Annual Report 2005
Condensed Version

Efficient products – efficient structures

LEIFHEIT
AKTIENGESELLSCHAFT

Contents

Key data (group)

		2005	2004	Change %
Turnover – Household	€ m	225	237	-5.1
– Bath	€ m	71	80	-11.3
– Group	€ m	296	317	-6.6
Turnover adjusted for the closure of inhouse production of shower partitions				
– Household	€ m	225	237	-5.1
– Bath	€ m	71	74	-4.1
– Group	€ m	296	311	-4.8
Foreign share	%	58	57	
EBIT[1]	€ m	3.7	-15.0	
EBT[1]	€ m	3.7	-15.0	
Net profit/loss for the period[1]	€ m	0.1	-7.3	
Net return on sales[2]	%	0.4	-1.9	
Earnings per share[1]	€	0.03	-1.54	
Cash flow from operating activities	€ m	8.5	13.7	-38.0
Cash flow per share[3]	€	1.79	2.87	-37.7
Dividend per share	€	0.60 [4]	–	
Employees (annual average)		1,862	2,070	-10.0
Employees at year-end – Household		1,225	1,363	-10.1
– Bath		549	601	-8.7
– Group		1,774	1,964	-9.7
Investment in tangible assets	€ m	7	7	
Depreciation on tangible assets	€ m	8	18	-55.6
Total assets	€ m	227	229	-0.9
Equity[5]	€ m	115	112	+2.7
Equity-balance sheet total ratio[5]	%	51	49	

[1] after minority interests
[2] before minority interests
[3] exc. redeemed own shares
[4] proposal to the General Meeting
[5] inc. minority interests

Efficient products – efficient structures

With our famous LEIFHEIT, SOEHNLE and DR. OETKER BAKEWARE brands we are one of the leading European suppliers of appliances and articles to make housework easier. Prominent brands are also the basis of our success at our Bathroom Furnishings division, where KLEINE WOLKE, SPIRELLA and MEUSCH set design and quality standards for the market and hold leading positions.

We develop innovative and attractive solutions for all the tasks around the home. With competence that is the fruit of many years, we are constantly generating new and creative product ideas that help make many chores more pleasant and efficient.

Efficiency is also the keyword for our activities in 2005. The challenge of further cutting costs while improving efficiency and quality led to a need for fundamental structural reorientation in almost all areas of the LEIFHEIT group. The results – relocation of our procurement sources to the Far East and eastern Europe, reduced complexity in our structures, concentration on a few locations, and optimisation of processes in administration and logistics. Change is the only constant, and success goes to those who embrace change and see changes as opportunities for efficiency. We will make full use of these opportunities. 2005 was a year of decisive advances on this path.

The economic situation

Upswing in world economy – Europe idling

The economy in 2005 again presented what has come to be a familiar picture, with the world economy in good shape with growth of c. 4 % in the face of current natural disasters and the sharp rise in energy and primary commodity costs, although still falling short of the previous year's record 5.2 %. This solid growth was driven by Asia, parts of South America and eastern Europe, and – although at the cost of high budget and trade deficits – the USA. By contrast, the Euro zone economies continued sluggish, growing only 1.3 % (previous year: 2.1 %) and the German economy even slowed down again. After growing 1.6 % in the previous year, the German economy recorded sluggish growth in 2005 of only 0.9 %, almost entirely from exports. In the fourth quarter, it defied the general improvement in mood at least statistically, with no growth at all.

Stagnant consumption and continuing slide in nonfood prices

Unsurprisingly, in view of the situation, private consumption in Europe again showed a sorry picture. Besides the poor state of the economy, the drastic increase in prices for petroleum, electricity and gas put an additional burden on consumer budgets, further spoiling the mood. While European economic research institutes are still estimating growth at 1.3 % for the Euro zone, consumer spending in Germany is clearly flat. In line with the saying "to err is official", the German retail association and Federal Statistical Office are arguing whether the correct picture for 2005 is a complete standstill or minimal growth.

The slide in prices evident in many nonfood product categories continued in 2005. Personal scales were particularly affected, with average prices for these products in Germany showing a further decline of over 10 %.

The course of business

Course set for the future!

Inevitably, LEIFHEIT was also affected by the generally adverse economic conditions described above. In addition, however, the course of business in 2005 was decisively affected by internal policies and decisions. The focus here was on the fundamental strategic reorientation in the group, which had become necessary to secure long term international competitiveness in the face of dramatic changes in global market and production conditions. The structural concept developed for this was almost entirely and successfully implemented in the course of the 2005 financial year. As part of group reorganisation, production of 450 branded articles in the product range was relocated from Germany to other countries – the Czech Republic, China, and other east European countries. This was all done during ongoing operation with unchanged international market presence, which inevitably made great demands on management.

Significant improvement in internal cost structure

At the same time, the improved cost structure laid the foundation for a strictly results-oriented Board of Management strategy. This led to the logical decision to avoid special offers with inadequate margins, in order not to lend further weight to the slide in market prices.

All these aspects – the continuing poor consumer mood, effects of group reorganisation, deliberate selection of special offers – have to be taken into account in judging LEIFHEIT´s results.

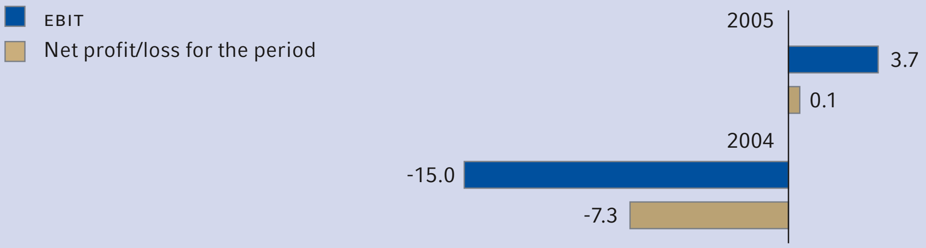
Strong performance in the market with decreased turnover

In the light of all these factors, the LEIFHEIT group did well in 2005 with consolidated world turnover of € 296 million. The decrease of just under 5 % in earnings compared to the previous year's € 311 million* is due in roughly equal amounts to the above factors.
A significant factor was delivery bottlenecks for several products, which were unavoidable in the initial phase of the expanded international procurement. Although these have since been resolved, they meant that the positive consumer response to a number of innovative products which boosted third quarter earnings was not fully reflected in turnover in the fourth quarter. The turnover lost as a result of the bottlenecks was around € 5 million.

There was considerable variation in the course of business over the year, with turnover in the first quarter significantly down on the previous year as a result of the weather and weak economy. In the second and third quarters, however, the successful launch of a large number of innovative products brought LEIFHEIT its first growth in turnover since 2001, despite the adverse trend in the market. Unfortunately, turnover fell again in the fourth quarter, partly as a result of the weak economy, our deliberate avoidance of low-margin special offers, but primarily because of the delivery bottlenecks noted earlier.
The foreign share in consolidated turnover rose to 58 % from 57 % in the previous year. This was also a result of the welcome trend in the USA, where LEIFHEIT boosted turnover by around 20 % to the equivalent of € 14 million.

* Turnover adjusted for the closure of inhouse production of shower partitions

Key figures from the income statement (€ m) after minority interests



Household Products: individual product groups strengthen their position

The decline in total turnover affected the Household Products and Bathroom Furnishings divisions to a different extent. Turnover from branded articles in Household Products decreased to € 225 million (previous year: € 237 million), reflecting the general slowdown in consumer spending in Europe and also the temporary procurement problems and deliberate scaling back of low-margin special offers. However, many product groups, such as the scales under the SOEHNLE brand, significantly outperformed their competitors, further expanding their market leadership.

Bathroom Furnishings: outperforming the industry

The Bathroom Furnishings division performed satisfactorily in 2005 in a European market characterised by a combination of sharply falling prices and consumer reticence, and even gained market shares in individual product segments. The decrease in turnover was significantly smaller than for the industry as a whole, falling to € 71 million (previous year: € 74 million*), due mainly to the streamlining of the brand range. After successful completion of the reorganisation in 2004 with the elimination of inhouse production of shower partitions, the Bathroom Furnishings division made a significant contribution to consolidated earnings in the 2005 financial year.

Earnings, assets and finance situation

Consolidated income statement (summary)

€ m	2005	2004
Turnover	296.2	317.3
Gross profit	112.4	124.4
Earnings before reorganisation, before interest and taxes (EBIT)	4.8	6.7
- after minority interests	3.0	5.0
Earnings after reorganisation, before interest and taxes (EBIT)	5.5	-13.3
- after minority interests	3.7	-15.0
Results of financial activities	–	–
EBT	5.5	-13.3
- after minority interests	3.7	-15.0
Income tax	-4.1	7.1
- after minority interests	-3.5	7.7
Profit/loss after income tax	**1.3**	**-6.1**
- after minority interests	**0.1**	**-7.3**

Accounting to IFRS

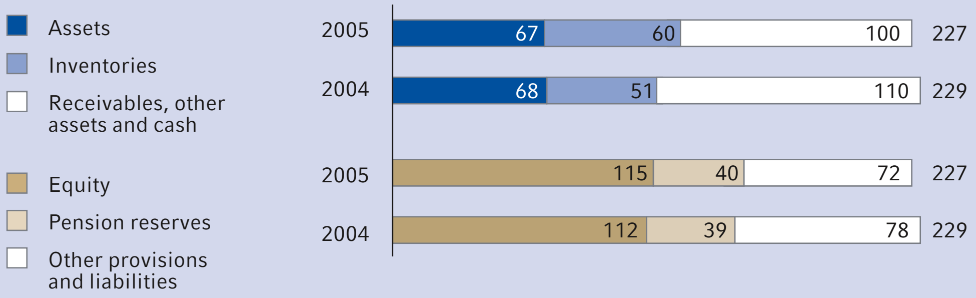
The consolidated financial statements for LEIFHEIT AG for the 2005 financial year were prepared in accordance with the International Financial Reporting Standards (IFRS), as in the previous year.

Lower break-even point, enhanced internal earning power

LEIFHEIT's cost structure improved steadily throughout the 2005 financial year in the course of the strategic reorientation of the group. This lowered the break-even point and enhanced internal earning power. Thanks to energetic implementation of the

* Turnover adjusted for the closure of inhouse production of shower partitions

Consolidated balance sheet structure (€ m)



reorganisation, several cost-cutting measures bore fruit in parts of 2005, bringing a return to positive EBIT of € 3.7 million*. In the previous year, substantial provisions and expense on the impending reorganisation had resulted in a loss of € 15.0 million. 2005 also saw a return to positive after tax results of € 0.1 million* (previous year: € -7.3 million).

It should also be noted that the provisions made in 2004 were sufficient to cover in full the expense on reorganisation in 2005 and even 2006. This meant that there was no further charge against 2005 earnings.

The current figures for earnings in 2005 only partly reflect the increase in LEIFHEIT group's internal earning power, as they would have been substantially better without the delivery problems described above and certain nonrecurring expenses.

