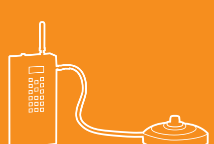
www.ceotronics.com

09/10

Annual Report

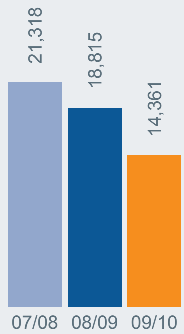
CeoTronics AG

CeoTronics
Audio · Video · Data Communication

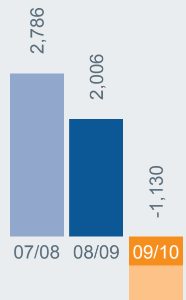
   

CeoTronics
Audio · Video · Data Communication

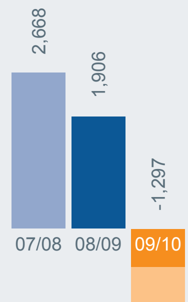
Revenues
€ thousand



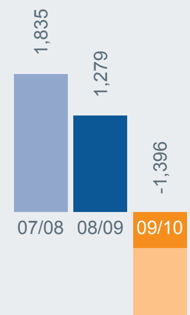
EBIT
€ thousand



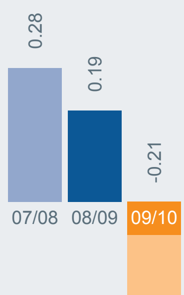
Profit before tax
€ thousand



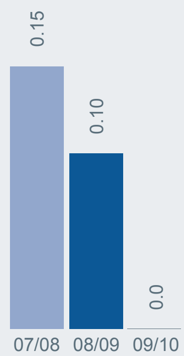
Profit after tax
€ thousand



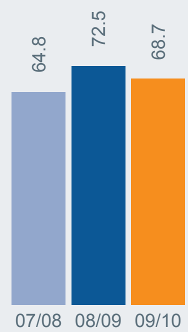
Earnings per share*
€



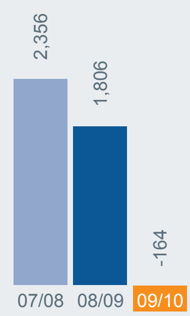
Dividends
€



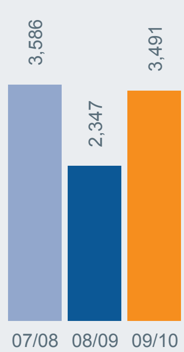
Equity ratio
%



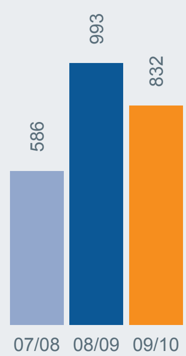
Cross cash flow
€ thousand



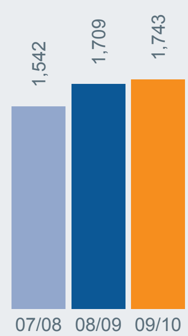
Financial liabilities
€ thousand



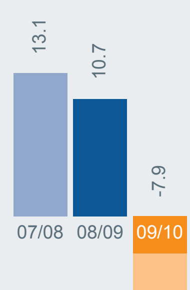
Investments
€ thousand



R&D expenses
€ thousand

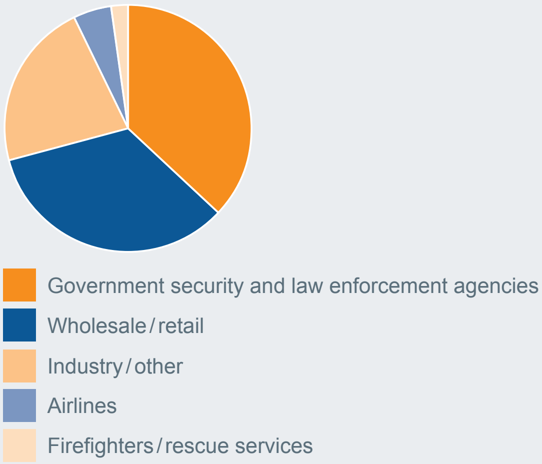


EBIT margin
€

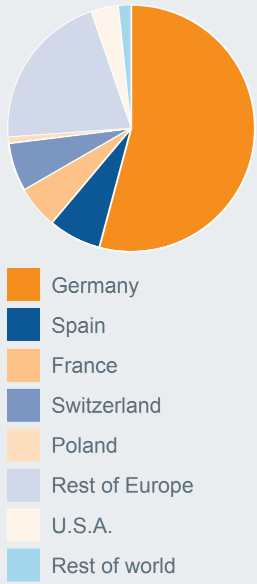


Special effects CeoTronics, Inc., (further details, see Group Management Report, page 35)

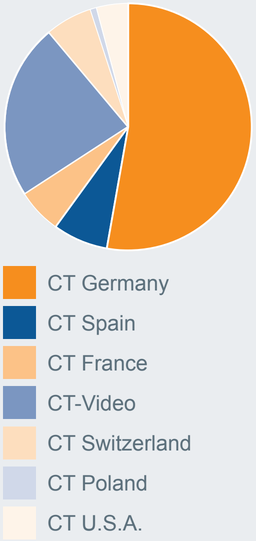
Revenues by customer group



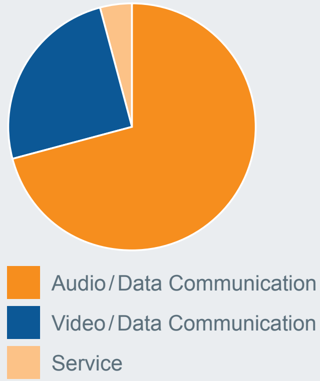
Revenues by market



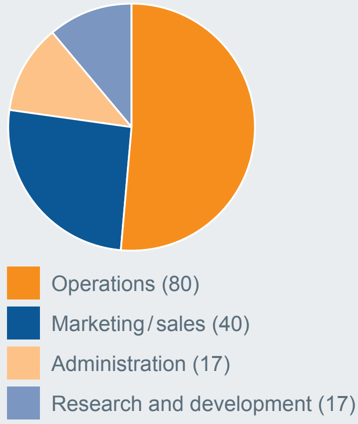
Revenues by company



Revenues by division



Personnel structure



History

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

1986-1993
Formation of CeoTronics Ltd., CeoTronics AG (Switzerland), CeoTronics S.L., and CeoTronics, Inc., and opening of a sales office in the Benelux countries.

1997
Reorganization of international marketing/sales at the parent company. Reorganization of CeoTronics GmbH as CeoTronics AG.

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

1999
Formation of CT-Video GmbH.

2000
Opening of a sales office in Scandinavia. Acquisition of the entire Audio Accessory Division of DTC, Inc. (U.S.A.). Launch of wireless digital audio transmission technology. DIN EN ISO 9001:1994 certification.

2001
New CT-Video GmbH factory opens in Lutherstadt Eisleben.

2002
ATEX certification. Acquisition of 75% of AACOM Ltd., Poland (former CT sales partner). Change of stock market segment from the Neuer Markt to the Geregelter Markt.

2003
Admission to and listing in the Prime Standard.

2004
DIN EN ISO 9001:2000 and ATEX certification. Inclusion in the TechnologyAllShare index. Launch of wireless digital video data transmission technology.

2006
CeoTronics AG is awarded the "2006 Georg Waeber Innovation Prize."

2007
CeoTronics AG receives the largest order in its history, totaling €8.5 million, from the German Armed Forces for CT-DECT JetCom systems. Inclusion in the GEX index.

2008
CeoTronics AG commissions its own Tetra radio cell, its own GTEM cell for EMC measurements, and a new acoustics laboratory.

2009
CT-Video GmbH's production space in Lutherstadt Eisleben was expanded by 650 m^2 to a total operating area of 1,850 m^2.

CT-Video GmbH celebrates its tenth anniversary and the expansion of its production space.

2010
CeoTronics AG's anniversary year. CeoTronics GmbH started operations in Rödermark, Germany on June 1, 1985. The Company, which has become a trademark for innovative, top-of-the-range communication products, celebrated 25 years of success in 2010.

The largest single order in CT-Video GmbH's history, worth approximately €1.5 million, is delivered and invoiced.

Corporate Culture

People have been using our products to communicate under challenging ambient conditions for 25 years. From the beginning, CeoTronics was decisively shaped by bold entrepreneurship and people with the courage to seek out unconventional solutions. From this commitment and dedication grew a corporate philosophy characterized by openness, respect, and success.

We direct operations from Rödermark, working closely with 154 employees around the world. We have flat hierarchies and an open door policy that stand for short information paths and decision-making processes. These are the strengths that make our Company unique – plus talented, motivated employees in all of our areas of activity.

We invest a great deal in staff recruitment, training, and retention, as well as in creating a working environment where talent and creativity can shine. The reason is simple: We can only achieve our corporate goals together with our employees.

This is why all employees naturally share in our success in the form of profit sharing, special bonuses for exceptional performance, training events, and an annual inflation allowance.

Letter from the Board of Management

Ladies and Gentlemen,
Dear Shareholders,

Fiscal year 2009/2010 was dominated by the delayed effects of the global economic and financial crisis, further delays in the switch to digital radio in Germany and Northern Europe, and the temporary halts called to German Armed Forces projects worth a total of approximately €4.0 million due to budget restraints.

In addition to these unforeseeable external negative influences, CeoTronics faced the expected return to normal of its business in Spain, Switzerland, and the Benelux countries, following the substantial investments made in the switch to digital radio there in previous years.

The switch to digital radio in France was also more or less completed in recent years, meaning that revenues were also expected to return to normal here. However, we experienced additional sales-related challenges in this market that also contributed to the negative trend.

Fiscal years 2006/2007, 2007/2008, and 2008/2009 were extremely successful. This was due among other things to the large order worth almost €8.6 million received from the German Armed Forces. Orders like this are few and far between.

For these reasons, among others, CeoTronics experienced a 23.7% decline in revenues to €14.4 million in fiscal year 2009/2010.

Given these exceptional circumstances, CeoTronics made use of short-time working to adjust capacities to match production orders, avoid redundancies, and cut costs.

Overall, savings of €320 thousand were made in marketing and sales and of €206 thousand in operating costs (excluding cost of materials) in fiscal year 2009/2010. This shaved a total of approximately €500 thousand (= 7.1%) off the Group's cost budget compared with fiscal year 2008/2009. This is all the more remarkable given that existing saving potential was already leveraged in previous years. We shall intensify this disciplined cost management in fiscal year 2010/2011.

We closed fiscal year 2009/2010 with consolidated EBIT of €-1,130 thousand (of which €643 thousand from one-time effects) and a loss for the year of €1,396 thousand (of which €923 thousand from one-time effects).

At the end of fiscal year 2009/2010, CeoTronics was forced to make adjustments to CeoTronics U.S.A.'s goodwill and deferred tax assets, the carrying amount for CeoTronics U.S.A., and CeoTronics AG's receivables from CeoTronics U.S.A. to reflect current developments and the outlook, based on CeoTronics U.S.A.'s new six-year budget figures as from 2010/2011. However, these one-time effects did not impact CeoTronics' liquidity situation, although they did significantly reduce the risk associated with its U.S. operations.

There are, however, also positive things to report in fiscal year 2009/2010:

At 68.7%, the Group's equity ratio remains unusually high even after the impairment losses in connection with CeoTronics U.S.A.; CT-Video GmbH generated its highest-ever revenues (+22%); after adjustments for the one-time effects, CeoTronics U.S.A. would have generated a profit for the first time since it was founded 18 years ago; the Group's order backlog as of May 31, 2010 was up 7.9% year-on-year; incoming orders in the fourth quarter of the past fiscal year were up 44.6% on the fourth quarter of 2008/2009; and the economic outlook is increasingly improving.

Additionally, in May, the first batch of the order for digital radios that the Company won from the federal state of Berlin in August 2009 was drawn down. CeoTronics was also awarded contracts for parts of the digital radio tenders from the federal states of Thuringia and Hamburg in May and June.

The Board of Management analyzed in detail the order forecasts, project lists, and order backlog and addressed economic developments and the budget situation of the public-sector customers in its priority markets.

The results of this forward-looking assessment are positive, assuming that no unusual and currently unforeseen circumstances impact our assumptions. It is sufficiently likely that CeoTronics will be able to significantly increase revenues and generate positive earnings again in fiscal year 2010/2011.

Equally, we are currently expecting our business performance in fiscal year 2011/2012 to be positive, with rising revenues and profit for the year.

CeoTronics – well positioned for the upturn!

Rödermark, August 13, 2010

Thomas H. Günther
Chairman of the Board of Management

Berthold Hemer
Deputy Chairman of the Board of Management

Günther Thoma
Chief Operating Officer

Report by the Supervisory Board

Dear Shareholders,

Once again, our work with CeoTronics AG's Board of Management in fiscal year 2009/2010 took place in a spirit of trust and open communication. The Supervisory Board provided in-depth support for the Company's development and actively discussed it with the Board of Management.

Eight Supervisory Board meetings were held in the period under review: August 14, 2009, October 9, 2009, November 6, 2009, January 13, 2010, March 12, 2010, March 25, 2010, May 14, 2010, and May 19, 2010. All Supervisory Board meetings were quorate. 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 discussed business policy issues at irregular intervals with the Chairman of the Board of Management in particular.

The Chairman of the Supervisory Board was given access to the minutes of the meetings of the Board of Management. Questions resulting from this were discussed in detail with the other Supervisory Board members in subsequent meetings, among other things, with reports being provided by the Board of Management.

Focus of the Supervisory Board's deliberations

At each meeting, the Supervisory Board addressed any necessary review of the transactions by the Board of Management requiring Supervisory Board approval. In addition, the following issues, among others, were discussed in the presence of the Board of Management: the quarterly reports; analyses of 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.

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

On August 14, 2009, 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, the consolidated IFRS financial statements, and the Board of Management's proposal on the appropriation of net profit for fiscal year 2008/2009.

In addition, this meeting resolved to extend Günther Thoma's contract of service with the Board of Management as of January 1, 2010, amendments to the Articles of Association, and motions for the General Meeting on November 6, 2009, among other things, and the agenda for the 2009 General Meeting was prepared together with the Board of Management.

At its meeting on October 9, 2009, the Supervisory Board was, among other things, given a presentation on CT-Video GmbH, the second-largest Group company, by the technical manager. It also discussed the Board of Management's report on compliance management within the Company – and particularly CeoTronics AG's insider trading guidelines – which was acknowledged by all present.

A Supervisory Board meeting was held following the General Meeting on November 6, 2009, in which Hans-Dieter Günther was elected as Chairman of the Supervisory Board and Horst Schöppner as Deputy Chairman.

At its meeting on January 13, 2010, the Supervisory Board – after weighing the costs of engaging an external auditor – itself reviewed the efficiency of its work in accordance with section 161 of the Aktiengesetz (AktG – German Stock Cooperation Act) and concluded that it has been efficient.

The introduction of short-time working in the factories in Rödermark and Eisleben, Germany was also discussed with the Board of Management in this meeting. Other issues addressed were current business developments at, and prospects for, the subsidiaries, and particularly CeoTronics Inc. in the United States.

In its meeting on March 12, 2010, the Supervisory Board discussed the fixed remuneration of the members of the Board of Management, among other things, and resolved to increase the cover amount for the D&O insurance policy.

In its meeting on March 25, 2010, the Supervisory Board discussed, among other things, the interim results for the first half of the year presented by the Board of Management and the effects of the Gesetz zur Angemessenheit der Vorstandsvergütung (VorstAG – German Act on the Appropriateness of Board of Management Remuneration).

