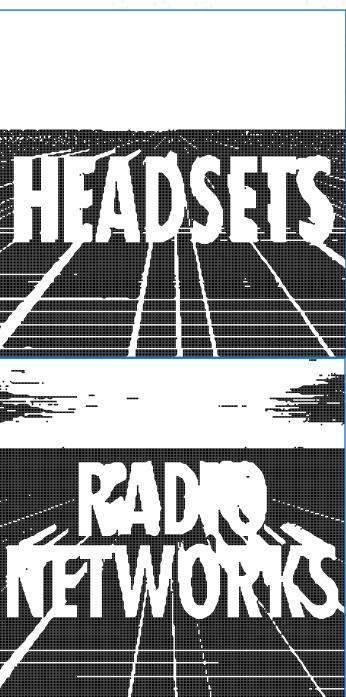




Much more than just Headsets...

Professional Audio, Video and Data communication
for the use under difficult ambient conditions



2002/2003

CeoTronics AG Annual Report

KEEP YOUR SENSES OPEN

CeoTronics in Figures

The CeoTronics Group in figures		2002/2003	2001/2002	2000/2001	1999/2000	1998/1999	1997/1998	1996/1997
Sales	€	12,366	13,868	13,441	11,947	9,850	9,830	8,638
thereof export share	%	56.2	64.4	64.3	61.3	59.5	58.3	52.4
Investments	€	452	560	3,476	2,209	1,093	209	340
R&D expenses	€	930	858	1,050	860	557	513	505
Pre-tax earnings	€	-687	29	-1,452	-732	150	867	440
Net income/loss	€	-567	830	-1,492	-186	13	433	94
Result according DVFA/SG	€	-567	830	-1,492	-186	13	521	94
Gross cash flow	€	-63	1,470	-929	193	298	592	242
Total assets	€	13,613	15,112	15,175	13,770	13,362	5,140	4,944
Shareholders' equity	€	9,619	10,607	9,999	10,415	10,660	1,195	845
Shareholders' equity ratio	%	70.7	70.2	65.9	75.6	79.8	23.2	17.1
Employees (as of May 31)	number	127	128	152	123	113	103	94
Return on sales	%	-4.4	1.4	-10.4	-8.8	0.9	10.2	6.2
Return on equity ⁽¹⁾	%	-5.6	8.1	-14.6	-1.8	0.2	42.4	11.5
Earnings per share ⁽²⁾	€	-0.26	0.38	-0.76	-0.09	0.01	0.72	0.16
Earnings per share (DVFA/SG) ⁽²⁾	€	-0.26	0.38	-0.76	-0.09	0.01	0.87	0.16
Gross cash flow per share ⁽²⁾	€	-0.03	0.68	-0.48	0.10	0.15	0.99	0.41

(1) Average annual net income shareholders' equity

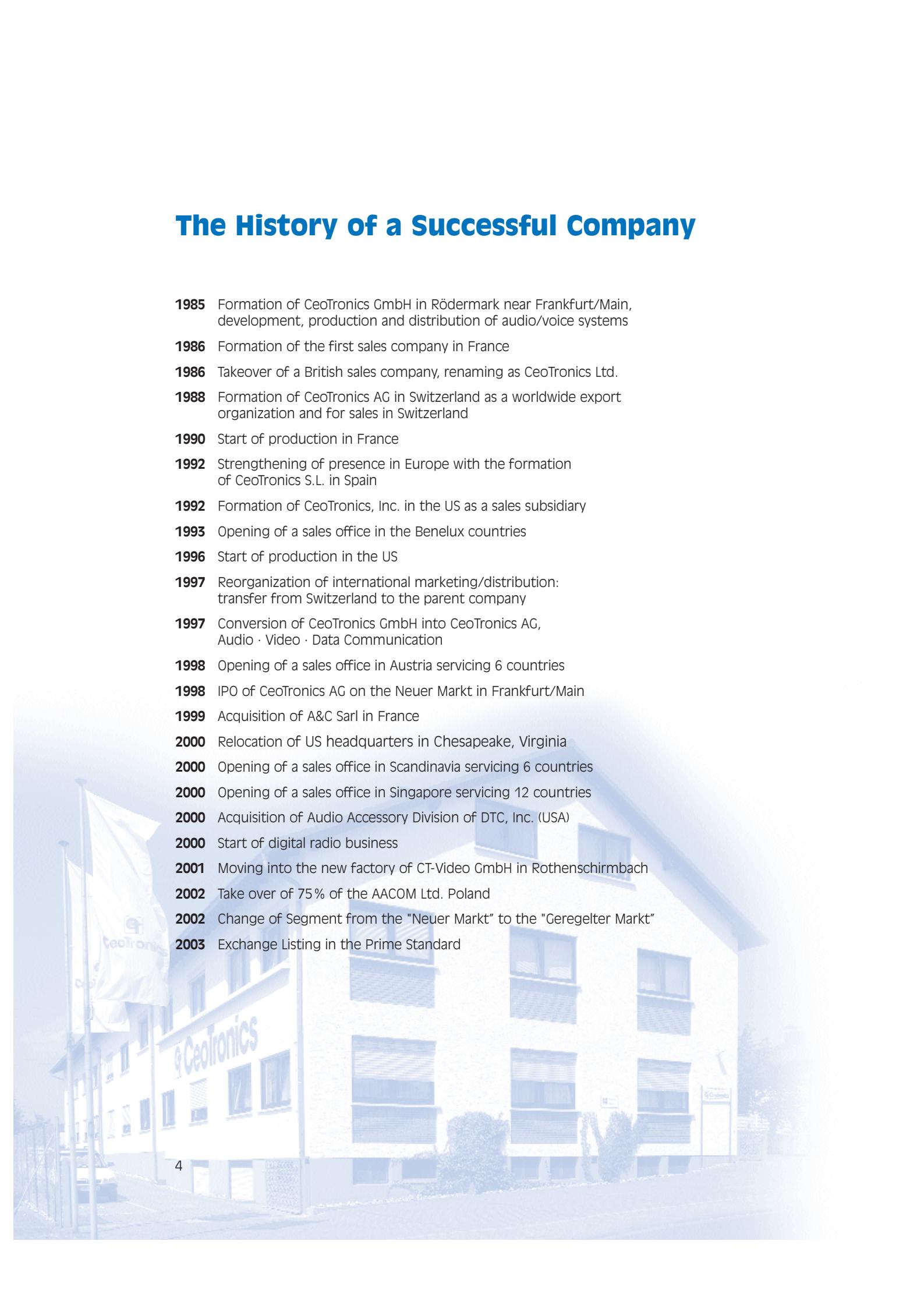
(2) Per share; the effect of the issue of bonus shares at a 1:1 ratio has been taken into consideration for the figures of the preceding years

Contents of the 2002/2003 Annual Report

CeoTronics in Figures	2
Contents of the 2002/2003 Annual Report	3
The History of a Successful Company	4
Letter to Shareholders	5
Communication is expressing understanding between people	6
Clear communication in noisy environment and over longer distances	7
The CeoTronics Group	8
Management Report of the CeoTronics Group	10
The CeoTronics Share	18
Consolidated Balance Sheet	20
Consolidated Income Statement	21
Consolidated Cash Flow Statement	23
Consolidated Statement of Shareholders' Equity	24
Consolidated Statement of Changes in Fixed Assets 2002/2003	25
Notes to the Consolidated Statements of CeoTronics AG as of May 31, 2003	26
Audit Opinion	45
CeoTronics AG Germany	46
CeoTronics AG Balance Sheet	47
CeoTronics AG Income Statement	48
Report of the Supervisory Board	49
Executive Bodies	50
CeoTronics AG Financial Calendar	51

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The History of a Successful Company

- 
- 1985** Formation of CeoTronics GmbH in Rödermark near Frankfurt/Main, development, production and distribution of audio/voice systems
 - 1986** Formation of the first sales company in France
 - 1986** Takeover of a British sales company, renaming as CeoTronics Ltd.
 - 1988** Formation of CeoTronics AG in Switzerland as a worldwide export organization and for sales in Switzerland
 - 1990** Start of production in France
 - 1992** Strengthening of presence in Europe with the formation of CeoTronics S.L. in Spain
 - 1992** Formation of CeoTronics, Inc. in the US as a sales subsidiary
 - 1993** Opening of a sales office in the Benelux countries
 - 1996** Start of production in the US
 - 1997** Reorganization of international marketing/distribution: transfer from Switzerland to the parent company
 - 1997** Conversion of CeoTronics GmbH into CeoTronics AG, Audio · Video · Data Communication
 - 1998** Opening of a sales office in Austria servicing 6 countries
 - 1998** IPO of CeoTronics AG on the Neuer Markt in Frankfurt/Main
 - 1999** Acquisition of A&C Sarl in France
 - 2000** Relocation of US headquarters in Chesapeake, Virginia
 - 2000** Opening of a sales office in Scandinavia servicing 6 countries
 - 2000** Opening of a sales office in Singapore servicing 12 countries
 - 2000** Acquisition of Audio Accessory Division of DTC, Inc. (USA)
 - 2000** Start of digital radio business
 - 2001** Moving into the new factory of CT-Video GmbH in Rothenkirchenbach
 - 2002** Take over of 75 % of the AACOM Ltd. Poland
 - 2002** Change of Segment from the "Neuer Markt" to the "Geregelter Markt"
 - 2003** Exchange Listing in the Prime Standard

Letter to Shareholders

Ladies and gentlemen, shareholders and shareholder representatives, dear members of staff.

The financial year 02/03 has been considerably affected by the still aggravating overall global economic crisis, budget reductions on the Public Sector and the consequences of the war on Iraq. The German bank crisis combined with Basel II, the Second Basel Capital Accord, has further considerably tightened the investment capacities of our customers, especially across the medium-sized industry sector.



Thomas H. Günther, CEO

Due to the new positioning of "CeoTronics – more than just headsets" as a supplier of digital headsets and mobile local radio networks could have been successfully realized, and the "CD-DECT" based products and systems within the period of just two years from the time of the initial introduction of digital headsets, have grown to become the second largest sales pillar, an even more significant decline in sales could be successfully averted.

Despite the temporarily declining market and the resulting cutthroat competition thereof, CeoTronics managed to stay clear from "price discounting wars". Due to our very user-oriented and, in parts, individual product and system solutions on the basis of the latest findings in technology, and due the most elevated functional and outstanding quality in craftsmanship, coupled with the competent customer service and consultation acting on the closely knit distribution net in the most important markets, we managed to even further expand our shares in the market.

CeoTronics will move forward with the launch of a 03/04 marketing offensive for which we are well equipped with our new "CT-DECT"-based system adaptations, the new video-radio systems, the "CT-DNR" (Digital Noise Reduction), our global leader position in the ATEX market for explosion-proof video/audio systems for the chemical and petrochemical sector, as well as our new headset "CT-CombatCom" for special military and police units, which will secure an even greater market share and lead to further increases in sales.

The restructuring of the French business has led to a positive result in the year under review. The Management Board is now actively striving for reaching an economic turn around in the U.S.A.

By the issuance of bonus shares, we could increase the degree of tradability of the CeoTronics share. Compared to the DAX and Nemax 50, the CeoTronics share price was able to positively establish itself on the market. Even the listing with the "Prime Standard", however, with the highest level existing requirements in information transparency and investor protection, could not prevent the clear undervaluation of the CeoTronics share. CeoTronics will also in the future continue its path under the motto of "profit before growth" and try and reach the status of distributing dividends.

The Management Board would like to express their thanks and appreciation to all employees, in Germany and abroad, who, with an outstanding performance and a great deal of understanding for the decisions that had to be taken, have contributed to hold CeoTronics on course. We would further like to thank both our German and international clients, sales and distribution partners, suppliers and, you, our shareholders for your confidence in us.

CeoTronics have done their homework, also in light of the consequences of Basel II. For the upcoming financial year 03/04, we are expecting also a positive Group result with only minor sales increases as a result of an unfavorable business environment.

CeoTronics – when it counts...

Rödermark, August 09, 2003



Thomas H. Günther
Chairman



Berthold Hemer
Deputy Chairman

Communication is expressing understanding between people

Finding individual solutions for communicating in a challenging environment

CeoTronics develops, produces and sells electronic communication systems for the precise and clear communication, also under extreme operating conditions such as noise

- in dangerous situations
- while wearing hard hats or protective clothing
- in hazardous, potentially explosive areas
- during undercover operations
- and during hands-free communication

Our products and system solutions stand the test – every day and around the world. The range of the areas of application for our products is wide spread. They are used by airports, fire departments, police and security services, as well as power plants, oil platforms and refineries, and, finally, in the aerospace industry and generally in all industrial areas of operation, amusement parks, service industry and during sports events.

A business model that works – CeoTronics is on the route to success, and they have been for many years.

Dynamic conduct coupled with creativity and flexibility. These are the ingredients with which CeoTronics have been setting the pace since their foundation in 1985. Our own high quality standards and our policy of individual customer care underline our striving for being the premium supplier on the market.

Supported by their subsidiaries, branches and cooperation partners in Germany and abroad, the Group can assure a worldwide coverage of competent consulting services and client focus in more than 30 countries on five continents.

ISO 9001 and ATEX Certification for High Quality Requirements

We develop and construct in two different plants in Germany, and manufacture in Germany and the U.S.A. We have just laid the foundation for running a production line in Poland catering to the Eastern European markets, simultaneously ensuring a local follow-up service. CeoTronics is proud to guarantee a very high precision level of all individual parts installed. Prior to being shipped, all finished products are subject to a final quality inspection. There is good reason why we can offer our customers up to three years warranty on all of our electronic products, including even wires and microphones.

CeoTronics has been DIN EN ISO 9001 certified for a considerable amount of time, and as of June 01, 2003, CeoTronics has been meeting the new and very strict ATEX guideline (94/9/EU). Beginning on July 01, 2003, this guideline has been binding for all products introduced in the market to be used in hazardous, potentially explosive areas in the EU and the associated countries.

It is almost mandatory when receiving the ATEX certificate for certain products that the production process and the quality assurance of the respective manufacturer have also been subject to a certification procedure according to the ATEX guidelines. CeoTronics has been complying with this requirement for well over a year by now.

CeoTronics has now reached a unique position in the market, being the only manufacturer worldwide with the largest scope of ATEX certifications for their various systems coupled with their early availability.

