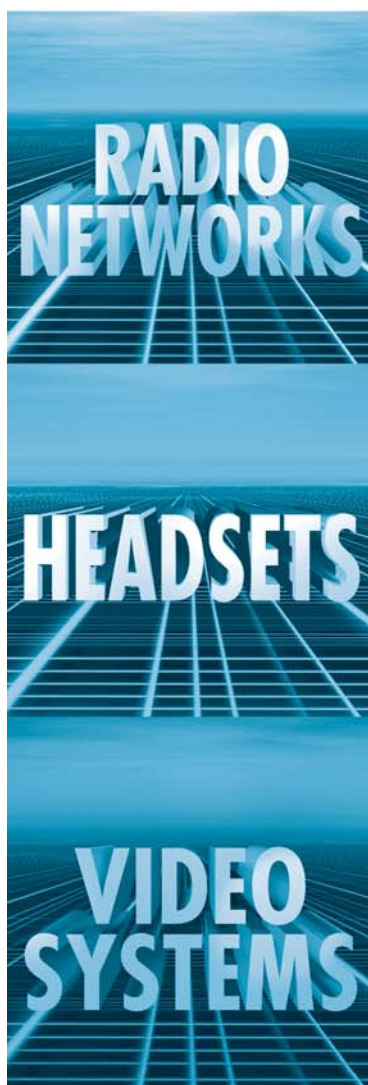


Our Company...

Skilled • Innovative • Dynamic • Successful



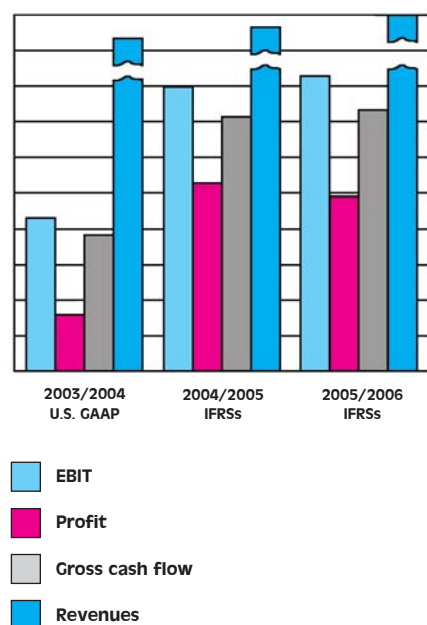
**VIDEO
SYSTEMS**

2005/2006
CeoTronics AG Annual Report



Key Figures

Comparison of key figures



Key Group figures

	2005/2006	2004/2005	2003/2004	2002/2003	2001/2002
Accounting standards, € thousand	IFRSs	IFRSs	U.S. GAAP	U.S. GAAP	U.S. GAAP
Revenues	18,060	15,878	13,568	12,366	13,868
of which outside Germany (%)	67.3	57.8	68.9	56.2	64.4
Capital expenditure	513	460	402	396	560
R&D expenses	1,227	922	873	930	858
EBITDA	2,239	2,008	1,317	-39	834
EBIT	1,698	1,588	866	-543	194
EBIT margin (in %)	9.4	10.0	6.4	-	1.4
Profit before tax	1,657	1,510	727	-687	29
Profit/loss	979	1,052	316	-567	830
Profit attributable to shareholders of CeoTronics AG	961	1,030			
Gross cash flow	1,520	1,472	767	-63	1,470
Cash and cash equivalents	2,376	2,243	370	527	851
Total assets	14,271	13,966	14,328	13,613	15,112
Equity	11,343	10,819	10,060	9,619	10,607
Equity ratio (%)	79.5	77.5	70.2	70.7	70.2
Employees (as of May 31)	136	129	132	134	135
Earnings per share (1)	0.44	0.47	0.15	-0.26	0.38
Gross cash flow per share (1)	0.68	0.67	0.35	-0.03	0.68

(1) Figures per no-par value share; figures for 2001/2002 adjusted for the effect of the issue of bonus shares in 2002/2003 at a ratio of 1:1.



Mission Statement

CeoTronics develops and produces standard and custom-made communication systems for use in difficult ambient conditions in industry, for airlines/airports, fire fighters/rescue services, and for government security and law enforcement agencies.

CeoTronics' products increase the efficiency of working processes, improve safety at work, and in many cases make work/operations possible in the first place.

CeoTronics meets exacting demands, not only in relation to processing, audio, and video quality, but also in terms of consulting skills and innovation.

The CeoTronics Group's two R&D and production locations in Rödermark (Group headquarters in Hesse) and Lutherstadt Eisleben (Saxony-Anhalt) are evidence of its commitment to Germany as a location for industry.

Highly motivated and excellently qualified employees enable CeoTronics to fulfill its claim of always being the best. This is confirmed by our customers and by our success.

By focusing on priorities and core competencies, CeoTronics can maintain profitability and its ability to pay dividends, while continuing to drive the Group forward.

CeoTronics AG, Rödermark



History

- 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** Acquisition 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** Formation of CeoTronics S.L. in Spain.
- 1992** Formation of CeoTronics, Inc. in the U.S.A. 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 at the parent company.
- 1997** Reorganization of CeoTronics GmbH as CeoTronics AG.
- 1998** CeoTronics AG's IPO on the Neuer Markt in Frankfurt/Main.
- 1999** Formation of CT-Video GmbH.
- 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 Lutherstadt Eisleben.
- 2002** ATEX certification.
- 2002** Acquisition of 75% of AACOM Ltd., Poland (former CT sales partner).
- 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** Inclusion in the Technical All Share index.
- 2004** Launch of wireless digital video data transmission technology.
- 2004** Delivery of the largest order to date to the German Air Force.
- 2005** CeoTronics Spain offers local after-sales service.
- 2006** CeoTronics awarded the "2006 Georg Waeber Innovation Prize."



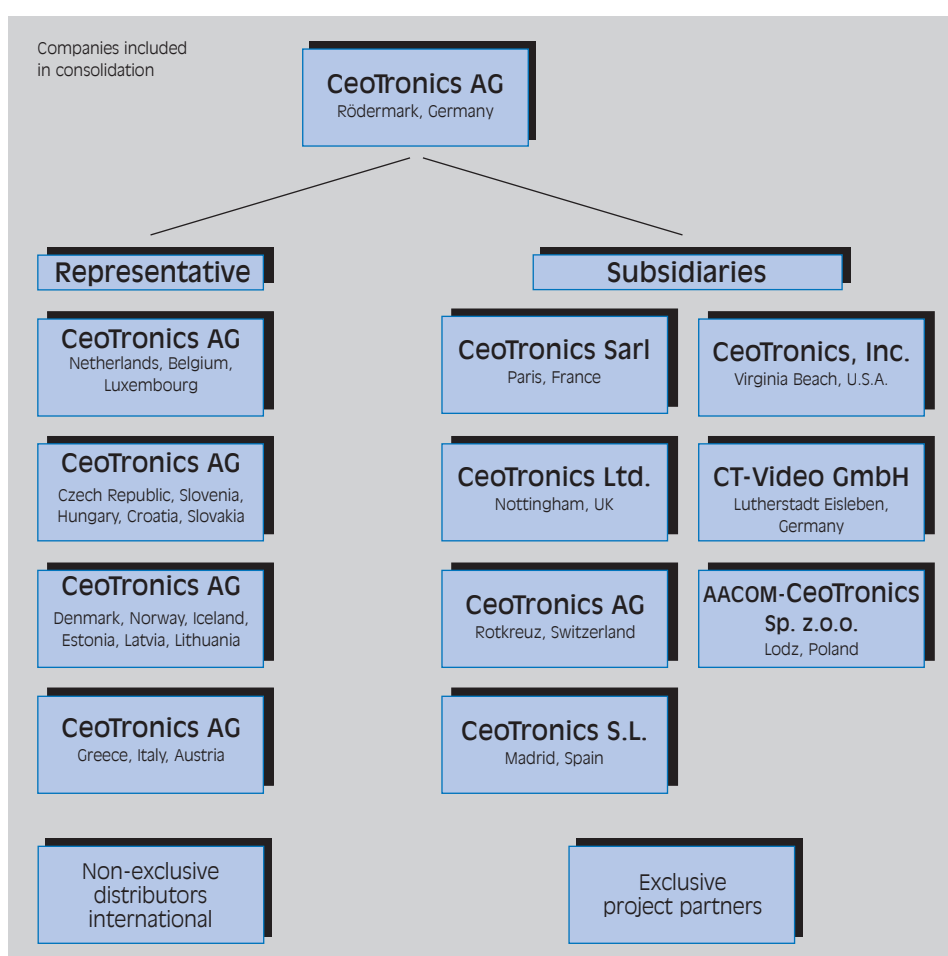
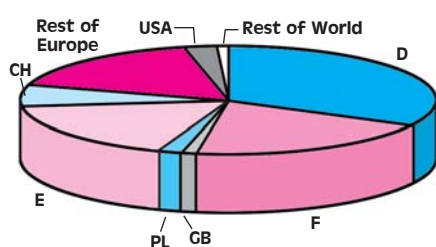
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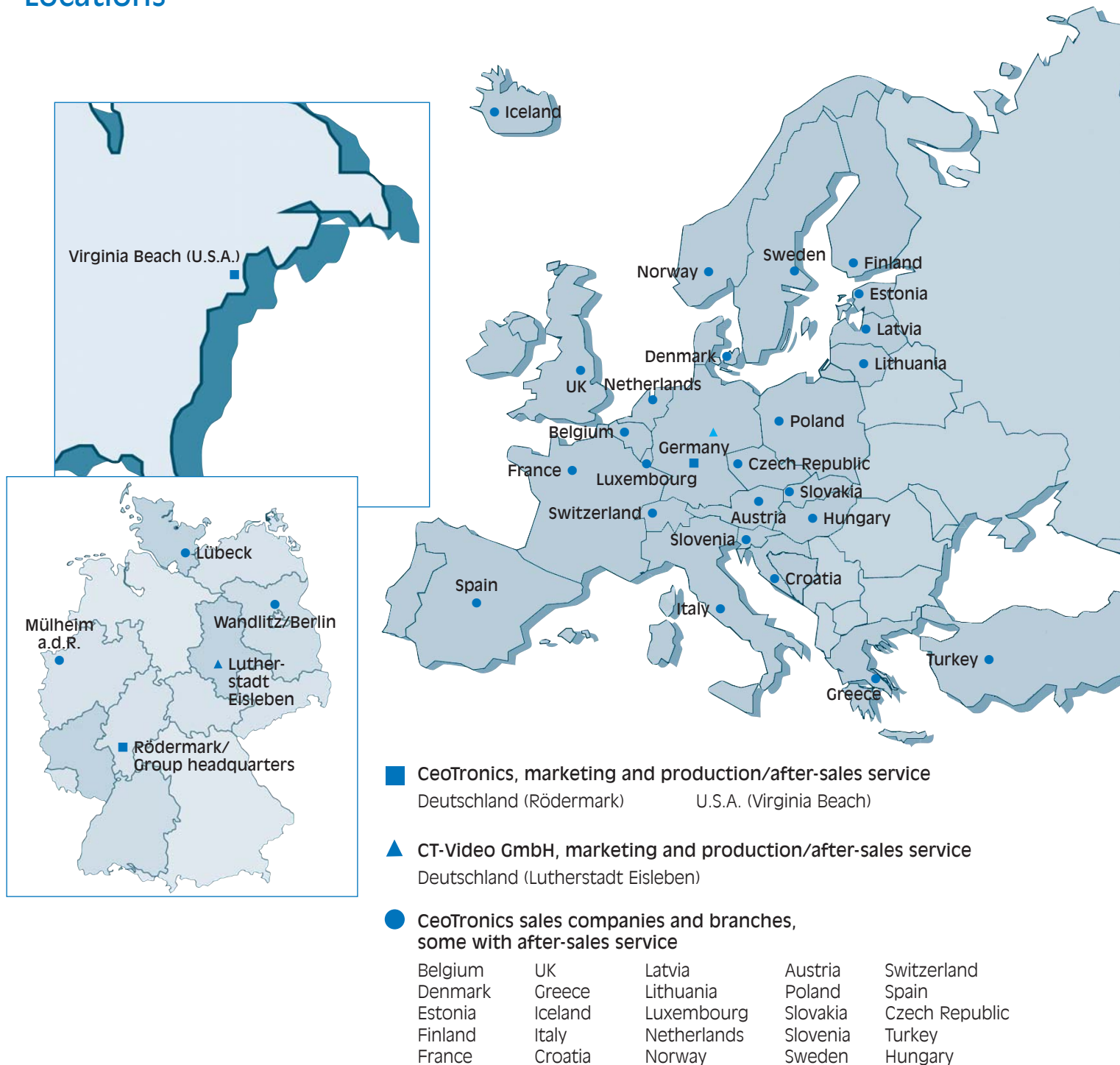
Group Structure

Revenue breakdown by market





Locations





The Board of Management



Thomas H. Günther,
Chairman of the Board of Management

Dear members of staff, dear shareholders and business partners,

In fiscal year 2005/2006, CeoTronics increased the previous year's record consolidated revenues by €2.2 million or 13.7%.

With approximately €18.1 million in consolidated revenues during the reporting period, we exceeded our target revenues for fiscal year 2005/2006 (€17.6 million).

The partial deliveries for the major French orders scheduled for fiscal year 2006/2007 were in fact drawn down by the customer during fiscal year 2005/2006, and we were able to deliver extremely late incoming orders in time for their use during the 2006 World Cup.

We also exceeded our profit forecasts for fiscal year 2005/2006. Our goal was to generate a profit of at least €800 thousand. As of May 31, 2006, we recorded a profit for the year of €979 thousand.

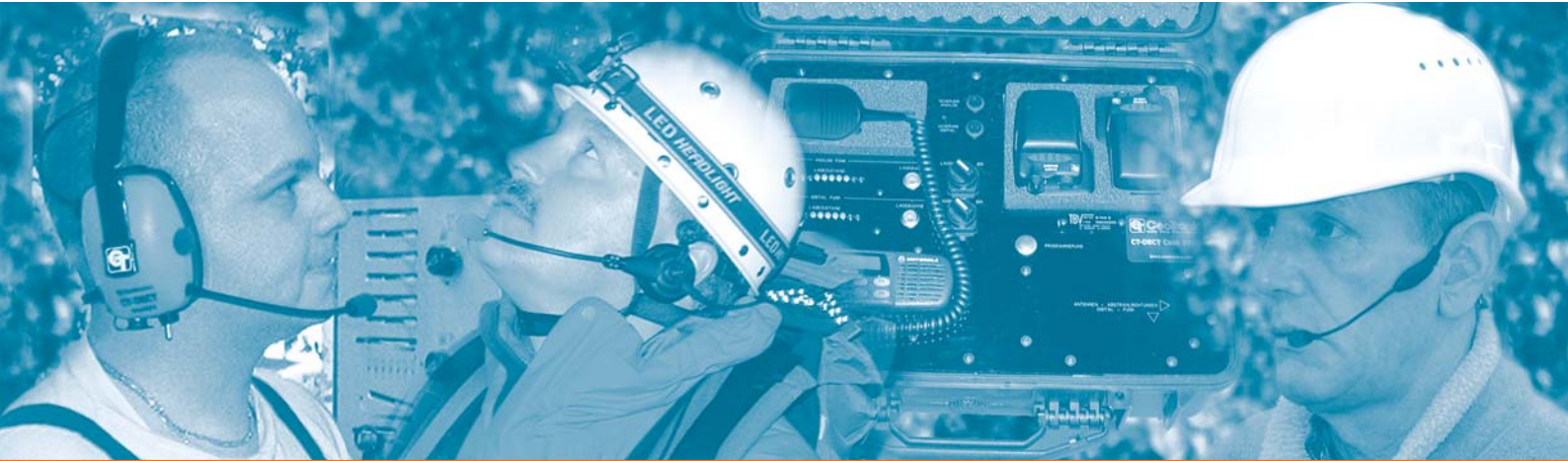
Our increased expenditures on employee expenses and capacities, markets, R&D projects, and marketing are investments in CeoTronics' future. CeoTronics will continue to position itself optimally to meet future challenges and seize opportunities in fiscal year 2006/2007.

A comparison of half-yearly or annual profit over several years is much more informative than a comparison with fiscal year 2004/2005 alone, since this was dominated by the major order from the German Armed Forces amounting to €1.92 million, among other things.

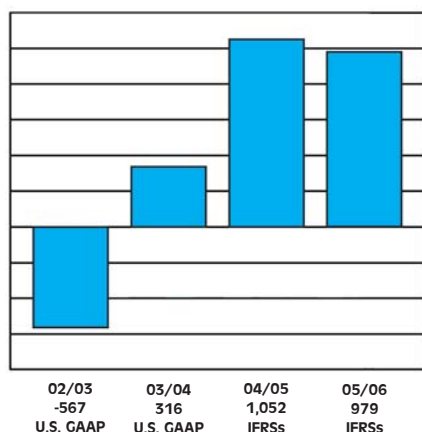
Our profit of €979 thousand is the second-best result in the Group's history, despite one-time charges, among other things.

The equity ratio has risen again to 79.5% and the Group has cash and cash equivalents of €2,376 thousand, as well as access to adequate lines of credit.

The CeoTronics Group is a successful company with extremely sound finances and is a secure and reliable business partner and employer.



Profit growth



The Board of Management has decided to recommend to the Supervisory Board that it propose to the General Meeting on November 3, 2006 that, a dividend of €0.30 per share (previous year: €0.20 per share) be paid, and that, as in the previous year, the remaining net retained profit of €2,353 thousand reported by the parent company be carried forward to the new 2006/2007 fiscal year to further strengthen its self-financing ability.

The extremely high order backlog from the previous year again increased by 10% to €3,431 thousand as of May 31, 2006.

In addition to the encouraging order backlog at the end of the fiscal year, we are pleased with the orders we have received to date and the projects currently being negotiated or prepared for fiscal year 2006/2007.

In keeping with tradition, CeoTronics expects to issue its revenue and earnings targets for fiscal year 2006/2007 in January 2007, at the time of publication of its half-year results.

We would like to thank our national and international customers, sales and distribution partners, suppliers, the Supervisory Board, and our shareholders for their confidence in us and for our successful cooperation.

CeoTronics – Your company!

Rödermark, August 18, 2006

Thomas H. Günther
Chairman of the Board of Management

Berthold Hemer
Deputy Chairman of the Board of Management

Günther Thoma
Vice President Operations



Report by the Supervisory Board



(from left)
Stefan Haack (Member of the Supervisory Board), Hans-Dieter Günther (Chairman of the Supervisory Board), Horst Schöppner (Deputy Chairman of the Supervisory Board)

Dear shareholders,

Our cooperation with CeoTronics AG's Board of Management was again based on trust and open communication in fiscal year 2005/2006. The Supervisory Board extensively supported the Company's development and actively assisted the Board of Management.

The regular meetings of the Supervisory Board were held on August 18, 2005, October 14, 2005, January 13, 2006, and April 13, 2006. All 3 Board members were present at each meeting, thus ensuring a quorum at all times. Between its meetings, the Supervisory Board was also kept informed about key developments by the Board of Management both orally and in writing. In addition, the Chairman of the Supervisory Board discussed addressed policy issues during occasional discussions, in particular with the Chairman of the Board of Management.

At each meeting, the Supervisory Board discussed a potential revision of the transactions requiring approval as well as – in the presence of the Board of Management – quarterly reports; analyses and deviations from the budget and year-on-year comparisons; income statements prepared by the parent company and each affiliate; risk management in accordance with the *Gesetz zur Kontrolle und Transparenz im Unternehmensbereich* (KonTraG – German Act on Control and Transparency in Business) with a risk inventory including strategic, financial market, and legal risks facing the Company; the complaints rate; the current business situation with bank balances; receivables and liabilities; bank ratings; order backlogs and forecasts; potential bad debts; the stock market situation; share price performance and investor relations measures, among other things.

On October 14, 2005, the Supervisory Board together with the Board of Management addressed the *Gesetz zur Unternehmensintegrität und Modernisierung des Anfechtungsrechts* (UMAG – German Act on Corporate Integrity and Modernization of the Right of Avoidance), among other things.

The Supervisory Board met to hold its regular elections immediately after the General Meeting on November 4, 2005. Mr. Hans-Dieter Günther was reelected Chairman and Mr. Horst Schöppner as Deputy Chairman of CeoTronics AG's Supervisory Board.



At its meeting on January 13, 2006, the Supervisory Board reviewed the efficiency of its work in accordance with the German Corporate Governance Code and adopted the annual declaration of conformity in accordance with section 161 of the *Aktiengesetz* (AktG - German Stock Corporation Act); the declaration of conformity was updated on May 10, 2006 following the circulation of written documents. CeoTronics AG continues to comply with the required principles, with a small number of exceptions.

The Supervisory Board also discussed the Company's strategic focus with the Board of Management on January 13, 2006.

At its meeting on April 13, 2006, the Supervisory Board discussed among other things the fixed remuneration of the members of the Board of Management, and resolved to increase this as from June 1, 2006.

The same meeting also included a lengthy discussion about the updated list of countries with which CeoTronics will not do business under any circumstances, submitted by the Board of Management.