In the meeting on May 14, 2010, the effects of the VorstAG on the current contracts of the three members of the Board of Management were discussed, the Supervisory Board's Declaration of Conformity in accordance with section 161 of the AktG was adopted, CeoTronics AG's revised risk management manual was addressed, and amendments to the Articles of Association for the next General Meeting were discussed.

The Supervisory Board and the Board of Management resolved their joint Declaration of Conformity in accordance with section 161 of the AktG on May 19, 2010. The Supervisory Board also discussed the possibility of switching the listing segment for CeoTronics' shares, and the Board of Management was asked to examine the advantages and disadvantages of this in consultation with a lawyer specializing in this field so as to reach a basis for a possible resolution.

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

The Supervisory Board defined the Board of Management's reporting obligations and the list of transactions requiring Supervisory Board approval for the Board of Management.

The Chairman of the Supervisory Board attended three trade fairs in the period under review that are relevant to the CeoTronics Group's priority markets and competitive environment.

The reports on these visits were sent to the members of the Supervisory Board.

The Chairman of the Supervisory Board examined the accounts of two affiliates in 2009/2010. The reports on these visits were sent to the members of the Supervisory Board.

The Supervisory Board of CeoTronics AG therefore performed the duties required of it by law, the Articles of Association, and the German Corporate Governance Code throughout the entire fiscal year. It monitored the work of the Board of Management and supported the latter's decision-making by giving advice.

German Corporate Governance Code

The Supervisory Board kept abreast of ongoing developments in corporate governance standards on an ongoing basis. It familiarized itself with the changes to the German Corporate Governance Code that were published on June 18, 2009 and discussed them in detail.

The Board of Management and the Supervisory Board signed the joint Declaration of Conformity on May 19, 2010. CeoTronics AG continues to comply with the principles required by the Code, with a small number of exceptions.

The detailed disclosures relating to the German Corporate Governance Code can be found in the relevant chapter of the Annual Report. Moreover, both the current and previous declarations of conformity are published on CeoTronics AG's website (in German only).

The annual efficiency audit performed on the basis of the German Corporate Governance Code rated the efficiency of the cooperation between the Board of Management and the Supervisory Board as well as the Supervisory Board's work as very good.

There are and have been no conflicts of interest affecting Supervisory Board members.

The total remuneration of the Board of Management and the Supervisory Board is presented in the notes to the annual and consolidated financial statements.

Audit of the annual and consolidated financial statements
UWP Unitreu GmbH Wirtschaftsprüfungsgesellschaft, Eschborn, which was elected as auditors and Group auditors for fiscal year 2009/2010 by the General Meeting on November 6, 2009, was engaged by the Supervisory Board on April 23, 2010 to audit the annual financial statements, the consolidated financial statements, and the management reports after the details were established and the fee agreed.

The Supervisory Board acknowledged the declaration of independence obtained from the auditors in accordance with section 7.2.1 of the German Corporate Governance Code and determined the areas of emphasis 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 auditors must also report material findings or events, including any facts that indicate 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, 2010, including the accounting system, in accordance with the legal requirements and issued unqualified audit reports on them.

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

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 in a timely manner.

The auditors attended the meeting on August 13, 2010, reported on the results of their audit, and were available to answer detailed questions from the Supervisory Board. The Supervisory Board had at its disposal all final documents on CeoTronics AG's and the Group's financial statements, the Board of Management's proposal for the appropriation of profits, the report by the Supervisory Board, and the auditors' reports both before and during its meeting on August 13, 2010.

The Supervisory Board conducted its own examination of the HGB annual financial statements and the management report of CeoTronics AG as of May 31, 2010 in its meeting on August 23, 2010, and did not raise any objections. The auditors also attended this Supervisory Board meeting.

The Supervisory Board also concurred with the auditors' 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, 2010.

Consequently, CeoTronics AG's annual financial statements have been adopted in accordance with section 172 of the Aktiengesetz, and the consolidated financial statements have been approved.

The Supervisory Board was informed by the Board of Management of the ongoing non-indication-based examination by the Financial Reporting Enforcement Panel (FREP), in particular in regard to the carrying amounts relating to the "CeoTronics, Inc. U.S.A." subsidiary. The Supervisory Board acknowledged the information provided by the Board of Management.

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 on November 5, 2010 to carry forward the net retained profit of €642,243.18 reported by CeoTronics AG to new account.

Key events after the balance sheet date

At the Supervisory Board meeting on July 8, 2010, the Board of Management announced that, following consultation with and advice from a specialist lawyer, it will be taking steps to switch the segment in which CeoTronics' shares are listed from Deutsche Börse's Prime Standard to its Entry Standard following approval by the Supervisory Board. The Supervisory Board unanimously approved the Board of Management's decision.

Hans-Dieter Günther, the Chairman of the Supervisory Board, announced on July 30, 2010 that he would be resigning as of August 31, 2010 for health reasons. He will be replaced by Matthias Löw, Rodgau, the alternate Supervisory Board member.

The Supervisory Board would like to thank the members of the Board of Management, the executives, and the employees of the CeoTronics companies in Germany and abroad for their personal contributions during fiscal year 2009/2010.

We would like to thank our shareholders for their confidence in us and wish us all every success in meeting the challenges ahead of us in fiscal year 2010/2011.

Rödermark, August 23, 2010

The Supervisory Board of CeoTronics AG

Hans-Dieter Günther
Chairman

25 Years of CeoTronics

The model for an entire sector

1986 1990 2001

1985 1998

The beginning

Somewhat more than 25 years ago, Hans-Dieter Günther, Berthold Hemer, and Horst Schöppner came up with a business idea: to develop and internationally market best-of-breed electronic communication systems for professional communication under difficult ambient conditions.

It was with this goal that CeoTronics GmbH was founded in Rödermark, Germany in May 1985. Operations began on June 1, 1985.

An international focus from the beginning

CeoTronics' subsidiaries in France, the United Kingdom, Switzerland, Spain, and the United States were founded between 1986 and 1993. CT-Video GmbH was launched in 1999 and CeoTronics in Poland in 2002.

The mid-1980s

At the beginning, very few companies were active in the niche market for communication systems in noisy industrial environments or for security forces (police, border guards, etc.). Over the years, more competitors appeared, but CeoTronics always managed to remain the market leader.

At the beginning of the 1990s

CeoTronics launched the world's first headset with an integrated radio. The sophisticated technology and the robustness of the TC917 gave CeoTronics and its products an excellent reputation and standing with industrial customers.

What the TC917 was for industrial customers, the CT-GroundCom headset was for the airline sector. To date, more than 250 airlines, airports, and ground handling companies have put their trust in the "classic product with the orange earmuffs." These are used for ground handling, and when servicing or de-icing aircraft.

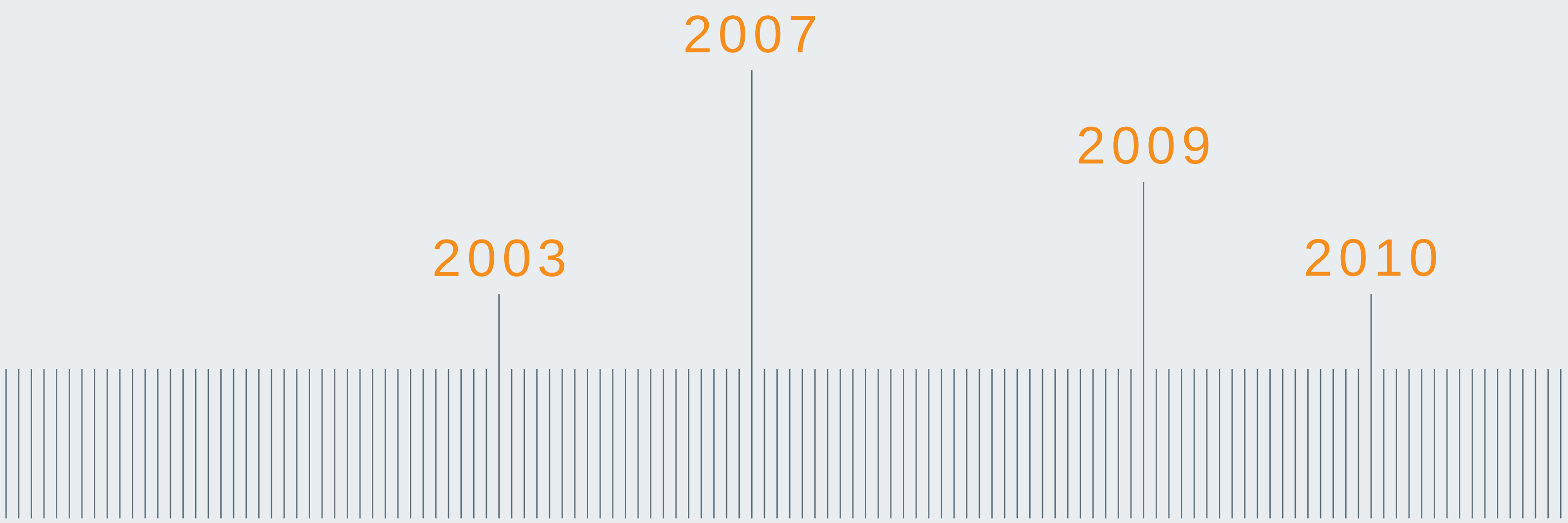
For decades now police forces in many countries have valued not only the quality of CeoTronics' communication systems, but also the Company's willingness to supply tailor-made communication solutions.

The IPO

The capital that the Company raised by going public on Germany's Neuer Markt in 1998 made crucial developments possible, including:

- the digitization of its key product lines and
- the formation of our successful subsidiary CT-Video GmbH in Lutherstadt Eisleben, Germany, which celebrated its tenth birthday in 2009.

The use of digital DECT technology for CeoTronics' audio transmission systems from the beginning of 2001 onwards opened up a large number of potential new applications for the Company, again giving CeoTronics an important technological advantage over its competitors. Instead of the simplex communication that had been the norm until this point (one person speaks, the other listens), users could now talk and listen at the same time, like on the telephone – and what is more, the technology was wireless, too.



2001 to 2010

CeoTronics also demonstrated its innovative strength and market leadership in the more recent past. The Company penetrated new markets and fulfilled customers' wishes with its additional CT-DECT versions for a wide range of uses. These include the CT-DECT JetCom-System with the CT-Noise Protection Helmet; the CT-Neckband Headset, the CT Radio PTT, the CT-ClipCom in-ear headset; the CT-DigiCom digital induction receiver; the CT-Bluetooth Adapter; and CT MultiCom.

A quarter of a century

In these fast-moving times, 25 years is an impressive anniversary and an eventful period in which CeoTronics has gone from being a five-man private limited liability company to a listed, internationally renowned stock corporation with six subsidiaries and a current total headcount of 154 employees.

This positive business development is all the more remarkable given that CeoTronics now has around five times as many competitors in this attractive niche market and that its potential sales market has been experiencing a temporary investment backlog and partial market saturation since 2009 at the latest.

The human success factor

CeoTronics' dedicated and qualified employees in Rödermark (Hesse, Germany), Lutherstadt Eisleben (Saxony-Anhalt, Germany), Rotkreuz (Switzerland), Madrid (Spain), Virginia Beach (U.S.A.), Lodz (Poland), and Brie Robert (France) have played a key role in the Company's success.

The individual performance of each and every Company employee contributes to our success and we could not have achieved what we have together if we had acted in isolation. This team spirit is an important ingredient in CeoTronics' recipe for success.

Special thanks go not only to CeoTronics' procurement and development partners, but also to our customers, who have inspired and challenged CeoTronics time and again over the past 25 years and who reward us with their tenders.

In the future, CeoTronics will continue to offer customers the best overall package every time thanks to its customer focus and extensive consulting expertise, its repeated development of additional innovative products, the highest possible product and service quality, and the attractive total cost of ownership of its products.


8593E
WAVETEK 4032 STABILOCK
RX FM
RF Frequency : 470.2500 MHz
Offset : + 0.00 kHz
Level/EMF : 105.9 dBμ
AF GEN A
MOD
HAMEG
COMBISCOPE
COMB OUT

Our Engineers and Technicians

A total of 17 engineers and four technicians develop and modify products at CeoTronics AG's and CT-Video GmbH's German locations.

Additionally, four engineers (two of whom are with CT-Video GmbH) work with our office and field sales forces and as Prokuristen (authorized signatories), providing 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 third-generation 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.
- In 2008, the CT-DECT Headset in ATEX was the world's first headset with an integral digital duplex radio for explosion hazard zones.
- In 2008, CT-ClipCom Digital with CT Bluetooth technology, CT radio PTT, and DSP technology was the first digital in-ear headset.
- The latest CT-DECT system generation was equipped with new software in 2009 and is now even more secure thanks to double authentication and 64-bit encryption, both of which are recalculated every time the system is restarted.
- 2009 saw the development and announcement of the CT-BluetoothAdapter for connecting CT 12 pin communication systems for use with cell phones.
- In summer 2009, the CT-ClipCom Digital upgrade was delivered. The SD version offers optimized cabling to the ear as well as a watertight PTT key.
- The market launch of CT-MultiCom – the multifunctional hand-held microphone for professional firefighters offering a number of connectors for CT communication systems – was launched in spring 2010.

The Group spent €1,743 thousand on research and development in fiscal year 2009/2010 (including €398 thousand at CT-Video GmbH); this represents 12.1% of consolidated revenues in fiscal year 2009/2010 (previous year: 9.1%).

In fiscal year 2007/2008, the Company had already 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 Bruel and Kjaer), which was commissioned five years ago, this means that CeoTronics is optimally equipped to master 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.

Technology and innovation leadership

The ability to meet our customers' varied 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 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 communication systems 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

In 2000, CeoTronics became the first company in this specialist 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 and 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 in June/July 2009, the recommendation rate for CeoTronics' products is 99.2%.

Our Employees

We know that shareholder value alone does not define a company's value and potential.

Rather, it is CeoTronics AG's highly motivated and dedicated employees who are responsible for the Company's 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 in the reporting period.

Since CeoTronics AG was formed, it has set store by training young people. Almost all vocational trainees were hired by CeoTronics following the successful completion of their training, and some have had remarkable careers. The results of this corporate culture are extremely positive, as is shown by the Rödermark location: The sickness absence ratio is only 2.8%, the average length of service is 10.2 years, and the employee turnover rate is only 3.0%. The Board of Management would once again like to express its gratitude to the entire CeoTronics team: 154 employees around the world (as of May 31, 2010), who speak many different languages and are at home in eight countries.


4000
4500
5000
5500
6000
6500
7000
13.5
13.0
12.0

CeoTronics' Shares

and the planned switch to the Entry Standard segment.

The stock market in Germany performed well in fiscal year 2009/2010 – not least due to the emerging economic recovery in calendar year 2010.

The Technology All Share index rose by 25.5% in the period from June 1, 2009 to May 31, 2010, the TecDAX by 18.6%, and the GEX by 18.4%.