Clear communication in noisy environment and over longer distances

Communication Systems for the Industry, the Service Sector and Sports Events

CeoTronics products can be found in all areas where communication is mandatory while working under high or alternating levels of noise, often rendered more difficult through the wearing of respirator masks, protective suits or in light of hazardous areas with high explosion risks.

The CeoTronics communication systems offer a wide range of application and fulfill every individual need for:

- different industry sectors (i.e. mechanical engineering, automotive industry, paper production, aerospace industry)
- power plants
- refineries and oil platforms
- the Service Sector (such as amusement parks, television and radio stations)
- large sports arenas and motor sport teams

Airport and Airline Communication

Well over 200 airlines, airports, ground handling service companies all over the world rely on the CeoTronics products. We offer perfect communication solutions for the application in all those airport areas where the precise transmission of every single word is crucial.

Our extensive product range includes hard-wired and wireless systems for ramp handling, push back and deicing, cockpit communication, aircraft maintenance, including airport fire fighters and airport security personnel.

On Duty with Fire Departments, Disaster Prevention and Rescue Services Operations

A faultless communication delivering the highest possible rate of transmission quality is vital during fire fighting and disaster operations.

Major emphasis is therefore put on safety, easy handling and wearing comfort. CeoTronics develops and designs their products for fire departments and rescue service under those prerequisites.

Every product is:

- resistant to heat, cold or chemical agents
- available in explosive-proof models
- weather resistant
- designed for long-term application
- extremely sturdy

Individual Solutions for Police, Border Patrol, Military Services and Security Services

The development and supply of communication devices for the public sector and organizations dealing with security-related issues constitutes one of the key strengths of CeoTronics.

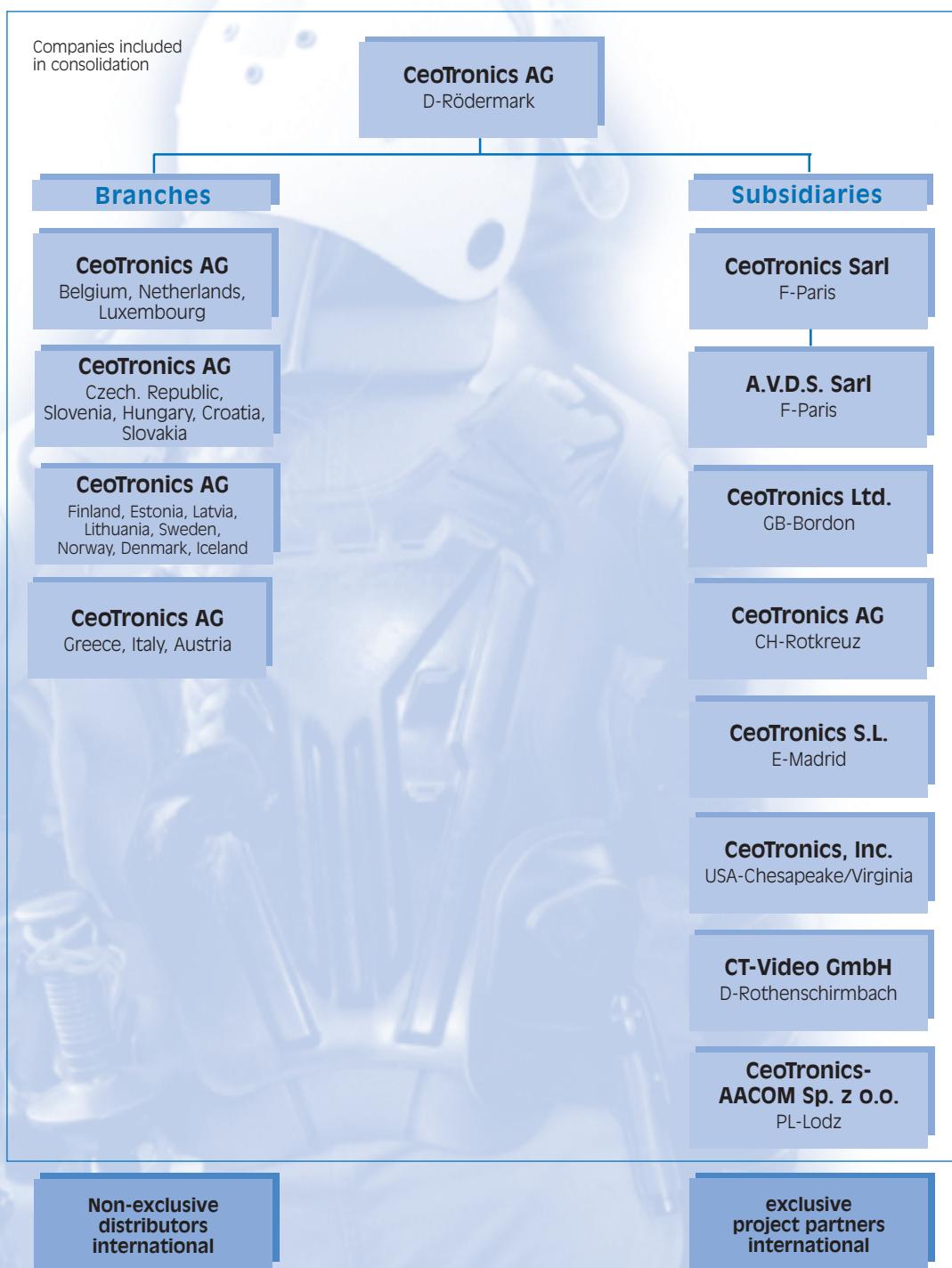
There is a wide variety of systems to choose from, i.e.:

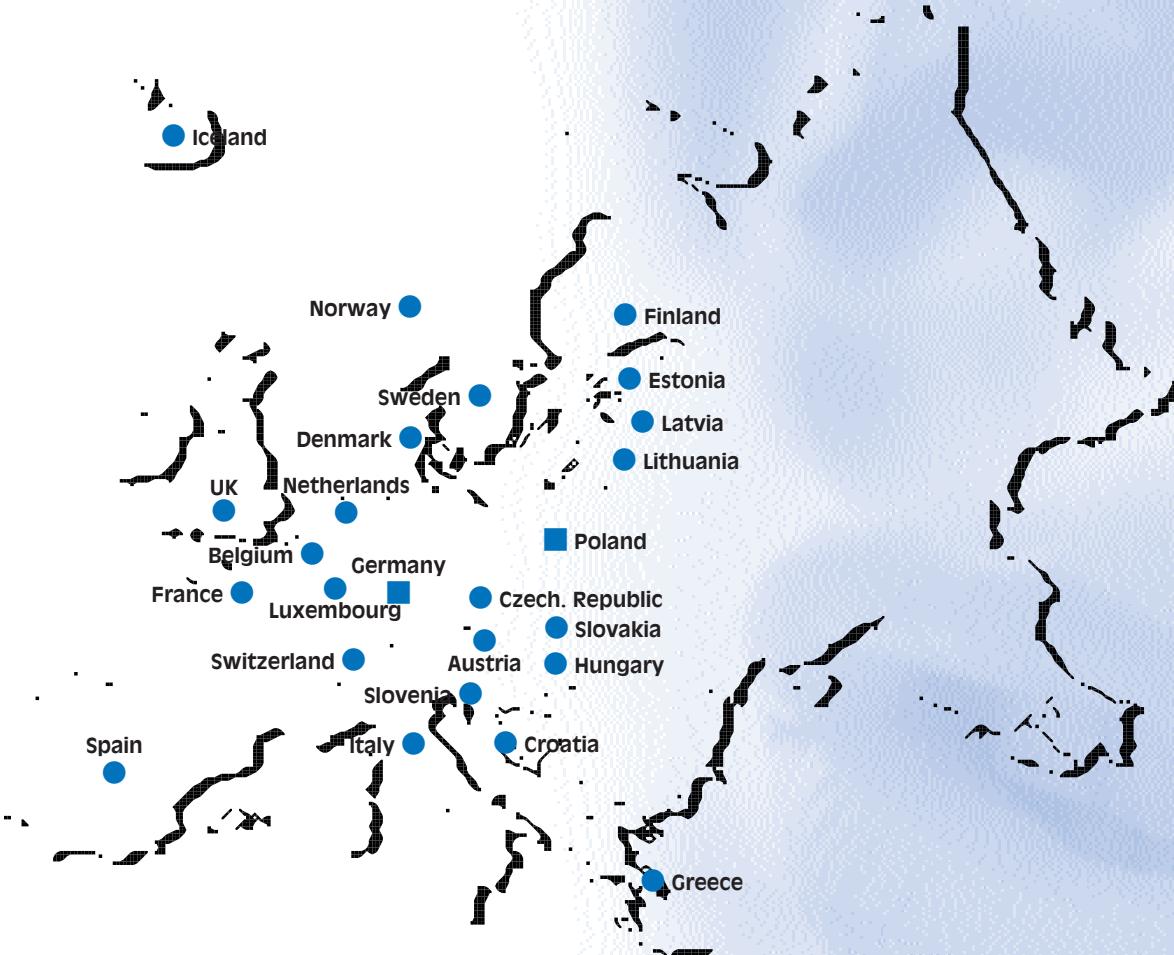
- fully and partly covered audio- and voice systems and miniature radio cameras for wireless remote transmission of video images during undercover investigation operations.
- audio systems based on various technologies for the communication in connection with helmets for riot police, motor cyclists, soldiers and special task force units.

Police missions embedded in military services in various regions of the world also use the communication systems of CeoTronics. An important corner stone is the development of digital radio networks that can be set up within a matter of seconds and allow bug-proof communication in duplex modus, in other words, just like during any telephone conversation, it is possible to speak and listen simultaneously.

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The CeoTronics Group





KEEP YOUR SENSES OPEN

■ **CeoTronics marketing, production and after sales service**

Germany (headquarters) Poland US

● **CeoTronics sales companies and branches**

Belgium	UK	Croatia	Netherlands	Sweden
Denmark	Greece	Latvia	Norway	Switzerland
Estonia	Iceland	Lithuania	Austria	Spain
Finland	Italy	Luxembourg	Slovakia	Czech. Republic
France	Canada	Mexico	Slovenia	Hungary

Management Report of the CeoTronics Group

Global Economy in Difficult Situation

The economic situation in the financial year 2002/2003 has dramatically deteriorated. Initially, only a temporary weakness in growth was expected, but with the upcoming war in Iraq, the mood of the world's economy turned sour. Even though the war was over soon – which was well expected – the world's spirit did not rise again. Instead, international economic fundamentals, such as economic growth and unemployment rates, have further deteriorated during the financial year. The economic research institutes' expectations regarding the time of a substantial upswing are further postponed into the future.

Germany Suffers from Development of Global Economy

Germany's economic development within the reporting period was weaker than that of its European neighbors and the USA. Reasons for this development are manifold, but in addition to global economic matters, high taxes and contributions to the social system as well as a growing public bureaucracy played a decisive role in this situation. This unfavorable development led to low revenues of the federal government and sharp drops in profits of companies. Already approved budget funds were being blocked and investments stopped.

Cautious Investment Behavior of CeoTronics Customers

The current tax revenues of the government and the profit situation of the business sector have led to the suspension and/or postponement of already approved investments in communication systems. This trend has been intensified and users have become even more insecure in light of the fruitless discussions regarding the nationwide implementation of the digital TETRA/TETRAPOL system in Germany. As a consequence, orders of equipment for the already implemented analogous radio technology have ceased.

This development resulted in a two-digit drop in sales at CeoTronics in the III. and IV. quarter of the financial year, which made the consolidated annual sales drop by 10.8% from the previous year's figure. The relatively positive development in the first two quarters was clearly overcompensated by this unfavorable development in the last two quarters. The sales and margin targets that CeoTronics set at the beginning of the financial year for this segment could therefore not be reached. In spite of this development, public customers have kept their interest in our products, and the need for procurement of such products does still exist. And, on a positive note it has to be stated that the outstanding major orders have not been placed with competitors. It can rather be assumed that in a temporarily smaller market, CeoTronics has continued to increase their share. In addition, the situation does not seem to be caused by a saturation of the market, but rather by cautious investment behavior as a result of limited budgets – in spite of enormous investment and financing requirements.

Regional Changes

With only 56.2% (previous year: 64.4%), the financial year 2002/2003 registered a decline in its sales abroad. Being a German company, however, that like CeoTronics is spread out internationally in a niche market, the market share can be considered high.

In Germany, sales increased by 9.3%, thanks to a very good development in the first six months of the financial year. Taking into consideration the overall unfavorable long-term economic and budgetary situation, CeoTronics AG and CT-Video GmbH performed very well. Total sales abroad have gone down by 21.9%.

Sales in France have declined by approximately 13%. It has to be noted though that the main objective of the French company was the consolidation of the business and not an increase in sales. This approach proved to be successful since the turnaround of the French company has been reached even without an increase in sales.

In the United Kingdom, sales declined further on a low level. Here, the importance of an appropriate distribution system became clear once again. In order to improve the situation, cooperations were being discussed.

On the Iberian Peninsula, last year's high performance level could be maintained. In this region as well, CeoTronics could establish itself as a competent partner for the security authorities.

Switzerland could not maintain its very high performance level, so that the company suffered a 24% decline in sales.

In all other European countries (especially the Netherlands and Belgium), the previous success could not be repeated either and sales declined clearly.

With the acquisition of AACOM-CeoTronics Ltd. in Lodz, Poland, the CeoTronics Group has positioned itself well in the country and in Eastern Europe. Based on the planned introduction of the Euro and the resulting necessity to comply with the criteria of stability, authorities in these countries are increasingly reserved with regard to investments.

Sales in the United States decreased in the middle of the financial year, as a consequence of a change in management. Versus the end of the financial year, monthly sales had almost reached a level that made the Management Board optimistic for the further development on this strategically important market for CeoTronics.

Development of Segments and Business Units

The company's activities can be divided into three main divisions: Audio Communication, Video Communication and Data Communication, plus a fourth area "Individual Solutions and Services" which primarily comprises cross-functional, customer specific special solutions.

The largest division, Audio Communication, is subdivided into Radio Headsets, Vibration Technology and Helmet Communication, Ear Microphones and Induction Technology, Accessories for Mobile Phones and Radio Sets, and Wire Communication.

Sales in "Radio Headsets" have increased by 95 % compared to last year. This enormous growth is primarily due to the additional sales in digital radio systems which are based on our own CT-DECT technology. With these radio systems only, sales have almost tripled in the reporting period. This product line has thus become our second strongest contributor to overall sales. This development is the best evidence for how important it was to make the necessary R&D investments for entering the digital radio technology market.

