on the remuneration system, forms part of the Corporate Governance Report. For the same reason, there will be no disclosure of ancillary services provided by the company in a remuneration report. The remuneration and its structure will be discussed in the Annual Business and Financial Report.

Diversity in the Board of Management (Section 5.1.2, sentence 2)

Because the company has but one sole director, the Supervisory Board cannot be mindful of diversity within the Board of Management. Furthermore, as the Board of Management comprises but one member, who is currently deemed adequate for the company and whose position is filled for the foreseeable future, it will also be impossible to follow Code recommendations to consider women for the position.

Formation of committees (Sections 5.3.1, 5.3.2, 5.3.3)

Due to the limited size of the Supervisory Board (3 members), the formation of committees is deemed unnecessary.

Establishment of specific goals for the composition of the Supervisory Board (Section 5.4.1, paragraphs 2 and 3)

The Supervisory Board of Your Family Entertainment AG does not have any specific goals for its composition. In its proposal of exclusively suitable Supervisory Board election candidates, the Supervisory Board has always aimed to put together a Supervisory Board made up of members who possess the proper qualifications – the knowledge, abilities and industry experience to work effectively. In the opinion of the Supervisory board, this approach has proven itself. Therefore, it is seen as unnecessary to change this practice. Based on the argument above, the recommendation found in 5.4.1, paragraph 3 also cannot be followed.

Success-oriented remuneration of Supervisory Board members (Section 5.4.6, paragraph 2)

At present, there is no success-oriented remuneration for Supervisory Board members. The company considers a fixed remuneration for Supervisory Board members to be more suitable for meeting the monitoring requirements of the Supervisory Board, independent of the company's success. The topic of success-oriented remuneration for Supervisory Board members will be considered again in the future, however.

Date of financial reporting (Section 7.1.2, sentence 4)

The annual financial report will not be made public within 90 days of the end of the financial year, interim reports will not be made public within

45 days of the reporting period. The associated workload for a timely release of said information would involve unjustifiably high costs. In the opinion of the Board of Management and the Supervisory Board, the legal standards for prompt reporting to shareholders and the capital market suffice.

2. Since its last compliance declaration from December 2009, Your Family Entertainment AG has generally complied with the recommendations of the German Corporate Governance Code. Since July 2nd, 2010, the following recommendations from the latest revision of the Code, from May 26th, 2010, were not applied: Sections 2.3.3 sentence 2; 3.8 paragraph 3; 4.2.1 sentence 1, 4.2.5; 5.1.2 paragraph 1 sentence 2; 5.3.1, 5.3.2, 5.3.3, 5.4.1 paragraph 2 and paragraph 3; 5.4.6 paragraph 2; 7.1.2 sentence 4. Since the time of our last compliance declaration submission, in December 2009, until July 2nd, 2010, the following recommendations from the June 18th, 2009 revision of the Code were not applied: Sections 3.8 paragraph 3; 4.2.1 sentence 1, 4.2.5, 5.1.2 paragraph 1 sentence 2; 5.3.1, 5.3.2, 5.3.3, 5.4.6 paragraph 2 and 7.1.2 sentence 4.

For the reasons of non-compliance of the aforementioned sections, see annotation 1.

Munich, December 2010

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

Dr. Stefan Piëch
(Chairman of the Board)

6. Annual Financial Statement and Management Report 2010

6.1 Balance sheet as of December 31st, 2010

6.1.1 ASSETS

		Dec. 31st 2010 €		Dec. 31st 2009 €
A. Fixed assets				
I. Intangible Assets				
1. IT software	1,691.00			5,135.00
2. Film assets and other rights	15,021,734.50			14,155,747.81
3. Prepayments made on film assets	0.00			134,353.36
		15,023,425.50		14,295,236.17
II. Tangible Assets				
Other equipment, Operational and office equipment		50,078.00		62,195.00
			15,073,503.50	14,357,431.17
B. Current Assets				
I. Inventories				
Finished goods		30,269.55		65,995.59
II. Accounts receivable and other assets				
1. Accounts receivable trade	493,309.74			420,821.80
2. Other assets	42,232.83			21,780.76
		535,542.57		442,602.56
III. Cash on hand and balances with banks		180,511.89		1,076,204.24
			746,324.01	1,518,806.80
C. Deferred charges and prepaid expenses			6,954.36	38,368.33
			15,826,781.87	**15,980,601.89**

6.1 Balance sheet as of December 31st, 2010

6.1.2 LIABILITIES

	Dec. 31st 2010 €		Dec. 31st 2009 €
A. Shareholders' Equity			
I. Capital subscribed Conditional capital € 48,267.00 (Previous year K€ 66)	8,700,000.00		8,700,000.00
II. Capital reserve	2,287,456.00		2,287,456.00
III. Accumulated earnings	1,989,888.89		1,498,371.55
		12,977,344.89	12,485,827.55
B. Reserves & Accrued Liabilities			
1. Pension Reserves	297,155.00		288,839.00
2. Other reserves and accrued liabilities	213,358.14		225,942.87
		510,513.14	514,781.87
C. Liabilities			
1. Loans	1,350,395.51		1,130,000.00
2. Advance payments received on account of orders	502,892.94		547,934.36
3. Accounts payable, trade	464,800.40		1,237,745.43
4. Other liabilities thereof for taxes: € 15,015.35 (Previous year K€ 62)	16,847.28		64,312.68
		2,334,936.13	2,979,992.47
D. Accruals and Deferrals		3,987.71	0.00
		15,826,781.87	**15,980,601.89**

6.2 Income Statement

		2010 €		2009 €
1. Sales		2,324,775.09		3,783,010.72
2. Other operating income		1,572,092.74		1,503,164.20
			3,896,867.83	5,286,174.92
3. Cost of materials				
a) Cost of licenses, commissions and materials		78,569.11		241,554.94
b) Cost of purchased services		359,557.16		282,027.42
			438,126.27	523,582.36
			3,458,741.56	4,762,592.56
4. Personnel Expenses				
a) Salaries	708,867.37			674,727.48
b) Social security expenses	90,535.19			95,464.36
c) Expenses of pension schemes	5,006.16			2,890.98
		804,408.72		
5. Depreciation of intangible assets and property, plant and equipment		1,099,913.18		1,553,421.10
6. Other operating expenses		828,087.87		1,599,510.21
			2,732,409.77	
			726,331.79	836,578.43
7. Other interest and similar income		935.78		15,833.61
8. Interest and similar income		49,551.34		69,741.79
			-48,615.56	-53,908.18
9. Result from ordinary operations			677,716.23	782,670.25
10. Extraordinary Income = extraordinary result			8,321.52	0.00
11. Taxes on income		3,261.37		7,680.05
12. Other taxes		616.00		924.00
			3,877.37	8,604.05
13. Net income			665,517.34	774,066.20
14. Profit brought forward from previous year			1,324,371.55	724,305.35
15. Accumulated earnings			**1,989,888.89**	**1,498,371.55**