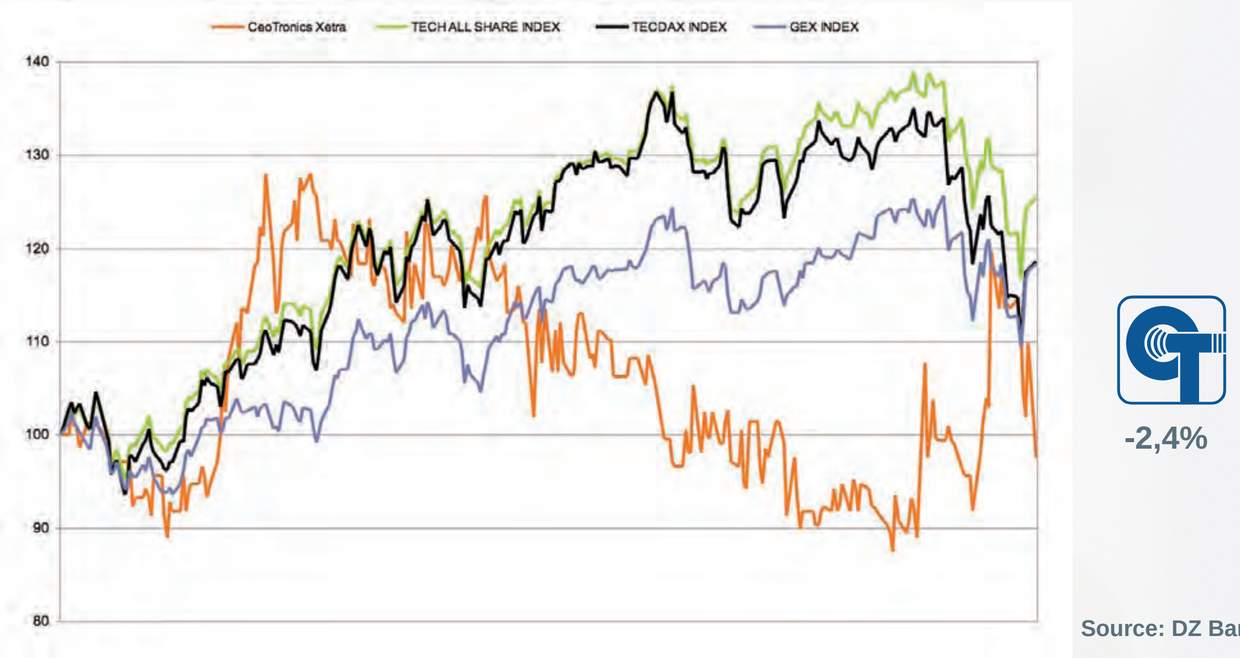
CeoTronics' share price traded in a range between €1.81 and €2.65 in the period from June 1, 2009 to May 31, 2010. The closing price on May 31, 2010 was €2.02 (-2.4% as against June 1, 2009).

The excessive statutory regulations and "voluntary" agreements governing companies listed in the Prime Standard have reached a point where they are disproportionate to the transparency appropriate to, and necessary for, a middle-market company. Given our competitive situation in a niche market and the fact that none of our competitors have to fulfill these transparency standards – although they watch CeoTronics, as the market leader, closely in order to gain ideas and draw conclusions for their own activities – that CeoTronics AG will attempt to protect its interests by switching from the Prime Standard to the Entry Standard segment.

The Entry Standard is the stock market segment best tailored to CeoTronics and its corporate and personnel structure. The switch from the Prime Standard to the Entry Standard segment, which was resolved by the Board of Management and the Supervisory Board on July 8, 2010 and the application for which was filed with Deutsche Börse on July 22, 2010, is designed to significantly reduce costs and effort compared with a listing in the Prime Standard.

To ensure the continuity of financial reporting, the Company will continue to use International Financial Reporting Standards (IFRSs) for financial reporting. Going forward, CeoTronics will publish a condensed half-yearly report and, as usual, a comprehensive annual report for the entire fiscal year.

CeoTronics' shares compared with the benchmark indices for the period from June 1, 2009 to May 31, 2010 (indexed)



Source: DZ Bank

Photo: © Marko Greitschus/pixelio.de

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.

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 Supervisory Board and Board of Management 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 2009/2010 and intends to comply with them in the future as well.

1. Section 3.8

From June 1, 2010 onwards, the Company complies with the recommendation in para. 2 sentence 1 of section 3.8, according to which a deductible of at least 10% of the loss up to at least the amount of one and a half times the fixed annual compensation of the member of the Board of Management should be agreed upon.

The Company does not comply with the recommendation in para. 2 sentence 2 of section 3.8, according to which deductible should be agreed for the D&O insurance policy for the members of the Supervisory Board. A deductible would result in unreasonable additional cost to the Company, as the remuneration of the Supervisory Board would have to be increased in line with this.

2. Section 4.2.4

The Company does not comply with the recommendation in section 4.2.4, according to which the total compensation of each one of the members of the Board of Management is to be disclosed by name, among other things. In accordance with the resolution by the General Meeting on November 4, 2005 and its confirmation by the General Meeting on November 6, 2009, the compensation paid to 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. Section 5.1.2

The Company does not comply with the recommendation in para. 1 sentence 3 of section 5.1.2, according to which the Supervisory Board and the Board of Management jointly ensure that there is a long-term succession plan for the Board of Management. Because of the age of the current members of the Board of Management, the Supervisory Board and the Board of Management do not see any need to prepare a long-term succession plan.

The Company does not comply with the recommendation in para. 2 sentence 3 of section 5.1.2, according to which an age limit for members of the Board of Management shall be specified. The duration of the contracts for the members of the Board of Management ensures that an age limit is complied with.

4. Section 5.1.3

The Company does not comply with the recommendation in section 5.1.3, according to which the Supervisory Board shall issue terms of reference. 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. Its duties are performed collectively by the members of the Supervisory Board.

5. Section 5.3

The Company does not comply with the recommendation in section 5.3, according to which the Supervisory Board shall form committees. 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. Section 5.4.3

The Company will only comply with the recommendation in para. 1 sentence 3 of section 5.4.3, according to which candidates for the chair of the Supervisory Board should be announced to the shareholders, when the next Supervisory Board election is held.

Rödermark, May 19, 2010

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 granted in individual cases.

The fixed annual salary is payable to the members of the Board of Management in twelve 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 in each case, 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 ten successive days of trading. Only one payment is made for each of the four targets reached. This agreement runs until May 31, 2011.

The contracts with the members of the Board of Management do not provide for any express severance payment awards in the event that their contracts of service are terminated early.

The General Meeting on November 4, 2005 resolved that the salaries and other remuneration components for the members of the Board of Management will not be disclosed individually in the notes to the annual 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 applies to fiscal year beginning June 1, 2005 and to the four subsequent fiscal years until May 31, 2010.

The General Meeting on November 6, 2009 adopted a corresponding resolution with the same content, which applies to the fiscal year beginning June 1, 2010 and to the four subsequent fiscal years until May 31, 2015.

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 fixed remuneration of €8,000.00 per fiscal year in addition to the reimbursement of expenses. In addition, each member receives variable remune ration 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 €500.00 for each meeting they attend.

The remuneration of the individual Supervisory Board members for fiscal year 2009/2010 is presented in the following overview:

Supervisory Board member	Fixed remuneration	Variable remuneration	Attendance allowance	Total remuneration
Hans-Dieter Günther/Chairman	24,000.00	19,800.00	4,000.00	47,800.00
Horst Schöppner/Deputy Chairman	12,000.00	9,900.00	3,000.00	24,900.00
Stephan Haack/Member	8,000.00	6,600.00	4,000.00	18,600.00

Stock option plans

CeoTronics AG currently has no stock option plans.

Shareholdings of the Board of Management and Supervisory Board members

The shareholdings of the Board of Management and Supervisory Board members as of May 31, 2010 are presented in the following overview:

Function	Name	CeoTronics shares (ISIN DE 0005407407/WKN 540740) (quantity)
Board of Management		
Chairman of the Board of Management	Thomas H. Günther	28,494
Deputy Chairman of the Board of Management	Berthold Hemer	513,150
Chief Operating Officer	Günther Thoma	18,066
Supervisory Board		
Chairman	Hans-Dieter Günther	1,113.600
Deputy Chairman	Horst Schöppner	Held personally 10 Other attributable shares belonging to Schöppner Vermögensverwaltung GbR: 810,400 Total: 810,410
Member	Stephan Haack	0

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, half-yearly, 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, 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.


CT-DECT JetCom-System
110
112

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.

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

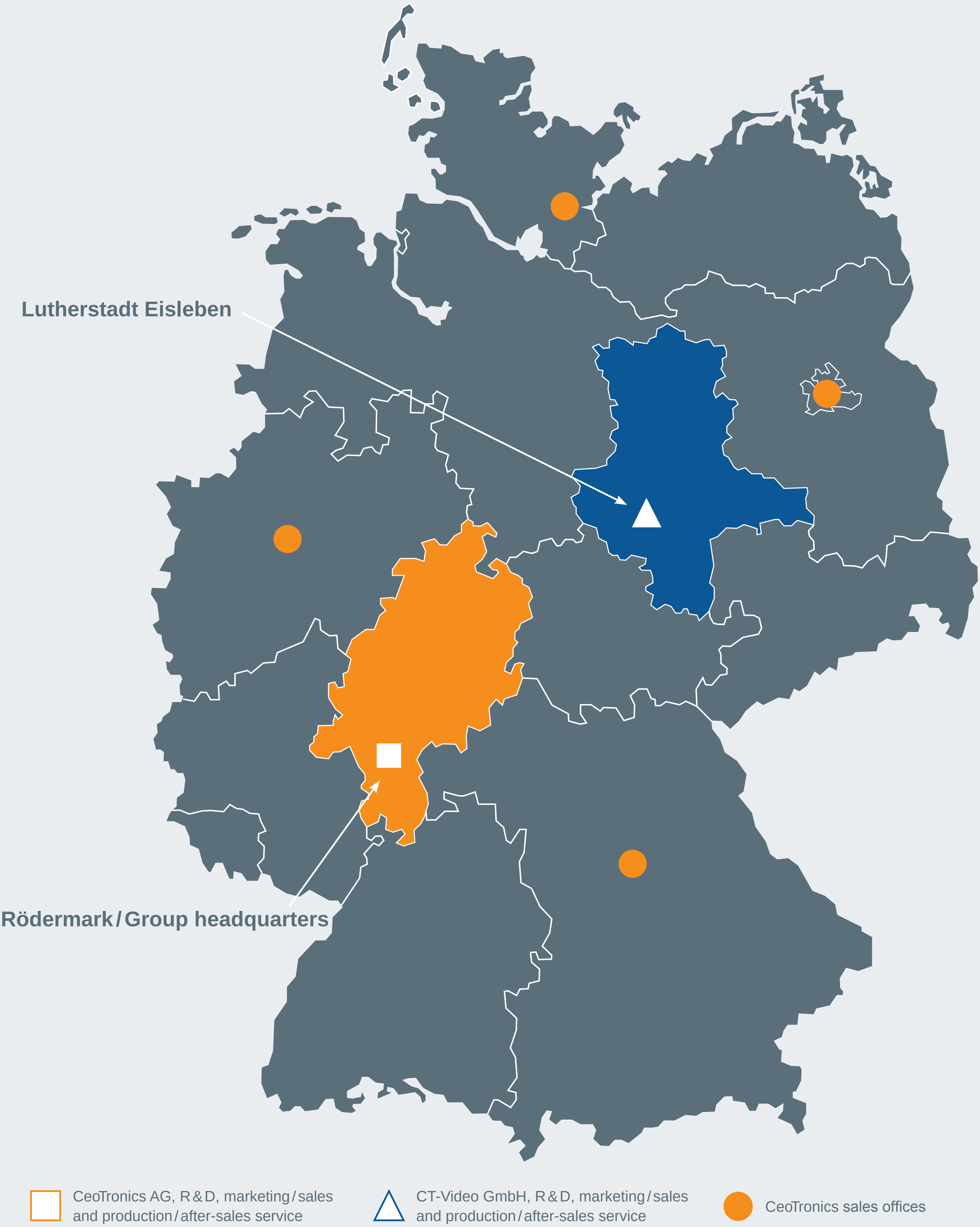
This is a constantly growing market in which more than 300 airlines, airports, and ground handling service companies rely on CeoTronics products – and this trend is growing. As market leader in the area of ground-to-cockpit communication, our product range also includes systems for ramp handling, pushback,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

Always in action: firefighters, 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 forces, customs authorities, and the army, navy, and air force. A range of different 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.


Lutherstadt Eisleben
Rödermark/Group headquarters
CeoTronics AG, R&D, marketing/sales and production/after-sales service
CT-Video GmbH, R&D, marketing/sales and production/after-sales service
CeoTronics sales offices

Operations in Germany

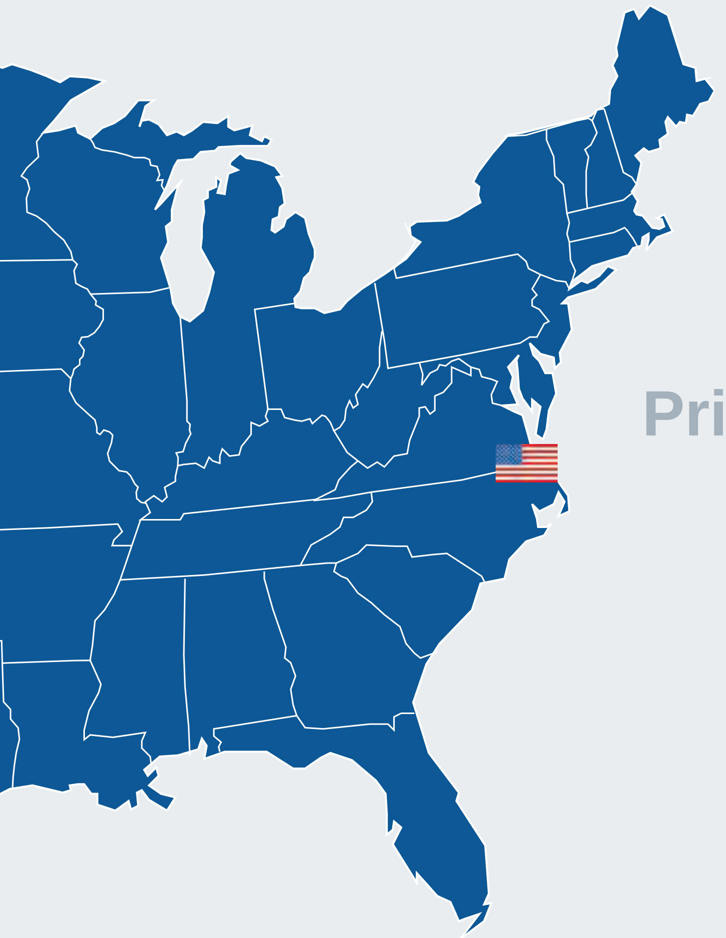
Since the Company's formation in Rödermark in 1985, CeoTronics has developed and produced audio, video, and data communication systems exclusively at its two German locations in Rödermark (Hesse) and, since 1999, also in Lutherstadt Eisleben (Saxony-Anhalt).

In addition to the after-sales service at these two locations, which accounts for approximately 90 % of the total volume, CeoTronics provides local on-site after-sales service through its subsidiaries in Poland, and Spain. CeoTronics prefers to work with German and European suppliers. Its German content, i.e., the value added as a percentage of the cost of sales, was 79 % in fiscal year 2009/2010, and its European content amounted to 89 %. CeoTronics offers 140 jobs in Germany (reporting date: May 31, 2010).

Group Structure

CeoTronics AG
Germany/Rödermark

Representative Offices	Subsidiaries
CeoTronics AG Netherlands, Belgium, Luxembourg	**CeoTronics S.à.r.l.** France/Paris
CeoTronics AG Italy, Austria, Hungary, Slovenia, Croatia, Czech Republic, Slovakia	**CeoTronics AG** Switzerland/Rotkreuz
CeoTronics AG Finnland, Sweden, Denmark, Norway, Iceland, Estonia, Latvia, Lithuania	**CeoTronics S.L.** Spain/Madrid
CeoTronics AG Greece, United Arab Emirates, Australia	**CeoTronics, Inc.** U.S.A./Virginia Beach
	CT-Video GmbH D/Lutherstadt Eisleben
	CeoTronics Sp. z o.o. Poland/Lodz
Non-exclusive distributors international	Exclusive project/distribution partners



Priority Markets

CeoTronics AG's priority markets can be found on both the European and North 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 six active 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 for Fiscal Year 2009/2010

Macroeconomic conditions and effects on CeoTronics
The course of business in fiscal year 2009/2010 was again impacted by the worst global economic and financial crisis in 80 years, the effects of which hit CeoTronics after a delay but all the more severely.

