



1. Business Report

Ladies and Gentlemen,
Dear Shareholders,

It appears that the risk of deflation and negative economic growth that hovered over Germany in the second quarter of the period under review (September 1 to November 30, 2003) has been overcome. The green shoots of economic recovery across Europe may still be menaced by political mismanagement, banking crises, terrorism, war, and global disease, but we hope that Europe and the world will remain largely untouched by these threats.

In the second quarter of fiscal year 2003/2004, CeoTronics noted that many industrial customers were again planning to invest due to growing capacity utilization, and in the final weeks of the second quarter, we recorded a rise in new orders for our industrial communication systems.

Although the budgetary situation at government law enforcement agencies is only likely to experience sustained recovery somewhat later than economic growth on the back of higher tax revenue and lower unemployment costs, CeoTronics noted an appreciable rise in new foreign orders from this key customer group as early as the beginning of the second quarter. This was further proof that even in times of tight budgets, urgently needed investments are being made in CeoTronics' special-purpose civil and military communications technology.

Consolidated revenues in the first half of 2003/2004 fell by 5.9% year-on-year from € 6,309 thousand to € 5,935 thousand. At November 30, 2003, however, the order backlog in the CeoTronics Group was up by more than 58% year-on-year. This is an early pointer towards a positive outlook for future revenue growth.

The overall relatively high order backlog in the CeoTronics Group has exceeded our expectations, and is divided between normal contract volumes and a number of large projects. The agreed batch sizes and delivery dates match our production capacities at three locations, fit the time requirements for perfect quality assurance, and support our goals for fiscal year 2003/2004 as a whole.

Because of the difficult economic environment and the extremely strained budgetary situation at German public customers, CeoTronics Germany recorded a 8.6% drop in revenues.

By contrast, CeoTronics grew revenues in the U.S. by more than 31% year-on-year in dollar terms. The order backlog (also expressed in dollars) rose by 46%.

CeoTronics continued the positive development in France, where it generated revenue growth approaching 107% and a 419% hike in the order backlog.

During the period under review, CeoTronics Switzerland recorded revenue growth (in CHF) in excess of 45%.

AACOM-CeoTronics in Poland grew revenues (in PLN) by 119%.

Revenue at CT-Video (Saxony-Anhalt) from video camera/radio products remained stable.

CeoTronics recorded a decline in revenue of approximately 17% in Spain and the United Kingdom, although the order backlog in Spain grew by 41%.

The positive trend in key earnings indicators in the first quarter of 2003/2004 not only continued, but actually accelerated after the first six months of fiscal year 2003/2004.

2003/2004

Consolidated interim report CeoTronics AG for the first half year

Despite the exceptionally high costs of workforce restructuring recorded in the first quarter of fiscal year 2003/2004, the CeoTronics Group improved EBITDA (Earnings before Interest, Taxes, Depreciation, and goodwill Amortization/impairment) by € 33 thousand, from € 168 thousand to € 201 thousand.

EBIT improved by € 126 thousand year-on-year, from € -138 thousand to € -14 thousand. The net loss after taxes decreased by € 161 thousand, from € -257 thousand in the year-ago period to € -96 thousand. Gross cash flow improved by € 85 thousand in the period under review, from € 49 thousand to € 134 thousand.

Despite the temporary drop in consolidated revenue, the reasons for the improvement in these key earnings indicators include the optimization of cost structures in the CeoTronics Group. It is also important to note that the second half, from December 1 to May 31, is traditionally stronger at CeoTronics than the first half (June 1 to November 30).

The other consolidated figures (U.S. GAAP, unaudited) for the first six months of fiscal year 2003/2004 changed as follows on a year-on-year basis:

Sales	-5.93 %
Cost of sales	-5.65 %
Research & Development expenses	-10.32 %
Selling expenses	1.57 %
General and administrative expenses	-15.49 %

The rise in the cost of revenues stabilized during the course of the second quarter of 2003/2004. Investments in digital radio communication for the CT-DECT product group have now been completed. This fact had a clearly positive effect on research and development cost trends. Despite further cost-cutting in R&D, we were able to complete a large number of modifications and new developments, and to launch promising new projects. Thanks to these innovative products and systems offering pronounced USPs, we will maintain our technology lead and capture market share.

Strict cost discipline enabled the increase in marketing and sales expenses to be capped, although we invested in the development of new marketing structures in the U.S. and France, as announced in our report on the first quarter, and the budgeted costs for the launch of new products and systems also affected the development of these costs.