6.3 Cash Flow Statement for 2010

	2010 T€	2009 T€
1. Cash flow from continuing operations		
Annual result	665	774
Exceptional items	8	0
Annual result before exceptional items	673	774
Depreciation of film assets and other rights	1,066	1,509
Depreciation of other fixed assets	35	44
Appreciation of film assets and other rights	-1,320	-942
Change in long-term reserves and accrued liabilities	-18	-50
Other non-cash income (previous year expenses)	-139	390
Losses from disposal of fixed assets	0	179
Interest income	-1	-16
Interest payable	50	70
Tax expenses	4	8
Cash flow before changes in net current assets	350	1,966
Decrease (previous year increase) in inventories	6	-8
Increase (previous year decrease) in trade receivables	-72	104
Decrease in other assets	0	41
Decrease in trade payables	-773	-244
Increase (previous year decrease) in other liabilities	131	-1,381
Cash from ongoing business activities	-358	478
Proceeds from interest	1	16
Interest payments	-19	-511
Tax payments	-4	-8
Cash flow from ongoing business activities	-380	-25
2. Cash flow from investment activities		
Payments for investments in property, plant and equipment	-17	-23
Payments for investments in other intangible assets	-2	0
Proceeds from the disposal of financial assets	0	51
Payments for investments in the film assets and other rights (including advance payments)	-322	-390
Cash flow from investing activities	-341	-362
3. Cash flow from financing activities		
Dividends paid to shareholders	-174	0
Proceeds from issuing bonds/loans	0	2.000
Payments for repayments of bonds/loans	0	-3,370
Cash flow from financing activities	-174	-1,370
4. Cash funds at the end of the period		
Change in cash funds from cash-relevant transactions	-895	-1,757
Cash funds at the beginning of the period	1,076	2,833
Cash funds at the end of the period	181	1,076
5. Composition of cash funds		
Liquid funds	181	1,076

6.4 Statement of Shareholders' Equity 2010

	Issued Capital €	Capital Reserve €	Balance Sheet Profit €	Equity €
Jan. 1st, 2009	8,700,000.00	2,287,456.00	724,305.35	11,711,761.35
Annual surplus	0.00	0.00	774,066.20	774,066.20
Jan. 31st, 2009	8,700,000.00	2,287,456.00	1,498,371.55	12,485,827.55
Jan. 1st, 2010	8,700,000.00	2,287,456.00	1,498,371.55	12,485,827.55
Dividend	0.00	0.00	–174,000.00	–174,000.00
Annual surplus	0.00	0.00	665,517.34	665,517.34
Jan. 31st, 2010	8,700,000.00	2,287,456.00	1,989,888.89	12,977,344.89

6.5 Notes for 2010

I. General information

The annual financial statements of Your Family Entertainment AG, Munich, for the 2010 financial year were prepared in accordance with the §§ 242 ff., 264ff. of the German Commercial Code and the relevant provisions of the German Companies Law. The new rules introduced in the German Accounting Law Modernisation Act (BilMoG) will be applied as of the 2010 annual report. An adjustment of the previous year's figures was renounced. The rules apply to large capital companies.

Your Family Entertaiment has its offices on Nordendstrasse 64, in Munich, Germany.

Object of the company:

The creation, editing and production of films, video and audio carriers and merchandising products, the purchase and sale of rights, investment in broadcasting companies and national and international rights as well as event marketing. The company is also a full-service supplier in the sense of an agency for the marketing of its own and others' merchandising rights at home and abroad. The company's object also includes music publishing and all related transactions or transactions promoting the purpose of the company, including the production of music, especially film music, either in its own capacity or through third parties.

The company's business activities are split into the business divisions "Production" and "License Sales".

II. Accounting and valuation methods

The presentation and valuation principles applied in the preparation of the financial statement 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 relations to the use still planned for the film rights and including the sales achieved during the financial year.

The approach used here is based on the US standard FASB ASC 926 (Entertainment - Films). The provisions of the German Commercial Code do not include such rules specific to a particular industry.

In addition, an impairment test is carried out every year-end on the cut-off date.

An appreciation is recorded when a reduction in value no longer applies, or may have been reduced. The appreciation is listed in the Profit and Loss Account. 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 and fixed assets are depreciated pro rata temporis in accordance with the straight-line method. The period of depreciation is governed by the useful lives of the assets customary in business. This is three years in the case of computer software and two-ten years for other office equipment.

Inventories are valued at their average costs of acquisition. Foreseeable inventory asset risks that result in decrease in value and lower replacement costs, owing to above-average warehouse storage time, are accounted for in the form of appropriate devaluation.

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 one percent.

Receivables in foreign currency are valued using the mean currency spot rate on the balance sheet cut-off date. In the case of a residual maturity of more than one year, the realisation and historical cost principle applies.

The pension reserves are calculated in accordance with the Project Unit Credit Method. Dr Klaus Heubeck's "2005 G Tables" are used as the basis for the calculation. For discounting, a fixed rate, based on the average market interest rate and 15 years remaining to maturity, of 5.15% was used, in accordance with the German Regulation on the Discounting of Provisions of November 2009. Expected salary and pension increases were not taken into account. The right to vote, in accordance with article 67, paragraph 1, sentence 1 of the Introductory Law to German Commercial

Code, and therefore the ability to spread the allocated amount over a maximum period of 15 years was not exercised.

Other provisions are established to take account of all uncertain liabilities. They are recognised in the amount of the settlement value (i.e, future cost and price increases). Other provisions with a maturity time of more than one year are discounted with the duration-appropriate interest rate, in accordance with German Regulation on the Discounting of Provisions.

The liabilities are recognised at settlement value.

Amounts in foreign currency are valued using the mean currency spot rate on the balance sheet cut-off date. In the case of a maturity of more than one year, the realisation and historical cost principle applies.

For the determination of deferred taxes owing to temporary or quasi-permanent differences between the commercial asset values of assets, debts and deferred items and their assigned value in terms tax, or owing to tax loss carry-forwards, the amounts of the resulting tax burden and relief will be valued with the company-specific tax rates at the time of the reduction of those differences and not be discounted.

Profit and Loss Account

The Profit and Loss Account is prepared in accordance with the cost summary method.

The recognition of sales depends on the licence contract concerned, especially the following aspects:

- a licence contract signed by both parties exists
- the contractual obligations with regard to the delivery/provision of the material have been fulfilled
- the term of the licence has begun
- the contractual fee can be determined, e.g. also by means of regular reports of the video-on-demand platforms

Whether the licensee does not use the rights until later is irrelevant with regard to the timing of the recognition of a sale.

As regards merchandising sales (business segment “Licence Sales”), the guaranteed income is shown at the time the contract is concluded or at the beginning of the relevant licence period. Income that is solely dependent on sales is recognised as the licensee records sales.

Sales in the “Production” business segment are recognised on completion of the film/series. In cases of contract production sales are recognised on completion and acceptance of the individual episodes.

III. Explanation of the balance sheet

Fixed assets

The development of individual fixed asset items is illustrated in the separate summary Depreciations of the Financial Year.

Receivables and other assets

Accounts receivable trade include items with a term exceeding one year of K€ 75 (previous year K€ 1) and other assets an amount of K€ 11 (previous year K€ 13).

Deferred charges and prepaid expenses

This includes a discount of K€ 0 (previous year K€ 12).

Shareholders’ equity

Your Family Entertainment AG’s share capital on the balance sheet cut-off date was composed of 8,700,000 unit shares, each with a share in capital of €1.00. The Company’s share capital was therefore € 8,700,000.00 on 31st December 31st, 2010. 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 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 October26th, 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%."

As of December 31st, 2009, F&M Film und Medien Beteiligungs GmbH in Vienna, Austria is in possession of 78.77% of the Company's share capital.

Authorised capital V

The July 9th, 2008 meeting of shareholders approved new authorised capital (Authorised Capital V). The Board of Management was authorised, with the Supervisory Board's approval, to increase the Company's share capital by July 8th 2013 through the issue of new bearer share certificates in return for cash and/or contributions in kind by up to € 4,350,000.00. 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 Supervisory Board's approval, exclude shareholders' rights to subscribe to shares to eliminate fractional amounts in their shareholdings.

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 sentence 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.

The authorisation for the Board of Management to increase the Company's share capital by July 8th 2013, on one or more occasions, by up to a total of € 4,350,000.00, through the issue of up to 4,350,000.00 new bearer share certificates in return for cash and/or contributions in kind, also approved by the Supervisory Board, was nullified at the shareholders' meeting on July 13th, 2010, and became effective at the time the new authorised capital (Authorised Capital 2010) was entered in the commercial register.

