



## 1. Business Report

Ladies and Gentlemen,  
Dear Shareholders,

The figures as of November 30, 2004 represent the CeoTronics Group's best half-yearly result since its 1998 IPO and hence since the start of its interim reporting.

International consolidated revenues increased by 45.9 % year-on-year.

This unusually high level of revenue growth is due to the delivery and invoicing of the largest single order in CeoTronics' history. The Company supplied digital communication systems based on its CT-DECT civil technology worth €1.92 million. The systems meet the German Air Force's high standards for this specialized military application, and are also compatible with the recently purchased CT noise protection/communication helmets for handling jets such as the Eurofighter.

Even without the completion of this major order, however, CeoTronics would have generated double-digit growth in consolidated revenues.

The order backlog as of November 30, 2004 remained again at a high level, and at 18.3 % was significantly up on the previous year.

CeoTronics increased its revenues in Germany, Spain, Poland, France, and the rest of Europe, in some cases recording extremely significant growth. In Switzerland, revenues were down only very slightly on the prior-year level. Revenues in the U.S.A., the U.K., and the rest of the world fell once again; with the exception of the U.S.A., however, this decline was slight.

Unfortunately, the prolonged fall in the US dollar is now having a negative impact on business development in the U.S. Similarly, the lack of a decisive improvement in political relations between the U.S. and German governments does not exactly benefit sales by a German-owned company in the U.S.A.

We were forced to revise our revenue and earnings targets in the U.S. for fiscal year 2004/2005. Accordingly, in line with the principles of prudent business practice, the value of the equity interest in CeoTronics, Inc. U.S.A. recognized in the balance sheet of the parent company was reduced by €500 thousand, while receivables from the subsidiary were written down by €100 thousand.

# 2004/2005

Consolidated interim report CeoTronics AG for the first half year

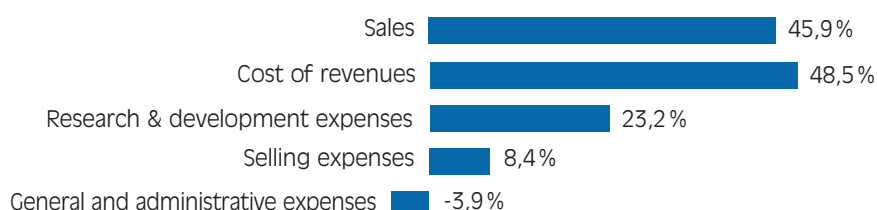
EBITDA (Earnings before Interest, Taxes, Depreciation and goodwill Amortization/ impairment) rose by €995 thousand year-on-year, from €216 thousand in H1 2003/2004 to €1,211 thousand. EBIT increased over the same period by €1,030 thousand, from €-14 thousand to €1,016 thousand.

After a net loss of €-96 thousand in the previous year, net income for H1 2004/2005 amounted to €595 thousand, an improvement of €691 thousand.

Gross cash flow improved by €656 thousand year-on-year, from €134 thousand in the previous year to €790 thousand in the period under review.

The equity ratio, which has substantially outperformed the German industry average of around 18,0% for many years, increased from 66.5% to 70.0%.

The consolidated key figures (U.S. GAAP, unaudited) for the first six months of fiscal year 2004/2005 were as follows:



The figure for the cost of revenues remained nearly stable despite write-downs of inventories in the amount of €200 thousand.

The rise in research and development costs is due among other things to increased staff capacity and higher material and testing costs.

Marketing and sales expenses grew on the back of increased sales and marketing activities.

Administrative expenses were reduced once again.

The number of employees in the Group as of November 30, 2004 fell to 123 (November 30, 2003: 124).

In the period under review, the price of CeoTronics shares increased by a further 44.1%, thus clearly bucking the negative trend on the TECDAX and the only slight recovery on the DAX.

CeoTronics shares have also outperformed the Technology All Share performance index since their first inclusion on September 1, 2004, recording growth of 16.7% compared with 9.6%.