On behalf of the Board of Management, the Supervisory Board defined the Board of Management's reporting requirements and the list of transactions requiring approval.

The Supervisory Board's activities in the period under review also included visiting national and international trade fairs to update its knowledge about the industry and the behavior of its competitors, and to advise the Board of Management accordingly. As a result of new legislation, the Supervisory Board also attended continuing professional development seminars and held discussions with lawyers to keep itself informed on issues in this area as well.

The Supervisory Board examined the parent company's accounts and those of certain subsidiaries during visits to them; in consultation with the Board of Management, the Supervisory Board also held briefings with the managers of the subsidiaries.

The Supervisory Board of CeoTronics AG therefore performed its duties in accordance with the law and the Articles of Association throughout the fiscal year. It monitored the work of the Board of Management and supported the latter's decision-making by giving its advice.



UWP Unitreu GmbH Wirtschaftsprüfungsgesellschaft, Eschborn, which was elected as auditor and Group auditor for 2005/2006 by the General Meeting, was engaged by the Supervisory Board to audit the annual financial statements and the consolidated financial statements, the management reports, and the risk early warning system, after details were established and prices were agreed.

The Supervisory Board acknowledged the declaration of independence obtained from the auditor in accordance with section 7.2.1 of the German Corporate Governance Code and determined the key focuses of the audit.

In accordance with the German Corporate Governance Code, the audit engagement also includes a duty to inform the Supervisory Board about any potential conflicts of interest or cases of bias that arise during the audit and cannot be eliminated immediately. The auditor must also report material findings or events, including any facts that prove the inaccuracy of the declaration of conformity with the Code submitted by the Board of Management and the Supervisory Board.

In the past fiscal year, the consolidated financial statements were prepared for the first time in accordance with International Financial Reporting Standards (IFRSs). UWP Unitreu GmbH audited the annual and consolidated financial statements of CeoTronics AG and the relevant management reports as of May 31, 2006, including the accounting system, in accordance with the legal requirements and issued unqualified audit reports on them.

On August 11, 2006, the Board of Management provided the Supervisory Board with a draft of the annual financial statements in accordance with the Handelsgesetzbuch (HGB - German Commercial Code) and the IFRS consolidated financial statements, as well as the management reports.

The auditors attended the Supervisory Board meeting on August 18, 2006, reported on the results of their audit, and were available to answer questions from the Supervisory Board.

The Supervisory Board conducted its own examination of the HGB annual financial statements and the management report of CeoTronics AG, and did not raise any objections. The Supervisory Board approved the annual financial statements and the management report of the parent company in accordance with the HGB. The Supervisory Board also concurred with the auditor's findings with regard to the consolidated financial statements and the Group management report and, following its own examination, approved the consolidated financial statements and the Group management report in accordance with IFRSs as of May 31, 2006.



The Supervisory Board endorses the proposal by the Board of Management on the appropriation of the net retained profit. A proposal will be made to the General Meeting that part of the net retained profit reported by CeoTronics AG be distributed as a dividend and that the remainder be carried forward to the new fiscal year to strengthen the Company's self-financing ability.

The Supervisory Board would like to thank the Board of Management, the executives, and the employees of the CeoTronics companies in Germany and abroad for their commitment and successful work.

We would like to wish them all every success for fiscal year 2006/2007.

Rödermark, August 18, 2006

The Supervisory Board of CeoTronics AG



Hans-Dieter Günther
Chairman



CeoTronics' Shares

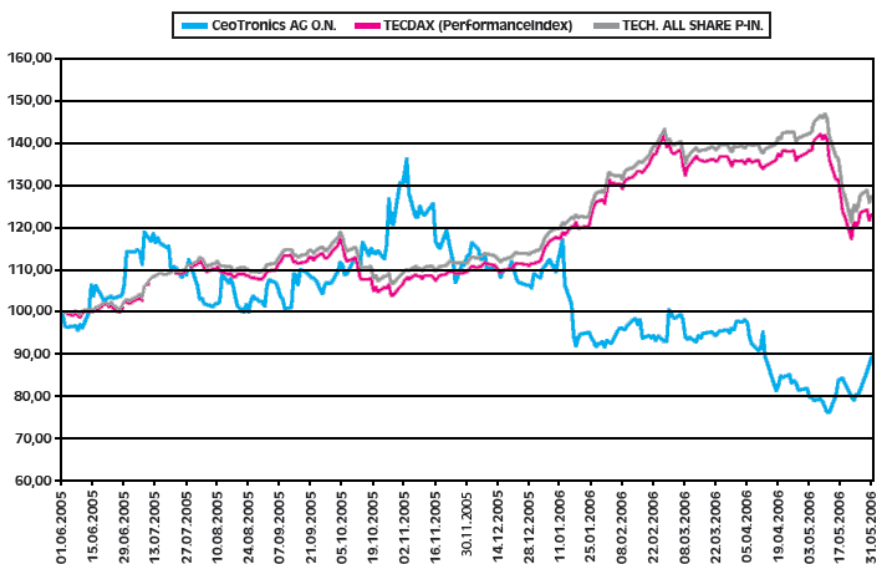


Shares with potential

Taking into account the undervaluation of CeoTronics' shares as of May 31, 2005, the performance of our share price was disappointing in fiscal year 2005/2006 and fell significantly short of our expectations.

Our good results and investor relations activities in the period under review were unable to sustainably boost our share price.

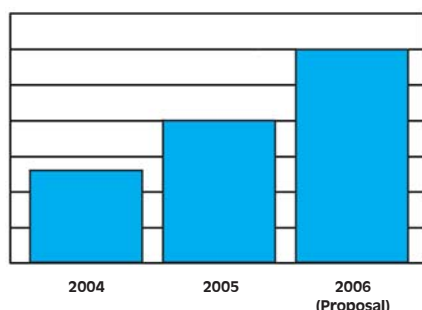
CeoTronics' shares compared with the benchmark indices from June 1, 2005 to May 31, 2006 (indexed)



Source: DZ BANK



Comparison of dividends

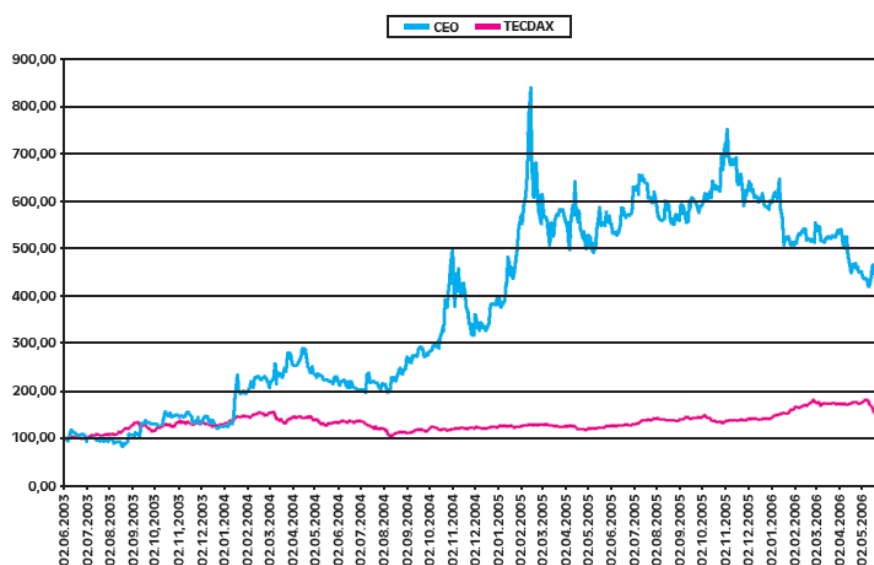


A good investment in the medium term

CeoTronics' shares have substantially outperformed the TECDAX over a three-year period.

The movements shown in the comparison chart below prove that CeoTronics' shares are a profitable investment.

CeoTronics' shares compared with the benchmark indices from June 1, 2003 to May 31, 2006 (indexed)



Source: DZ BANK

Dividend proposal for the General Meeting on November 3, 2006

On August 18, 2006, the Board of Management resolved to ask the Supervisory Board to propose at the General Meeting that part of the net retained profit of €2,352,616.57 reported by the parent company be distributed in the form of a dividend of €0.30 per share (previous year: €0.20).





Our Market

Communication for difficult conditions

CeoTronics develops, produces, and markets audio, video, and data 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 radio networks that can be set up in seconds.

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.

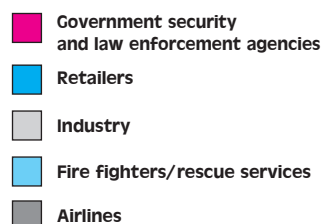
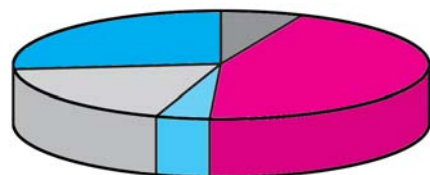
CeoTronics communication systems have multiple applications and can be adjusted to the individual requirements of:

- 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),
- sports arenas and motorsport teams.



Our Market

Revenues by customer group



Airport and airline communications

More than 200 airlines, airports, and ground handling service companies all over the world put their trust in CeoTronics products. The Group offers 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.

Custom solutions for the German State and Federal Police (BPol), 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 and for preserving evidence
- audio systems based on various technologies for communication within helmets for riot police, motorcyclists, soldiers, and special task force units.



Our Market

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.

The switch from analog to digital radio

Government security and law enforcement agencies in certain priority European markets have already begun switching from analog to digital radio.

Preparations are being made for this switch in many other priority European markets.

Most communication systems currently in operation can no longer be used due to the different mechanical and electronic interfaces required by new digital radios.

CeoTronics has already produced and sold over 10,000 systems for connection to new digital TETRA/TETRAPOL radios. Our experience in adapting communications accessories to digital radios is a major competitive advantage.

In the future, we are expecting substantial investment in digital radio technology by government security and law enforcement agencies.



Prime Performance



Leading performance in the premium segment

Since it was formed in 1985, CeoTronics has positioned itself at the top of the quality and performance pyramid due to its outstanding consulting expertise, customer focus, excellent product quality in terms of finish and function, the use of state-of-the-art technologies, and the flexibility to develop customized system solutions.

Seven subsidiaries, a field sales force comprising advisors in a total of 27 countries, and alliances with powerful partners enable CeoTronics to fulfill its claim of always being the best in all its priority markets.

Technology and innovation leadership

The ability to meet our customers' diverse technical demands is based on substantial and continuous investment in our own research and development.

Our technological expertise reflects our in-house knowledge, and CeoTronics' customers value the rapid access they have to this engineering expertise, in particular when it comes to fulfilling individual customer wishes.

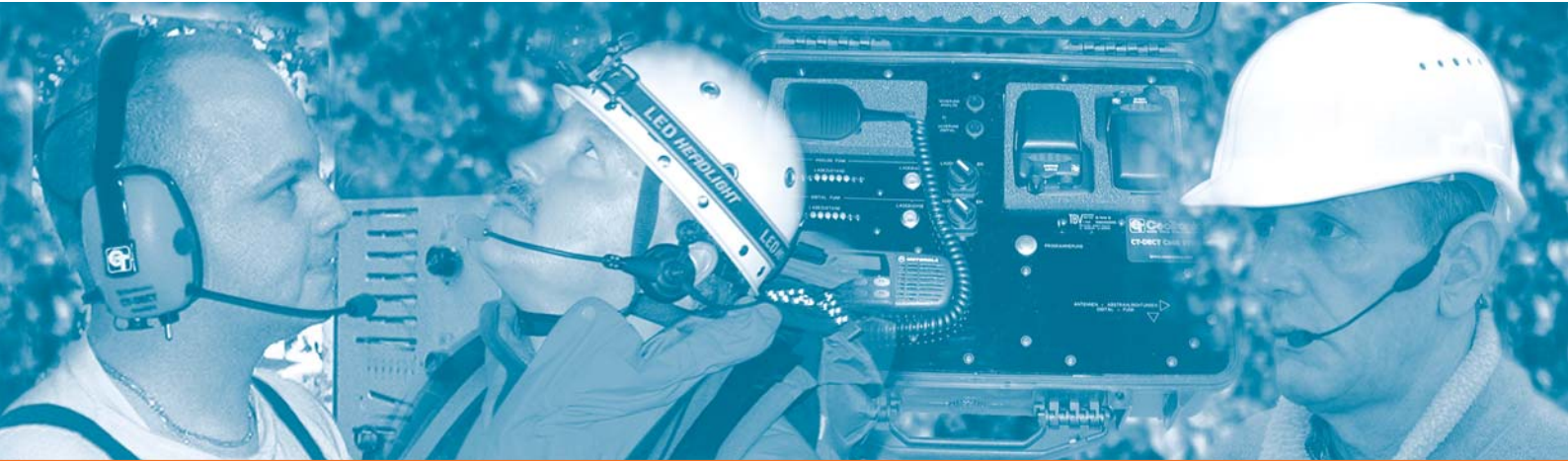
Skills partnerships

Professional audio communication systems are often no longer enough. Increasingly, the complexity of tasks requires additional data and image information. CT-Video GmbH, Lutherstadt Eisleben, which was established in 1999, specializes in the development, production, and marketing of video camera and analog/digital video data transmission systems.

The sales organizations of the two companies complement each other perfectly, and when needed, CeoTronics makes use of CT-Video GmbH's production facilities. Leading premium manufacturers of protective helmets, radio sets, special vehicles, and aircraft put their trust in the high-end products of CeoTronics and CT-Video GmbH. All individual products and systems dovetail perfectly and fulfill our customers' extremely exacting requirements for the overall solutions.

Systems compatibility

CeoTronics communications accessories are available for TETRA, TETRAPOL, and BOS-GSM standard digital equipment, as well as for commonly used analog radios.



Prime Performance



DIN EN ISO 9001:2000
Certificate No. 01 100 004023
Certificate No. 01 102 004023



Directive 94/9/EC (ATEX)
Certificate No. 01 220 004023

If required, even CeoTronics mobile digital radio networks and equipment (CT-DECT) for local operation can be integrated with the above-mentioned wide-scale radio networks as an add-on.

Customized system solutions

Since every human being is an individual, and the operating environments of our customers are extremely different, the requirements for a communication system are also highly specific.

The almost infinite range of potential configurations and variations within CeoTronics' product range is supplemented by the individual communication systems that we develop in accordance with specific customer demands.

All our products are always developed in close cooperation with our international customers and continuously enhanced to reflect technological progress.

Excellence in quality management

The cost-effectiveness of an investment results from the benefit it produces and its total cost of ownership.

A product's cost is affected by the purchase price itself and in particular by quality. No customer can afford long or frequent product downtimes, the cost of continual repairs, or even accidents due to malfunctions in a communication system.

Demanding customers value the reliability, durability, and the high cost-effectiveness of CeoTronics products, which are never cheap, but are always worth their price.

Certified and guaranteed

CeoTronics is the first company in our communications sector to be certified in accordance with ISO 9001:2000 including KBA (Kraftfahrtbundesamt – German Federal Motor Transport Authority) and ATEX Directive 94/9.

CeoTronics offers warranties of up to 3 years on all its products.

CeoTronics is a registered NATO supplier, and is also "VS-Sicherheitsüberprüft" (security-vetted for classified information) by the Federal Office of Economics and Export Control.

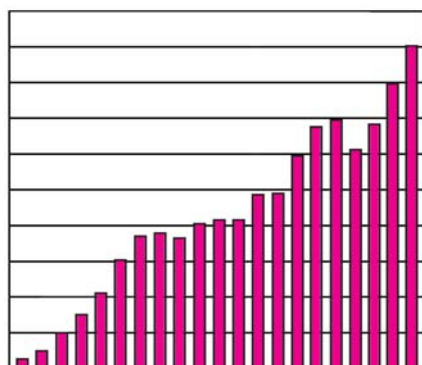
The customer satisfaction surveys we have conducted for a number of years also speak volumes: The recommendation rate for CeoTronics' products has been consistently over 95% for many years.





Group Management Report

Revenues 1985 to 2006



Governments have major investment backlog

CeoTronics' government agency and military customers saw their budgets cut again in fiscal year 2005/2006. However, the Company is positioned in a niche market that is less heavily impacted by such reductions.

In addition, CeoTronics has a broad customer base that includes airports, airlines, fire departments, utilities, and industry, in addition to all kinds of police force and the military.

Thanks to its close-knit sales network of eight companies plus representative offices with their own staff in 27 countries, the CeoTronics Group is excellently equipped to offset the negative effects on orders and revenues of sector-specific, national economic, or customer budget fluctuations.

Digital technology is booming

In fiscal year 2005/2006, CeoTronics again profited from the switch to digital radio technology and from investments in this area by government security agencies in Spain, France, and the Netherlands.

Government security and law enforcement agencies as well as fire departments in Germany, Northern Europe, and Austria have not yet started to make major investments in this technology.

CeoTronics expects these countries to begin their switch in 2007.

The CT-DECT technology developed by CeoTronics has proved a key revenue driver thanks to a large number of application-specific variants.

The international marketing of CT-Video GmbH's COFDM digital radio systems was extremely successful. For the first time, digital radio technology enables interference-free wireless real-time video transmission for mobile operations, e.g., in a helicopter and on manipulator robots used by bomb disposal experts.

Record revenues in 2005/2006

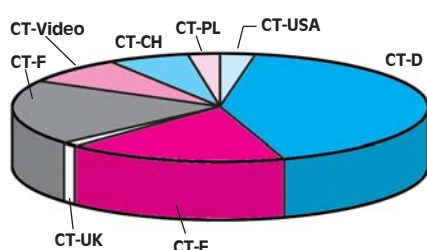
Consolidated revenues amounted to €18,060 thousand, up €2,182 thousand on the previous year (€15,878 thousand). Starting from a high level, this corresponds to an increase of 13.7%.

CeoTronics did not receive some communications technology orders for the 2006 World Cup until May, due to the late approval of budgets. Nevertheless, the Company was able to deliver all orders in time for the tournament.



Group Management Report

Revenues by company



The French police and gendarmerie unexpectedly drew down and received almost all the partial volumes for the major orders scheduled for subsequent years before May 31, 2006.

Changes in revenues by region

The share of revenues generated outside Germany rose from 57.8% in the previous year to 67.3% in fiscal year 2005/2006. The proportion accounted for by Germany fell to 32.7% (previous year: 42.2%). The clear year-on-year shift in the share of revenues is attributable to the record revenues achieved by CeoTronics Spain and France, for example (due to the switch to digital radio technology, among other things), as well as to successful exports by CT-Video GmbH and sales successes in the Netherlands in the period under review. In addition, the share of revenues accounted for by Germany in fiscal year 2004/2005 reflected the largest single order in the Company's history, amounting to €1.92 million, which was invoiced in the same year.

CeoTronics again increased its already high level of revenues in the Benelux countries thanks to the switch to digital radio technology in this region. The Company was also more successful in Northern and Southern/Eastern Europe than in the previous year. Revenues from other countries fell from their already low level by 15.9%.

CeoTronics France profited from the early drawdown of product batches ordered by French government agencies, which enabled it to lift revenues by 63.7%. Our French subsidiary generated its highest revenues to date in fiscal year 2005/2006 - making it our highest-selling subsidiary. The order backlog in France increased by 59.3% as of May 31, 2006.

In Spain we increased our revenues by 68.2%. Growth was accelerated by greater investment by government security and law enforcement agencies in security, and by the continued switch to digital radio technology. CeoTronics Spain achieved its highest annual revenues to date in fiscal year 2005/2006.

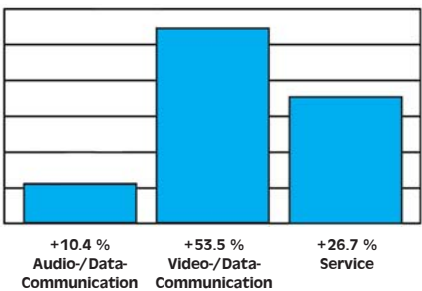
Euro revenues in Switzerland remained virtually constant, dropping by only 0.5%. As in France and to a large extent in Spain too, Switzerland uses the French TETRAPOL technology instead of TETRA technology.

US dollar revenues generated by CeoTronics U.S.A. before consolidation improved by 2.1% year-on-year. After consolidation and translation from US dollars to euros, however, revenues fell by 5.8% in fiscal year 2005/2006. CeoTronics U.S.A.'s order backlog grew by 9.5% as of May 31, 2006.



Group Management Report

Revenues by division



Euro revenues in the United Kingdom again declined, by 18.9%. This situation can only be improved by strengthening or changing our UK subsidiary's sales structure. The German management team will focus more strongly on this subsidiary and on the market in the United Kingdom in fiscal year 2006/2007.

CeoTronics Poland increased its healthy prior-year level of euro revenues by 2.9%. The order backlog has shot up as a percentage year-on-year.

Development of divisions and units (segments)

The Group's business activities can be broken down into two main divisions: Audio/Data Communication and Video/Data Communication. CeoTronics also has a third "Service" division.

The largest division, Audio/Data Communication, is divided into the following units:

- Radio Networks, Headsets, and Systems;
- Vibration Technology and Helmet Communication;
- Ear Microphones and Covert Communication; and
- Cable-bound Audio Communication and Accessories.

