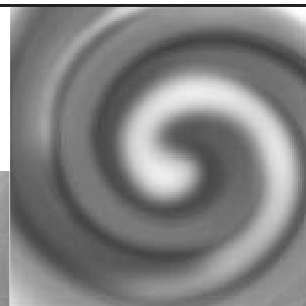
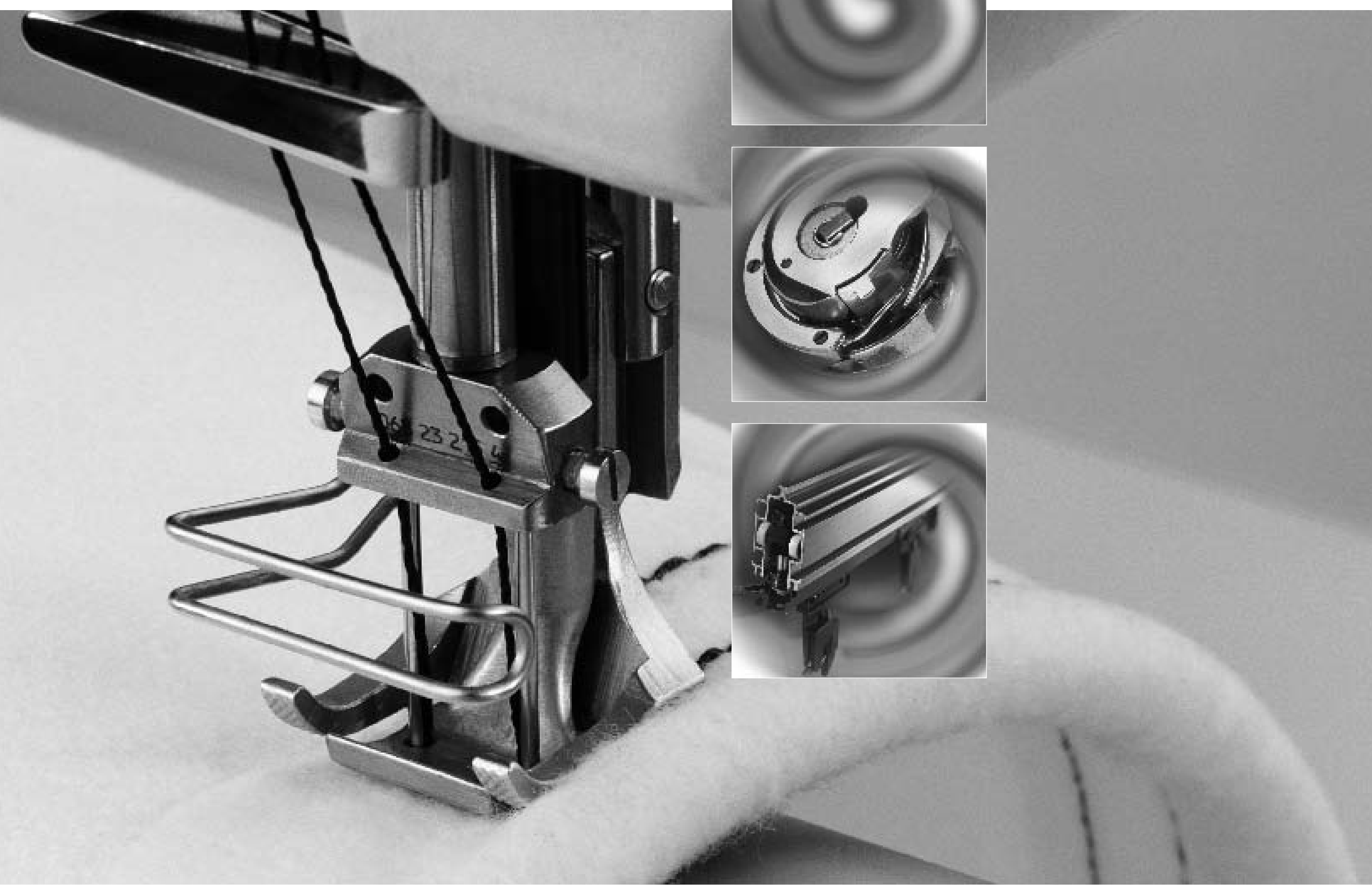
Annual Report

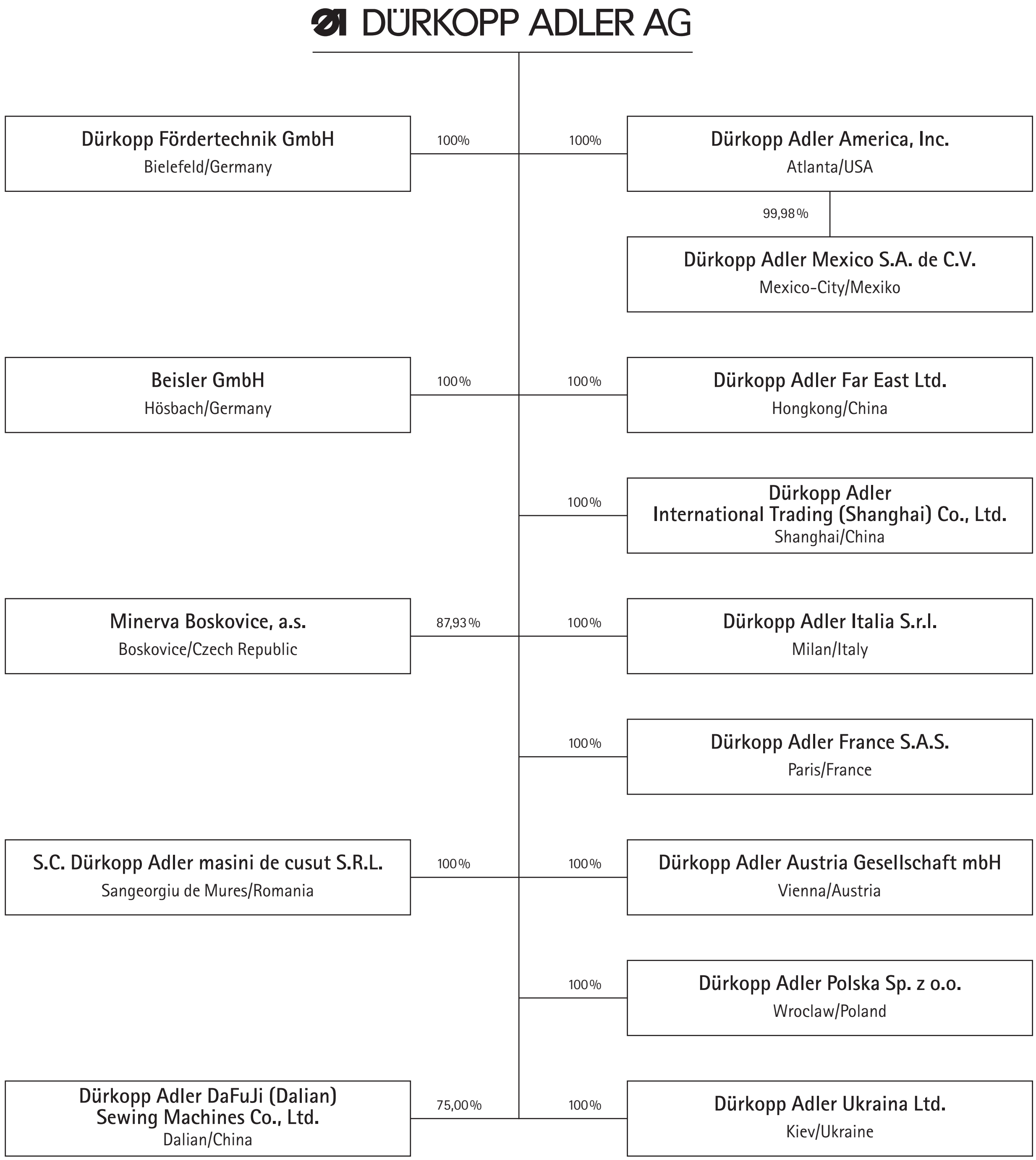
2005





DÜRKOPP ADLER AG

Equity Holdings



Content

Management Report

of the Dürkopp Adler Group

The consolidated Group report for 2005 has been drawn up for the first time in accordance with the International Financial Reporting Standards (IFRS). Comparative values from 2004 have also been prepared according to IFRS.

With effect from July 1, 2005, the Chinese SGSB Group Co., Ltd., Shanghai (SGSB Group) took over the majority shareholding in Dürkopp Adler AG from FAG Kugelfischer GmbH, Schweinfurt. Stocks are held by ShangGong (Europe) Holding Corp. GmbH, Hamburg, a wholly-owned subsidiary of the SGSB Group.

Market Trend

The markets for both divisions which make up the Dürkopp Adler Group, were subject to very opposing developments in the preceding fiscal year. In the Materials Handling division, positive market signals were identified in the course of the year and implemented into the projects. Customers were once again demonstrating a willingness to invest in new plant. In contrast, however, the market for Sewing Technology remained problematical – a situation reflecting that of previous years. Last year was characterized by intense competitive pressure, high discounts and over capacity. The trend of clothing manufacturers to relocate production from Western and Eastern Europe to Asia – in particular to China and India – continues unrelenting. At the same time, the willingness of suppliers to the automobile industry to invest diminished as the year went on. The American market was particularly hit by this development.

Sales and Orders

Group sales amounted to € 128.6 million (2004: € 133.3 million). Of this, € 101.7 million was attributable to Sewing Technology (2004: € 112.0 million). The Material Handling division boosted its sales from € 21.3 million in the prior year to € 26.9 million in the current year. As before, international business is of vital importance to the Dürkopp Adler Group. The international proportion of Group sales amounted to 85.7% (2004: 84.0%). Europe topped regional sales standings with 60.0% of consolidated Group sales – with a turnover of € 77.2 million (2004: € 77.0 million).

In 2005, orders received in the Dürkopp Adler Group totaled € 129.9 million. While orders received in the Sewing Technology division of € 101.1 million lagged behind orders for the prior year (€ 110.4 million), new orders in the Material Handling division showed a more optimistic development. Orders rose from € 25.3 million in the previous year to € 28.8 million in the year under review.

The volume of secured orders for the Group as of December 31, 2005 amounted to € 18.2 million (2004: € 16.5 million).

Sales trend over the last 5 years

(in € million)	HGB 2001	2002	2003	2004	IFRS 2004	2005
Group	173.5	154.8	145.7	133.2	133.3	128.6
Sewing Technology Unit	148.1	117.9	111.5	111.8	112.0	101.7
Material Handling Unit	25.4	36.9	34.2	21.4	21.3	26.9

Sales in the Regions

(in € million)	2005	%	2004	%
Germany	18.4	14.3	21.3	16.0
Europe (without Germany)	58.9	45.8	55.7	41.8
America	16.1	12.5	22.2	16.6
Africa	6.6	5.1	5.7	4.3
Asia/Australia	28.6	22.3	28.4	21.3
Total	**128.6**	**100.0**	**133.3**	**100.0**

Employees

The number of employees in the Dürkopp Adler Group effective December 31, 2005 totaled 1,772 (2004: 1,841 employees). Averaged across the year, employee figures stood at 1,824 (2004: 1,929 employees).

Reductions in the workforce resulted from the implementation of measures agreed in 2004 aimed at rationalize staff to capacity at the Bielefeld site. Such measures were primarily carried out in production, sales and administration. Production capacity at the Rumanian plant was extended further. As a result, the number of employees here rose from 328 in the previous year to 361.

Capacities in European production sites were fully utilized. Peak requirements were covered by making use of flexitime arrangements provided for in the wage agreement.

