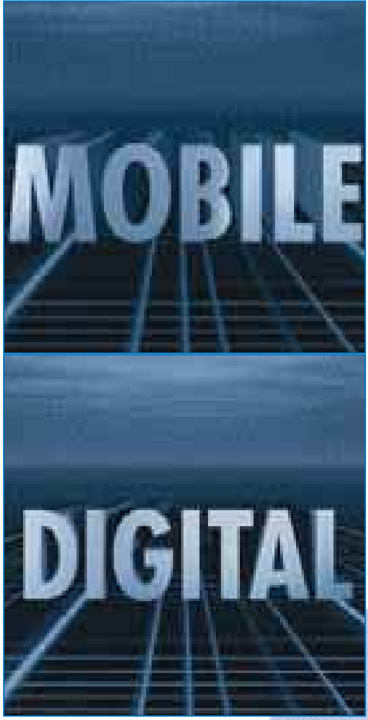
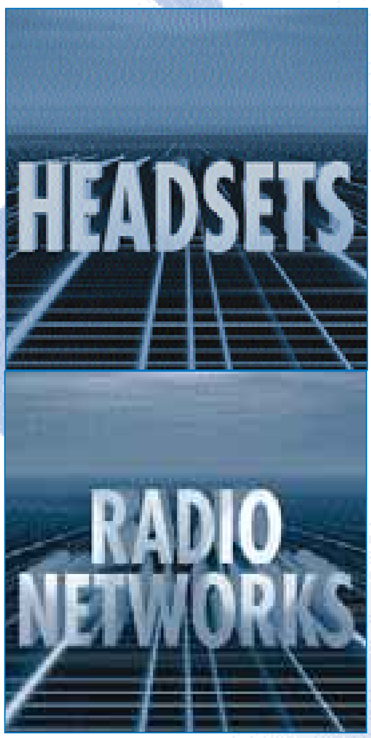
CeoTronics
Audio · Video · Data Communication



Your Company...

Skilled · Innovative · Dynamic · Successful



KEEP YOUR SENSES OPEN

2003/2004

CeoTronics AG Annual Report

CeoTronics in Figures according to US-GAAP

The CeoTronics Group in figures		**2003/2004**	2002/2003	2001/2002	2000/2001	1999/2000
Sales	T€	**13,568**	12,366	13,868	13,441	11,947
thereof export share	%	**68.9**	56.2	64.4	64.3	61.3
Investments	T€	**402**	452	560	3,476	2,209
R&D expenses	T€	**873**	930	858	1,050	860
EBITDA	T€	**1,317**	-39	834	-838	-676
EBIT	T€	**866**	-543	194	-1,401	-1,055
Pre-tax earnings	T€	**727**	-687	29	-1,452	-732
Net income/loss	T€	**316**	-567	830	-1,492	-186
Result according DVFA/SG	T€	**316**	-567	830	-1,492	-186
Gross cash flow	T€	**767**	-63	1,470	-929	193
Total assets	T€	**14,328**	13,613	15,112	15,175	13,770
Shareholders' equity	T€	**10,060**	9,619	10,607	9,999	10,415
Shareholders' equity ratio	%	**70.2**	70.7	70.2	65.9	75.6
Employees (as of May 31)	number	**125**	127	128	152	123
Return on sales	%	**6.4**	-4.4	1.4	-10.4	-8.8
Return on equity (1)	%	**3.2**	-5.6	8.1	-14.6	-1.8
Earnings per share (2)	€	**0.15**	-0.26	0.38	-0.76	-0.09
Earnings per share (DVFA/SG) (2)	€	**0.15**	-0.26	0.38	-0.76	-0.09
Gross cash flow per share (2)	€	**0.35**	-0.03	0.68	-0.48	0.10

(1) Net income after taxes/average shareholders' equity for the year

(2) Figures per share; previous years' figures adjusted for the effect of the issue of bonus shares at a ratio of 1:1.

Contents of the 2003/2004 Annual Report

KEEP YOUR SENSES OPEN

The History of a Successful Company

1985 Formation of CeoTronics GmbH in Rödermark near Frankfurt/Main, Germany, development, production, and sale of communication systems.

1986 Formation of the first sales company in France

1986 Takeover of a British sales company, name changed to CeoTronics Ltd.

1988 Formation of CeoTronics AG in Switzerland to handle international exports and sales in Switzerland

1990 Start of production in France

1992 Strengthening of European presence 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 U.S. production

1997 Reorganization of international marketing/sales: relocation from Switzerland to the parent company

1997 Reorganization of CeoTronics GmbH as CeoTronics AG, Audio · Video · Data Communication

1998 Opening of a sales office in Austria servicing 6 countries

1998 CeoTronics AG's IPO on the Neuer Markt in Frankfurt/Main

1999 Acquisition of A&C Sarl in France

2000 U.S. headquarters relocated to Chesapeake, VA (U.S.A.)

2000 Opening of a sales office in Scandinavia servicing six countries

2000 Acquisition of the entire audio accessory division of DTC, Inc. (U.S.A.)

2000 Launch of wireless digital audio transmission technology

2000 DIN EN ISO 9001:1994 certification

2001 New CT-Video GmbH factory opens in Rothenschirmbach

2002 ATEX-Certification.

2002 Take over of 75 % of the AACOM Ltd. Poland

2002 Change of stock market segment from the Neuer Markt to the Geregelter Markt

2003 Admission to and listing in the Prime Standard

2004 DIN EN ISO 9001:2000 and ATEX-Certification

2004 Launch of wireless digital video data transmission technology

CeoTronics
Audio · Video · Data Communication

Letter to our Shareholders

Dear shareholders and business partners,
dear members of staff,


Thomas H. Günther, CEO

Fiscal year 2003/2004 was a year of challenges due to the more or less flat economy, tight budgets on the part of public-sector customers, and the problems in the Middle East, as well as terrorist attacks in Europe.

CeoTronics, however, clearly outperformed the general trend with growth in consolidated revenues of 9.7 % and substantially improved EBIT and net income, gaining shares in a highly competitive market.
We have exceeded our revenues and earnings goals for fiscal year 2003/2004.

As of May 31, 2004, the consolidated order backlog in euros increased by roughly 178 %, allowing us to be upbeat about the Group's further development.

Despite the continued need for cost control, we shall keep on investing in product development and markets to further expand our leading position.
Our top priorities at this time are sustained profitability and increased self-financing.

Our strategy of setting priorities by concentrating on core markets and products coupled with the optimization of our cost structure allowed us to successfully implement our reorientation based on the principle of "earnings before growth."

The introduction of the new CT-CombatCom universal headset system for the deployment in extreme conditions by special forces in the security, law enforcement, and rescue services, the growing market success of the CT digital radio networks and equipment, and our entry onto the market for wireless digital video data transmission technology are expected to generate further revenues in the next fiscal year.

At CeoTronics, Inc. U.S.A., we had to optimize the managerial structure before the end of fiscal 2003/2004 and have implemented our successful strategy of setting market and product priorities.

In the period under review, CeoTronics' share price increased by 130 %. However, our expectations were not fulfilled, as the stock remains heavily undervalued.

The Board of Management would like to thank all Group employees. Their dedication, superior qualifications, and skills have helped put CeoTronics back in the black.

We also thank our national and international customers, sales and distribution partners, suppliers, and shareholders for their confidence in us and for our successful cooperation.

For fiscal year 2004/2005 we aim to further increase revenues and generate a positive result.

CeoTronics – Your Company!

Rödermark, August 11, 2004

Thomas H. Günther
Chairman of the Board
of Management

Berthold Hemer
Deputy Chairman of the Board
of Management

KEEP YOUR SENSES OPEN

Communication – the Basis of Human Interaction

Individual solutions for communicating under difficult conditions
CeoTronics develops, produces, and markets electronic communication systems for clear and precise interaction under difficult working conditions. This includes working:

- in noisy environments,
- in dangerous environments,
- while wearing protective helmets or protective clothing,
- in potentially explosive areas,
- in undercover operations,
- with hands-free communication.

In addition to traditional headsets and other communication systems for connecting to analog and digital radio systems, the broad range of products for extremely diverse applications focuses in particular on end-to-end system solutions, for example mobile or fixed digital mini-radio networks that can be set up in seconds.

A functioning business model – the recipe for success for many years
Drive, creativity, and flexibility are the qualities that have allowed CeoTronics to set benchmarks ever since it was founded in 1985. High quality standards and individual customer care reinforce its positioning as a premium service provider.
CeoTronics is a well-established partner of the best-known helmet and special vehicle manufacturers as well as leading radio equipment makers.
The CeoTronics Group has a large number of subsidiaries and representative offices that guarantee expert advice and customer orientation in 27 countries. All in all, our products are sold in over 55 countries.

ISO 9001 and ATEX certification for high quality standards
We develop and design our products at two German locations and produce them in Germany and the U.S.A. In Poland we have now created the opportunity to service the Eastern European market in close proximity to our customers. CeoTronics guarantees the highest precision of all parts used in production. Each manufactured product is subjected to a quality check before it is shipped. That’s why we’re proud to offer our customers warranties of up to three years on all CeoTronics electronic products, including cables and microphones.

CeoTronics AG has been DIN EN ISO 9001:2000 certified for several years. Since June 1, 2003 CeoTronics' Ex communication products have also conformed to the strict new ATEX Directive (94/9/EC).
Since July 1, 2003, this directive is binding in the EC and associated states for all new products designed for use in potentially explosive atmospheres.

ATEX certification of individual products as good as compels the manufacturers' production and quality control processes to be certified in accordance with the ATEX Directive as well. This requirement has been met by CeoTronics for over two years.

CeoTronics is in a unique position globally, thanks to its unrivalled range of ATEX certified systems and early adoption of the standard.

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Precise Communication in Noisy Environment and Across Long Distances

Communication systems for the manufacturing and service sectors and sports
CeoTronics products are used wherever people work and communicate in environments with high or alternating noise levels, often while wearing breathing masks or protective suits, or in potentially explosive atmospheres.

CeoTronics communication systems have multiple applications and can be adjusted to the individual requirements of:

- a wide range of manufacturing sectors (e.g. engineering, the automotive industry, paper manufacturing, and the aerospace industry),
- power utilities,
- refineries and oil rigs,
- service enterprises (e.g. amusement parks, radio and television),
- large sports arenas and motor sport teams.

Airport and airline communications
More than 200 airlines, airports and ground handling service companies all over the world put their trust in CeoTronics products. We offer perfect communication solutions for use in all airport areas where the reliable transmission of each word is of great importance. As market leader in the area of ground-to-cockpit communication, our broad product range also includes systems for ramp handling, push back, de-icing, in-flight service and cockpit communication for sky marshals, as well as aircraft and helicopter maintenance.

In action with fire fighters, civil defense, and rescue services
Secure communication and high transmission quality are indispensable for fire fighting and in emergencies.

This is why CeoTronics focuses on safety, easy handling, and comfortable wear when developing and designing communication systems for fire fighters and rescue services.
All products are:

- resistant to heat, cold, or chemical agents
- available as explosion-proof models
- weatherproof
- designed for long-term use
- extremely durable.

Individual solutions for police, border guards, customs authorities, and the army, navy, and air force
One of CeoTronics' key strengths is the development and supply of communication solutions for government security and law enforcement agencies.

In this area, a wide range of systems is available, including

- fully and partially covered communication systems as well as miniature radio cameras for the wireless transfer of video images during undercover investigations.
- audio systems based on various technologies for communication within helmets for riot police, motorcyclists, soldiers, and special task force units.

Police missions carried out by the military in different regions of the world also use CeoTronics communication systems. A milestone was the development of digital mobile radio networks and equipment that can be set up in seconds and allow bug-proof communication in duplex mode – listening and talking at the same time, as in a telephone conversation.