* after minority interests

Assets: continuing strong balance sheet ratios – equity/balance sheet total ratio 51 %

Consolidated total assets, equity and liabilities fell from € 229 million to € 227 million. Equity including minority interests rose to € 115 million (previous year: € 112 million), primarily due to the offset of badwill against retained earnings in accordance with IFRS 3. This increased the equity-balance sheet total ratio to a solid 51 % (previous year: 49 %). Fixed assets decreased to € 67 million (previous year: € 68 million), bringing the ratio of equity to fixed assets to an outstanding 172 %.

Trade receivables were reduced to € 67 million (previous year: € 78 million). As a result of the change in procurement strategy under the reorganisation, inventories rose to € 60 million (previous year: € 51 million). Other current assets rose, primarily due to the investment of liquid assets in the money market recognised in this position.

Employment (at year-end)

Financial situation

Trade payables rose to € 56 million (previous year: € 53 million) in line with the increase in inventories. The decrease in current provisions to € 5 million (previous year: € 15 million) is primarily due to the use of the provision for reorganisation.

Consolidated cash flow totalled € 8.5 million (previous year: € 13.7 million). Adjusted for disbursements resulting from the reorganisation measures, the consolidated cash flow amounted to € 13.4 million.

Consolidated cash flow statement (summary) € m	2005	2004
Cash flow from operating activities	8.5	13.7
Cash flow from investment activities	-5.6	-6.5
Cash flow from financing activities	-0.6	-6.2
Effects of exchange rate differences	0.1	0.5
Current funds at year-end	15.1	12.7
Change in cash	2.4	1.5

Employees

Personnel activities in the past financial year focused on implementation of the structural concept in the Household Products division. At the same time, we maintained the priority of training and qualifying technical and management staff.

Decrease in employment reflects reorientation

The extensive reorganisation measures implemented in 2005 – the shutdown of domestic production of consumer scales at the Murrhardt plant, the conversion of the Zuzenhausen location to a logistics centre, and the transfer of production lines to the Czech plant at Blatná – significantly impacted employment. At the end of 2005 there were 1,774 employees in the LEIFHEIT group, 190 fewer than at the same time in the previous year. This represents a decrease of 9.7 % in employment. The Household Products division had 1,225 employees, Bathroom Furnishings had 549.

As many employment contracts terminated with effect from 31.12.2005, there were 1,565 employees as at 1.01.2006.

To reduce the social impact of these cuts as far as possible, full use was made of natural fluctuation and the lapse of fixed-term service contracts. Many of the employees affected were also offered the opportunity to transfer to a retraining and relocation company. To improve their chances in the labour market, qualification measures were offered together with the Federal Employment Agency.

The average number of employees in the group – which determines personnel costs – fell from 2,070 to 1,862. Personnel costs fell 18 % to € 66 million (previous year: € 80 million).

The Zuzenhausen location was converted as a logistics centre. To improve the competitiveness of the location, the working week will be increased in stages from 2006 from 35 to 39 hours a week, with no change in pay.

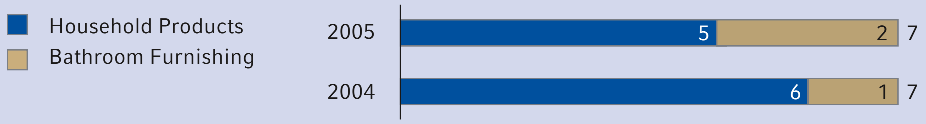
To enhance further LEIFHEIT's image in the international markets as a developer of innovative, quality products, we have attracted a number of highly-qualified technical and management staff in development, marketing and distribution.

Changes in employment **Location**	**1.01.2006**	**31.12.2005**	**31.12.2004**
Germany	709	918	1,100
Czech Republic	509	509	506
France	158	158	168
Switzerland	136	136	135
Other countries	53	53	55
Group	**1,565**	**1,774**	**1,964**

Continuing focus on training

Although the general economic environment has become more difficult and employment has to be reduced, training continues to be a high priority at LEIFHEIT. Our goal is to give young people a good training which opens up opportunities for professional and personal development. We will stand by our principle of filling vacancies from within the company wherever possible. In the past financial year, 20 vocational trainees were hired by the LEIFHEIT group. Currently, 66 young people are completing their training in the LEIFHEIT group, 57 of them in Germany. This corresponds to 6.2 % of domestic employment.

Investment (€ m)



In 2005 LEIFHEIT was again distinguished by the Koblenz Chamber of Industry and Commerce for its vocational training services and also distinguished for the first time by the Federal Employment Agency. These awards are in recognition of our services, the commitment of our vocational trainers and our ongoing support.

We work with vocational training academies and universities to interest committed and highly qualified young employees in LEIFHEIT AG at an early stage. As part of this we offer students and young academics the opportunity to deepen their theoretical knowledge through internships or write a thesis with practical orientation. In the year under review 46 young people completed an internship in the LEIFHEIT group.

Thanks to our employees

We know that our employees faced heavy challenges in the year under review. Far-reaching personnel policy measures were implemented. Production facilities and procurement sources were transferred while having to secure deliveries. It was vital to bring new products and ranges to the market on deadline. Many processes and structures were revised and made more efficient. We should like to thank our employees for their commitment and contribution to the long term success of the company. We should also like to thank our works council members, whose efforts as intermediaries between management and employees contributed to reducing employment in a way which was acceptable to all involved.

Investment

Total additions to fixed assets in the LEIFHEIT group in 2005 amounted to € 8.1 million (previous year: € 10.5 million), of which € 6.5 million was for tangible assets. The investment ratio was 3.0 % of the historical purchase and manufacturing cost of plant and equipment. Investment was matched by depreciation on plant and equipment totalling € 7.8 million.

In the Household Products division we invested € 4.6 million in tangible assets (previous year: € 5.7 million), primarily for tools for new products and conversion of the Zuzenhausen facility as a logistics centre. There was a significant decrease in investment in production plant due to the closure of significant parts of production at the Murrhardt, Nassau and Zuzenhausen locations.

Investment in the Bathroom Furnishings division totalled € 1.9 million (previous year: € 0.6 million).

Procurement and logistics

Structural concept makes heavy demands on procurement

Implementing the structural concept in the Household Products division in 2005 posed major challenges for procurement and logistics. Possibilities for procurement on global markets, particularly in the Far East and eastern Europe, were systematically analysed in order to establish and expand reliable supplier networks. New sources had to be found for some 450 products, and the quality and reliability of suppliers investigated. In addition, some 250 machines, plants and tools had to be relocated. During all these measures, the high quality of our products and our ability to supply our customers had to be maintained.

To meet the significant increase in logistical demands, we reorganised and optimised our structures in “Strategic Purchasing”, “Process Management” and “Quality Management”. In addition we increased the staff of our purchasing office in Guanghzhou (China), opened in 2003.

However, the sharp rise in raw materials prices in the year under review, particularly for steel, aluminium and plastics, largely offset the cost savings from relocating production to the Far East and eastern Europe.

We will continue to cooperate with our suppliers, in some cases in the product development stage, in an effort to achieve synergy in purchasing and procurement.

Supply Chain Management established

Relocation of production to eastern Europe and China has resulted in fundamental changes in the structures and processes for manufacturing and delivering our products. To maintain our familiar good delivery service to our customers, we have to reorganise the procurement process, starting with production in China and moving through the transport of goods to our warehouses and assembly of consignments to customers all around the world.

A new organisational unit has been formed for the purpose – “Supply Chain Management”. The new unit is responsible for making our procurement processes more efficient, so that we can supply our customers reliably and rapidly at the lowest possible cost.

Development and innovation

Innovative strength and creativity today will determine our success in tomorrow’s market. LEIFHEIT’s goal is to achieve profitable growth through innovative products with concrete benefits to consumers and good value for money. We can only do this if innovation management, development competence and product marketing work together with a constant flow of information. To ensure a continuous stream of new products and ongoing improvement and further development of established products, we fundamentally revised our product development process in the year under review. The new process aims at greater efficiency in developing new products, with more responsibility for employees and teams involved in the process.

The product development process was reorganised from the initial idea through to market launch. The individual stages were clearly defined, from research, collecting innovative ideas and evaluating their potential, through approaches and approval procedures to launch and subsequent review of targets. This ensures that the heavy investment in a new product launch is made with manageable risk, while at the same time we continue to enrich our range with innovative products which appeal to retailers and consumers.

Increased use was again made of external resources, for example through alliances with universities. These have already resulted in several projects, which are currently in the technical concept phase.

We live from our ideas. With particular regard to procurement and production in the Far East, we protect our products worldwide through patents, utility models and registered designs. We also resolutely and successfully fight imitations and product piracy.

In the year under review the group had 42 employees in development, patents and product management. The overwhelming majority of these are graduates in business administration and marketing, engineers and technicians, design engineers and designers. We spent a total of € 6 million on product management, research and development.

Environmental protection

Although LEIFHEIT uses hardly any production processes which might pose an environmental threat, environmental protection is a high priority at all our production facilities. We are constantly developing our environmental protection measures on an ongoing basis, and have achieved a high level of awareness of this issue in all areas.

Lower energy use and noise levels, minimised immission of pollutants and responsible use of increasingly scarce raw materials are basic principles underlying our actions in all areas, and a key area of concern for our management team.

Risks and opportunities

Efficient risk management is particularly important when the economic environment and state of the industry are difficult. We regard efficient risk management as a strategic way of securing present and future potential success. With its global activities, LEIFHEIT is faced by risks which are inseparable from entrepreneurial activity. The function of our risk management system is to identify and evaluate risks in a timely manner, in order to take rapid countermeasures if necessary. It comprises the elements risk strategy, early warning system, risk identification, classification and management, controlling, and the monitoring and control system. In the course of strategic planning we analyse and evaluate the development of the markets, consumer behaviour, our trade partners and competitors, and the procurement markets. The core of our risk management system is the risk inventory. In this, we use risk tables for regular documentation of the relevant risks in all areas of business, which we evaluate for their likelihood and impact on the company. The material risks are then reported and discussed at divisional, departmental, Board of Management and Supervisory Board meetings. Other elements of our risk management system are our planning processes, controlling and internal audit, which is handled throughout the group by external consultants.

ERNST & YOUNG AG examined the LEIFHEIT group risk management system in the course of their audit of the annual financial statements. They raised no objections.
In the following sections we summarise the material risks known to us at present which may affect the development of the LEIFHEIT group.

General economic risks

The general risks of importance to LEIFHEIT include particularly those arising out of economic trends in our markets and the political environment. The state of the domestic economy and consumer reticence will continue to affect our business in 2006. However, we do not expect any material impact on the planned course of business.

There are no material risks currently apparent on the legislative or tax fronts or in the predicted trends in the capital markets.

Industry risks

The ongoing concentration and globalisation in the distributive trades present both opportunities and risks for LEIFHEIT. The pressure on selling prices and terms, which will continue in 2006, is matched by the opportunities of international growth and synergies with our partners.

