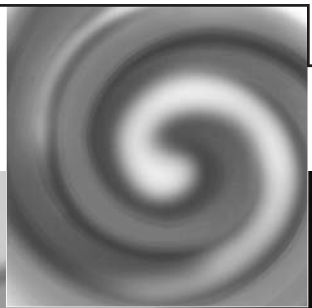
Annual Report

2006



DÜRKOPP ADLER AG

Equity Holdings

DÜRKOPP ADLER AG

- 100% **Dürkopp Fördertechnik GmbH**, Bielefeld, Germany
- 100% **Dürkopp Adler America, Inc.**, Atlanta/USA
  - 99,98% **Dürkopp Adler Mexico S.A. de C.V.**, Mexico-City/Mexico
- 100% **Beisler GmbH**, Hösbach, Germany
- 100% **Dürkopp Adler Far East Ltd.**, Hongkong/China
- 100% **Dürkopp Adler International Trading (Shanghai) Co., Ltd.**, Shanghai/China
- 87,99% **Minerva Boskovice, a.s.**, Boskovice/Czech Republic
- 100% **Dürkopp Adler Italia S.r.l.**, Milan/Italy
- 100% **Dürkopp Adler France S.A.S.**, Paris/France
- 100% **S.C. Dürkopp Adler masini de cusut S.R.L.**, Sangeorgiu de Mures/Romania
- 100% **Dürkopp Adler Austria Gesellschaft mbH i.L.**, Vienna/Austria
- 100% **Dürkopp Adler Polska Sp. z o.o.**, Wroclaw/Poland
- 75% **Dürkopp Adler DaFuJi (Dalian) Sewing Machines Co., Ltd.**, Dalian/China
- 97,26% **Dürkopp Adler Ukraina Ltd.**, Kiew/Ukraina
- 30,00% **Dürkopp Adler Manufacturing (Shanghai) Co., Ltd.**, Shanghai/China
- 25,00% **Dürkopp Adler Trading (Shanghai) Co., Ltd.**, Shanghai/China

Content

Management Report

of the Dürkopp Adler Group

Overall, 2006 was a successful financial year for the Dürkopp Adler Group. Significant increases were achieved in terms of both sales and revenues. On the market side, the upturn in the global economy had a positive impact on the Group: it witnessed a perceptible acceleration in demand and an increased willingness to invest. In addition, the Group's structural realignment, the result of efforts over the past several years, has contributed to the positive developments. This has strengthened the Group's competitive position and laid the foundation for sustained consolidation.

Market developments

The demand for products from the Sewing Technology division varied greatly in the financial year 2006 both in the course of the year as from region to region.

The financial year began reservedly until the end of the first quarter. From mid-March the order situation improved before it began to temper in the last quarter.

Growth in China continued, however under increased pressure on price and with an increased number of local competitors.

India is one of the countries that have strongly benefited from the WTO's abolition of quota restrictions for textiles. This has increased market chances for the textile industry. The resulting call for investment has sharpened the price war caused in part by new cheap Chinese providers in the market.

As in the past, the Americas exhibited further sagging in the market, particularly in the automotive sector.

Overall, cutbacks in the individual machine business was compensated by equipping large production lines in Egypt, Russia, Poland, Germany, Algeria and Sri Lanka.

For Materials Handling, the willingness to invest on the part of logistics and automobile suppliers increased in Western Europe. Above-average demand was recorded for large plant.

Sales and Orders

Sales in the Dürkopp Adler Group amounted to EUR 146.1 million (prior year: EUR 128.6 million). Of this, EUR 114.6 million was attributed to Sewing Technology (prior year: EUR 101.7 million). Sales in Materials Handling rose from EUR 26.9 million in the prior year to EUR 31.5 million in the current year. As before, international business is extremely important for the Dürkopp Adler Group. The proportion of Group sales attributable to international business stood at 85.4% (prior year: 85.7%). Europe continued to represent the regional stronghold with a proportion of 61.2% of consolidated Group sales (prior year: 60.0%) or EUR 89.4 million (prior year: EUR 77.2 million).

In 2006, orders received by the Dürkopp Adler Group amounted to EUR 148.3 million (prior year: EUR 129.9 million). Sewing Technology witnessed an increase in orders received from EUR 101.1 million in the prior year to EUR 115.3 million in the year under review. Materials Handling saw a rise in orders received of 14.3% to EUR 33.0 million.

Orders on hand at 31 December 2006 for the Group stood at EUR 20.3 million (prior year: EUR 18.2 million).

Sales trend over the last 5 years

(in million EUR)	2002	2003	HGB 2004	2004	2005	IFRS 2006
Group	154.8	145.7	133.2	133.3	128.6	146.1
Sewing Technology Unit	117.9	111.5	111.8	112.0	101.7	114.6
Material Handling Unit	36.9	34.2	21.4	21.3	26.9	31.5

Sales in the Regions

(in million EUR)	2006	%	2005	%
Germany	21.4	14.6	18.4	14.3
Europe (without Germany)	68.0	46.5	58.9	45.8
America	14.6	10.0	16.1	12.5
Africa	6.2	4.2	6.6	5.1
Asia/Australia	35.9	24.7	28.6	22.3
Total	**146.1**	**100.0**	**128.6**	**100.0**

Employees

At 31 December 2006, the Dürkopp Adler Group had 1,807 employees (prior year: 1,772). The annual average amounted to 1,753 employees (prior year: 1,805).

European production facilities were working at full capacity. Peak demand in Germany was covered by the usage of flexi-time models and the increase in personnel within the scope of employee transfer agreements. To meet the intense demand for products manufactured by Minerva Boskovice, a.s., production capacity in the Czech Republic was increased by the appointment of 56 new employees.

Employees were working in shifts at sites in Bielefeld, Boskovice und Sangeorgiu de Mures. Remuneration was primarily based on a monthly salary basis. Options relating to pre-retirement part-time work schemes presented under law or through agreements were taken up by 35 employees in 2006 (prior year: 39 employees). Staff development was encouraged by offering regular courses which were attended by a large number of the staff. As in prior years, staff turnover at all locations was particularly low. A increasing proportion of employees has been working for the Dürkopp Adler Group for more than 25 years.

Personnel expenses in the Group amounted to EUR 49.8 million (prior year: EUR 49.0 million).

Environmental protection

Strict environmental protection goals have been defined for Group companies. Compliance with these is controlled by regular checks and monitoring. The annual environmental report documents these regular checks and verifies that all legal requirements were met. All locations were informed of the need to use eco-friendly materials. All hazardous materials were properly disposed of. The Group is working continually on reducing the use of environmentally damaging materials. The company is therefore meeting its goal of reducing environmental damage in production processes as much as possible.

Development and innovation

Again in 2006, development activities conducted in the Dürkopp Adler Group led to a multitude of innovations in product and process technologies. At EUR 6.1 million, or 4.2% of sales, the development rate remained high in 2006.

Sewing Technology successfully introduced a new special machine of the middle-weight range M-Type on the market, installing this at numerous customers'. The focus of current developments is on new designs of machines for the clothing industry, for the M-Type series and on existing products. Part of development capacities was utilised to qualitatively improve products of the Group's parent company, SGSB Group Co. Ltd, Shanghai (SGSB Group) and to jointly extend the product range of the Chinese company. Consulting and development services rendered were counted as the Group's capital contribution in the new production joint venture in China that was founded in collaboration with the SGSB Group.

Developments undertaken in Materials Handling in 2006 included a fully automated warehousing and picking system for just-in-time call up of seat covers by automobile suppliers. Furthermore, specific, innovative solutions for customer in clothing distribution and logistics were developed.