As announced in the 2004/2005 Group Management Report, we have transferred audio/data revenues from individual solutions to the Radio Networks, Headsets, and Systems unit. In accordance with the above-mentioned announcement, we also reclassified video/data revenues from individual solutions to the Video/Data Communication division.

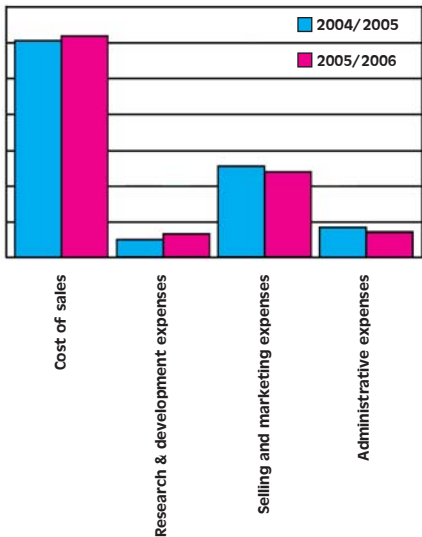
This completes the restructuring of the divisions and units (segments). In the Radio Networks, Headsets, and Systems unit, CeoTronics was unable to match the extremely high revenues from the previous year, which were dominated by a major order from the German Armed Forces amounting to €1.92 million. Revenues in fiscal year 2005/2006 fell by 20.4%. However, this unit remains one of the highest-selling in the CeoTronics Group and acquired a large number of new customers in the period under review.

Revenues in the Vibration Technology and Helmet Communication unit increased further by 43.6% in fiscal year 2005/2006, due to the major orders from France, among other things.



Group Management Report

Breakdown of revenue cost elements



Revenues in the Ear Microphones and Covert Communication unit again rose in the period under review, by 56.6%. This was driven by larger orders from Spain and the Netherlands as a result of the switch to digital radio technology, and by orders from German government agencies and German industry, among other things.

The Cable-bound Audio Communication and Accessories unit recorded revenue growth of 19.5%.

The Video/Data Communication division again performed well in fiscal year 2005/2006, increasing revenues by 53.5%. The new variants of the CT-Cylinder Camera and the COFDM video digital radio system were successfully marketed internationally.

The Service unit recorded revenue growth of 26.7%. After 21 years of production and sales, and due to tight investment budgets at customers, the number of products that are checked and repaired increased automatically.

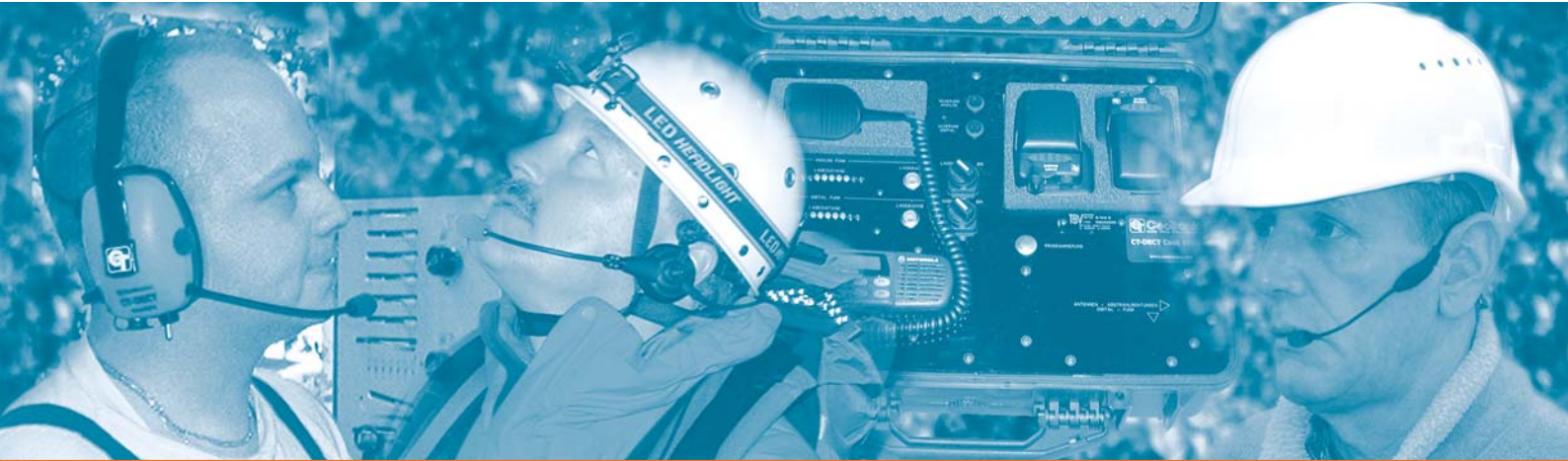
First-time adoption of IFRSs

CeoTronics is publishing financial statements prepared for the first time in accordance with International Financial Reporting Standards (IFRSs) in the 2005/2006 Annual Report. The Company's consolidated financial statements were previously prepared in accordance with U.S. GAAP (United States Generally Accepted Accounting Principles). The consolidated financial statements were and will continue to be prepared in the future in accordance with IFRSs as adopted by the EU at the time the financial statements were prepared.

Cost of sales ratio up

The cost of sales ratio rose from 50.8% in the previous year to 51.6% due to higher inventory write-downs in Germany, France, and the U.S.A. and to additional costs, e.g., for converting products and production processes to comply with the RoHS (Restriction of Hazardous Substances) Directive, as well as increased material procurement costs, and the change in the order structure.

The order structure, e.g., the share of revenues accounted for by resellers, the number of units per order, which products are being sold, competitive conditions, the dates on which orders are received, etc., changes from month to month and from quarter to quarter and affects the cost of sales ratio.



Group Management Report

Operating expenses (excluding cost of materials) as a percentage of revenues were 14.9%, down significantly on the previous year (16.3%). However, operating expenses themselves increased by 3.8% year-on-year.

Increased investment in research and development

Additional costs for

- external testing laboratories;
- two additional engineers;
- consistently new, application-specific enhancements of CT-DECT digital radio systems;
- new developments in electronics due to the new TETRA radios;
- the KBA/e1 approval required under German law for electronic equipment connected to onboard vehicle electronics; and
- new product developments in accordance with the RoHS (Restriction of Hazardous Substances) Directive

led to a 33.1% increase in research and development expenses. The ratio of research and development expenses to revenues rose to 6.8% compared with the previous year (5.8%).

Marketing offensive increases selling/marketing expenses

In fiscal year 2005/2006, CeoTronics presented its entire product range with stands reflecting its market position at the two most important European trade fairs for the Company. CeoTronics participates in these trade fairs every two years, and therefore the major expense involved had no effect on its prior-year figures.

Since the beginning of the fiscal year, we have recruited an additional product manager and a new business development officer for our marketing department, and hired more office sales staff at our parent company.

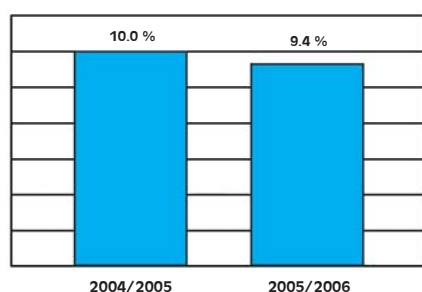
We have further increased our participation at trade fairs and our market presence in the U.S.A. This led to an increase in both marketing expenses and the employee expenses for our market presence there.

As a result of this and other factors, selling and marketing expenses rose by 9.2% year-on-year. The ratio of these expenses to revenues was 23.9% (previous year: 24.9%).



Group Management Report

EBIT margins



Fall in ratio of administrative expenses to revenues

Administrative expenses increased by 3.1% in fiscal year 2005/2006. However, the ratio of these expenses to revenues fell to 8.1% in the period under review (previous year: 8.9%).

Best operating profit in the Group's history

The Group exceeded its extremely high prior-year operating profit (EBIT) in fiscal year 2005/2006. EBIT was up by €110 thousand, from €1,588 thousand to €1,698 thousand. The EBIT margin, based on the 13.7% growth in revenues, was 9.4% (previous year: 10.0%).

The following factors prevented EBIT and the EBIT margin from increasing any further:

- a different product/margin mix;
- increased research and development expenses;
- greater travel and energy expenses;
- higher marketing expenses (e.g., for trade fairs);
- growth in employee expenses;
- inventory write-downs due to the RoHS, among other things;
- increased municipal fees and levies;
- higher health insurance premiums;
- increased contributions to the occupational health and safety agency;
- additional expenses incurred by the legislation on WEEE (waste electrical & electronic equipment);
- increased product adaptation expenses incurred by technical support for TETRA radios;
- greater expenses for compliance with export control requirements;
- reduction in goodwill at CeoTronics U.S.A. due to remeasurement.

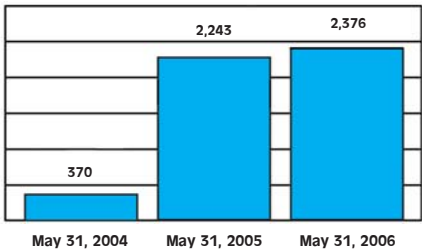
Lowest interest expense in the Group's history

The interest expense was reduced by 27.2% to €67 thousand due to the early repayment of a property loan in the second half of the period under review, among other things.



Group Management Report

Cash and cash equivalents (thousand)



Second-best profit in the Group's history

The consolidated profit for fiscal year 2005/2006 was €979 thousand, down €73 thousand or 6.9% year-on-year. The figure for fiscal year 2004/2005 was €1,052 thousand in accordance with IFRSs. The share of consolidated profit attributable to shareholders of the parent amounted to €961 thousand for the past fiscal year (previous year: €1,030 thousand).

The reduced ratio of revenues to consolidated profit was impacted by the sharp increase in the tax rate.

Based on the consolidated profit before taxes, the tax rate rose to 40.9% in fiscal year 2005/2006, compared with only 30.3% in the previous year. The main factor here is that the loss for the year generated by CeoTronics U.S.A. has no tax implications, although the taxable profit of the other companies - and therefore the tax expense as well - increased substantially. In addition, the reversal of tax provisions in the previous year also reduced the tax expense.

Further increase in equity

Equity amounted to €11,343 thousand (previous year: €10,819 thousand), and the equity ratio rose to 79.5% as against the previous year (77.5%). Debt therefore fell to 20.5% of total assets.

Best cash flow in the Group's history

In fiscal year 2005/2006, gross cash flow increased by €48 thousand compared with the previous cash flow record in 2004/2005, from €1,472 thousand to €1,520 thousand.

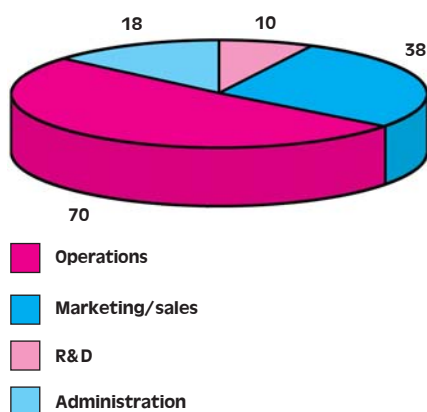
Extremely high cash and cash equivalents

Cash and cash equivalents in the CeoTronics Group rose by €133 thousand, from €2,243 thousand to €2,376 thousand. Excluding the early repayment of a property loan, cash and cash equivalents would have increased much more sharply than "only" by 5.8%.



Group Management Report

Personnel structure as of May 31, 2006



Personnel capacity increased

The growth in the volume of business and the greater opportunities and challenges prompted CeoTronics to increase its number of staff (including trainees) by 7 from 129 (previous year) to 136 as of May 31, 2006.

All new additional jobs were created in Germany, reflecting CeoTronics' clear commitment to this country.

Performance of CeoTronics U.S.A.

Our performance in the U.S.A. has yet to match our expectations.

We added another sales employee to our field sales staff at the end of the fiscal year.

We have increased our market presence by participating in more trade fairs, visiting customers, and advertising; we also recorded sustained success in the marketing of our CT-DECT products.

CeoTronics U.S.A. relocated from Chesapeake to Virginia Beach in April 2006. Before the move to smaller premises and as part of the reduction in manufacturing and the switch to after-sales service, we conducted an analysis of our inventories that led to significant write-downs. These also include write-downs of assemblies and other components that may no longer be sold in Europe under the RoHS.

These extraordinary circumstances negatively impacted the company's results.

The improved cost structure due to the relocation will not have a positive effect on CeoTronics U.S.A.'s results until fiscal year 2006/2007.

CeoTronics believes that revenues from CT-DECT products and unique, high-quality headsets will continue to grow and that revenue and earnings will develop positively in fiscal year 2006/2007.

Group risk management

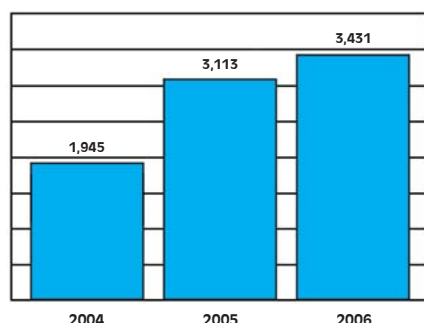
As in previous years, CeoTronics continued in the reporting period to fulfill its obligation to perform active risk management according to the *Gesetz zur Kontrolle und Transparenz im Unternehmensbereich* (KonTraG - German Act on Control and Transparency in Business).

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



Group Management Report

Order backlog (thousand)



The resulting measures were then implemented. The implementation process was monitored and, where needed, further adjustments were made.

The objective of this process was not the total avoidance of risk, but to weigh up business 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 2005/2006, risk management focused primarily on the potential risks relating to

- export control requirements and
- the EC Noise Directive.

The findings were also discussed in depth by the Board of Management and the Supervisory Board, and the risk management manual was modified accordingly as a result.

German Corporate Governance Code

CeoTronics AG has adopted the recommendations of the German Corporate Governance Code as part of its management practices since 2002, with a small number of exceptions.

The declarations of conformity in accordance with section 161 of the *Aktien-gesetz* (AktG) are permanently available on CeoTronics' website, along with the Board of Management's remuneration structure.

CeoTronics has therefore not reproduced them in its Group Management Report.

Higher booked business as of May 31, 2006

CeoTronics had already increased its order backlog by 60.3% year-on-year as of May 31, 2005.

At the balance sheet date for fiscal year 2005/2006, the Company again improved the extremely high prior-year order backlog by 10.0% to €3,431 thousand.



Group Management Report

Events after the balance sheet date

In the first quarter of 2006/2007, up to the date of going to print, CeoTronics recorded a large number of new orders with a balanced structure.

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

Opportunities of future development

The planned switch to TETRA digital radio technology in Austria, Northern Europe, and Belgium as well as continued investment in digital radio in Spain and the Netherlands could have a positive effect on fiscal year 2006/2007.

CeoTronics will also attempt to tap into new markets by offering new variants and application-specific enhancements of its CT-DECT digital radio system.

CeoTronics expects revenue to increase in Germany in fiscal year 2006/2007.

The sales success achieved by CT-Video's digital radio technology could increase significantly in 2006/2007.

Risks of future development

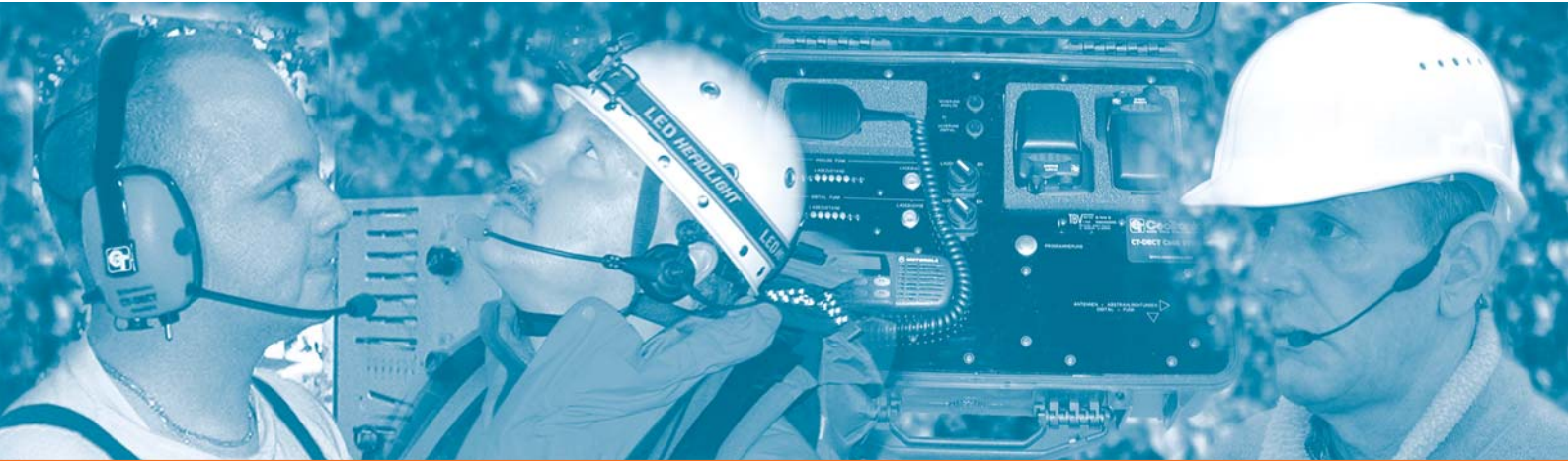
In fiscal year 2006/2007, CeoTronics is unlikely to match the level of revenues generated in France and Spain in 2005/2006, which was dominated by major individual orders. However, we expect revenue to grow compared with fiscal year 2004/2005.

If no other Swiss cantons make the switch to digital radio in fiscal year 2006/2007, CeoTronics will also be unable to maintain the high revenues it recorded in Switzerland in 2005/2006.

Production times (and therefore the cost of sales) will rise due to the introduction of RoHS-compliant production processes. CeoTronics also expects greater effort in quality control to check the results of RoHS-compliant soldering techniques.

Report on expected developments and results since the end of fiscal year 2005/2006

In addition to the encouraging order backlog at the end of the fiscal year, CeoTronics is pleased with the orders it has received up to the date of going to print, and with the projects currently being negotiated or prepared for fiscal year 2006/2007.



Group Management Report

The economy is improving slightly but sustainably in CeoTronics' priority markets, and our customers' need for investment in communication systems is growing due to the obsolescence of products currently in operation and to CeoTronics' range of new products and systems.

The possible switch to digital radio technology in Germany will offer CeoTronics greater revenue potential in fiscal year 2007/2008. The majority of the communication systems for connection to analog radios sold to German government agencies in the past 21 years must be newly procured, as they cannot be connected to the new digital radios.

In Switzerland, additional cantons are also expected to begin switching to digital radio during CeoTronics' fiscal year 2007/2008.

In keeping with tradition, CeoTronics expects to issue its revenue and earnings targets for fiscal year 2006/2007 in January 2007, at the time of publication of its half-year results. By then, we will have enough information to give a reasonably reliable forecast.