Production work at Bielefeld, Boskovice and Sangeorgiu de Mures is organized in a number of shifts, with remuneration largely based on monthly salaries. By year-end 2005, 39 employees had taken advantage of legal options and opportunities presented by the wage agreement with regard to partial retirement (2004: 38 employees). Throughout the year training and development course were offered with the aim of promoting employee skills. This was taken up by a large proportion of the workforce. Expenses incurred in training and development for the reporting year amounted to € 0.2 million (2004: € 0.1 million). As in the past, staff fluctuation at all locations was low. A large proportion of the employees has already been working for Dürkopp Adler group companies for more than 25 years.

Personnel expenses for the Group dropped from € 55.2 million in 2004 to € 49.0 million for the year under review.

Environmental Protection

Stringent environmental goals have been defined in Dürkopp Adler group companies. A program of regular checks and monitoring ensures that these are complied with. These regular controls are documented in an annual environmental report, providing evidence of compliance with all legal stipulations. Further, all locations pay special attention to the use of environmentally-friendly materials. The disposal of toxic and hazardous substances is conducted in accordance with professional standards. The Group also works continually on reducing the use of hazardous materials, thereby fulfilling its goal in reducing environmental damage in production processes as much as possible.

Development and Innovation

Expenses for Research & Development itemized in the Income Statement amounted to € 6.3 million, or 4.9% of turnover.

In the Sewing Technology division, development activities for the new machines in the middleweight series were advanced enabling the market launch to be initiated at the end of the year. Aside from further improvements to existing products, an element of development capacity was utilized to qualitatively enhance products manufactured by the Group's parent company, the SGSB Group, and to extend its range of products. The SGSB Group is invoiced for consultancy and development work provided on its behalf.

The focus of development activity in Materials Handling included the development of a conveying and sorting concept on the basis of hanger adapters. This new product line will prove to be an astute supplement to the division's other tried and tested techniques.

Development of Operating Profits

Although sales revenues were down on the previous year, pre-tax profit was up on the year. This was primarily due to the cost-cutting measures in both divisions introduced the previous year and rigorously implemented in the year under view. Earnings before tax for the Dürkopp Adler Group rose by € 4.7 million to € 0.9 million (2004: € –3.8 million).

Consolidated net income for the year totaled € 1.4 million in the year under review following a deficit of € 4.2 million in 2004.

Development of Operating Result

(in € million)	2005	%	2004	%	Change %
Sales	128.6	100.0	133.3	100.0	–3.5
Cost of sales	–83.1	–64.6	–90.6	–68.0	–8.3
Gross profit on sales	**45.5**	**35.4**	**42.7**	**32.0**	**6.6**
Selling expenses	–24.2	–18.8	–25.4	–19.1	–4.7
General administration expenses	–7.1	–5.5	–7.5	–5.6	–5.3
R & D expenses	–6.3	–4.9	–6.1	–4.6	3.3
Other expenses	–7.0	–5.4	–8.7	–6.5	–19.5
Other income	4.0	3.0	4.9	3.7	–18.4
Earnings before interest and taxes	**4.9**	**3.8**	**–0.1**	**–0.1**	**n.a.**
Interest balance	–4.0	–3.1	–3.7	–2.8	8.1
Result before income taxes	**0.9**	**0.7**	**–3.8**	**–2.9**	**–123.7**
Income taxes	0.5	0.4	–0.3	–0.2	–266.7
Net income/loss	**1.4**	**1.1**	**–4.1**	**–3.1**	**–134.1**

Value-Added

Due to the drop in consolidated performance, value added also decreased to € 53.8 million (2004: € 55.1 million).

Value Added

Origin (in € million)	2005	2004	Application (in € million)	2005	%	2004	%
Sales	128.6	133.3	Shareholders	–	–	–	–
Other earnings	6.6	7.5	Minority shareholdings	–	–	0.1	0.2
Consolidated income	**135.2**	**140.8**					
Material expenses	52.1	50.4	Employees	49.0	91.1	55.2	100.2
Depreciation	6.2	7.8	Public sector	–0.6	–1.1	0.3	0.5
Other expenses	23.1	27.5	Creditors	4.0	7.4	3.7	6.7
Advance payments	**81.4**	**85.7**	Group companies	1.4	2.6	–4.2	–7.6
Added value	**53.8**	**55.1**	**Added value**	**53.8**	**100.0**	**55.1**	**100.0**

Cash Flow Statement and Cash Flow

The Cash Flow Statement records the flow of payments to and from the Dürkopp Adler Group. The detailed Capital Flow Statement in enclosed in the Group's financial statements.

Assets and Capital Structure

The value of fixed assets amounted to € 46.3 million (2004: € 47.2 million). This corresponds to 35.4% of the balance sheet total (2004: 38.8%).

In 2005, investment largely focused on office and factory equipment as well as improving the technical infrastructure of data management. Investment in intangible and tangible assets amounted to € 5.2 million with depreciation of € 6.2 million.

Investment/Depreciation over the last five years

(in € million)	2001	2002	2003	HGB 2004	2004	IFRS 2005
Investment	7.9	4.5	3.7	3.3	4.9	5.2
Depreciation	7.6	6.5	5.7	6.6	7.8	6.2

Inventories rose from € 32.0 million in the previous year to € 35.2 million. Trade receivables fell from € 33.0 million to € 31.1 million.

By the end of the year, consolidated equity capital increased € 2.0 million to € 22.0 million. The capital ratio improved from 16.6% to 17.0% despite the increase in total assets and liabilities through cash equivalents.

Pension provisions of € 45.7 million represent the most significant element on the assets side of the Dürkopp Adler consolidated balance sheet. By applying IFRS principles, there is an increase in the obligation of € 8.3 million compared to the assessment under German commercial law.

Other long-term provisions amounting to € 3.2 million (2004: € 3.5 million) primarily cover provisions for the company's anniversary celebrations, provisions for the approved collective wage agreement and provisions for partial early retirement.

Liabilities to Banks/Funding

Dürkopp Adler Group financial obligations comprise loans of € 36.1 million to affiliated companies (2004: € 22.5 million) and € 0.7 million to banks (2004: € 1.7 million). Dürkopp Adler has also secured a long-term Group loan of € 35.0 million from the ShangGong (Europe) Holding Corp. GmbH, Hamburg. From 2007 to 2015, € 27 million of this loan is to be repaid in nine equal installments, with € 8.0 million due at a later time. In addition, banks have stand-by credit facilities of up to € 11.6 million available.

Situation of Dürkopp Adler AG

Developments in the Sewing Technology division were reflected in Dürkopp Adler AG's general course of business. Sales totaled € 81.8 million (2004: € 90.0 million). While sales in Western and Eastern Europe were down on the previous year, sales in Germany and Asia recorded a slightly upward trend. Due to a lack of investment on the part of major customers in the automobile component supplying industry in the USA, sales did not reach the figures of the previous year. The proportion of sales secured outside Germany fell from 88.7% to 87.3%.

In 2005, orders received amounted to € 80.5 million (2004: € 87.1 million) with orders (secured) at the end of 2005 totaling € 5.9 million (2004: € 7.2 million). The downward pressure on prices and terms in the clothing industry in particular led to much lower margins in some markets compared to the previous year. The strength of the euro in comparison to the dollar, especially in the first six months of 2005, only served to compound the situation. This development was more than offset by savings in production costs with the gross operating profit amounting to 34.2% of sales in 2005 compared to 28.4% for the previous year.

Further savings of € 1.6 million were booked thanks to restructuring measures carried out in other departments such as administration and sales.

EBIT improved on the previous year by € 8.6 million to € 3.0 million. With net interest income of € –0.9 million, pre-tax profit amounted to € 2.1 million (2004: € –6.1 million). The end-of-year surplus for Dürkopp Adler AG amounted to € 2.1 million overcoming a net loss of € 8.4 million for the previous year.

Results of Subsidiary Companies

In our network of distinct production sites, it is notably our international production companies Minerva Boskovice in the Czech Republic and Dürkopp Adler Rumania which have made significant contributions to the manufacture of competitive products.

Minerva Boskovice, a.s. is specialized in the production of machines for the automobile, furniture, shoe and leather industries. Capacities in these companies were influenced by declining sales and orders in the Sewing Technology division. For this reason, staff cutbacks at the site were carried out to meet to adjustments in capacity.

Sales revenues at Minerva Boskovice, a.s. reached € 22.8 million (2004: € 23.2 million). EBIT amounted to € 0.8 million with an end-of-year surplus of € 0.1 million (2004: € 0.5 million)

At Dürkopp Adler Rumania, parts and components for production sites in Bielefeld, Hösbach and Boskovice are manufactured which are also used for spare and wear part sales through Dürkopp Adler AG and its affiliates. Dürkopp Adler Rumania closed the year with a net loss for the year of € 0.1 million.

Despite recording declining sales compared to the previous year, Beisler GmbH in Hösbach, which manufactures highly specialized sewing systems for the clothing industry, recorded a positive result for the year.

Our American affiliate Dürkopp Adler America, Inc. suffered an acute collapse in sales as major customers from the automobile industry drastically curbed their investment compared to the previous year. Sales fell by € 4.7 million on the previous year to € 15.1 million. The effects of this drop in sales was balanced by cost savings, leaving the company a net profit on the year of € 0.1 million.

The mass exodus of the clothing and leather industries out of Italy towards Eastern Europe and Asia once again led to a collapse in sales at Dürkopp Adler Italia S.r.l. Restructuring and cost-reduction measures instigated at an early stage made it possible to record a profit despite the drop in sales.

In contrast, business developments at Dürkopp Adler France S.A.S. were more favorable. Thanks to a major contract, sales grew by 25.7% from € 6.5 million in the previous year to € 8.2 million. The company posted a pre-tax profit of € 0.3 million.

Our company in Hong Kong also managed to generate a profit for the Dürkopp Adler Group, while Dürkopp Adler Polska Sp. z.o.o. and Dürkopp Adler International Trading (Shanghai) Co. Ltd. ended the year with a net loss.

Following a difficult business year in 2004, Dürkopp Fördertechnik GmbH, Bielefeld, found its way back to a profit position. Sales increased from € 21.3 million in 2004 to € 27.0 million, a rise of 26.6% year-on-year. Orders received totaling € 28.8 million represented a significant increase on the previous year. Year-end orders received of € 10.5 million signified a solid basis for further encouraging business developments. After ending 2004 with a net loss for the year of € 1.2 million, the company seems to have turned the tide posting an annual surplus for 2005 of € 0.6 million. In accordance with an existing profit and loss transfer agreement, this annual surplus was transferred to Dürkopp Adler AG.

Risk Report

The increasing complexity of the worldwide markets we serve calls for an effective system of risk-oriented corporate supervision. For this, we make use of our own risk management system. An element of this risk management system is a catalog of risks, drawn up for all major companies in the Dürkopp Adler Group. This catalog of risks is updated annually for Dürkopp Adler AG, Dürkopp Fördertechnik GmbH, Minerva Boskovice a.s. and for Dürkopp Adler America Inc. as part of an estimate and inventory of risks. Risks and their threshold values are assessed and documented by Group financial controlling and adapted to meet current conditions in coordination with the operative unit.

Special measures introduced for specific risks are subject to regular control. The Executive Board was kept regularly informed of changes in order to react without delay should the need arise.

As an internationally operative company, Dürkopp Adler is exposed to currency risks. Since we generate a large part of our sales in the USA and in the dollar-reliant countries of Asia, we are very much focused on the exchange rate between the US dollar and the euro. We hope to reduce risks brought about by currency fluctuations by using financial derivatives and a centralized currency management. Major transactions in international currencies are secured by currency futures trading. The financial derivates are listed in detail in the Notes.

In worldwide trade, corporate risks arise simply from the inherent nature of the product. We are able to counter such risks with product audits at all locations. This enables us to recognize risks immediately as they emerge and to implement corrective measures as required.