Authorised Capital 2010

The July 13th, 2010 meeting of shareholders approved an authorised capital (Authorised Capital 2010).

The following resolution was adopted:

a) The authorisation for the Board of Management to increase the company's share capital by July 8th 2013, on one or more occasions, by up to a total of € 4,350,000.00, through the issue of up to 4,350,000.00 new bearer share certificates in return for cash and/or contributions in kind, also approved by the Supervisory Board, is herewith nullified, effective at the time the new authorised capital, in accordance with subsequent paragraphs b) and c), is entered in the commercial register.

b) With the approval of the Supervisory Board, the Board of Management is authorised to increase the company's share capital by July 12th, 2015, on one or more occasions, by up to a total of € 4,350,000.00, through the issue of up to 4,350,000.00 new bearer share certificates in return for cash and/or contributions in kind (Authorised Capital 2010). As a matter of principle, shareholders will be thereby granted a subscription right. The legal subscription right can also be granted in such a way that the new shares can be underwritten by a bank or consortium of banks with the obligation to offer these to shareholders of Your Family Entertainment AG for subscription. With the approval of the Supervisory Board, the Board of Management is authorised to exclude the legal subscription right when:

- it is necessary for offsetting fractional amounts;
- if the shares are issued against a contribution in kind made for the purpose of purchasing companies or interests in companies or for the purpose of purchasing receivables against the company;
- if a capital increase against cash contributions does not exceed ten percent of the capital stock and the issue price of the new shares does not vastly exceed the stock market price (§186 paragraph 3 sentence 4 of the German Stock Corporation Act); when making use of this authorisation to exclude the subscription right under §186 paragraph 3 sentence 4 of the German Stock Corporation Act, the exclusion of the subscription right due to other authorisations listed under §186 paragraph 3 sentence 4 of the German Stock Corporation Act is to be taken into account.

With the approval of the Supervisory Board, the Board of Management is authorised to determine further details of the capital increase and its implementation. The Supervisory Board is authorised to update the wording of the bylaws in accordance with the utilisation of the authorised capital.

c) § 4 paragraph 3 of the bylaws will be rewritten in accordance with to the aforementioned resolutions, as follows:

(3) With the approval of the Supervisory Board, the Board of Management is authorised to increase the company's share capital by June 8th, 2015, on one or more occasions, by up to a total of € 4,350,000.00, through the issue of up to 4,350,000.00 new bearer share certificates in return for cash and/or contributions in kind (Authorised Capital 2010). As a matter of principle, shareholders will be thereby granted a subscription right. The legal subscription right can also be granted in such a way that the new shares can be underwritten by a bank or consortium of banks with the obligation to offer these to shareholders of Your Family Entertainment AG for subscription. With the approval of the Supervisory Board, the Board of Management is authorised to exclude the legal subscription right when:

- it is necessary for offsetting fractional amounts;
- if the shares are issued against a contribution in kind made for the purpose of purchasing companies or interests in companies or for the purpose of purchasing receivables against the company;
- if a capital increase against cash contributions does not exceed ten percent of the capital stock and the issue price of the new shares does not vastly exceed the stock market price (§186 paragraph 3 sentence 4 of the German Stock Corporation Act); when making use of this authorisation to exclude the subscrip tion right under §186 paragraph 3 sentence 4 of the German Stock Corporation Act, the exclusion of the subscription right due to other authorisations listed under §186 paragraph 3 sentence 4 of the German Stock Corporation Act is to be taken into account.

With the approval of the Supervisory Board, the Board of Management is authorised to determine further details of the capital increase and its implementation. The Supervisory Board is authorised to update the wording of the bylaws in accordance with the utilisation of the authorised capital.

Conditional Capital II

The May 4th, 2000 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 should take place in annual tranches over a period of three years:

- first tranche:
  400,000 option rights from
  July 1st to 15th November 15th 2000
- second tranche:
  200,000 option rights from
  July 1st to 15th November 15th 2001
- third tranche:
  200,000 option rights from
  July 1st to 15th 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 exercising 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 contained 1,600,000 option rights.

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

The May 23rd, 2001 meeting of shareholders 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 came into existence 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, 2010, for the option rights under the second tranche to November 15th, 2011 and for the option rights under the third tranche to November 15th, 2012. 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.

As part of the second tranche, 369,500 option rights were issued on July 30th, 2001 at an issue price of € 1.27.

The extraordinary August 12th, 2002 meeting of shareholders resolved that the Conditional Capital II should now be € 724,005.00 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 May 4th, 2000 meeting of shareholders, amended and extended by resolutions passed by the May 23rd, 2001 regular meeting of shareholders and the extraordinary August 12th, 2002 meeting of shareholders. 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 contained 48,267 option rights at an issue price of € 19.05.

The share option programme (Conditional Capital II) after capital reductions may be summarised as follows:

	Number of option rights granted	Average subscription price per unit in Euro	Number of option rights granted	Average subscription price per unit in Euro
	2010	2010	2009	2009
Number at the beginning of the financial year	0	n/a	10,000	295.53
Expired	0	n/a	10,000	295.53
Number at the end of the financial year	0	n/a	0	n/a
Thereof exercisable	0		0	

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

Liabilities as of Dec. 31st, 2010 in K€	Less than 1 year	2-5 years	More than 5 years	Total
Liabilities to credit institutions	1,350	0	0	1,350
Received payments for orders	503	0	0	503
Liabilities from deliveries and services	464	1	0	465
Other liabilities	17	0	0	17
– thereof taxes	(15)	(0)	(0)	(15)
Total liabilities	2,334	1	0	2,335

Liabilities as of Dec. 31st, 2009 in K€	Less than 1 year	2-5 years	More than 5 years	Total
Liabilities to credit institutions	1,130	0	0	1,130
Received payments for orders	548	0	0	548
Liabilities from deliveries and services	1,238	0	0	1,238
Other liabilities	64	0	0	64
– thereof taxes	(62)	(0)	(0)	(62)
Total liabilities	2,980	0	0	2,980

In order to secure liabilities to banks, collateral in the form of rights and claims to film licence contracts have been granted.

Other financial commitments

Other financial commitments due within one year amount to K€ 420 and are composed principally of rental (K€ 75), and leasing commitments (K€ 21) and consultancy and service obligations (K€ 324).

K€ 90 will become due within two to five years, mainly for service obligations.

IV. Explanations of the income statement

Sales

Sales of K€ 369 (previous year € 2,246) were achieved in Germany and K€ 1,956 (previous year K€ 1,537) abroad.

The sales of K€ 2,325 in 2010 were achieved wholly in the "License Sales" segment (previous year K€ 3,783).

Other operating income

This item primarily includes income from impairment of intangible assets to the amount of K€ 1,320 (previous year K€ 942).

Further incomes of K€ 31 of currency differences were reported.

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€ 52 (previous year K€ 161) and commissions of K€ 27 (previous year K€ 60).

Personnel expenses

On average throughout the year, thirteen (13) salaried employees (excluding the Board of Management) including two apprentices were employed.

Depreciation & Amortization

An impairment loss of K€ 678 (previous year K€ 549) was recorded for film assets as a result of so-called impairment tests. In addition, write-offs of K€ 388 (previous year K€ 960) were made on film assets as a result of the use made of the assets.

Other operating expenses

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

In addition, currency conversion accounted for K€ 9 (previous year K€ 20) in expenses.

Interest and similar expenses

Interest expense from reserves and accrued liabilities was K€ 18.

Extraordinary expenses

The application of articles 66 and 67, paragraphs 1 to 5 of the Introductory Law of the German Commercial Code (transitional regulations to the German Accounting Law Modernization Act) resulted in extraordinary expenses in the amount of K€ 8. These expenses are related to the changes in the valuation of pension reserves and other reserves and liabilities.