Sales in "Audio/Vibration Technology and Helmet Communication" suffered a decline in sales of 20.6 % in the 2002/2003 financial year. The major reason for this decline was the low amount of incoming orders from public authorities in the second part of the financial year. At the same time though, very interesting offers were made regarding a new and extremely modern way of helmet communication and big tenders were about to be allocated. Unfortunately, these projects were not allocated within the reporting period so that a strong increase in sales can be expected only down the near future.

Also the "Ear Microphone and Induction Technology" unit experienced a 33 % decrease in sales. This segment is characterized by a saturation of the market for standard products, which in turn, led to a pricing pressure for the manufacturers. CeoTronics reacted promptly and designed a new digital induction receiver which will most probably set new standards in the area of induction technology. The product was introduced to the market at the end of the reporting period.

Sales of "Audio/Wire Communication" products have decreased, too, in 2002/2003, by 21 % compared to the previous financial year. This decline can be attributed mainly to the overall bad economic situation of our main customers – airlines and airport operators. Other customers in this sector, like e.g. fire departments, suffer from the low revenues of the government and have only small or no funds at all for necessary communication solutions at their disposal.

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The Video division delivered very satisfying results: Sales increased by 14.5 %. This positive development was mainly caused by newly developed products such as our pan tilt head cameras and rearview video systems. By now, the share of video products in our entire sales has increased to 8.5 % and has grown to play an important role in the CeoTronics group.

"Data communication", too, witnessed a sales increase by 12 % and could thus improve its share in the entire sales volume.

The division "Service and Individual Solutions" could maintain its share in the entire sales volume, so that, similar to the company's total sales, its absolute figures decreased.

Great Interest in Digital CeoTronics Products

The great interest and need of industrial and public customers became also clear in their repeated requests to CeoTronics for high volume offers.

Such requests focused less on our classic products (such as headsets), but moreover on communication systems based on the CeoTronics' DECT technology and special solutions for helmet communication.

CeoTronics' own digital DECT technology is more and more used for small scale radio networks that can be easily combined with other radio networks (like e.g. TETRA, TETRAPOL, cellular phone or even analog networks) for intelligent communication solutions. This is the area in which CeoTronics can best employ one of their strengths, namely the years and years of experience in adapting radio sets of various types and makes.

Of course, such digital communication systems are much more complex than conventional systems so that decision makers are required to examine these new systems much more carefully and intensively, which in turn slows down the contract award process and order placement.

The introduction of digitalization at CeoTronics has led to a change of the whole group. Before its going public, CeoTronics had been a manufacturer of audio communication systems and radio accessories. Now it has developed to be a system integrator with its own strong products in the area of analog and digital radio communication. The company has become more and more a highly esteemed partner for Public Authorities and industries on all world markets for communication solutions under challenging and difficult ambient conditions.

Share of Revenue Costs Increased

Compared to the previous year, the share of the revenue costs in sales has increased from 48.0 % to 51.3 %. This unfavorable development can be attributed to several circumstances that occurred in the reporting period.

Unused production capacities, caused by the low amount of orders in the III. and IV. Quarter, had a primary influence on this development. Even though management reacted immediately with staff reductions and temporary short-time work, the effect of the decrease in sales could not be compensated quickly enough.

The increase of revenue costs was also influenced by the decrease in sales at the American subsidiary CeoTronics, Inc., Chesapeake, Virginia.

Here, the decrease in sales within productions which was due to the change in management could not be offset fast enough. In addition, it is assumed that this decrease is only temporary and that capacities will be fully utilized again in the near future. Another aspect that probably had a major impact on the share of the revenue costs is the evolution of CeoTronics from a manufacturer of radio sets accessories to a full system provider. While in the past CeoTronics simply sold accessories, it now purchases high-value high-tech modules and components as well. The increase of the euro against the US dollar had another negative influence on the situation because purchasing prices of strategically stockpiled or rare components and modules have dropped, which in turn led to an impairment of the inventories.

Promising New R&D Developments

R&D expenses increased according to plan by 8.5 %. Especially in difficult times with a weak demand, it is strategically important to promote development projects to constitute success in the future. During the past 12 months, several of such developments have been brought forth, which will continue to push forward the company's growth. Typical examples are the development of an own CT-DECT system for the large US market, and an innovative digital induction receiver.

In addition, the company has developed a new multifunctional headset type for police and military use, which provides immense practical handling advantages compared to the products of our competitors.

In Addition, a digital noise reduction module which can be integrated in many CeoTronics products has been developed in our R&D department, and is now ready for serial production.

These products have not only caused internal and external development costs but required the construction and production of special tools and appliances for which CeoTronics could successfully use its extraordinary "Supply Value Chain".

Lower Sales and Marketing Expenses

Within the scope of our overall strategy "profit before growth", we also implemented cost reduction measures in our sales department. We consistently refrained from taking part in big image-promoting tradeshows but concentrated on participation in specialized tradeshows and congresses. Another important factor that lowered our sales and marketing expenses was our focus on priority and growing markets/products in Europe and North America. Due to many more new product introductions to the market, we will probably not be able to lower our sales and marketing expenses any further.

Lower Administrative Expenses

Compared to the previous year, our administrative expenses could be decreased once more. One factor that had a major impact was the reduction of the Management Board as of January 31, 2003. At the same time though, extraordinary effects at external service providers ruined some of the cost reductions in other areas.

Operating Results Burdened by Extraordinary Effects

The sudden drop in sales in the III. and IV. quarter could not be offset by the implemented cost reduction measures, which lead to a loss in operating results of T€ -543. The group has thus not reached its planned targets but some extraordinary effects have clearly burdened the operating results. One major impact was the depreciation of the US dollar; which alone led to negative operating results of T€ 222. In addition, strategically stockpiled or rare electronic components were extraordinarily amortized at an amount of T€ 173. In addition, the change of the management in the United States has burdened the results with T€ 150. The Management Board does not expect these out-of-the-ordinary effects to burden the following reporting period again. Without these extraordinary losses of T€ -545, EBIT would have been T€ 2 and would have reached previous year's level but at clearly lesser sales.

Decline in Interest Expenses

Based on the reduction of liabilities to banks, corporate borrowing needs have been reduced. Due to a decreased credit volume, interest expenses could be reduced by more than 15 %. It must be taken into consideration though, that CeoTronics used the liabilities to banks mainly to receive cash discounts from suppliers in order to realize interest rate advantages for the group. This development contributed to the success on the company's way to strengthen its self-finacing.

Net Income

Even though the parent company CeoTronics AG generated an annual net income of T€ 422, the company's Board of Management is not satisfied with the overall group performance. Therefore, the Management Board has, together with the Supervisory Board, implemented further measures to generate a sustained profit for the group in the 2003/2004 financial year.

KEEP YOUR SENSES OPEN

Human Resources

As of May 31, 2003, the CeoTronics group employed a staff of 127 – a decrease of one employee compared to the year before. The annual average of the group's employees totaled 127 as well.

Turnaround at French Subsidiary CeoTronics Sarl

After five years during which the company had to sustain losses, the Board's decisive approach and strong commitment finally paid off. Already at the end of the last financial year, the company discharged their general manager followed by severe economizing measures and belt-tightening, as a consequence of which all processes and expenses had to undergo close examination. At the same time though, the sales force was increased notably. Quick turnaround in sales and increasing support from specialists of CeoTronics AG successfully motivated the French team and contributed remarkably to their success. After 12 months, the results of these changes are noteworthy: Despite the absence of large-scale orders from Public Authorities in the 2002/2003 financial year, the company realized a profit in spite of decreased sales.

CT-Video GmbH: 16 % Growth in Sales and Profit

The second year in a row, CT-Video GmbH, Rothenkirchenbach, Sachsen-Anhalt, could record a profit. At the same time, sales increased by 16 % compared to the previous year. The company's new products which had been developed in the previous year, such as the pan tilt head cylinder camera and the 1.3/2.4 and 5.8 GHz frequency video transmission systems were marketed as planned. We expect an increase in sales of these products, which are in great demand by our Public Sector customers as soon as their budgetary situation will have improved.

Of course, CT-Video GmbH also worked on new products such as the digital video recorder "DigiMind" which will be the smallest video recorder existing on the market. With innovative products like these, CT-Video is increasingly becoming a competent partner for individual video solutions as requested by Public Authorities. On the industrial sector, too, CT-Video products were very well received as well; a renowned manufacturer of special-purpose vehicles has grown to be an important customer of CT-Video.

Change of Management at American Subsidiary

In the first quarter of the reporting period, it became more and more obvious that the management of CeoTronics, Inc. would not be able to reach the turnaround. The Management Board of CeoTronics AG reacted with determination and exchanged the management as of November 1, 2002. In the process, they were able to hire a manager with the relevant market experience for the position as the company's president. Her main task is to focus on new impulses for CeoTronics, Inc. in sales and marketing and customer orientation. In her previous position, she was responsible for the sales of radio sets to public customers. She thus has profound knowledge of the North American market and good connections to important customers.

The bad relations between the German and the American government, as well as the exchange rate fluctuations certainly had another negative effect on sales in the USA. The difficult situation of the American airline industry, one of the company's most important customers has further worsened the situation.

The restructuring process of the business that came along with the change of management went as planned, but was not able to offset the negative effects of the past on a short-term notice. With the implementation of further measures and the relevant support of the management of the parent company, the American subsidiary can be expected to exceed the break even point soon.

Reorganization of Deutsche Börse

As of May 31, 2002, CeoTronics AG withdrew from the Neuer Markt after its scandalous environment had become unbearable. CeoTronics has been free of scandals and has always complied with the Rules and Regulations of the Neuer Markt. At that time, the purpose of changing the segment was to reposition the share as a value stock in a different environment.

In the fall of 2002, Deutsche Börse AG decided to reorganize "Amtlicher Handel" (first segment), "Neuer Markt", "Geregelter Markt" (second segment), and other segments of the stock exchange into two new market segments: "Prime Standard" and "General Standard". The Prime Standard sets the highest standards in Europe e.g. with regard to transparency. In the summer of 2002, CeoTronics had already implemented most of the German Corporate Governance Code voluntarily in order to support transparency and to strengthen the shareholders' trust. Thus, it was only a logical consequence to apply for admission to the Prime Standard.

Deutsche Börse AG granted CeoTronics AG admission to the Prime Standard on December 16, 2002. The company had its first listing on January 2, 2003.

Management Board and Supervisory Board of CeoTronics AG are convinced that the structural rebirth of Deutsche Börse AG was necessary in order to win back the shareholders' trust after the excesses on the Neuer Markt.

Risk Management

As in the previous years, CeoTronics continued to fulfill its duties and performed active risk management (according to the German Act on Control and Transparency in Business (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – KonTraG)) in the reporting period. Activities included the identification of new risks, the comparison with already known risks, and their analysis and evaluation. The measures derived from these activities were then implemented.

The process was monitored and, wherever necessary, further adjusted. It was not the company's objective to avoid risks completely, but to reasonably analyze entrepreneurial chances and risks resulting there from. It is important that the risk management process is not only recorded but fully supported and "lived" by the management and that the Supervisory Board, the Management Board, all executive officers, and employees perform their risk management tasks with great responsibility. In the 2002/2003 financial year, risk management mainly dealt with the risks resulting from the unfavorable situation of the global economy and with IT security. Results were discussed between the Board of Management and the Supervisory Board and the risk management policies were modified accordingly.

German Corporate Governance Code

CeoTronics AG complied with the recommendations of the German Corporate Governance Code. The company welcomes the initiative to strengthen the trust of the shareholders and had already implemented most provisions of the code at a very early stage. CeoTronics AG deviated from the Code in the formation of committees in the Supervisory Board (as per 5.3.1 of the Code) and in the determination of an age limit for Management Board and Supervisory Board members.

Because of the size of CeoTronics and its Supervisory Board (3 members at present), the formation of committees is not feasible and thus, all tasks arising fall in the responsibility of all Supervisory Board members. With regard to the age limit for members of the Boards, respective amendments and modifications to the Articles of Incorporation will be proposed during the next General Meeting (planned for November 7, 2003).

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Amount of Shares Outstanding Increased

The last General Meeting held on November 5, 2002, passed a resolution to increase the issued share capital of CeoTronics AG out of retained earnings, by € 3,229,997 to € 6,599,994. The capital was increased by issuing 1,099,999 new unit shares so that each shareholder received one additional new share for each of the old shares. The capital increase was registered in the Commercial Register on December 20, 2002, and trading of the new shares commenced on February 3, 2003.

Orders on Hand

As of May 31, 2003, orders on hand within the group amounted to approximately T€ 700. After the date of reporting, a large-scale order that had actually still been expected for the 2002/2003 financial year was awarded to CeoTronics as of the beginning of the new financial year 2003/2004. This order included, orders on hand would have totaled approximately T€ 1,200 on the balance sheet date.

Change of Generation Completed

As of February 1, 2003, the long-time planned change of generation within the Board of Management and the Supervisory Board was completed. Hans-Dieter Günther, one of the founders of the company and CEO, retired from the Board of Management and took over the function of Chairman of the Supervisory Board.

The company expresses its gratitude to Mr. Günther for his extraordinary accomplishments in the last 18 years, and wishes him all the best in his new function on the Supervisory Board. At the same time, Thomas H. Günther, previously responsible for marketing and sales was appointed Chairman of the Board of Management of CeoTronics AG. Peter Haack, previously Chairman of the Supervisory Board has retired from his office as planned.

Dagmar Günther already resigned from her office as a member of the Supervisory Board at the general meeting of November 5, 2002. The general meeting appointed Stephan Haack, Attorney at Law, to her successor. The company thanks Ms. Dagmar Günther and Mr. Peter Haack for their strong commitment and work on the Supervisory Board and wishes them all the best for their future. The company also wishes Mr. Thomas H. Günther and Mr. Stephan Haack great success in their new positions.

Post Balance Sheet Events

No noteworthy events happened between the reporting date and the preparation of the financial statements.

Outlook

Even though some economic research institutes expect a slight improvement of the economic situation in the near future, the budgetary situation of the Public Sector will not improve as quickly. This is why CeoTronics must continue to lower its costs in order to adapt to the economic situation.

At the same time, the enormous chances and possibilities for the future development of CeoTronics remain untouched because many new digital products have already been developed and successfully introduced to the market. If the economic situation in the following financial year improves, sales in the industrial sector should rise excitingly fast. Sales in the Public Sector will probably improve only with delay. Summing up, CeoTronics looks optimistically into the future despite the currently negative situation.

