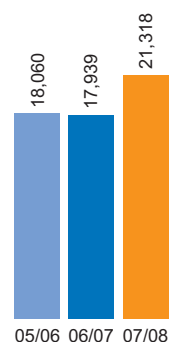
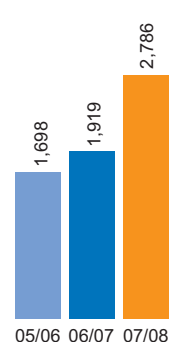
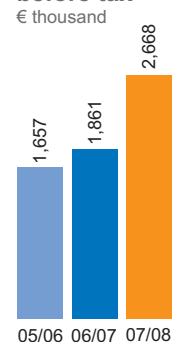
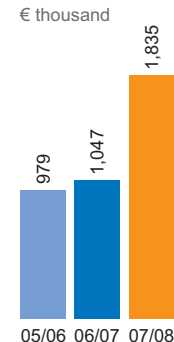
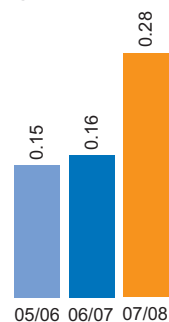
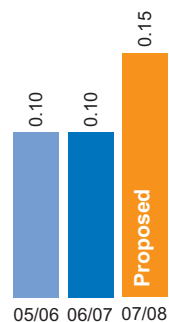
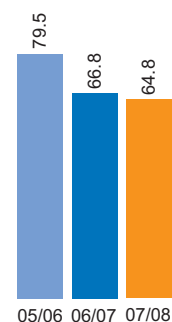
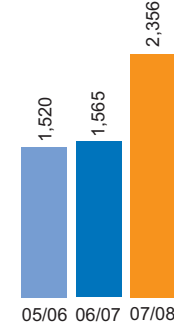
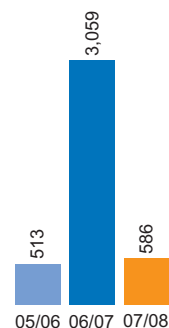
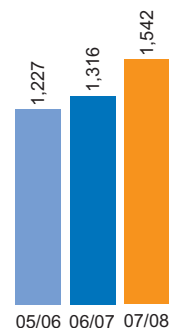
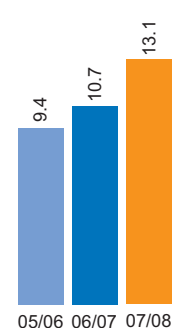


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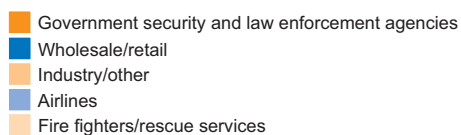
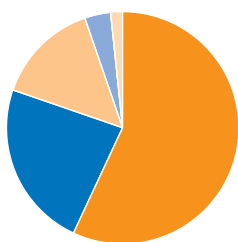
## Annual Report



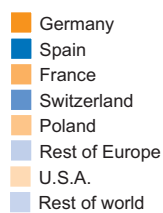
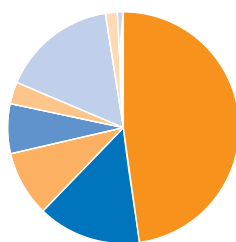
**Revenues**  
€ thousand

**EBIT**  
€ thousand

**Profit before tax**  
€ thousand

**Profit after tax**  
€ thousand

**Earnings\* per share**  
€

**Dividends**  
€

**Equity ratio**  
in %

**Gross cash flow**  
€ thousand

**Investments**  
€ thousand

**R&D expenses**  
€ thousand

**EBIT margin**  
in %


\* Figures for 2005/2006 and 2006/2007 adjusted for the effect of the 1:3 share split in 2007/2008.

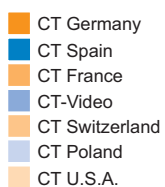
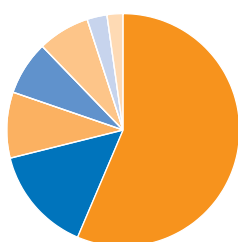
Revenues by customer group



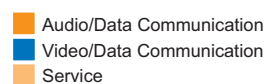
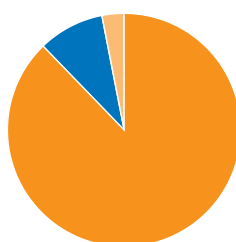
Revenues by market



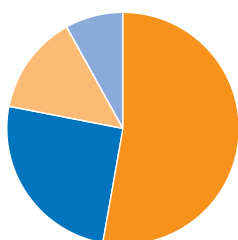
Revenues by company



Revenues by division



Personnel structure



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## History

- |                  |   |             |  |
|------------------|---|-------------|--|
| <b>1985</b>      | Formation of CeoTronics GmbH in Rödermark near Frankfurt/Main, Germany; development, production, and sale of communication systems.   | <b>2006</b> | CeoTronics awarded the "2006 Georg Waeber Innovation Prize."   |
| <b>1986-1993</b> | Formation of CeoTronics Ltd., CeoTronics AG (Switzerland), CeoTronics S.L., CeoTronics, Inc., and the opening of a sales office in the Benelux countries.   | <b>2007</b> | CeoTronics receives the largest order in its history, totaling €8.5 million, from the German Armed Forces for CT-DECT JetCom systems.<br>Inclusion in the GEX. |
| <b>1997</b>      | Reorganization of international marketing/sales at the parent company.<br>Reorganization of CeoTronics GmbH as CeoTronics AG.   | <b>2008</b> | CeoTronics commissions its own Tetra radio cell, its own GTEM cell for EMC measurements, and a new acoustics laboratory.                                       |
| <b>1998</b>      | CeoTronics AG's IPO on the Neuer Markt in Frankfurt/Main.   |             |  |
| <b>1999</b>      | Formation of CT-Video GmbH.   |             |  |
| <b>2000</b>      | Opening of a sales office in Scandinavia.<br>Acquisition of the entire Audio Accessory Division of DTC, Inc. (U.S.A.).<br>Launch of wireless digital audio transmission technology.<br>2000 DIN EN ISO 9001:1994 certification. |             |  |
| <b>2001</b>      | New CT-Video GmbH factory opens in Lutherstadt Eisleben.  |             |  |
| <b>2002</b>      | ATEX certification.<br>Acquisition of 75% of AACOM Ltd., Poland (former CT sales partner).<br>Change of stock market segment from the Neuer Markt to the Geregelter Markt.  |             |  |
| <b>2003</b>      | Admission to and listing in the Prime Standard.   |             |  |
| <b>2004</b>      | DIN EN ISO 9001:2000 and ATEX certification.<br>Inclusion in the TechnologyAllShare index.<br>Launch of wireless digital video data transmission technology.  |             |  |

## Mission Statement

In the age of mobile communication, keeping seamlessly connected at all times and all places appears self evident. Provided, of course, the ambient conditions do not pose a problem and you aren't in the immediate vicinity of a running jet engine or in an explosion hazard zone. These cases demand other, often highly complex communications solutions.

CeoTronics develops and produces innovative audio, video, and data systems that are perfectly adapted to problematic applications. Systems that often make operations possible in the first place and that increase the efficiency of working processes. CeoTronics' high-quality products are used successfully, by industrial enterprises and airlines, firefighters and civil defense workers, rescue services, and government security and law enforcement agencies in particular. To ensure things stay this way, CeoTronics' two Research and Development departments and its production locations in Rödermark (Hesse) and Lutherstadt Eisleben (Saxony-Anhalt) are clearly committed to Germany as a location for industry.

Our strategy for the future: to sustainably increase the value of the Company through forward-thinking value management, targeted national development, and the Group's strategic focus.

CeoTronics AG

Audio • Video • Data Communication



## Letter from the Board of Management

Ladies and Gentlemen,  
Dear Shareholders,

The CeoTronics Group successfully concluded fiscal year 2007/2008, with a revenue increase of almost 19%. Consolidated revenues amounted to €21.3 million, setting a new record in CeoTronics' over 23-year history.

Fiscal year 2007/2008 saw the production and invoicing of the first two batches of the major order for CT-DECT JetCom systems from the German Armed Forces, worth approximately €5.5 million.

The second batch was produced in a concerted action, just like the first. The Operations unit took the leadership role in this logistical and organizational tour de force, bringing together a wide range of departments and external companies - and meticulously planning and implementing the extremely elaborate production process, including the all-important quality assurance measures. With great success: The second batch of the more than 3,700 helmets ordered was also delivered on schedule and to the highest quality standards, and was invoiced promptly at the end of the fiscal year.

In the period under review, the upcoming switch to digital radio by German government security and law enforcement agencies and firefighters led to even greater reluctance on the part of these customers to invest in communications accessories for connecting to analog radios.

CeoTronics compensated for this situation with the successful marketing of its "CT-DECT" digital radio systems and thanks to the improved revenues generated in other European countries by its communications systems for connecting to digital radios.



The order backlog as of May 31, 2008 (end of the fiscal year) amounted to €6,156 thousand (previous year: €8,478 thousand). Given the delivery and invoicing of the CT-DECT JetCom systems to the German Armed Forces, worth approximately €5.5 million, this figure is still high.

It represents an increase of around 23% as compared with the average order backlog figures for the last three reporting dates.

Extremely positive revenue growth significantly increased the Group's key earnings figures in fiscal year 2007/2008:

EBITDA rose by about 36%, while EBIT jumped by around 45%, and profit before tax increased by approximately 43%. Profit after tax increased by about 75% to €1,835 thousand (previous year: €1,047 thousand) due to the lower tax rate in Germany, among other things.

CeoTronics therefore exceeded its profit expectations for the year.

As of May 31, 2008, cash and cash equivalents increased by around 16% year-on-year to €908 thousand.

Equity as of May 31, 2008 rose by roughly 11% year-on-year. The equity ratio declined slightly to approximately 65% because the payment by the German Armed Forces for the second batch was not received until after the reporting date.

With regard to the appropriation of net profit, the Board of Management is recommending to the Supervisory Board that it propose to the General Meeting on November 7, 2008 that a dividend of €0.15 per share (previous year: €0.10) be paid out of the net retained profit of €2,824 thousand reported by the parent company, and that the remainder be carried forward to the new 2008/2009 fiscal year to further strengthen its self-financing ability and increase its flexibility of action with respect to opening up new markets and developing new products.

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

The Board of Management is extremely satisfied with the exceptionally good results for the 2007/2008 fiscal year. Given the high order backlog and new ongoing projects, CeoTronics looks forward to a positive future.

CeoTronics – Your company!

Rödermark, August 14, 2008



Thomas H. Günther

Chairman of the Board of Management



Berthold Hemer

Deputy Chairman of the Board of Management



Günther Thoma

Member of the Board of Management



## Report by the Supervisory Board

Dear Shareholders,

Once again, we worked together with CeoTronics AG's Board of Management in a spirit of trust and open communication in fiscal year 2007/2008. The Supervisory Board provided in-depth support for the Company's development and advised the Board of Management.

The regular meetings of the Supervisory Board were held on August 17, 2007, October 12, 2007, January 14, 2008, and April 11, 2008. All three members of the Supervisory Board attended each meeting in person. Between its meetings, the Supervisory Board was also kept informed about key developments both orally and in writing. In addition, the Chairman of the Supervisory Board addressed policy issues during discussions held at irregular intervals with the Chairman of the Board of Management in particular, and was given access to the minutes of the meetings of the Board of Management.

### Key topics in Supervisory Board discussions

At each meeting, the Supervisory Board addressed any necessary review of the transactions by the Board of Management requiring approval as well as – in the presence of the Board of Management – discussing 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 the strategic, financial market, and legal risks facing the Company; the complaints rate; the current business situation including bank balances; receivables and liabilities; bank ratings; order backlogs; forecasts; potential bad debts; the stock market situation; share price performance, and investor relations measures, among other things.

The amendments to the German stock corporation law and the German Corporate Governance Code relevant to CeoTronics AG were outlined in factual terms and discussed at the regular meetings of the Supervisory Board.

On August 17, 2007, the Supervisory Board – in the presence of the Board of Management – received the oral report of the auditors and discussed the HGB annual financial statements and the consolidated IFRS financial statements.

In addition, the reclassification of the Company's capital (1:3 share split) proposed by the Board of Management and the extension of the Chairman of the Board of Management's contract were discussed and resolved at this meeting, among other things.

At its regular meeting on October 12, 2007, the Supervisory Board discussed and resolved a bonus plan for the members of the Board of Management based on the price of CeoTronics' shares achieving certain targets, among other topics.

The Supervisory Board was informed in detail of CeoTronics' compliance management procedures and discussed the system documentation presented.

The Supervisory Board met to hold its regular elections immediately after the General Meeting on November 2, 2007. Hans-Dieter Günther was reelected as Chairman and Horst Schöppner as Deputy Chairman of CeoTronics AG's Supervisory Board.

After weighing the costs of engaging an external auditor, the Supervisory Board itself reviewed the efficiency of its work in accordance with section 161 of the Aktiengesetz (AktG – German Stock Cooperation Act) at its meeting on January 14, 2008 and concluded that it has been efficient. The Supervisory Board also discussed the revision of the Company's strategic focus with the Board of Management and discussed and adopted the Supervisory Board's annual Declaration of Conformity with the German Corporate Governance Code at this meeting.

The joint Declaration of Conformity by the Supervisory Board and the Board of Management was resolved by the Supervisory Board on February 29, 2008 following the circulation of written documents. CeoTronics AG continues to comply with the principles required by the Code, with a small number of exceptions.

The Supervisory Board meeting on April 11, 2008 was held at the headquarters of the Spanish subsidiary in Madrid and was coupled with a factory tour, a product presentation, and discussions with the management of the subsidiary and the employees of CeoTronics S.L. This meeting enabled the members of the Supervisory Board to obtain a personal impression of the future prospects and the expansion of operations at the Spanish affiliate. The need to expand the operating equipment at CeoTronics' affiliate CT-Video GmbH in Lutherstadt Eisleben was discussed and resolved at this meeting, among other things. In this context, the Supervisory Board approved a capital increase at this company.

After discussing the issue, the Supervisory Board resolved changes in the compensation paid to two members of the Board of Management on May 2, 2008 by way of the circulation of written documents.

The main topics of the Extraordinary Supervisory Board Meeting on May 30, 2008 were the future technical opportunities open to the Company's Research and Development unit.

The members of the Supervisory Board also kept themselves informed and exchanged their views between meetings, both in person and by telephone.

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

During the period under review, the Supervisory Board visited two trade fairs that are important to the Company and that reflect the Company's competitive environment.

The Chairman of the Supervisory Board examined the accounts of two affiliates in the period under review in accordance with his duties and reported on this to the Supervisory Board.

The Supervisory Board of CeoTronics AG therefore performed the duties required of it by law and the Articles of Association throughout the entire fiscal year.

It monitored the work of the Board of Management and supported the latter's decision-making by giving advice.

### Audit of the annual and consolidated financial statements

UWP Unitreu GmbH Wirtschaftsprüfungsgesellschaft, Eschborn, which was elected as auditors and Group auditors for 2007/2008 by the General Meeting on November 2, 2007, was engaged by the Supervisory Board to audit the annual financial statements, the consolidated financial statements, and the management reports after the details were established and prices agreed on April 22, 2008.

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 German Corporate Governance Code submitted by the Board of Management and the Supervisory Board.

In the past fiscal year, the consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs).

UWP Unitreu GmbH Wirtschaftsprüfungsgesellschaft audited the annual and consolidated financial statements of CeoTronics AG and the relevant management reports as of May 31, 2008, including the accounting system, in accordance with the legal requirements and issued unqualified audit reports on them.

The auditors' report contains no notifications or indications of any inaccuracies in the Declaration of Conformity with the German Corporate Governance Code.

On August 6, 2008, the Board of Management provided the Supervisory Board with 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 meeting on August 14, 2008, reported on the results of their audit, and were available to answer detailed 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 annual financial statements and the management report of the parent company in accordance with the HGB have therefore been adopted.