The greatest risk in our marketing is continuing weakness of consumer demand and falling prices due to growing imports from the Far East. Retailers' focus on special low-price offers is dominating consumption, with consumers becoming more and more price-conscious in their purchasing. However, we expect this trend to ease in 2006, with a return (however hesitant) to awareness of quality and value.

In retailing, price and predatory competition will continue. The branded products industry is under particular pressure to take steps to strengthen its brands. Key factors for LEIFHEIT's success are its innovative products. Decisive influences here are research & development and product quality. Reductions in quality or innovative strength could damage our image and endanger sales. For this reason, we give high priority to maintaining quality standards and developing products in line with consumer needs.

Risks associated with operating activities

The risks associated with operating activities can be broken down into three individual risks:

Production and procurement risks

In production the likelihood of an outage of production facilities is largely minimised by ongoing maintenance, fire protection and other precautionary measures. Insurance policies have been taken out for the group for major damage and loss of production. The risk of supplier outages is covered by identification of alternative competent suppliers. There are no risks to the company's existence currently identifiable in procurement, production, development and environmental production.

Risks from financing

There are no material risks from financing due to the above-average level of equity. Cash and foreign currency management and financing are handled centrally for the LEIFHEIT group. We offset foreign currency risks by hedging future payments flows. Financing of future acquisitions is covered by redeemed treasury stock, utilisation of authorised capital and borrowing.

Legal risks

We limit product, liability and environmental risks through quality assurance, as defined in our quality management manual. We also use insurance policies to reduce the financial consequences of any damage.

To limit possible risks from antitrust, patent and tax legislation and other regulations and statutes, we base our decisions on recommendations by outside experts.

Beyond this, there are no material legal risks identifiable which are not covered by balance sheet provisions.

Other risks

There are no further material risks identifiable.

Forecast

Mood drivers for the upswing

Prominent economists agree that the world economy will continue to grow rapidly in 2006, possibly even picking up more after the slight slowdown in the previous year. China, India and other Asian nations will continue to be among the most dynamic economies. However, experts expect a slowdown in the US economy with its high level of debt, primarily to Asian nations. By contrast, there are plenty of optimistic forecasts for the Euro zone. Many even believe that Europe will be able to close the long-running gap in growth with the USA significantly. A figure of 2 % for economic growth is very much at the lower end of the confidence range. This is actually being touted as a serious prospect for Germany, which for years has trailed the field in growth, at least in the Federal Ministry of Economics and the DIHK. According to a survey by Munich's ifo-Institute, German companies currently regard the prospects for business more favourably than at any time in the past ten years. Psychologically, the successful start of the new German government has led to a mood of optimism and revival throughout the country, and even among consumers, after their years of hesitation. The Gesellschaft für Konsumforschung (GfK) has been reporting increasing optimism among consumers every month since last autumn. They expect a “major hike” in the readiness to buy, with the mood of private households at its highest point since May 2001.

However, it remains to be seen how far the rapidly improving mood among companies and consumers will be reflected in an actual economic upswing over the course of the year. At least as far as private consumption is concerned, 2006 is unlikely to see any startling increase. The Federal Government's Annual Economic Report – not otherwise given to pessimistic predictions – expects growth of only 0.3 %. By contrast, the IMF is more optimistic about the mood of the German consumer, forecasting growth of 0.6 %.

After group reorganisation, the focus is on the market

The Board of Management of LEIFHEIT AG sees some reason for cautious optimism in the current 2006 financial year. Besides the expected improvement of the consumer mood in Europe, there is above all the increase in the company's strengths and capability following the fundamental strategic reorientation.

LEIFHEIT expects moderate growth in 2006, with improved EBIT thanks to the progress made in 2005.

With the reorganisation successfully completed, LEIFHEIT is now concentrating all its efforts on aggressively expanding its position in the international markets and tapping existing market potential. The company is relying here on the proven strengths of its brands and core products and the brand loyalty of its customers. Under the slogan "Always an idea ahead", innovative products will help raise LEIFHEIT's brand profile further, and increase performance through quality growth. Our philosophy here coincides with the revival in consumers' interest in high quality branded products, creating new market opportunities which we will consistently pursue.

The positive effects of the new cost structures will make themselves fully felt for the first time in 2006. The Board of Management will hold fast to the earnings-oriented policy it has adopted and continue to reject special offers at inadequate margins as a contribution to fighting the general slide in prices. The optimisation of the supply chain will also help improve efficiency and profitability.

Report on events after the balance sheet date

Events after the end of the 2005 financial year

There were no events after the balance sheet date of particular importance for assessing the assets, financial situation and earnings of the LEIFHEIT group.

Turnover stable at previous year's level

In the first two months of the new 2006 financial year consolidated turnover was € 51 million, in line with the previous year. Of this, € 23 million (previous year: € 22 million) represents domestic turnover.

With foreign turnover of € 28 million (previous year: € 29 million), the export ratio was 55 % (previous year: 57 %).

The Household Products division contributed € 38 million (previous year: € 39 million) to consolidated turnover. Domestic turnover of € 17 million also matched the previous year's level.

The Bathroom Furnishings division reported turnover of € 13 million (previous year: € 12 million), of which € 5 million was domestic, as in the previous year.

Consolidated income statement for the period 1 January to 31 December 2005

€ 000	Notes	2005	2004
Turnover	1	296,155	317,278
Cost of sales		-183,722	-192,862
Gross profit		**112,433**	**124,416**
Research and development costs	5	-5,933	-6,690
Distribution costs	6	-84,881	-88,859
Administrative costs	7	-19,538	-20,943
Other operating income	8	2,970	3,912
Other operating expenses	9	-1,857	-3,642
Results of operating activity before reorganisation		**3,194**	**8,194**
Income from/expense on reorganisation	10	669	-19,976
Results of operating activity		**3,863**	**-11,782**
Investment income		22	–
Net other financial income	11	1,604	-1,456
EBIT		**5,489**	**-13,238**
Net interest income	12	-34	-29
EBT		**5,455**	**-13,267**
Income taxes	13	-4,132	7,118
Profit/loss after income taxes		**1,323**	**-6,149**
Of which minority interests	14	1,192	1,156
Of which shareholders in the parent company		131	-7,305
Earnings per share (undiluted and diluted)	15	**0.03**	**-1.54**

Consolidated balance sheet as at 31 December 2005

€ 000	Notes	31.12.2005	31.12.2004
ASSETS			
Current assets			
Cash		10,063	12,658
Trade receivables		66,511	78,342
Inventories	16	60,064	50,856
Tax receivables		418	1,906
Other current assets	17	12,140	5,106
Total current assets		**149,196**	**148,868**
Noncurrent assets			
Financial assets	18	584	223
Tangible assets	19	53,604	56,742
Intangible assets	20	13,020	11,277
Deferred tax assets	13	9,764	11,425
Other noncurrent assets		842	705
Total noncurrent assets		**77,814**	**80,372**
Total assets		**227,010**	**229,240**
EQUITY AND LIABILITIES			
Short-term debt			
Trade accounts payable and other liabilities	21	56,402	52,973
Income tax liabilities		1,728	1,249
Provisions and accruals	22	5,277	14,900
Total short-term debt		**63,407**	**69,122**
Long-term debt			
Provisions and accruals	22	5,281	5,452
Employee benefit obligations	23	40,374	39,011
Deferred tax liabilities	13	2,726	3,101
Other long-term debt		402	650
Total long-term debt		**48,783**	**48,214**
Equity			
Share capital	24	15,000	15,000
Share premium account	25	16,934	16,934
Treasury shares	36	-7,629	-7,638
Appropriated surplus		82,324	80,253
Translation reserve		1,922	1,648
Minority interests	26	6,269	5,707
Total equity		**114,820**	**111,904**
Total EQUITY AND LIABILITIES		**227,010**	**229,240**

Changes in equity

€ 000	Capital stock	Capital surplus	Treasury shares	Appropriated surplus	Translation reserve	Minority interests	Total
As at 1.01.2004	**15,000**	**16,934**	**-7,656**	**93,269**	**400**	**5,759**	**123,706**
Dividends	–	–	–	-5,711	–	–	-5,711
Other changes in minority interests	–	–	–	–	–	-1,208	-1,208
Issue of own shares	–	–	18	–	–	–	18
Net loss for the period	–	–	–	-7,305	–	1,156	-6,149
Differences from foreign currency translation	–	–	–	–	1,248	–	1,248
As at 31.12.2004	**15,000**	**16,934**	**-7,638**	**80,253**	**1,648**	**5,707**	**111,904**
Other changes in minority interests	–	–	–	–	–	-630	-630
Issue of own shares	–	–	9	–	–	–	9
Net profit for the period	–	–	–	131	–	1,192	1,323
Offset of badwill (first time application of IFRS 3)	–	–	–	2,023	–	–	2,023
Offsetting of retrospective purchase price adjustments	–	–	–	-83	–	–	-83
Differences from foreign currency translation	–	–	–	–	274	–	274
As at 31.12.2005	**15,000**	**16,934**	**-7,629**	**82,324**	**1,922**	**6,269**	**114,820**

Total income for the 2005 financial year in accordance with IAS 1.96 c) was € 405,000 (previous year: € -6,057,000).

Segment reporting

Key figures by division		Household Products 2005	Household Products 2004	Bathroom Furnishings 2005	Bathroom Furnishings 2004	Eliminations 2005	Eliminations 2004	Total 2005	Total 2004
Turnover	€ m	225	237	71	80	–	–	296	317
EBIT[1]	€ m	-0.4	-13.2	4.1	-1.8	–	–	3.7	-15.0
Assets	€ m	189	192	49	69	-11	-32	227	229
Liabilities	€ m	107	112	36	42	-31	-37	112	117
Depreciation and amortisation	€ m	6	16	2	2	–	–	8	18
Investment	€ m	5	6	2	1	–	–	7	7
Employees (annual average)		1,315	1,431	547	639	–	–	1,862	2,070

1) after minority interests

Key figures by region	€ m	Domestic 2005	Domestic 2004	Europe (exc. Germany) 2005	Europe (exc. Germany) 2004	Rest of the world 2005	Rest of the world 2004
Turnover		124	137	150	160	22	20
Assets		154	177	81	79	3	5
Investment		4	5	3	2	–	–

Key figures by region	€ m	Eliminations 2005	2004	Total 2005	2004
Turnover		–	–	296	317
Assets		-11	-32	227	229
Investment		–	–	7	7

Notes on segment reporting are shown in note 29.