The Board of Management is satisfied with the half-yearly results, particularly in light of the macroeconomic environment and the necessary write-downs, and believes that the Group's targets for fiscal year 2004/2005 – revenues of around €15,500 thousand and earnings of around €1,000 thousand – are well within reach.

The Board of Management

Thomas H. Günther  
Chairman of the Board of Management

Berthold Hemer  
Deputy Chairman  
Vice-President Research & Development

Rödermark, January 14, 2005

## 2. Balance Sheet (US GAAP)

Assets	Quarterly Report (closing date of current quarter) November 30, 2004	Annual Report (closing date of last annual report) May 31, 2004
	€thousand	€thousand
<b>Current assets</b>		
Cash and cash equivalents	674	370
Short-term investments/marketable securities	0	0
Trade accounts receivable	4,176	3,458
Accounts receivable due from related parties	0	0
Inventories	3,898	3,910
Deferred tax	1,015	1,323
Prepaid expenses and other current assets	294	381
<b>Total current assets</b>	<b>10,057</b>	<b>9,442</b>
<b>Non-current assets</b>		
Property, plant, and equipment	3,113	3,231
Intangible assets	114	130
Goodwill	1,430	1,510
Participations	0	0
Investments	16	15
Investments accounted for by the equity method	0	0
Deferred tax	0	0
<b>Total non-current assets</b>	<b>4,673</b>	<b>4,886</b>
<b>Total assets</b>	<b>14,730</b>	<b>14,328</b>

Liabilities and shareholders' equity	Quarterly Report (closing date of current quarter) November 30, 2004	Annual Report (closing date of last annual report) May 31, 2004
	€thousand	€thousand
<b>Current liabilities</b>		
Current portion of capital lease obligation	0	0
Short-term debt and current portion of long-term debt	980	847
Trade accounts payable	915	1,152
Accounts payable due to related parties	0	0
Advance payments received	0	2
Accrued expenses	498	511
Deferred revenues	0	0
Income tax payable	252	208
Deferred tax	0	0
Other current liabilities	849	564
<b>Total current liabilities</b>	<b>3,494</b>	<b>3,284</b>
<b>Non-current liabilities</b>		
Long-term debt, less current portion	899	955
Capital lease obligations, less current portion	0	0
Deferred revenues	0	0
Deferred tax	0	0
Pension accrual	0	0
<b>Total non-current liabilities</b>	<b>899</b>	<b>955</b>
<b>Minority interest</b>	<b>30</b>	<b>29</b>
<b>Shareholders' equity</b>		
Share capital	6,600	6,600
Additional paid-in capital	4,471	4,471
Retained earning/accumulated deficit	-688	-997
Accumulated other comprehensive income/loss	-76	14
<b>Total shareholders' equity</b>	<b>10,307</b>	<b>10,060</b>
<b>Total liabilities and shareholders' equity</b>	<b>14,730</b>	<b>14,328</b>

### 3. Income Statement

Income Statement (US GAAP)	Quarterly Report (current quarter)  Sep. 1, 2004- Nov. 30, 2004	Quarterly Report (comparative quarter previous year) Sep. 1, 2003- Nov. 30, 2003	Quarterly Report (current year to date) June 1, 2004- Nov. 30, 2004	Quarterly Report (comparative period previous year) June 1, 2003- Nov. 30, 2003
	€thousand	€thousand	€thousand	€thousand
<b>Revenues</b>	<b>5,861</b>	<b>3,384</b>	<b>8,660</b>	<b>5,935</b>
Cost of revenues	-3,066	-1,513	-4,436	-2,987
<b>Gross profit/loss</b>	<b>2,795</b>	<b>1,871</b>	<b>4,224</b>	<b>2,948</b>
Selling and marketing expenses	-1,091	-980	-1,959	-1,808
General and administrative expenses	-422	-340	-732	-763
Research and development expenses	-304	-202	-514	-417
Other operating income and expenses	-19	-110	-3	26
Amortization (and impairment) of goodwill	0	0	0	0
<b>Operating income/loss (EBIT)</b>	<b>959</b>	<b>239</b>	<b>1,016</b>	<b>-14</b>
Interest income and expenses	-24	-28	-34	-49
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
<b>Net income/loss before income tax (and minority interest)</b>	<b>935</b>	<b>211</b>	<b>982</b>	<b>-63</b>
Income tax	-345	-36	-383	-33
Extraordinary income/expenses	0	0	0	0
<b>Result before minority interest</b>	<b>590</b>	<b>175</b>	<b>599</b>	<b>-96</b>
Minority interest	-6	0	-4	0
<b>Net income/loss</b>	<b>584</b>	<b>175</b>	<b>595</b>	<b>-96</b>
Net income per share (basic) in €	0.27	0.08	0.27	-0.04
Net income per share (diluted) in €	0.27	0.08	0.27	-0.04
Weighted average shares outstanding (basic)	2,199,998	2,159,998	2,199,998	2,159,998
Weighted average shares outstanding (diluted)	2,199,998	2,159,998	2,199,998	2,159,998