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, 2008.

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 profit for the year reported by CeoTronics AG be distributed as a dividend of €0.15 per share 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 personal contributions to an extremely successful 2007/2008 fiscal year.

We would like to thank our shareholders for their confidence in us and wish us all a very successful fiscal year 2008/2009.

Rödermark, August 14, 2008

The Supervisory Board of CeoTronics AG

  
Hans-Dieter Günther  
Chairman



\* CT-CombiCom: Monaural/binaural, Neckband/Headband, plugable/fixed, adjustable BoomMike lenght.





## Inspecting the Eurofighter/Typhoon

What is only natural for a well-kept car after a few thousand kilometers or so also applies to an even greater extent to a modern warplane: It needs regular overhauling.

This inspection is known as "maintenance" in aviation jargon, and is a testing and acceptance process that is carried out after each mission. On the one hand this is responsible but routine work for the ground crew, but on the other it is a very dangerous task. Demanding, because such high-tech aircraft are big-ticket investments costing around €85 million and dangerous, because this is probably the world's loudest workplace. A hard-rock concert is more like a whisper in comparison.

### **Loud. Very loud.**

People who work in this environment, where background noise reaches 140 decibels (A), need to be protected: Their bodies are sheathed in special protective clothing, while their heads are encased in the world's most advanced noise protection helmet – from CeoTronics.

Thanks to the CT-DECT JetCom communication system, crews can communicate even under these conditions.

This means that they can speak to one another as and when needed and can concentrate on their work "undisturbed" – something that sounds almost unbelievable given the volumes involved.



**All hooked up**

Being exposed to this level of noise without protection, for example during a run-up, would be fatal. What does this mean? Run-ups are one of the loudest tests in the aircraft testing and acceptance process. In this case the pilot fully opens the throttle while keeping his foot on the brakes. As a good 70,000 PS can be generated here, the wheels are also blocked and the aircraft is secured via a thick steel cable to a 100 cubic meter concrete block – not exactly a small affair – for additional safety.

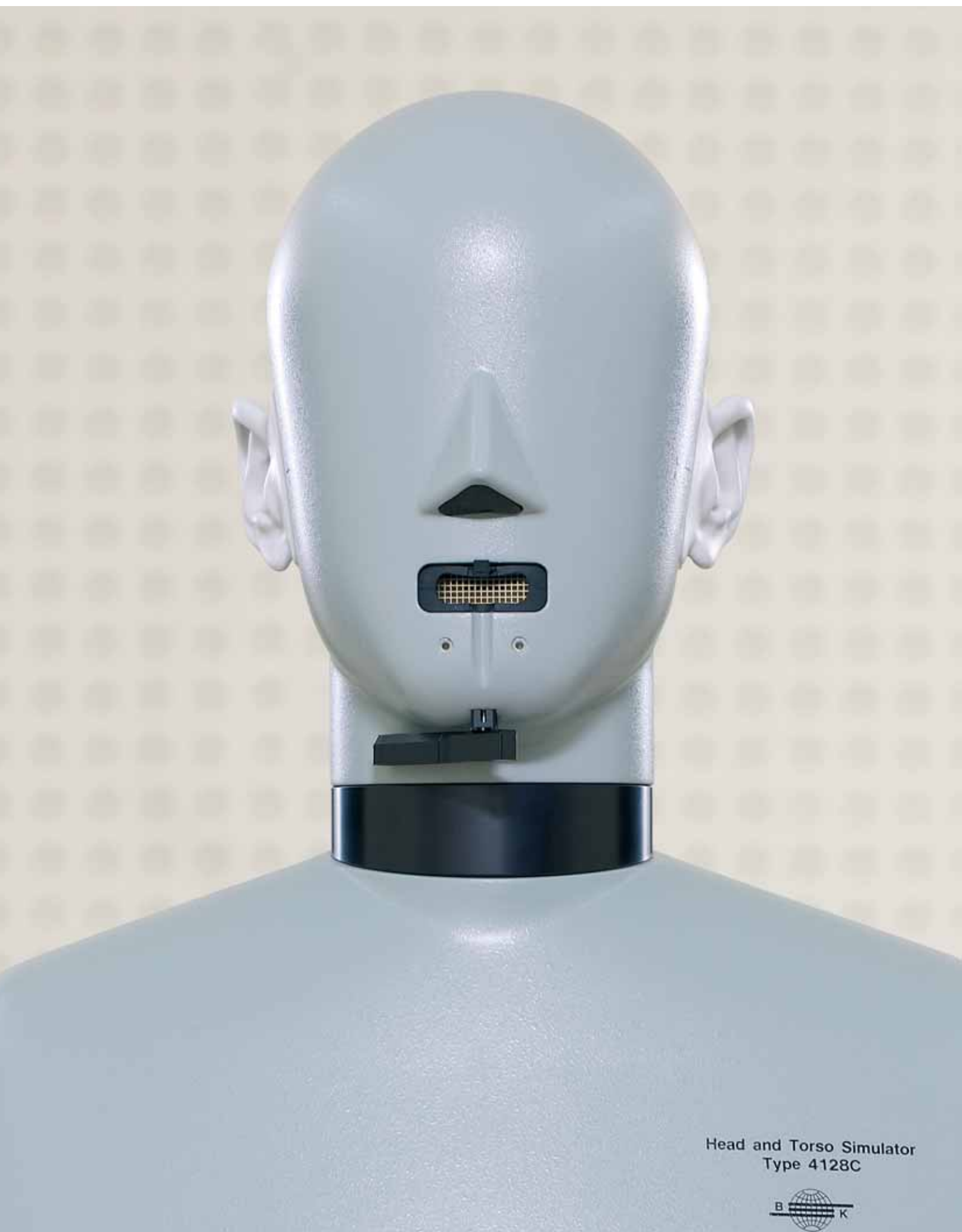
At the same time, the people on the ground get on with their jobs in a professional manner right next to it, although the noise level is literally earsplitting.

**Irreparable damage**

What this means in concrete terms is that permanent hearing damage would be diagnosed after less than one second of exposure to this noise. After a few more minutes the body begins to react to the sound waves – in other words, if unprotected it shows clear signs of internal injuries.

However, we don't want to go into gory details at this point, but merely to show our readers how difficult it can be to communicate under challenging ambient conditions.

As a result, even people unfamiliar with the issue can imagine the amount of know-how and engineering that goes into products designed to enable perfect communication even under these conditions.



Head and Torso Simulator  
Type 4128C





**Our Engineers and Technicians** A total of 14 CeoTronics AG and CT-Video GmbH engineers (five of whom work for CT-Video GmbH) and an additional three technicians conduct research, development, and modification activities at the German locations.

Additionally, nine engineers (two of whom are with CT-Video GmbH) work with our office and field sales forces and as Prokuristen (authorized signatories) to provide expertise, high-quality consulting, and an optimal flow of information to the technical departments.

Examples of CeoTronics' innovation leadership include:

- The original CT-ContactCom skull microphone was patented in 1994, and remains a top-selling product to this day.
- The first headset with an integral radio was developed in 1994 and has been marketed extremely successfully since then.
- The CT digital radio system CT-DECT has been successfully marketed internationally and continually enhanced since 1999.
- The CT-CombiCom received an international design patent in 2003. The robust, modular CT-CombiCom headset system has been used by government security and law enforcement agencies, as well as industrial customers, since 2004.
- In 2005, CeoTronics unveiled its internationally patented CT-Neckband Headset, one of the lightest and most comfortable of its kind in the world.
- The CT-DCOM video digital radio system hit the market in 2005.
- Market launch of the modular generation III CT-Cylinder Camera in 2007.
- Generation I/II CT noise protection helmets were developed in 2005/2007.
- 2007 saw the development and installation of complex robotics.

- In 2006/2007, CeoTronics developed the software and hardware for integrating digital noise reduction (CT-DNR), acoustic shock elimination (CT-ASE), ambient sound reception (CT-ASR), and active gain control (CT-AGC) in CeoTronics' communication systems for use with radio devices, and in its CT-DECT systems.
- 2008: the CT-DECT Headset in ATEX is the world's first headset with an integral digital duplex radio for explosion hazard zones.

Also in 2008, T-ClipCom Digital is an in-ear headset with CT Bluetooth technology and CT radio PTT, and is the first digital headset with CT Bluetooth technology.

The Company spent €1,542 thousand on research and development in fiscal year 2007/2008 (including €229 thousand at CT-Video GmbH); this represents 7.2% of consolidated revenues in fiscal year 2007/2008.

During the reporting period, the Company also invested in

- its own Tetra cell,
- the expansion of its acoustics laboratory, and
- an EMC measuring station with a GTEM cell.

Together with its acoustics test head (an artificial head from Brüel and Kjær), which was commissioned three years ago, this means that CeoTronics is optimally equipped to successfully meet future challenges with its own highly professional testing laboratory.

**Prime Performance** Since it was formed in 1985, CeoTronics has positioned itself at the top of the quality and performance pyramid thanks to its leadership in the premium segment, based on its outstanding consulting expertise, customer focus, excellent product quality in terms of both functionality and workmanship, the use of state-of-the-art technologies, and the flexibility to develop customized system solutions.

Six active 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 offering a premium service to 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 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 from CeoTronics and CT-Video GmbH.

All individual products and systems dovetail perfectly and fulfill our customers' extremely exacting requirements for overall solutions.

#### **Systems compatibility**

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

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 – including GSM.

#### **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 three years on all its products.

CeoTronics is a registered NATO supplier.

The customer satisfaction surveys we have conducted for a number of years also speak volumes: According to the latest survey, the recommendation rate for CeoTronics' products is over 97%.











## Our Employees

We know that shareholder value alone does not define a company's value and potential. Rather, it is CeoTronics' highly motivated and dedicated employees who put the Company in its outstanding position on the markets.

Management appreciates this and has the highest respect for the work of each employee, no matter what role they play in the Company's various departments. This corporate philosophy fosters an atmosphere in which every employee can develop their potential and is motivated to do their best.

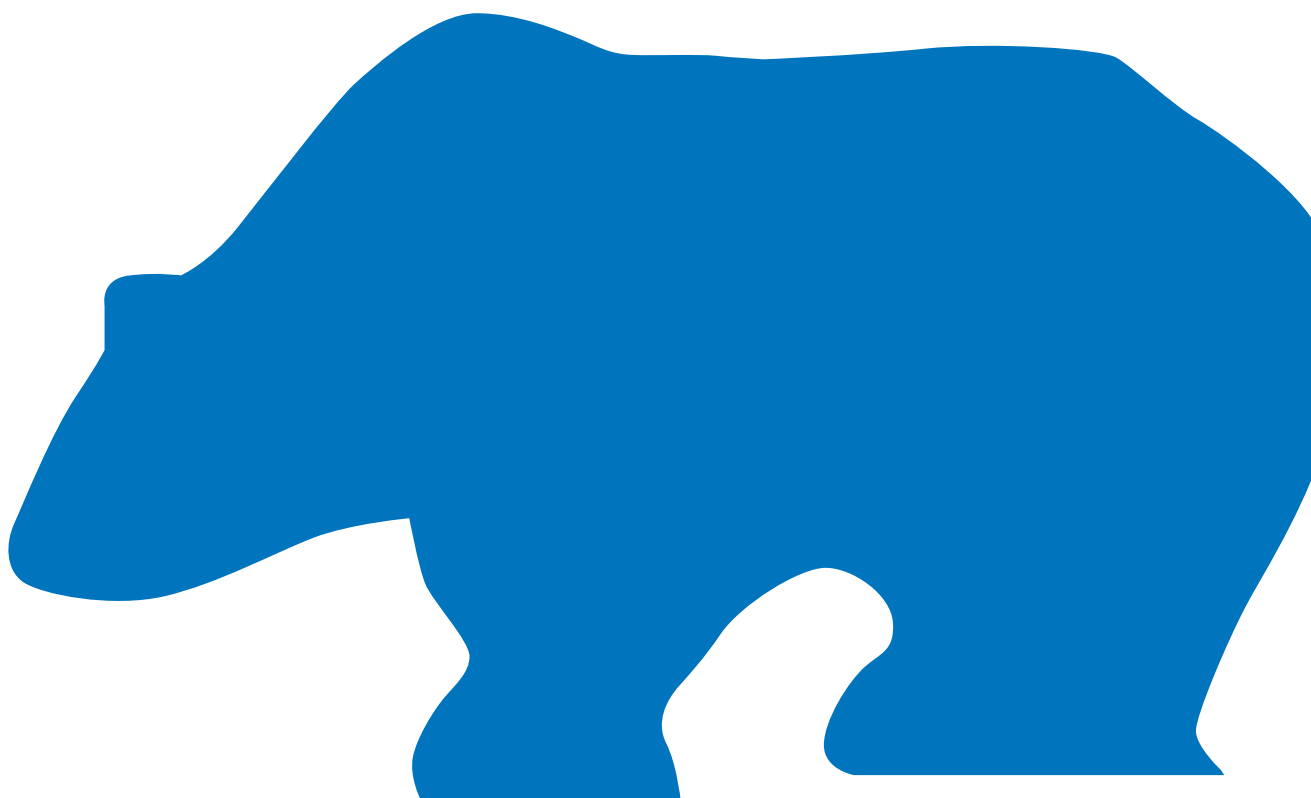
To enable the CeoTronics Group to maintain its position as an attractive and successful employer, CeoTronics AG's responsible human resources management focused heavily on further training for its employees further in the reporting period.

Since CeoTronics was formed, it has placed value on training young people. Almost all vocational trainees were hired by CeoTronics following the successful completion of their training, and some have had remarkable careers. Currently 5.9% of CeoTronics' workforce in Germany is comprised of vocational trainees.

The results of this corporate culture are extremely positive, as is shown by the Rödermark location: The sickness absence ratio is only 3.3%, the average length of service is 8.5 years, the employee turnover rate is only 5.2% (Group: 1.7%), and management scores better every year in the annual employee survey.

The Board of Management would once again like to express its gratitude to the entire CeoTronics team: 150 employees around the world (as of May 31, 2008), who speak different languages and are at home in eight countries.





**CeoTronics' Shares** The number of shares increased from 2,199,998 to 6,599,994 due to the 1:3 share split resolved by the General Meeting on November 2, 2007 and implemented on January 31, 2008. The notional interest per share has been €1.00 since that time.

#### Financial markets and stock markets lose ground.

Many stocks all over the world came under pressure in the period under review, including shares of solid and successful companies. In the period from June 1, 2007 to May 31, 2008, the TECDAX dropped almost 8%, while the TechnologyAllShare fell almost 14% and the GEX almost 15%.

#### CeoTronics' Shares

Strong results and positive group development, but in particular also future prospects and market opportunities, are the key criteria used in valuing listed companies.