Net operating profit

In addition to rising sales, measures carried out to in previous year to reduce cost contributed significantly to the doubling of EBIT to EUR 10.4 million in 2006 compared to EUR 4.9 million in the prior year. Net interest loss of EUR 4.0 million was the same as the level reported in the prior year. Given a pre-tax profit of EUR 6.4 million (prior year: 0.9m) and taxes on income of EUR –1.1 million (prior year: EUR 0.5 million) Net income for the year amounted to EUR 5.3 million (prior year: EUR 1.4 million). Return on sales after tax rose from 1.1% in the prior year to 3.6%, earnings per share increased from EUR 0.17 to EUR 0.63 now.

Development of Operating Result

(in million EUR)	2006	%	2005	%	Change %
Sales	146.1	100.0	128.6	100.0	13.6
Cost of sales	–91.2	–62.4	–83.1	–64.6	9.7
Gross profit on sales	**54.9**	**37.6**	**45.5**	**35.4**	**20.7**
Selling expenses	–26.3	–18.0	–24.2	–18.8	8.7
General administration expenses	–7.2	–4.9	–7.1	–5.5	1.4
R & D expenses	–6.1	–4.2	–6.3	–4.9	–3.2
Other expenses	–8.8	–6.0	–7.0	–5.4	25.7
Other income	3.9	2.6	4.0	3.0	–2.5
Earnings before interest and taxes	**10.4**	**7.1**	**4.9**	**3.8**	**112.2**
Interest balance	–4.0	–2.7	–4.0	–3.1	0.0
Result before income taxes	**6.4**	**4.4**	**0.9**	**0.7**	**611.1**
Income taxes	–1.1	–0.8	0.5	0.4	–320.0
Net income	**5.3**	**3.6**	**1.4**	**1.1**	**278.6**

Cash flow statement

The cash flow statement records the flow of payments to and from the Dürkopp Adler Group. The cash flow from current business activities improved by EUR 14.2 million to EUR 18.4 million (prior year: EUR 4.2 million). Liquid funds climbed from EUR 7.8 million in 2005 to EUR 17.5 million in the year under review. The detailed cash flow statements in included in the Group financial statements.

Assets, liabilities and shareholder's equity

Non-current assets amounted to EUR 47.3 million (prior year: EUR 46.3 million). The corresponds to 34.7% of the balance sheet total (prior year: 35.4%).

Additions of immaterial assets and property, plant and equipment totalled EUR 5.5 million in 2006 and comprised primarily replacement investment, as in prior years. In the previous year the value amounted to EUR 5.2 million. The focus in 2006 lay in the purchase of CNC processing centers for the Bielefeld and Boskovice sites. Depreciation/amortization for the financial year amounted to EUR 5.9 million (prior year: EUR 6.2 million).

Investment/Depreciation over the last five years

			HGB			IFRS
(in million EUR)	2002	2003	2004	2004	2005	2006
Investment	4.5	3.7	3.3	4.9	5.2	6.0
Depreciation	6.5	5.7	6.6	7.8	6.2	6.0

Inventories fell from EUR 35.3 million in the prior year to EUR 34.2 million. Accounts receivable fell from EUR 31.1 million to EUR 25.5 million.

Group equity rose to year-end 2006 by EUR 6.9 million to EUR 29.1 million. Despite the increase in total assets and liabilities, the equity ratio improved from 17.0% to 21.4% through cash and cash equivalents.

At EUR 44.0 million, pension provisions represented the most significant element of the capital side of the Dürkopp Adler Group balance sheet.

Other long-term provisions of EUR 2.6 million (prior year: EUR 3.2 million) mainly comprise anniversary provisions, provisions for salary agreements and for pre-retirement part-time work schemes.

Liabilities to banks/funding

The Group's net financial obligations – a balance of a Group loan from the ShangGong (Europe) Holding Corp. GmbH, liabilities to banks and liquid funds were reduced in the year under review by 55.5% to EUR 16.1 million (prior year: EUR 29.0 million). At December 31, 2006, liabilities to banks amounted to EUR 0.6 million (prior year: EUR 0.7 million).

The ShangGong (Europe) Holding Corp. GmbH, Bielefeld, provided the Group with a long-term group loan. This loan amounted to EUR 32.0 million of which EUR 24.0 million is to be repaid in eight equal instalment from 2008 to 2015. The remaining EUR 8.0 million is due at a later time. In addition, credit lines from banks of EUR 13.2 million have been provided.

Situation of Dürkopp Adler AG

The positive developments in Sewing Technology are also reflected in the course of business of Dürkopp Adler AG.

Sales rose by 10.6% to EUR 90.5 million (prior year: EUR 81.8 million). Sales growth was achieved primarily in the domestic German market and in Europe, but also in Asia and the Middle East. Due to the reserved approach to investment of the automobile supply industry, sales in North America were approximately 14% down on the prior year. The international proportion rose slightly from 87.3% to 87.7%.

Orders received in 2006 amounted to EUR 91.3 million (prior year: EUR 80.5 million).

At year end, orders on hand amounted to EUR 6.7 million (prior year: EUR 5.9 million).

The increase in sales and further savings in production costs lead to a clear improvement in the profit situation of the Dürkopp Adler AG.

EBIT improved again compared to the prior year by EUR 3.8 million to EUR 8.2 million. Given a loss on interest of EUR 3.0 million, pre-tax profit amounted to EUR 5.2 million (prior year: EUR 1.2 million). For Dürkopp Adler AG, net income for the year improved to EUR 4.9 million (prior year: EUR 1.8 million).

Results of subsidiaries

Within the Group network of production facilities, our international production companies Minerva Boskovice (Czech Republic) and Dürkopp Adler Romania made a major contribution to the production of competitive products.

Minerva Boskovice, a.s. has specialized on machine programs for the automotive, furniture, shoe and leather industries. These companies were operating at full capacity. The growing demand for sewing technology for the shoe industry required new employees to be hired.

Sales revenues for Minerva Boskovice, a.s. amounted to EUR 30.1 million (prior year: EUR 22.8 million). EBIT reached EUR 1.3 million with net income/for the year of EUR 0.4 million (prior year: EUR 0.1 million).

At Dürkopp Adler Romania, 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 Romania closed the financial year with net income of EUR 0.1 million.

Beisler GmbH in Hösbach, which manufactures highly specialized sewing systems for the clothing industry, recorded a positive result for the year.

Once again, our American subsidiary Dürkopp Adler America, Inc. suffered a collapse in sales. The willingness to invest on behalf of the automobile supply industry was very low. Compared to the prior year sales fell by EUR 1.6 million to EUR 13.5 million. The effect of profit of this slump in sales was largely compensated by cost savings.

Although the exodus of the clothing and leather industries out of Italy towards Eastern Europe and Asia continued, Dürkopp Adler Italia S.r.l. managed to keep sales at EUR 7.2 million, the same level as the prior year and achieved a favourable annual financial result.

In contrast, business developments at Dürkopp Adler France S.A.S. were more favourable. With sales of EUR 6.6 million, pre-tax profit amounted to EUR 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.

Dürkopp Adler Austria GmbH was liquidated with effect of December 31, 2006. In future the Austria market will be serviced directly by Dürkopp Adler AG.

For Dürkopp Fördertechnik GmbH, 2006 was a very successful year. Sales rose once again from EUR 27.0 million in 2005 to EUR 31.5 million in 2006. This corresponds to an increase of 16.7 % compared to the prior year. At EUR 33.0 million orders received were at a high level. Net income double from EUR 0.6 million in 2005 to EUR 1.2 million in 2006 as was transferred to Dürkopp Adler AG in accordance with an existing profit and loss transfer agreement.