Rödermark, August 1, 2003

CeoTronics AG
Audio · Video · Data Communication



Thomas H. Günther
Chairman



Bernd Weinel
Chairman
Finance an Human Resources



Berthold Hemer
Deputy Chairman
Research and Development



Günther Thoma
Chairman
Operations

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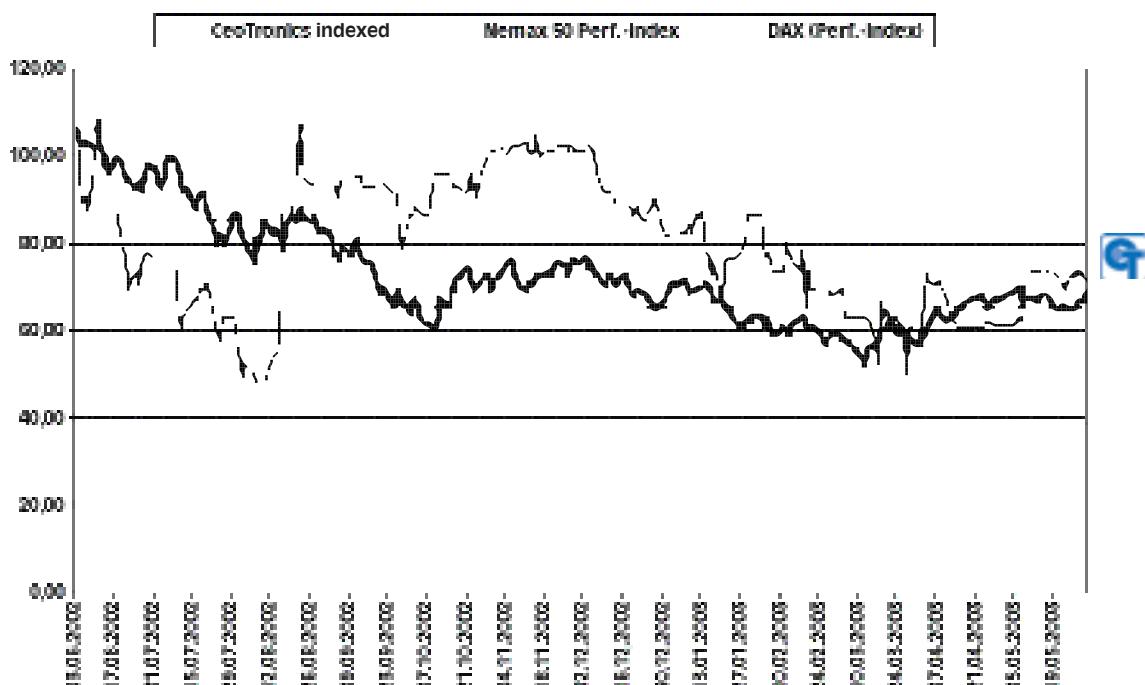
The CeoTronics Share

Difficult Situation on the World's Stock Exchanges

During the reporting period, the stock prices and indexes of the world's most important stock exchanges continued their intense decline. The decline took place on such an extraordinary scale which has not been witnessed since the Stock Market Crash in 1929. The situation was especially burdened by the fact that the US and European economies would not recover as fast as many experts had expected. In addition, bad company news and balance sheet scandals have caused investors to act more prudently being even more insecure.

The German stock exchanges have been hit significantly harder than the comparable stock markets in the USA, the United Kingdom, France or Switzerland. This development had to do with the business location German demonstrating signs of weakness so that foreign investors avoided German shares because they doubted the willingness and competence of Germany to change their deeply ingrained structures. In this context though, it is neglected that many German companies are well positioned internationally so that national decisions have a lesser impact on them than in the past

CeoTronics Shares in Comparison to Indexes - June 1, 2002 till May 31, 2003 (indexed)



Source:  **DZ BANK**

Delisting from Neuer Markt Paid Off

As of May 31, 2002, CeoTronics AG delisted from the Neuer Markt to prevent further damages to the company's good reputation caused by the never ending scandals in this segment.

With the beginning of the financial year 2002/2003, CeoTronics was listed on the "Geregelter Markt" with an initial price determination of € 4.00. In the course of summer 2002, the price fell back to € 2.00. Later, the price rose again to € 3.95 in contrast to the general trend, which was probably caused by the optimistic expectations and then later by the actual positive net income of the CeoTronics group. The Board of Management is certain that this positive announcement would have gone unnoticed among all the bad news if the company had remained on the Neuer Markt.

In the further course of the financial year, the price of the CeoTronics share performed better than DAX and NEMAX 50, and has thus given its shareholders a higher return than those two indexes.

Admission to Prime Standard and Corporate Governance

Since its IPO in November 1998, CeoTronics AG has always delivered their reports correctly and on time. The entire financial communication has always been transparent and fair, and the company has always adapted on short-term notice to the changes and modifications brought about by Deutsche Börse AG or legislation. Even after the delisting from the Neuer Markt, this transparency was upheld, and as one of the first companies on the Geregelter Markt, CeoTronics AG officially announced its compliance with the German Corporate Governance Code. For further information, please refer to the Management Report and the Report of the Supervisory Board.

As of October 31, 2002, Deutsche Börse AG decided to reorganize "Amtlicher Handel" (first segment), "Neuer Markt", "Geregelter Markt" (second segment), and other segments of the stock exchange into two new market segments: "Prime Standard" and "General Standard". Those two segments differ from each other in their requirements regarding the quality and transparency of the financial communication and it was clear to CeoTronics that the company wanted to correspond to the highest criteria, namely that of the Prime Standard. CeoTronics AG's correctness in the past was acknowledged by Deutsche Börse AG when, upon their application for admission to the Prime Standard, they were granted such permission quickly and without any further questions.

Issue of Bonus Shares Increases Amount of Shares Traded on the Market

In the past, CeoTronics AG's Board of Management has been repeatedly asked by institutional investors to increase the amount of shares outstanding. Based on the reluctance of major shareholders to sell their shares and the fact that they, on the contrary, kept buying since the company's IPO, it seemed appropriate to issue bonus shares with a notional par value of € 3.00. Another reason for issuing bonus shares was to thank the shareholders for their trust and faith in the company, also during the tough times.

The new shares that were issued at a 1:1 ratio commenced trading on February 3, 2003. Since then, the trading volume of the CeoTronics shares has gone through a phase of growth, so that with issuing the bonus shares, the company could reach one of its major objectives.

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Consolidated Balance Sheet

Assets	May 31, 2003	May 31, 2002
	T€	T€
Current assets		
Cash and cash equivalents (note 2)	527	851
Short-term investments/marketable securities	0	0
Trade accounts receivable (note 3)	2,231	2,730
Inventories (note 4)	3,766	4,107
Deferred tax (note 11)	1,615	1,396
Prepaid expenses and other current assets (note 5)	360	321
Total current assets	8,499	9,405
Non-current assets (note 6)		
Property, plant and equipment	3,434	3,744
Intangible assets	112	113
Goodwill	1,550	1,694
Investments	18	156
Investments accounted for by the equity method	0	0
Deferred tax	0	0
Total non-current assets	5,114	5,707
Total assets	13,613	15,112

Liabilities and shareholders' equity	May 31, 2003	May 31, 2002
	T€	T€
Current liabilities		
Current portion of capital lease obligation	0	0
Short-term debt and current portion of long-term debt (notes 9 and 10)	1,054	799
Trade accounts payable	374	652
Advance payments received	11	2
Accrued expenses (note 8)	415	503
Deferred revenues	0	0
Income tax payable	451	450
Deferred tax	0	0
Other current liabilities (note 7)	529	622
Total current liabilities	2,834	3,028
Long-term debt, less current portion		
Long-term debt, less current portion	1,136	1,477
Capital lease obligations, less current portion (notes 9 and 10)	0	0
Deferred revenues	0	0
Deferred tax	0	0
Pension accrual	0	0
Total non-current liabilities	1,136	1,477
Minority interest	24	0
Shareholders' equity (note 12)		
Share capital	6,600	3,300
Additional paid-in capital	4,935	8,235
Treasury stock	-614	-614
Retained earning/accumulated deficit	-1,312	-745
Accumulated other comprehensive income/loss	10	431
Total shareholders' equity	9,619	10,607
Total liabilities and shareholders' equity	13,613	15,112

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Consolidated Income Statement

Income Statement (according to US-GAAP)	Quarterly Report (current quarter) 28.02.2003- 31.05.2003	Quarterly Report (comparative quarter previous year) 28.02.2002- 31.05.2002	Quarterly Report (current year to date) 01.06.2002- 31.05.2003	Quarterly Report (comparative period previous year) 01.06.2001- 31.05.2002
Revenues		T€	T€	T€
Others	3,153	3,783	12,366	13,868
Cost of revenues	0	0	0	0
Gross profit/loss	-1,756	-1,800	-6,339	-6,651
	1,397	1,983	6,027	7,217
Selling and marketing expenses	-1,012	-1,087	-3,721	-4,293
General and administrative expenses	-352	-422	-1,714	-1,781
Research and development expenses (note 13)	-201	-160	-930	-858
Other operating income and expenses (notes 15 and 16)	-58	39	-205	10
Amortization (and impairment) of goodwill	75	-21	0	-101
Operating income/loss (E.B.I.T.)	-151	322	-543	194
Interest income and expenses	-48	-47	-144	-165
Income from investments and participations	0	0	0	0
Income/expense from investments accounted for by the equity method	0	0	0	0
Foreign currency exchange gains/losses	0	0	0	0
Other income/expenses	0	0	0	0
Result before income tax (and minority interest)	-199	285	-687	29
Income tax (note 11)	206	906	119	801
Extraordinary income/expenses	0	0	0	0
Result before minority interest	7	1,191	-568	830
Minority interest	3	0	1	0
Net income/loss	10	1,191	-567	830
Net income per share (basic) in □	0.00	0.55	-0.26	0.38
Net income per share (diluted) in □	0.00	0.55	-0.26	0.38
Weighted average shares outstanding (basic) (note 14)	2,159,998	2,159,998	2,159,998	2,159,998
Weighted average shares outstanding (diluted) (note 14)	2,159,998	2,159,998	2,159,998	2,159,998

Consolidated Cash Flow Statement

Cash Flow Statement	Quarterly Report (current year to date) 01.06.2002-31.05.2003	Quarterly Report (comparative period previous year) 01.06.2001-31.05.2002
	T€	T€
Cash flow from operating activities		
Net income before tax	-687	29
Income tax	119	801
Net income after tax and after earnings	-568	830
Minority interest	1	0
Net income after tax and after minority interest	-567	830
Depreciation	504	640
Subtotal	-63	1,470
Changes in assets and liabilities		
Change in trade accounts receivable	499	-367
Change in inventories	341	-147
Change in prepaid expenses and other current assets	-39	277
Change in trade accounts payable	-278	-33
Change in advanced payments received	9	-8
Change in other accruals	-88	-78
Change in corporate tax liabilities	0	-57
Change in other liabilities	-93	131
Change in asset-side adjustment for deferred tax	-219	-914
Total changes	132	-1,196
Net cash provided by operating activities	69	274
Cash flow from investing activities		
Investments in intangible assets	-201	-31
Investments in fixed assets	-251	-391
Changes in other assets and prepaid expenses	0	2
Investments in participations	138	-138
Change in foreign currency differences	329	182
Disposal of assets (net book value)	74	103
Net cash used in investing activities	89	-273
Cash flow from financing activities		
Change in short-term debt and short-term portion of long-term debt	255	-752
Change in minority interest	25	0
Change in mid-term and long-term debt	-341	126
Change in common stock	3,300	0
Change in additional paid in capital	-3,300	0
Net cash provided by financing activities	-61	-626
Change in cash and cash equivalents	97	-625
Net effect of currency translation in cash and cash equivalents	-421	-222
Cash and cash equivalents at beginning of period	851	1,698
Cash and cash equivalents at end of period	527	851

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Consolidated Statement of Shareholders' Equity

	Capital stock	Treasury stock	Capital reserve	Revenue reserve	Retained earnings	Currency translation	Comprehensive income	Shareholders' equity
	T€	T€	T€	T€	T€	T€	T€	T€
As of May 31, 1999	2,556	0	7,979	70	32	22		10,659
Consolidated net loss					-185		-185	-185
Purchase of own shares		-381						-381
Currency translation differences in the period					322	322	322	
Comprehensive Income						137		
As of May 31, 2000	2,556	-381	7,979	70	-153	344		10,415
Consolidated net loss					-1,492		-1,492	-1,492
Purchase of own shares		-233						-233
Capital increase from reserve	444		-444					0
Capital increase from capital market	300		700					1,000
Currency translation differences in the period					309	309	309	
Comprehensive Income						-1,183		
As of May 31, 2001	3,300	-614	8,235	70	-1,645	653		9,999
Consolidated net income					830		830	830
Currency translation differences in the period					-222	-222	-222	-222
Comprehensive Income						608		
As of May 31, 2002	3,300	-614	8,235	70	-815	431		10,607
Consolidated net loss					-567		-567	-567
Currency translation differences in the period					-421	-421	-421	-421
Comprehensive Income						-988		0
Capital increase from cash deposit	3,300		-3,300					
As of May 31, 2003	6,600	-614	4,935	70	-1,382	10		9,619

Consolidated Statement of Changes in Fixed Assets 2002/2003

	Purchase and production cost						Accrued depreciation						Net carrying amounts	
	01.06.2002 T€	Currency translation T€	Additions T€	Disposals T€	Transfers T€	31.05.2003 T€	01.06.2002 T€	Currency translation T€	Additions T€	Disposals T€	31.05.2003 T€	31.05.2003 T€	31.05.2002 T€	
Intangible assets														
Commercial licenses, trademarks and similar rights and assets; e.g. licenses to such rights and assets	366	0	66	0	0	432	253	0	67	0	320	112	113	
Total intangible assets	366	0	66	0	0	432	253	0	67	0	320	112	113	
Property, plant and equipment														
Real property, equivalent rights and buildings, including buildings on third-party property	2,761	-18	3	43	0	2,703	151	-1	54	6	198	2,505	2,610	
Technical equipment and machinery	1,784	-69	170	16	0	1,869	1,074	-35	218	11	1,246	623	710	
Other plant and equipment and office furniture and equipment	1,476	-15	41	31	0	1,471	1,063	-15	165	37	1,175	296	413	
Prepayments and plant equipment in the course of construction	11	0	38	39	0	10	0	0	0	0	0	10	11	
Total fixed assets	6,032	-102	252	129	0	6,053	2,288	-51	437	55	2,619	3,434	3,744	
Investments and long-term financial assets														
Interests in affiliated companies	138	0	0	138	0	0	0	0	0	0	0	0	0	138
Other loans and advances	18	0	0	0	0	18	0	0	0	0	0	18	18	18
Total investments and long-term financial assets	156	0	0	138	0	18	0	0	0	0	0	18	156	
Goodwill	1,871	-292	134	0	0	1,713	177	-14	0	0	163	1,550	1,694	
	8,425	-394	452	267	0	8,216	2,718	-65	504	55	3,102	5,114	5,707	

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Notes to the Consolidated Financial Statements of CeoTronics AG as of May 31, 2003

1. Operating Activities

The company's operating activities comprise development, construction, production and distribution of electronic audio and video systems for data transfer and communication as well as wholesale and retail trading of these systems and other electronic devices, including import and export and all relating activities.