Consolidated statement of cash flow for the period 1 January to 31 December 2005

€ 000	2005	2004
Net profit/loss for the period	1,323	-6,149
Adjustments for		
expense for the issue of employee shares	9	18
depreciation and amortisation	9,181	20,044
Decrease/increase in provisions	-8,430	13,694
Gain on disposal of fixed assets	-534	-1,333
Decrease/increase in inventories, trade receivables and other assets not classified under investment or financing activities	3,669	-9,713
Increase/decrease in trade payables and other liabilities not classified under investment or financing activities	3,287	-2,881
Cash flow from operating activities	**8,505**	**13,680**
Subsequent purchase costs for acquisition of an affiliate	-324	-1,066
Acquisition of tangible and intangible assets	-7,744	-10,246
Investment in financial assets	-363	-2
Incoming payments from the disposal of assets	2,842	4,766
Cash flow from investment activities	**-5,589**	**-6,548**
Dividends paid to shareholders in the parent company	–	-5,711
Dividends paid to minority interests	-558	-513
Cash flow from financing activities	**-558**	**-6,224**
Effects of exchange rate differences	**117**	**569**
Net change in cash	**2,475**	**1,477**
Current funds at the start of the period under review	**12,658**	**11,181**
Current funds at the end of the period under review	**15,133**	**12,658**
Income tax paid/refund	-5,589	1,710
Interest paid	-23	-22
Interest received	177	139
Breakdown of current funds at end of the period under review		
Cash	10,063	12,658
Available-for-sale securities	5,070	–
	15,133	12,658

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 31 DECEMBER 2005

General principles of accounting and valuation

General

LEIFHEIT AG, has its registered office in Nassau and concentrates on the development and distribution of innovative, functionally superior and high quality branded products in the sectors of non-electrical household articles and bathroom textiles and accessories.

LEIFHEIT AG drew up its consolidated financial statements for 2005 in accordance with the International Financial Reporting Standards (IFRS) formulated by the International Accounting Standards Board (IASB). All the International Accounting Standards (IAS) or International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretation Committee (IFRIC) – previously the Standing Interpretations Committee (SIC) – required to be applied in the 2005 financial year were followed. The previous year's figures were calculated on the same principles.

The financial statements expressed in Euro are a fair presentation of the assets, financial situation and earnings of the LEIFHEIT group. Unless otherwise stated, all figures are in thousands of Euro.

The income statement was drawn up in accordance with the internationally prevailing cost of sales method. To draw up the consolidated financial statements in accordance with the IFRS, assumptions must be made for several items which affect recognition in the consolidated balance sheet or consolidated income statement and the statement of contingent assets and liabilities.

The consolidated financial statements are prepared in accordance with IFRS and § 315a (1) HGB in combination with Art. 4 of EU Regulation 1606/2002.

Consolidation principles

The consolidated financial statements include LEIFHEIT AG and the companies controlled by it. Control is present if the group directly or indirectly holds the majority of voting rights in the subscribed capital of a company and/or can govern the financial and operating policies of a company so as to obtain benefits from its activities. Minority interests and their share in net profit or loss for the period are shown separately in equity of the balance sheet and the income statement.

The financial statements of subsidiaries are prepared using uniform accounting and valuation methods and the same balance sheet date as the financial statements of the parent company.

Acquisitions are accounting for using the purchase method. Assets and liabilities are measured at prorated fair value at the time of acquisition at the percentage of the interest acquired. If the acquisition cost of the interests exceed the group share in the equity of the company measured in this way, the resulting goodwill must be capitalised.

Previously undisclosed reserves and charges are carried, amortised or reversed during subsequent consolidation, depending on the corresponding assets and liabilities.

For all acquisitions on or after 31.03.2004, IFRS 3 (Business combinations) applies. As a result of applying IFRS 3, LEIFHEIT recognises assets and liabilities from an acquisition in full at fair value at the time of acquisition. Minority interests are recognised at their share in the fair value of the assets and liabilities. Application of IFRS 3 and IAS 36 further led to LEIFHEIT discontinuing regular amortisation of goodwill, replacing it since 1.01.2005 by annual assessment for possible impairment of goodwill at the level of cash-generating units, if necessary writing it down to its fair value. Differences on the liabilities side of the balance sheet resulting before 31.03.2004 are offset after 1.01.2005 against retained earnings in accordance with IFRS 3. Differences resulting after 31.03.2004 are recognised in the income statement.

In addition, under IAS 38 each intangible asset must be classified as having a finite or indefinite useful life. If an intangible asset has a finite useful life, it must be amortised over that life. The amortisation periods and methods for intangible assets with finite lives are reviewed at least annually and whenever there are signs of impairment. Intangible assets with indefinite useful lives are not amortised, as no time limit can be set for the period during which the asset generates economic benefits to the company. However, intangible assets with indefinite lives are reviewed annually to ensure that the carrying amount of an asset does not exceed its recoverable value. This is done whether or not there are signs of impairment.

Acquired enterprises are included in the consolidated financial statements from the time of acquisition.

Intragroup balances and transactions and resulting unrealised intragroup profits and losses are eliminated in full. Provisions are made for deferred taxes arising from temporary differences from consolidation as required in IAS 12.

The same consolidation methods were used for the financial statements for 2005 and 2004.

Companies consolidated

The following domestic and foreign companies were included in the consolidated financial statements, in addition to LEIFHEIT AG: LEIFHEIT AG directly or indirectly held the majority of voting rights in these companies as at 31.12.2005

The following companies were included in the consolidated financial statements, in addition to LEIFHEIT AG:

Company name	Date of initial consolidation	Share in equity and voting - rights, 2005, in %
BTF Textilwerke GmbH, Bremen (D)	1.1.1989	100.0
KLEINE WOLKE AG, Berikon (CH)	1.1.1989	100.0
KLEINE WOLKE Textilgesellschaft mbH & Co. KG, Bremen (D)	1.1.1989	100.0
LEIFHEIT España S.A., Madrid (E)	1.1.1989	100.0
LEIFHEIT International (UK) Ltd., London (GB)	1.1.1989	100.0
SPIRELLA AG, Embrach (CH)	1.1.1989	100.0
SPIRELLA France s.a.r.l., Toulouse (F)	1.1.1989	100.0
SPIRELLA GmbH, Nassau (D)	1.1.1989	100.0
BTF Blatná s.r.o., Blatná (CZ)	1.1.1995	100.0
LEIFHEIT International U.S.A. Inc., Melville, NY (USA)	1.1.1997	100.0
MEUSCH-Wohnen-Bad und Freizeit GmbH, Bremen (D)	1.9.1999	100.0
BIRAMBEAU S.A.S., Paris (F)	1.1.2001	66.0
LEIFHEIT-BIRAMBEAU S.A.S., Paris (F)	1.1.2001	60.0
SOEHNLE AG, Montlingen (CH)	1.1.2001	100.0
SOEHNLE Italia S.r.l., Brescia (I)	1.1.2001	100.0
SOEHNLE S.A.S., Duttlenheim (F)	1.1.2001	100.0
SOEHNLE-Waagen GmbH & Co. KG, Murrhardt (D)	1.1.2001	100.0
SOEHNLE-Waagen Verwaltungs-GmbH, Murrhardt (D)	1.1.2001	100.0
SOEHNLE Professional GmbH & Co. KG, Murrhardt (D)	10.11.2004	100.0
SOEHNLE Professional Verwaltungs-GmbH, Murrhardt (D)	9.12.2004	100.0

Foreign currency translation

Where individual financial statements of consolidated companies are drawn up in local currencies, monetary items in foreign currencies (cash, receivables, payables) are valued at the balance sheet date and exchange rate differences recognised in the income statement. Exceptions to this are translation differences for monetary items which in substance are part of net investment (e.g. long-term loan which replaces equity) in an independent foreign entity.

Translation of financial statements of consolidated companies drawn up in foreign currencies is done on the basis of the functional currency concept using the modified closing rate method in compliance with IAS 21.

As our subsidiaries and branches operate independently in financial, economic and organisational terms, their functional currency is identical in principle with the local currency. For inclusion in the consolidated financial statements, the assets and liabilities of the subsidiaries and branches are translated at the exchange rate at the balance sheet date, and income and expenses are translated at annual average exchange rates. The exchange difference arising out of translation is recognised in a separate reserve in equity. Exchange differences from the previous year's translation are taken to this translation reserve.

The exchange rates used for translation are shown in the following table:

Exchange rate € 1	Average rate on balance sheet date		Annual average rate	
	31.12.2005	31.12.2004	2005	2004
Pound Sterling	0.69	0.71	0.69	0.71
Swiss Franc	1.56	1.54	1.55	1.55
Czech Krone	28.99	30.39	29.84	32.15
US-Dollar	1.18	1.36	1.25	1.24
Japanese Yen	139.13	139.83	136.84	133.74

Cash and cash equivalents

Cash includes cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Receivables

Receivables are recognised at the time revenue is realised or consideration received and valued at amortised cost, taking into account any necessary allowances.

Hedging transactions

Foreign exchange futures contracts are used to hedge against future exchange rate fluctuations. When entering into these hedging transactions, specific foreign exchange futures contracts are allocated to specific fundamental transactions, i.e. either to hedge the risk of a change in the fair value of a recognised asset or debt (fair value hedge) or to hedge the risk of fluctuations in cash flows which can be allocated to a specific risk associated with a recognised asset or debt or the risk associated with a planned transaction (cash flow hedge). The foreign exchange futures contracts entered into by LEIFHEIT are classified as "fair value hedges" within the meaning of IAS 39. Within the hedging context, the hedging instruments are recognised at market value; adjustment is made for a fair value hedge in the income statement.

Inventories

Inventories are recognised at the lower of cost and net realisable value. Cost is measured on the basis of weighted average cost method.

Costs of manufacture include production-related full costs based on normal capacity utilisation. Costs of manufacture include direct costs directly attributable to products (e.g. material and labour) and fixed and variable production overheads (e.g. material and production overheads). Costs are specifically taken into account which are incurred by the specific cost centres. Borrowing costs are not capitalised as part of purchase or manufacturing costs but are expensed in the period in which they are incurred (IAS 23).

The risks in holding inventory due to reduced realisable value are taken into account through appropriate write-downs. The write-downs are calculated on the basis of the future production range or actual consumption. Depending on the individual inventory item, individual periods are applied which are reviewed and modified on the basis of objective evaluation criteria. In measurement, lower net realisable value on the balance sheet date is taken into account. If the circumstances which previously caused inventories to be written down no longer exist so that the net realisable value is increased, the resulting increase in value is recognised as a reduction in material cost.

Financial assets

Financial assets are carried at fair value and include equity investments and other financial assets. If fair value cannot be measured reliably, the assets are carried at amortised cost.

Tangible assets

Tangible assets are recognised at cost less cumulated regular depreciation and impairment. If tangible assets are sold or scrapped, the associated costs and cumulated depreciation are derecognised; any realised profit or loss from the disposal is recognised in the income statement.

The purchase or manufacturing cost of a tangible asset comprises the purchase price including import duties and non refundable purchase taxes, and any directly attributable costs of bringing the asset to its working condition and the location for its intended use. Subsequent expense such as maintenance and repair costs incurred after the assets have been commissioned are recognised as expense in the period in which it is incurred.

	Years
Buildings	25-50
Other structures	10-20
Injection moulding machines	10
Plant and machinery	5-10
Injection moulding and diecasting tools	3-6
Vehicles	6
Computing equipment	3-5
Software	4-8
Furniture and fixtures and office equipment	3-13
Display and POS stands	3

Depreciation uses the straight line method based on the likely useful life.