KEEP YOUR SENSES OPEN

The CeoTronics Group

Companies included
in consolidation

CeoTronics AG
D-Rödermark

Branches

CeoTronics AG
Belgium, Netherlands,
Luxembourg

CeoTronics AG
Czech. Republic,
Slovenia, Hungary, Croatia,
Slovakia

CeoTronics AG
Finland, Estonia, Latvia,
Lithuania, Sweden,
Norway, Denmark, Iceland

CeoTronics AG
Greece, Italy
Austria

Subsidiaries

CeoTronics Sarl
F-Paris

CeoTronics Ltd.
GB-Nottingham

CeoTronics AG
CH-Rotkreuz

CeoTronics S.L.
E-Madrid

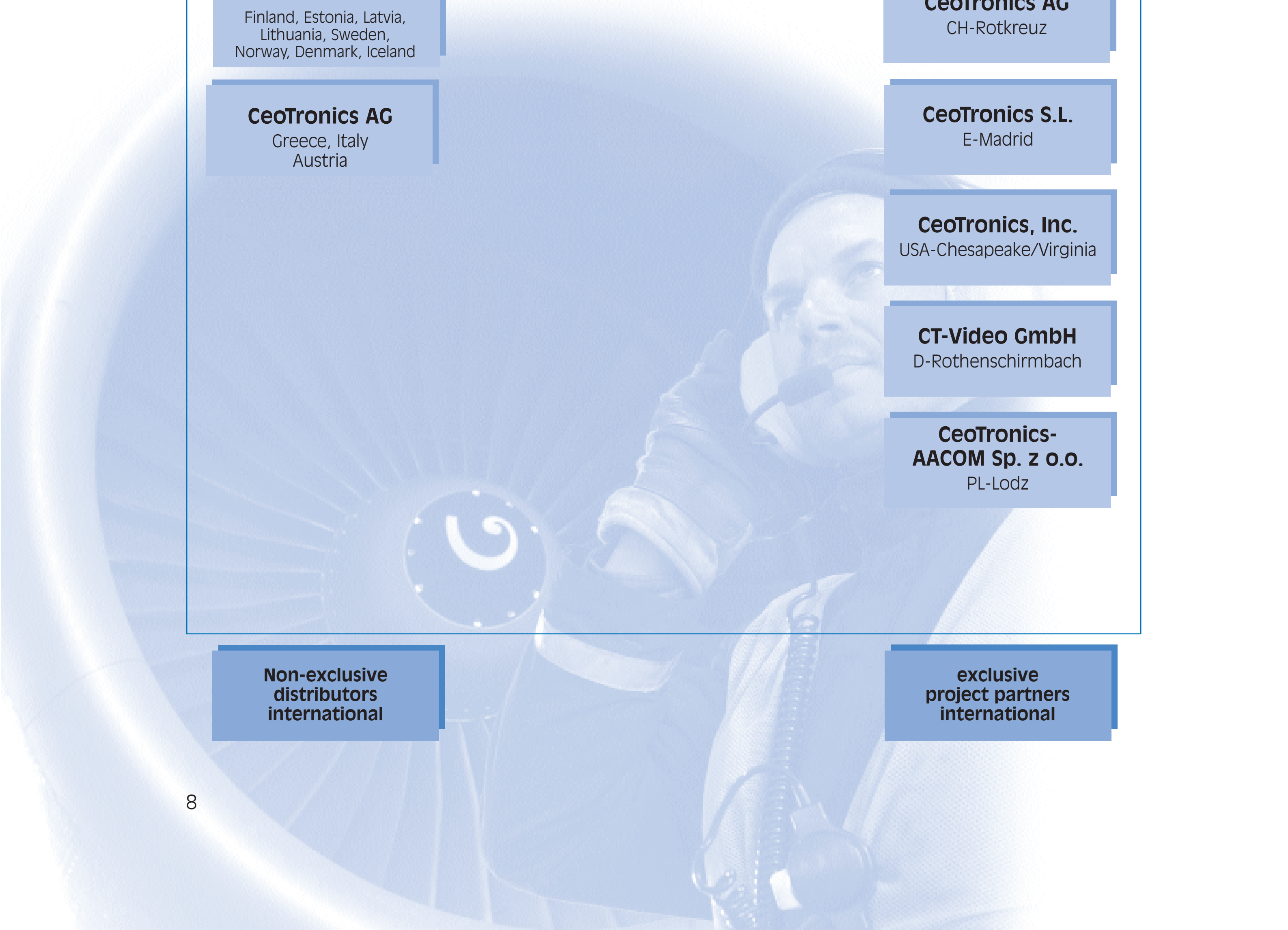
CeoTronics, Inc.
USA-Chesapeake/Virginia

CT-Video GmbH
D-Rothenschirmbach

CeoTronics-AACOM Sp. z o.o.
PL-Lodz

Non-exclusive distributors international

exclusive project partners international



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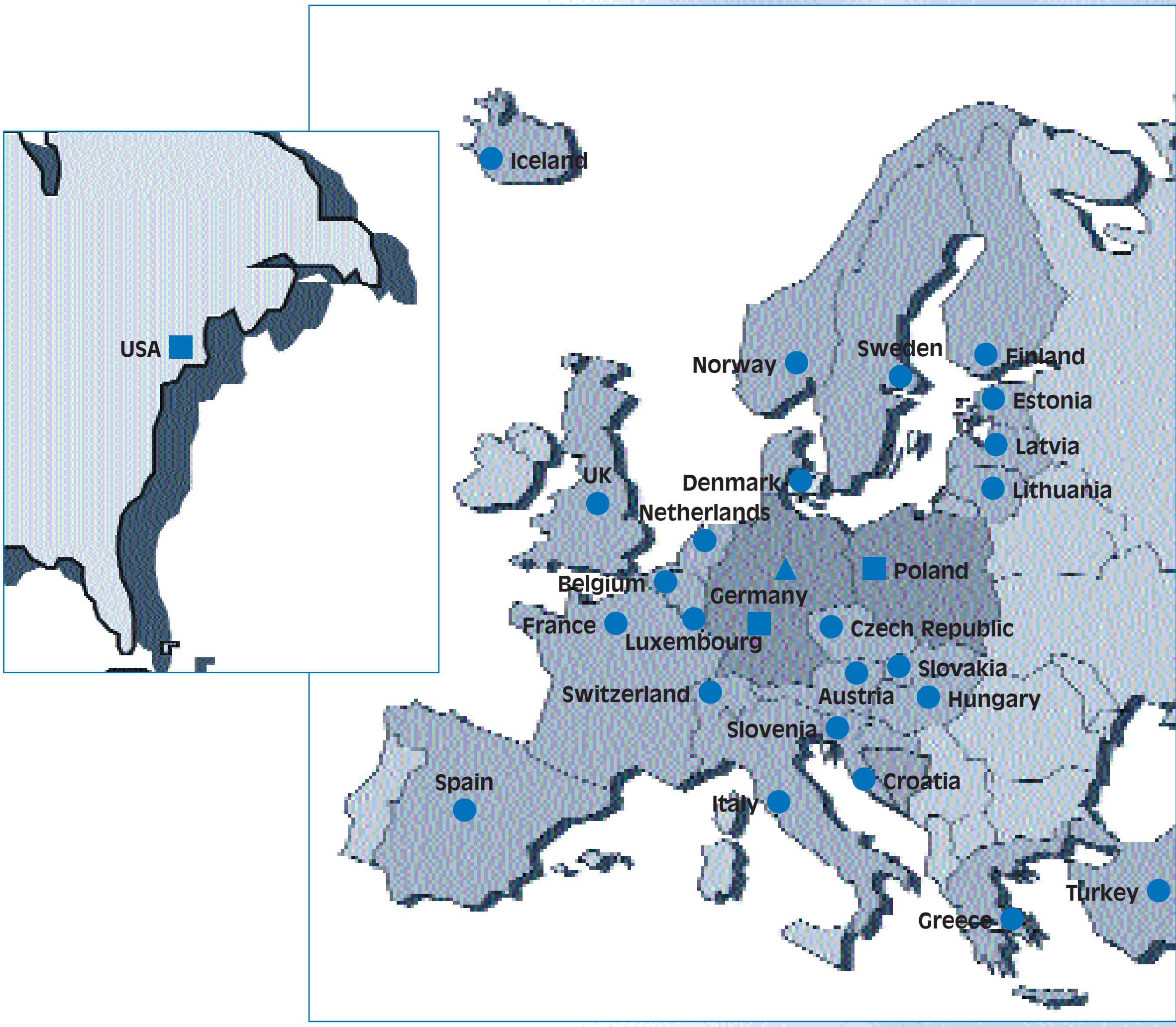

■ **CeoTronics, marketing and production/after sales service**

Germany (Rödermark) U.S.A. (Chesapeake, Virginia)

▲ **CT-Video GmbH, marketing and production/after sales service**

Germany (Rothenschirmbach)

● **CeoTronics sales companies and branches, paticulary with after sales service**

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

KEEP YOUR SENSES OPEN

Management Report of the CeoTronics Group, Fiscal year 2003/2004

Economies and public-sector budgets of CeoTronics priority markets under pressure
During fiscal year 2003/2004 the economic situation in our European priority markets did not improve, while in the U.S.A. positive signals from some economic indicators did not lead to a significant upturn in the performance at CeoTronics, Inc., U.S.A.
In Germany, key data such as economic growth, the unemployment rate, and new governmental borrowing deteriorated further in fiscal 2003/2004. The economic recovery forecast by economic research institutes and governments alike will probably not take place until the next few quarters.

CeoTronics is successful despite this difficult environment
Public-sector investment budgets are being allocated and released later and later while budget and investment freezes at city, state and federal level are kicking in increasingly early, narrowing the window of opportunity for domestic orders. Overall, however, customers' investments in CeoTronics products increased. This due both to the by now urgent need to modernize existing communication systems as well as replacement orders. In addition, our new product developments were able to meet previously unsatisfied communication needs, thus creating new sales and revenues opportunities. The CeoTronics Group's comprehensive sales and service network for its domestic and international priority markets ensures highly skilled and speedy customer service and so also improves revenues and market share despite the general economic trend.

In the period under review, the CeoTronics Group's revenues grew 9.7%, from € 12,366 thousand (previous year) to € 13,568 thousand, an encouraging departure from the overall negative economic trend.

Changes in revenues by region
In fiscal year 2003/2004, the share of revenues generated abroad increased substantially once again, constituting 69 % of total revenues. Revenues generated in Germany, however, dropped by around 22 % due to the difficult economic and budget situation described above.

Thanks to its close-knit sales network of 8 companies plus representative offices with their own staff in another 19 countries, and its very broad range of customers, the CeoTronics Group is excellently equipped to offset the negative effects on orders and revenues of sector-specific or national economic fluctuations.

CeoTronics' revenues in France increased by approximately 119 %, impressively confirming the positive trend of the previous year. The share of revenues from the public sector was disproportionately high.

In the U.K., CeoTronics experienced a drop in revenues in euros of around 26 %. The U.K. company's move to a location near Nottingham offering improved access to industry, as well as the increase in sales staff came too late to positively affect operations in the past fiscal year.

In Spain, as expected, CeoTronics was unable to match the high level of revenues generated in the previous year, and revenues decreased by around 15 %. However, The Board of Management is satisfied with the Company's market positioning.

Revenues in Switzerland increased substantially, partly due to the government agencies' switch to digital communication technology. In euro terms, this resulted in an increase of around 153 %.

AACOM-CeoTronics in Poland increased revenues in euros by approximately 47 %.

Revenues in the U.S. market dropped by around 41 %. Nevertheless, due to increased revenues generated from exports, CeoTronics, Inc. was able to increase its revenues in U.S. dollars.

In the remainder of Europe, the markets with the highest revenues performed well throughout. In the Benelux countries, we clearly exceeded our relatively high revenues of the previous year. In Northern and South-Eastern Europe we further strengthened our market positioning.

Revenues in the other foreign markets dropped by around 17 % in total.

Development of divisions and units (segments)
The Group's business activities can be broken down into three main divisions: Audio Communication, Video Communication, and Data Communication. In addition, a fourth division, Individual Solutions and Services, mainly includes cross-functional, customer-specific special solutions. The largest division, Audio Communication, is subdivided into the Radio Headsets, Vibration Technology and Helmet Communication, Ear Microphones and Induction Technology, and Audio Wire Communication and Accessories units.

The Radio Headsets unit recorded a temporary drop in revenues of about 44 % against the high figure of the previous year.
This reduction is mainly due to a general reluctance to invest among industrial and public-sector customers, coupled with delays in customers' planning of large-scale special projects.

The Vibration Technology and Helmet Communication unit recorded an approx. 60 % rise in revenues in fiscal year 2003/2004. Large projects in France particularly contributed to this development.