CeoTronics' priority markets seem to have put the economic crisis behind them. However, economic growth to date has been weak and economic output has not yet recovered to pre-crisis levels. The sector in which CeoTronics is active did not benefit from the increased public-sector spending announced in connection with the second economic stimulus program .

Investments in internal and external security
The global threat posed by international terrorism has not waned. As a result, government security and law enforcement agencies have had among other things to upgrade their equipment, including personal technical equipment such as 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 in fiscal year 2009/2010 from investments by government security and law enforcement agencies in internal and external security, although these did not match the level seen in the previous year.

The switch from analog to digital radio
Government security and law enforcement agencies, firefighters, and industrial enterprises in certain priority European markets began switching from analog to digital radio many years ago. Germany has started to switch over to digital radio and preparations are being made for this in Northern Europe.

In Germany, CeoTronics expects significant investments to be made by security authorities and organizations, the German Armed Forces, firefighters, and industry.

The market launch of the new generation of Tetrapol radios in countries that have already switched to digital radio will offer additional revenue potential. This also applies to replacement and follow-on orders in those markets that switched to digital radio years ago.

Most communication systems for analog radios – and in many cases also for older digital radios – in operation to date can no longer be used due to the different mechanical and electronic interfaces required by the new digital radios.

Since 1999, CeoTronics has manufactured and sold over 50,000 systems for connection to the new digital Tetra/Tetrapol radios. Our experience in adapting communications accessories to digital radios is a major competitive advantage.

How our customers see CeoTronics
CeoTronics has recorded a continuous improvement in the customer surveys that have been carried out for many years now. In the most recent survey, CeoTronics achieved an excellent average score of 1.84 across all performance criteria on a scale of 1 (very good) to 6 (unsatisfactory). Product quality and customer service received the best scores.

Consolidated revenues
CeoTronics was unable to match the extremely strong revenues seen in the last three years due to the ongoing global economic crisis in fiscal year 2009/2010, the unexpected budget cuts by the German Armed Forces at the beginning of 2010, and the effect of the major order for CT-DECT JetCom systems from the German Armed Forces in fiscal year 2008/2009.

In addition, the ongoing delays in the switch to digital radio in both Germany and Northern Europe, the massive nature of which had not been foreseen, meant that necessary purchases by government security and law enforcement agencies were only made to a limited degree. Due to the planned switch to digital radios, public-sector customers in particular have held back on replacing communications accessories for analog radios. This has led to a considerable investment backlog.

Consolidated revenues of €14,361 thousand in fiscal year 2009/2010 were down slightly (3.0%) on the Group forecast of approximately €14,800 thousand. Overall, revenues in fiscal year 2009/2010 were down €4,454 thousand (-23.7%) on the prior-year figure.

Revenue trends by region

The share of revenues generated outside Germany fell to 45.6% in fiscal year 2009/2010 (previous year: 53.5%). The share accounted for by Germany rose correspondingly to 54.4% (previous year: 46.5%).

The 10.8% drop in revenues in Germany is due, among other things, to muted spending by security authorities and organizations in anticipation of the switch to digital radios and to the fact that third batch of the major order for CT-DECT JetCom systems from the German Armed Forces was delivered and invoiced in fiscal year 2008/2009. No comparable projects were completed with the German Armed Forces in fiscal year 2009/2010.

Revenues declined slightly in France due, among other things, to the economic crisis. The order backlog is down significantly on the prior-year level (-90.6%). In fiscal year 2010/2011, CeoTronics France will attempt to stem the decline in revenues and return to profitability with its current lower headcount.

The global economic crisis and associated budget cuts have also left their mark on customers in Spain. In fiscal year 2009/2010, revenues fell by 67.2% while the order backlog as of May 31, 2010 was down 60.4% on the prior-year date.

CeoTronics was also unable to maintain prior-year revenue levels in Switzerland, due in particular to the fact that the switch to digital radio made very little further progress. Revenues were down 43.8%, although the order backlog rose by 59.9%.

Revenues in Poland declined by 80.2%. However, the order backlog as of May 31, 2010 rose considerably, albeit to a low level. CeoTronics was also unable to repeat its prior-year revenue levels in its other key foreign markets.

Earnings at CeoTronics U.S.A.

CeoTronics U.S.A.'s operating business turned in a very positive performance. After consolidation and translation from U.S. dollars to euros, CeoTronics U.S.A.'s revenues rose by 125.30% year-on-year. The order backlog as of May 31, 2010 was up 156.1%.

CeoTronics, U.S.A.'s current business growth and prospects for fiscal year 2010/2011 do not appear to be sufficiently positive to support the original planning, due among other things to the delay that is, unfortunately, likely to occur in the availability of new products – including ones aimed at additional new customer groups – the training of new sales team members, which is a time-consuming task for sales management, and the development of a stronger indirect sales channel. The impairment test required to be performed after completion of the annual planning process recognized a need to charge an impairment loss on the goodwill reported in CeoTronics U.S.A.'s financial statements of USD 903 thousand.

As CeoTronics U.S.A.'s balance sheet assets were largely written down as a result of this one-time factor, no material effects are expected on long-term earnings in the coming years due to additional writedowns.

In addition to positive revenue and margin trends, the U.S. dollar exchange rate had a positive effect on earnings in fiscal year 2009/2010. Without the one-time factor mentioned above, this would have resulted in CeoTronics U.S.A. recording a profit for the year of USD 16 thousand, a significant improvement on the previous year's loss of USD 232 thousand.

Performance of the divisions and units

CeoTronics 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.

Consolidated revenues declined in the Radio Networks, Headsets, and Systems unit by 34.2% year-on-year.

Revenues in the Vibration Technology and Helmet Communication unit fell by 63.7%.

This decline in revenues in the two divisions is due in particular to the major order placed by the German Armed Forces for CT- DECT JetCom systems with helmet-integrated CT-Contact-Com, the last batch of which was delivered and invoiced in the previous year.

Revenues generated by products from the In-ear-headset and Covert Communication unit rose by 32.5% year-on-year, with the wide range of models for the new CT-ClipCom headset playing a major role.

In the Cable-bound Audio Communication and Accessories unit, revenues in fiscal year 2009/2010 fell by 38.9% as against the previous year.

The trend in the Video/Data Communication unit was extremely positive, with revenues rising by a substantial 48.4% in fiscal year 2009/2010. Revenues in the Service division rose by 23.3% year-on-year in fiscal year 2009/2010.

Since revenues had been expected to decline in the period under review, potential cost savings were analyzed and implemented in a timely manner. This resulted, amongst other things, in the introduction of short-time working in Germany, in investments being postponed, and in other cost savings.

IFRSs

The financial statements contained in CeoTronics' 2009/2010 Annual Report were prepared in accordance with International Financial Reporting Standards (IFRSs). The consolidated financial statements were and will continue to be prepared in the future in accordance with IFRSs as adopted by the E.U. at the time the financial statements were prepared.

Cost of sales ratio up

The ratio of the cost of sales to revenues in the reporting period increased to 53.5% (previous year: 48.5%).

At €2,880 thousand, operating expenses fell by -6.7% as against the previous year (€3,086 thousand) and now account for 20.1% of revenues (previous year: 16.4%).

Slight rise in research and development expenses

Group research and development expenses rose by €34 thousand (+2.0%) year-on-year from €1,709 thousand to €1,743 thousand. The ratio of research and development expenses to revenues increased to 12.1% (previous year 9.1%). The rise in expenses is mainly due to higher employees expenses at CT-Video GmbH.

Selling and marketing expenses

Although selling and marketing expenses rose to 29.9% of revenues in fiscal year 2009/2010 (previous year: 24.5%), absolute costs (€4,290 thousand) were down significantly on the previous year (€4,610 thousand).

General and administrative expenses

General and administrative costs increased by €63 thousand year-on-year in fiscal year 2009/2010 to €1,516 thousand and now account for 10.6% of revenues (previous year: 8.4%).

EBITDA and EBIT

As expected, EBITDA and EBIT in the period under review could not be maintained at the level seen in the previous year due to the decline in revenues. EBITDA for fiscal year 2009/2010 amounted to €102 thousand (previous year: €2,533 thousand) and EBIT to € 1,130 thousand (previous year: €2,006 thousand).

EBIT of €643 thousand (€615 thousand after taking exchange rate effects into account) was impacted by a non-cash impairment loss recognized due to the impairment of CeoTronics U.S.A.'s goodwill (see also under "Consolidated loss for the period"). Without the one-time factor mentioned above, EBIT would have been €-487 thousand.

Consolidated loss before tax

In fiscal year 2009/2010, CeoTronics' consolidated loss before tax amounted to €1,297 thousand after a consolidated profit before tax of €1,906 thousand in the previous year.

The return on sales based on the consolidated loss before tax amounted to -9.0% (previous year: 10.1%).

Without the one-time factor mentioned above, the consolidated loss before tax would have been €654 thousand, and the corresponding return on sales -4.6%.

Consolidated loss for the period
The consolidated loss for the period for fiscal year 2009/2010 amounted to €1,396 thousand following a consolidated profit of €1,279 thousand in the previous year.

The return on sales based on the consolidated loss for the period amounted to -9.7% (previous year: 6.8%).

The share of the consolidated loss for the period attributable to shareholders of the parent for fiscal year 2009/2010 amounted to €1,383 thousand (previous year: shared of the consolidated profit of €1,266 thousand).

Consolidated earnings per share (after tax) were €-0.21, after €0.19 in the previous year.

The consolidated loss for the period was impacted both by the above-mentioned impairment loss recognized due to the impairment of CeoTronics U.S.A.'s goodwill (see under "EBITDA and EBIT") and by the fact that deferred tax assets reported for tax loss carryforwards at CeoTronics U.S.A. in the amount of €280 thousand were no longer recognized. As CeoTronics U.S.A.'s balance sheet assets were largely written down as a result of these one-time factors, no material effects are expected on long-term earnings due to additional writedowns.

Without the influence of these one-time factors, the consolidated loss before tax would have amounted to €473 thousand, the share of the consolidated loss for the period attributable to shareholders of the parent would have been €460 thousand, earnings per share would have been €-0.07, and the return on sales would have been -3.2%

High equity level and equity ratio
Equity as of May 31, 2010 fell to €10,863 thousand (previous year: €13,144 thousand). The equity ratio was 68.7% after 72.5% in the previous year. Despite the slight decline in the equity ratio, the CeoTronics Group continues to have a very good equity base.

Gross cash flow
Gross cash flow amounted to €-164 thousand in fiscal year 2009/2010, against €1,806 thousand in the previous year.

Ample cash and cash equivalents
Cash and cash equivalents as of May 31, 2010 declined by €208 thousand year-on-year, from €566 thousand to €358 thousand.

High level of investments
Despite the ongoing global economic crisis, CeoTronics has prepared itself in good time over many years to meet future challenges by investing in employee capacity, market development, technologies, new developments, and production techniques and processes, and has already made the necessary investments.

As a result, it was able to reduce investments in fiscal year 2009/2010 by €161 thousand year-on-year to a total of €832 thousand.

Headcount
CeoTronics reduced the number of employees (including trainees) working for it by one person from 155 in the previous year to 154 as of May 31, 2010. In Germany, three new employees were recruited for the Research and Development unit, while the number of administrative employees was reduced by two. The headcount in the foreign subsidiaries was cut by two field sales representatives.

Additional temporary but significantly more extensive capacity reductions were achieved by introducing short-time working at locations in Germany.

Order backlog and incoming orders up year-on-year
The order backlog as of May 31, 2010 was up 7.9% year-on-year to €2,409 thousand. Incoming orders surged in the fourth quarter of fiscal year 2009/2010, rising 44.6%.

Events after the balance sheet date
CeoTronics AG filed an application with Deutsche Börse to withdraw from listing on the Regulated Market (General Standard/Prime Standard) on July 22, 2010. Once the withdrawal

becomes effective – subject to the approval of the Frankfurt Stock Exchange – the aim is for CeoTronics AG's shares to continue trading in the Entry Standard of the Frankfurt Stock Exchange.

Hans-Dieter Günther, the Chairman of the Supervisory Board, announced on July 30, 2010 that he would be resigning on August 31, 2010 for health reasons. He will be replaced by Matthias Löw, Rodgau, the alternate Supervisory Board member.

Group risk management

As in previous years, CeoTronics continued to fulfill its obligations in the reporting period to perform active risk management.

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 and the risk management manual modified. Implementation was checked.

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 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.

The findings of the risk analysis were discussed in depth by the Board of Management and the Supervisory Board.

a.) Price and currency risk

The CeoTronics Group is exposed to price and currency fluctuations because of its international business operations. 89 % of all revenues are generated in euros, and the remaining 11 % are generated in foreign currencies (U.S. dollars, Polish zloty, and Swiss francs). 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. However, currency risks are mitigated by operating business locations in the corresponding countries; in addition to generating revenues in foreign currency, these also incur expenses in the same currency. No specific currency hedging transactions have been entered into in the past.

b.) Market risk

As a rule, the CeoTronics Group is not significantly dependent on individual customers (10 % of Group revenues). An aggregate of 11.0 % of total Group revenues was generated with a single customer in the past fiscal year. The revenue breakdown is expected to return to normal in the coming years.

The share of the CeoTronics Group's aggregate procurement volume attributable to individual suppliers was significantly less than 10 % during the past fiscal year.

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 and extend the Company's existing technical lead over its competitors. A high degree of innovation and advanced technology reduces price pressure and thus mitigates price risk. In the past, the high level of research and development expenditures incurred to achieve this have always been amortized in the medium term.

c.) 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 arise in relation to medium-and long-term interest-bearing receivables and liabilities in particular. 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 of €2,100 thousand was raised in fiscal year 2006/2007 to finance the acquisition of a property in Rödermark. The fixed-interest period for the existing loans does not expire until 2016. Assuming that the loans are repaid as provided for in the contracts, the remaining value of the loans after expiration of the fixed-interest period will be €1,141 thousand. No interest rate hedges have been entered into so far due to the long term of the fixed-interest period and the long remaining maturity of the loans.

d.) Liquidity risk

In many cases, CeoTronics AG makes advance payments for substantial materials purchases, especially for large orders, although the orders themselves are not invoiced and settled until months later. To mitigate this risk, CeoTronics AG has agreed several lines of credit with banks. This safeguards adequate liquidity in the Group at all times.

e.) Default risk

The carrying amount of the financial assets represents the maximum value at risk if business partners do not meet their contractual payment obligations. To keep default risk to a minimum, CeoTronics AG has established a comprehensive receivables management system that ensures that credit quality 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 the past fiscal year, bad debts amounted to €12 thousand or 0.09% of revenues (previous year: €31 thousand or 0.16% of revenues).

f.) Other risks

The German Financial Reporting Enforcement Panel (FREP) has raised doubts about the correctness of information contained in the consolidated financial statements for fiscal year 2008/2009 following a non-indication-based examination in accordance with section 342b(2) sentence 3 number 3 of the HGB. For more information on the non-indication-based examination carried out by the FREP, see the notes to the consolidated financial statements for fiscal year 2009/2010.