The useful life and method of depreciation for tangible assets are reviewed periodically to ensure that the method of depreciation and depreciation period comply with the expected useful life of tangible assets. Depreciation based solely on tax regulations is not taken.

Plant under construction is classified as unfinished assets and recognised at cost. Plant under construction is depreciated from the time at which the relevant asset is completed and used in operation.

Leasing

A lease is classified as an operating lease if substantially all risks and rewards incident to ownership remain with the lessor. As LEIFHEIT acts exclusively as a lessee under operating leases, the corresponding assets are not recognised in the balance sheet. Lease payments are recognised as expense on a straight line basis over the term of the lease.

Intangible assets

Patents, licences and software

Expense on patents and licences is capitalised and subsequently amortised over their likely useful life using the straight line method. The estimated useful life of patents and licences varies between 5 and 15 years. The carrying amount of assets is regularly reviewed.

Costs of new software and implementation are capitalised and treated as an intangible asset, unless these costs are an integral part of the associated hardware. Software is amortised over a period of four to eight years using the straight line method.

Brand names

Consideration paid for brand names is carried as an asset. Brand names are recognised under IAS 38 as intangible assets with indefinite useful lives are not amortised, as no time limit can be set for the period during which the asset generates economic benefits to the company. Brand names are assessed annually for possible impairment in accordance with IAS 36 and written down if necessary to their fair value.

Goodwill

The excess of the cost of an acquisition over the interest acquired on the day of purchase in the fair value of identifiable assets and liabilities is known as goodwill and is recognised as an asset.

The identifiable assets and liabilities recognised are measured at their fair value at the time of acquisition. Any minority interest is measured by the share of the minority shareholders in the fair value of the recognised identifiable assets and liabilities.

All goodwill arising on acquisition of an independent entity and adjustments to fair value of the book value of the assets and liabilities arising out of the acquisition of the independent entity are treated as assets and liabilities of the entity. In accordance with IFRS 3 in combination with IAS 36 and 38, goodwill is assessed annually and written down if necessary to fair value.

Badwill existing at 31.12.2004 was offset against retained earnings on 1.01.2005 in application for the first time of IFRS 3.

Differences on the liabilities side of the balance sheet (badwill) arising after 31.03.2004 are taken to the income statement at the time they arise.

Impairment of tangible and intangible assets

Tangible and intangible assets are assessed for impairment if there are material reasons or a change in circumstances indicating that the carrying amount of an asset may not be recoverable (IAS 36). As soon as the carrying value of an asset exceeds the recoverable amount, an impairment loss is recognised in the income statement. The recoverable amount is the higher of the asset's net selling price and its value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction, less the costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The recoverable amount is identified for each asset individually or, if this is not possible, for the cash-generating unit to which the asset belongs.

Research and development costs

Development costs for newly developed products are capitalised in accordance with IAS 38 if they are clearly attributable and both technical feasibility and marketing of the newly developed products are ensured. Development work must also generate probable future economic benefits. As not all these requirements are met in the LEIFHEIT group, development costs are not capitalised.

Research costs cannot be capitalised, in accordance with IAS 38, and are accordingly recognised directly as an expense in the income statement.

Deferred taxes

Deferred taxes are accounted for using the balance sheet liability method for all temporary differences between the tax base of an asset or liability and its carrying amount in the consolidated balance sheet (temporary concept). In addition, deferred tax assets from loss carryforwards must be recognised.

The carrying amount of deferrals is the probable tax liability or asset in the following financial year based on the tax rate prevailing at the time of realisation.

Deferred tax assets whose realisation is improbable were written down.

Deferred taxes are recognised in separate items in the balance sheet and income statement.

Liabilities

Current liabilities are recognised at repayment or settlement amount. Noncurrent liabilities are carried at amortised cost. Differences between historic cost and settlement amount are taken into account using the effective interest rate method.

Provisions and accruals

Under IAS 37 provisions are recognised where there is a current obligation to third parties as a result of a past event which will probably lead to an outflow of resources and can be reliably estimated.

Provisions for warranty claims are recognised under IAS 37 on the basis of the previous or estimated future outflows for the warranty obligations on the products sold.
Other provisions are recognised under IAS 37 for all identifiable risks and uncertain obligations for the amount probably required to settle them and not offset against reimbursement claims.

Provisions which do not lead to an outflow of resources in the following year are recognised at the discounted amount required to settle the obligations at the balance sheet date. The discount is subject to market interest rates.

Employee benefit obligations, pension reserves

The actuarial valuation of pension reserves is based on the projected unit credit method required by IAS 19 for post-employment benefit obligations. Under this method the post-employment benefits and vested benefits are taken into account together with expected future increases in salaries and pensions.

Equity

Treasury shares reduce the equity recognised in the balance sheet. Acquisition of treasury shares is shown as a change in equity. No gain or loss is recognised in the income statement for the sale, issue or cancellation of treasury shares. Consideration received is recognised in the financial statements as a change in equity.

Provisions for currency translation are recognised for currency translation differences arising out of the consolidation of the financial statements of independent foreign subsidiaries or branches.

Currency translation differences from a monetary item which is essentially part of net investment by the company in an independent foreign entity, e.g. a long term loan, are recognised as equity in the consolidated financial statements up to the point of disposal or repayment. If the corresponding assets are sold the total revaluation or provision for currency translation is recognised as income or expense in the same period in which the gain or loss on the disposal is recognised.

Recognition of income and expense

Turnover and other operating income is only recognised when the service has been provided or the goods or products delivered, i.e. transfer of risk to the customer has taken place.

Income from assets for which there is a buy-back agreement with a subsidiary is only recognised when the assets have finally left the group. Up to this point it is recognised in inventories.

The cost of sales includes costs incurred to make sales and the purchase cost of merchandise purchased and held for resale. This heading also includes the cost of transfers to provisions for warranty obligations.

Distribution costs include labour and material costs and depreciation and amortisation for marketing, shipment, freight, advertising, sales promotion, market research and customer service costs.

General administrative costs include labour and material costs and the depreciation and amortisation attributable to administration.

Taxes like land tax and vehicle tax are attributed to production, sales or administrative costs on their assessment basis.

Contingent liabilities and assets

Contingent liabilities are not recognised in the financial statements. They are shown in the notes unless the probability of an outflow of resources embodying economic benefits is very low. Contingent assets are not recognised in the financial statements. However, they are shown in the notes if the inflow of economic benefits is probable.

Events after the balance sheet date

Events after the balance sheet date which provide additional information on conditions that existed at the balance sheet date (adjusting events after the balance sheet date) are taken into account in the financial statements. Non-adjusting events after the balance sheet date are shown in the notes, if they are material.

Material exercises of discretion, estimates and assumptions

Preparing the annual financial statements requires exercises of discretion and estimates and assumptions about the amounts of receivables, liabilities and provisions, statement of contingent liabilities and recognised income and expenses. The actual results may be different. The most important assumptions and estimates in connection with review for possible impairment of assets are stated in note 20, the assumptions and estimates in connection with recognising pension liabilities in note 23.

New accounting standards required to be applied from 2005

Since 2003 the International Accounting Standard Board (IASB) has published numerous changes to existing IFRS as well as new IFRS and Interpretations of the International Financial Reporting Interpretation Committee (IFRIC) which companies are required to apply to all financial years starting on or after 1.01.2005, unless otherwise described below. The individual changes or publications applied from 1.01.2005 and their significance for the consolidated financial statements are described below.

On 18.12.2003 the IASB published a series of revised accounting standards following conclusion of the Improvement Project. Specifically, these were the 13 standards IAS 1, IAS 2, IAS 8, IAS 10, IAS 16, IAS 17, IAS 21, IAS 24, IAS 27, IAS 28, IAS 31, IAS 33 and IAS 40.

Due to the application of the Improvement Project, the following changes were made under IAS 1 in the presentation of the consolidated financial statements:

- As a result of the clarification in IAS 32 (2004) of the classification of equity and borrowed funds, minority interests are now treated as part of equity. Minority interests are accordingly recognised in the balance sheet under equity (IAS 1.68).
- In the statement of changes in shareholders' equity a new column was inserted to show minority interests and group equity separately (IAS 1.96).
- The transfer of consolidated net profit for the period to the consolidated income statement after minority interests is replaced by separate identification of the profit or loss attributable to minority interests (IAS 1.82).
- In the statement of cash flow, the result for the period after minority interests is replaced by the result for the period as a heading.

The other IFRS amended under the Improvement Project have no material effect on the consolidated financial statements.

On 19.02.2004 the IASB published IFRS 2 "Share based payment" on recognition of share option plans and similar consideration related to the value of shares. This standard essentially deals with the recognition of transactions under which the accounting company issues equity instruments such as shares or share options as consideration for goods or services. See note 32 for the effects of the application of IFRS 2.

On 31.03.2004 IASB published IFRS 3 "Business combinations" and the thoroughly revised IAS 36 and IAS 38. The material innovations are the elimination of the "pooling of interest" method and scheduled amortisation of goodwill and their replacement by the "impairment only" approach. IFRS 3 must be applied to all business combinations entered into on or after 31.03.2004. For existing differences arising out of transactions before the amendment date IFRS 3 requires transition to the "impairment only" approach for financial years commending on or after 31.03.2004. See note 20 for the effects of the application of IFRS 3.

New accounting standards whose application will be mandatory in future

Besides the IFRS required to be applied for the 2005 financial year the IASB has published further IFRS and IFRIC which will be required to be applied at a later date. The following section lists the standards and interpretations which may be relevant for the LEIFHEIT group. While earlier application of these standards is permitted, LEIFHEIT is not yet choosing to do so.

On 16.12.2004 the IASB announced a change to IAS 19 “Employee benefits” regarding recognition of profits and losses from changes to actuarial assumptions for defined benefit pension plans. In addition to the existing recognition in the income statement and “Corridor method” (IAS 19.92 and 93) the change permits recognition of unrealised actuarial profits and losses in equity (IAS 19.93A). Using this method the current present value of pension obligations is recognised in the balance sheet. Deferred taxes arising out of application of this method are also recognised in equity. The future effects of application of this new standard on group assets, income and financial situation depend on which option the Board of Management chooses. This decision has not yet been made.

On 18.08.2005 the IASB published IFRS 7 “Financial instruments disclosures”. This replaces the existing IAS 30 and incorporates all the provisions of IAS 32 regarding disclosure. Changes and additions were also made to the capital disclosure requirements in IAS 1. The standard results in a thorough reorganisation of the disclosure requirements for financial instruments. Essentially, disclosure is required of management’s objectives, methods, risks, collateral and processes. Disclosure requirements under IFRS 7 and the revised capital disclosure requirements under IAS 1 must be applied to reporting period starting on or after 1.01.2007, although earlier application is recommended. Application of IFRS 7 is not expected to lead to any changes in valuation in future, and so is not expected to affect assets, income and the financial situation. However, further information and presentation will be required in the notes to the financial statements.