The Ear Microphones and Induction Technology unit recorded a slight increase in revenues of 1.3 %. This unit suffered from a certain investor reluctance as well as increased competition for standard products, leading to a further drop in prices.
CeoTronics handled this situation by introducing a new digital induction receiver as well as a new special in ear communication system, both of which offer a substantial improvement in audio quality and increased comfort, creating new sales opportunities. Revenues generated by the Audio Wire Communication and Accessories unit increased during fiscal year 2003/2004 by 32 % year-on-year. This success is based on sales to the industrial sector of cable bound intercom units and headsets that can be connected to two-way radios.

The Video Communication division performed below expectations, recording a drop in revenues of around 10 %. This drop was mainly due to postponed tenders in a crucial export market as well as the difficult economic and budget situation among public-sector customers. However, CT-Video GmbH recorded a positive result for the third year in a row.

In the Data Communication division, revenues dropped 13.5 %, leveling out at a "normal" level after the increase in fiscal year 2002/2003. Revenues in this division come mainly from the CT alarm trigger with ManDown and NoMotion functions.
Many data communication functions are realized in conjunction with CT DECT systems. The revenues from these products are recorded by the Radio Headset unit, which also includes revenues generated from analog and digital radio systems. In addition, speech is digitized via the CT DECT system and transferred as data. As a result, in the next Annual Report we will incorporate the Data unit into the Radio Headsets unit and change the latter's name from Radio Headsets to Radio Headsets, Systems and Networks.

In the Service and Individual Solutions division, revenues were up by 2.8 %. As numerous individual solutions were standardized in the course of the period under review, they are no longer recorded in this segment.

Strong demand for digital CeoTronics products and communications systems for connection to digital two-way radios

This year, the substantial interest of and demand by industrial and public-sector customers could again be seen from the large number of high-volume tenders that CeoTronics was repeatedly asked to submit. These were less for standard products (such as headsets), but rather for communication systems based on CeoTronics proprietary DECT technology, special solutions for helmet communication, and new helmet developments.

CeoTronics proprietary DECT technology is increasingly being used for small-scale radio networks that can easily and intelligently be combined with other radio systems (for example TETRA, TETRAPOL, and cellular phone or even analog networks). This is where CeoTronics can benefit from one of its key strengths – decades of experience in adapting analog and digital radio sets of various types and makes. Of course, these digital communication systems are far more complex than conventional systems, requiring decision makers to examine them much more carefully and intensively, which in turn slows down the tender award process.

The introduction of digitization was a sea change for the entire CeoTronics company. Prior to its 1998 IPO CeoTronics was "simply" a manufacturer of communication systems and radio accessories. In the course of the past few years, the CeoTronics Group has established itself as a system provider for audio headsets and systems, digital and analog radio sets, digital small-scale radio networks as well as wireless video transmission systems.

CeoTronics' revenues and earnings growth in Switzerland, France, and Spain, as well as preparations for investment in the Benelux countries and Northern Europe, highlight the Company's growth potential in the remainder of Europe and Germany if Germany and Austria would finally decide to introduce a wide-scale digital communication system.

Increase in ratio of costs of goods and services sold to revenues stopped

Compared to the previous year, the ratio of costs of goods and services sold remained stable at 51.4% of revenue. Overall, the costs of goods and services sold rose by 10.0%, in line with the increase in revenues The share of costs of goods and services sold in revenues could not be lowered, due to increased purchases of high-quality, high-tech modules and components, as well as noise protection and motorcycle helmets.

R+D expenses down as planned

Expenses in the area of research and development in the period under review decreased by 6.1% according to plan, without endangering the Group's developmental goals. The ratio of R+D expenses to total revenues dropped from 7.5% in the previous year to 6.4% in fiscal year 2003/2004.

Especially in difficult times with low demand, it is strategically important to drive forward development projects, create investment needs, and present innovative communication solutions to previously insoluble problems. During the last twelve months, we developed several such unique solutions, which will act as an engine for future company growth.

Typical examples are the development of a CT DECT-based communications system for towing and handling of military aircraft, as well as the second generation of the Group's modular in ear communication system and serial production of the CT-CombatCom universal headset system.

These products not only generated internal and external development costs, but also required the design and production of special tools.

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Selling and marketing expenses relatively stable
As part of the Group's overall "earnings before growth" strategy, measures to cut selling and marketing expenses continued through fiscal year 2003/2004. As a result, costs only increased by 2.8% despite the market launch of new products.
The ratio of selling and marketing expenses to total revenues dropped from 30.1% in the previous year to 28.2% in fiscal year 2003/2004.

The restructuring of the marketing service department in Germany was not yet fully reflected in the costs.

General and administrative expenses down again
General and administrative expenses declined again year-on-year by 16.2%. This drop does not include the savings produced by the reduction in size of the Board of Management as of September 30, 2003. The ratio of general and administrative expenses to total revenues is 10.6%, down from 13.9% the previous year.

Interest expense decreases again
The reduction in liabilities to banks and increased self-financing lowered the interest expense in fiscal year 2003/2004 by 3.5%.

Operating result up substantially
, The operating result rose by € 1,409 thousand year-on-year during the period under review. The loss of € 543 thousand became a positive operating result of € 866 thousand.
Several recent cost optimization measures in the areas of administration and selling and marketing were not yet reflected in EBIT. This cost structure improvement will become apparent in the next fiscal year.

Positive net income development
In fiscal year 2003/2004 net income increased by € 883 thousand. The previous year's loss of € 567 thousand was turned into a positive figure of € 316 thousand. The Group's performance exceeded the Board of Management's expectations.

Cash flow improves substantially
In the period under review, gross cash flow increased by € 830 thousand year-on-year, from € -63 thousand to € 767 thousand.

The decrease in cash and cash equivalents as of the closing date is for the most part due to an increase in trade accounts receivable.

Ongoing workforce optimization
As of May 31, 2004, the CeoTronics Group employed 125 persons. This is a year-on-year reduction of 2 persons. On a yearly average, the Group employed 126 persons.

Management, sales and cost structure of CeoTronics, Inc. improved
The revenues and sales results of CeoTronics, Inc. U.S.A. failed to meet our expectations, based on our products' U.S. market potential. Although CeoTronics, Inc. U.S.A. was able to increase its revenues in U.S. dollars, revenues in euros did not improve. Earnings in euros improved only marginally.

Unfortunately, in March 2004 the company's president, who had been in office since November 2002, had to be replaced by a sales manager. The sales and marketing structure had already been improved by the end of fiscal year 2003/2004. At the same time, we were able to further reduce costs.

At the turn of the fiscal year, the Group's successful strategy of setting priorities in terms of markets and products was strictly applied to the operations of CeoTronics, Inc. U.S.A.

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U.S. airlines were unable to recover from their dramatic economic difficulties, leading to low investments in modern communication systems.

Accrual for Group risks at parent company utilized

In the third quarter of fiscal year 2003/2004, the accrual for Group risk was increased by € 50 thousand, from € 275 thousand to € 325 thousand. Most recently, this accrual solely reflected the business risks of our U.S. subsidiary.

In the fourth quarter of fiscal year 2003/2004, we adjusted the carrying amount of our investment in CeoTronics Inc. U.S.A. on the balance sheet of CeoTronics AG Germany due to this subsidiary's unsatisfactory performance. As a result, the accrual for Group risk was reversed.

Sale of treasury shares to strengthen self-financing ability of CeoTronics AG, Rödermark

Since CeoTronics AG Rödermark has no immediate intentions to use its treasury shares as an acquisition currency for a corporate acquisition, the Company's 40,000 treasury shares were sold directly (OTC) in two equal blocks to two long-term private investors in the fourth quarter of the fiscal year. This sale did not affect the consolidated income statement prepared according to U.S. GAAP. Cash and cash equivalents increased, as did the shareholders' equity in the consolidated balance sheet.

Group risk management

As in previous years, in the reporting period CeoTronics continued to fulfill its obligation to perform active risk management according to the Gesetz zur Kontrolle und Transparenz im Unternehmensbereich (KonTraG – German Act on Control and Transparency in Business).

As part of the risk management process, new risks were identified and then analyzed and evaluated in conjunction with previously identified risks and the resulting measures implemented.

The implementation process was monitored and, where needed, further adjustments were made.

The objective was not the total avoidance of risk, but to weigh up entrepreneurial opportunities and the risks resulting from them in a reasonable manner.

It is crucial not only to document the risk management process, but also for the Company's management to apply it in practice. This requires the Supervisory Board, Board of Management, executives, and employees to perform their risk management tasks in a highly responsible way.

In fiscal year 2003/2004, risk management centered primarily on IT security risks. The findings were also discussed in depth between the Supervisory Board and the Board of Management and the risk management manual was modified accordingly.

German Corporate Governance Code

CeoTronics AG has adopted the recommendations of the German Corporate Governance Code as part of its management practices. CeoTronics welcomes the initiative to strengthen investor confidence and implemented the Code to a large extent at an early stage.

The declaration of conformity according to section 161 of the Aktiengesetz (AktG – German Public Companies Act) can be found on CeoTronics' Internet homepage along with the Board of Management's remuneration structure.

Order backlog as of May 31, 2004 more than doubled

As of May 31, 2004 the consolidated order backlog amounted to around € 1,945 thousand. Further orders were pending on the balance sheet date. Together with the order backlog, these offer a positive outlook for CeoTronics' revenues and income.

Events after the balance sheet date

In the first quarter of fiscal year 2004/2005, the German Air Force awarded CeoTronics a € 1.92 million contract to supply digital communication systems for towing the Eurofighter aircraft.

No other significant events occurred between the balance sheet date and the preparation of the financial statements.

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Risks associated with future development
One of the ways in which CeoTronics ensures a market-driven product portfolio is to base new developments and new versions of CeoTronics products and systems on customer wishes, and to work in close cooperation with users to implement them.

CeoTronics has substantially reduced the risk to the Company associated with Basel II and the resulting behavior of the banks, including restrictive lending policies by improving its self-financing ability, reducing its liabilities to banks, and generating positive earnings figures.

If the economic and budgetary situation on CeoTronics' priority markets takes a turn for the worse, in contrast to forecasts by economic research institutes and governments, and if this might impact CeoTronics' revenues and earnings goals, the Company will flexibly and quickly adjust its cost structure and investment activities.

Outlook
The high order backlog in conjunction with the anticipated investments in communications systems for large sports events by public-sector customers, as well as initial investments in digital communication networks by government agencies in the Benelux countries, Northern Europe, and Austria offer a positive outlook for the CeoTronics Group's revenues during the next fiscal years. In addition, the EU accession countries offer further market opportunities for CeoTronics products.

The cost structure will be improved further and this, coupled with the utilization in full of revenue opportunities, is leading the Company to expect a sustained positive earnings which will allow it to continue paying a dividend.