Remuneration paid to members of the Executive Board and the Supervisory Board

The remuneration paid to members of the Executive Board, set by the Supervisory Board, is composed of non-performance-related and performance-related components. Non-performance related elements refer to fixed fees and expenses, while performance-related components are tied to annual goals set in advance. The fixed component of basic non-performance-related remuneration is paid monthly in the form of a salary.

Remuneration paid to the Supervisory Board members is fixed in the Articles of Association of the Dürkopp Adler AG Pursuant to Article 14 of the Company's Articles, in addition to compensation for cash expenditures, each member of the Supervisory Board shall receive EUR 4,090.34 for each full financial year, payable at the end of this financial year. This is increased by dividends of EUR 511.29 for each percent point exceeding the base rate of 14 % of the share capital. Dividends within the meaning of the previous provision refers to those dividends resulting before consideration of the generally assessable corporation tax. The Chair of the Supervisory Board receives twice the amount described above, the Deputy Chair one-and-a-half time the amount. In addition, members of the Supervisory Board shall receive compensation for value-added tax to be paid on their remuneration and expenses, in as far as the Company is entitled to deduct input tax.

There are no further agreements with respect to the remuneration paid to Executive Board and Supervisory Board members.

Supplementary details in accordance with Article 289, para. 4 and Article 315, para. 4 of the German Commercial Code, HGB

Pursuant to Article 10 of the German Stock Corporation Act (Aktiengesetz - AktG), the company's subscribed capital is divided into 8,200,000 ordinary shares issued in the name of the shareholder. Each share is granted one vote. Securitization of the holding is excluded. The Executive Board is not aware of any restrictions that would affect voting rights or the transfer of shares.

Given the approval of the Supervisory Board, the Executive Board can increase the share capital of the company by 17 June 2008, either once or in several tranches, by issuing new shares against cash contributions of up to EUR 7,669,378.22 (Authorized Capital I). Shareholders are to be granted subscriptions rights. Furthermore, given the approval of the Supervisory Board, the Executive Board is authorised to increase the share capital of the company by the same date, either once or in several tranches, by issuing new shares against cash contributions of up to EUR 2,045,167.52 (Approved Capital II). Given the approval of the Supervisory Board, the Executive Board in authorised to exclude shareholders if the amount of issue does not significantly fall short of the stock market price. In both cases, given the approval of the Supervisory Board, the Executive Board is entitled to remove the peak amounts from the shareholders' subscription rights. Moreover, given the approval of the Supervisory Board, the Executive Board is authorised increase the share capital of the company by 17 June 2008, either once or in several tranches, by issuing new shares to employees of the company and their Group companies (Authorized Capital III). Here, shareholder subscription rights are excluded. For all approved capital, given the approval of the Supervisory Board, the Executive Board is entitled to decide on other elements of share rights and the conditions for issuing shares.

The company has been informed of the following share ownership:

ShangGong (Europe) Holding Corporation GmbH, Bielefeld	direct	89.93 %
SGSB Group Co., Ltd., Shanghai	indirect	89.93 %
State-owned Assets Supervision And Administration Commission of Shanghai, Pudong Area, Shanghai	indirect	89.93 %

Pursuant to Articles 84 and 85 of the AktG in connection with Article 6 of the Articles of Association, the Executive Board is appointed and dismissed by the Supervisory Board.

The Company has met various agreements that are subject to change of control resulting from a takeover offer. These include numerous agreements regarding value and materiality with suppliers and some with customers. Furthermore, a provision has been included in the joint venture agreement to found Dürkopp Adler DaFuJi (Dalian) Sewing Machines Co. Ltd., Dalian, China that provides for special withdrawal rights in the event of a change in the majority shareholding of Dürkopp Adler AG. Dürkopp Adler AG has made no further agreements with appropriate conditions in the event of a change in control.

Financial Controlling

As part of the financial controlling of the Company, Dürkopp Adler makes use of an integrated planning and control system to be to recognize changed risk situations in real time and to counter their effects. Here, controlling values such as EBIT, EBT, capital employed (ROCE) and cash flow are used. Furthermore, goals for other important controlling values such as net operating profit and the production results are provided in advance. We know exactly how much we earn with a product in a region and always have an eye on the effects of market developments. In addition, we also receive information on the optimization of our product portfolio.

Derivate financial instruments are used to hedge against currency risks. These instruments solely against secure currency risks from existing and future business. In the preceding financial year, risks were covered by forward exchange contracts. Derivative financial business is subject to ongoing risk controls and are carried out under strict functional separation in trade, processing, documentation and control.

Risk report

The increasing complexity of the worldwide markets we serve calls for an effective system of risk-oriented corporate monitoring. For this, we make use of our own risk management system and early recognition system. Annual planning meetings, business activities are examined and evaluated in terms of their opportunities are risks. This enables goals to be derived, in which their degree of performance is controlled during the period by a Group-wide controlling and reporting system. Should changes or deviations in the market or competitive situation arise, these are immediately captured and analyzed by this control system – and decision-making powers in the Company are informed of these immediately. This procedure assumes that negative developments are recognised promptly and that countermeasures can be adopted immediately. In addition to standard reporting there are also ad hoc reports drawn up for risks that unexpectedly arise. Group controlling and internal auditing monitor the appropriateness and efficiency of the overall risk management. Information on improvement potential and risks are reported directly to the Executive Board. This monitoring also includes documenting the overall risk management and early recognition system and reviewing it in terms of its suitability.

Opportunities and risks of future developments

Strong competition in the sewing technology market and the significant influence of the USD-EUR exchange rate are permanent risks for our Company. Nevertheless, we see major opportunities for a successful future for the Dürkopp Adler Group in the collaboration with the Group's parent SGSB Group Co. Ltd, especially in the Chinese market.

From our point of view, we do not see any risks to Dürkopp Adler AG and the Dürkopp Adler Group. Thanks to the long-term loan provided by ShangGong (Europe) liquid funds and stand-by credit facilities from our company's banks of EUR 13.2 million, the liquidity of Dürkopp Adler AG and thus the Dürkopp Adler Group is assured.

Dependent company report

We have drawn a report on the relationship to affiliated companies pursuant to the regulations of Article 312 of the AktG. In addition to details of the relationship to companies in the Dürkopp Adler Group, the report examines the connections to enterprises in the SGSB Group. The reports concludes 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 after the balance sheet date

Since the end of the 2006 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

For 2007, we anticipate that the demand for capital goods for the sewing industry will continue at the same level as the preceding year. However, business will continue to be characterized by strong competitive pressure, high discounts and overcapacity. Our customers' continued relocation of production to Asia will mean that the European markets – very important markets for Dürkopp Adler – may stagnate. Due to pressure from competitors and pressure on prices – especially brought about by Chinese manufacturers - only moderate sales growth is expected in Asia.

A turnaround on the American market is not to be expected in 2007. We assume that business will develop in a similar pattern to the preceding year.

By founding joint ventures for production and sales with the SGSB Group in China, it is now possible to produce and market basis machines in China and to extend Dürkopp Adler's product portfolio.

By including these basis machines in our sales program, we are extending our network potential even for high-range automats and sewing systems.

In addition, we can expect stimulation for a successful financial year 2007 from the serial introduction of other new products – in particular in the growing automotive and shoe segments. Furthermore we are looking for a positive impact on sales by taking part in important trade fairs in Germany, China, Italy, India and the USA. On top of this, we are looking for further income potential from the improvement in the net result on interest due to the 55.5% reduction in net financial liabilities in 2006.