Notes on the income statement

1 Turnover

Turnover by region € 000	2005	2004
Domestic	124,314	137,053
Europe (exc. Germany)	149,480	159,829
Rest of the world	22,361	20,396
	296,155	**317,278**

Consolidated turnover in other European countries totalled € 149.5 million (previous year: € 159.8 million), broken down between € 121.6 million (previous year: € 128.8) in the 24 EU partner countries and € 20.1 million (previous year. € 23.3 million) in Switzerland. "Rest of the world" includes the USA as the largest single market, accounting for € 13.7 million (previous year: € 11.9 million).

In the segment reporting, consolidated turnover is broken down between the Household Products and Bathroom Furnishings divisions.

2 Cost of materials

€ 000	2005	2004
Expense for raw materials and consumables and merchandise purchased for resale	136,332	133,386
Expense for goods and services purchased	7,973	4,575
	144,305	**137,961**

3 Depreciation and amortisation

€ 000	2005	2004
Tangible assets		
Cost of sales	4,702	7,347
Research and development costs	147	182
Selling expenses	2,185	2,718
Administrative costs	758	784
Reorganisation	–	6,964
	7,792	**17,995**
Intangible assets and goodwill		
Cost of sales	261	649
Research and development costs	64	110
Selling expenses	749	1,061
Administrative costs	315	229
	1,389	**2,049**
Total depreciation and amortisation	**9,181**	**20,044**

4 Personnel costs, employment

€ 000	2005	2004
Wages and salaries	49,955	63,690
Social security contributions and employee benefits	12,363	13,737
Expense on post-employment benefits	3,248	2,574
	65,566	**80,001**

Consolidated labour costs fell 18 % to € 65,566,000 as a result of the decrease in employment.

	2005	2004
Industrial workers	1,138	1,296
Salaried employees	652	697
Trainees	72	77
	1,862	**2,070**

The decrease of 10 % in average annual employment in the group to 1,862 was almost entirely the result of the closure of domestic production of consumer scales at the Murrhardt plant, the conversion of the Zuzenhausen facility as a logistics centre and the relocation of production lines to the Czech plant at Blatná.

5 Research and development costs

€ 000	2005	2004
Labour costs	3,474	4,296
Cost of materials	273	323
Depreciation and amortisation	212	293
Other research and development costs	1,974	1,778
	5,933	**6,690**

6 Distribution costs

€ 000	2005	2004
Labour costs	26,999	27,679
Outgoing freight	16,540	17,089
Advertising costs	14,449	14,379
Commissions	8,943	9,776
Depreciation and amortisation	3,524	3,078
Fees and bought-in services	2,934	3,780
Costs of cars, travel and entertainment	2,871	3,139
Rent	2,077	2,008
Office and other overheads	1,227	1,316
Maintenance	746	813
Post and telephone costs	659	885
Royalties	571	698
Insurance	511	451
Payments to customers	493	318
General operating and administrative costs	376	425
Liquidated damages	168	581
Other selling expenses	1,793	2,444
	84,881	**88,859**

7 Administrative costs

€ 000	2005	2004
Labour costs	10,963	11,885
Fees and bought-in services	2,980	3,112
Depreciation and amortisation	1,074	1,013
Costs of cars, travel and entertainment	599	534
Maintenance	529	579
Office and other overheads	523	523
Rent	506	617
Post and telephone costs	459	536
Insurance	187	418
General operating and administrative costs	182	205
Other administrative costs	1,536	1,521
	19,538	**20,943**

8 Other operating income

€ 000	2005	2004
Income from disposal of assets	979	2,825
Income from sales of shares	466	–
Income from insurance claims	165	181
Commission income	136	325
Other operating income (smaller than € 200,000)	1,224	581
	2,970	**3,912**

Profits from disposals of assets in the previous year relate primarily to the sale of the real estate of SOEHNLE AG in Montlingen.

9 Other operating expenses

€ 000	2005	2004
Losses on disposal of assets	445	1,492
Costs of payments transactions	222	244
Rent for assets not used for operating purposes	–	540
Other operating expense (smaller than € 300,000)	1,190	1,366
	1,857	**3,642**

10 Income from/expense on reorganisation

€ 000	2005	2004
Income from/expense on reorganisation	**669**	**-19,976**

In the 2005 financial year provisions totalling € 669,000 for the reorganisation decided in 2004 and carried out in 2005 were reversed. The reorganisation measures in the previous year included expense for personnel adjustments, additional depreciation on tangible assets for the shutdown of consumer scales production in Murrhardt, the conversion of the Zuzenhausen facility into another logistics centre, further relocation abroad of production in the Household Products division, and the shutdown of the shower partition business for SPIRELLA.

11 Net other financial income

€ 000	2005	2004
Exchange rate gains/losses	**1,604**	**-1,456**

The increase in results of other financial activities is due to exchange rate gains from the liquidation of foreign currency futures transactions, valuation of receivables and liabilities in foreign currencies and exchange rate gains and losses arising out of exchange rate changes between the recording and settlement of receivables and liabilities in foreign currencies.

12 Net interest income

€ 000	2005	2004
Interest income	174	153
Interest expense	-208	-182
	-34	**-29**

13 Income taxes

€ 000	2005	2004
Corporation tax (Germany)	298	856
Municipal trade tax (Germany)	-405	851
Foreign income tax	-3,225	-3,040
Deferred tax on income	-800	8,451
	-4,132	**7,118**

The tax rate for LEIFHEIT AG for corporation tax and municipal trade tax in Germany was 37.2 % in 2005 (previous year: 37.1 %).

Derivation of the theoretical income tax liability that would result from applying the prevailing tax rate in the parent company's domicile is shown below:

€ 000	2005	2004
EBT	5,455	-13,267
Taxes assuming the tax rate applying to the parent company	-2,029	4,922
Losses by group companies with no tax effect	-470	-829
Effects of the LEIFHEIT AG tax office audit	-136	-203
Reduction in tax due to the corporation tax credit for the LEIFHEIT AG dividend	506	–
Different foreign tax rates	527	655
Taxes for earlier years	-640	1,860
Writedown of deferred tax assets	-1,775	–
Other	-115	713
Tax load	**-4,132**	**7,118**

Deferred taxes are recognised for all material temporary differences between the tax base and carrying amount. The deferred taxes have the following breakdown:

€ 000	31.12.2005		31.12.2004	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Fixed assets	562	3,353	567	3,037
Inventories	351	445	145	424
Balance sheet date exchange rate, receivables	74	861	575	472
Foreign currency futures	–	–	144	123
Pensions	3,465	–	3,110	–
Provisions for part-time working by older employees	657	–	605	–
Other provisions and accruals	188	501	1,994	633
Impairment/write-up on treasury stock	600	661	599	661
Balance sheet date exchange rate, liabilities	364	91	273	18
Other timing differences	–	–	–	4
Tax loss carryforwards	5,798	–	4,699	–
Gross value	**12,059**	**5,912**	**12,711**	**5,372**
Offset	-3,186	-3,186	-2,312	-2,312
Consolidation	891	–	1,026	41
Balance sheet amounts	**9,764**	**2,726**	**11,425**	**3,101**

Deferred tax assets amounting to € 8,309,000 from tax loss carryforwards were not recognised or written-off (previous year: € 6,392,000) because it is assumed that it will not be possible to make use of these. This is based on a tax plan for a five-year period.

14 Minority interests

Minority interests relate to minority interests in BIRAMBEAU S.A.S. and LEIFHEIT-BIRAMBEAU S.A.S.

15 Earnings per share

Earnings per share are calculated by dividing the share in net profit or loss of the shareholders of LEIFHEIT AG by the weighted average number of shares in circulation during the financial year. No financial or compensation instruments were used which lead to a dilution of the earnings per share.

		2005	2004
Shares issued	000 shares	5,000	5,000
Weighted average number of treasury shares	000 shares	241	242
Weighted average number of shares at 31.12.	**000 shares**	**4,759**	**4,758**

		2005	2004
Net profit/loss for the period after minority interests	€ 000	131	-7,305
Weighted average number of shares at 31.12.	000 shares	4,759	4,758
Undiluted EPS	**€**	**0.03**	**-1.54**

Notes on the balance sheet

16 Inventories

€ 000	31.12.2005	31.12.2004
Raw materials, consumables and supplies	7,955	10,037
Unfinished products and services	2,012	3,312
Finished products and goods purchased and held for resale	49,184	36,541
Payments on account	913	966
	60,064	**50,856**

The increase in inventories is entirely the result of increased stocks of finished products and goods for resale. At the same time, stocks of raw materials, supplies and work in progress were reduced. This is due to the revised procurement strategy under the reorganisation.

17 Other current assets

€ 000	31.12.2005	31.12.2004
Available-for-sale securities	5,096	26
VAT receivables	3,335	2,090
Balances in our favour with creditors	918	1,290
Current prepayments and accrued income	876	965
Receivables from transferred costs	317	7
Receivables from employees	232	126
Receivables from transferred supplier discounts	155	109
Receivables from disposal of assets	150	–
Receivables from transferred burdens	131	156
Other tax receivables	129	28
Other current assets (smaller than € 100,000)	801	309
	12,140	**5,106**

The increase in available-for-sale securities is the result of the investment of cash in money market funds. These are not subject to material fluctuation in market value.

Prepayments and deferred income include specifically prepayments for services which will not be provided until the following year.

€ 000		Cost of purchase or production 1.01.2005	Foreign currency differences	Additions	Reversals	Reclassifi-cations	Offset against retained earnings	31.12.2005
18	**Financial assets**							
	Participations	1,249	–	–	–	–	–	1,249
	Other financial assets	80	–	363	2	–	–	441
		1,329	**–**	**363**	**2**	**–**	**–**	**1,690**
19	**Tangible assets**							
	Land and buildings	67,959	326	8	1,672	1,015	–	67,636
	Plant and machinery	74,775	255	164	14,695	1,758	–	62,257
	Other fixtures and fittings, tools and equipment	71,198	25	2,589	16,499	31	–	57,344
	Payments on account and under construction	307	1	3,780	101	-2,636	–	1,351
		214,239	**607**	**6,541**	**32,967**	**168**	**–**	**188,588**
20	**Intangible assets**							
	Brands	7,231	–	–	–	-21	–	7,210
	Badwill	-2,023	–	–	–	–	2,023	–
	Goodwill	3,088	–	294	–	–	-83	3,299
	Other intangible assets	14,576	-5	909	301	-147	–	15,032
		22,915	**-5**	**1,203**	**301**	**-168**	**1,940**	**25,584**

Additions to goodwill relate to an increase in the investment in BIRAMBEAU S.A.S. from 65.3 % to 66.0 %.

Additions to intangible assets are primarily due to software.