General and administrative expenses fell by 15.5%, although the one-time costs of the workforce restructuring had impacted these functional costs in particular in the first quarter.

The number of employees in the Group at November 30, 2003 fell to 124 (November 30, 2002: 126), although we expanded the sales forces in France and the U.S. and took over apprentices.

The price of CeoTronics shares recorded positive growth of over 31% during the period under review (June 1 to November 30, 2003), and their liquidity has increased appreciably since the bonus share issue. Unfortunately, though, there has been no change yet in the extreme under-valuation due to the general reluctance by investors to return to the stock market.

In light of the macroeconomic environment, the Board of Management is satisfied with the results of operations, and believes that revenues in excess of € 13 million and earnings in the positive lower six-digit range will be achieved as of May 31, 2004 due to

- the high order backlog (at January 9, 2004: +268%),
- the high level of offer volumes,
- the tenders that will soon be awarded,
- the marketing campaign for new products and systems, and
- the recovering European economy.

CeoTronics – Success Through Innovation!

CeoTronics AG



Thomas Hans Günther
Chairman of the Board of Management



Berthold Hemer
Deputy Chairman
Research & Development

Rödermark, January 14, 2004

2. Balance Sheet (according to US-GAAP)

Assets	Quarterly Report (Date of current quarter) November 30, 2003	Annual Report (Date of last annual report) May 31, 2003
	T€	T€
Current Assets		
Cash and cash equivalents	284	527
Short-term investments/marketable securities	0	0
Trade accounts receivable	2,949	2,231
Accounts receivable due from related parties	0	0
Inventories	3,952	3,766
Deferred tax	1,610	1,615
Prepaid expenses and other current assets	373	360
Total current assets	9,168	8,499
Non-current assets		
Property, plant and equipment	3,447	3,434
Intangible assets	108	112
Goodwill	1,529	1,550
Participations	0	0
Investments	16	18
Investments accounted for by the equity method	0	0
Deferred tax	0	0
Total non-current assets	5,100	5,114
Total assets	14,268	13,613

Liabilities and shareholders' equity	Quarterly Report (Date of current quarter) November 30, 2003	Annual Report (Date of last annual report) 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	1,220	1,054
Trade accounts payable	1,165	374
Accounts payable due to related parties	0	0
Advance payments received	0	11
Accrued expenses	341	415
Deferred revenues	0	0
Income tax payable	464	451
Deferred tax	0	0
Other current liabilities	518	529
Total current liabilities	3,708	2,834
Non-current liabilities		
Long-term debt, less current portion	1,040	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	1,040	1,136
Minority interest	26	24
Shareholders' equity		
Share capital	6,600	6,600
Additional paid-in capital	4,935	4,935
Treasury stock	-614	-614
Retained earning/accumulated deficit	-1,408	-1,312
Accumulated other comprehensive income/loss	-19	10
Total shareholders' equity	9,494	9,619
Total liabilities and shareholders' equity	14,268	13,613

3. Income Statement

Income Statement (according to US-GAAP)	Quarterly Report (current quarter) Sep. 1, 2003- Nov. 30, 2003	Quarterly Report (comparative quarter previous year) Sep. 1, 2002- Nov. 30, 2002	Quarterly Report (current year to date) June 1, 2003- Nov. 30, 2003	Quarterly Report (comparative period previous year) June 1, 2002- Nov. 30, 2002
	T€	T€	T€	T€
Revenues	3,384	3,818	5,935	6,309
Cost of revenues	-1,513	-1,904	-2,987	-3,166
Gross profit/loss	1,871	1,914	2,948	3,143
Selling and marketing expenses	-980	-976	-1,808	-1,780
General and administrative expenses	-340	-521	-763	-904
Research and development expenses	-202	-247	-417	-465
Other operating income and expenses	-110	-17	26	-80
Amortization (and impairment) of goodwill	0	-28	0	-52
Operating income/loss (E.B.I.T.)	239	125	-14	-138
Interest income and expenses	-28	-37	-49	-64
Income from investments and participations	0	0	0	0
Income/expense from investments accounted for by the equity method	0	0	0	0
Foreign currency exchange gains/losses	0	0	0	0
Other income/expenses	0	0	0	0
Result before income tax (and minority interest)	211	88	-63	-202
Income tax	-36	-32	-33	-57
Extraordinary income/expenses	0	0	0	0
Result before minority interest	175	56	-96	-259
Minority interest	0	1	0	2
Net income/loss	175	57	-96	-257
Net income per share (basic) in EUR*	0.08	0.03	-0.04	-0.12
Net income per share (diluted) in EUR*	0.08	0.03	-0.04	-0.12
Weighted average shares outstanding (basic)*	2,159,998	2,159,998	2,159,998	2,159,998
Weighted average shares outstanding (diluted)*	2,159,998	2,159,998	2,159,998	2,159,998