Taxes from income and from profit

This item, in the amount of K€ 4, comprises exclusively foreign withholding taxes.

V. Information on the company's statutory bodies

Supervisory Board

The members of the Supervisory Board during the 2010 financial year were:

- Dr. Hans-Sebastian Graf von Wallwitz
  Munich, Germany
  Lawyer
  (Chairman)
- Mag. Johannes Thun-Hohenstein,
  Vienna, Austria
  Media consultant
  (Deputy chairman)
- Dr. Andreas Aufschnaiter,
  Munich, Germany
  Business consultant
  Executive Board GCI Management AG

The total remuneration (without expenses) of the Supervisory Board in the 2010 financial year was K€ 27. 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. The members of the Supervisory Board owned 100 shares on December 31st, 2010.

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

- Dr. Andreas Aufschnaiter:
  Full member of the supervisory boards of the following companies:
  MEA Melsinger AG, Aichach
  Konsortium AG, Augsburg
  STEMAS AG, Munich
  Chairman of: Vantargis AG, Munich
- Mag. Johannes Thun-Hohenstein:
  Member of the Supervisory Board of
  Ronald McDonald Kinderhilfe Austria

Board of Management

The sole management board member of YFE in the 2010 financial year was.

Dr. Stefan Piëch
Vienna, Austria
Film Distributor

The Board of Management's total remuneration during the 2010 financial year was K€ 201 and includes both fixed remuneration and insurance contributions.

The Board of Management held 59,881 shares on the balance sheet cut-off date.

The total remuneration for former members of the Board of Management was K€ 18.

The pension reserves for former members of the Board of Management and their dependents are fully provided for and amounted to K€ 274 on December 31st, 2010.

VI. Audit and consultancy fees

The auditors' total fee invoiced in 2009 for the audit of the financial statements on December 31st, 2010 (financial statements in accordance with the German Commercial Code and the audit of the Dependency Report) K€ 35 in total.

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 submitted the declaration for 2010 required under § 161 of the German Companies Law and made this declaration available to shareholders in December 2010 on the company's website (www.yf-e.com) under the heading "Investor Relations".

Munich, March 23rd, 2011

The Board of Management

VIII. Development of noncurrent assets 2010

	Development of non current assets in 2010								
	Jan. 1st, 2010 €	Acquisitions €	Transfers €	Disposals €	Dec. 31st, 2010 €	Write-ups 2010 €	Accumulated depreciation €	Book value €	Depreciation for the year €
I. Intangible assets									
1. IT Software	53,718.90	2,100.00	0.00	0.00	55,818.90	0.00	54,127.90	1,691.00	5,544.00
2. Film assets and other rights	130,469,643.29	321,800.17	134,353.36	4,464,169,23	126,461,627.59	1,320,338.88	112,760,231.97	15,021,734.50	1,065,670.09 [1)]
3. Advances paid on film assets	134,353.36	0.00	-134,353.36	0.00	0.00	0.00	0.00	0.00	0.00
	130,657,715.55	323,900.17	0.00	4,464,169.23	126,517,446.49	1,320,338.88	112,814,359.87	15,023,425.50	1,071,214.09
II. Property, plant and equipment									
Other equipment, operational and office equipment	231,870.13	16,582.09	0.00	4,751.35	243,700.87	0.00	193,622.87	50,078.00	28,699.09
	130,889,585.68	340,482.26	0.00	4,468,920.58	126,761,147.36	1,320,338.88	113,007,982.74	15,073,503.50	1,099,913.18

1) Includes unscheduled depreciation in the amount of € 677,775.95

6.6 Management Report for 2010

A. General

Your Family Entertainment AG (YFE) in Munich 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, nonviolent programmes for the whole family.

The company's high-quality library of programmes currently comprises 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 had been built up by the Ravensburger Group over a period of almost 30 years and is being continued by YFE with the same traditional values.

The company's business divisions are divided between Licence Sales and Productions.

The Licence Sales business division includes the trade in licences for free-TV and pay-TV as well as the whole value creation chain of ancillary rights marketing.

This division is also responsible for the coproduction of individual film titles.

The License Sales business division also includes the manufacture and the distribution by the Company itself or third parties of DVDs and audio products in the field of home entertainment. The Company's own distribution is made under the yourfamilyentertainment DVD label.

Since the end of 2007, YFE has also been successfully operating in the market with its pay-TV station yourfamily. The German-language channel broadcasts YFE programmes 24 hours a day via satellite, cable and DSL (IPTV). In 2010, yourfamily won a Hot BirdTM TV Award in the category "Childrens'.

The Productions division is divided into two subdivisions - productions-to-order and so-called repertoire productions. Its range 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, quiz shows and infotainment programmes on the other. As a co-producer, this company division also develops and creates television series in cooperation with international partners.

B. Annual Financial Statement

1. The overall economic situation

1.1 World economic climate

"After the slight decline in the fourth quarter of 2010, the Ifo indicator for the world economic climate has risen markedly, reaching its highest level since the end of 2007. The indicator is now clearly above its long-term average. The rise in the world economic climate indicator is the result of more favourable assessments of both the current situation as well as the six-month outlook. The results indicate that world economic activity, after a slight dampening at the end of last year, is picking up again.

The world economic climate indicator rose sharply in North America to reach its highest level since the end of 2007. Also in Western Europe the indicator has risen somewhat more strongly, after a weakening in the second half year, but not as significantly as in North America. In Asia the economic climate improved, but the indicator remains below the level of the third quarter of 2010. In North America and Western Europe, the improvement in the indicator was the result of both more positive assessments of the current situation as well as the economic outlook. In Asia, the economic expectations have clearly improved whereas the appraisals of the current economic situation are only marginally better.

In nearly all countries, the price expectations moved upwards. This was especially marked in Asia, above all in China and Vietnam. In North America and Western Europe, an increase in prices of 2.0% is anticipated for 2011, after forecasts of 1.6% and 1.8% respectively for 2010. On average for the world, a price increase of 3.4% is expected for 2011, in comparison to 3.1% for the previous year.

The number of WES experts that anticipate rising short- and long-term interest rates in the course of the coming six months, has grown somewhat nearly everywhere. Only in the CIS states and in the majority of African countries do the experts expect largely stable interest rates in the course of the coming six months.

In the opinion of the WES experts, the US dollar is suitably valued on a world-wide average. Little change is expected here in the coming six months, in the opinion of the economic experts. In a regional perspective, a weakening in the value of the US dollar is anticipated in Asia, Eastern Europe and in the CIS states but a rise in value in Africa and a very slight increase in Western Europe as well as in Latin America."

(Source: ifo Institute, Munich)

At present, just what effect the March 2011 earthquake in Japan will have on the general world economic climate and, more specifically, the entertainment and media industry, is yet unknown.

1.2 Entertainment and media industry

The latest "Global Entertainment & Media Outlook 2010-2014", published by Pricewaterhouse-Coopers (PwC), has concluded the following:

"A moderate economic recovery in the industrial states is still slowing an upward trend, but in 2010, things started looking up again in the media industry. After falling by three percent to around 1.32 trillion US dollars in 2009, worldwide revenues in the industry in the current year [2010] rose by 2.6 percent, to around 1.36 trillion. This means that revenues from advertising sales and consumer spending were just under the 2008 figure, and advertising revenues did not reach the 2005 level."

In its aforementioned Outlook, PwC forecasts that in 2011 China will be the third largest media market. With expected industry sales of around 95 billion US dollars, they are just under the leader, USA with 446 billion USD and Japan with 171 billion.

The ever-advancing digitalisation is the largest growth driver in the "mature" media market, while in emerging countries are profiting from strong economic growth and therefore a growing purchasing power.

In the near future, technical advancements will make media consumption possible anywhere, any time.