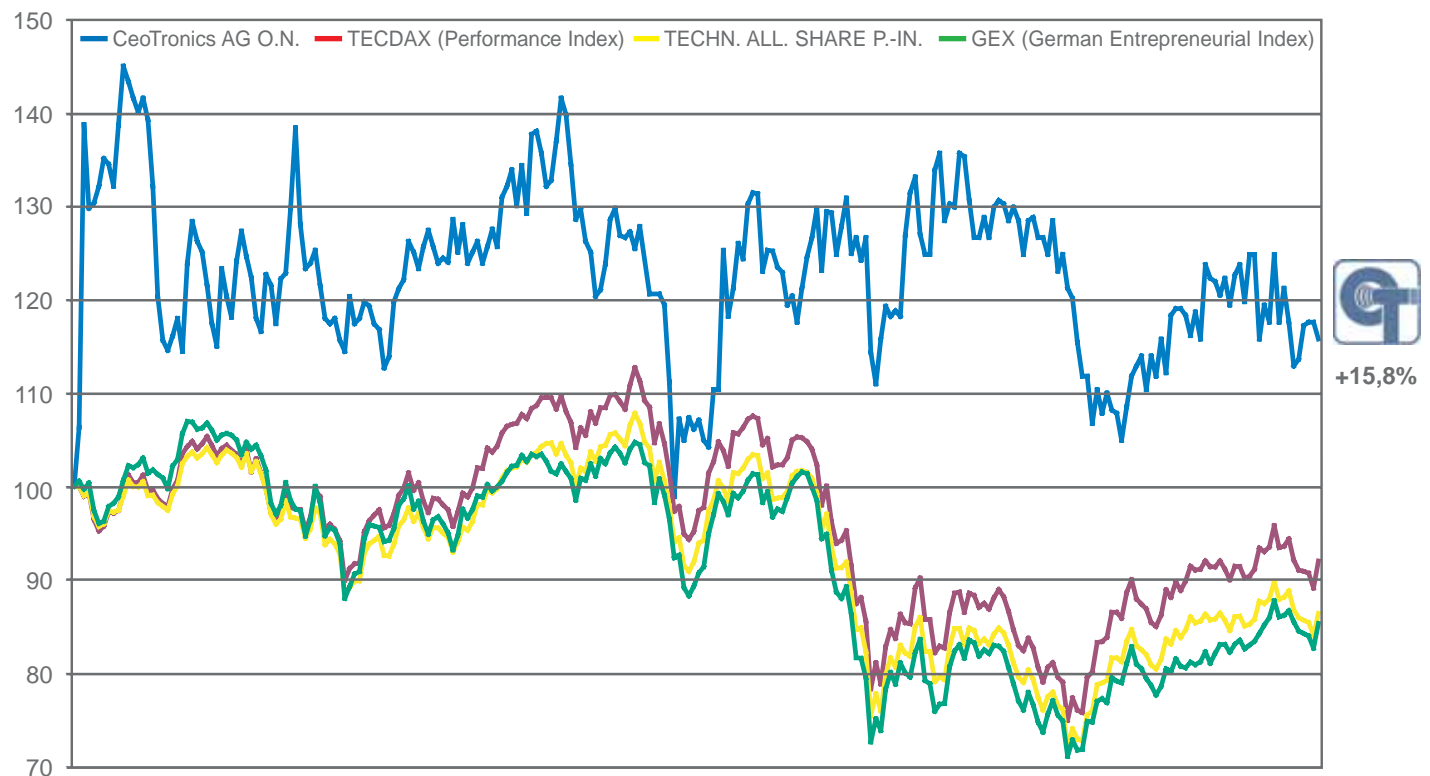
At +15.8%, CeoTronics' shares held up very well against the negative trend on the financial markets and stock markets, although the share price as of May 31, 2008 and the current share price as of the print date in no way reflect the Group's positive growth or the Company's enterprise value.

The share price (as of May 31, 2008) still offers upside potential of up to 52.2%, based on the upside target calculated by analysts GBC AG in April 2008.

#### Dividend proposal for the General Meeting on Nov. 7, 2008

On August 14, 2008, the Board of Management resolved to recommend to the Supervisory Board to propose at the General Meeting that part of the net retained profit of €2,824,350.62 reported by the parent company be distributed in the form of a dividend of €0.15 per share.

**CeoTronics' shares compared with the benchmark indices from June 1, 2007 to May 31, 2008 (indexed)**







**Corporate Governance Report** The term "corporate governance" denotes the responsible management and supervision of companies; close and open cooperation between the Board of Management and the Supervisory Board; respect for shareholders' interests; transparent, timely corporate communication; and financial reporting and auditing in compliance with the required standards.

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.

**Declaration of conformity in accordance with section 161 of the AktG**

In accordance with section 161 of the Aktiengesetz (AktG – German Stock Corporation Act), the Board of Management and Supervisory Board of CeoTronics AG have issued the following statement:

Apart from the exceptions set out below, CeoTronics AG Audio • Video • Data Communication, Rödermark, complied with the recommendations of the German Corporate Governance Code published in the electronic Bundesanzeiger (German Federal Gazette) in fiscal year 2007/2008 and intends to comply with them in the future as well.

**1. DCGK 3.8**

No deductible has been agreed for the D&O insurance policy for the members of the Supervisory Board and the Board of Management.

A deductible would result in unreasonable additional cost at the Company.

**2. DCGK 4.2.4**

In accordance with the resolution by the General Meeting on November 4, 2005, the remuneration of the members of the Board of Management is not disclosed individually for each member of the Board of Management in the Corporate Governance Report or in the notes to the consolidated financial statements, but as an aggregate amount.

**3. DCGK 5.1.2**

The Company did not comply with and will not in future comply with the recommendation in para. 1 sentence 2 of section 5.1.2, under which the Supervisory Board and the Board of Management jointly ensure that there is a long-term succession plan in the Board of Management.

Because of the age of the current members of the Board of Management, the Supervisory Board does not see any need to prepare a long-term succession plan at present.

**4. DCGK 5.1.3**

In light of the size of CeoTronics AG and the number of Supervisory Board members (currently three), the Supervisory Board has not drawn up rules of procedure for itself.

**5. DCGK 5.3**

In light of the size of CeoTronics AG and the number of Supervisory Board members (currently three), the Supervisory Board has not formed committees. Instead, all duties are performed collectively by the members of the Supervisory Board.

**6. DCGK 5.4.3**

The Company does not comply with the recommendation in para. 1 sentence 2 of section 5.4.3, under which candidates for the chair of the Supervisory Board should be announced to the shareholders.

*Rödermark, February 29, 2008*

**Remuneration report**

The remuneration report explains the basis of remuneration for the Board of Management and the Supervisory Board of CeoTronics AG.

The remuneration of the Board of Management is stipulated by the Supervisory Board, reviewed each year, and adjusted if required.

The remuneration of the Board of Management consists of fixed and variable remuneration components. Stock options are also issued from time to time.

The fixed annual salary is payable to the members of the Board of Management in 12 monthly installments at the end of the respective month. In addition, the members of the Board of Management are provided with a company car, and a direct

insurance policy in a defined amount is taken out on their behalf. The package also includes health and long-term care insurance contributions.

Each member of the Board of Management receives a variable remuneration component (bonus) that depends on the performance of the Company. The bonus amounts to 3% of the consolidated profit before tax, calculated in accordance with International Financial Reporting Standards (IFRSs).

The annual bonus is limited to 25% of the total remuneration of the member of the Board of Management. The bonus is payable at the end of the month after the annual financial statements are adopted.

Furthermore, an agreement was reached over bonuses with the members of the Board of Management in fiscal year 2007/2008, which provides for payment to be made in the event that the closing price of CeoTronics shares reaches or exceeds a total of four specified targets on 10 successive days of trading. Only one payment is made for each of the four targets are reached. This agreement runs until May 31, 2011.

Please refer to the separate section in this report on the participation of the Board of Management in the stock option plans.

The contracts with the members of the Board of Management do not provide for any express severance payment commitment in the event of early termination of the contract of service.

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 remuneration of the Supervisory Board is governed by Article 10 of the Articles of Association of CeoTronics AG. Each member of the Supervisory Board receives a fixed remuneration of €8,000.00 per fiscal year in addition to the reimbursement of expenses. In addition, each member receives a variable remuneration amounting to 1% of the gross total dividend of CeoTronics AG. In both cases, the Chairman of the Supervisory Board receives three times the remuneration and the Deputy Chairman receives one and a half times the remuneration. The members of the Supervisory Board also receive an attendance allowance of €250.00 for each meeting they attend.

#### Stock option plans

Until fiscal year 2007/2008, there were two stock option plans for specialist employees and senior executives at CeoTronics AG (stock option plans IV and V), both of which were launched in fiscal year 2003/2004. Under these plans, options were not issued on no-par value shares from contingent capital, but on virtual shares (phantom shares). 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 option premium was €0.10 per option.

The exercise price of the shares in stock option plan IV equaled the average price in the last ten days of trading prior to November 6, 2003 (€2.12 – this and all subsequently mentioned figures refer to the ratios before the 1:3 share split implemented on January 31, 2008). The subscribers were able

Supervisory Board member	Fixed remuneration	Variable remuneration	Attendance allowance	Total remuneration
Hans-Dieter Günther/Chairman	24,000.00	19,800.00	1,500.00	45,300.00
Horst Schöppner/Deputy Chairman	12,000.00	9,900.00	1,500.00	23,400.00
Stephan Haack/Member	8,000.00	6,600.00	1,500.00	16,100.00

to exercise their options in the period between Oct. 29, 2005 and October 28, 2008. However, exercise was subject to the condition that certain profit or share price targets for CeoTronics shares were met. If a participant in the stock option plan left the Company, the options expired under certain conditions.

The exercise price of shares in stock option plan V equaled the average price in the last ten days of trading prior to May 28, 2004 (€3.76). The subscribers were able to exercise their options in the period between May 31, 2006 and May 30, 2009. However, exercise was subject to the condition that certain profit or share price targets for CeoTronics shares were met. If a participant in the stock option plan left the Company, the options expired under certain conditions.

On June 4, 2007, all existing options under stock option plan IV (6,000 options) and stock option plan V (6,000 options) were exercised. The exercise price was €11.84. €9.72 per option was paid in cash for the fourth stock option plan and €8.08 per option was paid in cash for the fifth stock option plan.

There are currently no plans to launch new stock option plans.

The annual declarations of conformity, remuneration reports, and other relevant general information are permanently available in the Investor Relations section of our website at [www.ceotronics.com](http://www.ceotronics.com).

### Investor relations

CeoTronics is known for its timely, transparent, accurate, and honest investor relations activities and reporting. CeoTronics' shareholders and interested investors can receive information about CeoTronics in various ways:

- Quarterly and annual reports, including via the CeoTronics website
- General Meeting
- Investor/capital market conferences
- Corporate Governance Report

- Ad hoc disclosures, including an archive on the CeoTronics website
- Corporate news articles
- Directors' dealings disclosures
- Our website [www.ceotronics.com](http://www.ceotronics.com), containing all of our brochures and information on new products, successful sales stories, etc.
- Advertisements in specialized periodicals
- Participation at trade fairs
- Press releases in specialized periodicals and daily newspapers
- CT-News

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



\* CT-DECT GateCom: The digital communication system



Wireless\*

for pushback, ground handling and maintenance.



**CeoTronics**  
Audio · Video · Data Communication

**Police**



**Our Market** Communication under difficult conditions means that special solutions are required in special situations. Even now – or particularly – in an age when communication is a lifestyle, but there are still hazardous areas where even the smartest multifunctional cell phones can't make a call.

CeoTronics AG specializes in high-end communication under difficult conditions, and develops, produces, and sells audio, video, and data communication solutions. Above all, our top-of-the-line products ensure clear and precise interaction: in noisy or hazardous areas, while wearing protective helmets or protective clothing, in explosion hazard zones, in undercover operations, and in hands-free communication.

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

#### **Digital radio is on its way**

Now that the introduction of the nationwide digital radio network has been resolved by the German Interior Ministers Conference, government security and law enforcement forces in all German federal states are expected to be equipped with the appropriate communication accessories by 2010 (according to the Interior Ministers Conference).

As CeoTronics has already produced and sold over 40,000 systems for connection to new digital TETRA/TETRAPOL radios since 1999, the Company has a pool of experience that is certainly a significant competitive advantage.

#### **Communication systems for the manufacturing and service sectors and sports**

The diversity of our products' applications makes it possible to serve the widest variety of industries and individual needs.

Our customer base includes engineering companies, the automotive industry, paper manufacturers, the aerospace industry, power utilities, refineries, and oil rigs. However, service providers such as amusement parks, the media, sports arenas, and motorsport teams also rely on CeoTronics.

#### **Airport and airline communications**

This is a constantly growing market in which more than 300 airlines, airports, and ground handling service companies rely on CeoTronics products - and this trend is growing. As market leader in the area of ground-to-cockpit communication, our product range also includes systems for ramp handling, push-back, maintenance, in-flight service, and cockpit communication for sky marshals, as well as aircraft and helicopter maintenance.

#### **Always in action: fire fighters, civil defense, and rescue services**

Secure communication and high transmission quality are essential for fire fighting and in emergencies. That's why for these products, there is a special focus on development and design, safety, easy handling, and comfort.

Durability, weather resistance, resistance to heat, cold, or chemical agents – and optionally explosion-proof models as well – are a must.

#### **Custom solutions for the State and Federal Police, customs authorities, and the army, navy, and air force**

Last but not least, a particular strength of CeoTronics AG should not be overlooked: the development and supply of custom communication solutions for the German State and Federal Police, customs authorities, and the army, navy, and air force. A wide range of systems is available in this field.

Fully and partially covert communication systems as well as miniature radio cameras are used for the wireless transfer of video images during undercover investigations and for preserving evidence.

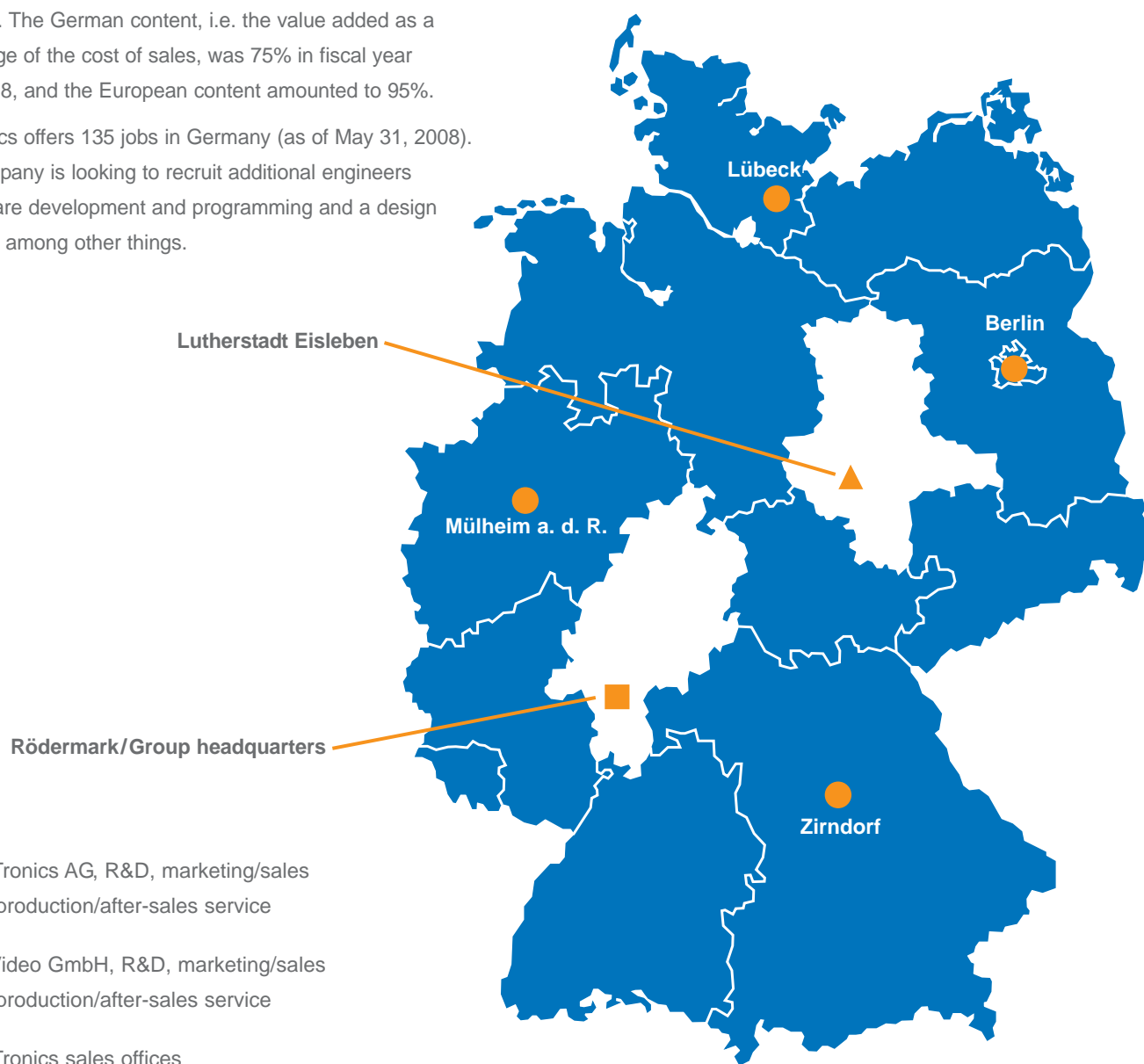


**Germany** Since the Company's formation in Rödermark in 1985, CeoTronics has developed and produced audio, video, and data communication systems exclusively at its two German locations in Rödermark (Hesse) and, since 1999, in Lutherstadt Eisleben (Saxony-Anhalt).