Rödermark, August 11, 2004

CeoTronics AG
Audio • Video • Data Communication

Thomas H. Günther Chairman of the Board of Management	Berthold Hemer Research and Development Deputy Chairman of the Board of Management	Günther Thoma Operations Board of Management

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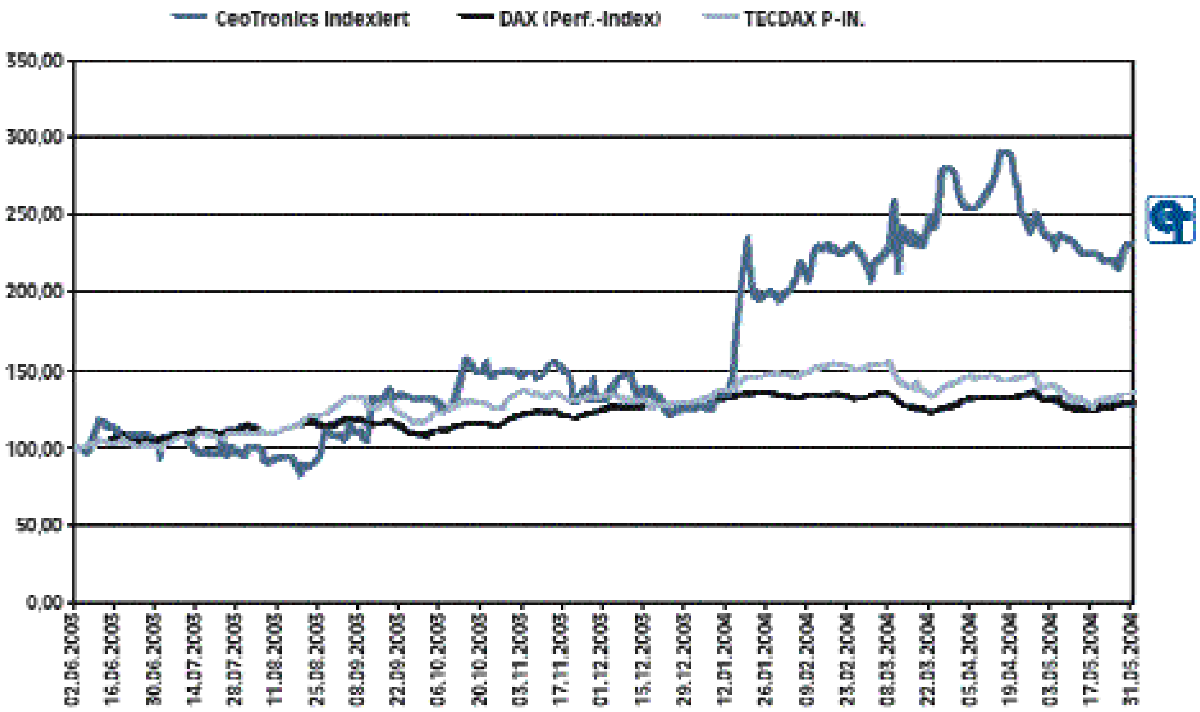
CeoTronics' shares and Deutsche Börse Standard

Global stock markets – no optimism, no clear trend
The overall insecurity among investors and the resulting weak interest in shares, as well as the reluctance to invest is in line with current consumer behavior.
Insecurities regarding the future of the economy in particular, especially in economic terms, coupled with the negative stock market experiences of the past, prevent both a more optimistic mood on the equity markets and an objective analysis of positive corporate events.

CeoTronics' shares on the rise
The price of CeoTronics' shares increased in the period under review by 130 %, substantially outperforming both the DAX and the TECDAX.

The CeoTronics' Group's positive key figures for fiscal year 2003/2004 as well as the outlook for fiscal year 2004/2005 should clearly boost CeoTronics' share price development regardless of general stock market sentiment.

CeoTronics' shares compared to the benchmark indices from June 2, 2003 to May 31, 2004 (indexed)



Source:

CeoTronics
Audio · Video · Data Communication

Consolidated Balance Sheet – Assets

Assets according to US-GAAP	May 31, 2004	May 31, 2003
	T€	T€
Current assets		
Cash and cash equivalents (note 2)	370	527
Short-term investments/marketable securities	0	0
Trade accounts receivable (note 3)	3,458	2,231
Inventories (note 4)	3,910	3,766
Deferred tax (note 10)	1,323	1,615
Prepaid expenses and other current assets (note 5)	381	360
Total current assets	**9,442**	**8,499**
Non-current assets (note 6)		
Property, plant and equipment	3,231	3,434
Intangible assets	130	112
Goodwill	1,510	1,550
Investments	15	18
Investments accounted for by the equity method	0	0
Deferred tax	0	0
Total non-current assets	**4,886**	**5,114**
Total assets	**14,328**	**13,613**

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Consolidated Balance Sheet – Liabilities and Shareholders´ Equity

Liabilities and shareholders´ equity according to US-GAAP	May 31, 2004	May 31, 2003
	T€	T€
Current liabilities		
Current portion of capital lease obligation	0	0
Short-term debt and current portion of long-term debt (notes 9)	847	1,054
Trade accounts payable	1,152	374
Advance payments received	2	11
Accrued expenses (note 8)	511	415
Deferred revenues	0	0
Income tax payable	208	451
Deferred tax	0	0
Other current liabilities (note 7)	564	529
Total current liabilities	**3,284**	**2,834**
Long-term debt, less current portion		
Long-term debt, less current portion (notes 9)	955	1,136
Capital lease obligations, less current portion	0	0
Deferred revenues	0	0
Deferred tax	0	0
Pension accrual	0	0
Total non-current liabilities	**955**	**1,136**
Minority interest	**29**	**24**
Shareholders´ equity (note 11)		
Share capital	6,600	6,600
Additional paid-in capital	4,471	4,935
Treasury stock	0	-614
Retained earning/accumulated deficit	-997	-1,312
Accumulated other comprehensive income/loss	-14	10
Total shareholders´ equity	**10,060**	**9,619**
Total liabilities and shareholders´ equity	**14,328**	**13,613**

Audio · Video · Data Communication

Consolidated Income Statement

Income Statement according to US-GAAP	Quarterly Report (current quarter) 03.01. 2004-05.31. 2004	Quarterly Report (comparative quarter previous year) 03.01. 2003-05.31. 2003	Quarterly Report (current year to date) 06.01. 2003-05.31. 2004	Quarterly Report (comparative period previous year) 06.01. 2002-05.31. 2003
	T€	T€	T€	T€
Revenues	**4,214**	**3,153**	**13,568**	**12,366**
Others	0	0	0	0
Cost of revenues	-2,402	-1,756	-6,972	-6,339
Gross profit/loss	**1,812**	**1,397**	**6,596**	**6,027**
Selling and marketing expenses	-1,040	-1,012	-3,825	-3,721
General and administrative expenses	-297	-352	-1,438	-1,714
Research and development expenses (note 12)	-228	-201	-873	-930
Other operating income and expenses (notes 14 and 15)	465	-58	406	-205
Amortization (and impairment) of goodwill	0	75	0	0
Operating income/loss (E.B.I.T.)	**712**	**-151**	**866**	**-543**
Interest income and expenses	-50	-48	-139	-144
Income from investments and participations	0	0	0	0
Income/expense from investments accounted for by the 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)	**662**	**-199**	**727**	**-687**
Income tax (note 10)	-350	206	-408	119
Extraordinary income/expenses	0	0	0	0
Result before minority interest	**312**	**7**	**319**	**-568**
Minority interest	-1	3	-3	1
Net income/loss	**311**	**10**	**316**	**-567**
Net income per share (basic) in €	0.14	0.00	0.15	-0.26
Net income per share (diluted) in €	0.14	0.00	0.15	-0.26
Weighted average shares outstanding (basic) (note 13)	2,173,331	2,159,998	2,163,331	2,159,998
Weighted average shares outstanding (diluted) (note 13)	2,173,331	2,159,998	2,163,331	2,159,998

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Consolidated Cash Flow Statement

Cash Flow Statement according to US-GAAP	Quarterly Report (current year to date) 06.01. 2003-05.31. 2004	Quarterly Report (comparative period previous year) 06.01. 2002-05.31. 2003
	T€	T€
Cash flow from operating activities		
Net income before tax	727	-687
Income tax	-408	119
Net income after tax and after earnings	**319**	**-568**
Minority interest	-3	1
Net income after tax and after minority interest	**316**	**-567**
Depreciation	451	504
Subtotal	**767**	**-63**
Changes in assets and liabilities		
Change in trade accounts receivable	-1,227	499
Change in inventories	-144	341
Change in prepaid expenses and other current assets	-21	-39
Change in trade accounts payable	778	-278
Change in advanced payments received	-9	9
Change in other accruals	96	-88
Change in corporate tax liabilities	-243	0
Change in other liabilities	69	-93
Change in asset-side adjustment for deferred tax	292	-219
Total changes	**-409**	**132**
Net cash provided by operating activities	**358**	**69**
Cash flow from investing activities		
Investments in intangible assets	-66	-201
Investments in fixed assets	-336	-251
Changes in other assets and prepaid expenses	3	0
Investments in participations	0	138
Change in foreign currency differences	33	329
Disposal of assets (net book value)	143	74
Net cash used in investing activities	**-223**	**89**
Cash flow from financing activities		
Change in short-term debt and short-term portion of long-term debt	-242	255
Change in minority interest	4	25
Change in mid-term and long-term debt	-180	-341
Change in common stock	0	3,300
Proceeds from the sale of treasury shares	150	0
Change in additional paid in capital	0	-3,300
Net cash provided by financing activities	**-268**	**-61**
Change in cash and cash equivalents	**-133**	**97**
Net effect of currency translation in cash and cash equivalents	-24	-421
Cash and cash equivalents at beginning of period	527	851
Cash and cash equivalents at end of period	370	527

Consolidated Statement of Shareholders' Equity as of May 31, 2004

	Capital stock	Treasury stock	Capital reserve	Revenue reserve	Retained earnings	Currency translation	Comprehensive Income	Shareholders' equity
US-GAAP	T€	T€	T€	T€	T€	T€	T€	T€
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
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
Comprehensive Income							**-988**	
Capital increase from cash deposit	3,300		-3,300					0
As of May 31, 2003	**6,600**	**-614**	**4,935**	**70**	**-1,382**	**10**		**9,619**
Consolidated net income/loss					316		316	316
Sales of treasury shares		614	-464					150
Currency translation differences in the period					-1	-24	-24	-25
Comprehensive Income							**292**	
As of May 31, 2004	**6,600**	**0**	**4,471**	**70**	**-1,067**	**-14**		**10,060**

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Consolidated Statement of Changes in Noncurrent Assets 2003/2004

US-GAAP	Purchase and production cost						Accrued depreciation					Net carrying amounts	
	06.01. 2003 T€	Currency translation. T€	Additions T€	Disposals T€	Transfers T€	05.31. 2004 T€	06.01. 2003 T€	Currency translation. T€	Additions T€	Disposals T€	05.31. 2004 T€	05.31. 2004 T€	05.31. 2003 T€
Intangible assets													
Commercial licenses, trademarks and similar rights and assets;e licenses to such rights and assets	433	0	66	-1	5	503	320	-1	54	0	373	130	113
Total intangible assets	**433**	**0**	**66**	**-1**	**5**	**503**	**320**	**-1**	**54**	**0**	**373**	**130**	**113**
Property, plant and equipment													
Real property, equivalent rights and buildings, including buildings on third-party property	2,703	11	0	-153	1	2,562	198	1	50	-11	238	2,324	2,505
Technical equipment and machinery	1,869	-2	201	-187	90	1,971	1,246	2	203	-187	1,264	707	623
Other plant and equipment and office furniture and equipment	1,471	-2	48	-12	0	1,505	1,175	-2	144	-12	1,305	200	296
Prepayments and assets under construction	10	0	87	0	-97	0	0	0	0	0	0	0	10
Total fixed assets	**6,053**	**7**	**336**	**-352**	**-6**	**6,038**	**2,619**	**1**	**397**	**-210**	**2,807**	**3,231**	**3,434**
Financial assetsn													
Other loans and advances	18	0	0	-3	0	15	0	0	0	0	0	18	18
Total financial assets	**18**	**0**	**0**	**-3**	**0**	**15**	**0**	**0**	**0**	**0**	**0**	**15**	**18**
Goodwill	**1,713**	**-42**	**0**	**0**	**0**	**1,671**	**163**	**-2**	**0**	**0**	**161**	**1,510**	**1,550**
	8,217	**-35**	**402**	**-356**	**-1**	**8,227**	**3,102**	**-2**	**451**	**-210**	**3,341**	**4,886**	**5,115**

Notes to the Consolidated Financial Statements of CeoTronics AG as of May 31, 2004

1. Operating activities
The Company's operating activities comprise the development, construction, production, and sale 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 imports and exports and all related activities.

CeoTronics AG, Rödermark, and its subsidiaries CeoTronics, Inc., Chesapeake, Virginia, United States, and CT-Video GmbH, Rothenschirmbach, are both production and sales companies.

The subsidiaries CeoTronics Sarl, Pontault-Combault, France; CeoTronics AG, Rotkreuz, Switzerland; CeoTronics Ltd., Bestwood Village (Nottingham); UK; AACOM-CeoTronics Ltd., Lodz, Poland; and CeoTronics S.L., Madrid, Spain are sales companies only.

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

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

Research and development activities are also carried out at CeoTronics AG and the subsidiary CT-Video GmbH, Rothenschirmbach.

2. Significant accounting policies and consolidation methods
The consolidated financial statements were prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP). In accordance with the provisions of the Handelsgesetzbuch (HGB – German Commercial Code), CeoTronics AG has also prepared annual financial statements in accordance with the provisions of the HGB.