Risks of Future Trends

Negative market trend for sewing technology products, which has characterized developments over the last few years, represents a risk. We are assuming that this negative trend – and the associated risk – will remain with us through 2006. We are facing up to this risk by carrying out corrective adjustments and structural measures.

Grateful for personnel measures implemented in 2005 and the related improved structures in sales and production, we have a created a good foundation for minimizing the risk.

In addition, the relationship of dollar to euro also represents a risk for our company since this exchange rate development not only affects the American market, it also has a considerable influence on business in Asia. We are combating this risk through currency futures trading.

From our point of view, we do not see any risks to Dürkopp Adler AG and the Dürkopp Adler Group which will affect its going concern status. Thanks to the long-term loan provided by ShangGong (Europe) and stand-by credit facilities from our company's banks of € 11.6 million, Dürkopp Adler AG's liquid funds are assured.

Dependent Company Report

Due to the change in principle shareholder, we have drawn up two reports on the relationship to affiliated companies pursuant to the regulations of Section 312 of the Aktiengesetz (the German Companies Act). In addition to describing the relationship to companies in the Dürkopp Adler Group, the report for the first six months of the year also provides information on associations to companies in the FAG/Schaeffler Group. The report on the second half of the year examines the relationships to Dürkopp Adler companies and enterprises in the SGSB Group. Both reports conclude with the following declaration:

"Our company received appropriate compensation for the legal transactions listed in the report on the relations to affiliated companies according to the conditions which were known to us at the time such legal transactions were undertaken. Our company did not take or omit to take any measures at the behest or in the interest of a major shareholder or of an affiliated company."

Significant Events Following the Balance Sheet Date

Since the end of the 2005 financial year, no further events of significance for the Dürkopp Adler Group have occurred which could lead to an amended assessment of the asset, financial and revenue situation of the company.

Outlook

In the Sewing Technology division, our market position continues to be subject to the tremendous pressure exerted by the massive expansion recently undertaken by Asian sewing machine manufacturers. On the one hand, there is extensive unyielding aggressive competition at the low-end of the market; conversely, a number of manufacturers have surfaced who are gradually trying to acquire a greater share of the market with qualitatively improved products. These products have been enhanced either through the companies' own innovations or through support from outside. Chinese manufacturers are taking advantage of their geographical advantage and related low production costs.

Despite these prevailing conditions, Dürkopp Adler is well-equipped to face 2006 head on.

The takeover of the majority shareholding in Dürkopp Adler AG in mid-2005 by the Chinese SGSB Group will significantly improve our position in Asia – especially in China – and ease market entry. As part of the collaboration with the SGSB Group, 2006 will see us establishing both production and sales joint ventures in Shanghai. This will help exploit cost benefits by producing in China and will also help us increase market share thanks to our operational presence in the country. Collaborative developments on the range of products will extend our product base and close the gaps in our series.

Comprehensive new developments of the M-type in the middleweight range will provide sustained improvements to our market opportunities in the industrial sector (automotive, upholstered furniture, shoes, technical textiles).

Furthermore, the resolute relocation of other products to plants in the Czech Republic and in Rumania coupled with the improvement in Group logistics have created a sound basis for developing profit potential. The continued consolidation of the IT infrastructure places Dürkopp Adler AG in the position of being able to considerably accelerate production capacity and to reduce stocks still further.

On the procurement side, we will be making resolute use of site-spanning purchasing options available and strengthening the internationality of our procurement management still further. At the same time, we will be pushing ahead with the standardization of components with vigor to obtain larger purchase volumes. This will strengthen our purchasing position.

The market for the Materials Handling division, can be summed up in terms of 'careful stimulation'. The main focal points are Europe (excluding Germany) and the new business areas developed in the past few years, which include sorting equipment for flat packed goods and the automobile industry. The newly-developed conveyor and sorting concept based on hanger adapters has emerged as a promising model.

Supported by good order book volume, we are anticipating continued positive trend in business for this division in 2006.

Overall, we are anticipating an increase in sales revenues for the new business year. This should make it possible to improve on our result for 2005 still further.

Bielefeld, March 3, 2006

The Executive Board

Werner Heer

Ying Zheng

Balance Sheet

of the Dürkopp Adler Group for the year ending December 31, 2005

(in T€)	Appendix	Dec. 31, 2005	Dec. 31, 2004
ASSETS			
Non-current assets			
Intangible assets	(1)	6,432	6,203
Tangible fixed assets	(2)	34,758	35,993
Investment property	(3)	4,769	4,670
Financial assets	(4)	331	330
		46,290	**47,196**
Other non-current assets		43	49
Deferred taxes		6,981	5,269
		53,314	**52,514**
Current assets			
Inventories	(5)	35,312	31,952
Accounts receivable and other assets	(6)	34,244	36,363
Cash and cash equivalents	(7)	7,781	976
		77,337	**69,291**
		130,651	**121,805**
LIABILITIES			
Equity			
Subscribed capital	(8)	20,963	20,963
Capital reserves	(9)	8,112	8,112
Retained earnings	(10)	14,803	14,277
Balance sheet loss		–22,707	–24,133
		21,171	**19,219**
Minority interests	(11)	1,034	1,000
		22,205	**20,219**
Non-current liabilities			
Pension provisions	(12)	45,735	47,143
Other non-current provisions	(13)	3,164	3,461
Financial liabilities	(14)	35,043	242
Deferred taxes		3,031	2,285
		86,973	**53,131**
Current liabilities	**(15)**		
Current provisions		6,931	7,986
Liabilities from production orders		485	–
Trade accounts payable		4,873	5,598
Advanced payments received for orders		1,852	789
Accounts payable to affiliated companies		21	27
Financial liabilities		4,656	33,108
Other current liabilities		2,418	859
Income tax liabilities		237	88
		21,473	**48,455**
		108,446	**101,586**
		130,651	**121,805**

Income Statement

of the Dürkopp Adler Group for the financial year 2005

(in T€)	Appendix	2005	2004
Sales	**(16)**	**128,571**	**133,301**
Costs of sales	(17)	–82,992	–90,615
Gross profit on sales		**45,579**	**42,686**
Selling expenses	(18)	–24,219	–25,403
Expenses of research and development	(19)	–6,301	–6,141
General administration expenses	(20)	–7,140	–7,501
Other operating income	(21)	3,991	4,935
Other operating expenses	(22)	–7,036	–8,711
Income from shareholdings		2	2
Earnings before interest and taxes		**4,876**	**–134**
Interest balance	(23)	–4,021	–3,677
Result before income taxes		**855**	**–3,811**
Income taxes	(24)	571	–303
Net income/loss		**1,426**	**–4,114**
Minority interests	(25)	–17	–62
Consolidated net income		**1,409**	**–4,176**

Income/loss per share	0,17	–0,50
Number of shares	8,200,000	8,200,000

Statement of Equity Changes

in the Dürkopp Adler Group from Jan. 1, 2004 to Dec. 31, 2005

					Parent company			Minority shareholding	
	Subscribed capital	Capital reserves	Earned Group equity	Accumulated other Group profit/loss Currency transl.	Equity according to Group balance sheet	Minority Capital consolidated	Accumulated other Group profit/loss Currency transl.	Equity	Group equity
As of Jan. 1, 2004	**20,963**	**8,112**	**–6,694**	**0**	**22,381**	**1,127**	**0**	**1,127**	**23,508**
Net profit/loss for period	0	0	–4,175	0	–4,175	62	0	62	–4,113
Currency translation	0	0	0	324	324	0	54	54	378
Changes in consolidated companies	0	0	261	–16	245	–261	16	–245	0
Other changes	0	0	444	0	444	2	0	2	446
As of Dec. 31, 2004	**20,963**	**8,112**	**–10,164**	**308**	**19,219**	**930**	**70**	**1,000**	**20,219**
Net profit/loss for period	0	0	1,409	0	1,409	17	0	17	1,426
Currency translation	0	0	0	–171	–171	0	49	49	–122
Changes in consolidated companies	0	0	33	0	33	–33	0	–33	0
Other changes	0	0	681	0	681	1	0	1	682
As of Dec. 31, 2005	**20,963**	**8,112**	**–8,041**	**137**	**21,171**	**915**	**119**	**1,034**	**22,205**

Development of Fixed Assets

of the Dürkopp Adler Group

(in T€)	As of Jan. 1, 2005	Currency adjusted	Additions	Disposals	Differences	As of Dec. 31, 2005
	Acquisition and production costs					
I. Intangible fixed assets						
1. Industrial property rights and similar rights	313	6	55	26	–	348
2. Acquired software	1,018	15	108	112	–	1,029
3. Development costs	5,800	–	1,775	–	–	7,575
4. Goodwill	5,832	–	–	–	–	5,832
5. Payments made on account	12	1	–	11	–	2
	12,975	22	1,938	149	–	14,786
II. Tangible fixed assets						
1. Land and building including buildings on land owned by others	39,005	466	461	170	–15	39,747
2. Technical plant and machinery	33,267	888	685	4,452	311	30,699
3. Other equipment, operating and office equipment	31,217	585	1,846	2,712	48	30,984
4. Payments made on account and assets in course of construction	731	25	126	102	–344	436
	104,220	1,964	3,118	7,436	–	101,866
III. Investment property	6,051	–	179	–	–	6,230
IV. Financial assets						
1. Shareholdings	287	–	–	–	–	287
2. Non-current securities	49	–	–	–	–	49
	336	–	–	–	–	336
	123,582	1,986	5,235	7,585	–	123,218

Accumulated Write-downs					Net book value	
As of Jan. 1, 2005	Currency adjusted	Additions	Disposals	As of Dec. 31, 2005	As of Dec. 31, 2005	As of Dec. 31, 2004
256	5	41	26	276	72	57
711	12	147	112	758	271	307
2,887	–	1,515	–	4,402	3,173	2,913
2,918	–	–	–	2,918	2,914	2,914
–	–	–	–	–	2	12
6,772	**17**	**1,703**	**138**	**8,354**	**6,432**	**6,203**
17,223	139	929	134	18,157	21,590	21,782
24,109	584	1,708	4,004	22,397	8,302	9,158
26,884	478	1,770	2,597	26,535	4,449	4,333
11	1	7	–	19	417	720
68,227	**1,202**	**4,414**	**6,735**	**67,108**	**34,758**	**35,993**
1,381	**–**	**80**	**–**	**1,461**	**4,769**	**4,670**
–	–	–	–	–	287	287
6	–	–	1	5	44	43
6	**–**	**–**	**1**	**5**	**331**	**330**
76,386	**1,219**	**6,197**	**6,874**	**76,928**	**46,290**	**47,196**

Cash Flow Statement

for the Dürkopp Adler Group

(in € million)	2005	2004
Net profit on year	1.4	–4.1
Depreciation on fixed assets	6.2	7.8
Increase in deferred taxes	–1.0	–0.1
Change in non-current provisions	–1.4	–1.3
Non-cash revenues and expenses	–0.4	4.1
Increase (+)/decrease (–) in short and medium term provisions	–2.4	–3.7
Profit on the disposal of fixed assets	–0.4	–0.1
Decrease in inventories, trade receiveables and other assets not attributable to investment or financing activities	1.2	13.5
Decrease in trade payables and other financing liabilities not attributable to to investment or financing activities	1.0	–1.1
Interest paid	–0.5	–1.0
Taxes paid	0.5	–0.1
Cash flow from operating activities	**4.2**	**13.9**
Payments received from the disposal of fixed assets	1.2	0.1
Payments made for investments in intangible fixed assets	–1.9	–1.8
Payments made for investments in tangible assets	–3.3	–3.1
Payments made for acquiring consolidated companies	–0.3	0.0
Cash flow from investment activities	**–4.3**	**–4.8**
Payments made from the take-up of loans	12.6	0.0
Payments made on amortizing loans	–5.7	–9.2
Cash flow from financing activities	**6.9**	**–9.2**
Change in cash and cash equivalents	6.8	–0.1
Cash and cash equivalents at beginning of period	1.0	1.1
Cash and cash equivalents at end of period	**7.8**	**1.0**

Notes

Relating to the Consolidated Financial Statements of Dürkopp Adler AG

General Information
With effect from July 1, 2005, ShangGong (Europe) Holding Corp. GmbH became the majority shareholder in Dürkopp Adler Aktiengesellschaft. ShangGong (Europe) Holding Corp. GmbH is a 100% subsidiary of the SGSB Group Co., Ltd., Shanghai.