CeoTronics AG, Rödermark and its subsidiaries CeoTronics, Inc., Chesapeake, Virginia, USA, AACOM-CeoTronics Ltd., Lodz, Poland, and CT-Video GmbH, Rothenkirchbach, are both, production and distribution companies.

The subsidiaries CeoTronics Sarl, Pontault-Combault, France, Audio Video Data Service Sarl, Pontault-Combault, France, CeoTronics AG, Rotkreuz, Switzerland, CeoTronics Ltd., Bordon/Hants, United Kingdom, and CeoTronics S.L., Madrid, Spain, are exclusively distribution companies.

Most subsidiaries primarily distribute and manufacture the products developed by the parent company.

The majority of the subsidiaries restrict their sales activities predominantly to the countries in which they are headquartered. The parent company mainly sells its products in Germany and in countries in which it is not represented by a subsidiary.

CeoTronics AG, the subsidiary CT-Video GmbH, Rothenkirchbach, and CeoTronics Sarl., Pontault-Combault, France also perform research and development activities.

2. Material Accounting and Consolidation Policies

The consolidated financial statements were prepared in accordance with US GAAP. Pursuant to the provisions of the German Handelsgesetzbuch (HGB – German Commercial Code), CeoTronics AG also prepared financial statements in accordance with the provisions of the HGB.

Some of the accounting policies applied by the Company comply with the respective local generally accepted accounting principles, but not with the corresponding regulations under US GAAP.

The financial statements as of May 31, 2003 were prepared in accordance with US GAAP, in order to fulfill the requirements in connection with CeoTronics listing on the Prime Standard. The assets, liabilities, shareholders' equity, income and expenses were adapted accordingly. All figures are in thousands of euros (T€).

a) Consolidation Principles

Scope of Consolidated Companies

Subsidiaries where the parent company indirectly or directly holds the majority of shares, and hence the majority of the voting rights, are consolidated in accordance with the principles of capital consolidation.

CeoTronics AG, Rödermark directly or indirectly holds shares in the following subsidiaries and second-tier subsidiaries:

CeoTronics AG, Rotkreuz, Switzerland,
CeoTronics Sarl, Pontault-Combault, France,
Audio Video Data Service Sarl, Pontault-Combault, France,
CeoTronics Ltd., Bordon/Hants, United Kingdom,
CeoTronics, Inc., Chesapeake, Virginia, USA,
CeoTronics S.L., Madrid, Spain,
CT-Video GmbH, Rothenkirchbach,
AACOM-CeoTronics Ltd., Lodz, Poland.

CeoTronics AG, Rödermark directly or indirectly holds 100 % of the shares of the above mentioned companies with the exception of AACOM-CeoTronics.

At the beginning of the new financial year, the acquired 75 % interest in AACOM-CeoTronics Ltd., Lodz/Poland, was part of the consolidation for the first time. The minority interest of 25 % in AACOM-CeoTronics Ltd is accounted for by recognizing the minority interest and the corresponding effects on the result in a separate item on the liabilities side of the balance sheet, in the income statement and the cash flow statement.

All material intra-group transactions such as income and expenses as well as accounts receivable and liabilities within the group were eliminated in the consolidation process.

Reporting Date of the Consolidated Financial Statements and the Single-Entity Financial Statements Included

The consolidated financial statements were prepared using the reporting date of the parent company's annual financial statements. The annual financial statements of the subsidiaries included in the consolidation have the same reporting date as the consolidated financial statements.

Capital Consolidation

The group applies the revaluation methods in accordance with the US GAAP. As a general rule, the subsidiaries were consolidated for the first time at the time of incorporation or acquisition.

The company purchased the remaining 33 % of shares in CeoTronics Sarl, Pontault-Combault, France with effect from May 31, 1996. These shares were consolidated for the first time as of May 31, 1996. The difference resulting from this first-time consolidation was classified completely as goodwill. On first-time consolidation, goodwill amounted to T€ 78. The current residual carrying amount totals T€ 47.

CeoTronics S.L., Madrid, Spain resumed their sales activities in 1998. The company was consolidated for the first time as of December 1, 1998. The difference resulting from this first-time consolidation was classified completely as goodwill. On first-time consolidation, goodwill amounted to T€ 15. The current residual carrying amount totals T€ 13.

In addition, CeoTronics AG, Germany purchased all shares of A&C Achats et Communication Sarl, Pontault-Combault, France in the 1998/1999 financial year. First-time consolidation of this company was accomplished as of April 1, 1999. Meanwhile A&C Achats et Communication Sarl, Pontault-Combault, France and CeoTronics Sarl have merged and the difference can now be found in the balance sheet of CeoTronics Sarl. The difference of T€ 323 resulting from this first-time consolidation was classified completely as goodwill. The current residual carrying amount totals T€ 275.

In addition, CeoTronics AG, Germany purchased 75 % of the shares of AACOM-CeoTronics Ltd., Lodz/Poland in the 2001/2002 financial year. This company was consolidated for the first time as of June 1, 2002. The difference resulting from the first-time consolidation was classified completely as goodwill. On first-time consolidation, goodwill amounted to T€ 134 as did the residual carrying amount.

In accordance with US GAAP, goodwill will no longer be amortized. It remains in the balance sheet at its residual carrying amount and are subject to an annual review.

Intercompany Balances

Intercompany balances were consolidated by eliminating intra-group receivables and liabilities. No significant differences could be reported.

Elimination of Intercompany Profit/Loss

The intercompany profits contained in the carrying values of the finished products as of May 31, 2003, amounting to T€ 262 (previous year: T€ 348) from intra-group trading were also eliminated.

Due to the decrease in intercompany profits, a consolidation entry of T€ 51 was made with effect on income as of the reporting date (previous year: T€ 158). The decline in intercompany profits is due to a decrease of the parent company's product inventories at its subsidiaries.

Income and Expense Consolidation

During consolidation, all revenues from intra-group deliveries, other income and expenses from intra-group settlements, and income from investments in affiliated companies, interest and licenses were eliminated.

b) Assumptions and Estimates

The preparation of the consolidated financial statements according to US GAAP required estimates and assumptions to be made by the company's management, which have an influence on the balance sheet items reported and discussed, on the contingent liabilities, and on income and expenses. These assumptions and estimates were made according to exercising all due care and diligence. Actual developments, however, can deviate from these assumptions and estimates.

c) Foreign Currency Translation

In accordance with the provisions of the Statement of Financial Accounting Standards ("SFAS") 52, balance sheet items are translated using the exchange rate on the reporting date and the items in the income statement are translated using the average exchange rate for the financial year.

The local currency of the foreign subsidiaries is the functional currency.

The shareholders' equity items of the subsidiaries are measured at the historic exchange rate.

The currency differences arising from the application of different exchange rates are disclosed in a separate item of the shareholders' equity (special item for foreign currency differences).

Income (expenses) from transactions in foreign currencies are recognized with an impact on the income statement.

d) Fair Market Value of Financial Resources

Due to their short-term character, the book values of the cash and cash equivalents, trade accounts receivable, other assets, trade accounts payable, other liabilities, and current accrued expenses are roughly equivalent to the fair market value. The book values of the company's remaining liabilities also correspond roughly to their fair market value because they are either short term liabilities and/or the interest rates corresponding to the conditions of the market at which the company could obtain refinancing.

e) Cash and Cash Equivalents

The company treats all highly fungible investments with a maturity of three months or less as cash and cash equivalents. The item consists of bank balances, checks and cash-in-hand and time deposit investments with a residual term of no more than three months at the time of purchase.

f) Receivables

Trade accounts receivable and other assets are carried at their nominal value or at lower value if known impairments make the nominal value no longer seem justified. The company's trade accounts receivable are not collateralized. As of May 31, 2002 and 2003, no customer accounted for more than 10% of the trade accounts receivable. In the 2001/2002 and 2002/2003 financial years, no customer accounted for more than 10% of the consolidated net sales.

g) Inventories

Purchased work in progress is measured at the cost of acquisition, taking the principle of the lower of cost or market into account. Finished products and work in progress are valued using full absorption costing. In accordance with the applicable provisions of US GAAP, full costs include material unit costs, individual manufacturing costs, and production overheads. Production overheads include all expenses incurred as a result of the production process. The calculation is based on standard cost-accounting, with the standard costs being continually adapted to the actual costs and correspond approximating to the actual costs. Appropriate value adjustments were made for surplus stock and unmarketable inventories in order to account for inventory risks.

h) Deferred Taxes

In preparing the financial statements, the company complies with the provisions of SFAS no. 109 for the calculation of deferred taxes, which can arise due to different valuations in the consolidated and the tax balance sheet.

i) Intangible Assets and Goodwill

Intangible assets include software which is amortized using the straight-line method over its expected useful life of 3-4 years. The goodwill resulting from first-time consolidation amounted to T€ 440 at the time of firsttime consolidation for CeoTronics Sarl, Pontault-Combault, France, of which T€ 362 came from the acquisition of A&C Achats et Communication Sarl, Pontault-Combault, France. Goodwill also exists in relation to CeoTronics S.L., Madrid, Spain, in the amount of T€ 15. The cumulative amortization amounted to T€ 76 as of May 31, 2003.

In addition to the goodwill resulting from first-time consolidation, goodwill was also incurred as a result of the acquisition of the audio activities of DTC Inc., Nashua, USA. This goodwill of T€ 1,124 was mainly paid for customer and supplier lists and is recorded in the balance sheet of CeoTronics Inc., Chesapeake. The cumulative amortization amounted to T€ 56 as of May 31, 2003.

In accordance with the SFAS no. 142, "goodwill and other intangible assets", the intangible goodwill was not amortized on a straight-line basis but recognized in the balance sheet at its residual carrying value. With regard to its value in the balance sheet, an impairment analysis is conducted annually. In the current financial year, the analysis has not lead to any changes in the goodwill.

j) Property, Plant, and Equipment

Property, plant and equipment are carried at acquisition cost less depreciation. Maintenance costs which do not increase the value of the assets or which do not extend their useful life are treated as current expenses. Normal repairs and maintenance expenses are stated as expenses in the year in which they arise. Gains or losses from the sale of non-current assets are recognized in other operating income or expenses.

Property, plant, and equipment are depreciated using the straightline method over their expected useful life. Low-value assets (acquisition costs below T€ 410) are written off in full in the year of acquisition.

	Useful life in years
Buildings	50
Renovations carried out by tenants (fixtures and renovations)	10, max. residual term of the tenancy agreement
Technical equipment and machinery	4 to 8
Other plant and equipment and office furniture and equipment	4 to 10
Office furniture and equipment	4 to 10
Motor vehicles	4 to 6

k) Accruals

All other expenses expected to have accrued as of the balance sheet date which have not been invoiced or paid as of this present time, including accrued liabilities for vacations and accruals for overtime are shown under other accruals.

The accrued warranty expenses are formed on the basis of historical data and information. The historical information is based on the average level of warranty expenses over the past few years.

i) Revenue Recognition

The revenue recognition is dependent on the agreements and the conditions therein entered into, and may be realized at the time of delivery or at the time of the customer's technical acceptance and approval of the products. All revenues are shown less value added tax and reductions in earnings and credits.

m) Research and Development

There will always be a significant portion of expenses related to projects in research and development which are conducted with the objective of achieving future revenues. All expenses are taken into account with an impact on the result according to the degree of such research and development work. The expenses for research and development are shown under a separate item in the income statement.

n) Income Taxes

Income taxes are determined annually on the basis of the "Asset/Liability Method" in accordance with the SFAS No. 109 regulations "Accounting for income taxes". All liabilities and claims resulting from income taxes which have accrued over the fiscal year will be shown in the consolidated financial statement in line with the applicable tax laws and regulations. Deferred tax receivables and tax liabilities are formed for differences between book values in the annual financial statements, and the tax basis of assets and liabilities and for losses carried forward in accordance with existing tax laws, and rates for those periods in which the differences and the losses carried forward are likely to influence the taxable income. The evaluation of deferred taxes is done by applying the tax rate on retained profits.

Income taxes comprise taxes due or to be refunded for the period under review, plus or less the changed amount of deferred tax liabilities or receivables. The effect of changes in the tax rate for deferred tax receivables or liabilities is taken into account in the results of the period during which the law will become effective.

o) Stock Option Plan

The effect of the finalized stock option plan on the profitability of the Group will be determined and taken into account accordingly and in line with the "Accounting Principles Board Opinion No. 25". Supplemental information according to SFAS No. 123 will be given on a separate note.

p) Earnings per share

In accordance with US-GAAP, the earning per share was calculated by dividing the net income for the year by the average number of shares outstanding in the fiscal years 2002/2003 and 2001/2002. In addition, the earnings per share were calculated by dividing the net income by the number of shares in circulation at the end of the year under review.

In the current year under review, the company issued bonus shares at a ratio of 1:1 to their shareholders. This has thus led to a doubling of shares in circulation.

For the purpose of an enhanced comparability, the number of shares has been adapted to past periods under review.

Further, the result per share was determined based on the recommendations of the DVFA Methods Commission ("DVFA-Methodenkommission"), and External Corporate Accounting working group ("Externe Unternehmensrechnung") of the "Schmalenbach Gesellschaft – Deutsche Gesellschaft für Betriebswirtschaft". No adjustments to the US GAAP Group performance were necessary in the current or previous year under review.