(Source:http://www.pwc.de/de/technologie-medien-und-telekommunikation/global-entertainment-and-media-outlook-branchenumsatz-waechst-2010-um-26-prozent.jhtml)

2. Key events during the 2009 financial year

Dividend payment

In 2010, for the first time since becoming a listed company, Your Family Entertainment paid its shareholders tax-free dividends, this year in the amount of € 0.02 per share.

The yourfamily channel wins a HOT BIRD™ TV Award

On November 19th, 2010, at a gala affair held at the Sat Expo trade show in Venice, Italy, Your Family Entertainment AG's children and family channel yourfamily won HOT BIRD™ TV Award in the category "children and youth". The award was given by the satellite broadcaster EUTELSAT, in cooperation with the European film festival Eurovisioni. This year, 150 broadcasters from 21 countries were vying for the renowned distinction.

Three nominees were chosen from each of 11 categories by a top-class jury, under the direction of Duilio Giammaria (RAI). YFE's yourfamily won the children and youth category against the Qatar-based channel, Baraem, and the Italian public specialty broadcaster, Rai Gulp.

Co-production of „Oscar The Ballonist"

In 2009, YFE signed a co-production contract with ZDF and Tivola to produce the series Oscar The Ballonist. The first episodes of this production were sold and delivered in 2010.

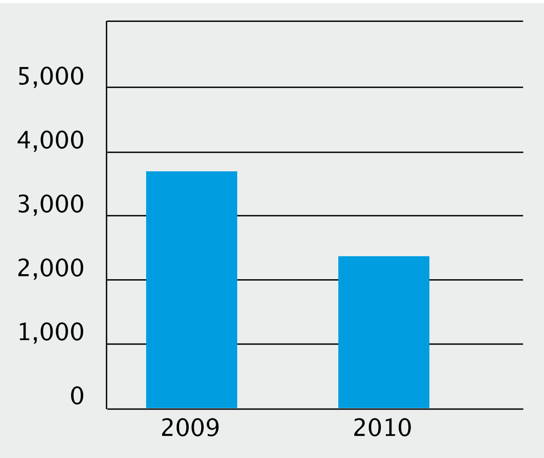
3. Business Performance

The Board of Management manages the YFE, based, among other means, on monthly reporting. Key figures used in the management of the business relate particularly to the sales, EBITDA and liquidity status.

3.1 Development of the business

Your Family Entertainment AG achieved sales of K€ 2,325 (previous year K€ 3,783).

Development of the business in K €



Sales were therefore K€ 1,458 below those of the previous year. As a rule, the company's project deals and so-called "package deals" can cause fluctuations in the development of sales. The decrease in sales is chiefly the result of the fact that in 2010, unlike in the previous year, no larger rights sales were made.

All of the K€ 2,325 in sales made in 2010 were accounted for by the License Sales business division (previous year K€ 3,783).

Sales by region

YFE's sales by region during the reporting period were:

Region	2010		2009	
	in K€	in %	in K€	in %
Domestic	369	16	2,246	59
Foreign	1,956	84	1,537	41
Total	**2,325**	**100**	**3,783**	**100**

4. Earnings situation

Earnings before interest and taxes, depreciation and amortisation (EBITDA) were K€ 506 (previous year K€ 1,448).

The result from ordinary operations was K€ 677 compared with K€ 783 in the previous year.

Net income in 2010 was K€ 665 compared with K€ 774 in the previous year.

Total other operating income in the reporting period was K€ 1,572 (previous year K€ 1,503). The figure for the reporting year includes primarily write-ups to film assets to an amount of K€ 1,320 (previous year 942).

These write-ups to film assets are the result of, among other factors, licences that have become available once more and updated sales expectations.

Compared with the previous year, the depreciation dropped by K€ 453, going from K€ 1,553 in 2009 to K€ 1,100 in 2010. In addition to scheduled depreciation, this item includes unscheduled depreciation of film rights to an amount of K€ 678 (previous year K€ 549) largely owing to the impairment tests carried out on the balance sheet cut-off date.

5. Asset and financial situation

The balance sheet total dropped to K€ 15,827 (previous year K€ 18,981).

Film assets rose sharply, to K€ 866. Receivables and other assets also increased, from K€ 443 to K€ 536.

Shareholders' equity increased in comparison with the previous year by K€ 491 to K€ 12,977 (previous year K€ 12,486). As a result, the equity ratio increased by four percentage points to 82% (previous year 78%).

On December 31st, 2010, the company reported subscribed capital of K€ 8,700, a capital reserve of K€ 2,287 and accumulated profits of K€ 1,990 (previous year K€ 1,498).

Other reserves and accrued liabilities dropped to K€ 213 (previous year K€ 226).

Cash and cash equivalents consisting chiefly of balances at banks dropped from K€ 1,076 in the previous year to K€ 181 on the balance sheet cut-off date. This reduction is due, amongst other factors, to the decrease in trade payables.

Rolling financial planning ensures YFE's liquidity requirements are met. This planning includes making use of such financial instruments as global credit, overdrafts, short-term money market loans as well as short-term financial investments. Other goals for financial management are the optimisation of interest payable and interest income as well as the securing of the necessary foreign currencies. The company has an USD account.

6. Investments

Investments of K€ 341 were made during the reporting period (previous year K€ 413). These were largely made in film rights.

7. Key Financial Data

		2010	2009
Sales	K €	2,325	3,783
EBITDA	K €	506	1,448
EBIT	K €	726	837
Net income	K €	665	774
Total balance sheet amount	K €	15,827	15,981
Value of film assets	K €	15,022	14,156
Shareholders' equity	K €	12,977	12,486
Interest-bearing liabilities	K €	1,350	1,130

8. Employees

Personnel expenses of K€ 804 incurred in the 2010 financial year were a bit higher than the previous year's value of K€ 773.

This increase is largely due to the building of human resource capacities.

On average, over the year and including apprentices and trainees, 13 employees were employed. Including the CEO, two apprentices and 5 part-time employees, YFE employed a total of 14 employees on the cut-off date.

9. Summary

The 2010 financial year was marked by a weak market and the lack of larger deals. Nonetheless, owing to the stable cost and finance structure, YFE's earning and financial position developed satisfactorily.

C. Risks and opportunities

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 generally are 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, delays in completion occur despite a careful selection of co-production partners and service-providers, 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 aforementioned 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 are 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 (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 comprises approximately 170 titles, derives from licences from third parties, whilst only a third of the titles were produced by the company itself or coproduced. 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.

Risks arising from current litigation proceedings

On August 26th, 2009, the Cours Supérieur in Quebec found largely in favour of Mr Claude Robinson and Les Productions Nilem Inc. in an action, pending since 1996, brought by the plaintiffs with the aim of, among other things, securing a judgement and compensation against Ravensburger Film + TV GmbH/ RTV Family Entertainment AG and additional defendants. The plaintiffs had successfully sought damages on account of an infringement of copyright and copyrighted personality rights in the series "Robinson Sucroe".
The series Robinson Sucroe was made by Cinar Inc/ Corporation Cinar and France Animation S.A.

The defendants, Les Films Cinar Inc., Corporation Cinar, Ronald Weinberg, France Animation S.A., Christian Davin, Christophe Izard, Ravensburger Film + TV GmbH/RTV Family Entertainment AG and Micheline Charest, were ordered to pay 3,234,283.00 Canadian Dollars plus interest to the plaintiff as joint and several debtors and to terminate the distribution of the series "Robinson Sucroe".

As the legal successor of Ravensburger Film + TV GmbH/RTV Family Entertainment AG, YFE has lodged an appeal within the required deadline against the judgement in the first instance.

At the time of this publication, the company did not have a judgement on the appeal.