Group Relationships
Dürkopp Adler AG is under the direct and uniform control of ShangGong (Europe) Holding Corp. GmbH, Hamburg, itself under the direct control of SGSB Group Co. Ltd., Shanghai. It is included in the consolidated report of ShangGong (Europe) Holding Corp. GmbH, Hamburg, (narrow group) and in the consolidated report of SGSB Group Co. Ltd., Shanghai, (wider group). Documents pertaining to ShangGong (Europe) Holding Corp. GmbH, Hamburg which are subject to disclosure have been submitted to the Commercial Registry at the Amtsgericht (District Court) in Hamburg under the reference HR B 89789.

Accounting Principles
Dürkopp Adler AG is a first-time adopter, preparing its consolidated financial statements for the business year ending December 31, 2005 for the first time to comply with International Financial Reporting Standards (IFRS). The report takes into consideration both obligatory standards of the International Accounting Standards Board in London, applicable on the reporting date, and interpretations of the International Financial Reporting Interpretation Committee (IFRIC) valid for the business year. Requirements of the standards and interpretations applied were fulfilled without exception and the information presented herein represents a faithful account of the company's assets, financial and revenue position.

The consolidated financial statements have been published and filed with the Commercial Registry at the Amtsgericht (District Court) in Bielefeld under the reference HRB 7042.

The Dürkopp Adler AG business year, and that of subsidiaries included in the consolidated financial statements, corresponds to the calendar year.

The consolidated financial statements were drawn up in euros. Except when stated otherwise, all amounts are presented in thousands of euros (T€). The income statement complies with the cost-of-sales method.

On March 3, 2006, the Executive Board authorized the issue of the consolidated Notes and the consolidated Management Report to the Supervisory Board for approval.

First-time Adoption of IFRS
In drawing up the opening balance on January 1, 2004, Dürkopp Adler AG adopted the IFRS as the basis for group accounting for the first time. This first-time adoption of the IFRS was followed to comply with IFRS 1. In retrospectively applying IFRS, the company made use of a number of IFRS 1 exemption options with respect to the following regulations:

- Drawing up a balance sheet for business combinations that occurred before the date of transition (IFRS 3)
- Basis of certain asset values at fair value
- Services to employees (IAS 19)
- Accumulated foreign currency differences.

In adopting the International Financial Reporting Standards, a number of major differences to the German GAAP have become apparent for consolidated financial statements at December 31, 2005:

- Maturity overview of balance sheet items
- Inclusion of existing leasing obligations in accordance with the business perspective within the meaning of IAS 17
- Valuation of selected property at fair value
- No scheduled amortization of goodwill
- Inclusion of certain financial instruments at a fair value in accordance with IAS 39
- Application of the percentage-of-completion method for production orders for specific customers (IAS 11)
- The translation of value date receivables and payables to the mean price of the balance sheet date; changes in values which result are recorded and recognized in income.
- Pension provisions follow the projected unit credit method in accordance with IAS 19, taking account of future increases in salaries and pensions, and the corridor method (IAS 19)
- Waivering the formation of provisions for expenses and no formation of other provisions where the probability of availment is less than 50%, non-current provisions are assessed at their cash value (IAS 37).
- Inclusion of estimated savings in income taxes from loss carryovers which are realizable in the future. In contrast to the income statement-oriented method of the German Commercial Code, IAS 12 adopts a balance sheet-oriented approach.
- Capitalizing development costs, if conditions have been fulfilled for capitalizing internally-produced intangible assets in accordance to IAS 38.

The illustration of the effects on the balance sheet, income statement and cash flow resulting from the transition to IFRS presented below, is based on the previous consolidated financial statements which were prepared in accordance with the German Commercial Code dated December 31, 2004.

Effects of Adopting IFRS on the Consolidated Balance Sheet

Reconciliation in the consolidated balance sheet from the German Commercial Code (HGB) to IFRS at December 31, 2004:

Adjustments contain reclassifications and changes in value.

	Dec. 31, 2004 HGB	Adjustment to IFRS	Dec. 31, 2004 IFRS
ASSETS			
Non-current assets			
Intangible assets	3,290	2,913	6,203
Property, plant and equipment	34,233	1,760	35,993
Investment property	0	4,670	4,670
Financial assets	1,787	–1,457	330
Other non-current assets	0	49	49
Deferred taxes	2,143	3,126	5,269
	41,453	**11,061**	**52,514**
Current assets			
Inventories	31,952	0	31,952
Accounts receivable and other assets	34,246	2,117	36,363
Cash	976	0	976
Pre-paid expenses	147	–147	0
	67,321	**1,970**	**69,291**
	108,774	**13,031**	**121,805**
LIABILITIES			
Equity			
Subscribed capital	20,963	0	20,963
Capital reserves	8,112	0	8,112
Retained earnings	15,719	–1,442	14,277
Net loss	–30,064	5,931	–24,133
Minority interests	958	42	1,000
	15,688	**4,531**	**20,219**
Non-current liabilities			
Pension provisions	38,206	8,937	47,143
Other non-current provisions	0	3,461	3,461
Financial liabilities	242	0	242
Deferred taxes	876	1,409	2,285
	39,324	**13,807**	**53,131**
Current liabilities			
Current provisions	12,313	–4,327	7,986
Accounts payable	5,598	0	5,598
Payments received for orders	789	0	789
Amounts due to affiliated companies	27	0	27
Financial liabilities	29,362	3,746	33,108
Other liabilities	4,687	–3,828	859
Income tax liabilities	411	–323	88
Deferred items	575	–575	0
	53,762	**–5,307**	**48,455**
	108,774	**13,031**	**121,805**

Effects of Adopting IFRS on the Income Statement
Reconciliation in the income statement from HGB to IFRS for 2004:

(in T€)	HGB 2004	IFRS-Adjustment effect 2004	IFRS 2004
Sales	133,182	119	133,301
Costs of sales	–89,888	–727	–90,615
Gross profit on sales	43,294	–608	42,686
Sales expenses	–25,389	–14	–25,403
Research and development	–6,558	417	–6,141
General administrative costs	–7,505	4	–7,501
Other operating income	3,456	1,479	4,935
Other operating expenses	–8,068	–643	–8,711
Income from shareholdings	2	–	2
EBIT and minority interests	–768	635	–133
Net interest income	–1,205	–2,472	–3,677
Earnings before taxes and Minority interests	–1,973	–1,837	–3,810
Extraordinary expenses	–2,986	2,986	–
Income taxes	–228	–75	–303
Net loss on year	–5,187	1,074	–4,113

Effects of Adopting IFRS on the Cash Flow Statement
The major distinction between the cash flow statements drawn up to comply with German GAAP and with IFRS basically consists in the latter including the support facility Dürkopp Adler e. V. in the list of consolidated companies.

Effects of Adopting IFRS on Equity and Net Profit

The following major effects on Group equity result as a consequence of applying IFRS accounting and valuation methods at January 1, 2004 and December 31, 2004 and on consolidated net income for 2004.

(in T€)	Jan. 1, 2004	Dec. 31, 2004
Group equity according to HGB	**20,934**	**15,688**
Intangible assets		
Development costs	2,477	2,913
Goodwill	–1,169	–
Property, plant and equipment	1,752	1,760
Investment property	4,750	4,670
Deferred tax claims	3,150	3,126
Accounts receivable and other assets	1,388	2,119
Pension provisions	–8,798	–8,937
Deferred tax liabilities	–1,717	–1,409
Other	741	289
Group equity according to IFRS	**23,508**	**20,219**

Effects of Adopting IFRS on Net Profit/Loss

(in T€)	2004
Consolidated net profit according to HGB	**–5,187**
Intangible assets	
Development costs	362
Goodwill	1,169
Valuation of receivables	10
Pension provisions	–1
Deferred taxes	–73
Other	–393
Consolidated net profit according to IFRS	**–4,113**

Assessment of Fair Value according to IFRS 1
Simplification procedures pursuant to IFRS 1.16 were applied to the following assets, utilizing the fair value at the time of transition as a substitute for purchase or production costs:

(in T€)	Book value HGB	Adjustment	Book value IFRS
Plant, property and equipment			
Business property, Bielefeld	1,572	2,664	4,236
Company building, Bielefeld	10,596	1,700	12,296
Investment property			
Reserve property, Bielefeld	1,904	2,096	4,000

Adjustments were made on the basis of experts' reports.

Consolidated Companies
All companies included in the Dürkopp Adler AG consolidated financial statements are companies over which Dürkopp Adler AG can directly or indirectly determine financial and corporate policy (control relation). These companies are included in the consolidated report from the time Dürkopp Adler AG assumed control options. If such control is no longer an option, the company is to be excluded from the group of consolidated companies.

In addition to the financial statements of the parent company, the consolidated report also includes the financial statements of the following subsidiaries reporting on the same date and the support facility Dürkopp Adler e. V., Bielefeld.

	Capital share in %
Dürkopp Fördertechnik GmbH, Bielefeld, Germany	100.00
Adler Industrienähmaschinen Verkauf GmbH, Bielefeld, Germany	100.00
Beisler GmbH, Hösbach, Germany	100.00
Unterstützungseinrichtung Dürkopp Adler e. V., Bielefeld, Germany	–
Dürkopp Adler France S.A.S., Paris, France	100.00
Dürkopp Adler Italia S.r.l., Milan, Italy	100.00
Dürkopp Adler Austria GmbH, Vienna, Austria	100.00
Dürkopp Adler Polska Sp. z o.o., Wroclaw, Poland	100.00
S.C. Dürkopp Adler masini de cusut S.R.L., Sangeorgiu de Mures, Rumania	100.00
Minerva Boskovice, a.s., Boskovice, Czech Republic	87.93
Dürkopp Adler Ukraina Ltd., Kiev, Ukraine	97.26
Dürkopp Adler Tecnologia de Costura Ltda., Sao Paulo, Brazil	100.00
Dürkopp Adler Mexico S.A. de C.V., Mexico City, Mexico	99.98
Dürkopp Adler America, Inc., Atlanta, USA	100.00
Dürkopp Adler Far East Ltd., Hong Kong, China	100.00
Dürkopp Adler International Trading (Shanghai) Co. Ltd., Shanghai, China	100.00
Dürkopp Adler DaFuJi (Dalian) Sewing Machines Co. Ltd., Dalian, China	75.00

All companies are included in the consolidated financial statements using the full consolidation method.

Dürkopp Adler DaFuJi (Dalian) Sewing Machines Co. Ltd., Dalian, China, a joint venture between Dürkopp Adler AG and Dalian DaFuJi Sewing Machine Co. Ltd is included in the consolidated financial statements for the first time. Dürkopp Adler AG holds a 75% stake of the equity capital amounting to T€ 1,288. In December 2005, die Dürkopp Adler AG paid an initial sum of T€ 400 towards the equity capital.

Details of the major direct and indirect subsidiaries and interests pertaining to Dürkopp Adler AG are listed in a separate Annex to the Notes. The complete list of shareholdings has been filed with the Commercial Registry at the Amtsgericht (District Court) in Bielefeld under the reference HRB 7042.