The dilution of the annual financial results was determined in accordance with SFAS No. 128. The impact of all circulating option and conversion rights was duly taken into account in order to show the highest possible dilution potential.

q) Cash Flow Statement

Within the scope of the cash flow statement, the company treats their cash contributions with a residual term of three months maximum at the time of acquisition as liquid funds.

r) Impairment of Non-Current Assets

This is done in line with the SFAS Nr. 121 regulations "Accounting for the Impairment of Long-Lived Assets to be disposed of". Under these regulations, it is required that non-current assets (including intangible assets) are constantly reviewed with regard to their impairment, especially under such conditions that may lead to a deterioration of future impairment values. The review of the impairment is generally conducted on the basis of comparing the book value of the present assets with the expected future net values of the cash flow generated by the assets. Should the review of the impairment lead to a shortfall in book values, the book values will, as a consequence, be adjusted to their fair values. Those assets up for sale are carried at either amortized cost or at the lower fair value less additional costs for selling the asset.

s) Comprehensive Income

The "Reporting for Comprehensive Income" SFAS No. 130 guideline regulates the determination and the reporting of "Comprehensive Income" and its components in a comprehensive annual financial statement.

The Comprehensive Income consists of net income, adjustments of the minimum pension liability, unrealized profits or loss from investments and marketable securities, as well as adjustments for foreign currency conversion, and will be shown in the statement of shareholders' equity in the consolidated financial statement. The company has not approved any retirement benefits for employees and executives yet so that there is no need for considering any adjustments in the minimum pension liability in the reporting of the other comprehensive income. Other comprehensive income comprises of all changes to the shareholders' equity that are not determined by transactions between the company and its shareholders. In the case of CeoTronics, it consists exclusively of changes to the special item due to translation adjustments in foreign currency statements.

The comprehensive income does not affect the company's financial position or the operating income. Please compare the statement of changes in shareholders' equity for a detailed composition.

t) Segment Reporting

In accordance with the requirements in "Disclosures about Segments of an Enterprise and related information", No. 131 of the "Financial Accounting Standard Board" issued for segment reporting, various pieces of information in reference to the operating business are described by segment:

3. Trade Accounts Receivables

	2003	2002
	T€	T€
Inventories	2,288	2,790
Trade Accounts Receivable less: value adjustments	-57	-60
Receivables, net	2,231	2,730

4. Inventories

Inventories are made up as follows:

	2003	2002
	T€	T€
Raw materials and supplies	5	0
Unfinished Goods	2,214	2,616
Finished Goods	1,547	1,491
Inventories, net	3,766	4,107

5. Prepaid Expenses and other assets

	2003	2002
	T€	T€
Other assets		
Receivables from tax authorities	112	107
Receivables from employees	37	7
Other	16	23
Other assets, net	165	137
Prepaid Expenses	195	184
Prepaid Expenses and other assets	360	321

6. Non-current assets

The development of non-current assets is shown separately in the consolidated statement of changes in fixed assets.

In the year under review 2002/2003, CeoTronics AG Rödermark, has invested T€ 134 in new tools to be used for very promising upcoming projects. We further purchased Goodwill in the amount of T€ 134 with the acquisition of AACOM-CeoTronics, Lodz in Poland.

CeoTronics AG Rödermark further invested T€ 33 and T€ 29 into new software and hardware. These investments were predominantly geared towards the extension of data processing capacities and security. In that same period, CeoTronics AG witnessed a disposal of fixed assets in the amount of T€ 70, mainly in the area of building renovations and fixtures and fittings.

Licenses in the amount of T€ 11 were purchased with the CT-Video GmbH in Rothenschirmbach (Saxony-Anhalt). Finally, T€ 9 was invested in Electronic Data Processing, T€ 10 in machinery and equipment and the additions to office furniture and equipment amounted to T€ 8.

7. Other current liabilities

	2003	2002
	T€	T€
Liabilities to tax authorities	312	376
Liabilities for social security	131	119
Liabilities arising from employee stock option plans	62	67
Other	24	60
Total other current liabilities	529	622

The company has introduced three different stock option plans. The benefiting employees have paid an option price for the purchase of options, which will be later offset with the actual purchase price to be paid. The option price total paid by the employees from both stock option plans totaling to T€ 62 was entered to the company's other liabilities, since the company is required to partly reimburse the paid option price in the case of employee resignation or termination

8. Accruals

	2003	2002
	T€	T€
Claims for remaining vacation entitlements and overtime	185	210
Outstanding legal and consulting fees and costs of the annual financial statements	77	80
Employee bonuses	68	85
General Meeting costs and costs of the Annual Report	8	8
Warranty obligations	27	28
Commission and bonuses	5	6
Other	45	86
Accruals	415	503

9. Liabilities to banks

	2003	2002
	T€	T€
Short-term		
Advances on current account	1,020	724
Long-term:		
Long-term debt less current portion	1,068	1,181
Total bank liabilities	2,088	1,905

In the fiscal year 1999/2000, The CeoTronics AG Rödermark, took out two loans amounting to T€ 1,016 for financing the purchase of two pieces of property including the buildings erected thereon located in Rödermark. The loans accrue interest of 4.75 % p.a. with a maturity until September 30, 2009. The lots including existing structures have been collateralized. During the financial year 2002/2003, T€ 113 of the loan total was redeemed so that the remaining due amount is T€ 734 as of the balance sheet date.

The CT-Video GmbH, Rothenschirmbach, in the financial years 2001/2002, took up a loan in the amount of T€ 390 for funding the purchase of a piece of property, the construction of a building and the investment in plant equipment. The loan will bear interest of 5.25% p.a. with a maturity until March 31, 2020. The lot including existing structures has been pledged as collateral. According to contract, the redemption of the loan will begin on September 30, 2005, so that the amount shown on the balance sheet day still reflected the total amount of T€ 390.

Interest expenses for all liabilities to banks amounted to T€ 153 in 2002/2003.

The Group can make use of the following lines of credit for current account overdraft facilities and has other short-term loans with various banks:

	2003	2002
	T€	T€
Authorized line of credit	2,057	950
Drawdown	964	668
Average interest rate (%)	8.75	9.00
Unused lines of credit	1,093	282

All due dates of the long-term liabilities to banks are reflected in the following table:

	2003	T€
2003/2004		113
2004/2005		113
2005/2006		139
2006/2007		139
2007/2008		139
Thereafter		481
Total		1,124

10. Liabilities to Shareholders

During the financial year 2001/2002, the company took up a secured loan in the amount of T€ 370 from four members of the Company's Management Board who are also shareholders. The interest rate is 7.00%, both interest and amortization payments are due on a quarterly basis. The loan has a maturity until 11/30/2004. The sum amortized to the loan total over the course of the financial year 2002/2003 amounts to T€ 268.

	2003	2002
	T€	T€
Short-term debt	34	74
Long-term debt, less current portion	68	296
Total liabilities to shareholders	102	370

11. Deferred Tax Asset and income taxes

The deferred tax asset disclosed is short-term and comprises as follows:

	2003	2002
	T€	T€
Deferred taxes on the losses carried forward by the CeoTronics, Inc., Chesapeake, Virginia, USA		
gross	561	561
less Value adjustment	-281	-281
net	280	280
Deferred taxes on the losses carried forward by the CeoTronics AG Rödermark, and CT-Video GmbH Rothenkirchenbach, Deutschland	976	976
Deferred taxes on the losses carried forward by the CeoTronics Sarl.	254	0
Deferred tax receivable due to elimination of intercompany profits	105	140
Deferred tax receivables, net	1,615	1,396

The company already capitalized deferred tax assets for the losses carried forward of the American subsidiary amounting to T€ 561,000 in the financial years 1997/98, 1998/99 and 1999/2000, which, according to US GAAP is mandatory, provided that the amount concerned is recoverable.

It is, however, not permitted under the HGB guidelines. Due to the current's year net loss, no further deferred taxes were capitalized for the losses carried forward of the American subsidiary in the year under review 2002/2003. To date, the company has accumulated losses carried forward in the amount of approximately € 2.3 Mio.

During the financial year 2002/2003, CeoTronics has replaced the Management of the CeoTronics, Inc., Chesapeake VA, USA., and the position was filled with an experienced manager, who over the course of her career, has gathered extensive knowledge in the area of radio communications.

This is followed by a restructuring process of the Northern America operations.

As a result of these measures employed, the Management Board is looking forward to positive results within the upcoming years with which the tax losses carried forward can be utilized.

The reconciling item for the losses carried forward in the American subsidiary in the total amount of T€ 561 (previous year: T€ 561) has been adjusted by 50% as a precautionary measure.

The financial year 2001/2002 saw a remarkable improvement of the income situation of the CeoTronics AG, Rödermark so that the utilization of the tax losses carried forward was foreseeable. The income situation of the CT-Video remains to be consistently positive, and here, too, the utilization of tax losses carried forward is within reach. This is why the company has abided by their obligation, according to US-GAAP (APB - 10, 23, SFAS No.109), and has capitalized the deferred taxes resulting from losses carried forward from trade and corporate income tax in the amount of T€ 976.

The Management Board already started the restructuring process of the French CeoTronics Sarl in the financial year 2001/2002, which could be successfully completed in the beginning of the current year under review. The success of the new structure is underlined by the profit attained by the French company in the financial year 2002/2003. This is why it is most likely that losses carried forward can be used for tax purposes in the future. The result of the deferred taxes capitalized with the CeoTronics Sarl, Pontaut-Combault, France, amounts to T€ 254.

Due to the elimination of intercompany profits, deferred taxes in the amount of T€ 34 in 2002/2003, and T€ -63 in the year before, were recognized in the income statement. Other temporary differences between the commercial balance sheet and the tax balance sheet are also non-essential. Deferred taxes were therefore not recognized in the year under review and the in the year before.

German corporations are subject to trade tax and corporate income tax. Both are considered income taxes. In Germany, the corporation tax rate for retained profits is 40% as of 1999 (45% until 1998), and 30% for distributed profits. 30%. In addition, a solidarity surcharge of 5.5% (1997: 7.5%) is levied on the fixed corporate income tax. The "German Tax Reduction Act" has led to a new corporation tax law.

The German companies of the CeoTronics Group are subject to this new law not before the beginning of the fiscal year starting on June 01, 2001. According to the new corporation tax law, the rate of corporation tax for retained and distributed profits has been established at 25% uniformly (plus a solidarity surcharge of 5.5%), and therefore represents the tax rate applicable according to US-GAAP when calculating deferred taxes.

In Germany, the trade tax is levied on the taxable income of the company, adjusted by eliminating certain earnings not subject to trade tax, and by adding certain types of non-tax-deductible expenses. The effective trade tax rate is subject to the regulations of the respective municipality in which the company undertakes their operations.

The average trade tax rate was round about 15% during the period under review. A tax rate of 37% was assumed in determining deferred taxes in reference to the losses carried forward by the CeoTronics, Inc., Chesapeake, Virginia, USA.

The taxable profit of the financial year 2002/2003, in the amount of T€ 119 is based on contradictory effects. Accrued income tax liabilities in the amount of T€ 98 were set aside in the international subsidiaries of CeoTronics. In addition to the aforementioned, the company can experience the effect resulting from the deferred taxes capitalized by the French subsidiary CeoTronics Sarl, Pontault-Combault in the amount of T€ 254, which are to be recognized in the income statement according to the US-GAAP guidelines in the current year under review.

Tax deferrals were set up for the differences in income resulting from consolidation measures affecting the income statement. This has led to deferred tax assets amounting to T€ 34 (previous year: T€ -63).

12. Shareholders' Equity

In the beginning of the fiscal year 2002/2003, the subscribed capital of the CeoTronics AG Rödermark amounted to € 3,299,997, split into 1,099,999 unit shares with a notional value on the share capital of € 3.00. Following the proposal of the Supervisory Board and the Management Board, on November 05, 2002, the General Meeting passed the resolution to increase the company's share capital by € 3,299,997 to € 6,599,994 by means of conversion of a partial amount of the paid-in-capital shown in the balance sheet as of 05/31/2002.

The capital increase in the amount of € 3,299,997 was realized by issuing 1,099,999 new unit shares with a proportional amount of the share capital of € 3.00 apportioned to each share. The registration of the capital increase was executed on December 20, 2002.

As a result of this capital increase, the share capital is now composed of 2,199,998 bearer unit shares equivalent to a share of the share capital of € 3.00 apportioned to each share.

Conditional Capital in Accordance with Section 192 of the German Stock Corporation Act ("AktG")

By resolution during the General Meeting on September 21, 1998, and registered in the Commercial Register on April 16, 1999, the CeoTronics' Management Board is authorized, until August 01, 2003, to issue a total of up to 50,000 unit shares to employees and executives of the company or any affiliated company, to increase the share capital accordingly and to handle the details of the issuance of subscription rights, as well as the subscription of the shares. The issue of those shares mentioned excludes the existing shareholders from their subscription rights.

As a consequence of the authorization granted, the Management Board launched a stock option plan for the years 1998/99 and 1999/2000 each, which will be shown more detailed below.

As a result of issuing bonus shares at the ratio 1:1, in line with section 218 of the German Stock Corporation Act ("AktG"), also the number of those shares, the Management Board was entitled to issue according to section 192 of the German Stock Corporation Act ("AktG"), has doubled.

The Management Board is therefore in the position of issuing up to 100,000 shares to employees and executives until 08/31/2003.

Authorized Capital According to Section 202 German Stock Corporation Act ("AktG")

Authorized Capital I

During the General Meeting on November 16, 2001 the resolution was passed to dismiss the existing resolutions with regard to the Authorized Capital I.

During the same meeting, the Management Board was authorized, to, until November 15, 2006, increase the share capital by issuing new bearer shares by a total of 529,999 unit shares, excluding the subscription right of the shareholders, and by contribution in cash or in kind, and to increase the share capital accordingly.

Authorized Capital II

By way of resolution during the General Meeting on August 19, 1998, and registered in the Commercial Register on April 16, 1999, the Management Board is further authorized until August 01, 2003, to all in all issue up to 30,000 unit shares against contributions in cash or in kind, to employees in the local company or German or international subsidiaries, and to increase the share capital accordingly. The issue of those shares mentioned exclude the existing shareholders from their subscription rights.

The Management Board utilized this option of increasing the share capital by issuing 10,000 unit shares to employees during the fiscal year 1998/99. The unit shares of the authorized capital II thus experienced a reduction from previously 30,000 to now 20,000.

Treasury Stock

During the General Meeting of November 11, 1999, the Management Board was authorized to purchase up to 100,000 of the shares issued by CeoTronics AG. During such a purchase, the price paid may not exceed or be less than 5 % of the average price over the course of the past five trading days. The calculation of the average price is determined by the closing prices at the Frankfurt Stock Exchange. The purchased shares will be used for the acquisition of companies or participating interests. Under certain conditions, however, and as a resolution of the General Meeting, they can be disposed of, or called in.