Report in accordance with section 315(2) number 5 of the HGB

According to the explanatory memorandum to the Bilanzmodernisierungsgesetz (BilMoG – German Accounting Law Modernization Act), the internal control system comprises the principles, techniques, and measures used to ensure the effectiveness and economic efficiency of the financial reporting process, the propriety of the accounting, and adherence to the applicable legal provisions. This also includes the internal audit system to the extent that it concerns financial reporting.

The risk management system for the financial reporting process, as a component of the internal control system, applies like the latter to the financial reporting control and monitoring process, particularly in the case of items in the Company's financial accounts that cover the Company's risk hedging.

Material characteristics of the internal control and risk management system relevant for the financial reporting process

The material characteristics of CeoTronics AG's internal control and risk management system relevant for the financial reporting process can be described as follows:

- The CeoTronics Group has clear organizational, corporate, and control and monitoring structures.
- Coordinated planning, reporting, control, and early warning systems and processes exist for the end-to-end analysis and management of risk factors that could affect earnings and of going-concern risks.
- Functional responsibilities have been clearly defined for all areas of the financial reporting process (e.g., financial accounting, controlling).
- The IT systems employed for accounting are secured against unauthorized access.
- The financial systems employed primarily consist of standard software.
- Adequate internal policies (including a risk management handbook) are in place and are adapted as needed.
- The completeness and accuracy of accounting data are regularly verified on a test basis and using plausibility checks as well as by manual controls.
- Material processes of relevance to accounting are subjected to regular analytical reviews. The existing risk management system is continuously updated to reflect current developments and its operational reliability is constantly checked.
- The principle of dual control is used throughout all accounting-related processes.
- Among other things, the Supervisory Board addresses key issues relating to accounting, risk management, the engagement of the auditors and the areas of emphasis of the audit.

Explanation of the material characteristics of the internal control system and the risk management system for the financial reporting process

The internal control and risk management system for the financial reporting process, the material characteristics of which are described above, ensures that business matters are properly recorded, prepared, and assessed before being transferred to the external financial reporting.

CeoTronics' clear organizational, corporate, control, and monitoring structures and its allocation of adequate staff and resources to accounting form the basis for efficient work by the areas involved in accounting. Clear statutory provisions and internal rules and policies ensure uniform and proper accounting. Clearly defined review mechanisms within the areas involved in accounting and early risk identification by risk management guarantee correct and consistent accounting.

The internal control and risk management system in place at CeoTronics AG ensures that the Company's accounting is performed in a uniform manner and that it conforms to the legal and statutory requirements and the internal policies. In particular, the risk management system, which is fully compliant with the statutory requirements, is designed to permit the timely identification, evaluation, and adequate communication of risks. This ensures that the users of the report are provided with accurate, pertinent, and reliable information in a timely manner.

Principles of the remuneration system in accordance with section 315(2) number 4 of the HGB

The remuneration of the members 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.

The fixed annual salary is payable to the members of the Board of Management in twelve 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 performance-related variable remuneration component (bonus). The bonus amounts to 3% of the consolidated profit before tax in each case, calculated in accordance with International Financial Reporting Standards (IFRSs). The annual bonus is limited to 25% of the total annual 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 ten successive days of trading. Only one payment is made for each of the four targets reached. This agreement runs until May 31, 2011.

The contracts with the members of the Board of Management do not provide for any severance payment awards in the event that their contracts of service are terminated early.

The General Meeting on November 4, 2005 resolved that the salaries and other remuneration components for the members of the Board of Management will not be disclosed on an individual basis in the notes to the annual 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 applies to the fiscal year beginning June 1, 2005 and to the four subsequent fiscal years until May 31, 2010.

The General Meeting on November 6, 2009 adopted a corresponding resolution with the same content, which applies to the fiscal year beginning June 1, 2010 and to the four subsequent fiscal years until May 31, 2015.

The aggregate benefits of the Board of Management in the fiscal year amounted to €788 thousand (previous year: €787 thousand). The aggregate benefits comprise fixed salary components of €619 thousand (previous year: €585 thousand) and variable remuneration components of €169 thousand (previous year: €202 thousand).

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 the voting rights as of May 31, 2010:

- Hans-Dieter Günther, 16,87%
- Dagmar Günther, 13,21%
- Horst Schöppner 12,35%, a total of 810,410 voting rights, of which 810,400 voting rights are held via Schöppner Vermögensverwaltung GbR, Rödermark, Germany.

(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; above and beyond this, 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 the 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 such member in urgent cases at the 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 the business, or a vote of no confidence by the General Meeting, unless the vote of no confidence has been taken for evidently subjective reasons. In accordance with section 84 (3) sentence 4 of the Aktiengesetz, the revocation of an appointment to 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 authorized 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 all 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 (3a) 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 used 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 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.

c.) 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 affiliates (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),
- by way of 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 HGB 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 General Meeting on November 6, 2009 authorized the Board of Management of CeoTronics AG in accordance with section 71 (1) no. 8 of the Aktiengesetz to purchase own shares with a notional interest in the share capital accruing to these shares in the aggregate amount of up to €659,999.00 until November 5, 2014.

(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.

Report on expected developments
a.) Market and sector development

CeoTronics expects the global economy to recover slowly in fiscal years 2010/2011 and 2011/2012. The continued low level of capital spending by companies worldwide and the ongoing strained situation on the labor markets in many countries are preventing a quick return to the growth rates seen before the global economic crisis. However, the economic stimulus programs implemented by the leading industrial nations and the stable development recorded by the emerging markets should have a positive effect.

In Europe, the Greek crisis and its consequences is impacting investment behavior as well. This also applies to Spain, Italy, and Portugal in particular.

Germany appears to be one of only a few of the major nations to emerge stronger than before from the crisis. The labor market is surprisingly stable and economic indicators are in positive territory. German exporters in particular are profiting from the start of the upturn. The government's economic stimulus measures are also yielding results.

The investment backlog should gradually start to ease after the entire sector suffered from a reluctance to invest, especially on the part of public-sector customers, in the past fiscal year.

Germany's switch to digital radio, which started in fiscal year 2009/2010, offers the sector substantial revenue potential. Preparations are also being made in Northern Europe to switch to digital radio. In Germany, CeoTronics also expects major investments to be made by security authorities and organizations, the German Armed Forces, firefighters, and industry. The market launch of the new generation of Tetrapol radios in countries that have already switched to digital radio will offer additional revenue potential. This also applies to replacements and follow-on orders in those markets that switched to digital radio years ago.

b.) Corporate development

CeoTronics will not change its strategy, even in economically difficult times. The Company has prepared itself in good time in past fiscal years to meet future challenges by making targeted investments in employee capacity, technologies, market development, new developments, and production techniques and processes and has made the necessary investments.

To this extent, CeoTronics has laid the foundations to profit from the recovery in the overall economy as well as from the end to muted spending by public-sector customers and the switch to digital radio in particular.

c.) Opportunities of future development

The switch to digital radio by the police, firefighters, and industrial enterprises in Germany and Northern Europe as well as the switch to a new generation of digital radio equipment in Switzerland and possibly also in Spain will offer CeoTronics substantial market potential for audio products in the coming years.

Apart from the European markets that are profiting from the switch to digital radio, North America is the market with the greatest sales potential for CeoTronics' products. Our successful sales and improved visibility in the United States resulting from our sales activities and marketing investments to date reinforce the assumption that CeoTronics U.S.A. can further increase its revenues in the coming fiscal years. The expansion of the product portfolio to include CT-MultiCom – for firefighters, among others – and CT-ClipCom Digital – for SWAT teams, for example – as well as the establishment of a stronger indirect sales channel will contribute to this.

CT video systems will play an even more important role in fighting crime and terrorism in future. Evidence to support this assumption can be seen from public authority investments in monitoring areas at risk – especially those that are temporarily endangered – and in securing video evidence, as well as CT-Video GmbH's product innovations.

d.) Risks of future development

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

If the launch of digital radio and the switch to a new generation of digital radio devices in Spain and Switzerland are not continued and implemented in the near future, there is a risk that the CeoTronics companies in Spain and Switzerland will not be able to maintain the level of revenues seen in recent years in the coming fiscal years.

Despite every effort being made, a continued decline in the revenues and earnings trend in France in fiscal year 2010/2011 cannot be ruled out.

Competitors, radio manufacturers and dealers, and importers are stepping up their efforts to penetrate CeoTronics' markets – especially Germany – using cheap products from Asia, among other things, in order to win tenders during the switch to digital radio. CeoTronics will remain positioned in the premium segment and will continue to attempt to keep price acceptance and the appreciation of its products and systems at a high level by offering outstanding quality and performance. Nonetheless, we will offer more economical standard products and components at the expense of European content in specific competitive situations and where the cheapest entry-level price is the key driver for customers.

A renewed recession or a delay in the economic recovery in CeoTronics' priority markets could negatively affect Group development.

e.) Outlook

The start of the switch to digital radio, the new projects we are working on, our product innovations, our increased order backlog as of May 31, 2010, and the incoming orders we received in the fourth quarter of fiscal year 2009/2010 justify a positive outlook in Germany for fiscal year 2010/2011, with a significant increase in revenues and annual earnings that are clearly in positive territory.

In the rest of Europe, the migration to the new generation of digital radios in Switzerland and possibly Spain will be key factors contributing to rising revenues and earnings in fiscal year 2010/2011.

CeoTronics expects a further increase in U.S. market revenues in fiscal year 2010/2011. According to current planning, earnings will be negative.

CeoTronics will continue to profit from the switch to digital radio in Germany and Europe in fiscal year 2011/2012, as well as from greater investment in internal and external security. According to our current information and estimates, revenues and earnings for the year will rise further. The same also applies to the U.S. market, with the aim here being to further reduce losses.

CeoTronics is currently aiming to achieve the planned revenue increases in the coming fiscal years with its existing workforce. In addition, CeoTronics intends to maintain investments at a high level to defend its market leadership.

In keeping with tradition and in line with the principle of the continuity of financial reporting, CeoTronics expects to announce its revenue and earnings forecasts for fiscal year 2010/2011 (approximate figures, in euros) in January 2011, when it publishes its interim results for the first half of the year. By then, we should have enough information to give a reliable forecast.

It is not currently possible to issue detailed multi-year projections for the CeoTronics Group, as many parameters cannot be estimated reliably and the global economic climate is uncertain. Providing information about potential revenues, EBIT, and earnings ranges for periods of two or more years would not improve transparency since the spread is too wide. This is due, among other things, to the role played by the switch to digital radio, which could potentially have substantial positive or negative effects.

Rödermark, August 13, 2010

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
Chief Operating Officer

IFRS Balance Sheet – Assets

€ thousand	Note	May 31, 2010	May 31, 2009
Current assets			
Cash and cash equivalents	9	358	566
Trade receivables	10	2,396	3,577
Inventories	11	4,648	4,919
Other current assets	12	409	418
Total current assets		**7,811**	**9,480**
Noncurrent assets			
Property, plant, and equipment	13	6,359	6,091
Intangible assets	13	309	355
Goodwill	13	634	1,269
Trade receivables	10	247	374
Deferred tax assets	14	457	572
Total noncurrent assets		**8,006**	**8,661**
Total assets		**15,817**	**18,141**

IFRS Balance Sheet – Equity and Liabilities

€ thousand	Note	May 31, 2010	May 31, 2009
Current liabilities			
Current financial liabilities	15	747	260
Trade payables	16	286	682
Advance payments received		36	37
Provisions	17	762	1,177
Current tax payables		51	252
Other current liabilities	18	244	418
Total current liabilities		**2,126**	**2,826**
Noncurrent liabilities			
Noncurrent financial liabilities	15	2,744	2,087
Deferred tax liabilities	19	84	84
Total noncurrent liabilities		**2,828**	**2,171**
Equity			
Subscribed capital	20	6,600	6,600
Capital reserves	20	4,471	4,471
Retained earnings	20	16	886
Accumulated other comprehensive income		-253	-47
Net retained profits/net accumulated losses		-19	1,160
Equity attributable to shareholders of CeoTronics AG	20	**10,815**	**13,070**
Minority interest	21	48	74
Total equity		**10,863**	**13,144**
Total equity and liabilities		**15,817**	**18,141**

IFRS Income Statement

€ thousand		Note	2009/2010	2008/2009
Revenues		22	**14,361**	**18,815**
Cost of sales		23	-7,680	-9,132
Gross profit			**6,681**	**9,683**
			46.52%	**51.46%**
Selling and marketing expenses			-4,290	-4,610
General and administrative expenses			-1,516	-1,579
Research and development expenses		24	-1,743	-1,709
Other operating income and expenses		27	381	221
Goodwill impairment		26	-643	0
Operating profit (EBIT)			**-1,130**	**2,006**
Interest income/expense		28	-167	-100
Profit/loss before tax			**-1,297**	**1,906**
Income tax expense		29	-99	-627
Consolidated profit/loss			**-1,396**	**1,279**
Consolidatedt profit/loss attributable to:	Minority interest	30	-13	13
	Shareholders of CeoTronics AG	30	**-1,383**	**1,266**
Earnings per share (basic) in €			**-0.21**	**0.19**
Earnings per share (diluted) in €			**-0.21**	**0.19**

Consolidated Statement of Comprehensive Income

€ thousand	Note	2009/2010	2008/2009
Consolidated profit/loss		**-1,396**	**1,279**
Exchange differences on translating foreign operatings		-219	-97
Total comprehensive income		**-1,615**	**1,182**
Of which attributable to:			
- minority interests		-20	29
- shareholders of CeoTronics AG		-1,595	1,153

IFRS Cash Flow Statement

€ thousand	2009/2010	2008/2009
Cash flow from operating activities		
Profit/loss before tax	-1,297	1,906
Income tax expense	-99	-627
Consolidated profit/loss	**-1,396**	**1,279**
Depreciation, amortization, and impairment losses	1,232	527
Gross cash flow	**-164**	**1,806**
Changes in assets and liabilities		
Change in trade receivables	1,308	2,645
Change in inventories	271	-502
Change in other assets	9	-31
Change in trade payables	-396	26
Change in advance payments received	-1	-4
Change in other provisions	-415	-222
Change in tax payables	-201	-410
Change in other current liabilities	-174	-275
Change in deferred tax assets	115	-53
Change in deferred tax liabilities	0	84
Total changes in assets and liabilities	**516**	**1,258**
Net cash provided by operating activities	**352**	**3,064**
Cash flow from investing activities		
Payments to acquire intangible assets	-79	-159
Payments to acquire property, plant, and equipment	-755	-834
Change in currency translation adjustments	-16	-71
Disposal of noncurrent assets (net carrying amounts)	31	0
Net cash used in investing activities	**-819**	**-1,064**
Cash flow from financing activities		
Change in current financial liabilities	487	-1,164
Change in noncurrent financial liabilities	657	-76
Dividend payment to minority interest	-6	-15
Dividend payment to shareholders of CeoTronics AG	-660	-990
Net cash provided by/used in financing activities	**478**	**-2,245**
Change in cash and cash equivalents	**11**	**-245**
Effect of exchange rate changes on cash and cash equivalents	-219	-97
Cash and cash equivalents at beginning of period	566	908
Cash and cash equivalents at end of period	358	566

IFRS Statement of Changes in Equity

	Equity attributable to shareholders of CeoTronics AG								
€ thousand	Subscribed capital	Capital reserves	Statutory retained earnings	Other retained earnings	Net retained profits/net accumulated losses	Currency translation reserve	Total	Minority interests	Total equity
Balance at May 31, 2008	**6,600**	**4,471**	**16**	**870**	**898**	**52**	**12,907**	**60**	**12,967**
Total comprehensive income					1,252	-99	1,153	29	1,182
Dividends paid					-990		-990	-15	-1,005
Balance at May 31, 2009	**6,600**	**4,471**	**16**	**870**	**1,160**	**-47**	**13,070**	**74**	**13,144**
Total comprehensive income					-1,389	-206	-1,595	-20	-1,615
Withdrawal from retained earnings				-870	870		0		0
Dividends paid					-660		-660	-6	-666
Balance at May 31, 2010	**6,600**	**4,471**	**16**	**0**	**-19**	**-253**	**10,815**	**48**	**10,863**