* The total number of shares doubled through the issue of bonus shares as of February 3, 2003.
To enhance the comparability of the prior-period figures, the number of shares outstanding for the prior period was adjusted accordingly.

4. Consolidated Cash Flow Statement

Cash Flow Statement	Quarterly Report (current year to date) June 1, 2003 - Nov. 30, 2003	Quarterly Report (comparative period previous year) June 1, 2002 - Nov. 30, 2002
	T€	T€
Cash flow from operating activities		
Net income before tax	-63	-202
Income tax	-33	-57
Net income after tax and after earnings	-96	-259
Minority interest	0	2
Net income after tax and after minority interest	-96	-257
Depreciation	230	306
Subtotal	134	49
Changes in assets and liabilities		
Change in trade accounts receivable	-717	90
Change in inventories	-186	-253
Change in prepaid expenses and other current assets	-14	-384
Change in trade accounts payable	790	-111
Change in advanced payments received	-11	-1
Change in other accruals	-74	-173
Change in corporate tax liabilities	13	15
Change in other liabilities	-10	424
Change in asset-side adjustment for deferred tax	5	13
Total changes	-204	-380
Net cash provided by operating activities	-70	-331
Cash flow from investing activities		
Investments in intangible assets	-20	-178
Investments in fixed assets	-217	-77
Changes in other assets and prepaid expenses	2	0
Investments in participations	0	138
Change in foreign currency differences	18	91
Disposal of assets (net book value)	0	0
Net cash used in investing activities	-217	-26
Cash flow from financing activities		
Change in short-term debt and current portion of long-term debt	132	-177
Change in minority interest	2	24
Change in middle and long-term debt	-61	493
Change in common stock	0	0
Change in additional paid in capital	0	0
Net cash provided by financing activities	73	340
Change in cash and cash equivalents	-214	-17
Net effect of currency translation in cash and cash equivalents	-29	-122
Cash and cash equivalents at beginning of period	527	851
Cash and cash equivalents at end of period	284	712

5. Statement of Shareholders' Equity

	Capital stock	Treasury stock	Capital reserve	Revenue reserve	Retained earnings	Currency translation	Comprehensive income	Shareholders' equity
	T€	T€	T€	T€	T€	T€	T€	T€
As of May 31, 2003	6,600	-614	4,935	70	-1,382	10		9,619
Consolidated net loss					-96		-96	-96
Currency translation differences in the period						-29	-29	-29
Comprehensive income							-125	0
As of November 30, 2003	6,600	-614	4,935	70	-1,478	-19		9,494

The equity ratio at November 30, 2003 was 66.5%. Material changes in equity and the stock option plans compared with the previous quarter were as follows:

Stock Option Plan I from FY 98/99 expired on November 5, 2003. The remaining 13,200 DM 5.00 options with a value of DM 66,000.00 (= € 33,745.26) were recognized as other income in the income statement.

6. Segment Reporting

The company measures the success of its subsidiaries by measuring their net income. The accounting and reporting principles used for regional reporting are according to the group accounting rules. 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 market development methods used. Internal and external reporting follows geographical criteria in the first instance.

The information below is presented by region.

Net sales for the first half year 2003/2004 and 2002/2003 are broken down by region as follows:

	First half year 2003/2004	First half year 2002/2003
	T€	T€
Germany	2,101	3,218
Rest of Europe and rest of world	5,870	4,561
Subtotal	7,971	7,779
Elimination of intercompany trade	-2,036	-1,470
External revenues	5,935	6,309

Net income for the first half year 2003/2004 and 2002/2003 is broken down by region as follows:

	First half year 2003/2004	First half year 2002/2003
	T€	T€
Germany	-21	67
Rest of Europe and rest of world	29	-92
Subtotal	8	-25
Consolidation entries	-104	-232
Consolidated net income	-96	-257