During the financial years 1999/2000 and 2000/2001, the company purchased 20,000 treasury shares at an average price of € 30.70. As a result of issuing bonus shares at the ratio 1:1, the number of treasury shares has increased to 40,000 in line with section 215 of the German Stock Corporation Act ("AktG").

These 40,000 treasury shares have a notional interest in the share capital of T€ 120, corresponding to 2 % of the total share capital. The treasury shares were entered at their cost of purchase and, according to US-GAAP, reported under shareholders' equity.

Statutory Capital Reserve

The statutory capital reserve of CeoTronics AG has been funded with the required amount in accordance with § 150, sub-section 2 of the German Stock Corporation Act ("AktG").

Shareholders' Equity Ratio

The shareholders' equity of CeoTronics totaled T€ 9,619 as of May 31, 2003, corresponding to a shareholders' equity ratio of 70.7 %.

Dividend Distribution

Profit distribution is based on the net income shown in the individual financial statement of the CeoTronics AG Rödermark, taking into consideration possible losses carried forward or contributions to or withdrawals from reserves (net profit/net loss).

These amounts differ from those shown in the consolidated financial statement, among other factors, due to adjustment entries in order to comply with the US GAAP guidelines. CeoTronics AG reports a net profit of T€ 582 in their individual financial statement as of May 31, 2003.

Stock Option Plans

Both Management Board and Supervisory Board introduced a stock option plan for their executives and other key staff members in the years 1998/99, 1999/00, and 2000/01. The objective was to solidify the identification with the company by participating both executives and key staff members in the performance of the company.

CeoTronics had reserved 18,800 ordinary shares to be issued within the scope of the initial stock option plan. The stock options were issued in full during the financial year 1998/99. Each stock option entitles the executives or key staff members to subscribe for one bearer unit share with full voting rights and dividend entitlement of the CeoTronics AG at least 24 and not later than 60 months following the granting of the subscription right. At the time of exercising the option, executives or management pay the mean value of the book building range published by the company at the time of initial public offering (€ 30.17 to € 34.77). If the price index for all shares listed on the "Neuer Markt", published by the "Deutsche Börse AG", or, in case of a discontinuation of the index, a comparable index has experienced more than a 5% change in the period between allocation and exercise of the option, the subscription price will be adjusted by 50% of the relative change of the index. If an employee entitled to such options shall leave the company prior to exercising their option, the options will expire, and the respective employee may claim the reimbursement of the option price from the company. As a result of the departure of some of our employees during the past financial year, as many as 500 stock options were returned to the company. Subscribers may exercise their options in the time period of November 05, 2000 and November 04, 2003. There are thus 14,200 stock options outstanding from this stock option plan as of May 31, 2003.

In the financial year 1999/2000, the second stock option plan for executives and key staff members was launched by CeoTronics. An additional 14,100 of the 50,000 unit shares from the conditional capital were issued at an option rate of € 1. The same parameters apply as with the first stock option plan regarding subscription rights of one bearer unit share with full voting rights and dividend entitlement. At the time of exercising their options, both executives and key staff members pay the average closing price of the CeoTronics share reached in floor trading at the Frankfurt Stock Exchange and the Xetra trade dated December 22, 1999, less the amount of € 1 already paid for the option. Subscribers may exercise these options in the time period of December 28, 2001 and December 27, 2004. If an employee entitled to such options shall leave the company prior to exercising their option, the options will expire, and the respective employee may claim the reimbursement of the option price from the company. Those staff members, who exited the company during the past financial year, have returned 800 stock options to the company so that as many as 10,500 stock options were outstanding from this stock option plan as of May 31, 2003.

In the financial year 2000/2001, the third stock option plan for executives and key staff members was launched by CeoTronics. As opposed to previous stock option plans, the options were not issued on the unit shares from the conditional capital but moreover on virtual or phantom shares at an option price of € 1 per option. With the purchase of an option, executives and key staff members are entitled to a cash settlement in the amount of the difference between the exercise price and the share price of the CeoTronics price at the time of exercising the option. The exercise price of the share represented the average of the 10 trading days prior to December 15, 2000. Subscribers may exercise their options in the period of December 04, 2002 and December 03, 2005. The exercise, however, is subject to the condition of achieving certain profit or price objectives on the CeoTronics share. So the exercise based on the price objectives will not become effective until the share has not reached a price of € 35 or slightly above the share's issue price. If one of the participants in this stock option plan departs from the company, the options may become invalid under certain conditions.

Those staff members who left the business in the past year under review, have returned 3,000 phantom shares to the company so that as many as 15,200 stock options were outstanding from this stock option plan as of May 31, 2003.

The outstanding options as of May 31, 2003, from the first, second and third stock option plan could be exercised which, however, given the considerably lower than purchase price stock exchange quotation during the period under review, and subsequently until the time of preparation of the annual financial statements, would have not been a wise decision from an economic point of view. As a consequence, no options resulting from these stock options plans have been realized as of this time.

The option price total paid by the employees from both stock option plans totaling to T€ 62 was entered to the company's other liabilities, since the company is required to partly reimburse the paid option price in the case of employee resignation or termination.

The decision has been taken by the company to act in line with APB No. 25 and the interpretations thereto for the accounting of its stock option plan. In accordance with APB No. 25, the different amount between the subscription price and the expected market value of the share at the time of exercise, will be assessed as personnel expenses and recognized in the consolidated profit and loss account on a pro rata basis over the course of the lifetime of the option. The proportional expenditure calculated for the financial year under review was not material and has therefore not been assessed.

According to SFAS No. 123, entities electing to remain with the accounting in SFAS No 123, must make pro forma disclosures of net income and, if presented, earnings per share as if the fair value based method of accounting defined in this Statement had been applied. The fair value of the options from both stock option plans are to be recognized as virtually zero depending on the prevailing circumstances on the balance sheet day.

13. Expenses for Research and Development and the Development of New Markets

During the financial year 2002/2003, CeoTronics has started projects the results of which may be reflected in future periods. These expenses, according to the accounting principles under US GAAP, were entered in full as expenses in the current period under review.

Even though these projects meant a considerable burden on the Group income in the current financial year, it is assumed that the expenses undertaken, due to the enormous market potential for the resulting new products, will be amortized in the foreseeable future.

14. Earnings per Share

Due to the issuing of bonus shares in the ratio of 1:1 in the year under review 2002/2003, the number of shares has doubled from 1,079,999 to 2,159,998. Historical figures have been adjusted for bonus shares in order to improve comparability. For the calculation of the annual average, the treasury stock was subtracted from the total number of shares issued.

All three stock option plans were taken into consideration during the calculation of the diluted earnings per share. No dilution effect resulted from the stock option plans I, II and III in the financial year 2002/2003, since the purchase price for the shares was above the corresponding stock exchange price at the given time in the year under review.

15. Other Operating Income

The other operating income mainly includes income resulting from price differences in the amount of T€ 55.

16. Other Operating Expenses

The other operating expenses predominantly include expenses for currency translation in the amount of T€ 222 and other taxes in the amount of T€ 18.

17. Personnel Expenses

In the financial year 2002/2003, CeoTronics reports personnel expenses in the amount of T€ 5,930. In the year under review, CeoTronics employed an average of 127 employees per year, split into 75 in administration and 52 in production and other non-administrative departments.

18. Related Party Relationships

Board of Management

The following members of staff comprised the Management Board during the financial year 2002/2003:

Hans-Dieter Günther, Kaufmann, Rödermark	Chairman (until January 31, 2003)
Thomas H. Günther, Kaufmann, Rödermark	Chairman (as of February 1, 2003)
Berthold Hemer, Diplom-Ingenieur, Schaafheim	Deputy Chairman
Günther Thoma, Technischer Betriebswirt, Schöllkrippen	Member
Bernd Weinel, Diplom-Kaufmann, Groß-Gerau	Member

In accordance with Article 10 of the Articles of Incorporation, the company is represented by two members of the Management Board or by one member of the Management Board together with an Officer holding a general power of attorney ("Prokurist"). The Supervisory Board is authorized to grant one or individual members of the Management Board, sole power of representation and/or exempt this member from the restrictions of the Article 181 of the German Civil Code ("BGB" – Bürgerliches Gesetzbuch).

Hans-Dieter Günther was exempted from the restrictions of Article 181 of the German Civil Code and granted sole power of representation.

The emoluments of the members of the Management Board totaled T€ 726 in the reporting year.

Supervisory Board

In accordance with Article 11 of the Articles of Incorporation, the Supervisory Board comprises of at least three members elected in the General Meeting. Members of the Supervisory Board in the reporting year are:

Peter Haack, Lawyer and notary, Dietzenbach	Chairman (until January 31, 2003)
Hans-Dieter Günther Kaufmann, Rödermark	Chairman (as of February 1, 2003)
Horst Schöppner, Dipl.-Kaufmann, Rödermark	Deputy Chairman
Dagmar Günther, Kauffrau, Rödermark	Member (until November 5, 2002)
Stephan Haack, Lawyer, Frankfurt am Main	Member (as of November 5, 2002)

The emoluments of the members of the Supervisory Board amount to T€ 13. These amounts are paid with V.A.T.

Mr. Peter Haack held another seat in a Supervisory Board: He was Chairman of the Supervisory Board of Offenbacher Volksbank e.f., Offenbach Germany.

Shareholder Structure of the Executive Bodies

The executive bodies held the following shares in the company as of May 31, 2003:

Function	Name	Number of CeoTronics shares (ISIN DE 0005407407/ WKN 540740) in units	Number of options in units
Management Board			
Chairman (until 31.01.2003)	Hans-Dieter Günther	387,600	3,000
Chairman (as of 01.02.2003)	Thomas H. Günther	7,998	2,400
Deputy Chairman R&D	Berthold Hemer	212,600	3,000
Member Operations	Günther Thoma	5,222	2,400
Member Finance and Human Resources	Bernd Weinel	0	800

Function	Name	Number of CeoTronics shares (ISIN DE 0005407407/ WKN 540740) in unit	Number of options in units
Supervisory Board			
Chairman (until 31.01.2003)	Peter Haack	0	0
Chairman (as of 01.02.2003)	Hans-Dieter Günther	387,600	3,000
Deputy Chairman	Horst Schöppner	226,300	0
Member (until 05.11.2002)	Dagmar Günther	317,920	0
Member (as of 05.11.2002)	Stephan Haack	0	0

Other Service Relationships

The company is renting a factory building in Rödermark from one of their shareholders. The corresponding tenancy agreement ends March 30, 2008. The annual rent is T€ 228. The lease contract provides the option for a five-year lease extension until March 30, 2013.

The above-named shareholder also operates an advertising agency as a sole trader. The company has used the services of this advertising agency for placing advertisements and employing other means of advertising in the total amount of T€ 48.

The former Chairman of the Supervisory Board, Peter Haack, and the Supervisory Board member Stephan Haack both belong to a law offices and notary firm to which CeoTronics has paid fees in the amount of T€ 8 in line with the according schedule of rates.

Information on Subsidiaries

The CeoTronics AG holds a direct or indirect majority interest in the following companies:
The subsidiaries are therefore considered affiliated companies according to Article 271, sub-section 2, German Commercial Code ("HGB")

	Equity Interest	Shareholders' equity	Net income/loss	Currency
CT-Video GmbH, Rothenschirmbach, Germany	100%	742	56	1,000 €
CeoTronics AG, Rotkreuz, Switzerland	100%	490	149	1,000 €
	100%	750	228	1,000 CHF
CeoTronics Sarl, Pontault-Combault, France	100%	-539	4	1,000 €
Audio Video Data Service Sarl Pontault-Combault, France	100%	10	10	1,000 €
CeoTronics Ltd., Bordon/Hants, UK	100%	276	-22	1,000 €
	100%	198	-16	1,000 GBP
CeoTronics, Inc., Chesapeake, Virginia, USA	100%	1.267	-359	1,000 €
	100%	1.490	-422	1,000 USD
CeoTronics S.L., Madrid, Spain	100%	321	142	1,000 €
AACOM-CeoTronics, Sp. z o.o., Lodz, Poland	75%	35	-3	1,000 €
		142	-14	1,000 PLN

19. Other Financial Commitments and Contingent Liabilities

a) Rent and Vehicles

As of May 31, 2003, the amounts for rent commitments for buildings and vehicles were as shown below:

for 2003/04	T€ 609
for 2004/05	T€ 502
for 2005/06	T€ 442
for 2006/07	T€ 397
and thereafter	T€ 346.

Total minimum rent payments amount to T€ 2,296.

b) Contingent Liabilities, Legal Disputes and other Commitments

The Management Board is not aware of any facts that may have any material adverse effect on the company's business activities, the financial position or the operating result.

20. Segment Reporting

CeoTronics measures the success of their subsidiaries based on their income before taxes.

The accounting and reporting principles used for regional reporting are identical with those presented under item (2). The subsidiaries in the individual countries are legally independent with their own company management.

The company's product groups are comparable both with regard to their production process and the market development methods used. Internal as well as external reporting follows primarily geographical criteria. At present, only revenues are recorded separately and divided by products and product groups. Reference is made to the notes in the Group Management Report containing further details in reference to the revenues by products and product groups.