IFRS Statement of Changes in Noncurrent Assets

	Cost						Cumulative depreciation, amortization, and impairment losses					Carrying amounts	
€ thousand	**June 1, 2009**	**Currency translation adjustments.**	**Additions**	**Disposals**	**Reclassifications**	**May 31, 2010**	**June 1, 2009**	**Currency translation adjustments**	**Additions**	**Disposals**	**May 31, 2010**	**May 31, 2010**	**May 31, 2009**
Property, plant, and equipment													
Land, land rights, and buildings, including buildings on third-party land	5,264	0	9	2	465	5,736	618	0	112	0	730	5,006	4,646
Technical equipment and machinery	2,280	5	123	6	135	2,537	1,754	4	183	7	1,934	603	526
Other equipment, operating and office equipment	1,922	18	211	53	0	2,098	1,444	10	171	23	1,602	496	478
Prepayments and assets under construction	442	0	412	0	-600	254	0	0	0	0	0	254	442
	9,908	**23**	**755**	**61**	**0**	**10,625**	**3,816**	**14**	**466**	**30**	**4,266**	**6,359**	**6,092**
Intangible assets													
Concessions, industrial and similar rights and assets, and licenses in such rights and assets	812	0	79	6	30	915	488	0	124	6	606	309	324
Prepayments on intangible assets	30	0	0	0	-30	0	0	0	0	0	0	0	30
	842	**0**	**79**	**6**	**0**	**915**	**488**	**0**	**124**	**6**	**606**	**309**	**354**
Goodwill	**1,372**	**114**	**0**	**14**	**0**	**1,472**	**103**	**106**	**643**	**14**	**838**	**634**	**1,269**
	12,122	**137**	**834**	**81**	**0**	**13,012**	**4,407**	**120**	**1,233**	**50**	**5,710**	**7,302**	**7,715**

Notes to the Consolidated Financial Statements of CeoTronics AG for Fiscal Year 2009/2010

Basis of Preparation and Accounting Policies

(1) Business Activities/Information on the Company
CeoTronics AG, domiciled in 63322 Rödermark, Germany (Adam-Opel-Strasse 6), is the parent company of the CeoTronics Group and is a listed stock corporation incorporated under the laws of Germany. The Company is entered in the commercial register of the Offenbach Local 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 communications facilities, 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.à.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.

Our subsidiaries in Spain, Poland, and the U.S.A. offer local after-sales service.

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

The majority of subsidiaries restrict their sales activities mainly 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 its subsidiary CT-Video GmbH 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).

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 or amendments to existing Interpretations became effective in fiscal year 2009/2010:

- 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 amendments to IAS 32 and IAS 1 regarding financial instruments and their presentation in the financial statements are required to be applied for the first time for fiscal years beginning on or after January 1, 2009.
- The amendments to IAS 39 and IFRS 7 with regard to the reclassification of financial assets are required to be applied retrospectively from July 1, 2008.
- The amendments to IFRS 1 and IAS 27 relating to the cost of investments in subsidiaries are required to be applied for the first time for fiscal years beginning on or after January 1, 2009.
- The amendment to IFRS 2 Share-based Payment is required to be applied for the first time for fiscal years beginning on or after January 1, 2009.
- The amendment to IFRS 7 Financial Instruments: Disclosures is required to be applied for the first time for fiscal years beginning on or after January 1, 2009.
- IFRS 8 Operating Segments is required to be applied for the first time for fiscal years beginning on or after January 1, 2009.
- IFRIC 9 Reassessment of Embedded Derivatives 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 April 1, 2009.
- IFRIC 13 Customer Loyalty Programs is required to be applied for the first time for fiscal years beginning on or after January 1, 2009.
- 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, 2009.
- The Improvements to IFRSs are required to be applied for the first time for fiscal years beginning on or after January 1, 2009 (Article 1 paragraph 2 and 4-8) or July 1, 2009 (Article 1 paragraphs 1 and 3).

The application of IFRS 7 and 8 in particular had a direct effect 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, 2010:

- 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 July 1, 2009.
- The amendment to IAS 32 on the classification of rights issues is required to be applied for the first time for fiscal years beginning on or after February 1, 2010.
- The amendment to IAS 39 on the recognition and measurement of financial instruments is required to be applied for the first time for fiscal years beginning on or after July 1, 2009.
- The amendment to IFRS 1 on the restructuring of the Standard is required to be applied for the first time for fiscal years beginning on or after July 1, 2009.
- The amendment to IFRS 2 Group Cash-settled Share-based Payment Transactions 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 July 1, 2009.

- IFRIC 15 Agreements for the Construction of Real Estate is required to be applied for the first time for fiscal years beginning on or after January 1, 2010.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation is required to be applied for the first time for fiscal years beginning on or after July 1, 2009.
- IFRIC 17 Distributions of Noncash Assets to Owners is required to be applied for the first time for fiscal years beginning on or after November 1, 2009.
- IFRIC 18 Transfers of Assets from Customers is required to be applied for the first time for fiscal years beginning on or after November 1, 2009.

The above-mentioned Standards 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, 2010 include the annual financial statements of CeoTronics AG and of the seven subsidiaries listed in the following (hereafter together the "CeoTronics Group"):

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

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

Effective May 31, 1996, CeoTronics AG acquired the remaining 33% interest in CeoTronics France; the company was formed in 1986. This interest was initially consolidated as of May 1, 1996.

CeoTronics UK was acquired as a sales company in 1986 and subsequently renamed CeoTronics Ltd. CeoTronics UK's sales activities ended as of March 31, 2007 and were taken over by CeoTronics AG.

	Equity Interest	Equity	Profit/loss	Currency
CT-Video GmbH, Lutherstadt Eisleben/Germany	100%	2,078	198	1,000 EUR
CeoTronics AG, Rotkreuz/Switzerland	100%	180 256	47 70	1,000 EUR 1,000 CHF
CeoTronics S.à.r.l., Brie Comte Robert/France	100%	-460	-133	1,000 EUR
CeoTronics Ltd., Aberdeen/United Kingdom	100%	0 0	0 0	1,000 EUR 1,000 GBP
CeoTronics Inc., Virginia Beach, Virginia/U.S.A.	100%	-1,821 -2,236	-632 -889	1,000 EUR 1,000 USD
CeoTronics S.L., Madrid/Spain	100%	401	23	1,000 EUR
CeoTronics Sp. z o.o., Lodz/Poland	75%	72 293	-66 -273	1,000 EUR 1,000 PLN

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

CeoTronics Spain recommenced its sales activities in 1998. The company was formed in 1992. It 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 €337 thousand (previous year: €374 thousand) from intercompany transactions contained in the carrying amounts of finished goods as of May 31, 2010 were also eliminated. Because of the decline in intercompany profits, a consolidation adjustment of €38 thousand (previous year: €144 thousand) was recognized as income as of the reporting date.

Consolidation of income and expenses
Revenues from intercompany deliveries, other income and expenses from intragroup settlements, and investment and interest 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 2015/2016 inclusive). For periods beyond this planning horizon, no growth compared with the final year specifically included in the planning is assumed.

The discount rate applied is currently 8.6%.

(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;
- 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 euro; this corresponds to 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.

(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. Cash and cash equivalents are recognized at their nominal value.

The relevant exchange rates as of May 31, 2010 and May 31, 2009 and for fiscal years 2009/2010 and 2008/2009 were:

	USD/EUR	GBP/EUR	CHF/EUR	PLN/EUR
Closing rate at May 31, 2010	1.2277	0.8450	1.4179	4.0738
Closing rate at May 31, 2009	1.4127	0.8743	1.5103	4.5145
Change in €	-13.1%	-3.4%	-6.1%	-9.8%
Average rate for fiscal year 2009/2010	1.4065	0.8815	1.4870	4.1273
Average rate for fiscal year 2008/2009	1.3840	0.8504	1.5450	3.9128
Change in €	+1.6%	+3.7%	-3.8%	+5.5%

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 and liabilities 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 regarding 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.

For reasons of materiality, assets costing between €150 and €1,000 are depreciated in a pooled item over five years irrespective of their useful lives.

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 costing €150 to €1,000 (pooled item)	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.

Segment reporting
In accordance with IFRS 8 Operating Segments, information on the operating business is presented classified by certain segments.

The CeoTronics Group's segment reporting is based on its internal organizational and reporting structure. The segment reporting format is geographic.

Consolidated Balance Sheet Disclosures

(9) Cash and Cash Equivalents

€ thousand	May 31, 2010	May 31, 2009
Cash and bank balances	358	566

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

(10) Trade Receivables

€ thousand	May 31, 2010	May 31, 2009
Trade receivables, gross	2,694	4,005
less: valuation allowances	-51	-54
Trade receivables, net	**2,643**	**3,951**

Trade receivables include receivables from finance leases amounting to €452 thousand. In fiscal year 2006/2007, CeoTronics entered into a lease with a customer in Spain that must be classified as a finance lease. 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	462
Discount factor: 5.0%	-10
Present value of the order at the reporting date	**452**

The maturities of the lease payments break down as follows:

€ thousand	**Gross value**	**Present value**
Less than 1 year	205	205
1 to 5 years	257	247
More than 5 years	0	0
Total amounts at the reporting date	**462**	**452**

The other receivables included in trade receivables are due within one year. Valuation allowances of €12 thousand (previous year: €31 thousand) were recognized as general and administrative expenses in fiscal year 2009/2010.

€ thousand	**May 31, 2010**	**May 31, 2009**
Raw materials, consumables, and supplies	3	5
Work in progress	3,189	2,575
Finished goods	1,456	2,339
Inventories, net	**4,648**	**4,919**

Impairment losses of €410 thousand (previous year: €360 thousand) to obtain 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 2009/2010**	**Fiscal year 2008/2009**
Germany	300	310
Rest of Europe	13	3
Rest of world	97	47
Total impairment losses on inventories	**410**	**360**

(12) Other Current Assets

€ thousand	**May 31, 2010**	**May 31, 2009**
Current tax receivables	211	226
Claims on employees	11	12
Prepaid expenses	136	104
Miscellaneous	51	76
Total other current assets	**409**	**418**

(13) Noncurrent Assets

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

Investments

CeoTronics AG's key investments in fiscal year 2009/2010 focused on new tools (€175 thousand), operating and office equipment (€42 thousand), software (€18 thousand), licenses (€18 thousand), machinery and equipment (€8 thousand), and hardware (€8 thousand).

At CT-Video GmbH, €350 thousand was invested in particular in expanding the production facility, €85 thousand in operating and office equipment, and €43 thousand in software and licenses, and €36 thousand in hardware.

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.

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.à.r.l., Pontault-Combault/France. This company was initially consolidated as of April 1, 1999. A&C Achats et Communication S.à.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 recommenced its sales activities in 1998. The company was formed in 1992. It 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 €114 thousand.

As of May 31, 2010, goodwill resulting from initial consolidation or business combinations was attributable to the following cash-generating units:

€ thousand	Opening balance sheet	Impairment losses FY 2009/2010	Currency translation adjustments	Carrying amounts at year-end
Goodwill from initial consolidation				
CeoTronics France	322	0	0	322
CeoTronics Spain	13	0	0	13
CeoTronics Poland	134	0	-20	114
Total	**469**	**0**	**0**	**449**
Goodwill from business combinations				
CeoTronics USA	800	-643	28	185
Total	**800**	**0**	**0**	**185**
Goodwill	**1,269**	**-643**	**8**	**634**

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. On the basis of the information and expectations with regard to the company's market and competitive environment as of the reporting date, the impairment test for the "CeoTronics U.S.A." cash-generating unit revealed a need to charge an impairment loss. Measurement as of the reporting date was based on forecasts that originated from projections also used for internal purposes. New information at the end of the reporting period has led to a more cautious assessment of CeoTronics U.S.A.'s future business development. The reasons for this are the expected delay in the availability of new products, the need to train new sales team members, which is a time-consuming task for sales management, and the development of a stronger indirect sales channel. Value in use of €185 thousand was calculated, which led to a write-down of €643 thousand and an exchange rate effect of €28 thousand, resulting in a total impairment loss of €615 thousand. If the discount rate of 8.6% used for the impairment test had been 0.5 percentage points higher, the impairment loss would have been €29 thousand higher. However, if the discount rate had been 0.5 percentage points lower, the impairment loss would have been €35 thousand lower. The impairment test is based on planning data for 2010/2011 to 2015/2016. Constant earnings were assumed from the seventh year.

Cumulative goodwill impairment amounted to USD 1,095 thousand as of May 31, 2010.

Government grants

Government grants amounting to €1 thousand (previous year: €4 thousand) were received by CT-Video GmbH in fiscal year 2009/2010 to acquire long-lived assets. CT-Video GmbH received grants amounting to €212 thousand to build a new production facility (previous year: €31 thousand), €19 thousand for operating and office equipment (previous year: €0 thousand), €11 thousand for participating at trade fairs (previous year: €6 thousand), €4 thousand for the continuous professional development of employees, and €2 thousand for machinery and equipment.

CeoTronics AG (Germany) and CT-Video GmbH introduced short-time working in a number of areas in December 2009. The short-time working benefits paid to staff are recognized as an employee expense, and the reimbursement by the Bundesagentur für Arbeit (German Federal Employment Agency) is eliminated against this expense. The same procedure is used for the employer's social insurance expenses, which are reimbursed by the Bundesagentur für Arbeit.

A total of €102 thousand was reimbursed to CeoTronics AG and CT-Video GmbH in fiscal year 2009/2010. €32 thousand of this amount related to social insurance.

(14) Deferred Tax Assets

Deferred tax assets are composed of the following items:

€ thousand	May 31, 2010	May 31, 2009
Deferred tax assets on tax loss carryforward at CeoTronics U.S.A. Gross less: valuation allowance Net	 0 0 0	 561 -281 280
Deferred tax assets on tax loss carryforward at CeoTronics AG, Germany	188	0
Deferred tax assets on tax loss carryforward at CeoTronics Sarl, France	161	142
Deferred tax assets on tax loss carryforward at CeoTronics Sp. z o.o., Poland	13	0
Deferred tax assets due to elimination of intercompany profits	95	150
Total deferred tax assets	**457**	**572**

The more cautious assessment of CeoTronics U.S.A.'s future business development, which led to the recognition of a write-down due to goodwill impairment (see note 13), resulted in the deferred tax assets reported for CeoTronics U.S.A.'s tax loss carryforwards no longer being recognized. CeoTronics U.S.A.'s cumulative tax loss carryforwards amounted to USD 6,269 thousand as of May 31, 2010.

CeoTronics AG, Germany, closed fiscal year 2009/2010 with a loss. After adjustment for the loss carryback for corporate income tax (including the solidarity surcharge), deferred tax assets were recognized for the remaining loss carryforward because positive earnings are expected in subsequent years and the tax loss carryforwards will therefore be available for utilization in the future. The deferred tax asset for the loss carryforward amounts to €188 thousand (previous year: €0 thousand).

CeoTronics Poland also recorded a loss in fiscal year 2009/2010. Deferred tax assets were recognized for the loss carryforward because positive earnings are expected in subsequent years and the tax loss carryforwards will therefore be available for utilization in the future. The deferred tax asset for the loss carryforward amounts to €13 thousand (previous year: €0 thousand).