The co-production contract between France Animation S.A. and Ravensburger Film + TV GmbH, as well as succeeding declarations in which France Animation has assumed liability, provide for extensive liability exemptions by France Animation in favour of Ravensburger Film & TV GmbH and assurances on the part of France Animation S.A. For this reason, YFE does not currently anticipate any major financial liabilities.

4. Financial Risks

a) Access to external financing

In compliance with a loan contract with Commerzbank AG, YFE has transferred title to rights and claims under film licence contracts to the bank as collateral. Within the framework of refinancing, this collateral will be transferred to Bank Austria. 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 fluctuations/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.

We understand risk management as a core responsibility of the Board of Management, the management team and all employees.

Your Family Entertainment AG's risk management is divided into the following four steps:

1. Risk identification
2. Risk assessment
3. Risk management
4. Risk monitoring

We have developed suitable strategies, adapted to the size of the company, for each of these steps.

A principal strategy of Your Family Entertainment AG's risk management is regular discussions between the Board of Management and the management team. These discussions serve to recognise and assess risks and, if necessary, to take countermeasures in time as well as to monitor the measures taken. The management team also informs the Board of Management of risks as they occur outside these meetings.

We use three strategies for liquidity management, sales controlling and balance sheet controlling for the purposes of permanent risk management. By ensuring regular and systematic control of these areas, all major operational and structural risks affecting YFE's business activity are monitored. The overall responsibility for monitoring these risks lies however with the company's Board of Management.

The aim of liquidity management is the continuous examination and assurance of the company's ability to meet its financial obligations. Liquidity management is based on three reports, namely the annual liquidity plan as part of preparation of the budget, the rolling liquidity forecast and the daily liquidity status.

The aim of controls in the area of distribution is to recognise, to quantify and to tap the company's sales potential though the planning and the coordination 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 semi-annual financial report and continuous checks on the balance sheet.

In addition, a monthly report that features a calculation of profit contributions is prepared. 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.

Because part of the risks lies outside the Board of Management's sphere of influence, even a functioning risk management is unable to guarantee that all risks are eliminated. Situations can therefore develop that deviate from the Board's planning.

6. Opportunities

In addition to its high-quality and extensive library of approximately 3,500 half-hour programmes, Your Family Entertainment AG's advantages must be considered as it not only has many years of experience in the production of television programmes, but also an extensive network of co-operation with broadcasters who are prepared to purchase.

The company's opportunities lie in an even better exploitation of its stock of rights through new distribution channels supported by the development of exploitation and production concepts.

Technological advancements and the changing possibilities and habits in media consumption they bring about can only be seen as positive developments.

The values-oriented approach taken by the company based distinguishes it markedly from the competition.

D. Internal control and risk management system with respect to the accounting system

As a publicly-quoted company, within the definition of § 264d of the German Commercial Code, oriented towards the capital market, and in accordance with § 289 section 5 of this Code, a description of the main features of the internal control and risk management system with respect to the accounting system is required.

The law does not define the required internal control and management system based on the accounting system.

We understand the term internal control system to mean the basic principles, procedures and measures introduced into the company by the Board and management team aimed at the implementation (in organisational terms) of decisions made by management.

- in order to ensure the validity and profita bility of the company's business activities (this includes the protection of its assets and the prevention and disclosure of damage to assets),
- the proper maintenance and reliability of internal and external accounting as well as
- compliance with the legal requirements applicable to the company.

The risk management system encompasses the totality of all organisational rules and measures for the purposes of identifying risk and in dealing with the risks of entrepreneurial activity.

Your Family Entertainment AG has implemented the following structures and processes with respect to the accounting system:

The Board bears the overall responsibility for the internal control and management system based on the accounting system. Due to the company's size, the financial and sales managers are directly involved in the process of preparing the annual budget.

We regard such characteristics of the internal control and management system as material to the accounting process and the overall message conveyed by the annual financial statements and the management report. These are the following elements in particular:

- the identification of major areas of risk and control of relevance for the accounting system
- continuous balance sheet controlling in order to monitor the accounting system and its results;
- preventive control measures in finance and accounting as well as in the operative com pany processes that generate essential information for the preparation of the annual financial statements and the management report, as well as a separation of functions and approval processes in the relevant areas;
- measures to ensure the proper IT-supported processing of accounting-related processes and data
- measures to monitor the accounting-related internal control and risk management system.

E. Declaration of the company's management in accordance with § 289a of the German Commercial Code

The management's declaration (§ 289a of the Commercial Code) includes the compliance declaration, information on company management practices and a description of the Board of Management and Supervisory Board's manner of working. Our goal is to describe the management of the company in a manner that is clear and to the point.

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:

According to § 161 of the German Companies' Law, the Board of Management and Supervisory Board of a publicly-quoted company are required to declare ever year that the recommendations of the "Government Commission on the German Corporate Governance Code", published by the Federal Ministry of Justice in the official section of the Federal Gazette, have been and will be complied with or which parts have not been or will not be complied with.

The Company's Board of Management and Supervisory Board welcome the German Corporate Governance Code and declare the following:

1. The Board of Management and Supervisory Board of Your Family Entertainment AG declare that the recommendations of the German Corporate Governance Code of May 26th, 2010 are being complied with, with the following exceptions:

Supporting shareholders in voting by absentee ballot
(Section 2.3.3, sentence 2)

Because, at the time of this compliance declaration, we are still involved in ongoing internal discussions on whether or not the company will authorize the use of absentee ballots for voting by the time of the next shareholder's meeting, we must declare temporary non-compliance. Your Family Entertainment AG already allows the shareholder to send a proxy familiar to the company to vote on his or her behalf, so shareholders already have the opportunity to vote before the shareholder's meeting.

D&O Insurance for the Supervisory Board
(Section 3.8, paragraph 3)

The D&O insurance policy for Supervisory Board members is not subject to any excess. The company does not consider an excess as necessary to strengthen the work ethic and sense of responsibility in Supervisory Board members who perform the tasks and functions they are assigned. Legal requirements are complied with in the case of the Board of Management.

Composition of the Board of Management
(Section 4.2.1, sentence 1)

Owing to the scope of business operations and the size of the company, the Board of Management currently comprises one individual.

Remuneration report
(Section 4.2.5)

Because of the size of Your Family Entertainment AG's Board of Management, disclosure of management remuneration will not be presented in the remuneration report which, along with more general information on the remuneration system, forms part of the Corporate Governance Report. For the same reason, there will be no disclosure of ancillary services provided by the company in a remuneration report. The remuneration and its structure will be discussed in the Annual Business and Financial Report.

Diversity in the Board of Management
(Section 5.1.2, sentence 2)

Because the company has but one sole director, the Supervisory Board cannot be mindful of diversity within the Board of Management. Furthermore, as the Board of Management comprises but one member, who is currently deemed adequate for the company and whose position is filled for the foreseeable future, it will also be impossible to follow Code recommendations to consider women for the position.

Formation of committees
(Sections 5.3.1, 5.3.2, 5.3.3)

Due to the limited size of the Supervisory Board (3 members), the formation of committees is deemed unnecessary.

Establishment of specific goals for the composition of the Supervisory Board
(Section 5.4.1, paragraphs 2 and 3)

The Supervisory Board of Your Family Entertainment AG does not have any specific goals for its composition. In its proposal of exclusively suitable Supervisory Board election candidates, the Supervisory Board has always aimed to put together a Supervisory Board made up of members who possess the proper qualifications - the knowledge, abilities and industry experience to work effectively. In the opinion of the Supervisory board, this approach has proven itself. Therefore, it is seen as unnecessary to change this practice. Based on the argument above, the recommendation found in 5.4.1, paragraph 3 also cannot be followed.