Rödermark, August 18, 2006

CeoTronics AG

Audio • Video • Data Communication

Thomas H. Günther
Chairman of the Board
of Management

Berthold Hemer
Deputy Chairman of the Board
of Management

Günther Thoma
Vice President Operations



Consolidated Financial Statements

IFRS Balance Sheet – Assets

€ thousand	Note	May 31, 2006	May 31, 2005
Current assets			
Cash and cash equivalents	10	2,376	2,243
Trade receivables	11	2,571	1,676
Inventories	12	3,754	3,912
Other current assets	13	229	315
Total current assets		8,930	8,146
Noncurrent assets			
Property, plant, and equipment	14	3,262	3,245
Intangible assets	14	180	141
Goodwill	14	1,364	1,502
Noncurrent financial assets	14	0	16
Deferred tax assets	15	535	916
Total noncurrent assets		5,341	5,820
Total assets		14,271	13,966



Consolidated Financial Statements

IFRS Balance Sheet – Equity and Liabilities

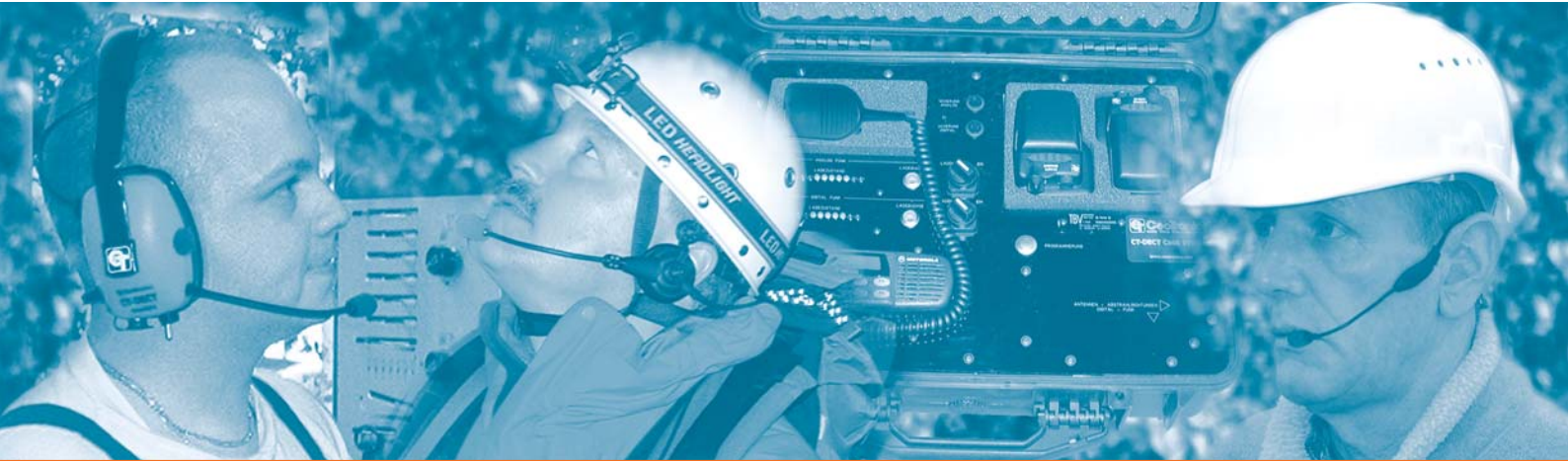
€ thousand	Note	May 31, 2006	May 31, 2005
Current liabilities			
Current finance lease obligations	16	175	373
Trade payables	17	679	436
Advance payments received		147	29
Provisions	18	932	826
Current tax payables		219	179
Other current liabilities	19	347	392
Total current liabilities		2,499	2,235
Noncurrent liabilities			
Noncurrent financial liabilities	16	429	912
Total noncurrent liabilities		429	912
Equity			
Subscribed capital	20	6,600	6,600
Capital reserves	20	4,471	4,471
Retained earnings	20	16	16
Cumulative other recognized income and expense		-13	-33
Net retained profit/net accumulated losses		226	-283
Equity attributable to shareholders of CeoTronics AG	20	11,300	10,771
Minority interest	21	43	48
Total equity		11,343	10,819
Total equity and liabilities		14,271	13,966



Consolidated Financial Statements

IFRS Income Statement

€ thousand	Note	2005/2006	2004/2005
Revenues	22	18,060	15,878
Cost of sales	23	-9,321	-8,062
Gross profit		8,739	7,816
Selling and marketing expenses		-4,308	-3,945
General and administrative expenses		-1,455	-1,411
Research and development expenses	24	-1,227	-922
Other operating income and expenses	27	46	50
Impairment of goodwill		-97	0
Operating profit (EBIT)		1,698	1,588
Interest income/expense	28	-41	-78
Profit before tax		1,657	1,510
Income tax expense	29	-678	-458
Consolidated profit		979	1,052
<i>Consolidated profit attributable to:</i>			
Minority interest		18	22
Shareholders of CeoTronics AG		961	1,030
Earnings per share (basic) in €	31	0.44	0.47
Earnings per share (diluted) in €	31	0.44	0.47
Weighted average shares outstanding (basic)	31	2,199,998	2,199,998
Weighted average shares outstanding (diluted)	31	2,199,998	2,199,998



Consolidated Financial Statements

IFRS Cash Flow Statement

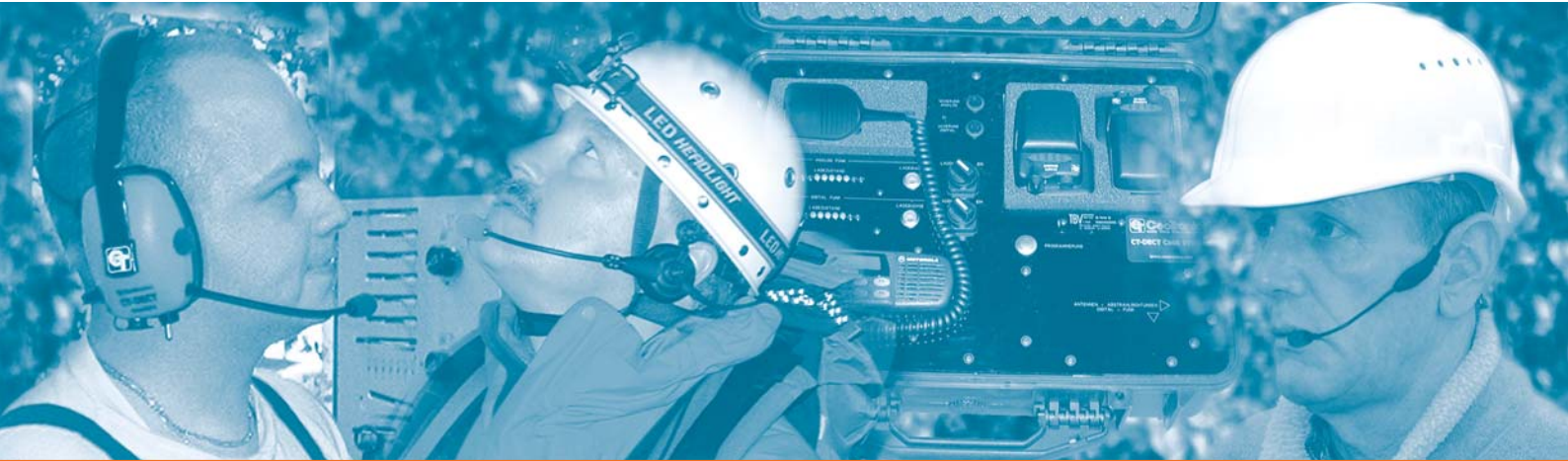
€ thousand	2005/2006	2004/2005
Cash flow from operating activities		
Profit before tax	1,657	1,510
Income tax expense	-678	-458
Consolidated profit	979	1,052
Depreciation, amortization, and impairment losses	541	420
Gross cash flow	1,520	1,472
Changes in assets and liabilities		
Change in trade receivables	-895	1,782
Change in inventories	158	-2
Change in other assets	86	66
Change in trade payables	242	-716
Change in advance payments received	119	27
Change in other provisions	106	315
Change in tax payables	40	-29
Change in other current liabilities	-45	-172
Change in deferred tax liabilities	380	407
Total changes in assets and liabilities	191	1,678
Net cash provided by operating activities	1,711	3,150
Cash flow from investing activities		
Payments to acquire intangible assets	-86	-87
Payments to acquire property, plant, and equipment	-427	-373
Change in noncurrent financial assets	16	-1
Change in foreign currency differences	43	9
Disposal of noncurrent assets (net carrying amounts)	12	0
Net cash used in investing activities	-442	-452
Cash flow from financing activities		
Change in current financial liabilities	-198	-474
Change in noncurrent financial liabilities	-483	-43
Dividend payment to minority interest	-14	0
Dividend payment to shareholders of CeoTronics AG	-440	-286
Net cash used in financing activities	-1,135	-803
Change in cash and cash equivalents	134	1,895
Effect of exchange rate changes on cash and cash equivalents	-1	-22
Cash and cash equivalents at beginning of period	2,234	370
Cash and cash equivalents at end of period	2,376	2,243



Consolidated Financial Statements

IFRS Statement of Changes in Equity

€ thousand	Equity attributable to sh		
	Subscribed capital	Capital reserves	Retained earnings
Balance at May 31, 2004	6,600	4,471	16
Consolidated profit			
Dividend distribution			
Currency translation adjustments			
Change in minority interest			
Balance at May 31, 2005	6,600	4,471	16
Consolidated profit			
Dividend distribution			
Currency translation adjustments			
Change in minority interest			
Balance at May 31, 2006	6,600	4,471	16



Shareholders of CeoTronics AG					
Net retained profit/net accumulated losses	Cumulative other recognized income and expense	Total	Minority interest	Total equity	
-1,027	-14	10,046	29	10,075	
1,030		10,030	22	1,052	
-286		-286		-286	
	-19	-19		-19	
		0	-3	-3	
-283	-33	10,771	48	10,819	
961		961	18	979	
-440		-440	-14	-454	
	20	20	1	21	
-12		-12	-10	-22	
226	-13	11,300	43	11,343	



Consolidated Financial Statements

IFRS Statement of Changes in Noncurrent Assets

€ thousand	Cost					May 31, 2006
	June 1, 2005	Currency translation adjustments	Additions	Disposals	Reclassifications	
Property, plant, and equipment						
Land, land rights, and buildings, including buildings on third-party land	2,568	0	47	0	0	2,615
Technical equipment and machinery	2,065	-9	192	188	18	2,078
Other equipment, operating and office equipment	1,759	-3	141	231	0	1,666
Prepayments and assets under construction	4	0	47	0	-18	33
	6,396	-12	427	419	0	6,392
Intangible assets						
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	505	0	19	95	0	429
Prepayments on intangible assets	0	0	67	0	0	67
	505	0	86	95	0	496
Noncurrent financial assets						
Other loans	16	0	0	16	0	0
Goodwill	1,502	-41	1,502	0	0	1,461
	8,419	-53	513	530	0	8,349



Cumulative depreciation, amortization, and impairment losses					Carrying amounts	
June 1, 2005	Currency translation adjustments	Additions	Disposals	May 31, 2006	May 31, 2006	May 31, 2005
285	0	49	0	334	2,281	2,283
1,442	-8	176	176	1,434	644	623
1,424	-2	171	231	1,362	304	335
0	0	0	0	0	33	4
3,151	-10	396	407	3,130	3,262	3,245
364	0	47	95	316	113	141
0	0	0	0	0	67	0
364	0	47	95	316	180	141
0	0	0	0	0	0	16
0	0	97	0	97	1,364	1,502
3,515	-10	540	502	3,543	4,806	4,904



Notes to the Consolidated Financial Statements of CeoTronics AG for Fiscal Year 2005/2006

1. Business Activities

CeoTronics AG, domiciled in 63322 Rödermark, Adam-Opel-Strasse 6, Germany, is the parent company of the CeoTronics Group and a listed stock corporation incorporated under the laws of Germany. The Company is entered in the commercial register of the Offenbach District Court (number HRB 34104).

The Company's business activities comprise the development, design, production, and sale of audio, video, and data communication systems, as well as wholesale and retail trading of these systems and other electronic devices, including their import and export, and all related activities in any form.

CeoTronics AG, Rödermark (hereafter 'CeoTronics AG') and its subsidiaries CeoTronics, Inc., Virginia Beach, Virginia/U.S.A. ('CeoTronics U.S.A.'), and CT-Video GmbH, Lutherstadt Eisleben ('CT-Video GmbH') are production and sales companies.

The

- CeoTronics Sarl, Pontault-Combault/France ('CeoTronics France')
- CeoTronics AG, Rotkreuz/Switzerland ('CeoTronics Switzerland')
- CeoTronics Ltd., Bestwood Village, Nottingham/United Kingdom ('CeoTronics UK')
- CeoTronics S.L., Madrid/Spain ('CeoTronics Spain')
- AACOM-CeoTronics Sp. z o.o., Lodz/Poland ('CeoTronics Poland')

subsidiaries are solely sales companies.

Our subsidiaries in Poland and Spain offer local after-sales service.

Production activities at CeoTronics U.S.A. will be discontinued from fiscal year 2006/2007. CeoTronics U.S.A. will then function as a sales company and will offer after-sales service.

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

The majority of 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.

CeoTronics AG and the CT-Video GmbH subsidiary also undertake research and development activities.

(2) Basis of Preparation of the Consolidated Financial Statements

CeoTronics AG is a parent within the meaning of section 290 of the HGB (German Commercial Code).

In compliance with section 315a of the HGB in conjunction with Article 4 of the Regulation of the European Parliament and of the Council of July 19, 2002 applicable to listed companies in Europe, the CeoTronics Group adopted the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) for its consolidated accounting as of June 1, 2005. The accompanying consolidated financial statements were prepared in accordance with IFRSs as adopted by the EU as of May 31, 2006. To ensure equivalence with consolidated financial statements required to be prepared under the provisions of the HGB, the accompanying consolidated financial statements present the amounts and disclosures required by German commercial law in addition to those required by IFRSs.



The prior-year figures were calculated on the basis of the same principles. CeoTronics AG prepared consolidated financial statements in accordance with U.S. GAAP (United States Generally Accepted Accounting Principles) until May 31, 2005. Differences between U.S. GAAP and IFRS accounting principles are reflected by corresponding adjustments to prior-year amounts to ensure that the accounting treatment complies with IFRSs as adopted by the European Union.

The consolidated financial statements were prepared in euros. Unless otherwise indicated, all amounts are presented in thousands of euros (€ thousand). The balance sheet is classified by the maturities of assets and liabilities. Assets and liabilities that will be sold, used in the normal course of business, or settled within twelve months are classified as current. Liabilities are classified as current if they will be settled within twelve months of the reporting date. The income statement has been prepared using the function of expense method. Items of the balance sheet and income statement that have been combined to enhance the clarity of presentation are explained in the notes. The accompanying consolidated financial statements comply with the supplementary disclosure provisions of section 315a(1) of the HGB.

The annual financial statements of the companies included in the consolidated financial statements have been prepared as of the reporting date of the consolidated financial statements and are based on uniform accounting policies (IAS 27).

The authorization to publish the consolidated financial statements resolved by the Board of Management on August 18, 2006 was approved by the Supervisory Board on August 18, 2006.

(3) Effects of Transition to IFRSs

In accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*, all International Financial Reporting Standards as adopted by the EU as of May 31, 2006 were applied. The date of transition is June 1, 2004 (date of the opening IFRS balance sheet).

With the exception of the following adjustments, the IFRS accounting principles applied to the accompanying consolidated financial statements did not lead to any material differences from the consolidated financial statements for the period ended May 31, 2005 prepared in accordance with U.S. GAAP.

Changes compared with the accounting policies previously applied (U.S. GAAP) arise mainly because of the following accounting treatment:

- **IAS 1 *Presentation of Financial Statements*:**

- a.) Under U.S. GAAP, assets and liabilities are classified as current if they are recoverable or will be settled within six months. IAS 1.57 and 60 stipulate a period of up to twelve months for the classification of assets and liabilities as current.
- b.) U.S. GAAP requires deferred taxes to be presented as current assets and liabilities, while IAS 1.70 requires all deferred tax assets and liabilities to be presented as noncurrent assets and liabilities.

- **IAS 27 *Consolidated and Separate Financial Statements*:**

Under U.S. GAAP, minority interest was presented as a separate item distinct from (shareholders') equity. IAS 27.23 requires minority interest to be presented as a component of equity.



- IAS 38 *Intangible Assets*:

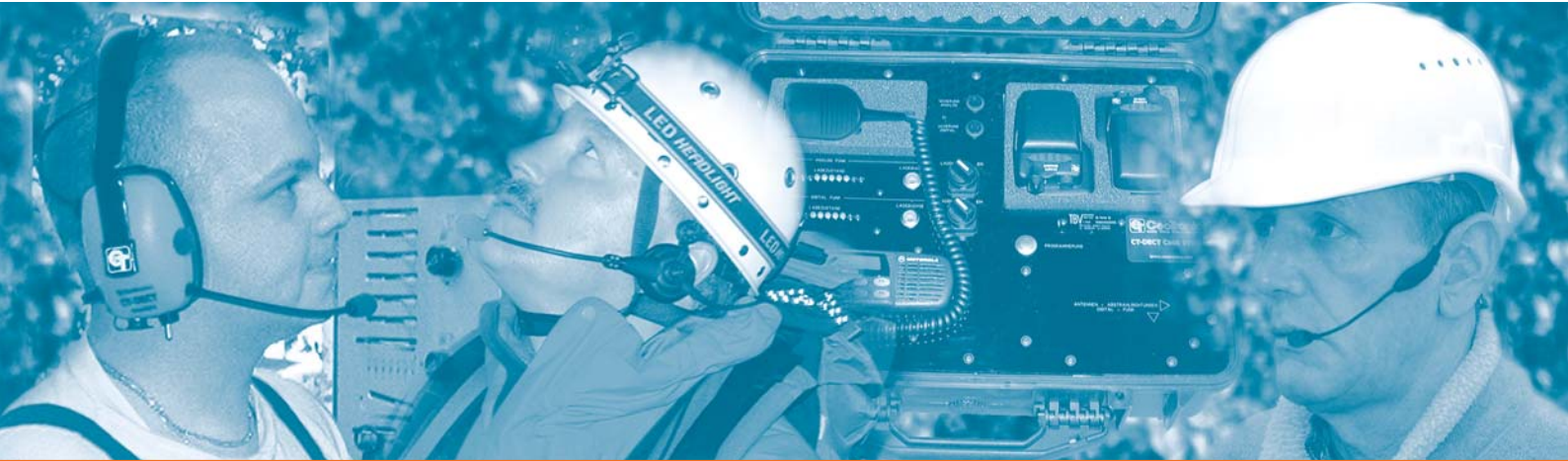
Under U.S. GAAP, the cost of an Internet presence (website) was capitalized and amortized over the expected useful life. IFRSs do not allow this accounting treatment.

- IFRS 2 *Share-based Payments*:

In the prior year, the difference between the subscription price and the expected market price of the shares (corresponding to the share price at the reporting date) was recognized as a provision. Under IFRSs, the provisions are recognized ratably over the term of the option, assuming exercise at the earliest possible date.

The following overview presents the effects of the changes in balance sheet items between U.S. GAAP and IFRSs referred to above in the opening IFRS balance sheet as of June 1, 2004, resulting in a difference in equity of €15 thousand:

€ thousand	U.S. GAAP May 31, 2004	IFRS adjustments	IFRSs June 1, 2004
ASSETS			
Current assets			
Cash and cash equivalents	370	0	370
Trade receivables	3,458	0	3,458
Inventories	3,910	0	3,910
Deferred tax assets	1,323	-1,323	0
Other current assets	381	0	381
Total current assets	9,442	-1,323	8,119
Noncurrent assets			
Property, plant, and equipment	3,231	0	3,231
Intangible assets	130	-14	116
Goodwill	1,510	0	1,510
Noncurrent financial assets	15	0	15
Deferred tax assets	0	1,323	1,323
Total noncurrent assets	4,886	1,309	6,195
Total assets	14,328	-14	14,314
EQUITY AND LIABILITIES			
Current liabilities			
Current financial liabilities	847	56	903
Trade payables	1,152	0	1,152
Advance payments received	2	0	2
Provisions	511	0	511
Current tax payables	208	0	208
Other current liabilities	564	0	564
Total current liabilities	3,284	56	3,340
Noncurrent liabilities			
Noncurrent financial liabilities	955	-56	899
Total noncurrent liabilities	955	-56	899
Minority interest	29	-29	0



Equity			
Subscribed capital	6,600	0	6,600
Capital reserves	4,471	0	4,471
Retained earnings	70	-54	16
Net retained profit/net accumulated losses (-)	-1,067	40	-1,027
Cumulative other recognized income and expense	-14	0	-14
Equity attributable to shareholders of CeoTronics AG	10,060	-14	10,046
Minority interest	0	29	29
Total equity	10,060	15	10,075
Total equity and liabilities	14,328	-14	14,314

A difference in equity of €63 thousand between U.S. GAAP and IFRSs arose as of May 31, 2005; this is attributable to the changes in balance sheet items presented in the following overview:

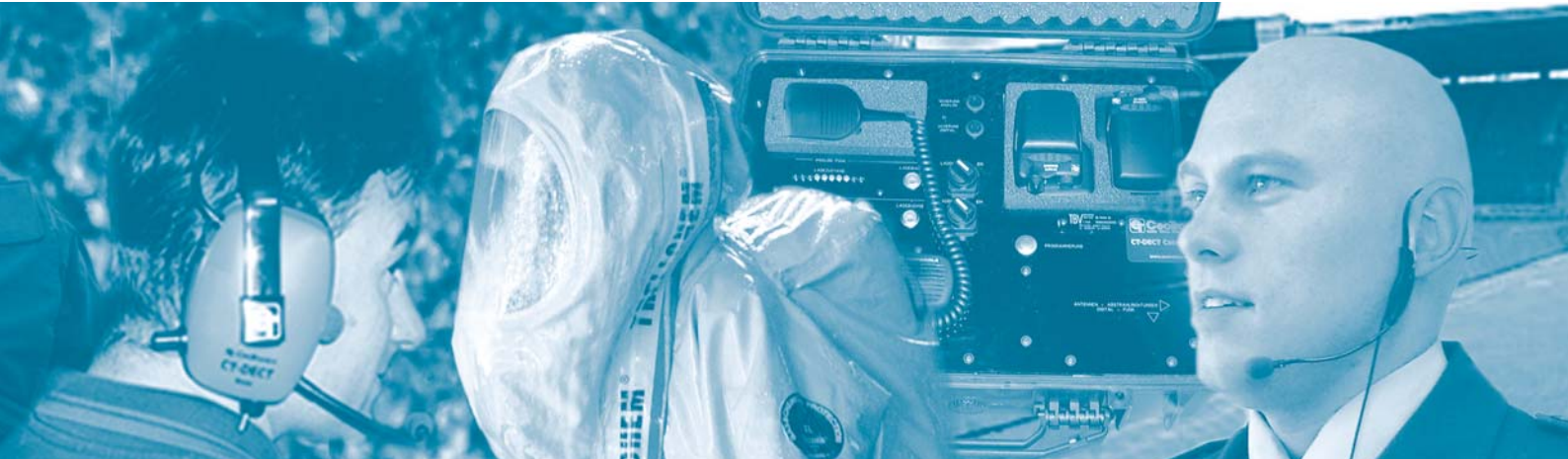
€ thousand	U.S. GAAP May 31, 2005	IFRS adjustments	IFRSs May 31, 2005
ASSETS			
Current assets			
Cash and cash equivalents	2,243	0	2,243
Trade receivables	1,676	0	1,676
Inventories	3,912	0	3,912
Deferred tax assets	916	-916	0
Other current assets	315	0	315
Total current assets	9,062	-916	8,146
Noncurrent assets			
Property, plant, and equipment	3,245	0	3,245
Intangible assets	151	-10	141
Goodwill	1,502	0	1,502
Noncurrent financial assets	16	0	16
Deferred tax assets	0	916	916
Total noncurrent assets	4,914	906	5,820
Total assets	13,976	-10	13,966
EQUITY AND LIABILITIES			
Current liabilities			
Current financial liabilities	289	84	373
Trade payables	436	0	436
Advance payments received	29	0	29
Provisions	851	-25	826
Current tax payables	179	0	179
Other current liabilities	392	0	392
Total current liabilities	2,176	59	2,235



Noncurrent liabilities			
Noncurrent financial liabilities	996	-84	912
Total noncurrent liabilities	996	-84	912
Minority interest	48	-48	0
Equity			
Subscribed capital	6,600	0	6,600
Capital reserves	4,471	0	4,471
Retained earnings	70	-54	16
Net retained profit/net accumulated losses (-)	-352	69	-283
Cumulative other recognized income and expense	-33	0	-33
Equity attributable to shareholders of CeoTronics AG	10,756	15	10,771
Minority interest	0	48	48
Total equity	10,756	63	10,819
Total equity and liabilities	13,976	-10	13,966

The reconciliation of consolidated profit from U.S. GAAP to IFRSs for fiscal year 2004/2005 is shown in the following table:

€ thousand	May 31, 2005
Profit under U.S. GAAP (excluding minority interest)	1,001
Amortization of intangible assets	4
Adjustment to provision for stock option plans	25
Minority interest in consolidated profit	22
Profit under IFRSs (including minority interest)	1,052



(4) Basis of Consolidation, Shareholdings

All companies that are directly or indirectly controlled by CeoTronics AG are consolidated from the date on which CeoTronics AG obtains control. They are deconsolidated as of the date when CeoTronics AG ceases to have control.