In addition to the after-sales service at these two locations, which accounts for approximately 90% of the total volume, CeoTronics provides after-sales service through its subsidiaries in Poland, Spain, and the U.S.A.

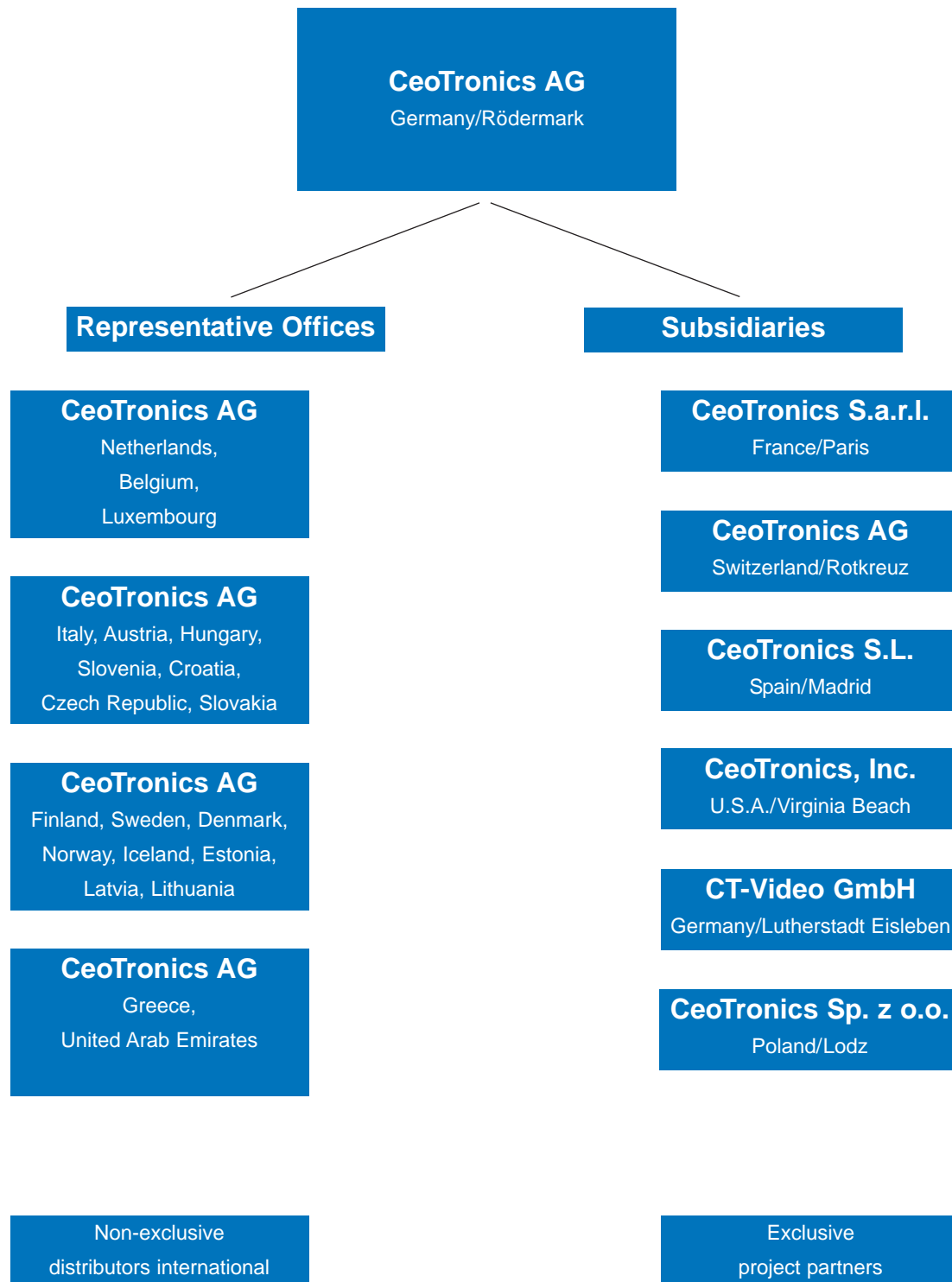
CeoTronics prefers to work with German and European suppliers. The German content, i.e. the value added as a percentage of the cost of sales, was 75% in fiscal year 2007/2008, and the European content amounted to 95%.

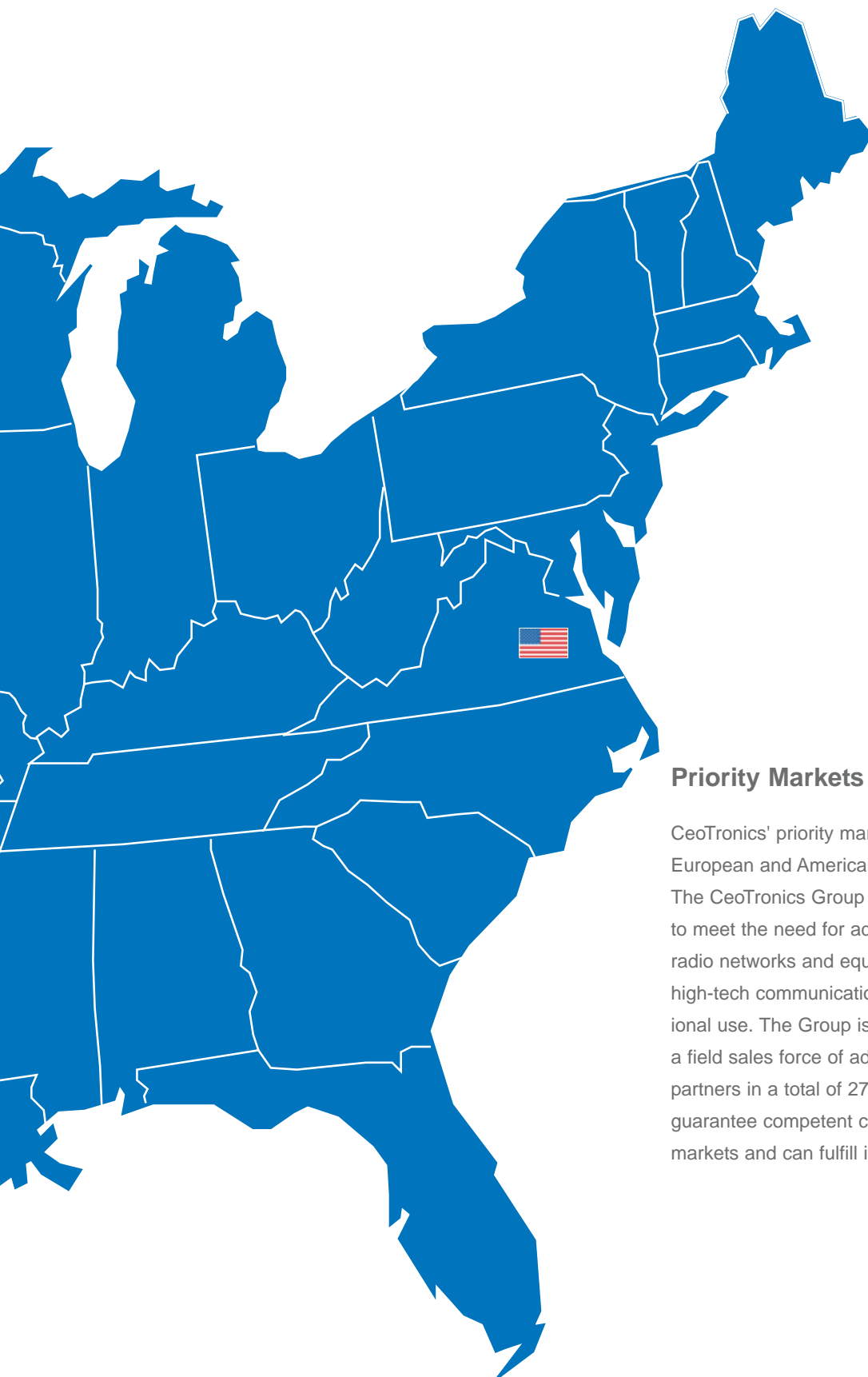
CeoTronics offers 135 jobs in Germany (as of May 31, 2008). The Company is looking to recruit additional engineers for software development and programming and a design engineer, among other things.





## Group Structure





## Priority Markets

CeoTronics' priority markets can be found on both the European and American continents.

The CeoTronics Group maintains a professional sales network to meet the need for advice on mobile digital audio and video radio networks and equipment for local coverage as well as for high-tech communication headsets and systems for professional use. The Group is represented by numerous subsidiaries, a field sales force of advisors, and powerful distribution partners in a total of 27 countries. As a result, CeoTronics can guarantee competent customer service in all of its priority markets and can fulfill its claim to be a premium brand.



## Group Management Report

### Macroeconomic conditions and effects on CeoTronics

In contrast to the U.S.A., stable, adequate economic growth was recorded in Europe.

Industrial enterprises are investing among other things in communications systems to improve and accelerate workflows and increase occupational safety, while government security and law enforcement agencies are investing in increasing internal and external security.

Assuming it continues, this trend offers CeoTronics further potential for growth in its home market of Europe.

The positive performance by CeoTronics in the U.S.A. is still being hampered by the weak U.S. dollar and uncertainty about ongoing economic developments. However, CeoTronics should be able to maintain and expand its market position in the niche market for special communications systems in the medium to long term.

### Investments in internal and external security

The threat posed by international terrorism around the globe has not waned. Accordingly, government security and law enforcement agencies must upgrade their equipment in order to maintain the highest degree of security for citizens, as well as of freedom and democracy.

Of course, the government security and law enforcement agencies cannot do this with fewer personnel and a diminished local presence, and using outdated technology. The security forces therefore need proper equipment – including state-of-the-art audio, video, and data communications technology. Many countries realized this years ago and took appropriate measures.

As in previous years, CeoTronics profited significantly in fiscal year 2007/2008 from these increased investments by government security and law enforcement agencies in internal and external security.

### The switch from analog to digital radio

Government security and law enforcement agencies, fire-fighters, and industrial enterprises in certain priority European markets began switching from analog to digital radio several years ago. As a result, CeoTronics' subsidiaries in Spain, France, and Switzerland recorded sustained, significant revenue increases.

Preparations are being made for the switch in other priority European markets. In Germany, CeoTronics expects large investments to be made by security authorities and organizations (BOS – Behörden und Organisationen mit Sicherheitsaufgaben), the Armed Forces, firefighters, and industry. Those responsible for Germany's switch to digital radio at the federal and state levels are projecting 500,000 BOS digital radio users and plan to invest a total of over €4.5 billion. This figure does not contain industrial enterprises' and firefighters' capital expenditure requirements.

Moreover, the need to invest in digital radio technology and communications accessories is also growing in Northern Europe, Austria, and in Southeastern Europe.

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

Since 1999, CeoTronics has produced and sold over 40,000 systems for connection to the new digital TETRA/TETRAPOL radios. Our experience in adapting communications accessories to digital radios is a major competitive advantage.

### Record sales

CeoTronics lifted its revenues by €3,379 thousand in fiscal year 2007/2008 to €21,318 thousand, an increase of 18.8% year-on-year.

This beat the previous record revenues generated in fiscal year 2005/2006 by €3,258 thousand (+18.0%).

### Changes in revenues by region

The share of revenues generated outside Germany decreased to 52.4% in fiscal year 2007/2008 (previous year: 72.3%).

That generated within Germany increased to 47.6%, due in particular to the delivery and invoicing of the first two batches of the CT-DECT JetCom systems for the German Armed Forces (previous year: 27.7%).

CeoTronics' French subsidiary had another successful year, although revenues continued to "normalize" at -9.45% following years of exceptionally high investments by government security and law enforcement agencies. The order backlog has also returned to a normal level after rising by 436.7% as of the prior-year closing date.

In fiscal year 2007/2008, CeoTronics Spain again benefited from the ongoing switch to digital radio (TETRA) by government security and law enforcement agencies and their equipment upgrades to combat terrorism. Nevertheless, as expected, it was unable to repeat the extremely strong revenues generated in the previous year, and revenues declined by 36.0%. However, the order backlog as of May 31, 2008 was up 92.6% as against the same date in the prior-year period.

In Switzerland, CeoTronics benefited from the European Soccer Championships and the investments in communications systems by government security and law enforcement agencies. Revenues rose by 23.0% year-on-year. At +243.8%, the order backlog as of fiscal year-end 2007/2008 is also up substantially on the previous year.

After consolidation and translation from U.S. dollars to euros, CeoTronics U.S.A.'s revenues rose by 30.3% year-on-year. The order backlog increased by 108.9%.

In Poland, CeoTronics lifted revenues in euros by a substantial 86.2% year-on-year. In addition to a number of video systems, the Company successfully marketed its CT-DECT mobile intercom system. The order backlog declined by 38.7% as against the high prior-year figure.

CeoTronics increased its revenues in Belgium and the United Kingdom, while revenues in the Netherlands, Austria, Norway, and Finland declined. The drop in revenues is due, among other things, to the fact that either the major investments associated with the switch to digital radio have now been made or

the switch is currently pending, leading to muted customer demand for communications accessories for analog radio systems.

#### **Earnings at CeoTronics U.S.A.**

CeoTronics U.S.A.'s operating business developed positively. The loss for fiscal year 2007/2008 before currency translation adjustments and interest narrowed significantly to USD 56 thousand from USD 185 thousand in the previous year. The slide in the U.S. dollar exchange rate in the course of fiscal year 2007/2008 was the sole reason why CeoTronics U.S.A. recorded a significant loss for the year, at USD 511 thousand (previous year: USD 378 thousand).

#### **Performance of the divisions and units**

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

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

In the Radio Networks, Headsets, and Systems unit, CeoTronics was able to increase consolidated Group revenues by 37.4% year-on-year.

Revenues in the Vibration Technology and Helmet Communication unit rose by 88.5%.

This clear rise is due in particular to the major order placed by the German Armed Forces for CT-DECT JetCom systems with helmet-integrated CT-ContactCom skull microphones.

Revenues generated by products from the In-ear Headset and Covert Communication unit declined by 48.2% year-on-year, due in particular to muted investments by German security authorities and organizations.

Revenues in the Cable-bound Audio Communication and Accessories unit declined slightly, by 4.4%.

Following the exceptional 27.5% increase in revenues in the previous year, revenues for the "Video/Data Communication " division declined slightly by 4.6% in the year under review.

Revenues in the Service division rose by 22.0% year-on-year in fiscal year 2007/2008.

#### **Cost of sales ratio down slightly**

The ratio of the cost of sales to revenues decreased slightly to 49.7% (previous year: 50.1%).

Operating expenses (excluding cost of materials) corresponded to 14.6% of revenues, down significantly on the previous year (16.6%).

#### **Increased research and development investment and expenses**

In the Research and Development unit, additional costs for external testing laboratories, additional employees, and extensive development activities led to an increase in expenses of €226 thousand (17.2%) over the previous year, from €1,316 thousand to €1,542 thousand. Nevertheless, the ratio of research and development expenses to revenues declined slightly to 7.2% (previous year 7.3%).