The Materials Handling division assumes that further European investment in logistics automation will follow in 2007. The high level of order at the end of the year and the excellent number of orders received at the beginning of 2007 have given us the basis for full-capacity production and a successful financial year.

Overall we anticipate sales revenues at prior year level and a renewed positive result for the new financial year for the Dürkopp Adler Group.

In the medium-term we will see a continuation of stable business development and an improvement in the equity ratio.

Bielefeld, 3 March 2007

The Executive Board

Alfred Wadle   Ying Zheng

Balance Sheet

of the Dürkopp Adler Group for the year ending December 31, 2006

(in thousand EUR)	Appendix	Dec. 31, 2006	Dec. 31, 2005
ASSETS			
Non-current assets			
Intangible assets	(1)	7,225	6,432
Tangible fixed assets	(2)	34,893	34,758
Investment property	(3)	4,666	4,769
Financial assets	(4)	540	331
		47,324	**46,290**
Other non-current assets		–	43
Deferred taxes		7,143	6,981
		54,467	**53,314**
Current assets			
Inventories	(5)	34,153	35,312
Accounts receivable and other assets	(6)	30,266	34,244
Cash and cash equivalents	(7)	17,541	7,781
		81,960	**77,337**
		136,427	**130,651**
LIABILITIES			
Equity			
Subscribed capital	(8)	20,963	20,963
Capital reserves	(9)	8,112	8,112
Retained earnings	(10)	16,089	14,803
Balance sheet loss		–17,456	–22,707
		27,708	**21,171**
Minority interests	(11)	1,438	1,034
		29,146	**22,205**
Non-current liabilities			
Pension provisions	(12)	44,049	45,735
Other non-current provisions	(13)	2,639	3,164
Financial liabilities	(14)	32,038	35,043
Deferred taxes		3,294	3,031
		82,020	**86,973**
Current liabilities	(15)		
Current provisions		9,513	6,931
Liabilities from production orders		–	485
Trade accounts payable		6,052	4,873
Advanced payments received for orders		3,758	1,852
Accounts payable to affiliated companies		58	21
Financial liabilities		3,944	4,656
Other current liabilities		821	2,418
Income tax liabilities		1,115	237
		25,261	**21,473**
		107,281	**108,446**
		136,427	**130,651**

Income Statement

of the Dürkopp Adler Group for the financial year 2006

(in thousand EUR)	Apendix	2006	2005
Sales	(16)	**146,099**	**128,571**
Costs of sales	(17)	–91,207	–82,992
Gross profit on sales		**54,892**	**45,579**
Selling expenses	(18)	–26,321	–24,219
Expenses of research and development	(19)	–6,108	–6,301
General administration expenses	(20)	–7,231	–7,140
Other operating income	(21)	3,897	3,991
Other operating expenses	(22)	–8,776	–7,036
Income from shareholdings		–	2
Earnings before interest and taxes		**10,353**	**4,876**
Interest balance	(23)	–3,998	–4,021
Result before income taxes		**6,355**	**855**
Income taxes	(24)	–1,104	571
Net income		**5,251**	**1,426**
Minority interests	(25)	–45	–17
Consolidated net income		**5,206**	**1,409**

Income per share in EUR	**0.63**	**0.17**
Number of shares	**8,200,000**	**8,200,000**

Statement of Equity Changes

in the Dürkopp Adler Group from Jan. 1, 2005 to Dec. 31, 2006

				Parent company	
	Subscribed capital	Capitalreserves	Earned Group equity	Accumulated other Group profit/loss	
				Other neutral transactions	Currency translations
As of Jan. 1, 2005	**20,963**	**8,112**	**–10,164**	**–**	**308**
Net profit/loss for period	–	–	1,409	–	–
Currency translation	–	–	–	–	–171
Changes in consolidated companies	–	–	33	–	–
Other changes	–	–	681	–	–
As of Dec. 31, 2005	**20,963**	**8,112**	**–8,041**	**–**	**137**
Net profit/loss for period	–	–	5,206	–	–
Currency translation	–	–	–	–	1,208
Market appraisal financial intruments	–	–	–	120	–
Capital contribution third companies (DA DAFUJI)	–	–	–	–	–
Aquisition of minority interests Minerva	–	–	3	–	–
As of Dec. 31, 2006	**20,963**	**8,112**	**–2,832**	**120**	**1,345**

Equity according to Group balance sheet	Minority shareholding Minority capital	Accumulated other Group profit/loss Currency translations	Equity	Group equity
19,219	**930**	**70**	**1,000**	**20,219**
1,409	17	–	17	1,426
–171	–	49	49	–122
33	–33	–	–33	–
681	1	–	1	682
21,171	**915**	**119**	**1,034**	**22,205**
5,206	45	–	45	5,251
1,208	–	57	57	1,265
120	–	–	–	120
–	307	–	307	307
3	–5	–	–5	–2
27,708	**1,262**	**176**	**1,438**	**29,146**

Development of Fixed Assets

of the Dürkopp Adler Group 2006

(in thousand EUR)	As of Jan 1, 2006	Currency adjusted	Additions	Disposals	Differences	As of Dec. 31, 2006
	Acquisition and production costs					
I. Intangible fixed assets						
1. Industrial property rights and similar rights	1,377	11	359	178	56	1,625
2. Development costs	7,575	–	1,923	–	–	9,498
3. Goodwill	5,832	–	–	–	–	5,832
4. Payments made on account	2	1	55	–	–56	2
	14,786	**12**	**2,337**	**178**	**–**	**16,957**
II. Tangible fixed assets						
1. Land and building including buildings on land owned by others	39,747	1,307	408	45	375	41,792
2. Technical plant and machinery	30,699	1,062	320	1,078	861	31,864
3. Other equipment, operating and office equipment	30,984	516	825	1,312	519	31,532
4. Payments made on account and assets in course of construction	436	77	1,585	7	–1,756	335
	101,866	**2,962**	**3,138**	**2,442**	**–1**	**105,523**
III. Investment property	**6,230**	**–**	**–**	**11**	**1**	**6,220**
IV. Financial assets						
1. Shares in affiliated companies	–	–	540	–	–	540
2. Shareholdings	287	–	–	287	–	–
3. Non-current securities	49	–	–	49	–	–
	336	**–**	**540**	**336**	**–**	**540**
	123,218	**2,974**	**6,015**	**2,967**	**–**	**129,240**

Accumulated Write-downs						Net book value	
As of Jan 1, 2006	Currency adjusted	Additions	Disposals	Differences	As of Dec. 31, 2006	As of Dec. 31, 2006	As of Dec. 31, 2005
1,034	23	182	178	–	1,061	564	343
4,402	–	1,351	–	–	5,753	3,745	3,173
2,918	–	–	–	–	2,918	2,914	2,914
–	–	–	–	–	–	2	2
8,354	**23**	**1,533**	**178**	**–**	**9,732**	**7,225**	**6,432**
18,157	251	961	45	10	19,334	22,458	21,590
22,397	728	1,676	937	–	23,864	8,000	8,302
26,535	401	1,713	1,223	–10	27,416	4,116	4,449
19	2	–5	–	–	16	319	417
67,108	**1,382**	**4,345**	**2,205**	**–**	**70,630**	**34,893**	**34,758**
1,461	**–**	**93**	**–**	**–**	**1,554**	**4,666**	**4,769**
–	–	–	–	–	–	540	–
–	–	–	–	–	–	–	287
5	–	–	5	–	–	–	44
5	**–**	**–**	**5**	**–**	**–**	**540**	**331**
76,928	**1,405**	**5,971**	**2,388**	**–**	**81,916**	**47,324**	**46,290**