The consolidated financial statements as of May 31, 2006 include the annual financial statements of CeoTronics AG and of the seven subsidiaries listed in the following (hereafter together the 'CeoTronics Group'):

	Equity interest	Equity	Profit/loss	Currency
CT-Video GmbH , Lutherstadt Eisleben/Germany	100%	925	118	€ thousand
CeoTronics AG , Rotkreuz/Switzerland	100%	241	113	€ thousand
		376	176	CHF thousand
CeoTronics Sarl , Pontault Combault/France	100%	-367	117	€ thousand
CeoTronics Ltd. , Bestwood Village/United Kingdom	100%	120	-14	€ thousand
		83	-10	GBP thousand
CeoTronics Inc. , Virginia Beach/U.S.A.	100%	-176	-777	€ thousand
		-226	-943	USD thousand
CeoTronics S.L. , Madrid/Spain	100%	574	298	€ thousand
AACOM-CeoTronics Sp. z o.o. , Lodz/Poland	75%	162	72	€ thousand
		637	282	PLN thousand

CT-Video GmbH was formed in fiscal year 1999/2000 and has been domiciled in Lutherstadt Eisleben, Germany, since that time.

CeoTronics Switzerland was originally formed in 1988 as a global export organization also responsible for sales in Switzerland. Since 1997, it has operated solely as a sales company in Switzerland.

Effective May 31, 1996, CeoTronics AG acquired the remaining 33% interest in CeoTronics France; the company was formed in 1986. This interest was initially consolidated as of May 31, 1996.

CeoTronics UK was acquired as a sales company in 1986 and subsequently renamed CeoTronics Ltd.

CeoTronics U.S.A. was formed as a sales branch in 1992. Local production commenced in 1996. In 2000, the company acquired the Audio Accessory Division of DTC Inc., Nashua/U.S.A.

CeoTronics Spain recommenced its sales activities in 1998. The company was formed in 1992. This company was initially consolidated as of December 1, 1998.

CeoTronics AG acquired a 75% interest in CeoTronics Poland in fiscal year 2001/2002. The company was initially consolidated as of June 1, 2002.



(5) Consolidation Methods

Acquisition accounting

Subsidiaries in which the parent directly or indirectly holds the majority of shares and hence of the voting power are consolidated in accordance with the principles of acquisition accounting. The write-downs of interests in Group companies and the reversal of such write-downs in the single-entity financial statements of CeoTronics AG are eliminated in the consolidated financial statements.

Acquisition accounting uses the purchase method of accounting, under which the cost of the shares acquired is eliminated against the parent's share of the equity of the subsidiary at the date of acquisition. All identifiable assets, liabilities, and contingent liabilities are recognized at their fair values and included in the consolidated balance sheet. Any excess of cost over the fair value of the net assets attributable to the Group is recognized as goodwill.

As a rule, the date of initial consolidation is the date of formation or of the acquisition of the subsidiary concerned.

We account for the 25% minority interest in AACOM-CeoTronics Sp. z o.o., Lodz, Poland, by deducting the minority interest and the resulting effects on profit or loss within equity in the balance sheet, in the income statement, the cash flow statement, and the statement of changes in equity.

Under U.S. GAAP, goodwill was no longer amortized as of fiscal year 2002/2003. The U.S. GAAP carrying amounts were taken over in the accompanying IFRS consolidated financial statements. The carrying amount of goodwill remains in the balance sheet and is tested for impairment at least once a year on completion of the annual planning process and written down if necessary. Impairment losses on goodwill are not reversed.

Consolidation of intercompany balances

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

Elimination of intercompany profits

The intercompany profits of €200 thousand (previous year: €201 thousand) from intercompany transactions contained in the carrying amounts of finished goods as of May 31, 2006 were also eliminated. Because of the reduction in intercompany profits, a consolidation adjustment of €1 thousand (previous year: €26 thousand) was recognized in the income statement as of the reporting date.

Consolidation of income and expenses

Revenues from intercompany deliveries, other income and expenses from intragroup settlements, and investment, interest, and royalty income were eliminated in the course of consolidation.



(6) Impairment Testing - Procedures and Effects

Impairment tests on assets in the CeoTronics Group compare the carrying amounts of the individual cash-generating units with their recoverable amounts, i.e., the higher of the asset's net selling price and its value in use.

Reflecting the definition of a cash-generating unit, the CeoTronics Group's strategic business units are used as cash-generating units. In most cases, these are the individual subsidiaries themselves.

In those cases where the carrying amount of the cash-generating unit is higher than its recoverable amount, an impairment loss is recognized in the amount of the difference. The goodwill of the strategic business unit concerned is then written down by the amount of these impairment losses.

The calculation of value in use is based on the present value of estimated future cash flows expected to arise from the continuing use of the strategic business unit. The estimation of future cash flows is based on the CeoTronics Group's planning, using a six-year planning horizon (up to fiscal year 2011/2012 inclusive). For periods beyond this planning horizon, no growth compared with the final year specifically included in the planning is assumed.

Reflecting the volatility of CeoTronics AG shares, the discount rate applied is currently 10%.

(7) Estimates and Assumptions

Preparation of the consolidated financial statements in accordance with IFRSs requires management to make estimates and assumptions that affect the recognition and measurement of certain items in the consolidated balance sheet and the consolidated income statement. We believe that our estimates and assumptions are reasonable under the circumstances. However, actual amounts could differ materially from the estimates and assumptions.

Estimates are necessary in particular for:

- the measurement of the fair values of assets and liabilities in the course of acquisitions and business combinations;
- the assessment of the need for, and the measurement of, impairment losses and write-downs;
- the recognition and measurement of tax, warranty, and litigation risks;
- determining the need for write-downs of inventories;
- determining the recoverability of deferred tax assets.

(8) Foreign Currency Translation

In accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, the annual financial statements of Group companies prepared in foreign currencies are translated into euros using the functional currency concept on the basis of the modified closing rate method. The functional currency is the currency of the primary economic environment in which the companies operate. The presentation currency of the consolidated financial statements is the functional currency of the parent, CeoTronics AG.



Balance sheet items are translated at the closing rate, and income statement items are translated at the average rate for the fiscal year. The equity accounts of the subsidiaries are measured at historical exchange rates. The foreign currency differences arising from the application of different exchange rates are taken directly to equity and presented in a separate account in equity (cumulative other recognized income and expense).

Foreign currency receivables and liabilities in balance sheets prepared in euros were measured at the closing rate. Gains and losses from the translation of items denominated in foreign currencies in the individual financial statements are recognized in profit or loss.

The relevant exchange rates as of May 31, 2006 and May 31, 2005 and for fiscal years 2005/2006 and 2004/2005 were:

	USD/EUR	GBP/EUR	CHF/EUR	PLN/EUR
Closing rate at May 31, 2006	1.2835	0.6851	1.5605	3.9393
Closing rate at May 31, 2005	1.2323	0.6779	1.5374	4.1210
Change in € (%)	+ 4.2%	+ 1.1%	+ 1.5%	+ 4.4%
Average rate for fiscal year 2005/2006	1.2126	0.6830	1.5541	3.9311
Average rate for fiscal year 2004/2005	1.2721	0.6845	1.5390	4.2485
Change in €	- 4.7%	- 0.2%	- 1.0%	- 7.5%

(9) Significant Accounting Policies

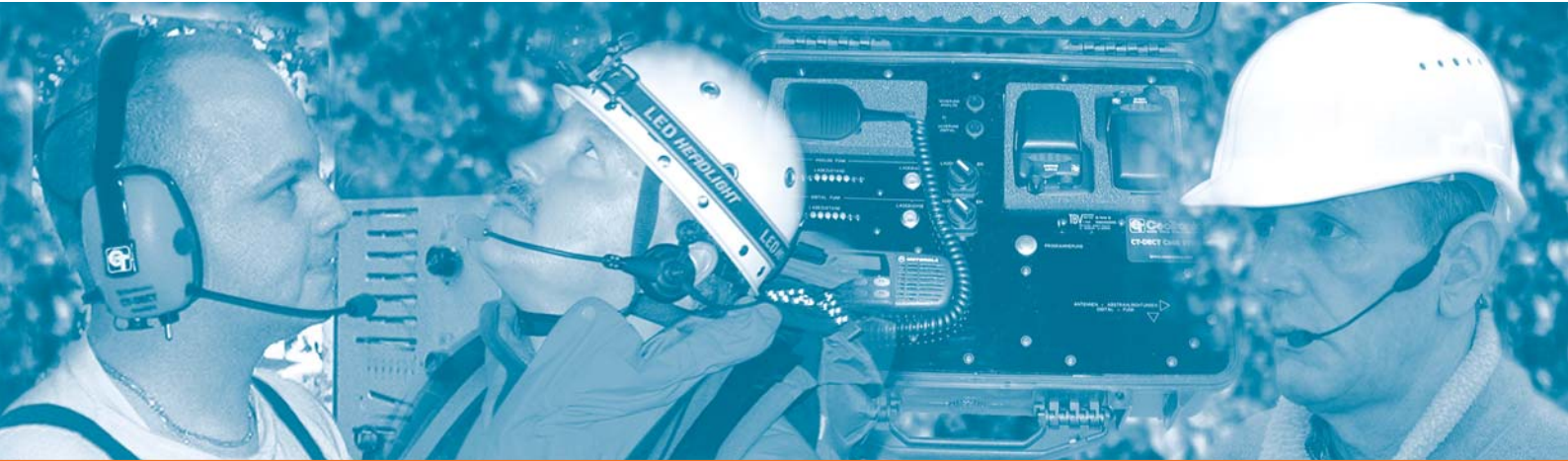
Fair value of financial instruments

Due to their short-term nature, the carrying amounts of cash and cash equivalents, trade receivables, other current assets, trade payables, other current liabilities, and provisions correspond approximately to their fair values.

The carrying amounts of the Company's other 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.

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. Cash and cash equivalents comprise bank balances, checks and cash-in-hand, and time deposits with a maximum original maturity of three months.



Receivables and other current assets

Trade receivables and other current assets are carried at their principal amount or at the lower fair value after deduction of impairment losses. An impairment loss is recognized for trade receivables if there is evidence indicating that the amounts receivable are not collectible in full. The amount of the impairment loss is calculated as the difference between the carrying amount of the receivables and the estimated future cash flows from those receivables. The impairment loss is recognized in profit or loss.

Write-downs are recognized to take account of the general credit risk. Such write-downs are based on past experience, factors derived from the age structure of receivables, and on management's analysis of the reported assets.

The Company's trade receivables are not collateralized.

Inventories

Inventories include raw materials, consumables, and supplies; work in progress and finished goods; and goods purchased and held for resale.

The FIFO (first-in, first-out) consumption tracking method is applied.

Purchased work in progress is measured at cost. Internally generated finished goods and work in progress are measured at fully absorbed cost. In accordance with IFRSs, fully absorbed cost includes direct material costs, direct labor costs, and production overheads. Production overheads include all expenses attributable to the production process. They are calculated on the basis of standard costing. Standard costs are continually adapted to the actual costs and correspond approximately to the actual costs. Borrowing costs are not included in the carrying amounts of inventories.

Appropriate valuation allowances are charged for inventory risks resulting from excessive storage periods or reduced marketability. Write-downs are reversed if the reasons for the original write-down no longer apply. Write-downs are reversed up to a maximum of depreciated cost.

Deferred taxes

In accordance with IAS 12 *Income Taxes*, deferred tax assets are recognized for all temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and their tax base, and for consolidation adjustments recognized in profit or loss. Deferred tax assets are also recognized for tax loss carryforwards. Deferred tax assets are only recognized for deductible temporary differences and tax loss carryforwards where it is probable that sufficient taxable profit will be available in future periods.

Deferred taxes are calculated on the basis of the tax rates that apply or are expected to apply in the individual countries to the period when the asset is realized or the liability is settled.

In accordance with IAS 1.70, deferred taxes are classified as noncurrent.



Intangible assets and goodwill

Purchased intangible assets (excluding goodwill) are carried at cost and reduced by straight-line amortization over an expected standard useful life of between three and five years. The 'Intangible assets' item mainly comprises software.

Impairment losses are recognized if there are indications that the carrying amount of the intangible asset is impaired. Impairment losses are reversed if the reasons for impairment losses recognized in prior years no longer apply; reversals of impairment losses are recognized in Other income.

At CeoTronics AG, development costs do not satisfy the criteria for capitalization under IAS 38 *Intangible Assets* and are recognized in profit or loss in the period in which they are incurred.

In accordance with IAS 38 and IFRS 3 *Business Combinations*, goodwill resulting from initial consolidation and from business combinations is regarded as having an indefinite useful life. Goodwill is tested for impairment at least once a year at year-end, and also whenever there is an indication that the carrying amount of goodwill may be impaired. If the impairment tests confirm that the impairment is expected to be permanent, the impairment loss is recognized in profit or loss. IAS 36 *Impairment of Assets* prohibits the reversal of impairment losses on goodwill.

Property, plant, and equipment

In accordance with IAS 16 *Property, Plant and Equipment*, items of property, plant, and equipment are carried at cost (including directly attributable transaction costs) less depreciation. Preventive maintenance expenditures that do not increase the value of the assets or prolong their useful lives are treated as expenses of the period. Normal repair and corrective maintenance expenditures are recognized as expenses in the year in which they are incurred. Gains or losses on the disposal of items of noncurrent assets are recognized in Other operating income or expenses. Borrowing costs are not included in the carrying amounts of items of property, plant, and equipment.

Items of property, plant, and equipment are depreciated on a straight-line basis over their standard useful lives. Property, plant, and equipment must be assessed for impairment at each reporting date, and an impairment test must be performed if there are indications that an asset is impaired. An asset is impaired if its carrying amount is higher than its value in use or recoverable amount. Any impairment loss must be recognized in profit or loss.

Impairment losses are reversed if the reasons for impairment losses recognized in prior years no longer apply; reversals of impairment losses are recognized in Other income.

Low-value assets (purchase price not exceeding €410) are written off in full in the year of acquisition.

The useful lives applied are shown in the following overview:

	Useful life in years
Buildings	50
Leasehold improvements	10, max. remaining term of the lease
Technical equipment and machinery	4 to 8
Other equipment, operating and office equipment	4 to 10
Office furniture and equipment	4 to 10
Motor vehicles	4 to 6



Government grants

CT-Video GmbH receives investment grants for the purchase of certain long-lived assets. In accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, the grants are deducted in full directly from the carrying amount of the asset in the year in which they are received. Grants are recognized in profit or loss through the lower amounts of depreciation or amortization over the useful life of the assets due to the reduced carrying amounts. Government grants are recognized only if there is sufficient assurance that the Company will satisfy the conditions attached to the grant.

Leases

Leases in which substantially all risks and rewards incidental to ownership of an asset remain with the lessor are classified as operating leases. Payments received in connection with an operating lease are recognized in the income statement on a straight-line basis over the term of the lease.

Leases that transfer substantially all the risks and rewards incidental to ownership of the asset to the lessee are classified as finance leases. The assets are recognized at cost and depreciated over their useful life. The financial liabilities are recognized in the same amount. The monthly lease payment is apportioned between the finance charge recognized in the income statement, which is allocated to each period of the lease term, and the reduction of the outstanding liability.

A number of assets were purchased under hire-purchase arrangements, which are accounted for in the same way as finance leases.

Liabilities

Liabilities are recognized at their repayment amounts.

Provisions

Under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, provisions are recognized for present obligations to third parties arising from past events that are more likely than not to result in an outflow of resources embodying economic benefits. Provisions are measured at the best estimate of the expenditure required to settle the obligation. Where provisions will not be settled for at least one year and the amount and timing of settlement can be estimated reliably, the noncurrent portion of the provision is discounted to arrive at the present value. Income from the reversal of provisions is presented in 'Other operating income' in the income statement.

Provisions for warranties are recognized on the basis of past experience. The historical data is based on the average amount of warranty expenditures in recent years.



Revenue recognition

Revenues are generated largely from the sale of products. In accordance with IAS 18 *Revenue*, revenue (net of value added tax and sales allowances) is generally recognized at the time of delivery to the customer – or, if contractually agreed - at the time of technical acceptance of the equipment by the customer. Delivery is deemed to be completed when the risks associated with title pass to the buyer.

Cost of sales

Cost of sales comprises the cost of the goods and services sold. In addition to directly attributable materials and labor costs, it also includes indirect production overheads, including depreciation of production facilities and write-downs of inventories. Cost of sales also includes additions to warranty provisions. Income from the reversal of previous write-downs of inventories reduces cost of sales.

Research and development expenses

Significant expenditures are incurred regularly for research and development projects established in anticipation of future revenues. These expenses are recognized in profit or loss and reflect in-process research and development.

Research and development expenses are reported separately in the income statement because of their significance for the Company.

Borrowing costs

In accordance with IAS 23 *Borrowing Costs*, borrowing costs are recognized as an expense in the period in which they are incurred (benchmark method).

Income taxes

All liabilities and assets from income taxes arising during a tax year are recognized in the consolidated financial statements in accordance with the relevant tax legislation.

In accordance with IAS 12 *Income Taxes*, deferred taxes are accounted for using the balance sheet liability method on the basis of the tax rates expected to apply when the assets are realized or the liabilities are settled. Deferred tax assets are recognized for the expected tax benefits of tax loss carryforwards for which it is probable that sufficient taxable profit will be available in future periods, and for temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and their tax base.

Income tax expense comprises payable and recoverable taxes for the reporting period, plus or minus the amount of changes in deferred tax assets and liabilities. The effect of changes in the tax rate on deferred tax assets or liabilities is recognized in profit or loss for the period in which the change becomes law.



Earnings per share

Basic and diluted earnings per share are calculated in accordance with IAS 33 *Earnings per Share*. Basic earnings per share are calculated on the basis of the weighted average number of no-par value shares outstanding in the fiscal year. Diluted earnings per share are calculated on the basis of the weighted average number of no-par value shares outstanding in the period, including potential no-par value shares from the exercise of all stock options.

Stock options

CeoTronics AG has introduced stock option plans for senior executives and specialist employees. Allowing senior executives and specialist employees to participate in the success of the Company is intended to reinforce their identification with the Company.

The existing plans are designed to grant the option holders a cash settlement measured as the amount of the difference between the exercise price and the share price of CeoTronics shares at the exercise date.

In accordance with IFRS 2 *Share-based Payment*, the Company recognizes the difference between the exercise price and the expected market price of the shares at the time of exercise as an employee expense, and allocates it ratably in the income statement over the term of the stock options. Exercise of stock options at the earliest possible date is assumed. The calculation is based on the share price of CeoTronics shares at the relevant reporting date.

Segment reporting

In accordance with IAS 14 *Segment Reporting*, information on the operating business is presented classified by certain segments.

The primary segment reporting format in the CeoTronics Group is geographic.



Consolidated Balance Sheet Disclosures

(10) Cash and Cash Equivalents

€ thousand	May 31, 2006	May 31, 2005
Cash and bank balances	2,376	2,243

This item contains balances on current accounts, overnight or time deposits, and cash-in-hand.