#### **Selling and marketing expenses up less than revenues**

Selling and marketing expenses amounted to 21.3% of revenues in fiscal year 2007/2008 (previous year: 22.4%). Absolute costs rose by 13.4% year-on-year.

#### **General and administrative costs up slightly**

In fiscal year 2007/2008, general and administrative costs increased slightly by 2.9% year-on-year. However, the ratio of these costs to revenues declined sharply to 7.3% (previous year: 8.5%).

#### **Record EBITDA and EBIT**

During the period under review, EBITDA and EBIT increased by 35.7% and 45.2% respectively over fiscal year 2006/2007

to close at new record levels of €3,307 thousand and €2,786 thousand.

The EBIT margin increased to 13.1% in fiscal year 2007/2008 (previous year: 10.7%).

#### **Best-ever profit before tax**

In fiscal year 2007/2008, CeoTronics improved its profit before tax by €807 thousand (43.4%) year-on-year, to €2,668 thousand.

The return on sales based on the profit before tax rose to 12.5% (previous year: 10.4%).

#### **Record profit for the period**

Profit for the period for fiscal year 2007/2008 amounted to €1,835 thousand, up 75.3% as against the previous year (€1,047 thousand).

The tax rate fell from 43.7% to 31.2%, primarily due to the business tax reform in Germany.

The return on sales based on the profit for the period increased to 8.6% (previous year: 5.8%).

The share of profit for the period attributable to shareholders of the parent amounted to €1,819 thousand for the period under review (previous year €1,046 thousand).

Earnings per share (after tax) were €0.28, up from €0.16 in the previous year. The 1:3 share split that took place on January 31, 2008 is reflected in this calculation.

#### **Further increase in equity**

Equity increased to €12,967 thousand as of May 31, 2008 (previous year: €11,705 thousand). The equity ratio declined slightly to 64.8% (previous year: 66.8%).

This decrease is due in particular to the increase in total assets resulting from the utilization of short-term credit lines in connection with the major order by the German Armed Forces.

#### **Gross cash flow hits new record**

Gross cash flow for the period under review increased by €791 thousand as against the previous record year 2006/2007, from €1,565 thousand to €2,356 thousand.

### Ample cash and cash equivalents

Cash and cash equivalents as of May 31, 2008 were up €125 thousand on the previous year, from €783 thousand to €908 thousand.

The second batch of CT-DECT JetCom systems for the German Armed Forces was delivered and invoiced at the end of May 2008. Payment was received in the first quarter of fiscal year 2008/2009 and led to a further significant increase in cash and cash equivalents after the balance sheet date.

### High level of investments

CeoTronics has prepared itself to meet future challenges in good time by investing in employee capacity, markets, technologies, developments, and production technologies and processes.

Total investments during fiscal year 2007/2008 amounted to €586 thousand (previous year: €3,059 thousand). Excluding the one-time acquisition of real estate in the prior year, investments increased by €117 thousand or 24.9%.

### Workforce expanded

The growth in the volume of business and the increased opportunities and challenges prompted CeoTronics to increase its workforce (including trainees) by 6 from 144 (previous year) to 150 as of May 31, 2008. All new jobs were created in Germany.

### Group risk management

As in previous years, CeoTronics continued to fulfill its obligation in the reporting period 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.

The measures derived from this were implemented appropriately, with the implementation being checked and any further modifications being made as necessary.

The objective of this process is 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 the fiscal year, risk management focused primarily on the potential risks relating to the following:

- IT/IT security
- Data protection
- Compliance

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

### Solid order backlog

Due to the fact that the first two batches of the major order from the German Armed Forces for CT-DECT JetCom systems have now been delivered, the order backlog for the Group declined by 27.4% to €6,156 thousand as of May 31, 2008.

However, the order backlog at the end of fiscal year 2007/2008 is still 22.9% above the average for the last three years.

### Events after the balance sheet date

There were no material events after the balance sheet date.

### Disclosures in accordance with section 315(4) of the HGB

#### (No. 1)

The subscribed capital of CeoTronics AG amounts to €6,599,994.00 and is composed of 6,599,994 no-par value shares with a notional value of €1.00 per share.

#### (No. 2)

The Board of Management is not aware of any restrictions affecting the voting rights or the transfer of shares.

**(No. 3)**

The following shareholders hold more than 10% of voting rights as of May 31, 2008:

- Hans-Dieter Günther, 16.87%
- Dagmar Günther, 13.21%

**(No. 4)**

There are no CeoTronics AG shares with special rights.

**(No. 5)**

No employees exercise control of voting rights.

**(No. 6)**

The statutory provisions and the provisions of the Articles of Association governing the appointment and dismissal of members of the Board of Management and amendments to the Articles of Association are as follows:

- a.) Appointment of members of the Board of Management
- In accordance with section 84(1) sentence 1 of the Aktiengesetz (AktG – German Stock Corporation Act), the Supervisory Board appoints the members of the Board of Management for a maximum of five years.
- Reappointment or an extension of the member's term of office is permissible for a maximum of five years in each case. In accordance with Article 9 of the Articles of Association, the Board of Management of CeoTronics AG consists of at least two members and the Supervisory Board determines the number of members of the Board of Management. The Supervisory Board can appoint a Chairman of the Board of Management and a Deputy Chairman of the Board of Management. Furthermore, the Supervisory Board can appoint alternate members of the Board of Management. The Articles of Association do not explicitly specify the term of office for members of the Board of Management. As a rule, members of the Board of Management are appointed for five-year terms.

In accordance with section 84(1) sentence 3 of the Aktiengesetz, the reappointment or extension of a member's term of office requires a further resolution by the Supervisory Board, which may be adopted at the

earliest one year before a member's current term of office expires.

In accordance with section 84(1) sentence 4 of the Aktiengesetz, the extension of a member's term of office may be provided for without a new resolution by the Supervisory Board if the member has been appointed for less than five years, provided that, as a result of this extension, the total term of office does not exceed five years.

In accordance with section 85(1) of the Aktiengesetz, in the event that the Board of Management lacks a required member, the court must appoint a member in urgent cases upon request of an interested party. The decision may be appealed immediately. In accordance with section 85(2) of the Aktiengesetz, the term of the court-appointed member of the Board of Management expires as soon as a replacement member has been found.

- b.) Dismissal of members of the Board of Management
- In accordance with section 84(3) of the Aktiengesetz, the Supervisory Board may revoke the appointment of a member of the Board of Management or the appointment of the chairman of the Board of Management for cause. In accordance with section 84(3) sentence 2 of the Aktiengesetz, such cause is in particular a gross breach of duty, inability to properly manage a business, or the withdrawal of confidence by the General Meeting, unless confidence is withdrawn for evidently subjective reasons. In accordance with section 84(2) sentence 4 of the Aktiengesetz, the revocation of the appointment of the Board of Management shall be effective until its ineffectiveness has been declared final and absolute by a court.
- c.) Amendments to the Articles of Association
- Under section 179(1) of the Aktiengesetz, a resolution by the General Meeting shall be required for any amendment to the Articles of Association.

However, under Article 10(15) of the Articles of Association in conjunction with section 179(1) sentence 2 of the Aktiengesetz, the Supervisory Board is authori-



zed to resolve amendments to the Articles of Association that relate to the formal wording only.

Under section 179(2) sentence 1 of the Aktiengesetz, a resolution to amend the Articles of Association by the General Meeting shall require a majority of at least three-quarters of the share capital represented at the vote on the resolution. Under section 179(2) sentence 2 of the Aktiengesetz, the Articles of Association may require a different capital majority; in the case of an amendment to the purpose of the Company, however, they may only stipulate a larger capital majority and may lay down further requirements. Article 11(9) of the Articles of Association also stipulates that, apart from the cases in which the law requires a different majority, the resolutions by the General Meeting may be adopted by a simple majority of votes cast.

Furthermore it should be noted that, in particular, resolutions by the General Meeting to increase the share capital against contributions, to create contingent capital, to create authorized capital, to increase the capital from retained earnings, and to reduce the share capital each require a majority of at least three-quarters of the share capital represented at the vote on the resolution in accordance with section 182(1) sentence 1, section 193(1) sentence 1, section 202(2) sentence 2, section 207(2) sentence 1, and section 222(1) sentence 1 of the Aktiengesetz.

#### (No. 7)

The Board of Management has the following powers, in particular concerning its authorization to issue and repurchase shares:

##### a.) General powers of the Board of Management

The Board of Management manages CeoTronics AG and represents it both in and out of court. The members of the Board of Management must manage the Company's business in accordance with the law, the Articles of Association, the rules of procedure for the Board of Management and its schedule of responsibilities, as well

as the Supervisory Board approval requirements in accordance with section 111(4) sentence 2 of the Aktiengesetz.

##### b.) Powers to issue shares

In accordance with Article 7(3) of the Articles of Association, the Board of Management is authorized, 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 €3,299,994.00 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 (219,998 shares or, following the share split on January 31, 2008, 659,994 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 also 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.

b.) Powers to repurchase shares

In accordance with section 71(1) of the Aktiengesetz, the Company may only acquire own shares:

- if the acquisition is necessary to prevent serious and imminent damage to the Company (section 71(1) no. 1 of the Aktiengesetz),
- if the shares are to be offered for sale to persons who are or were employed by the Company or by one of its affiliated companies (section 71(1) no. 2 of the Aktiengesetz),
- if the acquisition is made to compensate shareholders in accordance with section 305(2), section 320b of the Aktiengesetz, or section 29(1), section 125 sentence 1 in conjunction with section 29(1), section 207(1) sentence 1 of the Umwandlungsgesetz (German Reorganization and Transformation Act) (section 71(1) no. 3 of the Aktiengesetz),
- if the acquisition is made without compensation or entails a bank executing a commission transaction as agent (section 71(1) no. 4 of the Aktiengesetz),
- through universal succession (section 71(1) no. 5 of the Aktiengesetz),
- by way of a resolution by the General Meeting to retire shares in accordance with the provisions on the reduction of the share capital (section 71(1) no. 6 of the Aktiengesetz), and
- by way of a resolution to acquire own shares in accordance with section 71(1) no. 8 of the Aktiengesetz.

The shares acquired in accordance with section 71(1) nos. 1 to 3 and no. 8 of the Aktiengesetz, together with other shares of the Company that the Company has acquired or still holds, may not account for more than 10% of the share capital. Furthermore, such acquisition is only permitted if the Company is able to set up the reserve for own shares required under

section 272(4) of the Handelsgesetzbuch (HGB – German Commercial Code) without reducing the share capital or a reserve required by law or in accordance with the Articles of Association that may not be utilized for payments to shareholders.

The Board of Management is authorized until May 2, 2009 to purchase own shares of CeoTronics AG in accordance with section 71(1) no. 8 of the Aktiengesetz.

**(No. 8)**

There are no material agreements of the Company that take effect in the event of a change of control following a takeover bid.

**(No. 9)**

There are no compensation arrangements agreed by the Company with the members of the Board of Management or employees in the event of a takeover bid.

**Opportunities of future development**

The switch to digital radio by the police, firefighters, and industrial enterprises in Germany, Northern Europe, Austria, and the Benelux countries will offer CeoTronics additional market potential for audio products for many years to come.

North America is the market with the greatest potential for CeoTronics products.

Our successful sales and improved visibility, the result of our sales activities and marketing investments to date, have encouraged us to expand our sales team in the U.S.A. Two additional field sales representatives will significantly improve our market presence and the number of customer contacts. As a result, we are expecting to see significant increases in revenue in the coming fiscal years.

CT video systems will play an even more important role in fighting crime and terrorism in future. The CeoTronics Group's long-term revenue growth will be boosted by authorities investing in monitoring areas at risk – especially those temporarily at risk – and in securing video evidence, as well as by CT-Video GmbH's new product innovations.

### Risks of future development

It is not certain whether the CeoTronics companies in Spain, France, and Switzerland will be able to maintain their past high level of revenues in the coming fiscal years.

If CeoTronics does not participate to the desired extent in the switch to digital radio by the German security authorities and organizations, firefighters, and industrial enterprises, this could have an adverse effect on CeoTronics AG's revenues and earnings planning.

Competitors, radio manufacturers and dealers, and importers could step up their efforts to penetrate CeoTronics' markets – especially Germany – using cheap goods from Asia, for example, in order to win tenders during the switch to digital radio. CeoTronics will not leave the premium segment and will attempt to keep price acceptance and appreciation for its products and systems at a high level by offering value. The Company will also make greater use of its more cost-effective production location in Lutherstadt Eisleben (Saxony-Anhalt, Germany).

If CeoTronics U.S.A. cannot meet its revenue and earnings forecasts for the coming years, it cannot be ruled out that the carrying amount of goodwill at CeoTronics U.S.A. will decrease, that CeoTronics AG (Germany) will have to write down the value of its investment in CeoTronics U.S.A., and/or that CeoTronics AG (Germany) will have to recognize impairment losses on its receivables from CeoTronics U.S.A.

The potential decline in economic growth in CeoTronics' priority markets could negatively affect Group development.

### Report on Expected Developments

The imminent start of the switch to digital radio in Germany, the high order backlog, and the new projects being worked on, coupled with product innovations, mean that CeoTronics is optimistic for fiscal year 2008/2009.

CeoTronics will continue to profit from the switch to digital radio in Germany and Europe in the coming fiscal years, as well as from greater investment in internal and external security.

In keeping with tradition, CeoTronics expects to issue its revenue and earnings targets for fiscal year 2008/2009 in January 2009, at the time of publication of its interim results for the first half of the year. By then, we will have enough information to give a reasonably reliable forecast.

Rödermark, August 14, 2008

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

Member of the Board of Management

## IFRS Balance Sheet – Assets

€ thousand	Note	May 31, 2008	May 31, 2007
<b>Current assets</b>			
Cash and cash equivalents	9	908	783
Trade receivables	10	6,596	4,886
Inventories	11	4,417	3,861
Other current assets	12	387	241
<b>Total current assets</b>		<b>12,308</b>	<b>9,771</b>
<b>Noncurrent assets</b>			
Property, plant, and equipment	13	5,683	5,740
Intangible assets	13	297	194
Goodwill	13	1,198	1,308
Deferred tax assets	14	519	520
<b>Total noncurrent assets</b>		<b>7,697</b>	<b>7,762</b>
<b>Total assets</b>		<b>20,005</b>	<b>17,533</b>

## IFRS Balance Sheet – Equity and Liabilities

€ thousand	Note	May 31, 2008	May 31, 2007
<b>Current liabilities</b>			
Current financial liabilities	15	1,423	291
Trade payables	16	656	814
Advance payments received		41	208
Provisions	17	1,400	1,058
Current tax payables		662	816
Other current liabilities	18	693	336
<b>Total current liabilities</b>		<b>4,875</b>	<b>3,523</b>
<b>Noncurrent liabilities</b>			
Noncurrent financial liabilities	15	2,163	2,305
<b>Total noncurrent liabilities</b>		<b>2,163</b>	<b>2,305</b>
<b>Equity</b>			
Subscribed capital	19	6,600	6,600
Capital reserves	19	4,471	4,471
Retained earnings	19	886	16
Cumulative other recognized income and expense		52	-36
Net retained profit		898	609
<b>Equity attributable to shareholders of CeoTronics AG</b>	19	<b>12,907</b>	<b>11,660</b>
Minority interest	20	60	45
<b>Total equity</b>		<b>12,967</b>	<b>11,705</b>
<b>Total equity and liabilities</b>		<b>20,005</b>	<b>17,533</b>

## IFRS Income Statement

€ thousand	Note	2007/2008	2006/2007
<b>Revenues</b>	21	<b>21,318</b>	<b>17,939</b>
Cost of sales	22	-10,599	-8,986
<b>Gross profit</b>		<b>10,719</b>	<b>8,953</b>
Selling and marketing expenses		-4,548	-4,010
General and administrative expenses		-1,562	-1,518
Research and development expenses	23	-1,542	-1,316
Other operating income and expenses	26	-281	-176
Impairment of goodwill		0	-14
<b>Operating profit (EBIT)</b>		<b>2,786</b>	<b>1,919</b>
Interest income/expense	27	-118	-58
<b>Profit before tax</b>		<b>2,668</b>	<b>1,861</b>
Income tax expense	28	-833	-814
<b>Profit for the period</b>		<b>1,835</b>	<b>1,047</b>
<i>Profit for the period attributable to:</i> Minority interest	30	16	1
Shareholders of CeoTronics AG	30	1,819	1,046
Earnings per share (basic) in € (1)		0.28	0.16
Earnings per share (diluted) in € (1)		0.28	0.16

(1) Figures for 2006/2007 adjusted for the effect of the 1:3 share split implemented in fiscal year 2007/2008.