Development of Fixed Assets

of the Dürkopp Adler Group 2005

(in thousand EUR)	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	1,331	21	163	138	–	1,377
2. Development costs	5,800	–	1,775	–	–	7,575
3. Goodwill	5,832	–	–	–	–	5,832
4. 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	Differences	As of Dec. 31, 2005	As of Dec. 31, 2005	As of Dec. 31, 2004
967	17	188	138	–	1,034	343	364
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 EUR)	2006	2005
Net profit on year	5.3	1.4
Income taxes	1.2	0.3
Interest cost	4.0	4.0
Depreciation on fixed assets	6.0	6.2
Change in deferred taxes	0.1	–1.0
Change in non-current provisions	–2.2	–1.4
Non-cash revenues and expenses	1.9	–0.4
Increase (+) /decrease (–) in short and medium term provisions	2.6	–2.4
Profit/loss on the disposal of fixed assets	0.1	–0.4
Decrease in inventories, trade receivables and other assets not attributable to to investment or financing activities	3.1	1.2
Decrease in trade payables and other financing liabilities not attributable to to investment or financing activities	–1.5	–3.3
Interest paid	–2.1	–0,5
Taxes paid/received	–0.1	0.5
Cash flow from operating activities	**18.4**	**4.2**
Payments received from the disposal of fixed assets	0.2	1.2
Payments received from the disposal of financial assets	0.3	0.0
Payments made for investments in intangible fixed assets	–2.4	–1.9
Payments made for investements in tangible assets	–3.1	–3.3
Paymnets made for investments in cosolidated companies	0.0	–0.3
Payments made for acquiring not consolidated companies	–0.6	0.0
Cash flow from investment activities	**–5.6**	**–4.3**
Payments made from the take-up of loans	0.0	12.6
Payments made on amortizing loans	–3.1	–5.7
Cash flow from financing activities	**–3.1**	**6.9**
Change in cash and cash equivalents	9,7	6.8
Cash and cash equivalents at beginning of period	7.8	1.0
Cash and cash equivalents at end of period	17.5	7.8

Notes

Relating to the Consolidated Financial Statements of the Dürkopp Adler AG for the Financial Year 2006

General information

Since July 1 2005 ShangGong (Europe) Holding Corp. GmbH is the majority shareholder in the Dürkopp Adler AG with a 89.93% stake. ShangGong (Europe) Holding Corp. GmbH is a 100% subsidiary of the SGSB Group Co., Ltd., Shanghai.

The Dürkopp Adler Group is divided into the corporate divisions of Sewing Technology and Materials Handling. Sewing Technology focuses globally on the development, production, processing and sales of industrial sewing machines, automats and systems for target groups in the clothing, shoe, automobile supply and upholstery industries, as well as in processing technical textiles. Materials Handling is concerned with the flow of materials and holistic technical solutions for logistics chains in the target groups automobile suppliers, clothing producers and clothing retail in Europe.

Group relationships

Dürkopp Adler AG is under the direct and uniform control of ShangGong (Europe) Holding Corp. GmbH, Bielefeld. This itself is under the direct control of SGSB Group Co. Ltd., Shanghai. It is included in the consolidated report of ShangGong (Europe) Holding Corp. GmbH, Bielefeld, (narrow group) and in the consolidated report of SGSB Group Co. Ltd., Shanghai, (wider group). Documents pertaining to ShangGong (Europe) Holding Corp. GmbH, Bielefeld which are subject to disclosure are published in the Electrical Federal Gazette.

Accounting principles

The consolidated financial statements of Dürkopp Adler AG were prepared in compliance with the International Financial Reporting Standards (IFRSs). The report takes into consideration both obligatory standards of the International Accounting Standards Board in London (IASB), applicable on the reporting date, and interpretations of the International Financial Reporting Interpretation Committee (IFRIC) valid for the business year and additional regulations applicable under German commercial law pursuant to Article 315a, para 1 of the German Commercial Code, HGB. Requirements of the standards and interpretations applied were fulfilled without exception and the information presented herein represents a faithful account of the Group's financial position, financial performance and cash flows.

The consolidated financial statements are published and announced in the Electrical Federal Gazette.

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 prepared in euros. The income statement follows the cost of sales (function of expense) method.

The consolidated financial statements and the Group management report were approved by the Executive Board on March 3, 2007 to be forwarded to the Supervisory Board.

Newly issued accounting guidelines not applied accounting regulations
The IASB has issued the following standards, interpretations and amendments to existing standards. The use of these is not mandatory and they have not been applied by Dürkopp Adler AG. The application of these IFRSs presupposes that will be accepted by the EU within the scope of an IFRSs endorsement.

IFRIC 7 Application of the restatement approach according to IAS 29 in high-inflation countries	Obligatory for financial years beginning on or after March 1, 2006
IFRIC 8 Scope of IFRS 2	Obligatory for financial years beginning on or after May 1, 2006
IFRIC 9 New assessment of embedded derivatives	Obligatory for financial years beginning on or after June 1, 2006
IFRIC 10 Interim reporting and impairment	Obligatory for financial years beginning on or after November 1, 2006
Amendment to IAS 1 Presentation of the financial statements – details on capital	Obligatory for financial years beginning on or after January 1, 2007
IFRS 7 Financial instruments: details	Obligatory for financial years beginning on or after January 1, 2007
IFRIC 11 Group internal companies and companies with own shares, according to IFRS 2	Obligatory for financial years beginning on or after March 1, 2007
IFRIC 12 Service concession agreements	Obligatory for financial years beginning on or after January 1, 2008
IFRS 8 Operational segments	Obligatory for financial years beginning on or after January 1, 2009

The initial application of changes in IAS 1 and IFRS 7 will lead to extended information in the Notes. Based on current estimates, the initial application of these regulations will not have a major influence on the presentation of the financial statements.

Scope of consolidation
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.

	Capital share in %
Dürkopp Fördertechnik GmbH, Bielefeld, Germany	100.00
Adler Industrienähmaschinen Verkauf GmbH, Bielefeld, Germany	100.00
Beisler GmbH, Hösbach, Germany	100.00
Dürkopp Adler France S.A.S., Paris, France	100.00
Dürkopp Adler Italia S.r.l., Mailand, Italy	100.00
Dürkopp Adler Austria GmbH i. L., Wien, 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, Romania	100.00
Minerva Boskovice, a.s., Boskovice, Czech Republic	87.99
Dürkopp Adler Ukraina Ltd., Kiew, Ukraina	97.26
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., Hongkong, 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.

With effect January 1, 2006, Dürkopp Adler Tecnologia de Costura Ltda., Sao Paulo, Brazil is excluded from consolidation. The changes in the scope of consolidation do not affect the financial position, financial performance and cash flows.

Due to their inconsequential effect on the financial position, financial performance and cash flows, the following entities did not apply the equity method.

	Capital share in %
Dürkopp Adler Trading (Shanghai) Co., Ltd., Shanghai, China	25.00
Dürkopp Adler Manufacturing (Shanghai) Co., Ltd., Shanghai, China	30.00

Details of the major direct and indirect affiliated entities pertaining to Dürkopp Adler AG are listed in a separate Annex to the Notes. The complete list of shareholdings is published in the Electronic Federal Gazette.

Principles and methods of consolidation
The consolidated financial statements are based on financial statements prepared for Dürkopp Adler AG and consolidated subsidiaries in accordance with uniform accounting policies.

Capital consolidation has been performed by offsetting the acquisition costs against the proportional re-valued equity capital at the time the subsidiary was acquired.

The investment of non-Group third parties in the equity of the consolidated companies is listed separately in the equity held by shareholders of Dürkopp Adler AG.