Certain of the accounting policies applied by the Company comply with the principles of proper accounting in each respective country, but not with the corresponding principles under U.S. GAAP.
The annual financial statements as of May 31, 2004 were adjusted to comply with U.S. GAAP to fulfill the requirements associated with CeoTronics listing in the Prime Standard. The assets, liabilities, shareholders equity, income, and expenses were adjusted accordingly.

All figures are stated in thousands of euros (€).

a) Consolidation methods
Basis of consolidation
Subsidiaries in which the parent company directly or indirectly holds the majority of shares, and hence of the voting rights, are consolidated in accordance with the principles of capital consolidation.

CeoTronics AG, Rödermark directly holds shares in the following subsidiaries:
CeoTronics AG, Rotkreuz, Switzerland,
CeoTronics Sarl, Pontault-Combault, France,
CeoTronics Ltd., Bestwood Village (Nottingham), UK,
CeoTronics, Inc., Chesapeake, Virginia, United States,
CeoTronics S.L., Madrid, Spain,
CT-Video GmbH, Rothenschirmbach, Germany,
AACOM-CeoTronics Ltd., Lodz, Poland.

With the exception of the interest in AACOM-CeoTronics, CeoTronics AG, Rödermark, directly holds 100 % of the shares of each company.

Audio Video Data Service Sarl, Pontault-Combault, France, was dissolved on February 12, 2004. CeoTronics Ltd. relocated from Bordon, Hants, to Bestwood Village (Nottingham) in fiscal year 2003/2004.

The 25 % minority interest in AACOM-CeoTronics Ltd. is accounted for by recognizing the minority interest and its effects on net income/loss in a separate item in the liabilities and shareholders' equity side of the balance sheet, in the income statement, and in the cash flow statement.

All material intercompany transactions were eliminated in the course of consolidation. This applies to intercompany income and expenses, as well to intragroup receivables and liabilities.

Reporting date of the consolidated financial statements and the single-entity financial statements included in the consolidated financial statements

The consolidated financial statements were prepared as of the reporting date of the annual financial statements of the parent company. The annual financial statements of the consolidated subsidiaries also use the same reporting date as the consolidated financial statements.

Capital consolidation

The Group applies the revalued amounts method in accordance with U.S. GAAP. As a rule, the date on which a subsidiary was formed or acquired was chosen as the date of first-time consolidation.

The Company acquired the remaining 33 % interest in CeoTronics Sarl, Pontault-Combault, France, effective May 31, 1996. This interest was consolidated for the first time as of May 31, 1996.
The difference resulting from this first-time consolidation was recognized in full as goodwill.
Goodwill amounted to € 79 thousand at the time of first-time consolidation. The current carrying amount totals € 47 thousand.

CeoTronics S.L., Madrid, Spain, resumed its sales activities in 1998. This company was consolidated for the first time as of December 1, 1998.
The difference resulting from this first-time consolidation was recognized in full as goodwill.
Goodwill amounted to € 16 thousand at the time of first-time consolidation. The current carrying amount totals € 13 thousand.

In addition, CeoTronics AG, Germany acquired all shares of A&C Achats et Communication Sarl, Pontault-Combault, France, in fiscal year 1998/1999. This company was consolidated for the first time as of April 1, 1999. A&C Achats et Communication Sarl, Pontault-Combault, France, has now been merged with CeoTronics Sarl with the result that the difference is now recognized in CeoTronics Sarl's balance sheet. The difference in the amount of € 323 thousand resulting from first-time consolidation was recognized in full as goodwill. The current carrying amount totals € 275 thousand.

In fiscal year 2001/2002, CeoTronics AG, Germany, also acquired 75 % of the shares of AACOM-CeoTronics Ltd., Lodz, Poland. This company was consolidated for the first time as of June 1, 2002. The difference resulting from this first-time consolidation was recognized in full as goodwill. Goodwill amounted to € 134 thousand at the time of first-time consolidation, as does the carrying amount.

In accordance with U.S. GAAP, goodwill has no longer been amortized since fiscal year 2002/2003. It is still carried in the balance sheet at its adjusted carrying amount and is tested annually for impairment.

Consolidation of intercompany balances

Receivables and liabilities between the Group companies were eliminated. There were no material differences resulting from the consolidation of intercompany balances.

Elimination of intercompany profits
The intercompany profits included in the carrying amounts of finished goods as of May 31, 2004 totaling € 157 thousand (previous year: € 262 thousand) from intercompany transactions were also eliminated. As a result of the drop in intercompany profits, a € 63 thousand (previous year: € 51 thousand) consolidation adjustment was recognized in the income statement at the reporting date. The fall in intercompany profits is due to a reduction in the inventories of the parent company's products carried at the subsidiaries.

Consolidation of income and expenses
In the course of consolidation, revenues from delivery transactions between group companies, other income and expenses from intragroup settlements, and income from investments, interest, and licenses were all eliminated.

b) Estimates and assumptions
Preparation of the consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, and expenses, as well as the related disclosures. We believe that our estimates and assumptions are reasonable under the circumstances. However, actual results could differ materially from these estimates and assumptions.

c) Foreign currency translation
In accordance with Statement of Financial Accounting Standards (SFAS) No. 52, which governs foreign currency translation under U.S. GAAP, balance sheet items are translated at the exchange rate and income statement items are translated at the closing rate and income statement items are translated at the average rate for the fiscal year. The local currency of the foreign subsidiaries is the functional currency.

The equity accounts of the subsidiaries are measured at historical exchange rates. The exchange differences arising from the application of different exchange rates are disclosed in a separate account in shareholders' equity (accumulated other comprehensive income).

Gains (losses) from transactions in foreign currencies are recognized in the income statement.

d) Fair value of financial instruments
Due to their short-term nature, the carrying amounts of cash and cash equivalents, trade accounts receivable, other assets, trade accounts payable, other liabilities, and current accrued expenses correspond approximately to their fair values. The carrying amounts of the Company's remaining liabilities also correspond approximately to their fair values because they either have short maturities and/or the interest rates reflect the market conditions at which the Company could obtain refinancing.

e) Cash and cash equivalents
The Company accounts for all highly fungible investments with a maturity of three months or less as cash and cash equivalents.

The item comprises bank balances, checks and cash-in-hand, as well as time deposits with a maximum original maturity of three months.

f) Receivables
Trade accounts receivable and other assets are carried at their principal amount or at the lower fair value if identified impairments no longer justify recognition at the principal amount. The Company's trade accounts receivable are not collateralized. On May 31, 2003 and 2004, no customer accounted for more than 10 % of the trade accounts receivable. In fiscal years 2002/2003 and 2003/2004, no customer accounted for more than 10 % of consolidated net revenues.

g) Inventories
Purchased work in progress is measured at the lower of cost or market value. The Company's finished goods and work in progress are measured at fully absorbed cost. In accordance with U.S. GAAP, fully absorbed costs include direct material costs, direct labor costs, and production overheads.

Production overheads include all expenses incurred in the production process. The calculation is based on standard costing. Standard costs are continually adapted to the actual costs and correspond approximately to the actual costs.

Appropriate valuation allowances were charged for surplus stock and unmarketable inventories to account for inventory risks.

h) Deferred tax assets and liabilities
In preparing the consolidated financial statements, the Company complies with SFAS No. 109 for the calculation of deferred tax assets and liabilities that may arise from different carrying amounts in the consolidated balance sheet and tax accounts.

i) Intangible assets and goodwill
The Intangible assets item mainly includes software. Software is amortized over its expected useful life of three to four years.

Goodwill resulting from first-time consolidation amounted to € 440 thousand at the time of first-time consolidation of CeoTronics Sarl, Pontault-Combault, France, € 362 thousand of which is due to the acquisition of A&C Achats et Communication Sarl, Pontault-Combault, France.
CeoTronics S.L., Madrid, Spain also recorded goodwill of € 16 thousand. Cumulative amortization and impairment losses totaled € 107 thousand on May 31, 2004.

Goodwill for AACOM-CeoTronics Ltd., Lodz, Poland amounted to € 134 thousand at the time of first-time consolidation, as did the carrying amount.

In addition to the goodwill resulting from first-time consolidation, goodwill was also recognized from the acquisition of the audio activities of DTC Inc., Nashua, U.S.A. This goodwill of € 1,082 thousand was mainly paid for customer and supplier lists and is recognized in the balance sheet of CeoTronics, Inc., Chesapeake. Cumulative amortization amounted and impairment losses amounted to € 54 thousand as of May 31, 2004. In accordance with SFAS No.142 "Goodwill and other Intangible Assets," goodwill is no longer amortized starting in fiscal year 2002/2003; it is recognized in the balance sheet at its fair value. Its carrying amount is tested annually for impairment. The test did not lead to any changes in goodwill in the current fiscal year.

j) Property, plant, and equipment
Property, plant, and equipment is carried at cost, less depreciation. Preventive maintenance expenses that do not increase the value of the assets or their useful lives are treated as current expenses. Normal repair and corrective maintenance expenses are recognized as expenses in the year they arise. Gains or losses from the sale of noncurrent assets are recognized in other income and expenses.

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

The useful lives applied are shown in the following:

	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) Other accrued expenses
All other expenses expected to have accrued by the balance sheet date which have not been invoiced or paid as of this present time, including accrued compensated absences and accrued expenses for overtime, are recognized as other accrued expenses.

Accrued warranty expenses are recognized 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.

l) Revenue recognition
Revenue recognition depends on the contractually agreed conditions and revenues may thus be realized at the time of delivery or at the time of the customer's technical acceptance and approval of the products. Revenues are presented less value added tax, sales allowances, and credits.

m) Research and development
There are always significant expenses related to projects in research and development which are conducted with the aim of generating future revenues. The expenses are recognized to reflect in process research and development activities. The expenses for research and development are presented separately in the income statement.

n) Income taxes
Income taxes are calculated annually by utilizing the asset/liability method in accordance with SFAS No. 109 "Accounting for Income Taxes." All income tax liabilities and benefits that arise during a fiscal year are reported in the consolidated financial statements in line with the applicable tax legislation. Deferred tax receivables and tax liabilities are recognized for differences between carrying amounts in the annual financial statements and the tax base of assets and liabilities and shareholders' equity and for loss carryforwards in accordance with existing tax laws and rates for those periods during which the differences and loss carryforwards are expected to affect taxable income. The Company measures deferred tax assets and liabilities by applying the corporate income tax rate applied to retained earnings.

Income taxes comprise taxes due or recoverable for the period under review, plus or minus changes in the amount recognized for deferred tax receivables and liabilities. The effect of changes in the tax rate on deferred tax receivables or tax liabilities is recognized in income of the period in which the law takes effect.

o) Stock option plan
The effects of the finalized stock option plans on the results of operations of the Group are determined and recognized in accordance with "Accounting Principles Board Opinion No. 25." Supplemental information is disclosed in accordance with SFAS No. 123. Supplemental information in line with SFAS No. 123 is given.

p) Earnings per share
In accordance with U.S. GAAP, earnings per share are calculated by dividing net income for the year by the average number of shares outstanding in fiscal years 2003/2004 and 2002/2003. In addition, earnings per share were calculated by dividing net income by the number of shares outstanding at the end of the fiscal year.

In fiscal year 2003/2004, all treasury shares (40,000 no-par value shares) were sold. The number of shares outstanding changed accordingly.

The dilutive effect on net income for the year was determined in accordance with SFAS No.128. The effect of all outstanding options and co nversion rights was taken into account to show the maximum potentia dilution.

q) Cash flow statement
In the cash flow statement, the Company treats cash contributions with a maximum original maturity as cash and cash equivalents.

r) Impairment of noncurrent assets
The Company applies SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This pronouncement requires long-lived assets (including intangible assets) to be tested regularly for impairment, particularly if there are indications that their future carrying amount may not be recoverable. As a rule, impairment is tested by comparing the carrying amount of the asset in question with the cash flows expected to be generated in the future by that asset. If testing reveals that the recoverable amount is lower than the carrying amount, the carrying amount is written down to the fair value. Available-for-sale assets are measured at either amortized cost or at the lower fair value less cost to sell.

s) Comprehensive income
SFAS No. 130 "Reporting for Comprehensive Income" governs the calculation and the presentation of comprehensive income and its components in a full set of annual financial statements. Comprehensive income is composed of the net income/loss, adjustments to the minimum pension liability, unrealized gains or losses from securities, and foreign currency translation adjustments, and is presented in the consolidated financial statements in the statement of shareholders' equity. The Company has not granted any retirement benefits for employees and management, with the result that no adjustments to the minimum pension liability are accounted for in the presentation of other comprehensive income.
Other comprehensive income comprises all changes to shareholders' equity that are not attributable to transactions between the Company and shareholders. In the case of CeoTronics, it consists exclusively of changes to the cumulative translation adjustment.