(11) Trade Receivables

Trade receivables as of May 31, 2006 are composed of the following items:

€ thousand	May 31, 2006	May 31, 2005
Trade receivables, gross	2,602	1,707
less: valuation allowances	-31	-31
Trade receivables, net	2,571	1,676

Trade receivables are due within one year. Valuation allowances of €24 thousand were recognized as general and administrative expenses in fiscal year 2005/2006.

(12) Inventories

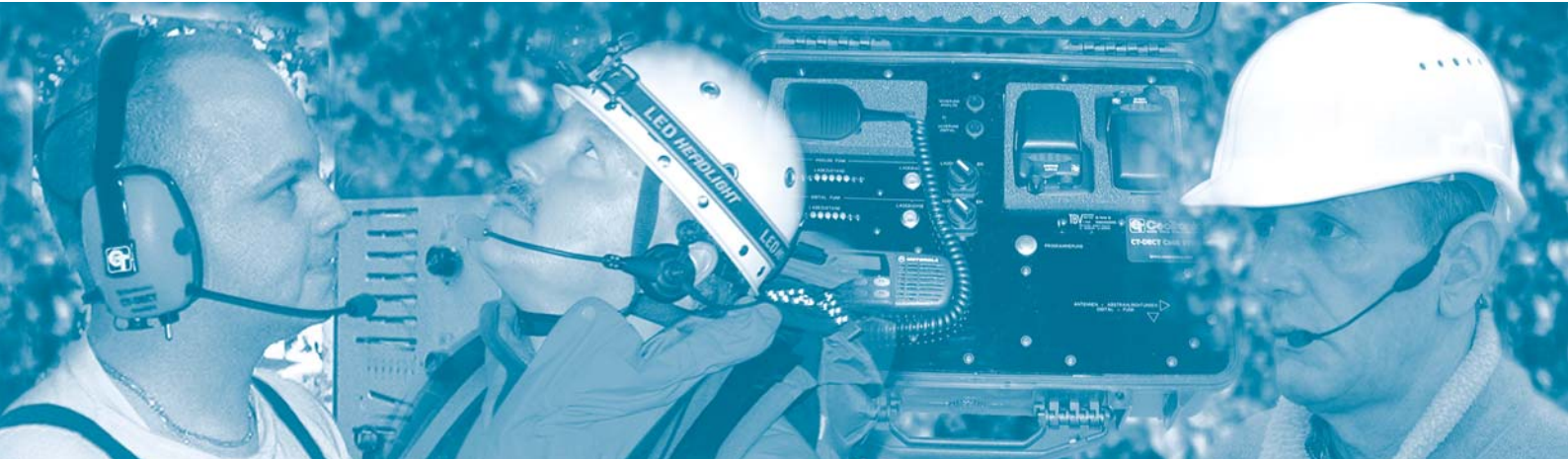
Inventories as of May 31, 2006 are composed of the following items:

€ thousand	May 31, 2006	May 31, 2005
Raw materials, consumables, and supplies	12	7
Work in progress	2,513	2,316
Finished goods	1,129	1,589
Inventories, net	3,754	3,912

Impairment losses of €593 thousand to the lower fair value were recognized in Cost of sales in the fiscal year.

The geographic breakdown of impairment losses was as follows:

€ thousand	Fiscal Year 2005/2006	Fiscal Year 2004/2005
Germany	330	303
Rest of Europe	64	49
Rest of world	199	156
Total impairment losses on inventories	593	508



(13) Other Current Assets

€ thousand	May 31, 2006	May 31, 2005
Other current assets		
Current tax receivables	56	109
Claims on employees	34	33
Prepaid expenses	98	158
Miscellaneous	41	15
Total other current assets	229	315

(14) Noncurrent Assets

Changes in noncurrent assets are presented separately in the Statement of Changes in Noncurrent Assets.

Investments

In fiscal year 2005/2006, CeoTronics AG primarily invested €129 thousand in new tools, €72 thousand in software, €57 thousand in machinery and equipment, €31 thousand in land and buildings, and €30 thousand in hardware.

CT-Video GmbH invested €24 thousand in operating and office equipment, €16 thousand in land and buildings, €14 thousand in software and licenses, €12 thousand in hardware, and €12 thousand in machinery and equipment.

A total of €63 thousand was invested in two motor vehicles outside Germany (Poland and U.S.A.).

Finance leases

CeoTronics U.S.A. acquired a total of four computers through finance leases in the reporting period; the expenditures were recognized as items of property, plant, and equipment and as financial liabilities. A monthly payment is payable for 36 months. It consists of a finance charge, which is recognized in the income statement of the period, and the reduction of the outstanding liability over the term of the lease. The lease contract allows the equipment to be purchased for USD 1.00 at the end of the lease term. There are no other agreements. The carrying amount at the reporting date was €3 thousand.

Hire-purchase

CeoTronics AG acquired no capital goods under hire-purchase arrangements in fiscal year 2005/2006 (prior year: €171 thousand).

Goodwill

Under Appendix B to IFRS 1, the carrying amounts from fiscal year 2004/2005 are the carrying amounts in the opening IFRS balance sheet.

In accordance with IFRS 3 *Business Combinations*, goodwill is not amortized, but written down for impairment. The carrying amount net of impairment losses is tested for impairment once a year and written down to the fair value if there are indications that goodwill is impaired.

As of May 31, 2006, goodwill resulting from initial consolidation or business combinations was attributable to the following cash-generating units:



€ thousand	Opening IFRS balance sheet	Impairment losses FY 2005/2006	Currency translation adjustments	Carrying amounts at year-end
from initial consolidation:				
CeoTronics France	322	0	0	322
CeoTronics Spain	13	0	0	13
CeoTronics Poland	134	0	0	134
Total	469	0	0	469
from business combinations:				
CeoTronics France	14	0	0	14
CeoTronics U.S.A.	1,019	97	-41	881
Total	1,033	97	-41	895
Goodwill	1,502	97	-41	1,364

Goodwill from initial consolidation

Effective May 31, 1996, CeoTronics AG acquired the remaining 33% interest in CeoTronics France; the company was formed in 1986. This interest was initially consolidated as of May 31, 1996. The difference resulting from this initial consolidation was classified in full as goodwill. Goodwill amounted to €79 thousand at the date of initial consolidation. The current carrying amount is €47 thousand. In fiscal year 1998/1999, CeoTronics AG also acquired all shares of A & C Achats et Communication Sarl, Pontault-Combault/France. This company was initially consolidated as of April 1, 1999. A & C Achats et Communication Sarl, Pontault-Combault/France, was merged with CeoTronics France. The difference of €323 thousand resulting from initial consolidation was classified in full as goodwill. The current carrying amount is €275 thousand.

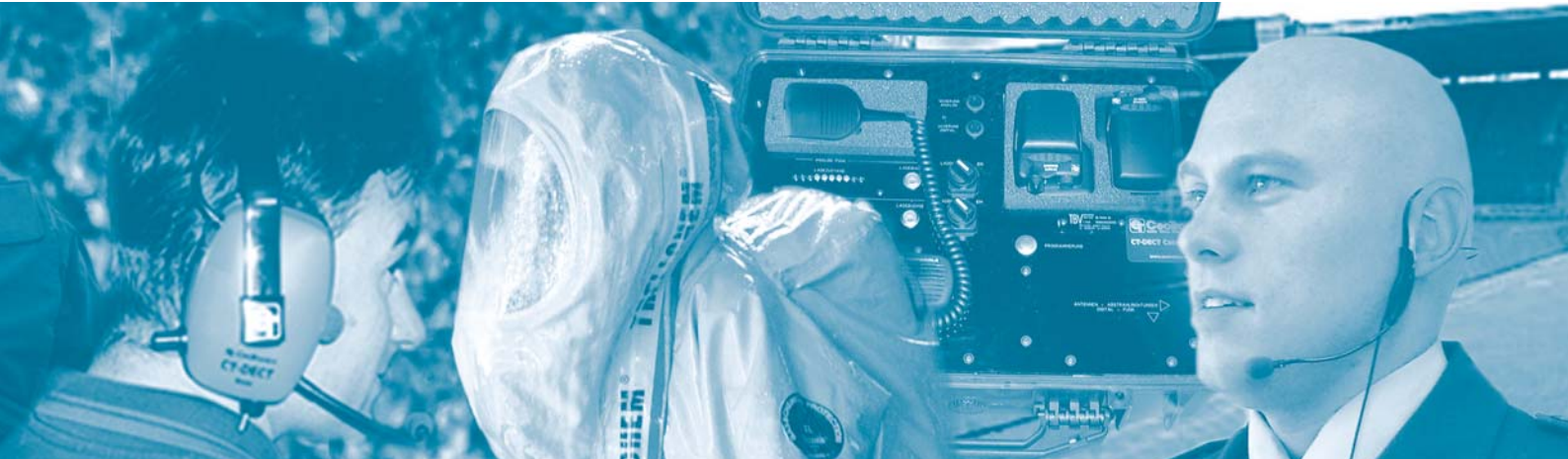
CeoTronics Spain recommenced its sales activities in 1998. The company was formed in 1992. This company was initially consolidated as of December 1, 1998. The difference resulting from this initial consolidation was classified in full as goodwill. Goodwill amounted to €16 thousand at the date of initial consolidation. The current carrying amount is €13 thousand.

CeoTronics AG acquired a 75% interest in CeoTronics Poland in fiscal year 2001/2002. The company was initially consolidated as of June 1, 2002. The difference resulting from initial consolidation was classified in full as goodwill. Goodwill amounted to €134 thousand at the date of initial consolidation. The current carrying amount is also €134 thousand.

Goodwill from business combinations

The goodwill from the acquisition of CeoTronics France results from the acquisition of A & C Achats et Communication Sarl, Pontault-Combault/France.

The goodwill at CeoTronics U.S.A. results from the acquisition of the audio business of DTC Inc., Nashua/U.S.A. The enterprise value calculated on the basis of the planning data for 2006/2007 to 2011/2012 is lower than the carrying amount, and a corresponding impairment loss of €97 thousand was recognized.



Government grants

No government grants were received by CT-Video GmbH in fiscal year 2005/2006 to acquire long-lived assets (previous year: €15 thousand).

Pledging of assets

Items of noncurrent assets in the amount of €105 thousand have been pledged as security for a rental agreement.

(15) Deferred Tax Assets

Deferred tax assets are composed of the following items:

€ thousand	May 31, 2006	May 31, 2005
Deferred tax assets on tax loss carryforward at CeoTronics U.S.A.		
Gross	561	561
less: valuation allowance	-281	-281
Net	280	280
Deferred tax assets on tax loss carryforward at CeoTronics AG	0	290
Deferred tax assets on tax loss carryforward at CT-Video GmbH	18	63
Deferred tax assets on tax loss carryforward at CeoTronics France	157	202
Deferred tax assets due to elimination of intercompany profits	80	81
Total deferred tax assets	538	916

In fiscal years 1997/1998, 1998/1999, and 1999/2000, the Company had already recognized deferred tax assets for the loss carryforward at the U.S. company amounting to €561 thousand, as required by IFRSs, provided that the loss carryforward is recoverable. On the basis of this year's loss, no further deferred tax assets were recognized for the loss carryforward of the U.S. company in fiscal year 2005/2006. The Company has now accumulated a loss carryforward of more than €3 million.

In fiscal year 2005/2006, comprehensive measures were instituted to reduce costs, which will have a positive effect on earnings in the coming fiscal year. On account of these measures, the Board of Management is expecting positive earnings in the coming years against which the tax loss carryforwards can be utilized. The deferred tax asset for the loss carryforward at the U.S. subsidiary amounting to a total of €561 thousand (previous year: €561 thousand) has been written down by 50% for reasons of prudence.

CeoTronics AG's earnings position improved significantly in fiscal year 2001/2002, with the result that utilization of the tax loss carryforwards was probable. CeoTronics AG's tax loss carryforwards have now been utilized in full by the positive earnings in fiscal year 2005/2006.

CT-Video GmbH has sustained positive earnings, and its profit before tax in fiscal year 2005/2006 was €118 thousand. The tax loss carryforwards have been partially utilized. The Company has complied with IAS 12 and recognized deferred taxes of €18 thousand (previous year: €63 thousand) resulting from corporate income tax and trade tax loss carryforwards.

As in the prior years, CeoTronics France closed fiscal year 2005/2006 with positive earnings. Management assumes that the tax loss carryforwards will also continue to be available for utilization in future. The deferred tax asset for the loss carryforward amounts to €157 thousand (previous year: €202 thousand).



Deferred taxes of €1 thousand (previous year: €-18 thousand) were recognized for consolidation adjustments in the income statement in fiscal year 2005/2006. Other temporary differences between the IFRS carrying amounts and the tax base of assets and liabilities are insignificant. No deferred taxes were therefore recognized for temporary differences in the reporting period or in the prior 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 IFRSs when calculating deferred taxes.

Trade tax in Germany is levied on the Company's taxable profit, 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 reporting period was approximately 15%.

A tax rate of 37% was applied when calculating deferred taxes on the loss carryforward of CeoTronics U.S.A.

The tax expense for fiscal year 2005/2006 of €678 thousand is based on the positive earnings of the majority of companies. This led to a further reduction in tax loss carryforwards and to the recognition of income tax provisions at individual companies.

Deferred taxes were recognized for timing differences resulting from consolidation adjustments recognized in profit or loss. This led to deferred tax assets in the amount of €80 thousand (previous year: €81 thousand).

(16) Financial Liabilities

€ thousand	May 31, 2006	May 31, 2005
Current:		
Overdrafts	86	205
Bank loans	26	112
Leasing companies	63	56
Total	175	373
Noncurrent:		
Banks	338	786
Leasing companies	91	126
Total	429	912
Total financial liabilities	604	1,285



In fiscal year 1999/2000, CeoTronics AG, Rödermark took out two loans amounting to €1,016 thousand to finance the acquisition of two plots of land, including the buildings erected on them, in Rödermark. The loans bear interest at 4.75% per annum until September 30, 2009. Both plots of land have been pledged as collateral to secure these loans. The entire remaining amount of €508 thousand was repaid in fiscal year 2005/2006.

In fiscal year 2001/2002, CT-Video GmbH, Lutherstadt Eisleben, took out a loan of €390 thousand to finance the acquisition of a plot of land, the erection of a building, and investments in operating equipment. The loan matures on March 31, 2020 and bears interest at 5.25% per annum. The land, including the buildings erected on it, has been pledged as collateral to secure the loan. As contractually agreed, redemption of the loan commenced on September 30, 2005. Because of the positive interest rate developments, the loan was rescheduled on March 3, 2006. The interest rate now agreed is 4.5% until January 31, 2016. Provided that principal repayments remain constant, the loan will be fully repaid by March 31, 2020. The remaining amount of the loan as of May 31, 2006 is €364 thousand.

The interest expenses for all liabilities to banks amounted to €67 thousand in 2005/2006 and €87 thousand in 2004/2005.

The Group has access to adequate lines of credit from several banks.

The following table shows the due dates of financial liabilities:

€ thousand	
2006/2007	175
2007/2008	84
2008/2009	52
2009/2010	33
2010/2011	26
Thereafter	234
Total	604

The financial liabilities contain liabilities from finance leases (purchase of four computers by CeoTronics U.S.A. - see note 14) amounting to €3 thousand. The minimum lease payments and the present value of the finance leases are presented in the following:

€ thousand	Minimum lease payments	Present value
2006/2007	1	1
2007/2008	1	1
2008/2009	1	1
2009/2010	0	0
2010/2011	0	0
Thereafter	0	0
Total	3	3

The lease payments of €1 thousand in fiscal year 2005/2006 were recognized in Selling and marketing expenses in the income statement.



(17) Trade Payables

Trade payables of €679 thousand as of May 31, 2006 (previous year: €436 thousand) are due within one year.

(18) Provisions

The breakdown of other provisions is presented in the following overview:

€ thousand	May 31, 2005	Utilization	Reversals	Additions	May 31, 2006
Current provisions					
Provisions for employee expenses					
Claims for outstanding vacation entitlements and overtime	179	100	1	166	244
Employee bonuses	233	233	0	312	312
Management bonuses	140	133	7	143	143
Measurement of employee options	46	0	0	5	51
	598	466	8	629	750
Other provisions					
Legal and consulting fees and year-end closing costs	81	72	1	65	73
Warranty provisions	44	15	0	16	45
Miscellaneous	103	84	3	48	64
	228	171	4	129	182
Total provisions	826	637	12	755	932

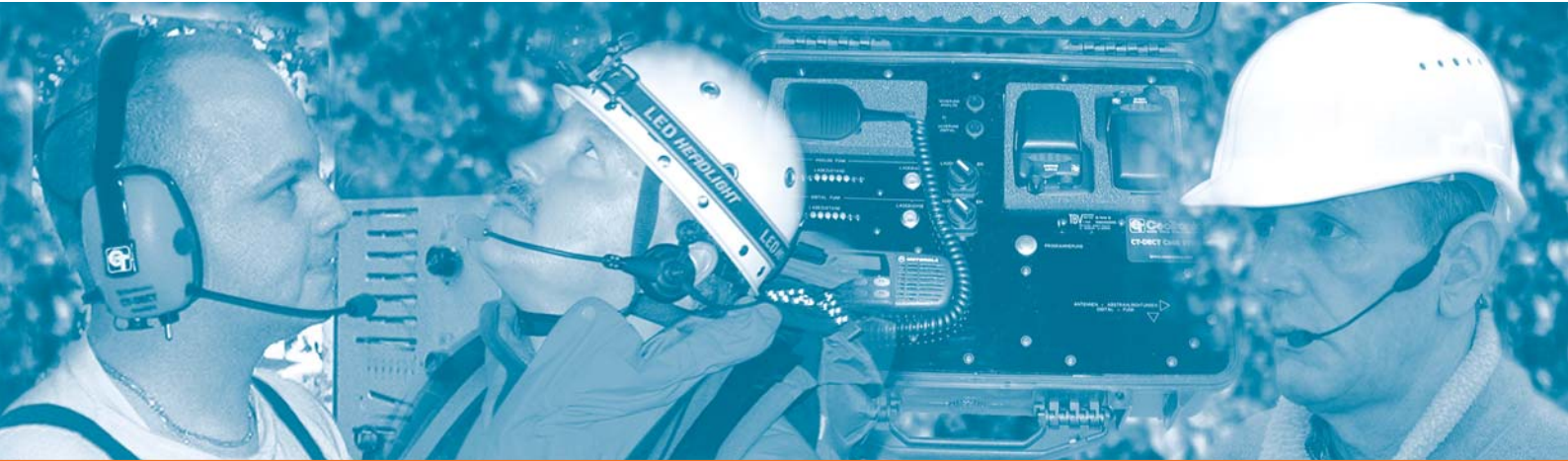
Provisions are recognized for the expected costs of warranty claims on the basis of past experience and reflect current trends expressed as a percentage of revenues. Differences between the actual and expected expenditures result in changes in estimates and are recognized in profit or loss for the period in which the change has arisen.

The measurement of employee options relates to two outstanding employee option plans. The provision is recognized in the amount of the difference between the virtual subscription price and the expected market price of the shares at the exercise date. The option holder receives a cash settlement on exercise.

(19) Other Current Liabilities

€ thousand	May 31, 2006	May 31, 2005
Current tax payables	288	189
Social security liabilities	13	128
Payable to employees (commission)	0	34
Miscellaneous	46	41
Other current liabilities	347	392

The other current liabilities are due within one year.



(20) Equity

Changes in equity are presented in the Statement of Changes in Equity.

Subscribed capital

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

Authorized capital

The General Meeting on November 16, 2001 authorized the Board of Management to increase the share capital in the period up to November 15, 2006 by an aggregate amount of up to 529,999 no-par value shares by issuing new bearer shares against cash or non-cash contributions, with shareholders' preemptive rights disappplied, and to increase the share capital accordingly.

The General Meeting on November 4, 2005 resolved to cancel the existing resolutions on authorized capital and to authorize the Board of Management, with the approval of the Supervisory Board, to increase the share capital in the period up to November 3, 2010 by an aggregate amount of up to €3,299,994 by issuing no-par value bearer shares against cash or non-cash contributions on one or more occasions, 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 shareholders' preemptive rights to the issue in the following cases:

- for fractions to round the amounts of capital increases;
- in the case of capital increases against cash contributions, if the capital increase does not exceed ten percent of the share capital (currently 219,999 shares) and the issue price is not materially lower than the applicable stock exchange price.
The applicable stock exchange price is the average price of the Company's shares in floor trading in Frankfurt (or a comparable successor system) during the last three trading days before the resolution by the Board of Management to issue new shares. If the new shares are subscribed by an underwriter with a simultaneous commitment by the underwriter to offer the new shares for sale to one or more third parties designated by the Company, the issue price under this authorization shall be the amount payable by the third party or parties;
- if the capital is increased against non-cash contributions for the purpose of acquiring companies, parts of companies, or investments in companies.

The Board of Management was authorized, with the approval of the Supervisory Board, to determine the further details of the rights attached to the shares and the other details of the capital increases and their implementation.

The resolution of November 4, 2005 was entered in the commercial register on January 3, 2006.