Total assets as of November 30, 2003 and November 30, 2002 are broken down by region as follows:

	As of Nov. 30, 2003	As of Nov. 30, 2002
	T€	T€
Germany	17,322	17,806
Rest of Europe and rest of world	5,563	5,864
Subtotal	22,885	23,670
Consolidation entries	-8,617	-8,443
Consolidated total assets	14,268	15,227

Total non-current assets as of November 30, 2003 and November 30, 2002 are broken down by region as follows:

	As of Nov. 30, 2003	As of Nov. 30, 2002
	T€	T€
Germany	3,314	3,406
Rest of Europe and rest of world	1,786	2,020
Non-current assets (total)	5,100	5,426

Capital expenditure for the first half year 2003/2004 and 2002/2003 is broken down by region as follows:

	First half year 2003/2004	First half year 2002/2003
	T€	T€
Germany	227	247
Rest of Europe and rest of world	10	8
Capital expenditure (total)	237	255

7. Reportable Security Portofolio

Reportable Security Portofolio as of November 30, 2003		CeoTronics Shares (ISIN DE0005407407) per pcs.	Stock options per pcs.
Board of Management			
Chairman	Thomas Günther	7,998	6,000
Deputy Chairman, Senior-Vice President R&D	Berthold Hemer	212,600	7,000
Vice President Operations	Günther Thoma	5,522	6,000
Vice President Finance/Human Resources (until Sep. 30, 2003)	Bernd Weinel	0	0
Supervisory Board			
Chairman	Hans-Dieter Günther	387,600	0
Deputy Chairman	Horst Schöppner	226,300	0
Member of Supervisory Board	Stephan Haack	0	0
CeoTronics AG			
Treasury Stock		40,000	0

The total number of shares amounted to 2,199,998 as of November 30, 2003

No dividends were paid during the reporting period.

8. CeoTronics Shares



9. Changes in the Scope of Consolidation

The scope of consolidation now consists of the following companies:

CeoTronics AG, Rotkreuz, Switzerland,
CeoTronics Sarl, Pontault-Combault, France,
CeoTronics Ltd., Bordon/Hants, Great Britain,
CeoTronics, Inc., Chesapeake, Virginia, USA,
CeoTronics S.L., Madrid, Spain,
CT-Video GmbH, Rothenschirmbach, Germany,
AACOM-CeoTronics Ltd., Lodz, Poland.

Subsidiaries in which the parent company indirectly holds the majority of shares, and hence of the voting rights, are consolidated in accordance with the principles of capital consolidation according to US-GAAP.

The minority interests of 25% in AACOM-CeoTronics Ltd., Lodz/Poland, is taken into account in the way, that the minority interests and the effects resulting from it are listed openly in the liability side of the Balance Sheet, in the Income Statement and in the Cash Flow Statement.

10. Changes in the Company's Executive Bodies

At the beginning of the second quarter of 2003/2004, Board responsibility for Finance/Administration/Human Resources was assumed by the CEO, who delegated most of the tasks to the proven second-level departmental managers. There are no plans to recruit a new CFO to the Board of Management.

11. News from the Group

CeoTronics, more than just Audio · Video · Data Communication!

Over the past few months, CeoTronics successfully developed an noise/eye protection hood and an innovative heavy-duty noise protection helmet. Both helmets have now been equipped with CeoTronics communication systems and successfully launched on the market. In addition, there is growing demand for CeoTronics to act as a systems supplier that not only develops, markets and installs communication systems for ballistic (bulletproof) helmets and police motorcycle helmets, but also supplies these helmets themselves as a component of a one-stop service offering.

Even in complex projects, our customers still demand the high level of systems consulting expertise and the outstanding customer service that they have come to expect from CeoTronics. The evaluation of our 2003 customer survey shows that we are recommended by over 95% of all customers, and they rate us an average 2.05 for all performance criteria on a scale running from 1 (best) to 6 (worst). We are proud of this result, and it is an incentive to us to further increase this high level of customer satisfaction.

We will continue to further develop the product portfolio to meet the needs of the market, with a constant focus on our customers, expertise, capacity, and market access.

In the near future, we will also initiate the market launch and production of the new CT-CombatCom Headset, which has already met with a positive response from government law enforcement agencies.

The new digital systems, the large number of new analog products, and the proven products and systems underscore CeoTronics' global market and technology lead, and will help us further extend our market share in the priority markets despite the stiff competition.

 **CeoTronics**
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