Comprehensive income does not affect the Company's financial position or the results of operations. The consolidated statement of shareholders' equity shows the composition of comprehensive income.

t) Segment reporting
In accordance with statement No. 131 "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131) issued by the Financial Accounting Standard Boards on segment reporting, various information relating to business operations must be reported by segment.

3. Trade accounts receivable

	2004	2003
	T€	T€
Trade Accounts Receivable	3,491	2,288
Less: Value Adjustments	-33	-57
Receivables, net	**3,458**	**2,231**

4. Inventories
Inventories are made up as follows:

	2004	2003
	T€	T€
Raw materials and supplies	5	5
Unfinished Goods	2,536	2,214
Finished Goods	1,369	1,547
Inventories, net	**3,910**	**3,766**

5. Prepaid expenses and other assets

	2004	2003
	T€	T€
Other assets		
Receivables from tax authorities	170	112
Receivables from employees	37	37
Other	13	16
Other assets, net	**220**	**165**
Prepaid Expenses	161	195
Prepaid Expenses and other assets	**381**	**360**

6. Noncurrent assets

Changes in noncurrent assets is reported separately in the consolidated statement of changes in non-current assets.

In fiscal year 2003/2004, CeoTronics AG, Rödermark, invested € 139 thousand in new tools for promising new products and systems. In the IT area, CeoTronics AG, Rödermark, acquired new software for € 27 thousand and hardware for € 8 thousand. These investments were mainly made to expand IT capacities and IT security.

At CT-Video GmbH in Rothenschirmbach (Saxony-Anhalt), € 9 thousand was invested in IT facilities, € 61 thousand in machinery and equipment, and € 8 thousand in operating and office equipment.

CeoTronics Ltd. sold its property in Bordon, Hants, because it relocated to Bestwood Village (Nottingham). This resulted in disposals of real estate and buildings with a carrying amount of € 143 thousand.

7. Other current liabilities

	2004	2003
	T€	T€
Liabilities to tax authorities	339	312
Liabilities for social security	133	131
Liabilities arising from employee stock option plans	24	62
Other	68	24
Total other current liabilities	**564**	**529**

The Company has introduced five stock option plans, one of which expired last fiscal year without the options being exercised. The beneficiary employees paid an option premium to acquire stock options that is credited against the subscription price to be paid later.

8. Accrued expenses

	2004	2003
	T€	T€
Claims for remaining vacation entitlements and overtime	187	185
Outstanding legal and consulting fees and costs of the annual financial statements	80	77
Royalty	71	0
Employee bonuses	62	68
Costs of the Annual Report	7	8
Warranty obligations	37	27
Commission and bonuses	0	5
Other	67	45
Total accrued expenses	**511**	**415**

9. Debt

	2004	2003
	T€	T€
Short-term:		
Credit Institution		
Current account	757	964
Advance	56	56
Credit Institution, short term	813	1,020
Shareholder (advance)	34	34
Total short term debt	847	1,054
Long-term:		
Credit Institution (advance)	955	1,068
Shareholder (advance)	0	68
Total long-term debt	955	1,136
Total debt	**1,802**	**2,190**

In fiscal year 1999/2000, CeoTronics AG, Rödermark took out two loans amounting to € 1,016 thousand to finance the acquisition of both plots of real estate, including the buildings erected on them, in Rödermark. The loans bear interest at 4.75 % per annum and mature on September 30, 2009. Both plots of real estate have been pledged as collateral to secure these loans. During fiscal year 2003/2004, € 113 thousand of the above-mentioned loan was repaid, with the result that € 621 thousand was still due at the balance sheet date.

In fiscal year 2001/2002, CT-Video GmbH, Rothenschirmbach, took out a loan of € 390 thousand to finance the acquisition of a plot of real estate, the erection of a building, and for investments in operatin equipment. The loan matures on March 31, 2020 and bears interest at 5.25 % per annum. The real estate, including the buildings erected on it, has been pledged as collateral to secure the loan. As contractually agreed, redemption of the loan will commence on September 30, 2005, with the result that the total amount of € 390 thousand was due at the balance sheet date.

The interest expenses for all liabilities to banks amounted to € 112 thousand in 2003/2004 and € 153 thousand in 2002/2003.

The Group can use the following credit facilities for overdrafts
and other short-term loans:

	2004	2003
	T€	T€
Authorized line of credit	1,385	2,057
Drawdown	809	964
Average interest rate (%)	8.75	8.75
Unused lines of credit	576	1,093

The following table shows the due dates for long-term liabilities to banks:

	T€
2004/2005	113
2005/2006	139
2006/2007	139
2007/2008	139
2008/2009	139
Thereafter	342
Total	**1,011**

In fiscal year 2001/2002, the Company took out secured loans totaling € 370 thousand from four members of the Company's Board of Management, who are also shareholders. The interest rate amounts to 7 %; interest and principle payments are due every quarter. One of the four loans was repaid in fiscal year 2002/2003. The remaining loans mature on November 30, 2004.
In fiscal year 2003/2004, € 68 thousand of the total loan amount was repaid.

10. Deferred tax assets and income taxes
Deferred tax assets are short-term and are composed of the following items:

	2004	2003
	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 Rothenschirmbach, Deutschland	778	976
Deferred taxes on the losses carried forward by the CeoTronics Sarl.	202	254
Deferred tax receivable due to elimination of intercompany profits	63	105
Deferred tax receivables, net	**1,323**	**1,615**

The Company already recognized deferred tax assets of € 561 thousand on the American subsidiary's loss carryforward in fiscal years 1997/98, 1998/99, and 1999/2000, which is mandatory under U.S. GAAP if the amounts involved are recoverable, but which is not permitted under the HGB. Due to the net loss of the American subsidiary this year, no further deferred tax assets were recognized on the loss carryforward in fiscal year 2003/2004. The Company has now accumulated a loss carryforward of € 2.7 million.

In fiscal year 2003/2004, CeoTronics restructured the management and sales organization of CeoTronics, Inc., Chesapeake, Virginia, U.S.A. and replaced the president by an experienced sales director. As a result of these measures, the Board of Management is expecting positive results over the next few years against which the tax loss carryforwards can be utilized. Deferred tax assets for the loss carryforward of the American subsidiary totaling € 561 thousand (previous year: € 561 thousand) have been written down by 50% as a precautionary measure.

In fiscal year 2001/2002, the earnings of CeoTronics AG, Rödermark, improved significantly, with the result that utilization of the tax loss carryforward was foreseeable.
CT-Video's earnings continue to remain positive, and utilization of the tax loss carryforward is foreseeable in this case as well. For this reason, the Company has met its obligation in accordance with U.S. GAAP (APB 10, 23; SFAS No. 109) and has recognized deferred tax assets resulting from corporate income tax and trade tax loss carryforwards of € 778 thousand (previous year: € 976 thousand).

The Board of Management had started to restructure the French company CeoTronics Sarl in fiscal year 2001/2002; this was then completed at the beginning of the current fiscal year. The success of the restructuring is reflected by the fact that the French company generated profits in both fiscal year 2002/2003 and fiscal year 2003/2004. For these reasons, it can be assumed that the loss carryforwards can be utilized for tax purposes in the future. The deferred tax assets for the loss carryforward amount to € 202 thousand (previous year: € 254 thousand).

Due to the elimination of intercompany profits, the deferred tax assets amounting to € 42 thousand in fiscal year 2003/2004 and € 34 thousand in the previous year were recognized in the income statement. Other temporary differences between the financial accounts and the tax accounts are also minor. Thus, no deferred tax was recognized for these differences in the year under review or in the previous year.

German corporations are subject to corporate income tax and trade tax. Both are forms of income tax. In Germany, the corporate income tax rate for retained and distributed profits amounts to a standard 25% (plus 5.5% solidarity surcharge) and is thus, the tax rate applicable under U.S. GAAP when calculating deferred tax.

Trade tax in Germany is levied on the Company's taxable income, adjusted by eliminating certain income that is not subject to trade tax and by adding back certain types of expenses that are non-deductible for trade tax purposes. The effective trade tax rate depends on which municipality the Company operates in. The average trade tax rate during the period under review amounted to approximately 15%.

A tax rate of 37% was applied when calculating deferred taxes related to the loss carryforward of CeoTronics, Inc., Chesapeake, Virginia, U.S.A.

The tax expense for fiscal year 2003/2004 of € 408 thousand is based on the positive results of the majority of companies. This led to a reduction in the loss carryforwards due to profits and to the recognition of accrued income tax expenses at individual companies.

Deferred taxes were recognized for timing differences resulting from consolidation adjustments recognized in income. This led to deferred tax assets in the amount of € 63 thousand (previous year: € 105 thousand).

11. Shareholders' equity
The share capital of CeoTronics AG, Rödermark amounts to € 6,599,994 thousand, and is composed of 2,199,998 no-par value shares with a notional value of € 3.00 each.

Contingent capital in accordance with section 192 of the Aktiengesetz (AktG – German Stock Corporation Act)
The resolution by the General Meeting on September 21, 1998, which was recorded in the commercial register on April 16, 1999, authorized the Company's Board of Management to issue a total of up to 50,000 no-par value shares to employees and members of the Company's management or of an affiliate until August 1, 2003, to increase the share capital correspondingly, and to stipulate the details of the grant of stock options and share subscription. Existing shareholders' preemptive rights were disapplied for the issue of these shares.

The corresponding provision of the Articles of Association relating to contingent capital (Article 7 (5) of the Articles of Association) was deleted without replacement by resolution of the General Meeting on November 7, 2003. This was entered into the commercial register on July 28, 2004.

Authorized capital in accordance with section 202 of the AktG
Authorized Capital I:
At the General Meeting on November 16, 2001, the Board of Management was authorized to increase the share capital by issuing up to a total of 529,999 no-par value bearer shares until November 15, 2006, while disapplying shareholders' preemptive rights, against cash or non-cash contributions, and to increase the share capital accordingly.

By resolution of the General Meeting on November 7, 2003, the existing resolutions on Authorized Capital I were cancelled and the Board of Management was authorized, with the approval of the Supervisory Board, to increase the share capital until November 6, 2008 by issuing new bearer shares against cash or non-cash contributions on one or several occasions by a total of up to € 3,299,997, and to issue the corresponding number of no-par value shares. The Board of Management is authorized, with the approval of the Supervisory Board, to disapply the preemptive rights of shareholders for the issue,

- if a total of no more than 10% of the share capital (219,999 shares at present) is issued at an issue price that is not significantly lower than the average share price in floor trading in Frankfurt or a corresponding successor system during the last five trading days before the shares are issued. The maximum possible discount is 5%. The legal basis for the disapplication of preemptive rights is section 186 (3) sentence 4 of the AktG;
- if the capital is increased against non-cash contributions and is utilized to acquire companies, parts of companies, or equity interests in companies.

An action for rescission against the resolution by the General Meeting from November 7, 2003 (Amendment to Article 7(4) of the Articles of Association) 4) is pending. The amendment to the Articles of Association has yet not been entered for this reason.

Authorized Capital II:
By resolution of the General Meeting on August 19, 1998, which was recorded in the commercial register on April 16, 1999, the Company's Board of Management was further authorized to issue a total of up to 30,000 no-par value shares against cash and non-cash contributions to employees or subsidiaries within and outside Germany until August 1, 2003 and to increase the share capital accordingly. Shareholders' preemptive rights are disapplied for the issue of these shares.

In fiscal year 1998/99, the Board of Management exercised its option to increase the share capital by issuing 10,000 no-par value shares to employees.

Authorized Capital II expired with effect from August 1, 2003, with the result that only Authorized Capital existed as of the reporting date.