Capital reserves

The capital reserves contain the premium from shares issued at the time of the Company's IPO in 1998.

Retained earnings

Amounts have been appropriated to the retained earnings of CeoTronics AG in accordance with section 150(2) of the AktG (German Stock Corporation Act).



Equity ratio

The equity of the CeoTronics Group as of May 31, 2006 amounted to €11,343 thousand (previous year: €10,819 thousand), producing an equity ratio of 79.5% (previous year: 77.5%).

Dividend distributions

Profit distributions are based on the net income reported in the single-entity financial statements of CeoTronics AG, including any accumulated losses brought forward and any appropriations to, or withdrawals from, reserves (net retained profit/net accumulated losses). Due to a number of factors, including adjustment items for IFRS purposes, these amounts differ from the amounts reported in the consolidated financial statements. The single-entity financial statements of CeoTronics AG reported net retained profit of €2,353 thousand as of May 31, 2006.

Proposal on the appropriation of net profit

By way of a resolution dated August 18, 2006, the Board of Management is proposing to distribute a dividend of €0.30 per share to the shareholders.

(21) Minority Interest

The minority interest in companies of the CeoTronics Group relates to a 25% minority interest in AACOM-CeoTronics Sp. z.o.o. The minority interest of €43 thousand as of May 31, 2006 (previous year: €48 thousand) is presented directly in equity.

Consolidated Income Statement Disclosures

(22) Revenues

Revenues increased by 13.7% or €2,182 thousand year-on-year to €18,060 thousand in fiscal year 2005/2006 (previous year: €15,878 thousand). €17,530 thousand was generated by the sale of goods and €530 thousand by other services.

Changes in revenues by region are presented in the segment reporting in note 32.

(23) Cost of Sales

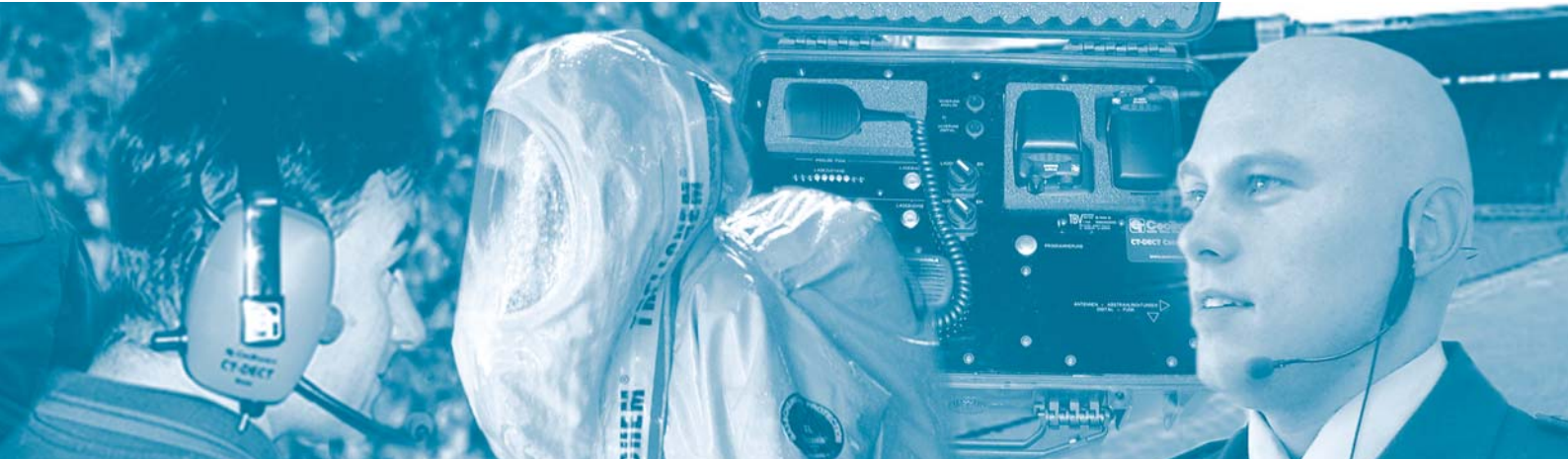
Cost of sales increased to €9,321 thousand in the reporting period (previous year: €8,062 thousand). The ratio of cost of sales to revenues is now 51.6% (previous year: 50.8%).

The revenues disclosed above were reduced by aggregate cost of materials amounting to €6,636 thousand in fiscal year 2005/2006 (previous year: €5,418 thousand). The ratio of cost of materials to revenues is thus 36.8% (previous year: 34.1%). Cost of materials includes impairment losses of €593 thousand (previous year: €508 thousand).

(24) Research and Development Expenses

In fiscal year 2005/2006, the CeoTronics Group implemented projects that will only lead to revenues in future periods. In accordance with IFRSs, these expenditures were recognized in full as expenses in the current period.

Although these projects thus reduced the Group's earnings in the reporting period, management believes that these expenditures will be amortized in the medium term because of the tremendous market potential for the resulting products.



(25) Employee Expenses

€ thousand	Fiscal Year 2005/2006	Fiscal Year 2004/2005
Wages and salaries	5,409	5,135
Social security, post-employment, and other employee benefit expenses	992	944
Total employee expenses	6,401	6,079
of which in respect of old age pensions	18	19

An average aggregate of 135 (previous year: 129) employees were employed in the CeoTronics Group in the year under review.

(26) Depreciation, Amortization, and Impairment Losses

Amortization of €47 thousand (previous year: €66 thousand) was charged on intangible assets.

Depreciation of €396 thousand (previous year: €358 thousand) was charged on items of property, plant, and equipment.

(27) Other Operating Income and Expenses

This item is broken down as follows:

€ thousand	Fiscal Year 2005/2006	Fiscal Year 2004/2005
Other operating income	103	115
Other operating expenses	57	65
Other operating income and expenses	46	50

Other operating income relates primarily to income from the reversal of provisions (€27 thousand), expired stock options (€13 thousand), and exchange rate gains of €62 thousand.

Other operating expenses relate in particular to exchange rate losses of €32 thousand and to other taxes (€21 thousand).

(28) Interest Income and Expense

Net interest expense is composed of the following items:

€ thousand	Fiscal Year 2005/2006	Fiscal Year 2004/2005
Interest and similar income	26	14
Interest and similar expenses	-67	-92
Net interest expense	-41	-78

Interest income relates primarily to overnight and term deposits.

Interest expenses are composed mainly of mortgage interest and the amortization of a discount.



(29) Income Tax Expense

Tax expenses relate to corporate income tax, the solidarity surcharge, and municipal trade tax (computed on the basis of the trade tax multiplier at the domicile of the Company) at the German companies, and to comparable income taxes at the foreign companies.

In Germany, the corporate income tax rate was 25.0%, the solidarity surcharge was 5.5% on the corporate income tax liability, and the municipal trade tax rate was equivalent to 14.9% in Rödermark (CeoTronics AG) and 13.4% in Lutherstadt Eisleben (CT-Video GmbH).

The corresponding income tax rates outside Germany in the fiscal year were between 15% and 37%.

The tax expense is composed of the following items:

€ thousand	Fiscal Year 2005/2006	Fiscal Year 2004/2005
Current taxes		
Germany	107	-119
Abroad	190	170
Total	297	51
Deferred taxes	381	407
Income tax expense	678	458

The reconciliation of the expected tax expense at the applicable tax rate in Germany (based on pre-tax profit) to the effective tax expense is presented in the following table. To arrive at the expected tax expense, the profit before tax is multiplied by a tax rate of 37.3% (previous year: 37.3%). This is composed of a corporate income tax rate of 25.0%, a municipal trade tax rate of 14.9%, and a solidarity surcharge of 5.5%.

€ thousand	Fiscal Year 2005/2006	Fiscal Year 2004/2005
Profit before tax	1,658	1,510
Tax expense at the applicable tax rate (37.3%)	618	563
Difference due to foreign tax rates	-62	-61
Benefit of tax loss carryforwards	-381	-407
Non-deductible expenses	44	373
Effect on deferred taxes	663	523
Effect of consolidation adjustments	-119	-375
Other differences	-85	-185
Tax expense reported in consolidated financial statements	678	458



Other Disclosures

(30) Cash Flow Disclosures

For the purposes of the cash flow statement, CeoTronics AG defines cash investments with a maximum original maturity of three months as cash equivalents. There is no restricted cash or cash equivalents.

The format of the cash flow statement complies with IAS 7 *Cash Flow Statements*, and classifies cash flow into cash flow from operating, investing, and financing activities.

Cash flow from investing and financing activities is derived from cash payments and receipts, while cash flow from operating activities is derived indirectly from consolidated profit.

(31) Earnings per Share

€ thousand	Fiscal Year 2005/2006	Fiscal Year 2004/2005
Consolidated profit attributable to shareholders of the parent	961	1,030
Weighted average number of shares	2,199,998	2,199,998
Earnings per share	0.44	0.47

In accordance with IAS 33 *Earnings per Share*, basic earnings per share are computed by dividing 'Consolidated profit attributable to shareholders of the parent' by the weighted average number of shares outstanding in the year.

As in the prior year, all shares of the Company were outstanding in fiscal year 2005/2006.

There was no dilutive effect from the stock option plans in either the prior year or the reporting period because Stock Option Plan III was not exercised in fiscal year 2005/2006 and exercise was not financially feasible at any time. No dilution from the existing stock option plans is possible because the plans exclusively feature cash settlements.

(32) Segment Reporting

Segment reporting was prepared in accordance with IAS 14 *Segment Reporting*. The Company assesses the performance of the subsidiaries on the basis of their pre-tax profit. The accounting policies applicable to geographic segment reporting are identical to those described in note 9.

The information is presented for two segments. The primary segment describes the geographic breakdown by country of origin (domicile of the company in question), while the secondary segment contains the geographic breakdown by customer domicile.

The Company's product groups are comparable in terms of both production process and marketing methods. Internal and external reporting primarily follows geographic criteria. At present, only revenues are recorded separately by product and product group. Please refer to the explanations in the Group management report for information on revenues by product and product group.



The segment information is presented by region in the following.

Revenues

Revenues are attributable as follows to the various regions in the primary segment (by country of origin) in fiscal years 2005/2006 and 2004/2005:

€ thousand	Fiscal Year 2005/2006	Fiscal Year 2004/2005
Germany	9,084	9,483
Rest of Europe	8,477	5,865
Rest of world	499	530
Third-party revenues	18,060	15,878

The breakdown in the secondary segment (by customer country) is as follows:

€ thousand	Fiscal Year 2005/2006	Fiscal Year 2004/2005
Germany	5,913	6,697
Rest of Europe	11,538	8,603
Rest of world	609	578
Third-party revenues	18,060	15,878

Profit or loss for the year

Profit or loss for the year is attributable as follows to the various regions (primary segment) in fiscal years 2005/2006 and 2004/2005:

€ thousand	Fiscal Year 2005/2006	Fiscal Year 2004/2005
Germany	992	896
Rest of Europe	541	404
Rest of world	-554	-248
Consolidated profit	979	1,052

Segment assets

Segment assets are attributable as follows to the various regions (primary segment) as of May 31, 2006 and May 31, 2005:

€ thousand	May 31, 2006	May 31, 2005
Germany	8,751	9,115
Rest of Europe	3,864	2,906
Rest of world	1,656	1,945
Total segment assets	14,271	13,966



Segment liabilities

Segment liabilities are attributable as follows to the various regions (primary segment) as of May 31, 2006 and May 31, 2005:

€ thousand	May 31, 2006	May 31, 2005
Germany	2,217	2,545
Rest of Europe	633	582
Rest of world	77	20
Total segment liabilities	2,927	3,147

Noncurrent assets

Noncurrent assets are attributable as follows to the various regions (primary segment) as of May 31, 2006 and May 31, 2005:

€ thousand	May 31, 2006	May 31, 2005
Germany	3,285	3,251
Rest of Europe	597	593
Rest of world	923	1,060
Total noncurrent assets	4,805	4,904

Investments

Investments are attributable as follows to the various regions (primary segment) in fiscal years 2005/2006 and 2004/2005:

€ thousand	Fiscal Year 2005/2006	Fiscal Year 2004/2005
Germany	419	402
Rest of Europe	66	56
Rest of world	28	2
Total investments	513	460

Depreciation, amortization, and impairment losses

Depreciation, amortization, and impairment losses are attributable as follows to the various regions (primary segment) in fiscal years 2005/2006 and 2004/2005:

€ thousand	Fiscal Year 2005/2006	Fiscal Year 2004/2005
Germany	394	380
Rest of Europe	35	19
Rest of world	112	21
Total depreciation, amortization, and impairment losses	541	420



(33) Litigation

Neither CeoTronics AG nor any of its subsidiaries are currently involved in pending court or arbitration proceedings that could materially affect the net assets, financial position, and results of operations of the Group.

(34) Disclosure of Auditors' Fees

The following fees were agreed or recognized as expenses for the statutory auditors in fiscal years 2005/2006 and 2004/2005:

€ thousand	Fiscal Year 2005/2006	Fiscal Year 2004/2005
Fees for audits of financial statements	53	52
Fees for other assurance and advisory services	0	0
Fees for tax advisory services	6	3
Fees for other services provided to the Company or to its subsidiaries	0	0
Total	59	55

(35) Other Financial Commitments

The Group has entered into commitments as a lessee under operating leases. These relate primarily to motor vehicle leases. There are also other financial commitments from office rental agreements.

The following amounts were incurred in the reporting period and the prior year:

€ thousand	Fiscal Year 2005/2006	Fiscal Year 2004/2005
Building rents	420	430
Motor vehicle leases	113	131
Total rental and lease expenses	533	561

Future obligations under operating leases and rental agreements at May 31, 2006 amounted to:

€ thousand	
For fiscal year 2006/2007	461
For fiscal year 2007/2008	340
For fiscal year 2008/2009	79
For fiscal year 2009/2010	37
For fiscal year 2010/2011	23
Thereafter	0
Total future rental and lease obligations	940

There were no subleases at the reporting date.



(36) Stock Option Plans

The Board of Management and the Supervisory Board introduced a total of five stock option plans for senior executives and specialist employees in fiscal years 1998/1999, 1999/2000, 2000/2001 and 2003/2004, three of which have now expired. The aim of the plans is to strengthen the identification of senior executives and specialist employees with the Company by allowing them to participate in the Company's success.

The first two stock option plans expired in fiscal year 2003/2004 and 2004/2005 without any options having been exercised by the beneficiaries.

In fiscal year 2000/2001, the Company launched a third stock option plan for senior executives and specialist 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 entitled senior executives and specialist 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 equaled the average price in the last ten days of trading before December 15, 2000 (€10.98). The subscribers were able to exercise their options in the period between December 4, 2002 and December 3, 2005. However, exercise was subject to the condition that certain profit or share price targets for CeoTronics shares were met. For example, exercise based on share price targets did not become effective until the share price reached €35, slightly above the issue price of the shares. Because the price of CeoTronics shares was considerably lower than €35 in the exercise period, this stock option plan, too, was not exercised. In fiscal year 2005/2006, the liabilities from the option premiums received were therefore reversed to the income statement (gain of €13 thousand).

In fiscal year 2003/2004, the Company launched a fourth and fifth stock option plan for senior executives and specialist 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 option premium was €0.10 per option.

Purchase of an option entitles senior executives and specialist 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 equaled the average price in the last ten days of trading before November 6, 2003 (€2.12). The subscribers are able to 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 for CeoTronics shares are met. If a participant in the stock option plan leaves the Company, the options expire under certain conditions. 6,000 stock options from this stock option plan were outstanding as of May 31, 2006.

The exercise price of shares in the fifth stock option plan equaled the average price in the last ten days of trading before May 28, 2004 (€3.76). The subscribers are able to 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 for CeoTronics shares are met. If a participant in the stock option plan leaves the Company, the options expire under certain conditions. 6,000 stock options from this stock option plan were outstanding as of May 31, 2006.



The employees who left the Company during the past fiscal year returned 2,000 virtual stock options to the Company, with the result that 12,000 stock options from the existing stock option plans were outstanding as of May 31, 2006.

Changes in the fiscal year in the number of stock options in issue were as follows:

€ thousand	Plan III	Plan IV	Plan V	Total
Balance at June 1, 2005	13,400	6,000	8,000	27,400
Options granted	0	0	0	0
Options forfeited	13,400	0	0	13,400
Options exercised	0	0	0	0
Options expired	0	0	0	0
Options repurchased	0	0	2,000	2,000
Balance at May 31, 2006	0	6,000	6,000	12,000

All options outstanding as of May 31, 2006 were exercisable at the reporting date.

The option premiums paid by the employees for the stock option plans amounting to an aggregate of €1 thousand are reported in Other current liabilities.

The Company recognizes the difference between the subscription price and the expected market price of the shares at the date of exercise as an employee expense and allocates it ratably in the income statement over the term of the stock options. Exercise of stock options at the earliest possible date is assumed. Because both stock option plans could already be exercised as of the reporting date, the current share price as of May 31, 2006 was used for the calculation. The ratable expense calculated for the reporting period was €5 thousand.

(37) Hedging Policy and Risk Management

Price and currency risk

The CeoTronics Group is exposed to price and currency fluctuations because of its international business operations. 84% of all revenues are generated in the euro zone, and the remaining 16% are generated primarily in the U.S.A., the United Kingdom, Poland, and Switzerland. Because the consolidated financial statements are prepared in euros, fluctuations between the euro and the corresponding foreign currencies have a not insignificant effect on the level of revenues and of individual income and expense items. Currency risks are mitigated by operating business locations in the corresponding countries; in addition to generating revenues in foreign currency, they also incur expenses in the same currency. No specific currency hedging transactions have been entered into in the past.

Market risk

The CeoTronics Group is not significantly dependent on individual customers, neither does any customer account for 10% or more of aggregate Group revenues.

The share of the aggregate procurement volume of the CeoTronics Group attributable to individual suppliers is also less than 10%. Secondary sources have also been developed for the majority of assemblies/components, or can be activated within a very short period.



Because of the strongly competitive environment, the CeoTronics Group is faced with the need to continuously upgrade existing products and to drive forward the development of new products. The goal is to reinforce or extend the Company's existing technical lead over its competitors. The high degree of innovation in, and advanced technology of, CeoTronics products reduces price pressure and thus limits the price risk to the CeoTronics Group. In the past, the high level of research and development expenditures incurred to achieve this have always been amortized in the short to medium term.

Interest rate risk

Interest rate risk, i.e., the risk of exposure to possible fluctuations in the value of financial instruments because of changes in market rates of interest, may in particular affect medium- and long-term fixed-rate receivables and liabilities. There are no medium- and long-term interest-bearing receivables in the Group. Most of the noncurrent liabilities (loans) were repaid prior to maturity in the fiscal year under review. The fixed-interest period for the existing loan does not expire until 2016. Provided that principal is repaid on schedule, the remaining value of the loans after expiration of the fixed-interest period will be €117 thousand. No interest rate hedging contracts are entered into because of the low volume of financial instruments.

Liquidity risk

In many cases, CeoTronics AG makes advance payments for substantial materials purchases, especially for large contracts, although the contracts themselves are not invoiced and settled until months later. To mitigate this risk, CeoTronics AG has reached agreement with banks on adequate and, in fiscal year 2005/2006, considerably expanded lines of credit. This safeguards adequate liquidity in the Group at all times.

Default risk

The carrying amount of financial assets is the maximum value at risk if business partners do not meet their contractual payment obligations. To keep the default risk to a minimum, CeoTronics AG has established a comprehensive receivables management system that ensures that credit rating information is obtained or historical data – and in particular payment patterns – from the existing business relationship is used to avoid payment default. If default risks are identified for individual financial assets, these risks are taken into account in the form of valuation allowances. In fiscal year 2005/2006, bad debts amounted to €24 thousand or 0.13% of revenues (previous year: €3 thousand or 0.02% of revenues).