## IFRS Cash Flow Statement

€ thousand	2007/2008	2006/2007
<b>Cash flow from operating activities</b>		
Profit before tax	2,668	1,861
Income tax expense	-833	-814
<b>Profit for the period</b>	<b>1,835</b>	<b>1,047</b>
Depreciation, amortization, and impairment losses	521	518
<b>Gross cash flow</b>	<b>2,356</b>	<b>1,565</b>
<b>Changes in assets and liabilities</b>		
Change in trade receivables	-1,710	-2,315
Change in inventories	-556	-107
Change in other assets	-146	-12
Change in trade payables	-158	135
Change in advance payments received	-167	61
Change in other provisions	342	126
Change in tax payables	-154	597
Change in other current liabilities	357	-11
Change in deferred tax assets	1	15
<b>Total changes in assets and liabilities</b>	<b>-2,191</b>	<b>-1,511</b>
<b>Net cash provided by operating activities</b>	<b>165</b>	<b>54</b>
<b>Cash flow from investing activities</b>		
Payments to acquire intangible assets	-183	-63
Payments to acquire property, plant, and equipment	-403	-2,996
Change in foreign currency differences	110	45
Disposal of noncurrent assets (net carrying amounts)	19	60
<b>Net cash used in investing activities</b>	<b>-457</b>	<b>-2,954</b>
<b>Cash flow from financing activities</b>		
Change in current financial liabilities	1,132	116
Change in noncurrent financial liabilities	-142	1,876
Dividend payment to minority interest	0	-3
Dividend payment to shareholders of CeoTronics AG	-660	-660
<b>Net cash provided by financing activities</b>	<b>330</b>	<b>1,329</b>
<b>Change in cash and cash equivalents</b>	<b>38</b>	<b>-1,571</b>
Effect of exchange rate changes on cash and cash equivalents	87	-22
Cash and cash equivalents at beginning of period	783	2,376
Cash and cash equivalents at end of period	908	783



## IFRS Statement of Changes in Equity

	Equity attributable to shareholders of CeoTronics AG							
€ thousand	Subscribed capital	Capital reserves	Retained earnings	Net retained profit	Cumulative other recognized income and expense	Total	Minority interest	Total equity
<b>Balance at May 31, 2006</b>	<b>6,600</b>	<b>4,471</b>	<b>16</b>	<b>226</b>	<b>-13</b>	<b>11,300</b>	<b>43</b>	<b>11,343</b>
Profit for the period				1,046		1,046	1	11,047
Dividend distribution				-660		-660	-3	-663
Currency translation adjustments					-23	-23	1	-22
Change in minority interest				-3		-3	3	0
<b>Balance at May 31, 2007</b>	<b>6,600</b>	<b>4,471</b>	<b>16</b>	<b>609</b>	<b>-36</b>	<b>11,660</b>	<b>45</b>	<b>11,705</b>
Profit for the period			870	949		1,819	16	1,835
Dividend distribution				-660		-660	0	-660
Currency translation adjustments					88	88	-1	87
Change in minority interest				0		0	0	0
<b>Balance at May 31, 2008</b>	<b>6,600</b>	<b>4,471</b>	<b>886</b>	<b>898</b>	<b>52</b>	<b>12,907</b>	<b>60</b>	<b>12,967</b>

## IFRS Statement of Changes in Noncurrent Assets

	Cost						Cumulative depreciation, amortization, and impairment losses					Carrying amounts	
€ thousand	June 1, 2007	Currency translation adjustments	Additions	Disposals	Reclassifications	May 31, 2008	June 1, 2007	Currency translation adjustments	Additions	Disposals	May 31, 2008	May 31, 2008	May 31, 2007
<b>Property, plant, and equipment</b>													
Land, land rights, and buildings, including buildings on third- party land	5,221	0	41	0	0	5,262	413	0	102	0	515	4,747	4,808
Technical equipment and machinery	1,995	-2	125	112	26	2,032	1,434	-1	165	-12	1,610	422	561
Other equipment, operating and office equipment	1,717	0	208	233	48	1,740	1,429	-1	222	338	1,312	428	288
Prepayments and assets under construction	83	0	29	0	-26	86	0	0	0	0	0	86	83
	<b>9,016</b>	<b>-2</b>	<b>403</b>	<b>345</b>	<b>48</b>	<b>9,120</b>	<b>3,276</b>	<b>-2</b>	<b>489</b>	<b>326</b>	<b>3,437</b>	<b>5,683</b>	<b>5,740</b>
<b>Intangible assets</b>													
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	487	0	153	0	19	659	360	0	32	0	392	267	127
Prepayments on intangible assets	67	0	30	0	-67	30	0	0	0	0	0	30	67
	<b>554</b>	<b>0</b>	<b>183</b>	<b>0</b>	<b>-48</b>	<b>689</b>	<b>360</b>	<b>0</b>	<b>32</b>	<b>0</b>	<b>392</b>	<b>297</b>	<b>194</b>
<b>Goodwill</b>	<b>1,415</b>	<b>-122</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,293</b>	<b>107</b>	<b>-12</b>	<b>0</b>	<b>0</b>	<b>95</b>	<b>1,198</b>	<b>1,308</b>
	<b>10,985</b>	<b>-124</b>	<b>586</b>	<b>345</b>	<b>0</b>	<b>11,102</b>	<b>3,743</b>	<b>-14</b>	<b>521</b>	<b>326</b>	<b>3,924</b>	<b>7,178</b>	<b>7,242</b>

# Modular\*



\* CT-DCOM-TX: The modular video transmitter.

## Notes to the Consolidated Financial Statements of CeoTronics AG for Fiscal Year 2007/2008

### Basis of Preparation and Accounting Policies

#### (1) Business Activities/Information on the Company

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 electronic audio, video, and data communication systems, personal protective equipment with and without communication, 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 CT-Video GmbH, Lutherstadt Eisleben ('CT-Video GmbH'), are production and sales companies.

The

- CeoTronics S.a.r.l., Brie Comte Robert/France ('CeoTronics France')
- CeoTronics AG, Rotkreuz/Switzerland ('CeoTronics Switzerland')
- CeoTronics S.L., Madrid/Spain ('CeoTronics Spain')
- CeoTronics Sp. z o.o., Lodz/Poland ('CeoTronics Poland')
- CeoTronics Inc., Virginia Beach, Virginia/U.S.A. ('CeoTronics U.S.A.')

subsidiaries are solely sales companies.

Production at CeoTronics Poland was discontinued at the end of 2007 in favor of the Company's German sites.

Our subsidiaries in Spain, Poland, and the U.S.A. offer local 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).

The consolidated financial statements of CeoTronics AG and its subsidiaries were prepared in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), reflecting the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union. The requirements of German commercial law under section 315a(1) of the HGB were also complied with. All IFRSs issued by the IASB that were valid at the date of preparation of the accompanying consolidated financial statements and applied by CeoTronics AG were endorsed by the European Commission for application in the EU. The consolidated financial statements prepared by CeoTronics AG therefore comply with the IFRSs as adopted by the EU, and the supplementary requirements of German commercial law under section 315a(1) of the HGB.

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 14, 2008 was approved by the Supervisory Board on August 14, 2008.

International Financial Reporting Standards (IFRSs) and Interpretations (IFRICs) required to be applied for the first time in the past fiscal year

The following new Interpretations became effective in fiscal year 2007/2008:

- IFRIC 10 Interim Financial Reporting and Impairment, required to be applied for the first time for fiscal years beginning on or after November 1, 2006;
- IFRIC 11 Group and Treasury Share Transactions, required to be applied for the first time for fiscal years beginning on or after March 1, 2007.

The application of the above-mentioned Interpretations had no direct effects on the consolidated financial statements of CeoTronics AG.

International Financial Reporting Standards (IFRSs) and Interpretations (IFRICs) that are issued but not yet required to be applied

The IASB has issued the following IFRSs and IFRICs as well as amendments to existing Standards that were not required to be applied during CeoTronics AG's past fiscal year and that CeoTronics AG did not adopt prior to their effective date in the preparation of its consolidated financial statements as of May 31, 2008:

- The amendment to IAS 1 Presentation of Financial Statements is required to be applied for the first time for fiscal years beginning on or after January 1, 2009;

- The amendment to IAS 23 Borrowing Costs is required to be applied for the first time for fiscal years beginning on or after January 1, 2009;
- The amendment to IAS 27 Consolidated and Separate Financial Statements is required to be applied for the first time for fiscal years beginning on or after January 1, 2010;
- The amendment to IFRS 3 Business Combinations is required to be applied for the first time for fiscal years beginning on or after January 1, 2010;
- IFRS 8 Operating Segments is required to be applied for the first time for fiscal years beginning on or after January 1, 2009;
- IFRIC 12 Service Concession Arrangements is required to be applied for the first time for fiscal years beginning on or after January 1, 2008;
- IFRIC 13 Customer Loyalty Programs is required to be applied for the first time for fiscal years beginning on or after July 1, 2008;
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements, and their Interaction is required to be applied for the first time for fiscal years beginning on or after January 1, 2008.

With the exception of IFRS 8 (Operating Segments), the above-mentioned Standards and Interpretations will not have any significant effects on the presentation of CeoTronics AG's consolidated financial statements.

### **(3) 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, 2008 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%	1,280	152	1,000 EUR
CeoTronics AG, Rotkreuz/Switzerland	100%	235 382	114 186	1,000 EUR 1,000 CHF
CeoTronics S.a.r.l., Brie Comte Robert/France	100%	-341	8	1,000 EUR
CeoTronics Ltd., Aberdeen/United Kingdom	100%	103 81	0 0	1,000 EUR 1,000 GBP
CeoTronics Inc., Virginia Beach/Virginia/U.S.A.	100%	-719 -1.115	-351 -511	1,000 EUR 1,000 USD
CeoTronics S.L., Madrid/Spain	100%	884	607	1,000 EUR
CeoTronics Sp. z o.o., Lodz/Poland	75%	203 686	64 233	1,000 EUR 1,000 PLN

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.

CeoTronics France was formed in 1986. Effective May 31, 1996, CeoTronics AG acquired the remaining 33% interest in the company.

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 GB's sales activities were provisionally discontinued as of March 31, 2007 and taken over by CeoTronics AG.

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.

Production was discontinued at the time of the relocation to Virginia Beach in 2006.

CeoTronics Spain 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.

AACOM-CeoTronics Sp. z o.o. was renamed CeoTronics Sp. z o.o. as of June 1, 2007.

#### (4) 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 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.

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 €230 thousand (previous year: €222 thousand) from intercompany transactions contained in the carrying amounts of finished goods as of May 31, 2008 were also eliminated. Because of the increase in intercompany profits, a consolidation adjustment of €8 thousand (previous year: €22 thousand) was recognized as an expense 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.

#### **(5) 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 2013/2014 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%.

#### **(6) 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; and
- determining the recoverability of deferred tax assets.

### (7) 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, 2008 and May 31, 2007 and for fiscal years 2007/2008 and 2006/2007 were:

	USD/EUR	GBP/EUR	CHF/EUR	PLN/EUR
Closing rate at May 31, 2008	1.5504	0.7870	1.6278	3.3733
Closing rate at May 31, 2007	1.3469	0.6798	1.6490	3.8165
Change in € (%)	+15.1%	+15.8%	-1.3%	-11.6%
Average rate for fiscal year 2007/2008	1.4536	0.7252	1.6330	3.6425
Average rate for fiscal year 2006/2007	1.2993	0.6767	1.6005	3.8905
Change in € (%)	+11.9%	+7.2%	+2.0%	-6.4%

## (8) 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.

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
Assets with a cost of € 150 to € 1,000 (omnibus item, from January 1, 2008)	5

### 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

#### Operating 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.

#### *Finance leases*

Leases that transfer substantially all the risks and rewards incidental to ownership of the asset to the lessee are classified as finance leases.

The lessee recognizes the assets at cost and depreciates them 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.

The lessor recognizes the lease payments for the entire lease term as revenues in the year of delivery, discounted to the present value.

The discount factor is 5.0%. The payments from the lessee that are outstanding at the balance sheet date are also discounted and reported in trade receivables. The monthly installments to be paid by the lessee are broken down over the term of the lease into a finance charge, which is recognized as income in the income statement, and the reduction of the outstanding trade receivables.

#### *Hire-purchase*

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 tax expense

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.

### Options on virtual shares

CeoTronics AG operated option plans for virtual shares for senior executives and specialist employees that expired in fiscal year 2007/2008. The aim of the plans was to strengthen the identification of senior executives and specialist employees with the Company by allowing them to participate in the Company's success.

The plans were 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 recognized the difference between the exercise price and the expected market price of the shares at the time of exercise as an employee expense, and allocated it ratably in the income statement over the term of the stock options. Exercise of stock options at the earliest possible date was assumed. The calculation was 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

#### (9) Cash and Cash Equivalents

€ thousand	May 31, 2008	May 31, 2007
Cash and bank balances	908	783

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

#### (10) Trade Receivables

Trade receivables are composed of the following items:

€ thousand	May 31, 2008	May 31, 2007
Trade receivables, gross	6,629	4,939
less: valuation allowances	-33	-53
<b>Trade receivables, net</b>	<b>6,596</b>	<b>4,886</b>

Trade receivables include receivables from finance leases amounting to €742 thousand. In fiscal year 2006/2007, CeoTronics entered into a lease that must be classified as a finance lease with a customer in Spain. The order has a total volume of €1,231 thousand and a term of 72 months.

The lessee was granted the option of acquiring the products for €110 thousand after the lease expires.

The reconciliation of the gross value of the order at the reporting date to the present value of the minimum lease payments outstanding at the reporting date is as follows:

€ thousand	
Gross value of the order at the reporting date	872
Discount factor: 5.0%	-130
<b>Present value of the order at the reporting date</b>	<b>742</b>

The maturities of the lease payments break down as follows:

€ thousand	Gross value	Present value
Less than 1 year	205	188
1 to 5 years	667	554
More than 5 years	0	0
<b>Total amounts at the reporting date</b>	<b>872</b>	<b>742</b>

The other receivables included in trade receivables are due within one year. Valuation allowances of €1 thousand (previous year: €19 thousand) were recognized as general and administrative expenses in fiscal year 2007/2008.

### (11) Inventories

Inventories are broken down as follows:

€ thousand	May 31, 2008	May 31, 2007
Raw materials, consumables, and supplies	6	6
Work in progress	3,542	2,863
Finished goods	869	992
<b>Inventories, net</b>	<b>4,417</b>	<b>3,861</b>

Impairment losses of €298 thousand (previous year: €369 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 2007/2008	Fiscal year 2006/2007
Germany	247	303
Rest of Europe	3	9
Rest of world	48	57
<b>Total impairment losses on inventories</b>	<b>298</b>	<b>369</b>

### (12) Other Current Assets

€ thousand	May 31, 2008	May 31, 2008
Current tax receivables	257	28
Claims on employees	19	26
Prepaid expenses	94	105
Miscellaneous	17	82
<b>Total other current assets</b>	<b>387</b>	<b>241</b>

### (13) Noncurrent Assets

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

#### Investments

CeoTronics' key investments in fiscal year 2007/2008 focused in particular on new tools (€107 thousand), operating and office equipment (€88 thousand), licenses and software (€152 thousand), hardware (€35 thousand), and machinery and equipment (€22 thousand).