Principles and Methods of Consolidation

The consolidated financial statements were drawn up based on common accounting principles relating to Dürkopp Adler AG and consolidated companies.

Capital consolidation has been performed by offsetting the purchase costs against the proportional re-valued equity capital at the time the subsidiary was acquired. Transition exemption options allowed for under IFRS 1.15 were utilized. Accordingly, IFRS 3 related to business combinations, which took place before the transition to IFRS was not applied retrospectively

The share of equity capital in consolidated companies owned by non-group third parties is itemized separate from the equity capital of Dürkopp Adler AG shareholders.

Generally, assets and obligations valued in foreign currencies are itemized at the converted purchase price valid for the date the purchase procedure was realized.

Sales revenues, expenses and earnings internal to the Group and receivables and payables between consolidated companies were eliminated.

Interim profits from internal transactions of goods and services – if not insignificant – are adjusted and recognized as income. Internal transactions are carried out at market conditions.

Consolidation measures which have an effect on income taxes are covered by deferred taxes.

Currency Translation

Transactions undertaken in foreign currencies in consolidated financial statements are valued using the conversion rate at the time they are initially itemized. Cash items are valued at the mean price. Gains and losses resulting at the balance sheet date are posted and recognized as income.

Financial statements from international subsidiaries drawn up in foreign currencies are converted to euro following the concept of the functional currency. The functional currency of consolidated companies corresponds to their relevant country currency, bearing in mind the fact these companies independently manage their business activities in their given financial, economical and organizational perspectives. Assets and liabilities are converted using the closing rate method; equity capital is converted at historical rates. Items in the income statement and the year's result are converted to euro using the relevant average exchange rate for the year. Until such time as the subsidiary company is disposed of, differences are itemized separately in equity capital not affecting net income. Following the 'fresh start' principle of IFRS 1.22, accumulated conversion differences are posted as zero at the time of transition to IFRS.

Conversion rates used for currency translations developed as follows:

		Period-end exchange rate		Average rate
Currency per EUR 1		Dec. 31, 2005	Dec. 31, 2004	2005 2004
USD	1,17970	1,36210	1,24486	1,24390
CZK	29,00000	30,46400	29,78466	31,84600
RON/ROL	3,67710	39.390,00	3,62021	40.510,00
HKD	9,14740	10,58810	9,68320	9,68810
PLN	3,86000	4,08450	4,02221	4,52680
CNY	9,52124	11,20473	10,20706	10,29104

Accounting and Valuation Principles
The consolidated financial statements are drawn up based on common accounting principles, complying with IASB regulations.

Assets are capitalized when the Dürkopp Adler Group is entitled to all significant opportunities and risks associated with their use. Generally, assets are valued at purchase or production cost with the exception of including certain financial assets at a fair price in accordance with IAS 39.

Comparative information for 2004 is based on the same accounting methods which applied to 2005.

In drawing up the consolidated financial statements, assumptions and estimates have been necessary which have an effect on the assessment, valuation and identification of assets, liabilities, revenues and expenses. This takes account of all currently available insights. Major assumptions and estimates are made in determining useful life and attainable amounts for fixed assets, the viability of receivables, in assessing the extent of completion when using the percentage-of-completion method and the reporting and valuing of provisions. In individual cases, actual values may deviate from estimates.

Non-current Assets

Intangible assets
Intangible assets include goodwill and capitalized development costs, patents, software, licenses and similar rights.

Other intangible assets acquired against payment are itemized at their purchase cost and depreciated subsequent to straight-line depreciation over their foreseeable useful life, in as much as there is no need for unplanned depreciation. Generally, useful life covers between 3–4 years.

Internally-produced intangible assets are capitalized as long as reliable estimable use becomes apparent for the Group and the procurement or production costs can be reliably measured. Production costs of internally-produced intangible assets are calculated on the basis of directly apportionable product costs and on appropriate additional sums for overheads and depreciation.

Development costs are activated when a newly-developed product or procedure becomes clearly identifiable, is technically feasible and is planned for internal use or for marketing. In addition, capitalization presumes that there is adequate likelihood of development costs being covered by future inflows of capital resources. From the start of production, capitalized development costs are depreciated on a straight-line basis over a standard, anticipated product life cycle of five years. Research costs and development costs, which may not be capitalized are itemized as expenses as they arise.

Property, Plant and Equipment
Property, plant and equipment are valued at purchase or production cost less accumulated depreciation. If there is reason for extraordinary depreciation carried out in prior years not to apply, appropriate write-ups will be carried out.

In accordance with IFRS 1.16, a fair value estimated at the time of transition to IFRS replaces a purchase or production cost for the company's use of property in Bielefeld for operational and business purposes. Carrying charges for the period of production are not included.

Low-value assets (purchase or production cost of up to € 410) are depreciated in full in the year of accrual and itemized as a disposal the year after.

Maintenance and repair costs for fixed assets are offset as expenses. Renewal and support costs are capitalized as retrospective production costs if they considerably extend the useful life, or lead to significant improvements or a clear change in use of the asset.

Scheduled depreciation follows the straight line method subject to the following useful lives:

Buildings	up to 50 years
Technical equipment and machinery	up to 14 years
Other equipment and office equipment	up to 4 years

Investment property
In accordance with IFRS 1.16, a fair value estimated at the time of transition to IFRS replaces purchase costs for property in Bielefeld not used for company own purposes. For subsequent valuations, investment property is valued at an unchanged purchase or production cost.

Deferred Taxes
Expected tax reductions from estimated loss carryovers which are realizable in the future are capitalized. In valuing a capitalized asset for future tax relief, the probability of realizing the expected tax benefit is taken into account.

Financial Assets
Other Group interests posted in financial assets are included at their acquisition cost. Securities are included at fair value.

Impairment of Assets (Impairment Test)
For each balance sheet day, the Group reviews the book value of its intangible assets, property, plant and equipment, and financial assets to determine whether there is evidence of impairment loss. If such signs exist, a recoverable amount is estimated covering the extent of the impairment loss.

An impairment test is carried out for goodwill at least annually, and for other assets only when concrete evidence of impairment loss exists. An impairment cost is posted with an effect on profit as long as the recoverable amount does not exceed the asset's book value.

In principle, the recoverable amount is assessed for each asset. If this is not possible, the amount is assessed on the basis of a group of assets or on the legal unit. The recoverable amount is the higher of the asset's net sales value or its utility value. The net sales value corresponds to the recoverable value from the sale of an asset at standard market conditions less costs to sell. The utility value is assessed on the basis of an estimated future cash flow from the use and the disposal of an asset.

If the reason for non-planned depreciation in prior years no longer applies, a reversal of impairment losses is to be carried out up to a maximum of the unchanged book value. This does not include goodwill.

Current Assets

Inventories
Inventories are valued at the lower of the purchase/production cost or the net selling price. Production costs are assessed on the basis of normal deployment. Production costs comprise directly attributable costs as well as production-related overhead costs relating to materials and manufacture, including production-related depreciation. Borrowing costs are not capitalized as part of purchase or production costs. Stock risks resulting from a reduced usability are taken into account by applying appropriate impairment losses. Lower values on the reporting date due to declining net selling prices are applied. As soon as a net selling price increases for inventories previously devalued the resulting reversal of an impairment loss is captured as a reduction in material expenses.

All recognizable warehousing and stock risks are taken into account through adequately calculated value corrections.

Receivables and Other Assets
In principle, receivables and other assets are included at their unchanged purchase costs. Any receivables risks are taken into account by appropriate valuation adjustments. Receivables in foreign currencies are valued at the mean rate on the balance sheet date. Differences from currency translations are taken into account and recognized as income.

In conformity with IAS 39, financial assets are initially valued at their purchase cost on the day of trading.

When acquired, derivative financial instruments are included at purchase price and assessed at their fair value on subsequent balance sheet dates.

Amendments to derivative financial instruments that do not fulfill the criteria for including hedging business in the balance sheet are recognized as income in the period in which they arise.

Value reductions are carried out for recognizable individual risks; existing credit risk is taken into appropriate account based on experience.

Specific Customer Production Orders
Pursuant to IAS 11, specific customer production orders in the Material Handling division follow the percentage-of-completion method and the amounts realized are indicated in sales revenues. In as far as the total figure for order costs incurred and profit exceed customer payments received, production orders are capitalized under future receivables from production orders. Should the addition of order costs incurred, profit and customer payments received reveal a negative balance, this is posted in liabilities from production orders.

The percentage-of-completion is assessed on the basis of the cost-to-cost method. If the result of a production order cannot be reliably assessed, revenues amounting to the order costs incurred are listed – the so-called zero-profit method. Principles of loss-free valuation are complied with.

Non-current Liabilities

Pension provisions
Provisions for pensions are set aside for commitments to pension, invalidity and surviving dependent benefits. Provisions are set aside solely for performance-based benefit commitments for which the company guarantees a defined level of benefit to employees.

The basis for valuing benefit commitments includes actuarial calculations and assumptions. Performance-based benefit commitments are determined according to the projected unit credit method. In addition to the present value of pension obligations at the balance sheet date, this method accounts for future salary and benefit increases by an assumed trend rate.

Actuarial gains and losses not exceeding 10 percent of the cash value arising from the obligation are disseminated over the average remaining service period for the employees (corridor method).

In compliance with IFRS 1.20, at the transition to IFRS pension provisions were set aside which amount to the defined benefit obligation.

Deferred Taxes
Deferred tax assets and liabilities are recognized by the balance sheet-oriented liability method in compliance with IAS 12. Accordingly, all temporary differences between book values of assets and liabilities in the consolidated financial statements and their tax values are offset against tax carry forwards likely to be used in the future.

As of December 31, 2005, deferred taxes relating to domestic companies were assessed at a total tax rate of 39.5%

The assessment of international income taxes are based on laws and regulations applying in the individual countries.

Current Liabilities

Current Provisions
Provisions are set aside for current third-party liabilities which will probably lead to a cash outflow. After taking all recognizable risks into consideration, they are valued at a foreseeable recoverable amount and not offset against rights of recourse. Provisions are only set aside if they are subject to legal or factual obligations towards third parties.

Liabilities
Financial liabilities are valued at their unchanged purchase cost. Derivative liability items are recognized at their fair value.

Contingent Liabilities
Contingent liabilities represent possible third-party obligations resulting from past events whose existence still needs to be confirmed either through the occurrence, or non-occurrence, of one or more uncertain events in the future. Furthermore, also relating to past events, contingent liabilities can arise from a current obligation which, however, have not been presented either because the outflow of resources is seen as improbable, or the extent of the liability cannot be estimated dependably.

Notes

to the Consolidated Balance Sheet

(1) Other intangible assets
The development of individual items of other intangible assets is presented in the statement of changes in non-current assets.

Unchanged goodwill of € 2.9 million results from the acquisition of Beisler GmbH, Hösbach, Germany, carried out in 1998.

As of December 31, 2005, the book value of capitalized internally-produced intangible assets amounted to T€ 3,173 (2004: T€ 2,913). Capitalized development costs refer to the development of machines in the Sewing Technology division.

Other intangible assets are depreciated over a maximum of five years.

There are no restraints on ownership or disposal.

(2) Property, Plant and Equipment
The development of individual items of fixed assets in presented in the statement of changes in non-current assets.

Property, plant and equipment according to book value:

(in T€)	Dec. 31, 2005	Dec. 31, 2004
Land and buildings	21,590	21,782
Technical equipment and machinery	8,302	9,158
Other equipment and office equipment	4,449	4,333
Payments in advance and equipment under construction	417	720
Non-current assets	**34,758**	**35,993**

Planned straight-line depreciation is primarily based on the following useful lives:

Buildings	20 to 50 years
Technical equipment and machinery	10 to 14 years
Office equipment	3 to 4 years

At the reporting date restraints on ownership or disposal amounted to T€ 2,209 (2004: T€ 74).