The following table contains information divided by region:

The annual revenues for the financial years 2002/2003 and 2001/2002 are broken down by region as illustrated below:

	Financial Year 2002/2003	Financial Year 2001/2002
	T€	T€
Germany	10,760	11,294
Rest of Europe and rest of the world	4,615	5,697
Subtotal	15,375	16,991
Elimination of intercompany trade and services	-3,009	-3,123
External revenues	12,366	13,868

The annual income for the financial years 2002/2003 and 2001/2002 is broken down by region as illustrated below:

	Financial Year 2002/2003	Financial Year 2001/2002
	T€	T€
Germany	395	1,092
Rest of Europe and rest of the world	128	-65
Subtotal	523	1,027
Consolidation entries	-1,090	-197
Consolidated net income	-567	830

Total assets as of May 31, 2003 and May 31, 2002 are broken down by region (country of origin) as illustrated below:

	Financial Year 2002/2003	Financial Year 2001/2002
	T€	T€
Germany	17,148	17,042
Rest of Europe and rest of the world	5,642	6,200
Subtotal	22,790	23,242
Consolidation entries	-9,177	-8,130
Consolidated net income	13,613	15,112

Fixed assets as of May 31, 2003 and May 31, 2002 are broken down by region as shown below:

	Financial Year 2002/2003	Financial Year 2001/2002
	T€	T€
Germany	3,296	3,508
Rest of Europe and rest of the world	1,818	2,199
Total fixed assets	5,114	5,707

Investments in the financial years 2002/2003 and 2001/2002 are broken down by region as shown below:

	Financial Year 2002/2003	Financial Year 2001/2002
	T€	T€
Germany	432	402
Rest of Europe and rest of the world	20	158
Total non-current assets	452	560

Audit Opinion

**Auditor's Report to the Consolidated Financial Statement of CeoTronics Aktiengesellschaft
 Audio • Video • Data Communication, Rödermark as at May 31, 2003**

We have audited the Consolidated Financial Statement of CeoTronics AG Audio • Video • Data Communication comprising the Consolidated Balance Sheet, Consolidated Income Statement, Statement of Shareholders' Equity, Consolidated Cash Flow Statement, Explanatory Notes to the Consolidated Financial Statement and Consolidated Statement of Changes in Fixed Assets for the financial year beginning on June 01, 2002 and ending May 31, 2003. The content and preparation of the consolidated financial statements are the responsibility of the company's Management Board. Our responsibility is to express an opinion on whether the Group accounts comply with the United States Generally Accepted Accounting Principles (US GAAP) based on our audit.

We conducted our audit of the Group accounts in accordance with the German accounting standards and in accordance with the principles of proper auditing stipulated by the German Institute of Accountants (IDW) as well as in accordance with the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. The audit planning takes account of knowledge of the Group's business activity as well as its economic and legal environment and the anticipated margin of error. The audit includes examining, mainly by spot testing, evidence supporting the amounts and disclosures in the consolidated financial statements. The scope of an audit also includes assessing the accounting principles used and significant estimates made by their legal representatives, as well as evaluating the overall presentation of the Consolidated Financial Statements. We are confident that our audit provides a sufficiently sound basis on which to make an assessment

With due regard to US GAAP, in our opinion, the consolidated financial statements give a true and fair view of the Group's assets, liabilities, financial position and profit or loss and of the cash flows in the financial year.

Our audit, which includes the Group Management Report for the financial year June 01, 2002 until May 31, 2003, has led to no objections. In our opinion, the Group Management Report gives a true and fair overall view of the Group's situation and of any risks inherent to future developments.

We furthermore confirm that the consolidated financial statements and the Group's Management Report for the financial year from June 01, 2002 to May 31, 2003, meet the requirements to release the Company from presenting consolidated financial statements and a Group Management Report in accordance with German law.

Eschborn, August 15, 2003

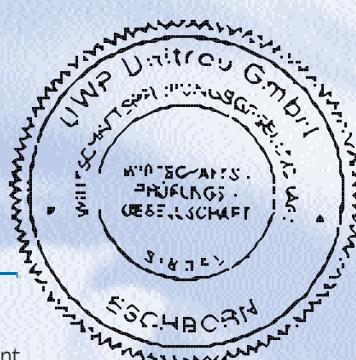
UWP Unitreu GmbH
 Wirtschaftsprüfungsgesellschaft



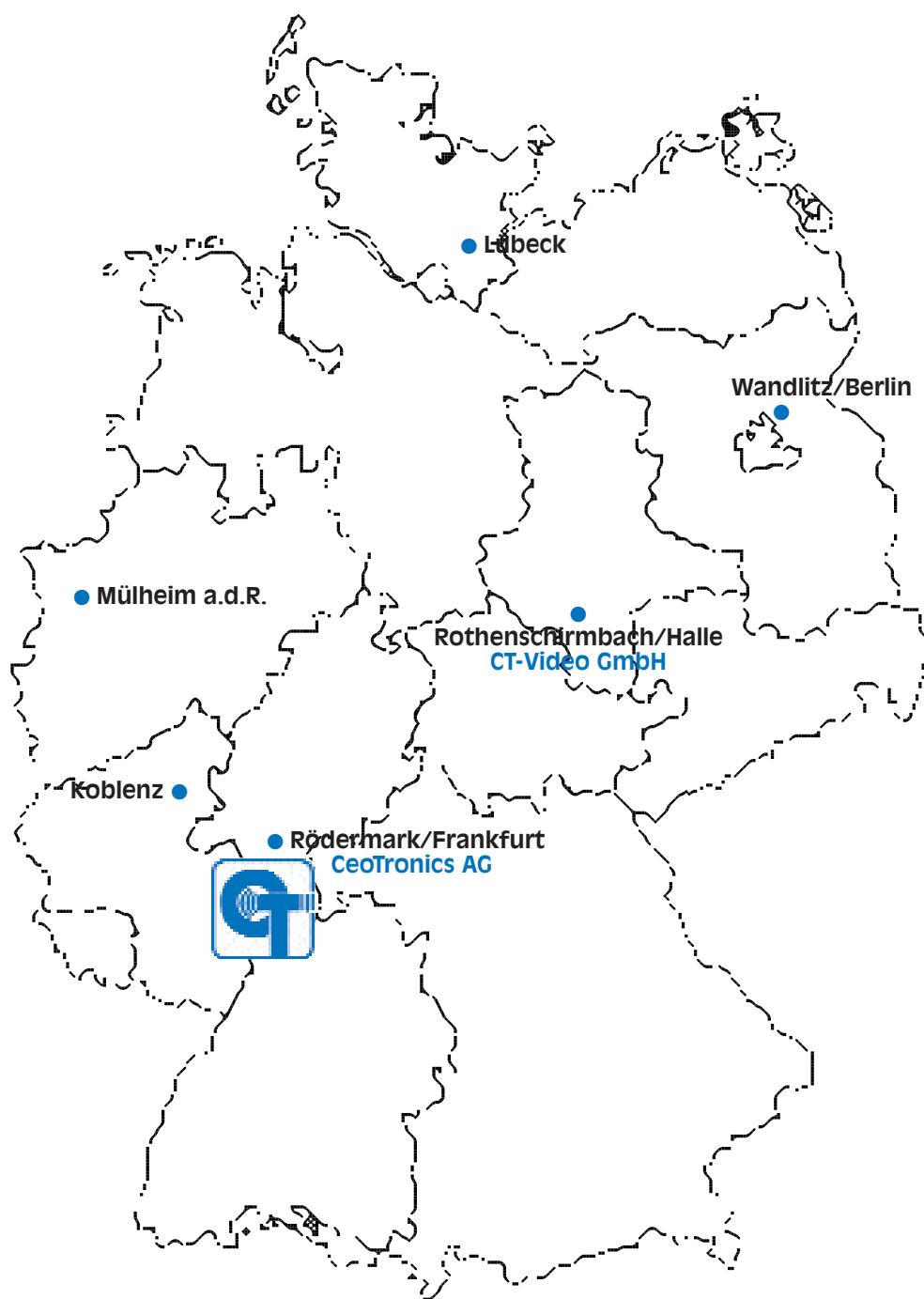
Stefan Sauerbier
 German Certified Public Accountant



Wolfgang Schimm
 German Certified Public Accountant



CeoTronics AG Germany



CeoTronics AG Balance Sheet

Assets	May 31, 2003	May 31, 2002
	T€	T€
Intangible assets	201	235
Property, plant and equipment	2,465	2,621
Investments and long-term financial assets	5,739	5,729
Non-current assets	8,405	8,585
Inventories	2,716	2,985
Trade receivable	702	1,332
Receivables from affiliated companies	2,781	1,684
Other assets	160	182
Securities	62	91
Cash and cash equivalents	17	91
Current assets	6,438	6,365
Total assets	14,843	14,950

Equity & Liabilities	May 31, 2003	May 31, 2002
	T€	T€
Subscribed capital	6,600	3,300
Paid-in-capital	4,181	7,481
Capital reserve	78	107
Retained earnings/accumulated deficit	582	131
Equity	11,441	11,019
Accrued tax liabilities	119	119
Other accruals	553	632
Accruals	672	751
Liabilities to banks	1,440	1,427
Advances received	11	0
Trade liabilities	192	482
Liabilities to affiliated companies	689	451
Other liabilities	398	820
Liabilities	2,730	3,180
Total liabilities and equity	14,843	14,950

CeoTronics AG Income Statement

Profit and Loss Account	2002/2003	2001/2002
	TE	TE
Revenues	9,338	10,070
Cost of revenues	-5,161	-5,233
Gross profit	4,177	4,837
Expenses for research and development	-850	-780
Sales and marketing expenses	-2,690	-3,012
General administrative expenses	-1,204	-1,270
Other operating expenses	-54	-11
Other taxes	-4	-4
Operating expenses	-4,802	-5,077
Other operating income	185	233
Interests and Income from investments/participations	860	-72
Income before income taxes	420	-79
Income taxes	2	14
Group net income/loss	422	-65
Profits/losses carried forward from the previous year	131	-1,201
Withdrawals from capital reserves	0	1,266
from the reserve for treasury shares	29	131
Distributable profit	582	131

Report of the Supervisory Board

The Supervisory Board held six joint meetings during the period under review.

The Supervisory Board kept itself informed on an on-going basis about the Group development. The information was gathered during the Supervisory meetings, from written reports of the Management Boards and from individual meetings with the members of the Management Board.

In the course of such meetings, the Supervisory Board was further engaged with the risk management according to KonTraG where the emphasis was placed on thoroughly discussing the revised version of the "Risk Handbook" with the Management Board.

The Supervisory Board extensively concentrated its efforts on the subject "Corporate Governance Code" for exchange-listed companies. The regulations pertaining to the Management Board were also discussed with the Board of Management and an agreement was reached.

The Supervisory Board did not establish any committees in the period under review.

During the financial year 2002/2003, a generation change in the structure of the Supervisory Board took place. With the end of the General Meeting on November 05, 2002, the long-time board member Dagmar Günther retired from the Supervisory Board. The General Meeting elected Stephan Haack, Attorney-at-Law, Frankfurt, as a member to Supervisory Board of the CeoTronics AG. On January 31, 2003, the Chairman of the Supervisory Board, Peter Haack, Attorney-at-Law and Notary Public, Offenbach, retired from the committee due to reasons of age. The General Meeting had already elected Hans-Dieter Günther (Kaufmann), Rödermark as a new Supervisory Board member. The members appointed Hans-Dieter Günther as the Chairman of the Supervisory Board during the meeting on February 1, 2003. Horst Schöppner, Dipl.-Kaufmann was confirmed as Deputy Chairman.

The annual financial statement of the CeoTronics AG and the Consolidated Financial Statements as of May 31, 2003, including the relevant Management Reports together with the accounting records, were audited by UWP Unitreu GmbH, Wirtschaftsprüfungsgesellschaft Eschborn and provided with an unqualified audit opinion. These documents including the auditors' report were submitted to the Supervisory Board on August 15, 2003. They were examined by the Supervisory Board and discussed in the presence of the auditor on August 22, 2003.

The Supervisory Board agreed to the auditors' results, and, upon completion of its own examination, approved the auditors' report without any objections. In the meeting held on August 22, 2003, it duly noted approved and adopted the consolidated financial statements in accordance with US GAAP, and the annual financial statement of the CeoTronics AG according to the German Commercial Code as of May 31, 2003, which are thus confirmed.

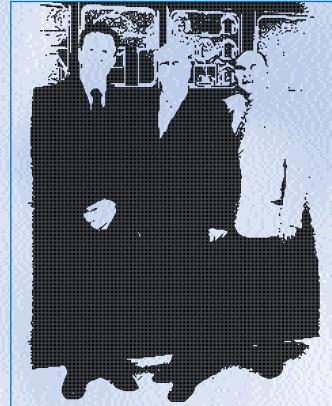
The proposal of the Management Board to suggest to the General Meeting to carry forward the profit reported with the parent company to the new financial year in order to strengthen self-financing is endorsed by the Supervisory Board.

The Supervisory Board would like to thank the Management Board and all employees of the CeoTronics Group in Germany and abroad for their strong commitment.

Rödermark, August 22, 2003

The Supervisory Board

Hans-Dieter Günther
Chairman



KEEP YOUR SENSES OPEN

Executive Bodies

Supervisory Board:

Peter Haack, Rechtsanwalt und Notar, Dietzenbach	Chairman (until January 31, 2003)
Hans-Dieter Günther Kaufmann, Rödermark	Chairman (as of February 1, 2003)
Horst Schöppner, Diplom-Kaufmann, Rödermark	Deputy Chairman
Dagmar Günther, Kauffrau, Rödermark	Member (until November 5, 2002)
Stephan Haack, Rechtanwalt, Frankfurt am Main	Member (as of November 5, 2002)

Board of Management:

Hans-Dieter Günther, Kaufmann, Rödermark	Chairman (until January 31, 2003)
Thomas H. Günther, Kaufmann, Rödermark	Chairman (as of February 1, 2003)
Berthold Hemer, Diplom-Ingenieur, Schaafheim	Deputy Chairman
Günther Thoma, Technischer Betriebswirt, Schöllkrippen	Member
Bernd Weinel, Diplom-Kaufmann, Groß-Gerau	Member

CeoTronics AG Financial Calendar

Quarterly Report I as of August 31, 2003 (press release)	October 15, 2003
General Meeting 2003 in Rödermark	November 7, 2003
Quarterly Report II as of November 30, 2003 (press release)	January 14, 2004
Quarterly Report III as of February 28, 2004 (press release)	April 14, 2004
End of business year 2003/2004	May 31, 2004
Press conference in Rödermark	August 31, 2004
Analyst meeting in Rödermark	August 31, 2004
Quarterly Report I as of August 31, 2004 (press release)	October 15, 2004
General Meeting 2004 in Rödermark	November 5, 2004

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Communication via land, water, air and space

Wherever there is a demand for professional communication systems in order to coordinate and control work processes, CeoTronics is the right partner when it comes to ensuring secure audio, video and data communication.

The communication systems of CeoTronics allow mobile usage, or they can be installed in vehicles, on air planes and ships, or they even can be positioned independently.

The customer and his specific needs for use and fields of operations decides whether to employ:

- watertight or
- explosion-proof
- helmets, mask-mounted or independent
- modular or fixed configurations

for audio communication or video/data systems.

CeoTronics today offers the widest variety and at the same time most specialized range of products to the world markets. Through our research and development department and technical task force, we are more than capable to fulfill most of your communication needs.

CeoTronics – Prime Communication!



Audio · Video · Data Communication

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