Treasury shares
The General Meeting on November 11, 1999 authorized the Board of Management to acquire up to 100,000 of the shares issued by CeoTronics AG. In the event of any purchase, the price paid may not exceed or fall below the average share price on the last five trading days by more than 5%. The calculation of the average price is determined on the basis of the closing prices on the Frankfurt Stock Exchange. The shares acquired will be utilized as an acquisition currency to acquire companies or equity interests. However, in accordance with the resolution by the General Meeting, they may also be disposed of under certain circumstances, or called in.

In fiscal years 1999/2000 and 2000/2001, the Company acquired 20,000 treasury shares at an average cost of € 30.70. In accordance with section 215 of the AktG, the number of treasury shares also rose to 40,000 through the issue of bonus shares at a ratio of 1:1. These 40,000 treasury shares have a notional value of € 120 thousand, or 2% of the total share capital.

The treasury shares were carried at cost and reported under shareholders' equity in accordance with U.S. GAAP. In fiscal year 2003/2004, these 40,000 treasury shares were sold at an average price of € 3.75. Additional paid-in capital was reduced in equity by this € 464 thousand difference to € 4,472 thousand. The Company no longer holds any treasury shares.

Legal reserves
The legal reserves of CeoTronics AG are funded in accordance with section 150 (2) of the AktG.

Equity ratio
The equity of the CeoTronics Group amounted to € 10,060 thousand, resulting in an equity ratio of 70.2% as of May 31, 2004.

Dividend distribution
Profit distribution is based on the net income reported in the single-entity financial statements of CeoTronics AG, Rödermark, including any accumulated losses and contributions to, or withdrawals from, reserves (net retained profit/accumulated deficit). These amounts differ from the amounts reported in the consolidated financial statements due to adjustment entries for U.S. GAAP, among other things. The single-entity financial statements of CeoTronics AG report net profit of € 1,008 thousand as of May 31, 2004.

Stock option plans
The Board of Management and the Supervisory Board introduced stock option plans for management and employees in fiscal years 1998/99, 1999/00, 2000/01, and 2003/04. The aim of the plans is to strengthen management and employees' identification with the Company through participation in the Company's success. The Company launched its first stock option plan for management and employees in fiscal year 1998/99. For this purpose, 18,800 of the 50,000 no-par value shares from contingent capital were issued at an option premium of € 2.56 per share. The stock options were issued in full. Each stock option entitles the management member or employee to subscribe for one bearer share of CeoTronics AG carrying voting rights and dividend rights at least 24, and no later than 60, months after the stock option has been granted. On exercising the option, the management member or employee pays the mean value of the bookbuilding range (€ 30.17 to € 34.77) published by the Company at the time of its initial public offering. If the share price index for all shares listed on the "Neuer Markt," published by Deutsche Börse AG, or, in case of the 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 index change. If an optionee leaves the Company prior to exercising their option, the options will expire, and the respective employee may require reimbursement of the option premium from the Company.
As a result of the departure of some of our employees during the past fiscal year, 500 stock options were returned to the Company. The subscribers were permitted to exercise their options in the period between November 5, 2000 and November 4, 2003. No options were exercised during this period due to the unfavorable market price, with the result that the liability for options paid was reversed, resulting in a gain (€ 34 thousand).

The Company launched a second stock option plan for management and employees in fiscal year 1999/2000. For this purpose, a further 14,100 of the 50,000 no-par value shares from contingent capital were issued at an option premium of € 1 per share. The same conditions apply as for the first option plan regarding the entitlement conveyed by each stock option to subscribe for one bearer share carrying voting rights and dividend rights. On exercising the option, the management member or employee pays the average closing price of CeoTronics shares in floor trading at the Frankfurt Stock Exchange and in Xetra trading as of December 22, 1999, less the € 1 paid for the stock option, as the subscription price. If the share price index for all shares listed on the "Neuer Markt," published by Deutsche Börse AG, or, in case of the 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 in both stock option plans will be adjusted by 50% of the relative index change. Subscribers may exercise these options in the period between December 28, 2001 and December 27, 2004. If an optionee leaves the Company prior to exercising their option, the options will expire, and the respective employee may require reimbursement of the option premium from the Company. The employees who left the Company during the past fiscal year returned 1,000 stock options to the Company, with the result that 9,500 stock options from the stock option plan were outstanding as of May 31, 2004.

In fiscal year 2000/2001, the Company launched a third stock option plan for management and employees. Unlike the previous stock option plans, options were not issued on no-par value shares from contingent capital in this case, but on virtual shares (phantom shares) at an option premium of € 1 per option.

Purchase of an option entitles the management and employees to a cash settlement in the amount of the difference between the exercise price and the share price of CeoTronics shares at the time of exercising the option. The exercise price of the shares equalled the average price in the last ten days of trading before December 15, 2000 (€ 10.98). Subscribers may exercise their options in the period between December 4, 2002 and December 3, 2005. However, exercise is subject to the condition that certain profit or share price targets of CeoTronics shares are met. For example, exercise based on share price targets does not become effective until the share price reaches € 35, slightly above the issue price of the shares. If a participant in the plan leaves the Company, the options lapse under certain conditions. The employees who left the Company during the past fiscal year returned 1,800 virtual stock options to the Company, with the result that 13,400 stock options from this plan were outstanding as of May 31, 2004.

In fiscal year 2003/2004, the Company launched a fourth and fifth stock option plan for management and employees. As in the third stock option plan, options were not issued on no-par value shares from contingent capital, but on virtual shares (phantom shares). The stock option premium is € 0.10 per option.

Purchase of an option entitles the management and employees to a cash settlement in the amount of the difference between the exercise price and the share price of CeoTronics shares at the time of exercising the option. The exercise price of the shares in the fourth stock option plan equalled the average price in the last ten days of trading before November 6, 2003 (€ 2.12). Subscribers may exercise their options in the period between October 29, 2005 and October 28, 2008. However, exercise is subject to the condition that certain profit or share price targets of CeoTronics shares are met. If a participant in the stock option plan leaves the Company, the options lapse under certain conditions. 6,000 stock options from this stock option plan were outstanding as of May 31, 2004.

The exercise price of shares in the fifth stock option plan equalled the average price in the last ten days of trading before May 28, 2004 (€ 3.76). Subscribers may exercise their options in the period between May 31, 2006 and May 30, 2009. However, exercise is subject to the condition that certain profit or share price targets of CeoTronics shares are met. If a participant in the stock option plan leaves the Company, the options lapse under certain conditions. 8,000 options from this stock option plan were outstanding as of May 31, 2004. The outstanding options as of May 31, 2004, from the second and third stock option plans could be exercised; however, given the market price, which was significantly lower than the subscription price during the period under review and thereafter until the preparation date of the annual financial statements, this would not have made any sense financially. As a result, no options resulting from these stock option plans either have yet been exercised.
The option premium paid by the employees from the stock option plans totaling € 24 thousand are reported under other liabilities.

The Company has decided to apply with APB No. 25 and the related interpretations to account for its stock option plan. In accordance with APB No. 25, the difference between the subscription price and the expected quoted market price of the shares at the time of exercise is recognized as a personnel expense and is recorded ratably in the consolidated income statement over the course of the option's lifetime. The proportionate expense calculated for the past fiscal year was insignificant, and thus not recognized.

In accordance with SFAS No. 123, pro-forma disclosures regarding net income and earnings per share are necessary, as if the Company had applied the fair value based method of accounting defined in this Statement to its employee stock options. The fair value of the options from the stock option plan is almost zero, based on the circumstances at the balance sheet date.

12. Expenses for research and development and for developing new markets
The CeoTronics Group conducted projects in fiscal year 2003/2004 that may only generate revenues in future periods. In accordance with the applicable U.S. GAAP accounting rules, these costs were recorded in full as an expense in the current period.

Although these projects have had a substantial impact on the Group's earnings in the current fiscal year, the Company assumes that these expenses will be recovered in the foreseeable future due to the significant market potential for the resulting products.

13. Earnings per share
In the past fiscal year, treasury shares were deducted from the total shares issued to calculate the annual average. Due to the sale of all 40,000 treasury shares in fiscal year 2003/2004, the average number of shares outstanding increased correspondingly to 2,163,331.

Stock Option Plan II was taken into account in the calculation of the diluted earnings per share. There is no dilutive effect from this stock option plan in fiscal year 2003/2004, as the subscription price for the shares was in excess of the corresponding quoted market price at all times during the fiscal year. Stock Option Plan I expired in fiscal year 2003/2004 without any options having been exercised.

14. Other operating income
Other operating income mainly includes income from the reversal of accrued expenses of € 311 thousand the sale of assets amounting to € 74 thousand, lapsed stock options amounting to € 34 thousand and a translation gain amounting to € 17 thousand.

15. Other operating expense
The other operating expense mainly includes expenses for a translation adjustment amounting to _26 thousand and other taxes in the amount of € 17 thousand.

16. Personnel expenses
Personnel expenses totaling € 5,669 thousand were incurred in fiscal year 2003/2004. In the past fiscal year, the Company employed 126 permanent employees measured on an average annual basis, of whom 74 were salaried employees and 52 were hourly workers.

17. Executive bodies and related party disclosures

Board of Management
The Board of Management was composed of the following members in fiscal year 2003/2004:

Thomas H. Günther, Businessman, Rödermark	Chairman of the Board of Management
Berthold Hemer, Diplom-Ingenieur, Schaafheim	Deputy Chairmar
Günther Thoma, Technischer Betriebswirt, Schöllkrippen	Member
Bernd Weinel, Diplom-Kaufmann, Groß-Gerau	Member (until 29.08.2003)

In accordance with Article 10 of the Articles of Association, the Company is represented by two members of the Board of Management or one member of the Board of Management and a Prokurist (authorized signatory). The Supervisory Board is authorized to grant the right of sole representation to one member or individual members of the Board of Management and/or exempt this member/these members from the restrictions of section 181 of the Bürgerliches Gesetzbuch (BGB – German Civil Code).

The total remuneration of the Board of Management amounted to € 712 thousand in the year under review.

Supervisory Board

In accordance with Article 11 of the Articles of Association, the Supervisory Board is composed of at least three members who are elected by the General Meeting. In the period under review, the Supervisor Board was composed of:

Hans-Dieter Günther Businessman, Rödermark	Chairman
Horst Schöppner, Diplom-Kaufmann, Rödermark	Deputy Chairman
Stephan Haack, Lawyer, Frankfurt am Main	Member

Mr. Hans-Dieter Günther has been Chairman of the Supervisory Board of Rhein-Main-Factoring AG, Rodgau, since January 12, 2004. There were no further memberships of supervisory bodies as defined by section 125 (1) sentence 3 of the AktG.

In the past fiscal year, the total remuneration for the Supervisory Board amounted to € 34 thousand. Two members of the Supervisory Board receive the above amounts plus value added tax.

Shareholdings of the members of the executive bodies

The members of the executive bodies held the following shares in the Company as of May 31, 2004:

Function	Name	Number of CeoTronics shares (ISIN DE 0005407407/ WKN 540740) in units	Number of options in units
Management Board			
Chairman	Thomas H. Günther	8,998	3,600
Deputy Chairman R&D	Berthold Hemer	212,600	4,000
Member Operations	Günther Thoma	6,022	3,600

Function	Name	Number of CeoTronics shares (ISIN DE 0005407407/ WKN 540740) in units	Number of options in units
Supervisory Board			
Chairman	Hans-Dieter Günther	387,600	0
Deputy Chairman	Horst Schöppner	226,300	0
Member	Stephan Haack	0	0

Other service relationships

The Company rents a factory building in Rödermark from a shareholder. The corresponding lease will expire on March 30, 2008. The annual rent is € 236 thousand and the lease provides an option for a 5-year extension until March 30, 2013.

The same shareholder runs an advertising agency as a sole proprietor. The Company has used its services for placing advertisements amounting to € 44 thousand, and has purchased other services.

The Company rents a parking lot behind its factory building from a shareholder. The corresponding lease will end on March 30, 2008 The annual rent amounts to € 8 thousand and the lease provides an option for a 5-year extension until March 30, 2013.

The same shareholder offers management consultancy services as a sole proprietor and the Company has purchased services in the amount of € 4 thousand.

A member of the Supervisory Board, Stephan Haack, belongs to a law and notary firm to which the Company has paid fees in the fiscal year in the amount of € 10 thousand in line with the appropriate schedules of fees.