(3) Investment property

This concerns land at the Oldentrup, Germany site of roughly 85,000m² and the building that used to house the exhibition and training center which is partially leased out but otherwise not currently used for company operations. Valuation follows the purchase cost model.

The building was depreciated on a 4% straight line basis. Residual useful life amounts to 7 years. The fair value corresponds to the book value. The building was valued on the basis of an independent survey. The land was valued on the basis of prices offered by two interested purchasers.

In the year under review, rentals amounted to T€ 39. At the same time, operational expenses for maintenance totaled T€ 38.

(4) Financial Assets

The development of individual items of financial assets in presented in the statement of changes in non-current assets.

Financial assets:

(in T€)	Dec. 31, 2005	Dec. 31, 2004
Investments	287	287
Securities	44	43
Financial assets	**331**	**330**

Current Assets

(5) Inventories

(in T€)	Dec. 31, 2005	Dec. 31, 2004
Raw materials and supplies	14,586	11,941
Unfinished products	9,831	9,777
Finished products and goods	10,892	10,223
Payments in advance to suppliers	3	11
Inventories	**35,312**	**31,952**

Individual value reductions have been carried out for all inventories wherever realizable earnings from their sale or use is lower than book values. Net selling revenues are based on the foreseeable recoverable sales revenues less costs of selling. If the reasons for value reductions in inventories no longer apply, appropriate write-ups are carried out.

Value adjustments on inventories amounted to a total of T€ 6,001 (2004: T€ 6,515).

There are restraints on ownership or disposal for the inventories of T€ 2,363 (2004: T€ 1,260).

(6) Receivables and Other Assets

(in T€)	Dec. 31, 2005	Dec. 31, 2004
Receivables	31,111	33,012
Receivables from affiliated companies	888	336
Other current financial assets	785	805
Income tax claims	343	426
Other current non-financial assets	1,117	1,784
Receivables and other assets	**34,244**	**36,363**

Appropriate value reductions have been carried out for all recognizable risks relating to receivables.

There are no significant restraints on ownership or disposal relating to other assets.

(7) Cash

(in T€)	Dec. 31, 2005	Dec. 31, 2004
Cash at banks	7,747	892
Cash balance	34	84
Cash	**7,781**	**976**

Equity

The development of equity in the Dürkopp Adler Group is presented in the statement of changes in equity.

(8) Subscribed Capital
The company's fully paid up stock capital remains unchanged at € 20,962,967.13 and is divided into 8,200,000 no-par shares issued in the name of the shareholder, each representing a nominal value of € 2.56.

With a term until June 17, 2008, Dürkopp Adler AG holds Authorized Capital I amounting to € 7,669,378.22 for stock issued against cash or investments in kind. Given the approval of the Supervisory Board, the Executive Board can exclude the subscription rights of shareholders in respect of Authorized Capital II in a bid to issue new stock at a price which does not significantly exceed the stock market price.

Moreover, the Executive Board of Dürkopp Adler AG is also authorized to increase stock capital by June 17, 2008 through a stock issue of € 511,291.88 by issuing employee stock to employees of the company and the Group. Subscription rights of shareholder have been excluded.

(9) Capital Reserves
These capital reserves concern the payment made in 1999 to the former principal shareholder of Dürkopp Adler AG as part of a 'give out, pay back' procedure in accordance with Article 272, para. 2, No. 4 of the German Commercial Code.

(10) Retained Earnings
Retained earnings concern legally retained earnings of Dürkopp Adler AG and other retained earnings. They include allocations from previous years' profits and profit-neutral currency differences from year-end reports of international subsidiaries.

(11) Minority Interests
The balancing item comprises the proportion allocated to external shareholders of the capital, open provisions and of profits and losses of consolidated Group companies. Minority interest in equity principally concerns stock held by external shareholders at Minerva Boskovice, a.s., Boskovice, Czech Republic.

Non-current Liabilities

(12) Pension Provisions
The corporate pension plan within the Dürkopp Adler Group is based of benefit commitments covered by provisions. The extent of benefits granted is commensurate with income and years of service. In addition there are individual arrangements for Board members and senior staff.

Retirement pension obligations are primarily owed to those entitled to pension benefits in Germany.

Major actuarial premises applied in the Dürkopp Adler Group:

	Dec. 31, 2005	Dec. 31, 2004
Discount rate	4.3 %	5.25 %
Salary trend rate	2.0 %	2.5 %
Benefit trend rate	1.5 %	1.5 %
Best-estimate actuarial assumptions	Actuary charts 2005 G Klaus Heubeck	Actuary charts 1998 Klaus Heubeck

Development of the Defined Benefit Obligation

(in T€)	Dec. 31, 2005	Dec. 31, 2004
Defined benefit obligation	49,565	47,164
Actuarial losses not yet recorded	–3,830	–21
Balance	45,735	47,143

Development of Provisions for Pension Obligations

(in T€)	Dec. 31, 2005	Dec. 31, 2004
Provisions as of Jan. 1	47,143	48,480
Net pension expenses	2,430	2,497
Pension payments	–3,838	–3,834
Provisions as of Dec. 31	45,735	47,143

The following amounts were recorded in the income statement:

Expenses from Pension Obligations

(in T€)	2005	2004
Service cost	58	58
Interest expense	2,372	2,439
Expenses from pension obligations	2,430	2,497

(13) Other Non-current Provisions

(in T€)	as per Dec. 31, 2004	Currency differences	Accruals	Consumption	Disposals	as per Dec. 31, 2005
Anniversary expenses	308	–	26	–3	–53	278
Wage agreement	414	–	346	–	–	760
Partial retirement	1.079	–	48	–747	–	380
Impending losses	1.019	158	69	–144	–	1.102
Other	641	11	46	–	–54	644
Total	**3.461**	**169**	**535**	**–894**	**–107**	**3.164**

The discount rate applied to valuing provisions recorded with regard to personnel amounts to 6% p.a., for other provisions the rate is 4.75% p.a.

(14) Financial Liabilities

(in T€)	Dec. 31, 2005	Dec. 31, 2004
1 to 5 years	12,019	242
Over 5 years	23,024	–
Total	35,043	242

Non-current financial liabilities in 2005 concern a loan from ShangGong (Europe) Holding Corp. GmbH to Dürkopp Adler AG. A term of 10 years has been agreed for € 27.0 million. This amount is to be amortized in nine equal annual installments starting from June 30, 2007. After ten years, negotiations are to be held on the repayment of the remaining € 8 million.

Financial liabilities from the prior year concerned bank loans of T€ 242.

(15) Current Liabilities

Other Current Provisions

(in T€)	as per Dec. 31, 2004	Currency differences	Accruals	Consumption	Disposals	as per Dec. 31, 2005
Personnel	**5,004**	**17**	**2,376**	**–3,801**	**–295**	**3,301**
of wich social plan/partial retirement	2,479	5	371	–1,943	–265	647
Other provisions	**2,982**	**78**	**3,289**	**–2,361**	**–358**	**3,630**
of which single guarantee	490	1	1,744	–1,185	–11	1,039
bonus voucher	811	31	368	–549	–262	399
outstanding accounts	292	2	220	–254	–28	232
Total	**7,986**	**95**	**5,665**	**–6,162**	**–653**	**6,931**

Current Liabilities

(in T€)	Dec. 31, 2005	Dec. 31, 2004
Liabilities from production orders	**485**	**–**
Trade accounts payable	**4,894**	**5,625**
To third parties	4,873	5,598
To affiliated companies	21	27
Advanced payments received or orders	**1,852**	**789**
Financial liabilities	**4,656**	**33,108**
Liabilities to banks	718	5,937
Other financial liabilities	3,938	27,171
thereof to employees	905	2,209
thereof, taxes	883	1,241
thereof, as part of social security	1,086	1,184
thereof, to affiliated companies	1,059	22,500
Other	5	37
Other non-financial liabilities	**2,418**	**859**
Income taxes	**237**	**88**
Total liabilities	**14,542**	**40,469**

Of the total liabilities, T€ 621 is secured through liens.

The book value of liabilities recorded in the balance sheet corresponds to their fair values.

Liabilities from production orders recorded according to the percentage-of-completion method are assessed as follows:

Order production

(in T€)	2005	2004
Cost of order	4,110	–
Estimated profit element	25	–
Order revenues	**4,135**	**–**
Less advance payments	4,620	–
Total	**485**	**–**

Notes

to the Income Statement

(16) Sales revenues
Sales include revenues from sales of products and services reduced by sales deductions. Sales revenues are recorded at the transfer of risk. Revenues from orders resulting from the application of the percentage-of-completion method for specific customer production orders amount to T€ 4,135 (2004: T€ 0).

(17) Costs of services rendered
The costs of services rendered comprise the costs of goods and services sold and maintenance costs of good sold. In addition to directly attributable product-related costs of materials and production, costs of services rendered consist of indirect overheads including the proportional wear and tear of the fixed asset.

(18) Cost of Selling
In addition to the costs of the sales organization and for distribution, costs of selling primarily included expenses for advertising, sales promotion and market research. This item also includes application consultancy at customer's premises.

(19) Research and Development Costs
Research and development costs include expenditures for general development work and product enhancements, while development expenses for new products are capitalized under intangible assets.

(20) Administration Costs
Administrative costs acknowledge the proportional personnel and material costs from the group steering, personnel, accounting and IT departments.

Financial Results

Dividends are collected if there is a legal claim; interest expenses and income are recorded pro rata temporis.

(21) Other Operating Revenues

(in T€)	2005	2004
Revenues from disposals	565	68
Revenues from reversing accruals and canceling adjustments of value	1,294	654
Capital gains	849	3,031
Sundry other revenues	1,283	1,182
Total	**3,991**	**4,935**

Other operating revenues contain revenues of T€ 1,685 (2004: T€ 719) relating to other periods.

(22) Other Operating Expenses

(in T€)	2005	2004
Social plan	0	2,289
Expenses for pension provision	38	52
Performance-related bonuses	927	787
Impairment loss of receivables and bad debt losses	3,460	608
Capital losses	752	2,954
Other	1,859	2,021
Total	7,036	8,711

Other operating expenses include expenses of T€ 41 relating to other periods (2004: T€ 50).

(23) Net Interest Profit/Loss

(in T€)	2005	2004
Interest and similar revenues from third parties	161	206
Other financial revenues	3	3
Interest		
to affiliated companies	–1,059	–717
to third parties	–754	–730
Interest expenses on pension provisions	–2,372	–2,439
Total	**–4,021**	**–3,677**

(24) Income Taxes

Earnings before taxes and tax distribution

(in T€)	2005	2004
Earning before tax	855	–3,810
Current taxes	–256	–132
Deferred taxes from balance sheet differences	–149	237
Deferred taxes from loss carryovers	976	–408
Income taxes	571	–303

Current taxes contain T€ 18 relating to other periods (2004: T€ 0).

Allocation of tax accruals and deferrals

(in T€)	Deferred taxes – assets Dec. 31, 2005	Deferred taxes – assets Dec. 31, 2004	Deferred taxes – liabilities Dec. 31, 2005	Deferred taxes – liabilities Dec. 31, 2004
Intangible assets and property, plant and equipment	81	58	–5.045	–4,826
Investment property	–	–	–1,813	–1,845
Financial assets	252	238	–	–
Inventories	3,799	1,929	–	–
Other receivables and other assets	910	1,094	–305	–498
Pension provisions	3.064	3,177	–	–
Other non-current liabilities	670	470	–	–
Current liabilities	696	859	–1,797	–151
Loss carryovers	9,147	8,178	–	–
	18,619	**16,003**	**–8,960**	**–7,320**
Net balance	–5,929	–5,035	5,929	5,035
Impairments on loss carryovers	–5,605	–5,637	–	–
Impairments on other	–104	–62	–	–
Balancing item	**6,981**	**5,269**	**–3,031**	**–2,285**

Deferred taxes are recognised as temporary differences arising between the tax bases of assets and liabilities, their IFRS carrying amounts in the accounts, tax-related loss carryovers and consolidation procedures affecting profit.