CeoTronics France closed fiscal year 2009/2010 with a loss due to a decline in revenues. However, positive earnings are expected in subsequent years, which means that the tax loss carryforwards will continue to be available for utilization in the future. The deferred tax asset for the loss carryforward amounts to €161 thousand (previous year: €142 thousand).

Deferred taxes of €55 thousand (previous year: €58 thousand) were recognized for consolidation adjustments in the income statement in fiscal year 2008/2009 due to the elimination of intercompany profits. Other temporary differences between the IFRS carrying amounts and the tax base of assets and liabilities are insignificant. No deferred taxes were therefore recognized for temporary differences in the reporting period or in the prior year.

German corporations are subject to corporate income tax and trade tax. Both are forms of income tax. In Germany, the corporate income tax rate for retained and distributed profits amounts to a standard 15% as from calendar year 2008, plus 5.5% solidarity surcharge; this is 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%.

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 €95 thousand (previous year: €150 thousand).

(15) Financial Liabilities

€ thousand	May 31, 2010	May 31, 2009
Current		
Bank overdrafts	598	117
Bank loans	131	128
Leasing companies	18	17
Total	**747**	**260**
Noncurrent		
Bank loans	2,704	2,032
Leasing companies	40	55
Total	**2,744**	**2,087**
Total financial liabilities	**3,491**	**2,347**

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, 2010 is €1,772 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, 2010 is €260 thousand.

The interest expenses for all liabilities to banks and leasing companies totaled €168 thousand in fiscal year 2009/2010 (previous year: €144 thousand).

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

The following table shows the due dates of financial liabilities:

€ thousand	
2010/2011	747
2011/2012	209
2012/2013	222
2013/2014	224
2014/2015	480
Danach	1,609
Total	**3,491**

(16) Trade Payables

Trade payables of €286 thousand as of May 31, 2010 are due within one year (previous year: €682 thousand).

(17) Provisions

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

€ thousand	June 1, 2009	Utilization	Reversals	Additions	May 31, 2010
Current provisions					
Provisions for employee expenses					
Claims for outstanding vacation entitlements and overtime	300	300	0	268	268
Employee bonuses	297	287	10	148	148
Management bonuses	274	274	0	0	0
	871	**861**	**10**	**416**	**416**
Other provisions					
Legal and consulting fees and year-end closing costs	76	66	0	124	134
Warranty provisions	107	0	13	9	103
Miscellaneous	123	120	3	109	109
	306	**186**	**16**	**242**	**346**
Total provisions	**1,177**	**1,047**	**26**	**658**	**762**

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, 2010	May 31, 2009
Current tax payables	208	313
Social security liabilities	17	31
Miscellaneous	19	74
Other current liabilities	**244**	**418**

The other current liabilities are due within one year.

(19) Deferred Tax Liabilities

Deferred tax liabilities (€84 thousand) result from valuation allowances on receivables of €300 thousand from CeoTronics U.S.A., which were recognized at CeoTronics AG for tax purposes but eliminated in the consolidated financial statements due to the consolidation of intercompany balances.

(20) Equity

Changes in equity, including currency translation adjustments recognized in other comprehensive income, are presented in the Statement of Changes in Equity in the consolidated financial statements.

Subscribed capital

The subscribed capital of CeoTronics AG amounts to €6,599,994.00 and is composed of 6,599,994 shares with a notional value of €1.00 per share.

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 legal reserve of CeoTronics AG in accordance with section 150(2) of the AktG (German Stock Corporation Act); the reserve totaled €15,813.87 as of May 31, 2010.

CeoTronics AG's other retained earnings reported on May 31, 2009 were released in full to net retained profits (€870,000.00) in fiscal year 2009/2010.

Equity ratio

The equity of the CeoTronics Group as of May 31, 2010 amounted to €10,863 thousand (previous year: €13,144 thousand), producing an equity ratio of 68.7% (previous year: 72.5%).

Dividend distributions

Profit distributions are based on the net income reported in the annual financial statements of CeoTronics AG, including any accumulated losses brought forward and any appropriations to, or withdrawals from, reserves (net retained profits/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 annual financial statements of CeoTronics AG reported net retained profits of €642 thousand as of May 31, 2010. €188 thousand of this is subject to a restriction on distribution.

Proposal on the appropriation of net profit

By way of a resolution dated August 13, 2010, the Board of Management of CeoTronics AG proposed to the Supervisory Board with regard to the appropriation of the net profit to recommend to the shareholders at the General Meeting that the available net retained profits be carried forward to new account.

(21) Minority Interests

The minority interests in companies of the CeoTronics Group relate to a 25% minority interest in CeoTronics Sp. z o.o. The minority interests of €48 thousand as of May 31, 2010 (previous year: €74 thousand) are presented directly in equity.

Consolidated Income Statement Disclosures

(22) Revenues
At €14,361 thousand, revenues in 2009/2010 decreased by 23.7% as against the previous year (€18,815 thousand). €13,722 thousand was generated by the sale of goods and €639 thousand by other services.

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

(23) Cost of sales
Cost of sales fell to €7,680 thousand in the reporting period (previous year: €9,132 thousand). The ratio of cost of sales to revenues is now 53.5% (previous year: 48.5%).

The revenues disclosed above were partially offset by aggregate cost of materials amounting to €4,800 thousand in fiscal year 2009/2010 (previous year: €6,047 thousand). The ratio of cost of materials to revenues is thus 33.4% (previous year: 32.1%). Cost of materials includes impairment losses of €410 thousand (previous year: €360 thousand).

(24) Research and Development Expenses
In fiscal year 2009/2010, 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.

(25) Employee Expenses

€ thousand	Fiscal year 2009/2010	Fiscal year 2008/2009
Wages and salaries	6,078	6,630
Social security, post-employment, and other employee benefit expenses	1,141	1,147
Total employee expenses	**7,219**	**7,777**
of which in respect of old age pensions	33	32

An average aggregate of 155 (previous year: 154) employees were employed in the CeoTronics Group in the year under review.

(26) Depreciation, Amortization, and Impairment Losses
Amortization of €124 thousand (previous year: €102 thousand) was charged on intangible assets. €23 thousand of this is recognized in cost of sales, €23 thousand in selling and marketing expenses, €11 thousand in general and administrative expenses, and €67 thousand in research and development expenses.

Depreciation of €466 thousand (previous year: €425 thousand) was charged on items of property, plant, and equipment.

The impairment loss charged on CeoTronics U.S.A.'s goodwill amounted to €643 thousand (excluding the currency translation effect; see note 13).

(27) Other Operating Income and Expenses
This item is broken down as follows:

€ thousand	Fiscal year 2009/2010	Fiscal year 2008/2009
Other operating income	460	322
Other operating expenses	-79	-101
Other operating income and expenses	**381**	**221**

Other operating income relates primarily to income from the reversal of provisions (€26 thousand) and exchange rate gains of €310 thousand.

Other operating expenses relate in particular to valuation allowances on receivables (€12 thousand) and to other taxes (€23 thousand).

(28) Interest Income and Expense
Net interest expense is composed of the following items:

€ thousand	Fiscal year 2009/2010	Fiscal year 2008/2009
Interest and similar income	1	44
Interest and similar expenses	-168	-144
Net interest expense	**-167**	**-100**

Interest income relates primarily to overnight and term deposits.

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

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

In Germany, the corporate income tax rate was 15.0 %, as in the previous year, the solidarity surcharge was 5.5 % on the corporate income tax liability, and the municipal trade tax rate was equivalent to 12.3 %. 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 2009/2010	Fiscal year 2008/2009
Current taxes		
Germany	-4	374
Abroad	-12	222
Total	**-16**	**596**
Deferred taxes	**115**	**31**
Income tax expense	**99**	**627**

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 28.2 % (previous year: 28.2 %). 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 2009/2010	Fiscal year 2008/2009
Profit before tax	-1,297	1,906
Tax income at the applicable tax rate (28.2 %; previous year: 28.1 %)	-366	537
Difference due to foreign tax rates	-26	-33
Benefit of tax loss carryforwards	0	-5
Non-deductible expenses	21	25
Effect on deferred taxes	458	136
Effect of consolidation adjustments	2	-31
Other differences	10	-2
Tax expense reported in consolidated financial statements	**99**	**627**

The effect on deferred taxes relates to the derecognition of the deferred tax assets recognized in fiscal year 2008/2009 on CeoTronics U.S.A.'s loss carryforwards amounting to €280 thousand, and the non-recognition of deferred tax assets on CeoTronics U.S.A.'s loss in fiscal year 2009/2010 (€178 thousand).

(30) Earnings per Share

	Fiscal year 2009/2010	Fiscal year 2008/2009
Consolidated profit/loss attributable to shareholders of the parent (€ thousand)	-1,383	1,266
Weighted average number of shares	6,599,994	6,599,994
Earnings per share (€)	**-0.21**	**0.19**

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

As in the prior year, all shares of the Company were outstanding in fiscal year 2009/2010.

Other Disclosures

(31) Cash Flow Disclosures

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

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

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

(32) Segment Reporting

Segment reporting was prepared in accordance with IFRS 8 Operating Segments. The Company assesses the performance of the operating segments on the basis of their EBIT. The accounting policies applicable to geographic segment reporting are identical to those described in note 8.

The CeoTronics Group's segment reporting is based on its internal organizational and reporting structure and the segment reporting format is geographic (management approach). The segment structure is based on the country of origin, i.e., the domicile of the operating company in question):

- Germany comprises CeoTronics AG (Germany) and CT-Video GmbH.
- Rest of Europe consists of CeoTronics Spain, CeoTronics France, CeoTronics Switzerland, and CeoTronics Poland.
- Rest of world comprises CeoTronics U.S.A.

The intersegment transfer prices are calculated using the resale price method, which is based on the resale price at which the foreign subsidiaries sell the products acquired from CeoTronics AG (Germany) on the market.

Segment reporting table

€ thousand	Germany 2009/2010	Germany 2008/2009	Rest of Europe 2009/2010	Rest of Europe 2008/2009	Rest of world 2009/2010	Rest of world 2008/2009	Consolidation 2009/2010	Consolidation 2008/2009	Group 2009/2010	Group 2008/2009
Revenues										
External customers	11,021	12,492	2,818	6,096	522	227	0	0	14,361	18,815
Between segments	2,318	4,870	2	40	14	31	-2,334	-4,941	0	0
Segment revenues	**13,339**	**17,362**	**2,820**	**6,136**	**536**	**258**	**-2,334**	**-4,941**	**14,361**	**18,815**
of which major customers	2,833	3,425	0	0	0	0	0	0	2,833	3,425
Cost of sales	7,750	9,557	1,933	4,174	390	193	-2,393	-4,792	7,680	9,132
Selling and marketing expenses	3,314	3,621	708	783	268	275	0	0	4,290	4,679
Administrative expenses	1,220	1,274	224	233	72	72	0	0	1,516	1,579
R&D expenses	1,743	1,709	0	0	0	0	0	0	1,743	1,709
EBIT/segment profit or loss	**-1,965**	**836**	**-62**	**912**	**-623**	**-160**	**1,520**	**418**	**-1,130**	**2,006**
Net interest expense									-167	-100
Tax expense									99	627
Profit/loss									**-1,383**	**1,280**
Segment assets	18,051	20,284	2,085	3,914	981	1,629	-5,300	-7,686	15,817	18,141
Segment liabilities	4,663	4,193	1,591	2,751	2,802	2,583	-4,102	-4,530	4,954	4,997
Investments	787	933	41	25	4	36	0	0	832	994
Depreciation, amortization, and impairment losses	542	484	32	32	658*	11	0	0	1,232	527

* Rest of world includes impairment of CeoTronics U.S.A.'s goodwill amounting to €643 thousand (excluding exchange rate effects, see note 13)

The following table provides additional information on revenues at company level.

€ thousand	Fiscal year 2009/2010	Fiscal year 2008/2009
Revenues by product		
Audio	10,176	15,907
Video	3,547	2,390
Services	638	518
Total revenues	**14,361**	**18,815**
Revenues by customer country		
Germany	7,810	8,756
Rest of Europe	5,797	9,559
Rest of world	754	500
Total revenues	**14,361**	**18,815**

(33) Additional Information on Financial Instruments

The following overview presents the carrying amounts and fair values of loans and receivables and of financial liabilities measured at their net carrying amounts.

The fair value of cash and cash equivalents, current receivables, trade payables, other current financial liabilities, and other financial liabilities corresponds to the carrying amount. The reason for this is the short maturity of these instruments.

CeoTronics measures noncurrent receivables by discounting the expected future cash flows. As a result, the carrying amounts of these receivables as of May 31, 2010 and 2009 are close to their fair values.

Noncurrent liabilities to banks bear corresponding rates of interest; their net carrying amounts correspond to their fair values. There are no other noncurrent liabilities.

Financial instruments table

€ thousand	IAS 39 category[1]	May 31, 2010		May 31, 2009	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Cash and cash equivalents	AfS	358	358	566	566
Trade receivables		2,643	2,643	3,951	3,951
– of which from leases	n.a.	452	452	553	553
– of which other trade receivables	LaR	2,191	2,191	3,398	3,398
Other financial assets		409	409	418	418
– of which tax receivables	n.a.	211	211	226	226
– of which miscellaneous other financial assets	LaR	198	198	192	192
Financial liabilities					
Liabilities to banks	AmC	3,491	3,491	2,347	2,347
Trade payables	AmC	286	286	682	682
Other financial liabilities		295	295	670	670
– of which tax liabilities	n.a.	259	259	479	479
– of which miscellaneous other financial liabilities	AmC	36	36	191	191

[1] AfS – available for sale; LaR – loans and receivables; AmC – amortized cost; n.a. – own measurement category

The maturities of financial assets and liabilities are as follows:

€ thousand	Less than 1 year	1 to 5 years	More than 5 years
Financial assets			
Cash and cash equivalents	358	0	0
Trade receivables	2,396	0	0
– of which from leases	205	256	0
– of which other trade receivables	2,191	0	0
Other financial assets	409	0	0
– of which tax receivables	211	0	0
– of which miscellaneous other financial assets	198	0	0
Total	**3,163**	**256**	**0**
Financial liabilities			
Liabilities to banks	843	1,303	1,821
Trade payables	286	176	0
Other financial liabilities	295	0	0
– of which tax receivables	259	0	0
– of which miscellaneous other financial liabilities	36	0	0
Total	**1,424**	**1,479**	**1,821**

(34) Risk Management

a.) 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 euros, and the remaining 13 % are generated in foreign currency (U.S. dollars, Polish zloty, and Swiss francs). 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.

b.) 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 arise in relation to medium-and long-term interest-bearing receivables and liabilities in particular. There are no medium- and long-term variable rate receivables in the Group. In addition to the existing loan for a property in Lutherstadt-Eisleben, a loan of €2,100 thousand was raised in fiscal year 2006/2007 to finance the acquisition of a property in Rödermark. The fixed-interest period for the existing loans does not expire until 2016. Assuming that the loans are repaid as provided for in the contracts, the remaining value of the loans after expiration of the fixed-interest period will be €1,141 thousand. No interest rate hedges have been entered into so far due to the long term of the fixed-interest period and the long remaining maturity of the loans. There are no variable rate financial liabilities.

c.) 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 the resulting liquidity risk, CeoTronics AG has reached agreement with banks on several lines of credit. This safeguards adequate liquidity in the Group at all times.

d.) 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 2008/2009, bad debts amounted to €12 thousand or 0.09% of revenues (previous year: €31 thousand or 0.16% of revenues).

The following table shows an analysis of receivables past due as a proportion of the total receivables of €2,191 thousand:

€ thousand	Receivables past due		
	0 - 30 days	31 - 180 days	181 days or more
May 31, 2010	122	186	0

e.) Other risks
As a rule, the CeoTronics Group is not significantly dependent on individual customers (10% of Group revenues). An aggregate of 11.0% of total Group revenues was generated with a single customer in the past fiscal year. The revenue breakdown is expected to return to normal in the coming years.