Cumulated depreciation and amortisation						Net book value	
1.01.2005	**Foreign currency differences**	**Additions**	**Reversals**	**Reclassifi-cations**	**31.12.2005**	**31.12.2005**	**31.12.2004**
1,074	–	–	–	–	1,074	175	175
32	–	–	–	–	32	409	48
1,106	**–**	**–**	**–**	**–**	**1,106**	**584**	**223**
32,132	39	1,842	1,616	561	32,958	34,687	35,827
64,870	156	2,286	13,038	-299	53,975	8,282	9,905
60,365	2	3,664	16,015	-95	47,921	9,423	10,833
130	–	–	–	–	130	1,221	177
157,497	**197**	**7,792**	**30,669**	**167**	**134,984**	**53,604**	**56,742**
2,423	–	–	–	-16	2,407	4,803	4,808
–	–	–	–	–	–	–	-2,023
–	–	–	–	–	–	3,299	3,088
9,172	-3	1,389	293	-151	10,114	4,918	5,404
11,638	**-3**	**1,389**	**293**	**-167**	**12,564**	**13,020**	**11,277**

The cumulated scheduled amortisation of goodwill and badwill up to 31.12.2004 was offset against the relevant goodwill and badwill on 1.1.2005 in accordance with IFRS 3. Badwill was subsequently offset against retained earnings in application for the first time of IFRS 3.

Impairment test of goodwill and intangible assets with indefinite life

Goodwill and brand names acquired in a business combination were attributed to the following two cash-generating units for the purposes of impairment tests:

- "Management Division BIRAMBEAU" and
- "Brand SOEHNLE"

The cash-generating units are based on internal management reporting.

The recoverable amount for each cash-generating unit is determined on the basis of calculating a value in use based on cash flow forecasts for a five year horizon. Assumptions are made for future trends in turnover and costs. If material assumptions differ from the actual values, this could lead to impairment in future which would have to be recognised in the income statement. The discount rate used in the cash flow forecasts is 8.5%, with no growth assumed.

Carrying amount at the balance sheet date

€ 000	Goodwill		Brand names	
	2005	2004	2005	2004
Management Division BIRAMBEAU	3,299	3,088	–	–
Brand SOEHNLE	–	–	4,803	4,803

The impairment test at the balance sheet date showed no need for amortisation.

21 Trade or other payables

Remaining term up to 1 year, € 000	31.12.2005	31.12.2004
Trade payables	21,306	18,228
Employees	9,384	7,377
Customer discounts	8,408	7,564
Advertising cost subsidies	3,298	3,341
Other taxes (but not income taxes)	3,022	2,381
Outstanding invoices	2,888	4,314
Social security contributions	1,803	2,128
Amounts owed to debtors	1,484	1,368
Customer rebates	924	1,074
Severance payments to sales representatives	131	310
Other liabilities (smaller than € 100,000)	3,754	4,888
	56,402	**52,973**

22 Provisions

€ 000	31.12.2005			31.12.2004		
	Total	of which current	of which noncurrent	Total	of which current	of which noncurrent
Warranties	3,349	2,230	1,119	3,069	2,121	948
Long-service recognition	861	–	861	975	–	975
Part-time work by older employees	2,733	–	2,733	2,854	–	2,854
Threatening losses	536	222	314	838	406	432
Litigation and legal costs	180	180	–	208	208	–
Other provisions and accruals	2,899	2,645	254	12,408	12,165	243
	10,558	**5,277**	**5,281**	**20,352**	**14,900**	**5,452**

Other provisions relate primarily to provisions for reorganisation.

€ 000	1.01.2005	Foreign currency difference	Used	Reversals	Additions	31.12.2005
Current provisions						
Warranties	2,121	-2	1,735	104	1,950	2,230
Threatening losses	406	–	262	–	78	222
Litigation and legal costs	208	–	46	33	51	180
Other current provisions	12,165	-1	10,048	712	1,242	2,645
	14,900	**-3**	**12,091**	**849**	**3,321**	**5,277**

€ 000	1.01.2005	Foreign currency difference	Used	Reversals	Additions	31.12.2005
Noncurrent provisions						
Warranties	948	–	385	–	556	1,119
Long-service recognition	975	–	149	148	183	861
Part-time work by older employees	2,854	–	935	185	999	2,733
Threatening losses	432	–	118	–	–	314
Other noncurrent provisions	243	–	–	–	11	254
	5,452	**–**	**1,587**	**333**	**1,749**	**5,281**

23 Employee benefit obligations

The LEIFHEIT group has defined benefit pension plans for certain employees. Provisions have been recognised for retirement and survivor benefits to be paid.

In accordance with normal practice in Germany, the pension plan is not secured by a pension fund. Pension reserves are calculated on the basis of an independent actuarial opinion. The amount and scope of the benefits are based on length of service and salary. The pension plan is insured.

The obligations under defined benefit pension plans are measured using the projected unit credit method. Gains and losses not yet recognised from changes in actuarial assumptions are recognised as income (expense) over the entire expected remaining service of active employees.

The following table shows the changes in pension obligations in the relevant reporting periods:

€ 000	31.12.2005	31.12.2004
Present value of defined benefit obligations (DBO) not funded by plan assets	47,472	41,168
Actuarial losses not yet recognised	-8,303	-3,137
Recognised net debt from pension obligations in Germany	**39,169**	**38,031**
Pension obligations, France	758	659
Obligations similar to pensions	447	321
Employee benefit obligations	**40,374**	**39,011**

Expense on post-employment benefits in Germany shows the following breakdown:

€ 000	31.12.2005	31.12.2004
Current service expense	636	707
Interest expense on the obligation	2,021	1,944
Recognised actuarial net loss	16	23
Total expense on post-employment benefits	**2,673**	**2,674**

There were the following changes in the liability (in Germany) recognised in the balance sheet:

€ 000	2005	2004
Net debt at start of year	38,031	36,676
Net expense recoginised in the income statement	2,673	2,674
Payments to beneficiaries	-1,535	-1,319
Net debt at end of year	**39,169**	**38,031**

The present value of defined benefit obligations (DBO) not funded by plan assets changed as follows:

€ 000	2005	2004
DBO at start of the year	41,168	37,681
Current service cost	636	707
Interest expense	2,021	1,944
Payments	-1,535	-1,319
Actuarial losses	5,182	2,155
DBO at end of year	**47,472**	**41,168**

Over the past five years the present value of defined benefit obligations (DBO) not funded by plan assets has changed as follows:

€ 000	2005	2004	2003	2002	2001
DBO at balance sheet date	47,472	41,168	37,681	37,832	35,858

The actuarial assumptions used as the basis for measuring obligations under post-employment benefit plans at 31 December were as follows:

%	2005	2004
Discount rate	4.3	5.0
Future trend in incomes	2.0	2.0
Future trend in pensions	1.5	1.4
Rate of turnover	3.0	3.0
Calculations based on „Richttafeln Prof. K. Heubeck" Life Tables	2005 G	1998

24 Capital stock

The capital stock of LEIFHEIT AG totals € 15,000,000 (previous year: € 15,000,000) denominated in Euro and divided into 5 million no-par bearer shares.

The shares are evidenced as follows:

220,000	**single share certificates for**	**1**	**share**
63,000	**collective share certificates for**	**10**	**shares**
83,000	**collective share certificates for**	**50**	**shares**

By resolution of the General Meeting on 30.05.2001 the Board of Management was authorised up to 1.05.2006 to increase the capital stock by a total of up to € 2,500,000 through one or more issues of new shares for cash.

25 Capital reserves

The capital surplus of € 16,934,000 (previous year: € 16,934,000) represents the premium on the capital increase in autumn 1989.

26 Minority interests

Minority interests relate to 34.0 % (previous year: 34.7 %) of the equity of BIRAMBEAU S.A.S. and 40.0 % of the equity of LEIFHEIT-BIRAMBEAU S.A.S. (previous year: 40.0 %).

27 Proposal for the appropriation of earnings

The LEIFHEIT AG dividend is based on the net profit shown in the LEIFHEIT AG financial statements drawn up in accordance with German commercial law.

LEIFHEIT AG earnings for the past 2005 financial year amount to € 3,000,000. LEIFHEIT AG holds 240,564 treasury shares.

The Board of Management and Supervisory Board propose adopting the following resolution:

A dividend of € 0.60 for each share with entitlement to dividend, making a total of € 2,855,661.60 will be distributed to shareholders. The dividend on the 240,564 treasury shares held by the company at the time of the General Meeting will be transferred to retained earnings.

28 Financial instruments

Currency and interest risk

The LEIFHEIT group is internationally active, and is accordingly subject to market risks due to changes in exchange rates. Due to the group's strong internal financing capacity and short-term investment of time deposits, changes in interest rates do not currently represent any risk.

The group uses financial derivatives to manage the risk of exchange rate differences. The guidelines used for risk management are implemented by a central finance department in close cooperation with the group companies.

The group enters into various kinds of foreign currency contracts in the course of managing the exchange rate risk from the cash flow from business and financial activities in foreign currencies. The transaction risk is calculated for each relevant foreign currency.

To manage the exchange rate risk, LEIFHEIT nets out the planned flows of payments in each relevant foreign currency and hedges the surplus, primarily through foreign exchange contracts. The effect of hedging transactions is recognised in the income statement under “Net other financial income”.

Foreign currency future transactions, remaining term up to 1 year Currency million	31.12.2005	31.12.2004
US-Dollar	1.1	15.1
Swiss Franc	0.7	–
Hongkong Dollar	–	8.0

The fair value of foreign exchange futures contracts is determined using the prices in the foreign exchange futures market on the balance sheet date (taking into account the prevailing foreign currency swap rate).

Market risk
Market risk arises out of changes in financial market prices which have a positive or negative effect on the value of financial instruments. Market risk for the financial instruments in the balance sheet is insignificant, as these do not include any listed securities.

Liquidity risk
A liquidity forecast for a fixed planning horizon, existing unused credit lines and high internal financing capability ensure the availability of liquidity at all times.

Credit risk
The theoretical maximum credit risk of the original financial instruments corresponds to the value of all receivables less the liabilities to the same debtors. Allowances for credit risk and credit insurance for selected customers cover the actual risk.

29 Segment reporting

The breakdown by division corresponds to the internal reporting structure and covers the two divisions Household Products and Bathroom Furnishings. The Household Products division produces and markets non-electrical household appliances under the LEIFHEIT, DR. OETKER BAKEWARE and BIRAMBEAU brands and scales under the SOEHNLE brand. The Bathroom Furnishings division brings together the activities under the SPIRELLA, KLEINE WOLKE and MEUSCH brands (bathroom mats, textiles and accessories).

Segment data is calculated as follows:

- The geographical regions relevant for LEIFHEIT are Germany, Europe (excluding Germany) and the rest of the world.
- Minority interests have already been eliminated from EBIT.
- The segment assets are the basis for calculating total assets of participating interests. Receivables and interest-bearing loans within the segments are eliminated.
- Debt includes provisions, liabilities and deferred and accrued items; intra-segment liabilities are netted out.
- Depreciation and investments relate exclusively to tangible assets. Acquisitions are not included.
- Employment figures are annual averages.

30 Contingent liabilities

Group companies did not enter into any contingent liabilities.