The basis for assessing whether deferred taxes are to apply reflects the estimate of the probability that deferred tax claims are actually realizable in future. This probability has to exceed 50% and be supported by appropriate business plans.

Impairment losses exist for capitalized deferred payments arising from temporary differences between the tax base and accounting for profit or loss, and from tax-based loss carryovers.

Net balances apply to tax assets and tax liabilities to the same tax authority.

Taxation Reconciliation

(in T€)	2005	2004
Anticipated tax expense	338	–1.505
Deviations arising from changes in tax rates	88	8
Deviations in the basis of assessment	–59	1.448
Income tax relating to other periods	–18	–
Expenses not tax deductible	283	394
Tax-free income	–272	–276
Assessment and valuation of tax assets on loss carryovers and balance sheets differences	–939	218
Other	8	16
Tax expense	–571	303

(25) Proportions Attributable to Other Shareholders

This concerns proportions of profits and losses attributable to other shareholders. The profits amounted to T€ 17 (2004: T€ 65); losses amounted to T€ 0 (2004: T€ 3).

Additional Information to the Income Statement/Balance Sheet

Material expenses

(in T€)	2005	2004
Expenses for raw materials and supplies and for goods purchased	41,029	43,484
Expenses for services purchased	11,070	6,866
Total	**52,099**	**50,350**

Personnel Expenses

(in T€)	2005	2004
Wages and salaries	38,658	41,200
Social contributions and support expenses	10,297	13,899
Expenses for pension provision	67	59
Total	**49,022**	**55,158**

Personnel Structure

(Number*)	2005	2004
Production and technology	1,385	1,466
Marketing/Sales	218	234
Research, development and application technology	98	104
Administration	123	125
Total	**1,824**	**1,929**

* Annual average number excluding trainees, students and internees

Contingent Liabilities

Contingent liabilities consist of guarantees amounting to T€ 504 (2004: T€ 880) and negotiable bills of T€ 0 (2004: T€ 187).

Other Financial Liabilities

In total, there are liabilities from order obligations for investments T€ 29; (2004: T€ 79), obligations from perennial rental and leasing contracts T€ 1,558; (2004: T€ 613) and from leasing obligations T€ 6,217; (2004: T€ 4,811) amounting to T€ 7,804 (2004: T€ 5,503).

In the case of operating-leasing agreements with Dürkopp Adler as lessee, leasing payments or rental payments are posted directly as an expense in the income statement.

In 2005, minimum leasing payments made which arise form operating-leasing agreements amounted to T€ 1,682. Revenues from sub-leasing amounted to T€ 266.

For property in Atlanta, USA, Dürkopp Adler America Inc. has concluded a sale-and-lease-back agreement. The leasing rate amounted to T€ 363 in 2005. The agreement runs to September 30, 2015.

Other financial liabilities arising from non-current rental and leasing contracts and leasing obligations are presented as follows:

Future Rental Liabilities

(in T€)	Dec. 31, 2005	Dec. 31, 2004
Up to 1 year	721	421
1 to 5 years	837	192
Total	**1,558**	**613**

Future Leasing Liabilities

(in T€)	Dec. 31, 2005	Dec. 31, 2004
Up to 1 year	1,682	1,438
1 to 5 years	2,996	1,769
Over 5 year	1,539	1,604
Total	**6,217**	**4,811**

Currency Risks/Financial Derivatives

Currency risks, i.e. potential impairment loss relating to a financial instrument, due to changes in exchange rates exist in particular where receivables or payables are not in the company's operating currency and/or will arise in the planned course of business.

Derivative financial instruments are used to cover currency risks. These instruments solely cover currency risks from existing and pending business. For the year under review, coverage was provided by forward exchange operations. Derivative financial operations are subject to running risk control and are carried out under strict functional separation into trade, processing, documentation and monitoring.

Terms of currency derivative normally cover periods of up to 12 months.

For receivables in foreign currencies, hedging is provided by banks and the former principle shareholder in the form of forward exchange operations.

The nominal volume of forward exchange operations is the sum of all purchase and sales amounts not offset, valued at their relevant fulfillment rate. The market value was generally ascertained on the basis of the situation on the reporting date – at those values reflecting trading in the relevant derivative financial operations, or its quoted price, irrespective of any reverse trend in underlying transactions. The current value of forward exchange operations entered in the balance sheet results from the valuation of the hedged amount with the difference between the rate when the futures trading was concluded and the forward price on the reporting date.

Forward exchange operations Sales

(in T€)	Nominal value Dec. 31, 2005	Market value Dec. 31, 2005	Nominal value Dec. 31, 2004	Market value Dec. 31, 2004
CZK	4.269	–554	3,987	–304
HKD	1,478	–	1,913	305
USD	19,256	–928	9,733	1,116
PLN	1,224	–330	–	–
Total	**26,227**	**–1,812**	**15,633**	**1,117**

Valued at T€ 1,812, forward exchange operations are posted in the consolidated balance sheet under other non-financial liabilities (2004: T€ 307 and T€ 1,424 under other assets).

Notes to Segment Reporting

Primary Segmentation

The Dürkopp Adler Group is divided into two divisions which follow internal control and reporting within the Group.

In segment reporting, business activities of the Dürkopp Adler Group are assigned to the two corporate divisions of Sewing Technology and Materials Handling, corresponding to Group structure.

Segment Information by Corporate Division

	Sewing Technology		Materials Handling		Consolidated		Group	
(in € million)	2005	2004	2005	2004	2005	2004	2005	2004
Orders received	101.1	110.4	28.8	25.3	–	–	129.9	135.7
Volume of orders	7.7	7.9	10.5	8.6	–	–	18.2	16.5
Sales	101.7	112.0	27.0	21.4	–	–	128.7	133.4
External sales	101.7	112.0	26.9	21.3	–	–	128.6	133.3
Internal sales	–	–	0.1	0.1	–0.1	–0.1	0.0	0.0
Operating profit	3.5	1.1	0.7	–1.3	–	–	4.2	–0.2
EBIT	4.1	1.1	0.8	–1.2	–	–	4.9	–0.1
Net interest	–4.0	–3.6	0.0	–0.1	–	–	–4.0	–3.7
Divisional profit (before income taxes)	0.1	–2.5	0.8	–1.3	–	–	0.9	–3.8
Assets	123.1	116.0	11.5	7.4	–3.9	–1.6	130.7	121.8
Borrowings including Group financing	104.6	97.6	7.8	5.6	–3.9	–1.6	108.5	101.6
Investments in intangible assets and property, plant and equipment	4.9	4.8	0.2	0.1	–	–	5.1	4.9
Depreciation	5.9	7.1	0.3	0.7	–	–	6.2	7.8
Operating net profit ratio in %	3.4	1.0	2.6	–6.1	–	–	3.3	–0.2
Operating ROCE in %	3.5	1.0	13.0	–24.8	–	–	4.0	–0.2
Cash flow from current business activities	2.3	13.5	1.9	0.4	–	–	4.2	13.9
Employees (Dec. 31)	1,622	1,684	150	157	–	–	1,772	1,841

Segment Reporting by Region

Corporate divisions (in € million)		Germany	Europe (w/o Germany)	Americas	Africa, Asia, Australia	Consolidated	2005 Total	2004 Total	Change %
Sewing Technology	Sales revenues	10.8	39.8	16.0	35.1	–	101.7	112.0	–9.2
Materials Handling		7.6	19.1	0.1	0.1	–	26.9	21.3	26.3
Total		**18.4**	**58.9**	**16.1**	**35.2**	**0.0**	**128.6**	**133.3**	**–3.5**
Sewing Technology	Assets	124.1	43.7	11.2	7.3	–63.2	123.1	116.0	6.1
Materials Handling		10.2	1.3	–	–	–	11.5	7.4	55.4
Consolidation						–3.9	–3.9	–1.6	143.8
Total		**134.3**	**45.0**	**11.2**	**7.3**	**–67.1**	**130.7**	**121.8**	**7.3**
Sewing Technology	Investments	2.1	2.8	–	–	–	4.9	4.8	2.1
Materials Handling		0.2	–	–	–	–	0.2	0.1	100.0
Total		**2.3**	**2.8**	**0.0**	**0.0**	**0.0**	**5.1**	**4.9**	**4.1**

The operating profit results from earnings before tax and interest, adjusted for income from participations, translation differences and gains and losses from disposals.

The operating net profit ratio is calculated on the ratio of operating profit in relation to total sales.

The return on capital employed (ROCE) is based on the ratio of operating profit to the average capital employed.

Supplementary Notes

Notes to the Cash Flow Statement
Cash and cash equivalents comprise cash at hand and cash at banks. There are no restraints on disposal.

Details of Related Companies and Persons
In addition to business relations to companies fully consolidated in the Group report, relations exists to affiliated companies defined as related parties in the meaning of IAS 24.

Related Companies

(in T€)	Services rendered		Services received	
	2005	2004	2005	2004
ShangGong (Europe) Holding Corp. GmbH	–	–	1,080	–
SGSB Group Co., Ltd.	888	–	–	–

Services received from ShangGong (Europe) Holding Corp. GmbH primarily concern interest for the Group loan.

Services rendered to SGSB Group Co., Ltd. concern development services to improve existing SGSB products and to extend the SGSB range of products.

All business conducted with related companies was done so at terms and conditions which are also standard for third parties.

Declaration of Conformity to the Corporate Governance Code
The declaration of the Executive Board and the Supervisory Board of Dürkopp Adler AG in respect of the recommendations of the Government Commission on German Corporate Governance Code was issued in accordance with Article 161 of the German Stock Corporation Act. It was made permanently accessible to all shareholders on the company's website: www.duerkopp-adler.com.

Notifications According to the Securities Trade Act (Wertpapierhandelsgesetz)
On July 1, 2005, FAG Kugelfischer GmbH (formerly FAG Kugelfischer Georg Schäfer AG), Schweinfurt, Germany, informed us of the sale of a share package in Dürkopp Adler AG and of the related undershooting of threshold values in accordance with Sections 21 and 22 of the Securities Trade Act (WpHG). As evidenced by the bidding document sent to the minority shareholders on August 11, 2005, ShangGong (Europe) Holding Corp. GmbH, Hamburg, Germany holds 89.88% of the shares in the company. On July 1, 2005, in accordance with Sections 21 and 22 WpHG the company was informed that the threshold of 75% was exceeded.

In this regard, the company published the following notification on July 11, 2005 in compliance with Section 25, para. 1 WpHG:

"In correspondence dated July 1 and July 4 2005, ShangGong (Europe) Holding Corp. GmbH, Hamburg, SGSB Group Co. Ltd., Shanghai, China and Shanghai Pudong New Area State-Owned Assets Administration Bureau, Shanghai, China, informed us that they exceeded voting right thresholds of 5%, 10%, 25%, 50% and 75% and that they now hold a 94.9821951% share of the vote, or 7,788,540 shares. Voting rights are to be assigned to each of the two companies, SGSB Group Co. Ltd. and Shanghai Pudong New Area State-Owned Assets Administration Bureau, Shanghai, China, in accordance with Section 22, para. 1 sub-section 1, point 1, sub-para. 3 WpHG.

In correspondence dated July 1, 2005, FAG Kugelfischer GmbH, Schweinfurt, Germany, INA-Beteiligungsverwaltungs oHG, INA-Schaeffler KG, INA-Holding Schaeffler KG and Mr. Georg F. W. Schaeffler, all of Herzogenaurach, Germany, informed us that they have fallen short of the voting right thresholds of 5%, 10%, 25%, 50% and 75% and that their share of the vote now amounts to 0%."