Assets and obligations valued in foreign currencies are recognized at cost using the conversion rate valid on 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 – and internal investment income 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 made in foreign currencies in consolidated financial statements are measured 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 recognized as income.

Financial statements from international subsidiaries prepared 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, given that 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 is converted at historical rates. Items in the income statement are converted using the relevant average exchange rate for the month. Resulting differences are recognized directly at equity until the subsidiary is sold.

Conversion rates used for currency translations developed as follows:

Currency per EUR 1	Period-end exchange rate		Average rate	
	Dec. 31, 2006	Dec. 31, 2005	2006	2005
USD	1.31700	1.17970	1.25540	1.24486
CZK	27.48500	29.00000	28.33868	29.78466
RON	3.38350	3.67710	3.52453	3.62021
HKD	10.24090	9.14740	9.75281	9.68320
PLN	3.83100	3.86000	3.89421	4.02221
CNY	10.27930	9.52124	10.00701	10.20706

Accounting and valuation principles
The consolidated financial statements were prepared based on uniform accounting and valuation principles in compliance 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 carrying cost with the exception of carrying certain financial assets at a fair value in accordance with IAS 39.

In preparing the consolidated financial statements, assumptions and estimates have been necessary which have an effect on the recognition, measurement and disclosure of assets, liabilities, income 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 liquidability of receivables, in assessing the extent of completion when using the percentage-of-completion method and the accounting and measurement 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 purchased payment are recognized at cost and amortized subsequent to straight-line depreciation over their foreseeable useful life, in as much as there are no subsequent impairment losses. Generally, useful life amounts to between 3 and 5 years.

Internally generated intangible assets are capitalized as long as there is apparent and reliable estimable use for the Group and the costs can be reliably measured. Production costs of internally-generated intangible assets are calculated on the basis of directly apportionable direct 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 either 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. Capitalized development costs are depreciated on a straight-line basis over a standard, expected product life cycle of five years. Research costs and development costs that may not be capitalized are expensed as they arise.

Plant, property and equipment
Plant, property and equipment is measured at cost less accumulated depreciation. If there reason(s) given for impairment losses carried out in prior years no longer apply, appropriate write-ups are carried out.

In accordance with IFRS 1.16, a fair value estimated at the time of transition to IFRS replaces recognized cost for the company's use of property in Bielefeld for operational and business purposes.

The costs of internally generated property, plant and equipment are determined on the basis of direct costs and appropriate additional sums for product-related overheads and depreciation. Financing costs for the period of production are not included.

Low-value assets (purchase or production cost of up to EUR 410) are depreciated in full in the year of accrual and disclosed 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 IFRSs replaces purchase costs for property in Bielefeld not used for company own purposes. For subsequent measurement, investment property is measured at carrying cost.

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

Financial assets
Other Group investments posted as financial assets are accounted for at cost.

Impairment of assets (Impairment test)
At each balance sheet day, the Group reviews the carrying value of its intangible assets, property, plant and equipment, and financial assets to determine whether there are signs of impairment loss. If such evidence exists, a recoverable amount is estimated covering the extent of the impairment loss.

An impairment is recognized as income if the recoverable amount exceeds the carrying amount.

In principle, the recoverable amount is assessed for each asset. If this is not possible, the amount is determined 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 selling costs. 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 impairment losses in prior years no longer applies, a reversal of impairment losses is to be carried out, with the exception of goodwill, up to a maximum of the carrying amount.

Current assets

Inventories
Inventories are recognized at the lower of the 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 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 recorded 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 carried at their rolled forward purchase costs. Any receivables risks are taken into account by appropriate allowances. Receivables in foreign currencies are valued at the mean rate on the balance sheet date. Gains and losses from currency translations are recognized as income.

In compliance with IAS 39, financial assets are initially measured at cost on the day of trading.

When acquired, derivative financial instruments are carried at cost and measured at their fair value on subsequent balance sheet dates.

Changes in derivative financial instruments that do not fulfil the criteria for accounting for 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 meauring 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 present value of commitment are not accounted for The proportion of actuarial gains and losses exceeding 10 percent of the present value of the commitment are amortized over the average remaining service period for the employees (15 years) (corridor method).

Deferred tax liabilities
Deferred taxes are recognized by the balance sheet-oriented liability method in compliance with IAS 12. Accordingly, all temporary differences between carrying amounts 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, 2006, 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 measured 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 measured at their amortised cost. Derivative liability items are recognized at 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

on the Consolidated Balance Sheet

(1) 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 EUR 2.9 million results from the acquisition of Beisler GmbH, Hösbach, Germany, carried out in 1998.

As of December 31, 2006, the carrying amount of capitalized internally-generated intangible assets amounted to EUR 3,745 thousand (prior year: EUR 3,173 thousand). 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 carrying amount:

(in thousand EUR)	Dec. 31, 2006	Dec. 31, 2005
Land and buildings	22,458	21,590
Technical equipment and machinery	8,000	8,302
Other equipment and office equipment	4,116	4,449
Payments in advance and equipment under construction	319	417
Non-current assets	**34,893**	**34,758**

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 EUR 2,658 thousand (prior year: EUR 2,209 thousand).

(3) Investment property

This concerns land intended for sale at the Oldentrup, Germany site of roughly 85,000m^2 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. Measurement follows the purchase cost model.

The building is depreciated at 4% pa. The remaining useful life amounts to six years. The measurement of the land is based negotiations with interested buyers and guidelines issued by the Bielefeld public authorities for industrial land.

In the year under review, rentals amounted to EUR 39 thousand. At the same time, operational expenses for maintenance totaled EUR 56 thousand.

(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 thousand EUR)	Dec. 31, 2006	Dec. 31, 2005
Affiliated companies	540	0
Investments	0	287
Securities	0	44
Financial assets	540	331

Investments in non-consolidated, affiliated companies amounted to EUR 295 thousand and relate to a 25% interest in the joint venture Dürkopp Adler Trading (Shanghai) Co. Ltd., Shanghai and a payment of EUR 245 thousand representing a 30% interest in Dürkopp Adler Manufacturing (Shanghai) Co. Ltd., Shanghai.

The investment in Juki Co. Ltd., Tokyo was sold at the carrying amount in the year under review.

Current assets

(5) Inventories

(in thousand EUR)	Dec. 31, 2006	Dec. 31, 2005
Raw materials and supplies	14,859	14,586
Unfinished products	10,605	9,831
Finished products and goods	8,660	10,892
Payments in advance to suppliers	29	3
Inventories	**34,153**	**35,312**

Individual value reductions have been carried out for all inventories wherever realizable earnings from their sale or use is lower than carrying amounts. 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. Allowances on inventories totalled EUR 9,379 thousand (prior year: EUR 9,741 thousand).

There are significant restraints on ownership or disposal for the inventories of EUR 2,494 thousand (prior year: EUR 2,363 thousand).

(6) Receivables and Other Assets

(in thousand EUR)	Dec. 31, 2006	Dec. 31, 2005
Receivables from production orders	431	–
Receivables	25,539	31,111
Receivables from affiliated comanies	928	888
Other current financial assets	1,358	785
Income tax claims	260	343
Other current non-financial assets	1,750	1,117
Receivables and other assets	**30,266**	**34,244**

Receivables (prior year: payables) from production orders carried in accordance with the percentage-of-completion method amounted to the following:

Order production

(in thousand EUR)	2006	2005
Order revenues	**4,019**	**4,135**
Less advance payments	–3,588	–4,620
Total receivables/liabilities	**431**	**–485**

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 thousand EUR)	Dec. 31, 2006	Dec. 31, 2005
Cash at banks	17,493	7,747
Cash balance	48	34
Cash	**17,541**	**7,781**

There are no restraints on disposal relating to the cash items listed.