## 4. Consolidated Cash Flow Statement

Cash Flow Statement	Year-to-date (current fiscal year) June 1, 2004-November 30, 2004	Year-to-date (comparative period of previous year) June 1, 2003-November 30, 2003
	€thousand	€thousand
<b>Cash flow from operating activities</b>		
Net income before tax	982	-63
Income tax	-383	-33
<b>Net income after tax before minority interest</b>	<b>599</b>	<b>-96</b>
Minority interest	-4	0
<b>Net income after tax and after minority interest</b>	<b>595</b>	<b>-96</b>
Depreciation	195	230
<b>Subtotal</b>	<b>790</b>	<b>134</b>
<b>Changes in assets and liabilities</b>		
Change in trade accounts receivable	-718	-717
Change in inventories	12	-186
Change in prepaid expenses and other current assets	87	-14
Change in trade accounts payable	-237	790
Change in advanced payments received	-2	-11
Change in other accruals	-13	-74
Change in corporate tax liabilities	44	13
Change in other liabilities	285	-10
Change in asset-side adjustment for deferred tax	308	5
<b>Total changes</b>	<b>-234</b>	<b>-204</b>
<b>Net cash provided by operating activities</b>	<b>556</b>	<b>-70</b>
<b>Cash flow from investing activities</b>		
Investments in intangible assets	-11	-20
Investments in fixed assets	-56	-217
Changes in other assets and prepaid expenses	0	2
Change in foreign currency differences	85	18
<b>Net cash used in investing activities</b>	<b>18</b>	<b>-217</b>
<b>Cash flow from financing activities</b>		
Change in short-term liabilities to banks	-56	132
Change minority interest	1	2
Change in mid-term and long-term liabilities to banks	133	-61
Dividend	-286	0
<b>Net cash provided by financing activities</b>	<b>-208</b>	<b>73</b>
<b>Change in cash and cash equivalents</b>	<b>366</b>	<b>-214</b>
Net effect of currency translation on cash and cash equivalents	-62	-29
Cash and cash equivalents at beginning of period	370	527
Cash and cash equivalents at end of period	674	284

## 5. Statement of Shareholders' Equity

	Capital stock	Treasury stock	Capital reserve	Revenue reserve	Retained earnings	Currency translation	Comprehensive income	Shareholders' equity
	€thousand	€thousand	€thousand	€thousand	€thousand	€thousand	€thousand	€thousand
<b>Current year</b>								
<b>As of May 31, 2004</b>	<b>6,600</b>	<b>0</b>	<b>4,471</b>	<b>70</b>	<b>-1,067</b>	<b>-14</b>		<b>10,060</b>
Consolidated net income in the first half year					595		595	595
Distribution of dividend					-286			-286
Currency translation differences in the period						-62	-62	-62
Comprehensive Income							552	
<b>As of November 30, 2004</b>	<b>6,600</b>	<b>0</b>	<b>4,471</b>	<b>70</b>	<b>-758</b>	<b>-76</b>		<b>10,307</b>
<b>Previous year's values for comparison</b>								
<b>As of May 31, 2003</b>	<b>6,600</b>	<b>-614</b>	<b>4,935</b>	<b>70</b>	<b>-1,382</b>	<b>10</b>		<b>9,619</b>
Consolidated net income in the first half year					-96		-96	-96
Currency translation differences in the period						-29	-29	-29
Comprehensive Income							-125	
<b>As of November 30, 2003</b>	<b>6,600</b>	<b>-614</b>	<b>4,935</b>	<b>70</b>	<b>-1,478</b>	<b>-19</b>		<b>9,494</b>