Up to December 31, 2005, Dürkopp Adler AG had not received any notification relating to Section 15a WpHG (directors' dealings). At December 31, 2005, the total ownership for all Executive Board and Supervisory Board members amounted to less than 1% of stock issued by the company.

Statutory Balance Sheet Audit
In 2005, auditors' fees amounted to T€ 68. These fees were solely with regard to the balance sheet audit.

Supervisory Board and Executive Board
The members of the Supervisory Board and the Executive Board are listed separately. In 2005, Executive Board members were paid a total of T€ 315 for their work (2004: T€ 460). Of this sum, T€ 102 (2004: T€ 102) was apportioned to a performance-related variable component of salary. Provisions for pension commitments to members of the Board amounted to T€ 131 (2004: T€ 114). Supervisory Board members received a total of T€ 21 (2004: T€ 18). In 2005, former members of the Executive Board and their surviving dependents were paid a total of T€ 347 (2004: T€ 336). A total of T€ 3,717 has been set aside for pension commitments to former members of the Executive Board and their surviving dependents. Dürkopp Adler AG does not assume liability for the Executive Board or for the Supervisory Board.

Non-disclosure Option – Section 264, para. 3 of the German Commercial Code
The subsidiary company Dürkopp Fördertechnik GmbH, Bielefeld, Germany included in the consolidated financial statements has made use of the exemption rules provided for by Section 264, para. 3 of the German Commercial Code.

Offices held by members of the Supervisory Board and the Executive Board:

Supervisory Board:

Frank Huber
Chairman of the Supervisory Board (until June 30, 2005)
Senior Legal Affairs Manager at FAG Kugelfischer AG & Co. oHG,
Schweinfurt, Germany

Other positions:
a) twin-gears AG, Schweinfurt, Germany*
Gemeinnützige Wohnungsbaugesellschaft Schweinfurt GmbH,
Schweinfurt, Germany

b) FAG Automotive Bearings (Shanghai) Co., Ltd., China*
FAG Bearings India Limited, India*

Prof. Dr.-Ing. Peter-Jürgen Kreher
Vice-Chairman of the Supervisory Board (until June 30, 2005)
Consultant, Munich

Other positions:
a) Itelligence AG, Bielefeld, (Chairman)

Klaus Widmaier (until June 30, 2005)
Personnel Manager at FAG Kugelfischer AG & Co. oHG, Schweinfurt, Germany

Other positions:
a) twin-gears AG, Schweinfurt, Germany*

Hans-Jürgen Goslar (until June 30, 2005)
Member of the Management Board of INA-Schaeffler KG, Herzogenaurach, Germany

Other positions:
b) FAG Austria AG, Austria, (Chairman)*
FAG Bearings India Limited, India*

Min Zhang (from July 29, 2005)
Chairman of the Supervisory Board
Chairman of the Board of Directors of SGSB Group Co., Ltd., China/Managing Director of ShangGong (Europe) Holding Corp. GmbH, Hamburg, Germany

Other positions:
b) SMPIC Corporation, China (Chairman)*

Lixi Wang (from July 29, 2005)
Vice-Chairman of the Supervisory Board
General Manager of ShangGong Export & Import Co., Ltd., China

Other positions:
b) ShangGong Hongkong Co., Ltd., China, (Chairman)*
Shanghai Hirose Industrial Co., Ltd., China*
ShangGong Assets Management Company, China, (Chairman)*

Hengliang Zhang (from July 29, 2005)
Deputy General Manager of SGSB Group Co., Ltd., China

Other positions:
b) Shanghai Juki Sewing Machine Co., Ltd., China*

Prof. Fangyu Fei (from July 29, 2005)
Professor Shanghai Communication University, China

Other positions Mandate:
b) SGSB Group Co. Ltd., China
Dong Feng Electronic Technology Co., Ltd., China
Shanghai San Mao Group Co., Ltd., China
China Textile Machinery Co., Ltd., China
Quan Bei Automobile Co., Ltd., China

Werner Horst**
Chairman of the Works' Committee

Gerd Engelbrecht**
Vice-Chairman of the Works' Committee

Executive Board:

Werner Heer
Chairman of the Executive Board

Other positions:
b) Minerva Boskovice, a.s., Czech Republic (Chairman)*
Dürkopp Adler DaFuJi (Dalian) Sewing Machines Co., Ltd., China, (Chairman)*
Dürkopp Adler International Trading (Shanghai) Co., Ltd., China, (Chairman)*
Dürkopp Adler Far East Ltd., China, (Chairman)*
Dürkopp Adler America, Inc., USA, (Chairman)*
Dürkopp Adler Italia S.r.l., Italy, (Chairman)*

Ying Zheng (from August 22, 2005)
Managing Director of ShangGong (Europe) Holding Corp. GmbH, Hamburg

Dirk Fellermann (until June 30, 2005)

Other positions:
b) FAG (Thailand) Co., Ltd., Thailand* (until January 31, 2005)
FAG (UK) Limited, UK*
FAG Australia Pty. Ltd., Australia* (until January 31, 2005)
FAG Austria AG, Austria*
FAG Automotive Bearings (Shanghai) Co., Ltd., China* (until February 28, 2005)
FAG Bearings (Malaysia) Sdn. Bhd., Malaysia* (until February 15, 2005)
FAG Belgium S.A. N.V., Belgium*
FAG Holding (Thailand) Co., Ltd., Thailand* (until January 31, 2005)
FAG Japan Co., Ltd., Japan* (until January 31, 2005)
Profiteam, S.A., Spain*
ROL-Rolamentos Portugueses, S.A., Portugal* (from March 31, 2005)

* Group position
** Employee representative

a) Member of a legally required supervisory body
b) Member of a comparable and international supervisor body

Bielefeld, March 3, 2006

Werner Heer　　　　Ying Zheng

Auditors' Report

"We have audited the consolidated financial statements prepared by Dürkopp Adler Aktiengesellschaft, comprising the balance sheet, the income statement, the statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the financial year January 1 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315a, para. 1 of the German Commercial Code (HGB) are the responsibility of company's legal representatives. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and in compliance with German generally accepted standards for auditing financial statements dictated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). These standards require that we plan and perform the audit in such a manner that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements prepared in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the Group's business activities and its economic and legal environment, and expectations as to possible misstatements are taken into account in determining audit procedures. The effectiveness of the accounting-related internal control system and evidence supporting disclosures made in the consolidated financial statements and the group management report are examined on a test basis within the framework of the audit. The audit comprised assessments of annual financial statements of those companies included in the consolidation, of the basis for inclusion in consolidation, of the accounting and consolidation principles applied and of significant estimates made the companies legal representatives 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, the consolidated financial statements give a true and fair picture of the net assets, financial position and results of operations of the Group in accordance with IFRS as adopted in the EU and additional requirements of German commercial law pursuant to Section 315a, para. 1 HGB. The group management report is consistent with the consolidated financial statements and, as a whole, provides an accurate understanding of the Group's position and suitably presents the opportunities and risks of future development."

Dusseldorf, March 10, 2006

BDO Deutsche Warentreuhand Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft

Harnacke, Wirtschaftsprüfer   Horn, Wirtschaftsprüfer

Equity Holdings

at December 31, 2005 for Dürkopp Adler Aktiengesellschaft and the Group

Number	Name and based in	Equity interest AG in %	Equity interest Group in %	Equity capital* (in T€)	Result after Taxes* (in T€)
Germany					
1	Dürkopp Fördertechnik GmbH, Bielefeld	100,00	100,00	2.045	615 **
2	Adler Industrienähmaschinen Verkauf GmbH, Bielefeld	100,00	100,00	102	1
3	Beisler GmbH, Hösbach	100,00	100,00	957	6
Europe					
4	Dürkopp Adler France S.A.S., Paris, France	100,00	100,00	2.476	76
5	Dürkopp Adler Italia S.r.l., Milan, Italy	100,00	100,00	2.857	–2
6	Dürkopp Adler Austria GmbH, Vienna, Austria	100,00	100,00	92	15
7	Dürkopp Adler Polska Sp. z o.o., Wroclaw, Poland	100,00	100,00	–291	–99
8	S.C. Dürkopp Adler masini de cusut S.R.L., Sangeorgiu de Mures, Romania	100,00	100,00	1.666	–147
9	Minerva Boskovice, a.s., Boskovice, Czech Republic	87,93	87,93	8.512	122
10	Dürkopp Adler Ukraina Ltd., Kiew, Ukraine	97,26	97,26	145	34
America					
11	Dürkopp Adler Tecnologia de Costura Ltda., Sao Paulo, Brazil	100,00	100,00	–2.715	20
12	Dürkopp Adler Mexico S.A. de C.V., Mexico City, Mexico	0,00	99,98	–2.046	6
13	Dürkopp Adler America, Inc., Atlanta, USA	100,00	100,00	2.539	71
Asia					
14	Dürkopp Adler Far East Ltd., Hongkong, China	100,00	100,00	397	46
15	Dürkopp Adler International Trading (Shanghai) Co., Ltd., Shanghai, China	100,00	100,00	–696	–446
16	Dürkopp Adler DaFuJi (Dalian) Sewing Machines Co., Ltd., Dalian, China	75,00	75,00	398	–

* The values correspond to the financial statements prepared in accordance with country-specific regulations.
For international companies, equity capital and results are converted using the mean exchange rate on the balance sheet date.

** Profit/Loss transfer agreement with Dürkopp Adler AG and making use of the non-disclosure option in accordance with Article 264, para. 3 of the German Commerical Code.

Dürkopp Adler in figures

Dürkopp Adler Group		IFRS 2004	2005
Sales	**€ million**	**133,3**	**128,6**
of which: international	%	84,0	85,7
Order position			
Ordes received	€ million	135,7	129,9
Orders on hand	€ million	16,5	18,2
Personnel expenses	**€ million**	**55,2**	**49,0**
Employees			
At year end		1.841	1.772
Average on year		1.929	1.824
Material expenses	€ million	50,4	52,1
Earnings before interest and taxes	**€ million**	**–0,1**	**4,9**
Interest balance	**€ million**	–3,7	–4,0
Earnings before taxes	**€ million**	**–3,8**	**0,9**
Income taxes	€ million	–0,3	0,5
Net profit/loss for year	**€ million**	**–4,1**	**1,4**
Non-current assets	**€ million**	**52,5**	**53,3**
Ratio to balance sheet total	%	43,1	40,8
Fixed assets	€ million	47,2	46,3
- Investments	€ million	4,9	5,2
- Depreciation	€ million	7,8	6,2
Current assets	**€ million**	**69,3**	**77,4**
Ratio to balance sheet total	%	56,9	59,2
Inventories	€ million	32,2	35,3
Equity	**€ million**	**20,2**	**22,2**
Ratio to balance sheet	%	16,6	17,0
Subscribed capital	€ million	21,0	21,0
Non-current liabilities	**€ million**	**53,1**	**87,0**
Ratio to balance sheet total	%	43,6	66,6
Current liabilities	**€ million**	**48,5**	**21,5**
Ratio to balance sheet total	%	39,8	16,4
Balance sheet total	**€ million**	**121,8**	**130,7**

Key data			
Sales per employee	T€	69,1	70,5
Personnel expenses per employee	T€	28,6	26,9
Return on Capital Employed	%	–0,1	5,1
Return on sales	%	–2,9	0,7
Cash flow from operating activities	€ million	13,9	4,2
Added value	€ million	55,1	53,8

Contact

Financial Calendar

Shareholders' Meeting 2006 in Bielefeld: June 29, 2006
Interim Report 1. Half of 2006: August 2006

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