Success-oriented remuneration of Supervisory Board members (Section 5.4.6, paragraph 2)

At present, there is no success-oriented remuneration for Supervisory Board members. The company considers a fixed remuneration for Supervisory Board members to be more suitable for meeting the monitoring requirements of the Supervisory Board, independent of the company's success. The topic of success-oriented remuneration for Supervisory Board members will be considered again in the future, however.

Date of financial reporting
(Section 7.1.2, sentence 4)

The annual financial report will not be made public within 90 days of the end of the financial year, interim reports will not be made public within 45 days of the reporting period. The associated workload for a timely release of said information would involve unjustifiably high costs. In the opinion of the Board of Management and the Supervisory Board, the legal standards for prompt reporting to shareholders and the capital market suffice.

2. Since its last compliance declaration from December 2009, Your Family Entertainment AG has generally complied with the recommendations of the German Corporate Governance Code. Since July 2nd, 2010, the following recommendations from the latest revision of the Code, from May 26th, 2010, were not applied: Sections 2.3.3 sentence 2; 3.8 paragraph 3; 4.2.1 sentence 1, 4.2.5; 5.1.2 paragraph 1 sentence 2; 5.3.1, 5.3.2, 5.3.3, 5.4.1 paragraph 2 and paragraph 3; 5.4.6 paragraph 2; 7.1.2 sentence 4. Since the time of our last compliance declaration submission, in December 2009, until July 2nd, 2010, the following recommendations from the June 18th, 2009 revision of the Code were not applied: Sections 3.8 paragraph 3; 4.2.1 sentence 1, 4.2.5, 5.1.2 paragraph 1 sentence 2; 5.3.1, 5.3.2, 5.3.3, 5.4.6 paragraph 2 and 7.1.2 sentence 4.

For the reasons of non-compliance of the aforementioned sections, see annotation 1.

Munich, December 2010

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

Dr. Stefan Piëch
(Chairman of the Board)

Information on the company's management practices and the way in which Board of Management and Supervisory Board work

The structures of the Company's management and the monitoring of Your Family Entertainment AG are as follows:

Shareholders and the shareholders' meeting

Our shareholders exercise their rights in the shareholders' meeting.

Shareholders are called to convene in the legally-required manner and information on the agenda is provided at least 30 days before the day on which the shareholders are required to notify of their ability to attend.

The chairman of the Supervisory Board takes the chair at the shareholders' meeting.

The shareholders' meeting decides on all the functions allocated to it by law (including election of the members of the Supervisory Board, amendments to the articles of association, appropriation of profits, capital measures).

Supervisory Board

The main function of the Supervisory board is to advise and monitor the Board of Management.

The Supervisory Board of Your Family Entertainment AG currently consists of three full members and a substitute member.

In addition to the reimbursement of their expenses to which the value added tax due on their remuneration must be added, the members of the Supervisory Board receive a fixed fee payable at the end of the financial year amounting to Euro 6,000 for the individual member, twice that amount for the chairman and 1.5 times that amount for the deputy chairman.

Board of Management

As the public company's management body, The Board of Management manages the company's affairs and, in accordance with German stock corporation law, is bound by the interests and the business principles of the company. It reports to the Supervisory Board regularly, promptly and comprehensively on all essential matters of the development of the business, the company's strategy as well as on possible risks.

The Board of Management's remuneration is made up of a performance-related and a fixed element.

Shares held by the Board of Management and the Supervisory Board

Members of the Board own shares in Your Family Entertainment AG.

Transparency

Your Family Entertainment AG places high priority on uniform, comprehensive and prompt information, The state of the business and Your Family Entertainment AG's results are reported in the annual financial report, the interim reports and in the semi-annual report.

Information is also published by way of press releases and ad hoc announcements. All publications and information are accessible in the Internet.

Your Family Entertainment AG has installed the list of insiders required by § 15b of the German Law on Securities. The people concerned have been informed of their legal obligations and sanctions.

Accounting and auditing of the financial Statements

Since the 2006 financial year, the financial statements have been prepared solely in accordance with the provisions of the German Commercial Code. After preparation by the Board of Management, the financial statements are reviewed by the auditors and the Supervisory Board and then adopted by the Supervisory Board.

The annual financial statements are published within four months of the end of the financial year.

It has been agreed with the auditors that the chairman of the Supervisory Board and the chairman of the auditing committee will be notified immediately about the reasons for exclusions or exemptions and errors in the compliance declaration revealed during the audit. The auditor immediately reports to the chairman of the Supervisory Board on all major issues and events that emerge during the audit. These are significant for the work of the Supervisory Board.

Risk management

The business segments of Your Family Entertainment AG are subject to a large number of risks that are inseparably linked to global entrepreneurial action.

We understand risk management as a core function of the Board of Management, the members of the management team and all employees. It should therefore succeed in earlier recognition of risks whilst, at the same time, making use of entrepreneurial opportunities to avoid them.

Your Family Entertainment AG's risk management may be divided into the following steps:

1. Risk identification
2. Risk assessment
3. Risk management
4. Risk monitoring

We have developed suitable steps, adjusted to the size of the company, for each of these steps.

The principle instrument of Your Family Entertainment AG's risk management are regular meetings between the Board of Management and the management team for the purpose of promptly recognising and assessing risks and, where appropriate, taking counter-measures and monitoring the measures taken.

The management team also informs the Board of Management of anticipated risks as they occur outside these regular meetings.

The controlling function and the internal control system are essential components of a thorough and effective system of risk management. Because part of the risks lies outside the Board of Management's sphere of influence, even a functioning system of risk management cannot ensure that all risks are eliminated. Developments may therefore emerge that deviate from the Board of Management's planning.

F. Events of particular significance occurring after the end of the financial year

Extension of loan and new load agreement

On January 14th, 2008, YFE entered into a loan agreement with Commerzbank AG, Stuttgart (lender). The amount of the loan is in the amount of € 3,500,000.00. Duration of the loan was set for December 30th, 2010.

This loan agreement, with unchanged conditions, was extended until June 30th, 2011.

On March 10th, 2011, YFE entered into a new loan agreement for up to € 2,500,000.00 with Bank Austria, Vienna.

Given the conditions set there, the loan can be revolving and/or in fixed-rate form.

G. Forecast

The Board of Management expects 2011 and 2012 to bring a gradual upturn in all the YFE-

relevant markets both domestic and foreign, although the development of the Japanese market – so important to the entertainment and media industry – is currently very difficult to assess.

Because of the company's dependence on projects and "package deals", future revenue and profit development will experience fluctuations, of course.

For 2011 and 2012, we plan the intensification of existing business sectors. The focus will largely be on our Licence Sales division's worldwide sales development and bringing on board new partners for our own pay-TV channel yourfamily.

Continued expansion of the library by adding new productions – just as Oscar the Balloonist was in 2010 – will further the building upon the solid foundation that is Your Family Entertainment AG.

On this basis, we expect for 2011 and 2012 a stable to slightly positive sales development with satisfactory liquidity and stable annual results.

It is YFE's long-term goal to retain its position as a strong player in this market.

H. 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, particularly insurance premiums. 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 upon the commercial results achieved by the company.

I. 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 8,700,000 unit shares, each with a share in capital of € 1.00. The company's share capital was therefore unchanged as of December 31st, 2010 at € 8,700,000. The shares are bearer-shares. They are fully paid up.

2. Limitations concerning the voting rights and transfer of shares

As part of limitations on disposal, 35,000 shares were subject to a holding period on the balance sheet cut-off date. This limitation expires on December 15th, 2010.

3. Direct or indirect participation in the Company's capital

F&M Film und Medien Beteiligungs GmbH in Vienna in Austria owned 78.77% of the Company's share capital as of December 31st, 2010.

Moreover, Dr Stefan Piëch of Vienna has a direct stake of 0.69% in the capital of Your Family Entertainment AG and an indirect stake of 78.77% through F&M Film und Medien Beteiligungs GmbH referred to above, such that in total 79.46% of the share capital is attributable directly and indirectly to Dr Piëch.