31 Other financial obligations

There are leasing agreements for business premises, EDP and telephone equipment, vehicles and similar assets and licensing agreements with annual expense of around € 1.6 million. These obligations total c. € 3.6 million during the non-cancellable remaining terms up to 2010. As at 31.12.2005 there were purchase commitments totalling € 0.8 million (previous year: € 0.6 million). The leasing agreements represent operating leases within the meaning of IAS 17.

There are obligations under agreements for the purchase of tangible assets totalling € 0.5 million (previous year: € 0.4 million) for tools and vehicles.

There are also liabilities under foreign exchange futures contracts for hedging against exchange rate movements totalling USD 1.1 million (equivalent to € 1.0 million) whose fair value at the balance sheet date is € 1.0 million and foreign exchange futures contracts for hedging against exchange rate movements totalling € 0.5 million (equivalent to CHF 0.7 million) whose fair value at the balance sheet date is CHF 0.7 million.

32 Remuneration of the Board of Management and Supervisory Board in accordance with § 314 (1) no. 6a HGB and IFRS 3

Remuneration of the Board of Management for activities in subsidiaries amounted to € 17,000 (previous year: € 25,000).

Remuneration of the Board of Management totalled € 1,328,000 (previous year: € 1,335,000), of which variable compensation represented € 530,000 (previous year: € 45,000). Remuneration of the Supervisory Board totalled € 233,000 (previous year: € 195,000).

The company granted one of the members of its Board of Management a share based payment component from March 2005. This is an instrument which provides for payment in cash rather than shares. The main conditions for bonus payments are that the price of the LEIFHEIT share exceeds the CDAX by at least five percentage points and lies at least € 10.00 above the reference stock exchange price of € 24.18 per share.

If all conditions are met and the option is exercised by the beneficiary, a payment of € 250.00 will be made for each of the 1,000 bonus units granted. The amount per bonus unit increases for each full Euro by which the stock exchange price exceeds the reference price by more than € 10.00. One third of the bonus units can be converted after a waiting period of two years, a further third after three years and the last third at the earliest after four years, not to exceed 1.05.2010. The value of the bonus programme is limited to € 1,500,000.

Provision is made for the obligation under this agreement prorated over the qualifying 48 month period. The value of the bonus programme is calculated using a Black-Scholes option price model. The expense on share based compensation in the 2005 financial year is € 80,000. This corresponds to the amount of the provision.

33 Total remuneration and pension reserves for former members of the Board of Management and/or Supervisory Board in accordance with § 314 (1) no. 6b HGB

In the year under review total remuneration for former members of the Board of Management was € 988,000. Pension reserves for current pensions totalled € 4,268,000 in the 2005 financial year. The amounts for the previous year are not disclosed under § 286 (4) HGB.

34 Advances and loans to the Board of Management in accordance with § 314 (1) no. 6c HGB

At the balance sheet date there were interest-free advances for retirement pensions to the above group amounting to € 31,000 and a loan of € 105,000. The loan matures in 2008 and is subject to interest of 5 % p.a. The reductions in advances from the previous year during the period under review amounted to € 31,000.

35 Breakdown of the shareholdings in accordance with § 285 no. 11 HGB

The complete list of shareholdings in LEIFHEIT AG is deposited with the commercial register of the Montabaur municipal court (HRB 2857) in accordance with § 287 HGB.

36 Statement on treasury shares in accordance with § 160 (1) no. 2 AktG

The General Meeting on 25.05.2005 cancelled the existing authorisation and newly authorised the Board of Management to acquire treasury shares up to 10 % of the current capital stock of € 15 million. The redemption of LEIFHEIT shares reduces the number on the market, improves the balance sheet ratios and increases eps. This creates additional incentive for potential investors. The treasury shares acquired can also be used as consideration in future acquisitions.

LEIFHEIT did not acquire any treasury shares in the period under review. 290 shares (€ 9,000) were issued as long-service bonuses. Including the treasury shares bought in the previous year, this gives LEIFHEIT a holding as at 31.12.2005 of € 7,629,000 representing 240,564 shares or 4.8 % of the share capital.

LEIFHEIT did not acquire any treasury shares in the previous year. A total of 590 shares (€ 18,000) were issued in the previous year as long-service and employee shares.

37 Existence of a participating interest in accordance with § 160 (1) no. 8 AktG

Shareholders to be disclosed under the Securities Trading Act (WpHG) – i.e. having an interest of more than 5 % in the capital stock – were HOME Beteiligungen, Munich (47.02 %) and MKV Verwaltungs GmbH, Munich (9.40 %).

38 Declaration in accordance with § 161 AktG (German Corporate Governance Code)

The Board of Management and Supervisory Board issued the declaration required under § 161 AktG on 21.12.2005 that LEIFHEIT is in compliance with the recommendations of the “Government Commission on the German Corporate Governance Code” published by the German Federal Justice Ministry and citing the recommendations not currently adopted. The declaration is published on the company’s web site.

39 Events after the balance sheet date

There were no events after the balance sheet date of particular importance for assessing the assets, financial situation and earnings of the LEIFHEIT group.

40 Exemption of domestic companies from specific accounting requirements under § 264 (3) no. 4 HGB or § 264b no. 4 HGB

As a result of inclusion in the consolidated financial statements the following fully-consolidated associated German companies are exempt from the audit and disclosure obligations for annual financial statements under § 264 b HGB or § 264 (3) HGB:

- KLEINE WOLKE Textilgesellschaft mbH & Co. KG, Bremen
- SPIRELLA GmbH, Nassau/Lahn
- SOEHNLE-Waagen GmbH & Co. KG, Murrhardt

41 Remuneration of the auditors in accordance with § 314 (1) no. 9 HGB

The expense on the fees of the group auditors ERNST & YOUNG recognised in 2005 amounted to € 420,000 (previous year: € 411,000), on tax advice to € 234,000 (previous year: € 246,000) and on other services to € 105,000 (previous year: € 92,000).

Organs of LEIFHEIT AG

Members of the Supervisory Board

- **Dieter Schüfer**,
  Nassau/Lahn
  Chairman
  Formerly Chairman of the Board
  of Management of LEIFHEIT AG

- **Dr. jur. Robert Schuler-Voith**,
  Göppingen
  Deputy Chairman,
  Chairman of the Supervisory Board
  of Schuler AG

- **Joachim Barnert***,
  Zuzenhausen
  Toolmaker

- **Thomas Standke***,
  Nassau/Lahn
  Toolmaker

- **Dr. rer. pol. Friedrich M. Thomée,**
  Munich
  Managing Director of
  Thomée Vermögensverwaltung
  GmbH & Co. KG

- **Dipl. Oec. Helmut Zahn**,
  Munich
  Managing Director of
  Schuler-Beteiligungen GmbH

* Employee representative

Members of the Board of Management

- **Dr. rer. nat. Hans-Georg Franke**,
  Montabaur
  Chairman
  (from 1 March 2005)

- **Dipl. Ing. Stephan Gerster**,
  Bad Breisig

- **Dipl. Kfm. Frank Gutzeit**,
  Offenhausen

The following members of the Board of Management and Supervisory Board hold individual controlling functions in subsidiaries together with the following offices in Supervisory Boards and comparable controlling organs in companies.

- **Dieter Schüfer**
  GeoPost International Management & Development Holding GmbH, Aschaffenburg, Supervisory Board Chairman
  Scheurich GmbH & Co. KG, Kleinheubach, Advisory Board Chairman
  Wolfcraft GmbH, Kempenich, Advisory Board Chairman (to June 2005)

- **Dr. Robert Schuler-Voith**
  Schuler AG, Göppingen, Supervisory Board Chairman

- **Dr. Friedrich M. Thomée**
  TV-Loonland AG, Unterföhring, Supervisory Board Chairman

- **Helmut Zahn**
  Schuler AG, Göppingen, Supervisory Board member
  Flossbach & von Storch Vermögensmanagement AG, Cologne, Supervisory Board member (since May 2005)

- **Dr. Hans-Georg Franke**
  Gardena AG, Ulm, Supervisory Board Chairman
  Wolfcraft GmbH, Kempenich, Advisory Board member (to June 2005), Advisory Board Chairman (since June 2005)

- **Stephan Gerster**
  Scheurich GmbH & Co. KG, Kleinheubach, Advisory Board member

Nassau/Lahn, 10 March 2006

LEIFHEIT Aktiengesellschaft
The Board of Management

Franke

Dr. Hans-Georg Franke | Stephan Gerster | Frank Gutzeit

Audit opinion

We have issued the following opinion on the consolidated financial statements and the group management report:

“We have audited the consolidated financial statements prepared by LEIFHEIT AG, Nassau, Germany, comprising the balance sheet, the income statement, statement of changes in equity, segment reporting, cash flow statement and the notes to the consolidated financial statements for the fiscal year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and group management report in accordance with IFRSS as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB are 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 Sec. 317 HGB [“Handelsgesetzbuch”: German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework 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 entities to be included in consolidation, the determination of the entities to be included in consolidation, the accounting principles and consolidation standards 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, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and full IFRS 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, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Eschborn/Frankfurt am Main, Germany, March 13, 2006

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

signed	signed
Seckler	Knappe
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Individual financial statements of LEIFHEIT AG

The individual financial statements of LEIFHEIT AG, audited by Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Eschborn/Frankfurt am Main, and given an unqualified auditor's report, were drawn up in accordance with German commercial law and the provisions of the German Stock Corporation Act. They are published on the company's web site (www.leifheit.com), filed with the commercial register of Montabaur municipal court, and published in the Federal Gazette. They can also be requested from LEIFHEIT AG, Investor Relations, P.O. Box 1165. 56371 Nassau/Lahn (ir@leifheit.com).

Contacts, key dates

Contacts

■ **Postal address:**
LEIFHEIT AG
P.O. BOX 11 65
D-56371 Nassau/Lahn

■ **Investor Relations:**
tel.: ++49-26 04-977-218
fax: ++49-26 04-977-340

■ **LEIFHEIT on the Internet:**
http://www.leifheit.com
E-mail: ir@leifheit.com

Key dates

■ **5 April 2006**
Financial statements press conference, presentation of the annual report for 2005, followed by **analysts conference** in Frankfurt/Main

■ **April 2006**
English version of annual report 2005

■ **15 May 2006**
Interim report for the period ending 31 March 2006

■ **24 May 2006**
General Meeting, 10.30 am at LEIFHEIT AG Customer and Administration Centre, Leifheitstrasse, Nassau/Lahn

■ **14 August 2006**
Interim report for the period ending 30 June 2006

■ **14 November 2006**
Interim report for the period ending 30 September 2006

■ **27–29 November 2006**
Investor and analyst conference
Deutsches Eigenkapitalforum, Frankfurt/Main

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LEIFHEIT

AKTIENGESELLSCHAFT

P.O. Box 11 65
D-56371 Nassau/Lahn
Phone: ++49-26 04-977-0
Telefax: ++49-26 04-977-300
Internet: www.leifheit.com
E-mail: ir@leifheit.com