18. Information on the Company's subsidiaries

CeoTronics AG holds a direct majority interest in the following companies.
The subsidiaries are therefore affiliates in accordance with section 271 (2) of the HGB.

	Equity Interest	Shareholders' equity	Net income/loss	Currency
CT-Video GmbH, Rothenschirmbach, Germany	100%	752	10	1.000 €
CeoTronics AG, Rotkreuz, Switzerland	100% 100%	437 670	334 519	1.000 € 1.000 CHF
CeoTronics Sarl, Pontault-Combault, France	100%	-485	44	1.000 €
CeoTronics Ltd., Bordon/Hants, UK	100% 100%	355 237	55 38	1.000 € 1.000 GBP
CeoTronics, Inc., Chesapeake, Virginia, USA	100% 100%	895 1,094	-332 -394	1.000 € 1.000 USD
CeoTronics S.L., Madrid, Spain	100%	309	89	1.000 €
AACOM-CeoTronics, Sp. z o.o., Lodz, Poland	75%	44 204	13 62	1.000 € 1.000 PLN

19. Other financial commitments and contingent liabilities

a) Rents and vehicles

As of May 31, 2004, the amounts for rent commitments for buildings and vehicles were as shown below:

for 2004/05	T€ 543
for 2005/06	T€ 455
for 2006/07	T€ 277
for 2007/08	T€ 205
and thereafter	T€ 0.

Total minimum rent payments amount to T€ 1,480.

b) Contingent liabilities, legal disputes, and other obligations

The Board of Management is not aware of any facts that may have a material adverse effect on the Company's business activities, financial situation, or results of operations.

Please refer to the explanations on shareholders' equity for additional information.

20. Segment reporting

The Company measures the success of its subsidiaries on the basis of their income before taxes. The accounting policies applied to regional reporting are identical to those presented in Note 2. The subsidiaries in the individual countries are legally independent and have their own management teams.

The Company's product groups are comparable both with regard to their production process and the marketing methods used. Internal and external reporting follows geographical criteria in the first instance. Currently only revenues are broken down by product and product group. Please refer to the explanations in the Group management report with regard to revenues by product and product group.

The information below is presented by region.

Revenues are broken down by region in fiscal years 2003/2004 and 2002/2003 as follows
(by country of origin):

	Fiscal Year 2003/2004	Fiscal Year 2002/2003
	T€	T€
Germany	11,503	10,760
Rest of Europe and rest of the world	7,002	4,615
Subtotal	18,505	15,375
Elimination of intercompany trade and services	-4,937	-3,009
External revenues	13,568	12,366

Net income in fiscal years 2003/2004 and 2002/2003 is broken down by region as follows:

	Fiscal Year 2003/2004	Fiscal Year 2002/2003
	T€	T€
Germany	177	395
Rest of Europe and rest of the world	98	128
Subtotal	275	523
Consolidation entries	41	-1,090
Consolidated net income	316	-567

Total assets are broken down by region as of May 31, 2004 and May 31, 2003 as follows:

	Fiscal Year 2003/2004	Fiscal Year 2002/2003
	T€	T€
Germany	16,952	17,148
Rest of Europe and rest of the world	5,410	5,642
Subtotal	22,362	22,790
Consolidation entries	-8,034	-9,177
Total assets	14,328	13,613

Noncurrent assets are broken by region as of May 31, 2004 and May 31, 2003 as follows:

	Fiscal Year 2003/2004	Fiscal Year 2002/2003
	T€	T€
Germany	3,274	3,296
Rest of Europe and rest of the world	1,612	1,818
Total noncurrent assets	4,886	5,114

Investments are broken down in fiscal years 2003/2004 and 2002/2003 by region as follows:

	Fiscal Year 2003/2004	Fiscal Year 2002/2003
	T€	T€
Germany	383	432
Rest of Europe and rest of the world	19	20
Total Investments	402	452

CeoTronics
Audio · Video · Data Communication

Auditors` Report

Auditors' report on the consolidated financial statements of CeoTronics Aktiengesellschaft Audio · Video · Data Communication, Rödermark, as of May 31, 2004

We have audited the consolidated financial statements, comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of shareholders' equity, the consolidated cash flow statement, the notes to the consolidated financial statements, and the consolidated statement of changes in noncurrent assets prepared by CeoTronics Aktiengesellschaft Audio · Video · Data Communication for the fiscal year June 1, 2003 to May 31, 2004. The preparation and the content of the consolidated financial statements are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion whether the consolidated financial statements are in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP) based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing requirements and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) as well as in accordance with the International Standards on Auditing (ISAs). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of the audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined predominantly on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations, and cash flows of the Group for the fiscal year in accordance with U.S. GAAP. Our audit, which also extends to the Group management report prepared by the Board of Management for the fiscal year June 1, 2003 to May 31, 2004, has not led to any reservations. In our opinion, on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development.

In addition, we confirm that the consolidated financial statements and the group management report or the fiscal year June 1, 2003 to May 31, 2004 satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and the group management report in accordance with German law.

Eschborn, August 11, 2004

UWP Unitreu GmbH
Wirtschaftsprüfungsgesellschaft

Stefan Sauerbier
Wirtschaftsprüfer

Wolfgang Schimm
Wirtschaftsprüfer

UWP Unitreu GmbH Wirtschaftsprüfungsgesellschaft
WIRTSCHAFTS-PRÜFUNGS-GESELLSCHAFT
ESCHBORN

KEEP YOUR SENSES OPEN

CeoTronics AG Germany

Audio · Video · Data Communication

CeoTronics AG Balance Sheet

The balance sheet and income statement of CeoTronics AG, Rödermark were prepared in accordance with the Handelsgesetzbuch (HGB – German Commercial Code) and are presented in condensed form below.

Assets	May 31, 2004	May 31, 2003
	T€	T€
Intangible assets	192	201
Property, plant and equipment	2,390	2,465
Investments and long-term financial assets	5,283	5,739
Non-current assets	**7,865**	**8,405**
Inventories	2,862	2,716
Trade receivable	1,080	702
Receivables from affiliated companies	2,859	2,781
Other assets	164	160
Securities	0	62
Cash and cash equivalents	23	17
Current assets	**6,988**	**6,438**
Total assets	**14,853**	**14,843**

Equity & Liabilities	May 31, 2004	May 31, 2003
	T€	T€
Subscribed capital	6,600	6,600
Paid-in-capital	4,181	4,181
Capital reserve	15	78
Retained earnings/accumulated deficit	1,008	582
Equity	**11,804**	**11,441**
Accrued tax liabilities	119	119
Other accruals	324	553
Accruals	**443**	**672**
Liabilities to banks	1,157	1,440
Advances received	2	11
Trade liabilities	953	192
Liabilities to affiliated companies	223	689
Other liabilities	271	398
Liabilities	**2,606**	**2,730**
Total liabilities and equity	**14,853**	**14,843**

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CeoTronics AG Income Statement

Profit and Loss Account	2003/2004	2002/2003
	T€	T€
Revenues	**10,251**	**9,338**
Cost of revenues	-5,823	-5,161
Gross profit	**4,428**	**4,177**
Expenses for research and development	-778	-850
Sales and marketing expenses	-2,678	-2,690
General administrative expenses	-1,006	-1,204
Other operating expenses	-65	-54
Other taxes	-4	-4
Operating expenses	**-4,531**	**-4,802**
Other operating income	540	185
BOperating result (E.B.I.T.)	**437**	**-440**
Interests and Income from investments/participations	-73	860
Income before income taxes	**364**	**420**
Income taxes	0	2
Group net income/loss	**364**	**422**
Profits/losses carried forward from the previous year	582	131
Withdrawals from capital reserves	0	0
from the reserve for treasury shares	62	29
Distributable profit	**1,008**	**582**

Report by the Supervisory Board

The Supervisory Board held five joint meetings in the period under review.

The Supervisory Board kept itself regularly informed on the Group's development during these meetings, from written reports by the Board of Management, and in individual meetings with members of the Board of Management.

The Supervisory Board also addressed the topic of risk management according to the Gesetz über Kontrolle und Transparenz im Unternehmensbereich (KonTraG - German Act on Control and Transparency in Business). Discussions with the Board of Management focused especially on the expanded control duties of the Supervisory Board and the revised version of the risk manual.

At several meetings, the Supervisory Board held detailed discussions on the Corporate Governance Code for listed companies, in particular the declaration of conformity according to section 161 of the Aktiengesetz (AktG – German Public Companies Act). Corresponding resolutions were adopted in concert with the Board of Management.

The Supervisory Board did not establish any committees in the period under review. The annual financial statements of CeoTronics AG and the consolidated financial statements as of May 31, 2004, including the relevant management reports together with the accounting records, were audited by UWP Unitreu GmbH, Wirtschaftsprüfungsgesellschaft, Eschborn and issued with an unqualified audit opinion. The Supervisory Board received these documents including the auditors' report on August 13, 2004. They were examined by the Supervisory Board and discussed in the presence of the auditors on August 18, 2004. The Supervisory Board concurred with the auditors' findings, and, upon completion of its own examination, approved the auditors' report without any objections. At the meeting on August 18, 2004 it duly approved the consolidated financial statements in accordance with U.S. GAAP, and the annual financial statement of CeoTronics AG according to the Handelsgesetzbuch (HGB – German Commercial Code) as of May 31, 2004 , which are thus adopted.

The Supervisory Board endorses the proposal of the Management Board to recommend to the General Meeting to distribute part of the profit reported at the parent company as a dividend and to carry the remainder forward to the new financial year to strengthen the Company's financial resources.

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

Rödermark, August 18, 2004

The Supervisory Board

Hans-Dieter Günther
Chairman

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Executive Bodies

Supervisory Board:

Hans-Dieter Günther Businessmann, Rödermark	Chairman
Horst Schöppner, Diplom-Kaufmann, Rödermark	Deputy Chairman
Stephan Haack, Lawyer, Frankfurt am Main	Member

Board of Management:

Thomas H. Günther, Businessman, Rödermark	Chairman
Berthold Hemer, Diplom-Ingenieur, Schaafheim	Deputy Chairman
Günther Thoma, Technischer Betriebswirt, Schöllkrippen	Member

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CeoTronics AG Financial Calendar

Quarterly report I as of August 31, 2004 (press release)	October 15, 2004
General Meeting 2004	November 5, 2004
Quarterly report II as of November 30, 2004 (press release)	January 14, 2005
Quarterly report III as of February 28, 2005 (press release)	April 14, 2005
End of fiscal year 2004/2005	May 31, 2005
Annual earnings press conference in Rödermark	August 31, 2005
Analyst meeting in Rödermark	August 31, 2005
Quarterly report I as of August 31, 2005 (press release)	October 14, 2005
General Meeting 2005 in Rödermark	November 4, 2005

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Success and Transparency Create Trust

CeoTronics was one of the first German companies to implement the German Corporate Governance Code, introduce a risk management system, and be admitted to the Prime Standard.

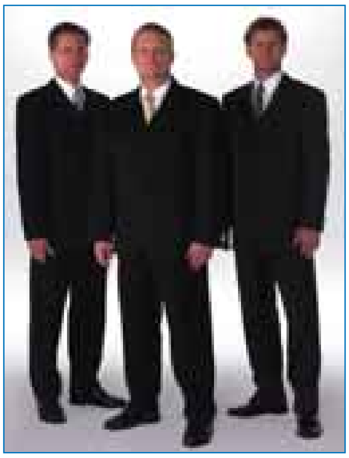
We are known for our

- timely,
- transparent,
- accurate, and
- honest

investor relations activities.

Our shareholders as well as interested investors can receive information about CeoTronics in various ways:

- quarterly and annual reports
- ad hoc disclosures archived on the internet
- our website containing all of our brochures and information on new products and successful sales stories
- corporate news articles
- directors' dealings disclosures
- advertisements in specialized periodicals
- participation at trade fairs
- press releases in specialized periodicals and daily newspapers



(from left to right)
Berthold Hemer (CTO),
Thomas H. Günther (CEO),
Günter Thoma (COO)

In addition, the Board of Management is available to provide information by phone, fax, or e-mail at: vorstand@ceotronics.com.

Backed by the substantially improved revenue and earnings figures and the overall positive Group development, we have renewed the trust of our shareholders and created the basis for share price growth.

CeoTronics – Prime Performance!

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