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 EUR 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 EUR 2.56.

With a term until June 17, 2008, Dürkopp Adler AG holds Authorized Capital I amounting to EUR 7,669,378.22 for stock issued against cash and Authorized Capital II amounting to EUR 2,045,167.52 for stock issued against cash or contributions 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 EUR 511,291.88 by issuing employee stock to employees of the company and the Group (conditional capital). Subscription rights of shareholder have been excluded.

(9) Additional paid-in capital
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 and market changes from derivative instruments and currency changes from original hedging activities, in as far as these are allocated to future transactions. These items were reduced by deferred taxes of EUR 79 thousand (prior year: EUR 0 thousand).

(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 and in Dürkopp Adler DaFuJi (Dalian) Sewing Machines Co. Ltd., Dalian, China.

Non-current liabilities

(12) Pension provisions
The corporate pension plan within the Dürkopp Adler Group is based on benefit commitments covered by provisions. The extent of benefits granted is commensurate with years of service, in as far the employees joined the company before October 31, 1997. In addition there are individual arrangements for Board members and senior staff.

Retirement pension commitments are primarily owed to those entitled to pension benefits in Germany. As the same time, the comprise the indirect obligation of Dürkopp Adler AG as the sponsor of the benevolent fund Dürkopp Adler e.V., Bielefeld, Germany.

Major actuarial premises applied in the Dürkopp Adler Group:

	Dec. 31, 2006	Dec. 31, 2005
Discount rate	4,5%	4,3%
Salary trend rate	2,0%	2,0%
Benefit trend rate	1,5%	1,5%
Best-estimate actuarial assumptions	Actuary charts 2005 G Klaus Heubeck	Actuary charts 2005 G Klaus Heubeck

Development of the Defined Benefit Obligation (DBO)

(in thousand EUR)	Dec. 31, 2006	Dec. 31, 2005
Defined benefit obligation	46,605	49,565
Actuarial losses not yet recorded	–2,556	–3,830
Balance	**44,049**	**45,735**

Development of Provisions for Pension Obligations

(in thousand EUR)	Dec. 31, 2006	Dec. 31, 2005
Provisions as of Jan. 1	**45,735**	**47,143**
Net pension expenses	2,127	2,430
Pension payments	–3,813	–3,838
Provisions as of Dec. 31	**44,049**	**45,735**

The following amounts were recorded in the income statement:

Expenses from Pension Obligations

(in thousand EUR)	2006	2005
Service cost	76	58
Interest expense	2,051	2,372
Expenses from pension obligations	**2,127**	**2,430**

(13) Non-current provisions

(in thousand EUR)	as per Dec. 31, 2005	Currency differences	Accruals	Consumption	Disposals	as per Dec. 31, 2006
Anniversary expenses	238	–	16	–14	–14	226
Wage agreement	800	–	60	–	–	860
Partial retirement	380	–	–	–261	–	119
Impending losses	1,102	–109	0	–79	–41	873
Other	644	–4	170	–239	–10	561
Total	**3,164**	**–113**	**246**	**–593**	**–65**	**2,639**

The discount rate applied to measuring provisions recorded with regard to personnel amounts to 5,5% p.a., for other provisions the rate is 4.75% p.a.

(14) Financial Liabilities

(in thousand EUR)	Dec. 31, 2006	Dec. 31, 2005
1 to 5 years	12,019	12,019
Over 5 years	20,019	23,024
Total	**32,038**	**35,043**

Non-current financial liabilities concern an unsecured loan from ShangGong (Europe) Holding Corp. GmbH to Dürkopp Adler AG. An interest rate of 6% has been agreed for the loan over the whole term. The first instalment of EUR 3.0 million was repaid on December 1, 2006. Eight further annual instalments of EUR 3. million are due from June 30, 2008. After June 30, 2015, negotiations are to be held on the repayment of the remaining EUR 8 million.

The carrying amount corresponds to the fair value.

(15) Current Liabilities

Current Provisions

(in thousand EUR)	As per Dec. 31, 2005	Currency differences	Accruals	Consumption	Disposals	As per Dec. 31, 2006
Personnel	**3,301**	**21**	**3,141**	**–2,280**	**–96**	**4,087**
of which social plan/partial retirement	647	–	116	–490	–	273
Other provisions	**3,630**	**–16**	**5,639**	**–2,388**	**–1,439**	**5,426**
of which single guarantee	1,039	–	1,606	–1,034	–5	1,606
bonus voucher	399	–	1,029	–312	–56	1,060
outstanding accounts	232	5	88	–117	–	208
Total	**6,931**	**5**	**8,780**	**–4,668**	**–1,535**	**9,513**

Current liabilities

(in thousand EUR)	Dec. 31, 2006	Dec. 31, 2005
Liabilities from production orders	**–**	**485**
Trade accounts payable	**6,052**	**4,873**
Advanced payments received for orders	**3,758**	**1,852**
Trade accounts payable to affiliated companies	**58**	**21**
Financial liabilities	**3,944**	**4,656**
Liabilities to banks	606	718
Other financial liabilities	3,338	3,938
thereof to employees	651	905
thereof, taxes	946	883
thereof, as part of social security	699	1,086
thereof, to affiliated companies	1,036	1,059
Other	6	5
Other non-financial liabilities	**821**	**2,418**
Income taxes	**1,115**	**237**
Total liabilities	**15,748**	**14,542**

Of total liabilities to banks, EUR 490 thousand (prior year: EUR 621 thousand) is secured by liens.

The carrying amounts of liabilities corresponds to their fair value.

Notes

on the consolidated income statement

(16) Sales revenues

Sales include revenues from sales of products and services reduced by revenue deductions. Sales revenues are disclosed at the time of the transfer of risk. Revenues from orders resulting from the application of the percentage-of-completion method for specific customer production orders amount to EUR 4,019 thousand (prior year: EUR 4,135 thousand). The costs of the production order were recognized at the amount of revenues.

(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) General administration costs

Administrative costs acknowledge the proportional personnel and material costs from the Group steering, personnel, accounting and IT departments.

Financial result

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

(21) Other Operating Revenues

(in thousand EUR)	2006	2005
Revenues from disposals	59	565
Revenues from reversing accruals and canceling adjustments of value	908	1,294
Capital gains	1,939	849
Sundry other revenues	991	1,283
Total	**3,897**	**3,991**

Other operating revenues contain prior period revenues of EUR 978 thousand (prior year: EUR 1,685 thousand).

(22) Other Operating Expenses

(in thousand EUR)	2006	2005
Expenses for pension provisions	436	228
Performance-related bonuses	1,164	927
Impairment loss of receivables and bad debt losses	2,526	3,460
Capital losses	2,546	752
Other	2,104	1,669
Total	8,776	7,036

Other operating expenses contain prior period expenses of EUR 19 thousand (prior year: EUR 41 thousand).

(23) Net Interest Profit/Loss

(in thousand EUR)	2006	2005
Interest and similar revenues		
from third parties	348	161
Other financial revenues	22	3
Interest		
to affiliated companies	–2,088	–1,059
to third parties	–229	–754
Interest expenses on pension provisions	–2,051	–2,372
Total	**–3,998**	**–4,021**

(24) Income Taxes

(in thousand EUR)	2006	2005
Earnings before taxes	**6,355**	**855**
Current taxes	–1,196	–293
Deferred taxes from balance sheet differences	–980	–112
Deferred taxes from loss carryovers	1,072	976
Income taxes	**–1,104**	**571**

Current taxes contain EUR 92 thousand relating to other periods (prior year: EUR 18 thousand).