4. Owners of shares with special rights

There were no shares with special rights as of December 31st, 2010.

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

There were no such controls on voting rights as of December 31st, 2010.

6. Rules established 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 buy back shares

The annual general shareholders' meeting, which took place on July 13th, 2010, established an authorised capital (authorised capital 2010).
The following was resolved:

a) The authorisation for the Board of Management to increase the company's share capital by July 8th 2013, on one or more occasions, by up to a total of € 4,350,000.00, through the issue of up to 4,350,000.00 new bearer share certificates in return for cash and/or contributions in kind, also approved by the Supervisory Board, is herewith nullified, effective at the time the new authorised capital, in accordance with subsequent paragraphs b) and c), is entered in the commercial register.

b) With the approval of the Supervisory Board, the Board of Management is authorised to increase the company's share capital by July 12th, 2015, on one or more occasions, by up to a total of € 4,350,000.00, through the issue of up to 4,350,000.00 new bearer share certificates in return for cash and/or contributions in kind (Authorised Capital 2010). As a matter of principle, shareholders will be thereby granted a subscription right. The legal subscription right can also be granted in such a way that the new shares can be underwritten by a bank or consortium of banks with the obligation to offer these to shareholders of Your Family Entertainment AG for subscription. With the approval of the Supervisory Board, the Board of Management is authorised to exclude the legal subscription right when:

- it is necessary for offsetting fractional amounts
- if the shares are issued against a contribu tion in kind made for the purpose of purchasing companies or interests in compa nies or for the purpose of purchasing recei vables against the company
- if a capital increase against cash contributions does not exceed ten percent of the capital stock and the issue price of the new shares does not vastly exceed the stock market price (§186 paragraph 3 sentence 4 of the German Stock Corporation Act); when making use of this authorisation to exclude the subscription right under §186 paragraph 3 sentence 4 of the German Stock Corporation Act, the exclusion of the subscription right due to other authorisations listed under §186 paragraph 3 sentence 4 of the German Stock Corporation Act is to be taken into account.

With the approval of the Supervisory Board, the Board of Management is authorised to determine further details of the capital increase and its implementation. The Supervisory Board is authorised to update the wording of the bylaws in accordance with the utilisation of the authorised capital.

c) § 4 paragraph 3 of the bylaws will be rewritten in accordance with to the aforementioned resolutions, as follows:

“(3) With the approval of the Supervisory Board, the Board of Management is authorised to increase the company’s share capital by June 8th, 2015, on one or more occasions, by up to a total of € 4,350,000.00, through the issue of up to 4,350,000.00 new bearer share certificates in return for cash and/or contributions in kind (Authorised Capital 2010). As a matter of principle, shareholders will be thereby granted a subscription right. The legal subscription right can also be granted in such a way that the new shares can be underwritten by a bank or consortium of banks with the obligation to offer these to shareholders of Your Family Entertainment AG for subscription. With the approval of the Supervisory Board, the Board of Management is authorised to exclude the legal subscription right when:

- it is necessary for offsetting fractional amounts
- if the shares are issued against a contribu tion in kind made for the purpose of purchasing companies or interests in compa nies or for the purpose of purchasing recei vables against the company
- if a capital increase against cash contribu tions does not exceed ten percent of the capital stock and the issue price of the new shares does not vastly exceed the stock market price (§186 paragraph 3 sentence 4 of the German Stock Corporation Act); when making use of this authorisation to exclude the subscription right under §186 paragraph 3 sentence 4 of the German Stock Corporation Act, the exclusion of the subscription right due to other authorisations listed under §186 paragraph 3 sentence 4 of the German Stock Corporation Act is to be taken into account.”

The following resolution concerning authority to acquire the company’s own shares was approved as item 6 on the agenda of the shareholders’ meeting held on July 13th, 2010:

a) The authority granted to the company by the shareholders’ meeting held on July 8th, 2009 to acquire the company’s shares up to January 11th, 2011 will be nullified as soon as the new authorisation resolution under b) becomes valid.

b) The company is empowered to purchase its own shares. This authorisation is however restricted to the acquisition of an arithmetic share of up to ten percent of the company’s total share capital. The authorisation may be exercised wholly or in partial amounts, once or on several occasions, by the company itself or on its account by third parties. The authorisation is valid until January 12th 2015.

c) The acquisition will take place either via the stock exchange or by means of a public offer to buy, sent to all of the company’s shareholders.

aa) Should the acquisition take place via the stock exchange, the counter-value per share paid by the company (excluding the ancillary costs of acquiring the shares) may not be higher or lower by more than ten percent of the average closing price (XETRA trading or a comparable successor system) of shares of a similar nature on the Frankfurt Stock Exchange during the last five stock exchange trading days prior to the acquisition of the shares.

bb) Should the acquisition take place by way of a public offer to purchase addressed to all of the shareholders, the purchase price per share offered (excluding the ancillary costs of acquiring the shares) may not be higher or lower by more than ten percent of the average closing price on the Frankfurt Stock Exchange during the last five stock exchange trading days prior to the date the offer was published. The offer to purchase may include other conditions. Acceptance must be made by quota should the offer to purchase be over-subscribed.

The Board of Management may provide for privileged acceptance of a limited number of shares per shareholder of up to 100 units of the shares offered for sale.

d) The Board of Management is authorised, with the consent of the Supervisory Board, to dispose of shares in Your Family Entertainment AG acquired on the basis of this authorisation in other ways than through sale by an offer to the shareholders or sale via the stock exchange, namely:

aa) By offering shares to third parties as part of a company merger, the purchase of companies, investments in companies or parts of companies and as payment for the acquisition of claims due from the company

bb) By selling shares to third parties. The price at which the company’s shares are issued to third parties may not be materially lower than the stock exchange price of the shares at the time of the sale. The exclusion of a subscription right due to other authorisation in accordance with § 186 section 3.4 of the German Companies Act must be considered when using this authorisation.

cc) By annulling the shares without the annulment or its execution requiring the approval of an additional resolution by the shareholders' meeting. The annulment leads to capital reduction. The shares may also be retired in a simple process, without reducing share capital, by adjusting the proportion of the company's share capital by the each of the remaining no-par-value shares. The retirement may be limited to a portion of the bought-back shares. The authorisation to retire shares can be exercised multiple times. If the shares are retired in a simplified process, the Board of Management is authorised to adjust teh number of no-par-value shares in the articles of association.

The above authorisations governing the use of the company's own shares acquired may be exercised once or on several occasions, wholly or partially, individually or collectively.

The shareholders' subscription right to the company's own shares acquired is excluded should these shares be used in connection with the authorisations described above under aa) and bb). At shareholders' meetings, the Board of Management will inform the shareholders of the reasons and the purpose of the acquisition of the company's own shares, the number of shares acquired and the amount of share capital that they represent as well as the amount that was paid for the shares.

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.

J. 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 2010 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 that were known to it at the time the legal transaction was carried out.

Munich, March 23rd, 2011

The Board of Management

7. Auditors' certificate - Ernst & Young, Ravensburg

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, 2010. 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). 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, March 23rd, 2011

Ernst & Young GmbH
Auditors and tax advisers

Dr. Oechsle	Liebe
Certified auditor	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, March 23rd, 2011

Dr. Stefan Piëch
CEO

9. Financial calendar

April 28th, 2011	Annual Financial Statement and Management Report 2010 is released
May 17th, 2011	Interim announcement for the first half of 2011
June 30th, 2011	Shareholders' meeting
August 25th, 2011	Semi-annual Financial Statement 2011 is released
November 15th, 2011	Interim announcement for the second half of 2011

10. Impressum / How to contact us

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yourfamily entertainment