#### Finance leases

CeoTronics U.S.A. acquired a total of four computers through finance leases in fiscal year 2005/2006; 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 con-

tract 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 €1 thousand.

### Goodwill

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, 2008, goodwill resulting from initial consolidation or business combinations was attributable to the following cash-generating units:

€ thousand	Opening balance sheet	Impairment losses FY 2007/2008	Currency translation adjustments	Carrying amounts at year-end
<b>Goodwill from initial consolidation</b>				
CeoTronics France	322	0	0	322
CeoTronics Spain	13	0	0	13
CeoTronics Poland	134	0	0	134
<b>Total</b>	<b>469</b>	<b>0</b>	<b>0</b>	<b>469</b>
<b>Goodwill from business combinations</b>				
CeoTronics U.S.A.	839	0	-110	729
<b>Total</b>	<b>839</b>	<b>0</b>	<b>-110</b>	<b>729</b>
<b>Goodwill</b>	<b>1,308</b>	<b>0</b>	<b>-110</b>	<b>1,198</b>

### 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 S.a.r.l., Pontault-Combault/France. This company was initially consolidated as of April 1, 1999. A & C Achats et Communication S.a.r.l., 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 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 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 2008/2009 to 2013/2014 is higher than the carrying amount. No further impairment losses were therefore recognized.

### Government grants

Government grants amounting to €8 thousand (previous year: €0 thousand) were received by CT-Video GmbH in fiscal year 2007/2008 to acquire long-lived assets. CT-Video GmbH grants amounting to €7 thousand for participating at trade fairs (previous year: €12 thousand).



**(14) Deferred Tax Assets**

Deferred tax assets are composed of the following items:

€ thousand	May 31, 2008	May 31, 2007
<b>Deferred tax assets on tax loss carryforward at CeoTronics U.S.A.</b>		
Gross	561	561
less: valuation allowance	-281	-281
Net	280	280
<b>Deferred tax assets on tax loss carryforward at CeoTronics France</b>		
Deferred tax assets due to elimination of intercompany profits	147	150
<b>Total deferred tax assets</b>	<b>519</b>	<b>520</b>

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 2007/2008. The Company has now accumulated a loss carryforward of more than €3 million. In fiscal year 2007/2008, other measures to cut costs and increase revenues were taken that will have a positive effect on earnings in coming fiscal years. As the Board of Management is forecasting an increase in revenues for the coming years, it is expecting sustained positive earnings during these periods, 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.

As in the prior years, CeoTronics France closed fiscal year 2007/2008 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 carry-

forward amounts to €147 thousand (previous year: €150 thousand).

Deferred taxes of €2 thousand (previous year: €10 thousand) were recognized for consolidation adjustments in the income statement in fiscal year 2007/2008. 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 amounted to a standard 15% from calendar year 2008 plus 5.5% solidarity surcharge (in calendar year 2007: 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 12%.

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 2007/2008 of €833 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 €92 thousand (previous year: €90 thousand).

**(15) Financial Liabilities**

€ thousand	May 31, 2008	May 31, 2007
<b>Current:</b>		
Bank overdrafts	1,248	116
Bank loans	124	114
Leasing companies	51	61
<b>Total</b>	<b>1,423</b>	<b>291</b>
<b>Noncurrent:</b>		
Bank loans	2,156	2,274
Leasing companies	7	31
<b>Total</b>	<b>2,163</b>	<b>2,305</b>
<b>Total financial liabilities</b>	<b>3,586</b>	<b>2,596</b>

In fiscal year 2006/2007, CeoTronics AG, Rödermark, took out a loan amounting to €2,100 thousand to finance the acquisition of a previously rented property in Rödermark. The loan matures on October 31, 2016 and bears interest at 4.81% per annum. The property in question serves as collateral to secure the loan.

The remaining amount of the loan as of May 31, 2008 is €1,970 thousand.

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, 2008 is €312 thousand.

The interest expenses for all liabilities to banks and leasing companies totaled €154 thousand in fiscal year 2007/2008 (previous year: €84 thousand).

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

The following table shows the due dates of financial liabilities:

€ thousand	
2008/2009	1,423
2009/2010	123
2010/2011	128
2011/2012	133
2012/2013	138
Thereafter	1,641
<b>Total</b>	<b>3,586</b>

The financial liabilities contain liabilities from finance leases (purchase of four computers by CeoTronics U.S.A. – see note 13) amounting to €1 thousand. The minimum lease payments and the present value of the finance leases are presented in the following:

€ thousand	Minimum lease payments	Present value
2008/2009	1	1
2009/2010	0	0
2010/2011	0	0
2011/2012	0	0
2012/2013	0	0
Thereafter	0	0
<b>Total</b>	<b>1</b>	<b>1</b>

The lease payments of €1 thousand in fiscal year 2007/2008 were recognized in Selling and marketing expenses in the income statement.

**(16) Trade Payables**

Trade payables of €656 thousand as of May 31, 2008  
(previous year: €814 thousand) are due within one year.

**(17) Provisions**

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

€ thousand	June 1, 2007	Utilization	Reversals	Additions	May 31, 2008
<b>Current provisions</b>					
<b>Provisions for employee expenses</b>					
Claims for outstanding vacation entitlements and overtime	237	237	0	301	301
Employee bonuses	344	324	20	415	415
Management bonuses	141	141	0	286	286
Measurement of employee options	64	64	0	0	0
	<b>786</b>	<b>766</b>	<b>20</b>	<b>1,002</b>	<b>1,002</b>
<b>Other provisions</b>					
Legal and consulting fees and year-end closing costs	74	74	0	112	112
Warranty provisions	65	0	0	102	167
Miscellaneous	133	131	2	119	119
	<b>272</b>	<b>205</b>	<b>2</b>	<b>333</b>	<b>398</b>
<b>Total provisions</b>	<b>1,058</b>	<b>971</b>	<b>22</b>	<b>1,335</b>	<b>1,400</b>

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.

**(18) Other Current Liabilities**

€ thousand	May 31, 2008	May 31, 2007
Current tax payables	637	247
Social security liabilities	21	23
Miscellaneous	35	66
<b>Other current liabilities</b>	<b>693</b>	<b>336</b>

The other current liabilities are due within one year.

**(19) Equity**

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

**Subscribed capital**

The subscribed capital of CeoTronics AG, Rödermark, amounts to €6,599,994.00. The 1:3 share split resolved at the General Meeting on November 2, 2007 was implemented on January 31, 2008 following its entry in the commercial register. Each no-par value share with a notional interest of €3.00 has been replaced by three no-par value shares with a notional interest of €1.00 each. This increases the number of shares from 2,199,998 to 6,599,994.

**Authorized capital**

The General Meeting on November 4, 2005 authorized 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 €3,299,994.00 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 659,999 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).

**Other retained earnings**

As part of the appropriation of net profit for fiscal year 2007/2008, €870,000.00 was appropriated to other retained earnings in accordance with section 58(2) of the AktG.

**Equity ratio**

The equity of the CeoTronics Group as of May 31, 2008 amounted to €12,967 thousand (previous year: €11,705 thousand), producing an equity ratio of 64.8% (previous year: 66.8%).

### 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 €2,824 thousand as of May 31, 2008.

### Proposal on the appropriation of net profit

By way of a resolution dated August 14, 2008, the Board of Management proposed to the Supervisory Board to recommend a dividend of €0.15 per share to the shareholders at the General Meeting.

### (20) Minority Interest

The minority interest in companies of the CeoTronics Group relates to a 25% minority interest in CeoTronics Sp. z o.o. The minority interest of €60 thousand as of May 31, 2008 (previous year: €45 thousand) is presented directly in equity.

## Consolidated Income Statement Disclosures

### (21) Revenues

At €21,318 thousand, revenues in 2007/2008 increased by 18.8% as against the previous year (€17,939 thousand). €20,683 thousand was generated by the sale of goods and €635 thousand by other services.

Changes in revenues by region are presented in the segment reporting in note 31.

### (22) Cost of sales

Cost of sales rose to €10,599 thousand in the reporting period (previous year: €8,986 thousand). The ratio of cost of sales to revenues is now 49.7% (previous year: 50.1%).

The revenues disclosed above were reduced by aggregate cost of materials amounting to €7,484 thousand in fiscal year 2007/2008 (previous year: €6,016 thousand). The ratio of cost

of materials to revenues is thus 35.1% (previous year: 33.5%). Cost of materials includes impairment losses of €298 thousand (previous year: €369 thousand).

### (23) Research and Development Expenses

In fiscal year 2007/2008, the CeoTronics Group implemented projects that will only lead to revenues in future periods. In accordance with IFRSs, these expenditures were recognized 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.

### (24) Employee Expenses

€ thousand	Fiscal year 2007/2008	Fiscal year 2006/2007
Wages and salaries	6,348	5,737
Social security, post-employment, and other employee benefit expenses	1,104	1,076
<b>Total employee expenses</b>	<b>7,452</b>	<b>6,813</b>
of which in respect of old age pensions	34	23

An average aggregate of 147 (previous year: 141) employees were employed in the CeoTronics Group in the year under review.

### (25) Depreciation, Amortization, and Impairment Losses

Amortization of €32 thousand (previous year: €48 thousand) was charged on intangible assets. €13 thousand of this is recognized in cost of sales, €12 thousand in selling and marketing expenses, €1 thousand in general and administrative expenses, and €6 thousand in research and development expenses.

Depreciation of €489 thousand (previous year: €456 thousand) was charged on items of property, plant, and equipment.

**(26) Other Operating Income and Expenses**

This item is broken down as follows:

€ thousand	Fiscal year 2007/2008	Fiscal year 2006/2007
Other operating income	48	36
Other operating expenses	-329	-212
<b>Other operating income and expenses</b>	<b>-281</b>	<b>-176</b>

Other operating income relates primarily to income from the reversal of provisions (€22 thousand) and exchange rate gains of €24 thousand.

Other operating expenses relate in particular to exchange rate losses of €263 thousand, to expenses for losses on the disposal of noncurrent assets (€10 thousand), and to other taxes (€25 thousand).

**(27) Interest Income and Expense**

Net interest expense is composed of the following items:

€ thousand	Fiscal year 2007/2008	Fiscal year 2006/2007
Interest and similar income	36	26
Interest and similar expenses	-154	-84
<b>Net interest expense</b>	<b>-118</b>	<b>-58</b>

Interest income relates primarily to overnight and term deposits.

Interest expenses are composed mainly of mortgage interest, the short-term utilization of credit lines, and the amortization of a discount.

**(28) 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 15.0% (previous year: 25.0%), the solidarity surcharge was 5.5% on the corporate income tax liability, and the municipal trade tax rate was equivalent to 12.3% in Rödermark (CeoTronics AG) and 10.5% 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 2007/2008	Fiscal year 2006/2007
<b>Current taxes</b>		
Germany	565	521
Abroad	266	278
<b>Total</b>	<b>831</b>	<b>799</b>
Deferred taxes	2	15
<b>Income tax expense</b>	<b>833</b>	<b>814</b>

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 28.1% (previous year: 37.3%). This is composed of a corporate income tax rate of 15.0%, a municipal trade tax rate of 12.3%, and a solidarity surcharge of 5.5%.

€ thousand	Fiscal year 2007/2008	Fiscal year 2006/2007
Profit before tax	2,668	1,861
Tax income at the applicable tax rate (28.1%; previous year: 37.3%)	750	694
Difference due to foreign tax rates	-15	-47
Benefit of tax loss carryforwards	-3	-15
Non-deductible expenses	-3	27
Effect on deferred taxes	102	125
Effect of consolidation adjustments	-2	-13
Other differences	4	43
<b>Tax expense reported in consolidated financial statements</b>	<b>833</b>	<b>814</b>

## Other Disclosures

### (29) 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 profit for the period.

### (30) Earnings per Share

€ thousand	Fiscal year 2007/2008	Fiscal year 2006/2007
Profit for the period attributable to shareholders of the parent	1,819	1,046
Weighted average number of shares	6,599,994	6,599,994
<b>Earnings per share</b>	<b>0.28</b>	<b>0.16</b>

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

The calculation of earnings per share for fiscal year 2006/2007 reflected the 1:3 share split implemented as of Jan. 31, 2008 (see note 19). Earnings per share for fiscal year 2006/2007, based on the number of shares before the share split (2,199,998), amounted to €0.48.

As in the prior year, all shares of the Company were outstanding in fiscal year 2007/2008.

### (31) 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 8.

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 the production process used and the 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 2007/2008 and 2006/2007:

€ thousand	Fiscal year 2007/2008	Fiscal year 2006/2007
Germany	12,955	8,838
Rest of Europe	7,910	8,753
Rest of world	453	348
<b>Third-party revenues</b>	<b>21,318</b>	<b>17,939</b>

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

€ thousand	Fiscal year 2007/2008	Fiscal year 2006/2007
Germany	10,158	4,974
Rest of Europe	10,632	12,194
Rest of world	528	771
<b>Third-party revenues</b>	<b>21,318</b>	<b>17,939</b>

### 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 2007/2008 and 2006/2007:

€ thousand	Fiscal year 2007/2008	Fiscal year 2006/2007
Germany	1,428	697
Rest of Europe	742	641
Rest of world	-335	-291
<b>Profit for the period</b>	<b>1,835</b>	<b>1,047</b>

### Segment assets

Segment assets are attributable as follows to the various regions (primary segment) as of May 31, 2008 and May 31, 2007:

€ thousand	May 31, 2008	May 31, 2007
Germany	15,090	10,587
Rest of Europe	3,347	5,332
Rest of world	1,568	1,614
<b>Total segment assets</b>	<b>20,005</b>	<b>17,533</b>

### Segment liabilities

Segment liabilities are attributable as follows to the various regions (primary segment) as of May 31, 2008 and May 31, 2007:

€ thousand	May 31, 2008	May 31, 2007
Germany	6,440	5,014
Rest of Europe	574	781
Rest of world	24	33
<b>Total segment liabilities</b>	<b>7,038</b>	<b>5,828</b>

**Noncurrent assets**

Noncurrent assets are attributable as follows to the various regions (primary segment) as of May 31, 2008 and May 31, 2007:

€ thousand	May 31, 2008	May 31, 2007
Germany	5,850	5,818
Rest of Europe	578	565
Rest of world	750	859
<b>Total noncurrent assets</b>	<b>7,178</b>	<b>7,242</b>

**Investments**

Investments are attributable as follows to the various regions (primary segment) in fiscal years 2007/2008 and 2006/2007:

€ thousand	Fiscal year 2007/2008	Fiscal year 2006/2007
Germany	540	3,031
Rest of Europe	37	25
Rest of world	9	3
<b>Total investments</b>	<b>586</b>	<b>3.059</b>

**Depreciation, amortization, and impairment losses**

Depreciation, amortization, and impairment losses are attributable as follows to the various regions (primary segment) in fiscal years 2007/2008 and 2006/2007:

€ thousand	Fiscal year 2007/2008	Fiscal year 2006/2007
Germany	477	444
Rest of Europe	40	67
Rest of world	4	7
<b>Total depreciation, amortization, and impairment losses</b>	<b>521</b>	<b>518</b>

**(32) 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.

**(33) Disclosure of Auditors' Fees**

The following fees were agreed or recognized as expenses for the statutory auditors in fiscal years 2007/2008 and 2006/2007:

€ thousand	Fiscal year 2007/2008	Fiscal year 2006/2007
Fees for audits of financial statements	62	58
Fees for other assurance and advisory services	0	0
Fees for tax advisory services	7	9
Fees for other services provided to the Company or to its subsidiaries	0	0
<b>Total</b>	<b>69</b>	<b>67</b>

**(34) Other Financial Commitments**

There are other financial commitments resulting from rental and leasing agreements, as well as commitments entered into under master agreements and outstanding purchase orders relating to the purchase of goods.