The equity ratio of the CeoTronics Group as of November 30, 2004 was 70 %.

There were no material changes to shareholders' equity and stock option plans compared with the last annual financial statements.

## 6. Notes to the Consolidated Report of CeoTronics AG on the First Six Months Ended November 30, 2004

The quarterly report was prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP). There were no changes in the accounting, measurement, and consolidation principles compared with the most recent annual financial statements as of May 31, 2004. Further details can be found in the Annual Report for fiscal year 2003/2004.

## 7. Segment Reporting

The Company measures the success of its subsidiaries by measuring their net income before income tax. The accounting and reporting principles used for regional reporting comply with the group accounting principles. The subsidiaries in the individual countries are legally independent and have their own management teams.

The Company's product groups are comparable in terms of both 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.

Revenues for the first six months of 2004/2005 and 2003/2004 are broken down by regional subsidiary as follows:

	H1 2004/2005	H1 2003/2004
	€thousand	€thousand
Germany	7,837	5,073
Rest of Europe and rest of world	3,335	2,898
Subtotal	11,172	7,971
Elimination of intercompany trade and services	-2,512	-2,036
External revenues	8,660	5,935

The net income/net loss for the first six months of 2004/2005 and 2003/2004 is broken down by regional subsidiary as follows:

	H1 2004/2005	H1 2003/2004
	€thousand	€thousand
Germany	214	-21
Rest of Europe and rest of world	108	29
Subtotal	322	8
Consolidation entries	273	-104
Consolidated net income	595	-96

Total assets as of November 30, 2004 and November 30, 2003 are broken down by regional subsidiary as follows:

	As of November 30, 2004	As of November 30, 2003
	€thousand	€thousand
Germany	17,164	17,322
Rest of Europe and rest of world	4,553	5,563
Subtotal	21,717	22,885
Consolidation entries	-6,987	-8,617
Consolidated total assets	14,730	14,268

Total non-current assets as of November 30, 2004 and November 30, 2003 are broken down by regional subsidiary as follows:

	As of November 30, 2004	As of November 30, 2003
	€thousand	€thousand
Germany	3,124	3,314
Rest of Europe and rest of world	1,549	1,786
Non-current assets (total)	4,673	5,100

Capital expenditure in the first six months of 2004/2005 and 2003/2004 is broken down by regional subsidiary as follows:

	H1 2004/2005	H1 2003/2004
	€thousand	€thousand
Germany	30	227
Rest of Europe and rest of world	37	10
Capital expenditure (total)	67	237