(38) Employees

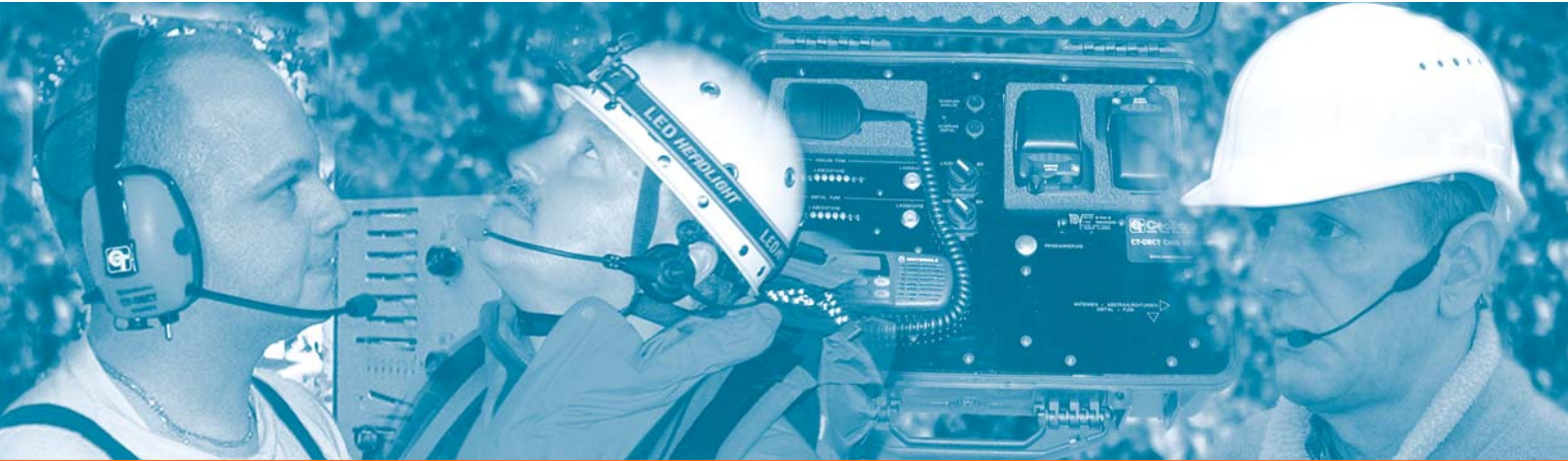
An average of 135 employees were employed in the CeoTronics Group in fiscal year 2005/2006 (previous year: 129). The breakdown by function was as follows:

	Fiscal Year 2005/2006	Fiscal Year 2004/2005
Purchasing and production	69	67
Sales and marketing	38	37
Research and development	10	8
Administration	18	17
Total employees	135	129

The number of employees in the Group is broken down by region as follows:

	Fiscal Year 2005/2006	Fiscal Year 2004/2005
Germany	116	110
U.S.A.	5	5
Spain	4	4
United Kingdom	1	1
France	4	4
Poland	3	3
Switzerland	2	2
Total	135	129

Employee expenses amounted to €6,401 thousand in fiscal year 2005/2006, compared with €6,079 thousand in the prior year.



(39) Executive Bodies and Remuneration

Board of Management

The members of the Board of Management in fiscal year 2005/2006 were:

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

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

The General Meeting on November 4, 2005 resolved that the salaries and other remuneration components will not be disclosed individually for each member of the Board of Management in the annual financial statements and consolidated financial statements of CeoTronics AG. This also applies to benefit commitments to the members of the Board of Management in the event of termination of their activities. The resolution is effective for the fiscal year beginning June 1, 2005 and for the four subsequent fiscal years until May 31, 2010.

The total remuneration of the Board of Management in the fiscal year amounted to €617 thousand (previous year: €640 thousand). The total remuneration is broken down into fixed salary components of €529 thousand (previous year: €522 thousand), variable remuneration components of €86 thousand (previous year: €90 thousand), plus €2 thousand from the measurement of the outstanding virtual stock options held by members of the Board of Management (previous year: €28 thousand).

Supervisory Board

In accordance with Article 11 of the Articles of Association, the Supervisory Board has at least three members who are elected by the General Meeting. The members of the Supervisory Board in the period under review were:

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

Hans-Dieter Günther has been Chairman of the Supervisory Board of Rhein-Main-Factoring AG, Rodgau, since January 12, 2004.



There are no further memberships of supervisory bodies as defined by section 125(1) sentence 3 of the AktG. The total remuneration of the Supervisory Board in fiscal year 2005/2006 amounted to €72 thousand (previous year: €65 thousand), of which €44 thousand (previous year: €44 thousand) related to fixed remuneration and €28 thousand (previous year: €21 thousand) to variable components. The members of the Supervisory Board receive the above amounts plus value added tax at the statutory rate.

(40) Related Party Disclosures

Shareholdings of the members of the executive bodies

The members of the executive bodies held the following shares of CeoTronics AG:

Function	Name	Number of CeoTronics shares (ISIN DE 0005407407/WKN 540740) in units	
		May 31, 2006	May 31, 2005
Board of Management			
Chief Executive Officer	Thomas Günther	9,498	9,498
Chief Technology Officer	Berthold Hemer	171,050	211,050
Chief Operating Officer	Günther Thoma	6,022	6,022
Supervisory Board			
Chairman	Hans-Dieter Günther	371,200	371,200
Deputy Chairman	Horst Schöppner	218,470	226,300
Member	Stephan Haack	0	

The following members of the executive bodies also hold stock options issued by CeoTronics AG:

Function	Name	Number of CeoTronics stock options	
		May 31, 2006	May 31, 2005
Board of Management			
Chief Executive Officer	Thomas Günther	2,000	2,800
Chief Technology Officer	Berthold Hemer	2,000	3,000
Chief Operating Officer	Günther Thoma	2,000	2,800



Other service relationships

The Company rents a factory building in Rödermark from a shareholder. The corresponding lease will end on March 30, 2008. The annual rent is €237 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 with a total value of €69 thousand, and has purchased other services.

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

The same Supervisory Board member offers management consultancy services as a sole proprietor and the Company purchased services in the amount of €1 thousand.

A member of the Supervisory Board is a member of a law and notary firm to which the Company paid fees in the fiscal year in the amount of €3 thousand in accordance with the appropriate schedules of fees.

The daughter of a member of the Supervisory Board is the owner of a translation agency from which the Company purchased services in the amount of €5 thousand in fiscal year 2005/2006.

No amounts were outstanding at the reporting date under the above service relationships.

(41) Events after the Balance Sheet Date

In accordance with IAS 10 *Events after the Balance Sheet Date*, events after the balance sheet date are favorable and unfavorable events that occur between the balance sheet date and the date when the financial statements are authorized for issue.

There were no significant events after the balance sheet date.



(42) Declaration of Conformity with the German Corporate Governance Code

The Board of Management and the Supervisory Board have published the Declaration of Conformity on compliance with the provisions of the German Corporate Governance Code in accordance with section 161 of the AktG on the Internet (<http://www.ceotronics.com>), and have thus made it permanently accessible to shareholders.

Rödermark, August 18, 2006

CeoTronics AG

Audio • Video • Data Communication

Thomas H. Günther

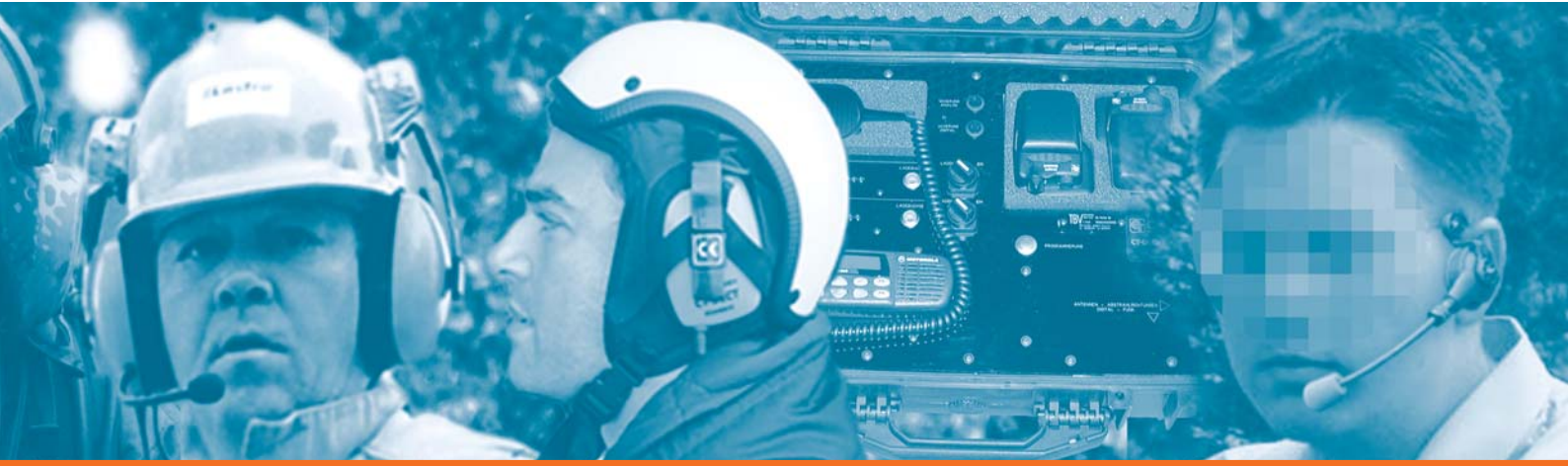
Chairman of the Board of Management and Chief Executive Officer

Berthold Hemer

Deputy Chairman of the Board of Management and Chief Technology Officer

Günther Thoma

Member of the Board of Management and Chief Operating Officer





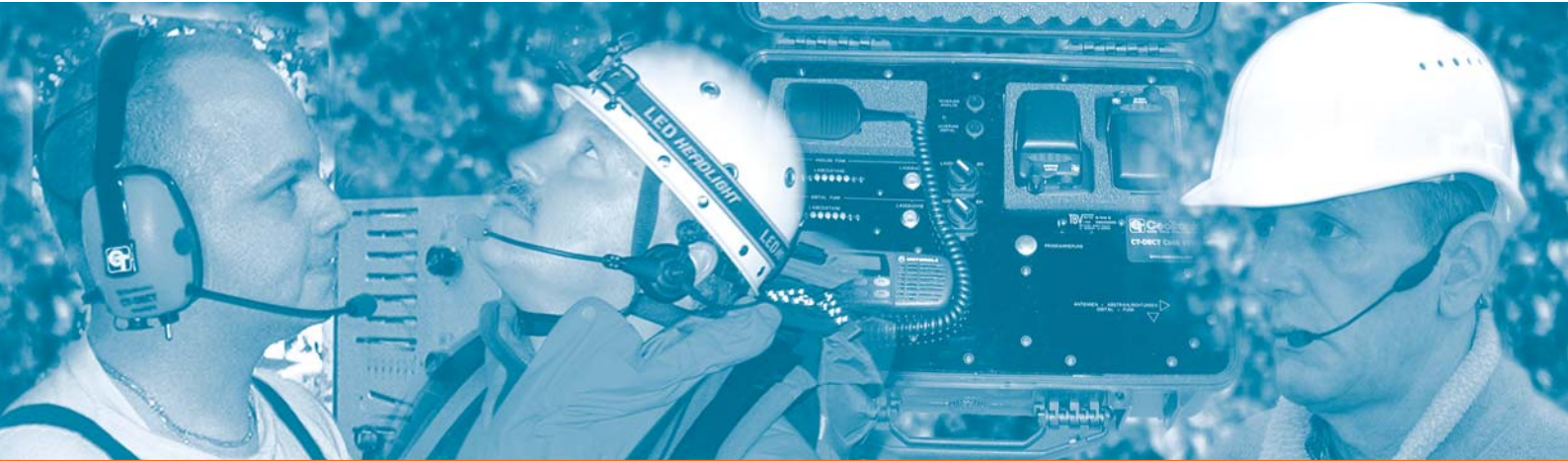
Auditors' Report

Auditors' report on the consolidated financial statements of CeoTronics Aktiengesellschaft Audio · Video · Data Communication, Rödermark, as of May 31, 2006

We have issued an unqualified auditors' report as follows:

"We have audited the consolidated financial statements – comprising the balance sheet, income statement, statement of changes in equity, cash flow statement, and the notes – and the group management report prepared by CeoTronics Aktiengesellschaft Audio · Video · Data Communication, for the fiscal year from June 1, 2005 to May 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a(1) of the Handelsgesetzbuch (HGB - German Commercial Code) is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the HGB and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements in accordance with the applicable financial reporting standards and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the determination of the companies to be included in the consolidated financial statements, the accounting and consolidation principles used, and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report.



We believe that our audit provides a reasonable basis for our opinion.

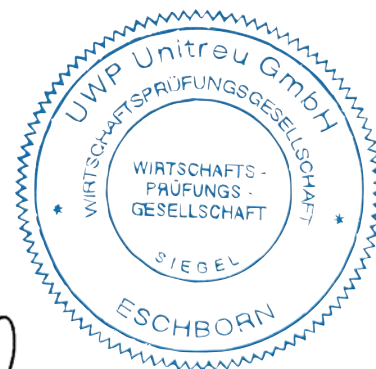
Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a(1) of the HGB and give a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, as a whole provides a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development."

The consolidated financial statements and/or the group management report may only be published or made available to third parties in a version that differs from the version for which we have issued our auditors' report (including its translation into other languages) after we have issued another opinion on this version to the extent that our audit opinion is cited or reference is made to our audit; we refer in particular to section 328 of the HGB (German Commercial Code).

Eschborn, August 18, 2006

UWP Unitreu GmbH
Wirtschaftsprüfungsgesellschaft



Stefan Sauerbier
Wirtschaftsprüfer

Peter J. Goldsche
Wirtschaftsprüfer



CeoTronics AG Germany

Condensed HGB Balance Sheet – Assets

€ thousand	May 31, 2006	May 31, 2005
Intangible assets	185	174
Tangible assets	2,358	2,380
Financial assets	4,328	4,428
Fixed assets	6,871	6,982
Inventories	2,650	2,693
Trade receivables	743	661
Receivables from affiliated companies	3,097	2,127
Other receivables	131	163
Securities	0	0
Cash funds	1,223	1,407
Current assets	7,844	7,051
Total assets	14,715	14,033

Condensed HGB Balance Sheet – Equity and Liabilities

€ thousand	May 31, 2006	May 31, 2005
Subscribed capital	6,600	6,600
Capital reserves	4,181	4,181
Revenue reserves	15	15
Net retained profit/net accumulated losses	2,353	1,353
Equity	13,149	12,149
Provisions for taxes	103	0
Other provisions	695	674
Provisions	798	674
Liabilities to banks	0	512
Advances received	24	29
Trade payables	548	229
Liabilities to affiliated companies	6	22
Other liabilities	190	418
Liabilities	768	1,210
Total equity and liabilities	14,715	14,033



Condensed HGB Income Statement

€ thousand	May 31, 2006	May 31, 2005
Sales	13,975	12,755
Cost of sales	-7,745	-7,158
Gross profit	6,230	5,597
Research and development expenses	-1,066	-805
Selling and marketing expenses	-2,981	-2,802
General and administrative expenses	-1,043	-1,005
Other operating expenses	-67	-334
Other taxes	-5	-4
Operating expenses	-5,162	-4,950
Other operating income	221	185
Operating result (EBIT)	1,289	832
Net financial and investment income	259	-320
Result before income taxes	1,548	512
Taxes on income	-108	119
Net income for the year	1,440	631



Executive Bodies

Supervisory Board:

Hans-Dieter Günther
Businessman, 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



CeoTronics AG Financial Calendar

IIFF 2006 Investment Forum Frankfurt	September 14, 2006
Report on 1st quarter as of August 31, 2006	October 13, 2006
General Meeting 2006	November 3, 2006
German Equity Forum Fall 2006	November 28, 2006
Report on 2nd quarter as of November 30, 2006	January 12, 2007
Report on 3rd quarter as of February 28, 2007	April 13, 2007
End of fiscal year 2006/2007	May 31, 2007
Report on 4th quarter and annual report as of May 31, 2007	August 17, 2007
Annual earnings press conference in Rödermark	August 30, 2007
Analyst meeting in Rödermark	August 30, 2007
Report on 1st quarter as of August 31, 2007	October 12, 2007
General Meeting 2007	November 2, 2007

All information subject to correction and change without notice.



Editorial Information

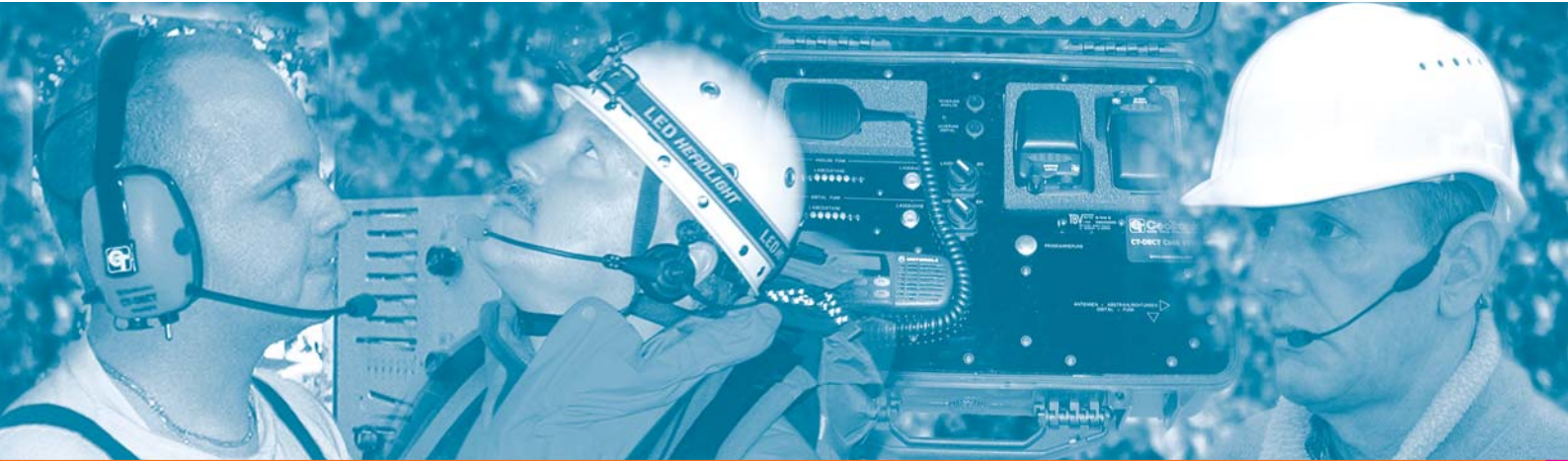
Published by: CeoTronics AG, Audio • Video • Data Communication
Contact: Thomas H. Günther, CEO
Graphic design: Alexander U. Günther

Forward-looking Statements

This Annual Report contains forward-looking statements based on estimates of future developments made by the Board of Management of CeoTronics. The statements and forecasts represent estimates made at the time of going to print on the basis of all information available at that time. If the assumptions on which the statements and forecasts are based do not materialize, the actual results may differ from those expected at the current time.

Trademarks

All brand names, trademarks, or product names mentioned in this Annual Report are the property of their respective owners. This applies in particular to DAX, Prime Standard, Technology All Share, and Xetra, which are registered trademarks and the property of Deutsche Börse AG; TETRA, which is a brand of TETRA MoU Association Ltd.; and TETRAPOL, which is a brand of EADS TELECOM Corporation France.



Success and Transparency Create Trust



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

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

We are known for our timely, transparent, accurate, and honest investor relations activities and reporting.

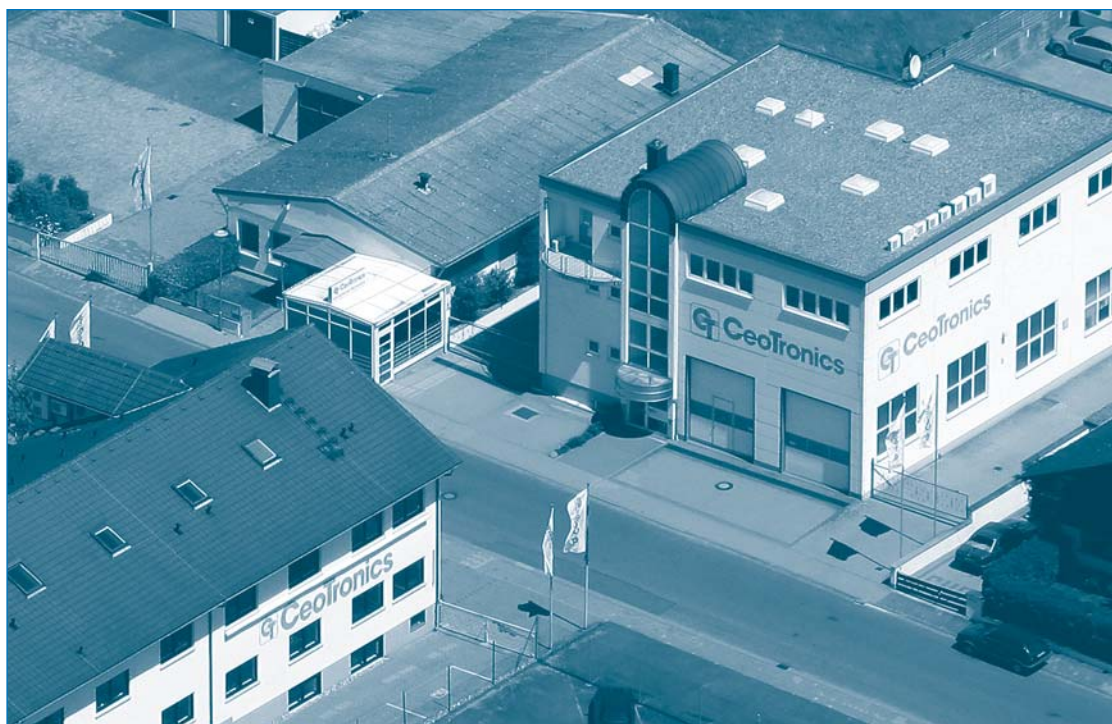
Our shareholders as well as interested investors can receive information about CeoTronics in various ways:

- Quarterly and annual reports, including via the CeoTronics website
- Ad hoc disclosures, including an archive 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
- General Meeting
- Investor/capital market conferences

In addition, the CEO is available to provide information by phone, fax, or e-mail at: chairman@ceotronics.com.



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