Future obligations under operating leases and rental agreements at May 31, 2008 amounted to:

€ thousand	
For fiscal year 2008/2009	2,494
For fiscal year 2009/2010	182
For fiscal year 2010/2011	126
For fiscal year 2011/2012	29
For fiscal year 2012/2013	0
Thereafter	0
<b>Total future rental and lease obligations</b>	<b>2,831</b>

Future commitments resulting from master agreements and outstanding purchase orders relating to the purchase of goods amounted to €2,250 thousand at May 31, 2008. The entire amount relates to fiscal year 2008/2009.

The following amounts relating to rental and leasing agreements were incurred in the reporting period and the prior year:

€ thousand	Fiscal year 2007/2008	Fiscal year 2006/2007
Building rents	82	220
Motor vehicle leases	150	139
<b>Total rental and lease expenses</b>	<b>232</b>	<b>359</b>

There were no subleases at the reporting date.

**(35) 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. The aim of the plans was 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 three stock option plans expired in fiscal year 2003/2004, 2004/2005, and 2005/2006 without any options having been exercised by the beneficiaries.

In fiscal year 2003/2004, the Company launched a fourth and fifth stock option plan for senior executives and specialist employees, issuing options on virtual shares (phantom shares). The option premium was €0.10 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 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 were able to exercise their options in the period between October 29, 2005 and October 28, 2008. However, exercise was subject to the condition that certain profit or share price targets for CeoTronics shares are met. If a participant in the stock option plan left the Company, the options expired under certain conditions.

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 were able to exercise their options in the period between May 31, 2006 and May 30, 2009. However, exercise was subject to the condition that certain profit or share price targets for CeoTronics shares are met. If a participant in the stock option plan left the Company, the options expired under certain conditions.

On June 4, 2007, all existing options under stock option plans IV (6,000 options) and V (6,000 options) were exercised. The exercise price was €11.84. €9.72 per option was paid in cash for the fourth stock option plan and €8.08 per option was paid in cash for the fifth stock option plan. No options were therefore outstanding as of May 31, 2008.

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

	Plan IV	Plan V	Gesamt
Balance at June 1, 2007	6,000	6,000	12,000
Options granted	0	0	0
Options forfeited	0	0	0
Options exercised	6,000	6,000	12,000
Options expired	0	0	0
Options repurchased	0	0	0
<b>Balance at May 31, 2008</b>	<b>0</b>	<b>0</b>	<b>0</b>

### (36) 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. 87% of all revenues are generated in the euro zone, and the remaining 13% are generated primarily in the U.S.A., 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

As a rule, the CeoTronics Group is not significantly dependent on individual customers (10% of Group revenues). However, the partial delivery of a major order totaling €5,470 thousand in the past fiscal year meant that an aggregate of 25.7% of total

Group revenues was generated with a single customer. The Group's customer structure is expected to normalize in the coming years following the delivery of the third batch of the major order concerned during fiscal year 2008/2009.

As a rule, the share of the aggregate procurement volume of the CeoTronics Group attributable to individual suppliers is also less than 10%. The above-mentioned major order resulted in the 10% threshold also being exceeded in this area in one case during the past fiscal year. However, the Group's supplier structure will also normalize in the coming years. 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. In addition to the existing loan for a property in Lutherstadt-Eisleben, a loan to finance the acquisition of a property in Rödermark amounting to €2,100 thousand was raised in fiscal year 2006/2007. The fixed-interest period for the existing loans 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 €1,141 thousand. No interest rate hedging contracts have been

entered into so far due to the long term of the fixed-interest period and the long remaining maturity of the loans.

#### 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 several 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 2007/2008, bad debts amounted to €1 thousand or 0.005% of revenues (previous year: €19 thousand or 0.106% of revenues).

#### (37) Employees

An average of 147 employees were employed in the CeoTronics Group in fiscal year 2007/2008 (previous year: 141). The breakdown by function was as follows:

	Fiscal year 2007/2008	Fiscal year 2006/2007
Operations	77	72
Sales and marketing	38	38
Research and development	12	12
Administration	20	19
<b>Total employees</b>	<b>147</b>	<b>141</b>

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

	Fiscal year 2007/2008	Fiscal year 2006/2007
Germany	132	124
U.S.A.	3	3
Spain	4	4
United Kingdom	0	1
France	3	4
Poland	3	3
Switzerland	2	2
<b>Total</b>	<b>147</b>	<b>141</b>

Employee expenses amounted to €7,452 thousand in fiscal year 2007/2008, compared with €6,813 thousand in the prior year.

#### (38) Executive Bodies and Remuneration

##### Board of Management

The members of the Board of Management in fiscal year 2007/2008 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 disclo-

sed individually for each member of the Board of Management in the annual financial statements and consolidated financial statements of CeoTronics.

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 fiscal year 2007/2008 amounted to €709 thousand (previous year: €626 thousand). The total remuneration comprises fixed salary components of €557 thousand (previous year: €532 thousand), variable remuneration components of €94 thousand (previous year: €87 thousand), plus €58 thousand from the payment of virtual stock options exercised in June 2007 (previous year: €7 thousand from the measurement of the virtual stock options that were outstanding at the time).

### **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 and Notary, Kronberg	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 2007/2008 amounted to €85 thousand (previous year: €84

thousand), of which €44 thousand (previous year: €44 thousand) related to fixed remuneration and €41 thousand (previous year: €40 thousand) related to variable components. The members of the Supervisory Board receive the above amounts plus value added tax at the statutory rate.

**(39) 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	Anzahl CeoTronics-Aktien (ISIN DE 0005407407/WKN 540740) quantity	
		May 31, 2008	May 31, 2007 (notional after share split)
<b>Board of Management</b>			
Chairman of the Board of Management	Thomas H. Günther	28,494	28,494
Deputy Chairman of the Board of Management	Berthold Hemer	513,150	513,150
Chief Operating Officer	Günther Thoma	18,066	18,066
<b>Supervisory Board</b>			
Chairman	Hans-Dieter Günther	1,113,600	1,113,600
Deputy Chairman	Horst Schöppner	655,410	655,410
Member	Stephan Haack	0	0

The following table shows the changes in options held by members of the executive bodies on virtual shares of CeoTronics AG:

Function	Name	Quantity	
		May 31 2008	May 31 2007
Board of Management			
Chairman of the Board of Management	Thomas H. Günther	0	2,000
Deputy Chairman of the Board of Management	Berthold Hemer	0	2,000
Chief Operating Officer	Günther Thoma	0	2,000



**Notification in accordance with section 21(1) of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act)**

On April 25, 2008, Highclere International Investors, London, UK, notified CeoTronics AG in accordance with section 21(1) of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) that its holdings of shares of CeoTronics AG had exceeded the notification threshold of 5%.

**Other service relationships**

A shareholder of CeoTronics AG runs an advertising agency as a sole proprietor. The Company used its services for placing advertisements with a total value of €73 thousand, and purchased other services.

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 €1 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 €7 thousand in fiscal year 2007/2008.

The brother of a member of the Board of Management operates a printing service from which the Company purchased services in the amount of €6 thousand in fiscal year 2007/2008.

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

**(40) 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.

**(41) 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 ([www.ceotronics.com](http://www.ceotronics.com)), and have thus made it permanently accessible to shareholders.

Rödermark, August 14, 2008

CeoTronics AG

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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

## Responsibility Statement

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Rödermark, August 14, 2008

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

## Auditors' Report

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, Rödermark, for the fiscal year from June 1, 2007 to May 31, 2008. 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), as well as in accordance with the International Standards on Auditing (ISAs). 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.

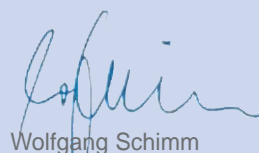
Eschborn, August 14, 2008

UWP Unitreu GmbH

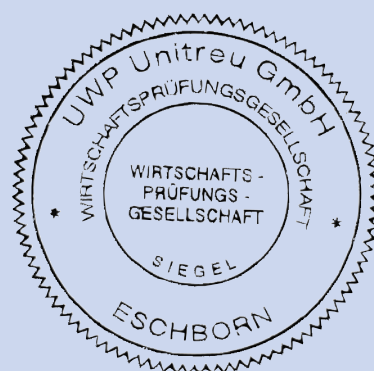
Wirtschaftsprüfungsgesellschaft



Harald Hoffmann  
Wirtschaftsprüfer



Wolfgang Schimm  
Wirtschaftsprüfer





\* CT-DECT Headset: Wireless digital duplex communication for aircraft de-icing.

## Condensed HGB Balance Sheet of CeoTronics AG Germany – Assets

€ thousand	May 31, 2008	May 31, 2007
Intangible assets	243	165
Tangible assets	4,875	4,887
Financial assets	4,328	4,328
<b>Fixed assets</b>	<b>9,446</b>	<b>9,380</b>
Inventories	3,147	2,699
Trade receivables	4,535	1,106
Receivables from affiliated companies	3,084	4,535
Other assets	188	126
Cash funds	300	12
<b>Current assets</b>	<b>11,254</b>	<b>8,478</b>
<b>Total assets</b>	<b>20,700</b>	<b>17,858</b>

## Condensed HGB Balance Sheet of CeoTronics AG Germany – Equity and Liabilities

€ thousand	May 31, 2008	May 31, 2007
Subscribed capital	6,600	6,600
Capital reserves	4,181	4,181
Revenue reserves	886	16
Net retained profit/net accumulated losses	2,824	2,610
<b>Equity</b>	<b>14,491</b>	<b>13,407</b>
Provisions for taxes	183	504
Other provisions	1,103	805
<b>Provisions</b>	<b>1,286</b>	<b>1,309</b>
Liabilities to banks	3,099	2,166
Advances received	19	31
Trade payables	487	654
Liabilities to affiliated companies	689	107
Other liabilities	629	184
<b>Liabilities</b>	<b>4,923</b>	<b>3,142</b>
<b>Total equity and liabilities</b>	<b>20,700</b>	<b>17,858</b>

## Condensed HGB Income Statement of CeoTronics AG Germany

€ thousand	2007/2008	2006/2007
<b>Sales</b>	<b>16,890</b>	<b>13,104</b>
Cost of sales	-9,344	-7,292
<b>Gross profit</b>	<b>7,546</b>	<b>5,812</b>
Research and development expenses	-1,319	-1,116
Selling and marketing expenses	-3,236	-2,707
General and administrative expenses	-1,238	-1,156
Other operating expenses	-79	-133
Other taxes	-8	-14
<b>Operating expenses</b>	<b>-5,880</b>	<b>-5,126</b>
Other operating income	213	204
<b>Operating result (EBIT)</b>	<b>1,879</b>	<b>890</b>
Net financial and investment income	381	441
<b>Result before income taxes</b>	<b>2,260</b>	<b>1,331</b>
Taxes on income	-516	-413
<b>Net income for the year</b>	<b>1,744</b>	<b>918</b>

## Executive Bodies

### Supervisory Board:

#### *Chairman*

Hans-Dieter Günther,  
Businessman, Rödermark

#### *Deputy Chairman*

Horst Schöppner  
Diplom-Kaufmann, Rödermark

#### *Member*

Stephan Haack  
Lawyer and notary, Kronberg

### Board of Management:

#### *Chairman*

Thomas H. Günther  
Businessman, Rödermark

#### *Deputy Chairman*

Berthold Hemer  
Diplom-Ingenieur, Schaafheim

#### *Member*

Günther Thoma  
Technischer Betriebswirt, Schöllkrippen

## Financial Calendar

Annual earnings press conference in Rödermark	August 28, 2008
Analyst meeting in Rödermark	August 28, 2008
Scherrer Small Cap Conference, Zurich	September 30, 2008
Publication of preliminary revenue and order backlog figures for the first 3 months of fiscal year 2008/2009	Calendar week 36
Report on 1st quarter as of August 31, 2008	October 10, 2008
General Meeting 2008	November 7, 2008
Publication of preliminary revenue and order backlog figures for the first 6 months of fiscal year 2008/2009	Calendar week 49
Report on 2nd quarter as of November 30, 2008	January 14, 2009
Publication of preliminary revenue and order backlog figures for the first 9 months of fiscal year 2008/2009	Calendar week 10
Report on 3rd quarter as of February 28, 2009	April 3, 2009
End of fiscal year 2008/2009	May 31, 2009
Publication of preliminary revenue and order backlog figures for the full fiscal year 2008/2009	Calendar week 23
Report on 4th quarter and annual report as of May 31, 2009	August 14, 2009
Annual earnings press conference in Rödermark	August 27, 2009
Analyst meeting in Rödermark	August 27, 2009
Publication of preliminary revenue and order backlog figures for the first 3 months of fiscal year 2009/2010	Calendar week 36
Report on 1st quarter as of August 31, 2009	October 9, 2009
General Meeting 2009	November 6, 2009

All information subject to correction and change without notice.



## Legal Notice:

### Forward-looking statements

This Annual Report contains forward-looking statements that reflect the current views of CeoTronics AG's Board of Management.

These statements were made to the best of the Company's knowledge and are based on the Company's current plans, estimates, projections, and expectations. They are therefore subject to risks and uncertainties that could cause actual results to differ from expected results.

The forward-looking statements are only valid at the time of publication of this Annual Report and cannot be guaranteed. CeoTronics AG assumes no obligation to the public to update or correct forward-looking statements. This does not affect the Company's statutory obligation to fulfill its information and reporting duties.

### 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, GEX, 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.

**Thomas H. Günther**Chairman of the Board  
of Management, CEO

- Finance/controlling
- Marketing/sales
- Personnel
- Compliance
- IT
- Investor relations
- Management of foreign subsidiaries

**Berthold Hemer**Deputy Chairman of the  
Board of Management, CTO

- Research and development
- Technical directives and standards
- Patents/intellectual property rights

**Günther Thoma**Member of the Board  
of Management, COO

- Production
- Purchasing
- Inventories/logistics
- Quality control
- Technical Support
- Export control
- Management of CT-Video GmbH

**Sustainable Value Management**

Pressure to deliver short-term success stories and the constraints imposed by quarterly financial reporting are factors that run counter to stable, continuous corporate development. That's why the CeoTronics Group's management strategies are aligned with long-term value growth.

CeoTronics concentrates on its core competencies, occupies attractive niche markets, and makes a careful analysis before investing in technologies, products, markets, and capacity.

The recipe for sustainable value management includes such ingredients as risk management; regular analysis of ratios and other financial indicators; tools that create transparency in projects and processes; short decision paths; and goal agreements (not only for revenues and contribution margins, but also relating to organizational and process enhancements, and to reductions in production costs). Some of the other ingredients are revenue and contribution margin analyses (by sales territories, product and customer groups); sales commissions and contribution margin-based bonuses as variable remuneration components; dynamic growth of the product portfolio; innovation management for products and process organization; and cooperation management (in the areas of R&D, production, and sales/marketing).

Unhealthy revenue growth from over-ambitious acquisitions (possibly with an excessive level of leverage), a willingness to take on too many low-margin jobs to pump up revenues, and operating in high-risk markets are all factors that can endanger the substance of a healthy company.

That's why CeoTronics will continue to deploy its management capacity and financial resources going forward only after a careful opportunity, risk, and feasibility analysis, and will be equally conscientious in examining new markets.

CFROI (Cash Flow Return on Investment) is a measure of value management that calculates the return on investment of the property, plant, and equipment used on the basis of the gross cash flow.

As of May 31, 2008, CeoTronics Group's CFROI for fiscal year 2007/2008 amounted to 30.1% (previous year: 22.3%).



Wireless\*



\* CT-DECT HeliCom: The digital communication system for ground handling, maintenance and winch operations.

## Notes

## Editorial Information

Published by:	<b>CeoTronics AG</b> Audio • Video • Data Communication
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