The share of the aggregate procurement volume of the CeoTronics Group attributable to individual suppliers was well below 10% in the past fiscal year.

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. CeoTronics' high degree of innovation and advanced technology reduces price pressure and thus limits price risk. In the past, the high level of research and development expenditures incurred to achieve this have been amortized in the short to medium term.

(35) Litigation and other proceedings
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.

The German Financial Reporting Enforcement Panel (FREP) has raised doubts about the correctness of information contained in the consolidated financial statements for fiscal year 2008/2009 and in the annual financial statements of CeoTronics AG for fiscal year 2008/2009 following a non-indication-based examination in accordance with section 342b(2) sentence 3 number 3 of the HGB. With regard to the consolidated financial statements for fiscal year 2008/2009, the matter relates specifically to the goodwill attributable to CeoTronics U.S.A., the recognition of deferred tax assets for tax loss carryforwards of CeoTronics U.S.A., and the structure of the segment reporting. The forecasts made in the (Group) management report for fiscal year 2008/2009 were also criticized. In respect of the annual financial statements of CeoTronics AG for fiscal year 2008/2009, the FREP refers to the carrying amount of the investment in CeoTronics U.S.A. and the carrying amount of intragroup receivables from that company.

The Company does not agree with the FREP's assessment, which is merely provisional at present. If the FREP's assessment is confirmed, this could require restatements to be made in the above-mentioned financial statements for fiscal year 2008/2009. CeoTronics U.S.A.'s balance sheet assets were written down significantly in the accompanying financial statements (see note 13) due to new information on future business development. Even if the FREP's provisional assessment is confirmed, this may only lead to a relatively minor adjustment.

(36) Disclosure of Auditors' Fees

The following fees were agreed or recognized as expenses for the statutory auditors in fiscal years 2009/2010 and 2008/2009:

€ thousand	Fiscal year 2009/2010	Fiscal year 2008/2009
Fees for audits of financial statements	58	58
Fees for other assurance and advisory services	3	0
Fees for tax advisory services	8	4
Fees for other services provided to the Company or to its subsidiaries	0	2
Total	**69**	**64**

(37) 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, 2010 amounted to:

€ thousand	
For fiscal year 2010/2011	245
For fiscal year 2011/2012	87
For fiscal year 2012/2013	39
For fiscal year 2013/2014	24
For fiscal year 2014/2015	26
Thereafter	0
Total future rental and lease obligations	**421**

Future commitments resulting from master agreements and outstanding purchase orders relating to the purchase of goods amounted to €1,425 thousand at May 31, 2010. The entire amount relates to fiscal year 2009/2010.

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

€ thousand	Fiscal year 2009/2010	Fiscal year 2008/2009
Building rent	70	91
Motor vehicle leases	153	167
Total rental and lease expenses	**223**	**258**

(38) Stock Option Plans

CeoTronics AG's final stock option plans were exercised in fiscal year 2007/2008. There are currently no plans to launch new stock option plans.

(39) Employees

An average of 155 employees were employed in the CeoTronics Group in fiscal year 2009/2010 (previous year: 154). The breakdown by function was as follows:

	Fiscal year 2009/2010	Fiscal year 2008/2009
Operations	80	78
Sales and marketing	40	42
Research and development	17	14
Administration	18	20
Total employees	**155**	**154**

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

	Fiscal year 2009/2010	Fiscal year 2008/2009
Germany	141	138
U.S.A.	3	4
Spain	4	4
France	2	3
Poland	3	3
Switzerland	2	2
Total employees	**155**	**154**

Employee expenses amounted to €7,219 thousand in fiscal year 2009/2010, compared with €7,777 thousand in the prior year.

(40) Executive Bodies and Remuneration

Board of Management

The members of the Board of Management in fiscal year 2009/2010 were:

Chairman

Thomas H. Günther,
Businessman, Rödermark

Deputy Chairman

Berthold Hemer,
Diplom-Ingenieur, Schaafheim

Member

Günther Thoma,
Technischer Betriebswirt, Schöllkrippen

In accordance with Article 9 of the Articles of Association, the Company is represented by two members of the Board of Management or by one member of the Board of Management and a Prokurist (authorized signatory). The Supervisory Board is authorized to grant sole right of representation to one member or individual members of the Board of Management and/or to exempt this member/these members from the restrictions of section 181 of the BGB (German Civil Code).

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

A corresponding resolution with the same substance was adopted at the General Meeting on November 6, 2009, and is effective for the fiscal year beginning June 1, 2010 and the four subsequent fiscal years until May 31, 2015.

The aggregate benefits of the Board of Management in fiscal year 2009/2010 amounted to €788 thousand (previous year: €787 thousand). The aggregate benefits comprise fixed salary components of €619 thousand (previous year: €585 thousand) and variable remuneration components of €169 thousand paid for the prior year (previous year: €202 thousand).

Supervisory Board
In accordance with Article 10 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:

Chairman
Hans-Dieter Günther,
Businessman, Rödermark

Deputy Chairman
Horst Schöppner,
Diplom-Kaufmann, Rödermark

Member
Stephan Haack,
Lawyer and Notary, Kronberg

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.

Stephan Haack has been Chairman of the Supervisory Board of Integrata AG, Stuttgart, since March 23, 2009. 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 2009/2010 amounted to €91 thousand (previous year: €103 thousand), of which €44 thousand (previous year: €44 thousand) related to fixed remuneration and €47 thousand (previous year: €59 thousand) related to variable components. The members of the Supervisory Board receive the above amounts plus value added tax at the statutory rate.

(41) Related Party Disclosures

Shareholdings of the members of the executive bodies

Function	Name	CeoTronics shares (ISIN DE 0005407407/WKN 540740) (quantity)	
		May 31, 2010	**May 31, 2009**
Board of Management			
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
Supervisory Board			
Chairman	Hans-Dieter Günther	1,113,600	1,113,600
Deputy Chairman	Horst Schöppner	Held personally 10 Other attributable shares held by Schöppner Vermögensverwaltung GbR: 810,400 Total: 810,410	655,410
Member	Stephan Haack	0	0

During and at the end of fiscal year 2009/2010, no members of CeoTronics AG's executive bodies held options on shares of CeoTronics AG.

Notifications 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 WpHG that its holdings of shares of CeoTronics AG had exceeded the notification threshold of 5 %.

On August 23, 2006, Horst Schöppner, Rödermark, notified CeoTronics AG in accordance with section 21(1) of the WpHG that his holdings of shares of CeoTronics AG had fallen below the notification threshold of 10 %.

On December 17, 2009, Schöppner Vermögensverwaltung GbR, Rödermark, notified CeoTronics AG in accordance with section 21(1) of the WpHG that its holdings of shares of CeoTronics AG had exceeded the notification thresholds of 3 %, 5 %, and 10 %.

On December 17, 2009, Horst Schöppner, Rödermark, notified CeoTronics AG in accordance with section 21(1) of the WpHG that his share of the voting rights of CeoTronics AG had exceeded the notification threshold of 10 % and now amounts to 810,410 voting rights. 810,400 of these voting rights are attributable to him in accordance with section 22(1) no. 1 and (3) of the WpHG via Schöppner Vermögensverwaltung GbR, Rödermark, which is controlled by him.

Other service relationships

A son of CeoTronics AG's Chairman of the Supervisory Board runs an advertising agency as a sole proprietor. The Company used its services in fiscal year 2009/2010 for placing advertisements with a total value of €10 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 €11 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 €8 thousand in fiscal year 2009/2010.

The brother of a member of the Board of Management operates a printing service from which the Company purchased services in the amount of €4 thousand in fiscal year 2009/2010.

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

CeoTronics AG granted no loans to members of the Board of Management or the Supervisory Board.

(42) 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.

CeoTronics AG filed an application with Deutsche Börse to withdraw from listing on the Regulated Market (General Standard/Prime Standard) on July 22, 2010. Once the withdrawal becomes effective – subject to the approval of the Frankfurt Stock Exchange – the aim is for CeoTronics AG's shares to continue trading in the Entry Standard of the Frankfurt Stock Exchange.

There were no other significant events after the balance sheet date.

(43) 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), and have thus made it permanently accessible to shareholders.

(44) Authorization of the Consolidated Financial Statements for Publication

The accompanying consolidated financial statements were authorized for publication by the Board of Management on August 13, 2010.

Rödermark, August 13, 2010
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
Chief Operating Officer

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 material opportunities and risks associated with the expected development of the Group.”

Rödermark, August 13, 2010
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
Chief Operating Officer

Auditors' Report

We have audited the consolidated financial statements – comprising the balance sheet, income statement, statement of comprehensive income, 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, 2008 to May 31, 2009. 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 13, 2010

UWP Unitreu GmbH
Wirtschaftsprüfungsgesellschaft

Harald Hoffmann
Wirtschaftsprüfer

Stefan Sauerbier
Wirtschaftsprüfer

UWP Unitreu GmbH
Wirtschaftsprüfungsgesellschaft
Wirtschafts-Prüfungs-Gesellschaft
Siegel
Eschborn

Condensed HGB Balance Sheet of CeoTronics AG Germany – Assets

€ thousand	May 31, 2010	May 31, 2009
Intangible assets	243	308
Tangible assets	5,047	5,174
Financial assets	3,827	4,603
Fixed assets	**9,117**	**10,085**
Inventories	3,020	3,401
Trade receivables	1,367	594
Receivables from affiliated companies	1,640	3,492
Other assets	168	315
Cash funds	14	9
Current assets and prepaid expenses	**6,209**	**7,811**
Deferred tax assets	188	0
Total assets	**15,514**	**17,896**

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

€ thousand	May 31, 2010	May 31, 2009
Subscribed capital	6,600	6,600
Capital reserves	4,181	4,181
Revenue reserves	16	886
Net retained profits/net accumulated losses	642	2,679
Equity	**11,439**	**14,346**
Provisions for taxes	18	77
Other provisions	467	860
Provisions	**485**	**937**
Liabilities to banks	3,170	2,002
Advances received	1	0
Trade payables	188	310
Liabilities to affiliated companies	39	113
Other liabilities	192	188
Liabilities	**3,590**	**2,613**
Total equity and liabilities	**15,514**	**17,896**

Condensed HGB Income Statement of CeoTronics AG Germany

€ thousand	2009/2010	2008/2009
Sales	**9,623**	**14,307**
Cost of sales	-5,452	-7,680
Gross profit	**4,171**	**6,627**
Research and development expenses	-1,345	-1,469
Selling and marketing expenses	-2,808	-3,084
General and administrative expenses	-1,142	-1,215
Other operating expenses	-1,427	-620
Other taxes	0	-6
Other operating income	276	293
Operating result (EBIT)	**-2,275**	**526**
Net financial and investment income	-243	608
Result before income taxes	**-2,518**	**1,134**
Taxes on income	271	-289
Net income (+), net loss (-) for the year	**-2,247**	**845**

Executive Bodies of the Company

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 26, 2010
Analyst meeting in Rödermark	August 26, 2010
Publication of preliminary revenue and order backlog figures for the first 3 months of fiscal year 2010/2011	Calendar week 35, 2009
Report on 1st quarter as of August 31, 2010	October 8, 2010
General Meeting 2010	November 5, 2010
Publication of preliminary revenue and order backlog figures for the first 6 months of fiscal year 2010/2011	Calendar week 48, 2010
Report on 2nd quarter as of November 30, 2010	January 14, 2011
Publication of preliminary revenue and order backlog figures for the first 9 months of fiscal year 2010/2011	Calendar week 9, 2011
Report on 3rd quarter as of February 28, 2011	April 8, 2011
End of fiscal year 2010/2011	May 31, 2011
Publication of preliminary revenue and order backlog figures for the full fiscal year 2010/2011	Calendar week 23, 2011
Annual Report 2010/2011	End of August 2011
General Meeting 2011	November 4, 2011

All information subject to correction and change without 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 the six foreign subsidiaries

Berthold Hemer
Deputy Chairman of the Board of Management, CTO

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

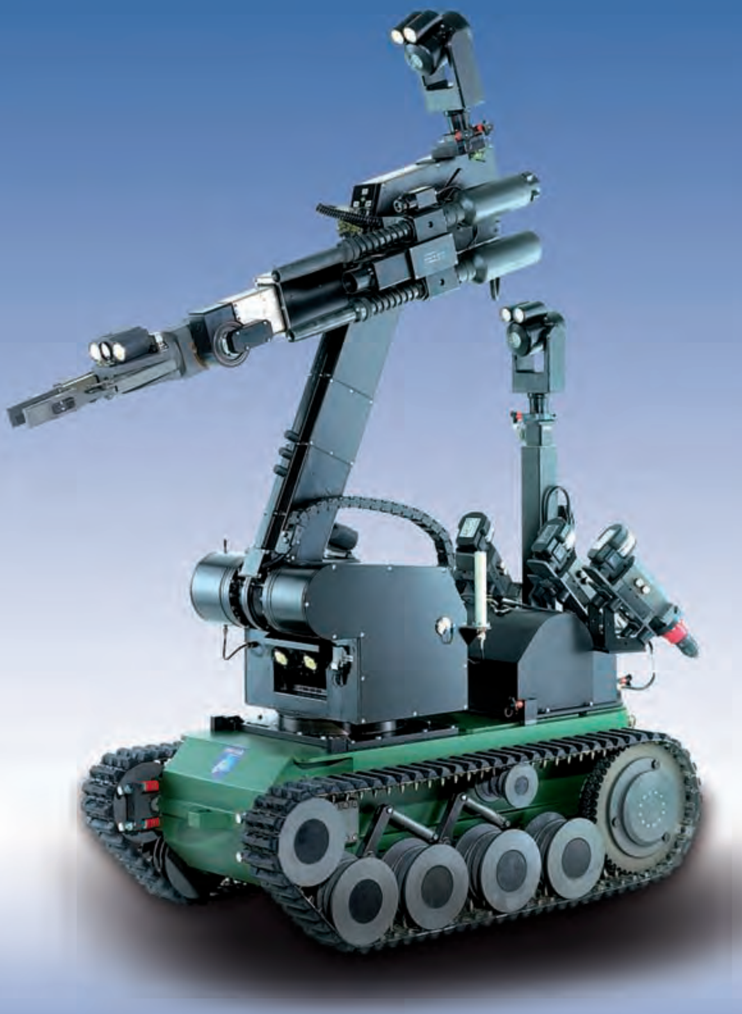
Günther Thoma
Member of the Board of Management, COO

- 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 and 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.



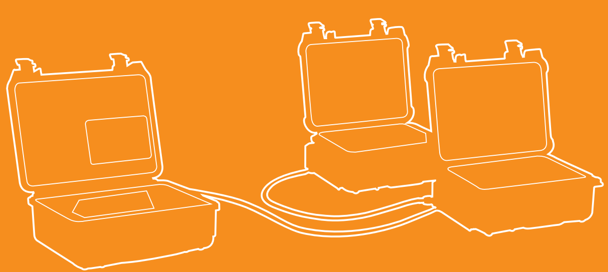
Notes

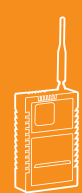
Editorial Information

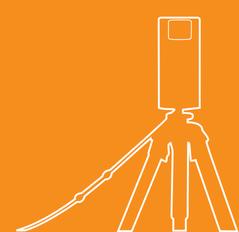
Published by: **CeoTronics AG**
Audio • Video • Data Communication

Contact: Thomas H. Günther, CEO

Graphic design: Peter Hügel, 4c Grafikdesign







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