## 8. Reportable Security Portfolio

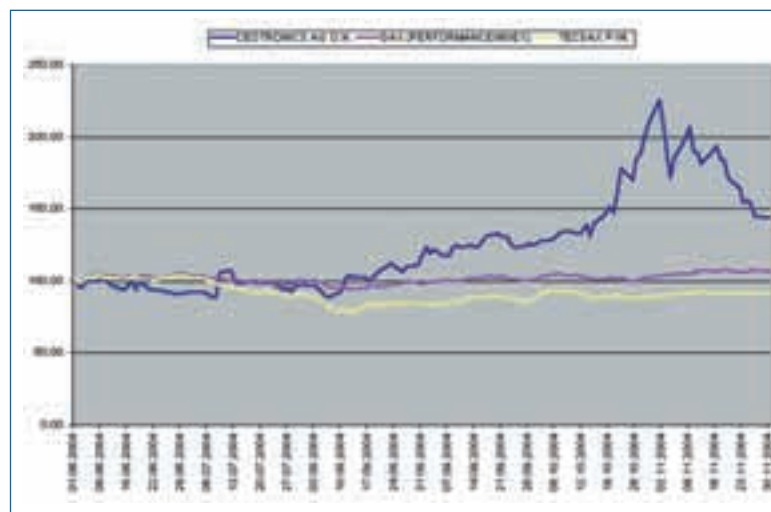
Reportable Security Portfolio as of November 30, 2004		CeoTronics shares (ISIN DE0005407407/WKN 540740) (quantity)	Virtual stock options (quantity)
<b>Board of Management</b>			
Chairman	<b>Thomas Günther</b>	8,998	5,600
Deputy Chairman, Vice President R&D	<b>Berthold Hemer</b>	212,600	6,000
Vice President Operations	<b>Günther Thoma</b>	6,022	5,600
<b>Supervisory Board</b>			
Chairman	<b>Hans-Dieter Günther</b>	387,600	0
Deputy Chairman	<b>Horst Schöppner</b>	226,300	0
Member of Supervisory Board	<b>Stephan Haack</b>	0	0

The total number of CeoTronics AG shares at the reporting date amounted to 2,199,998.

By resolution of the General Meeting on November 5, 2004, dividends totaling €285,999.74 were paid during the period under review.



## 9. CeoTronics Shares



CeoTronics shares in comparison to indices since June 1, 2004 (indexed)

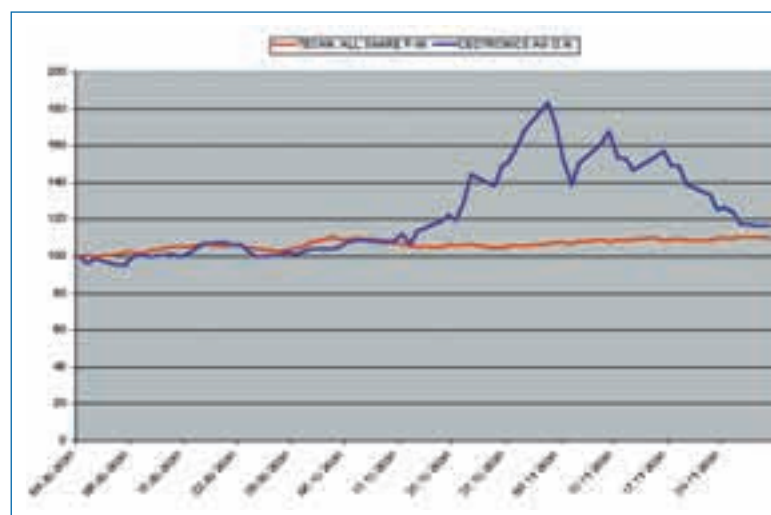


ISIN DE0005407407/WKN 540740

Source:



In the period under review, the price of CeoTronics shares increased by a further 44.1 %, thus clearly bucking the negative trend on the TECDAX and the only slight recovery on the DAX.



CeoTronics shares in comparison to indices since September 1, 2004 (indexed)



ISIN DE0005407407/WKN 540740

Source:



CeoTronics shares have also outperformed the Technology All Share performance index since their first inclusion on September 1, 2004, recording growth of 16.7 % compared with +9.6 %.

## 10. Changes in the Scope of Consolidation

The scope of consolidation has not changed and consists of the following companies:

CeoTronics AG (Rödermark, Germany), CeoTronics AG (Rotkreuz, Switzerland), CeoTronics Sarl (Pontault-Combault, France), CeoTronics Ltd. (Bestwood Village, Nottingham, United Kingdom), CeoTronics, Inc. (Chesapeake, Virginia, U.S.A.), CeoTronics S.L. (Madrid, Spain), CT-Video GmbH (Rothenschirmbach, Germany), AACOM-CeoTronics Ltd. (Lodz, Poland).

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.

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.

## 11. Changes in the Company's Executive Bodies

There were no changes in the Company's executive bodies in the first half year year 2004/2005.



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Audio · Video · Data Communication

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