Allocation of tax accruals and deferrals

	Deferred taxes – assets		Deferred taxes – liabilities	
(in thousand EUR)	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
Intangible assets and property, plant and equipment	294	81	–4,227	–5,045
Investment property	–	–	–1,778	–1,813
Financial assets	90	252	–	–
Inventories	3,468	3,799	–	–
Other receivables and other assets	141	910	–565	–305
Pension provisions	3,057	3,064	–	–
Other non-current liabilities	419	670	–	–
Current liabilities	38	696	–1,621	–1,797
Loss carryovers	6,196	9,147	–	–
	13,703	**18,619**	**–8,191**	**–8,960**
Net balance	–4,897	–5,929	4,897	5,929
Impairments on deferred taxes on loss carryovers	–1,570	–5,605	–	–
Impairments on deferred taxes on other balance sheet items	–93	–104	–	–
Balancing items	**7,143**	**6,981**	**–3,294**	**–3,031**

Deferred taxes are recognised as temporary differences arising between the IFRSs and tax accounts, on tax-related loss carryovers and consolidation procedures.

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

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

Taxation Reconciliation

(in thousand EUR)	2006	2005
Anticipated tax expense	2,510	338
Deviations arising from changes in tax rates	98	88
Deviations in the basis of assessment	1,024	–1,053
Income tax relating to other periods	92	–18
Change of deferred taxes from balance sheet differences	980	112
Change of impairments on deferred taxes	–3,723	–46
Other	123	8
Tax expense	**1,104**	**–571**

(25) Gain/losses attributable to other shareholders
This concerns proportions of gains and losses attributable to other shareholders.

Gains amounted to EUR 47 thousand (prior year: EUR 17 thousand); losses amounted to EUR 2 thousand (prior year: EUR 0).

Additional information on the income statement/balance sheet

Material Expenses

(in thousand EUR)	2006	2005
Expenses for raw materials and supplies and for goods purchased	47,416	41,029
Expenses for services purchased	13,586	11,070
Total	**61,002**	**52,099**

Personnel Expenses

(in thousand EUR)	2006	2005
Wages and salaries	38,826	38,658
Social constributions and support expenses	10,440	10,107
Expenses for pension provision	488	257
Total	**49,754**	**49,022**

Personnel Structure

(Number*)	2006	2005
Production and technology	1,350	1,371
Marketing/Sales	202	216
Research, development and application technology	90	98
Administration	111	120
Total	**1,753**	**1,805**

* Annual average number excluding trainees, students and internees

Liability
There are no liabilities arising from guarantees (prior year: EUR 504 thousand).

Other financial liabilities

In total, there are liabilities from order obligations for investments (EUR 96 thousand; prior year: EUR 29 thousand), obligations from perennial leases (EUR 1,197 thousand; prior year: EUR 1,558 thousand), and from leasing obligations (EUR 4,799 thousand; prior year: EUR 6,217 thousand) totalling EUR 6,092 thousand (prior year: EUR 7,804 thousand).

In the case of operating leases, leasing payment are expensed directly in the income statement.

In 2006, payments from operating leases amounted to EUR 1,390 thousand; EUR 440 thousand was received from sub-letting agreements.

For property in Atlanta, USA, Dürkopp Adler America Inc. has concluded a sale-and-lease-back agreement. The leasing rate amounted to EUR 289 thousand in 2006. The agreement runs to September 30, 2015.

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

Future Rental Liabilities

(in thousand EUR)	Dec. 31, 2006	Dec. 31, 2005
Uo to 1 year	492	721
1 to 5 years	705	837
Total	**1,197**	**1,558**

Future Leasing Liabilities

(in thousand EUR)	Dec. 31, 2006	Dec. 31, 2005
Uo to 1 year	1,451	1,682
1 to 5 years	2,212	2,996
Over 5 years	1,136	1,539
Total	**4,799**	**6,217**

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.

Derivate financial instruments are used to hedge against currency risks. These instruments solely against secure currency risks from existing and future business. In the preceding financial year, risks were covered by forward exchange contracts. Derivative financial business is subject to ongoing risk controls and are carried out under strict functional separation in trade, processing, documentation and control.

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

For receivables in foreign currencies, hedging is provided by banks 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 thousand EUR)	Nominal value Dec. 31, 2006	Market value Dec. 31, 2006	Nominal value Dec. 31, 2005	Market value Dec. 31, 2005
CZK	–	–	4,269	–554
HKD	–	–	1,478	–
USD	13,722	354	19,256	–928
PLN	211	–9	1,224	–330
Total	**13,933**	**345**	**26,227**	**–1,812**

Valued at EUR 345 thousand, positive market values were disclosed in the consolidated balance sheet under other financial liabilities (prior year: negative market values were posted under other financial liabilities of EUR 1,812 thousand).

Notes
on Segment Reporting

Primary segmentation
The Dürkopp Adler Group is divided into two divisions that 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 Technolgy		Materials Handling		Consolidated		Group	
(in million EUR)	2006	2005	2006	2005	2006	2005	2006	2005
Orders received	115.3	101.1	33.0	28.8	–	–	148.3	129.9
Volume of orders	8.3	7.7	12.0	10.5	–	–	20.3	18.2
Sales	114.6	101.7	31.6	27.0	–	–	146.2	128.7
External sales	114.6	101.7	31.5	26.9	–	–	146.1	128.6
Internal sales	–	–	0.1	0.1	–0.1	–0.1	0.0	0.0
Operating profit	9.7	3.5	1.3	0.7	–	–	11.0	4.2
EBIT	9.1	4.1	1.3	0.8	–	–	10.4	4.9
Interest revenues	0.3	0.2	0.2	0.1	–0.1	–0.1	0.4	0.2
Interest expenses	–4.4	–4.2	–0.1	–0.1	0.1	0.1	–4.4	–4.2
Divisional profit (before income taxes)	5.0	0.1	1.4	0.8	–	–	6.4	0.9
Assets	127.4	123.1	14.4	11.5	–5.4	–3.9	136.4	130.7
Borrowings including Group financing	102.7	104.6	10.0	7.8	–5.4	–3.9	107.3	108.5
Investments in intangible assets and property, plant and equipment	5.3	4.9	0.2	0.2	–	–	5.5	5.1
Depreciation	5.6	5.9	0.4	0.3	–	–	6.0	6.2
Operating net profit ratio in %	8.5	3.4	4.1	2.6	–	–	7.5	3.3
Operating ROCE in %	10.0	3.5	26.8	13.0	–	–	10.8	4.0
Cash flow from current business activities	17.1	2.3	1.3	1.9	–	–	18.4	4.2
Employees (Dec. 31)	1,660	1,622	147	150	–	–	1,807	1,772

Segment reporting by region

Corporate divisions (in million EUR)		Germany	Europe (w/o Germany)	America	Africa, Asia, Australia	Consolidated	2006 Total	2005 Total	Change %
Sewing Technology	Sales revenues	11.6	47.0	14.1	41.9	–	114.6	101.7	12.7
Materials Handling		9.8	21.0	0.5	0.2	–	31.5	26.9	17.1
Total		**21.4**	**68.0**	**14.6**	**42.1**	**0.0**	**146.1**	**128.6**	**13.6**
Sewing Technology	Assets	124.8	41.8	7.7	5.5	–52.4	127.4	123.1	3.5
Materials Handling		13.0	1.4	–	–	–	14.4	11.5	25.2
Consolidation						–5.4	–5.4	–3.9	38.5
Total		**137.8**	**43.2**	**7.7**	**5.5**	**–57.8**	**136.4**	**130.7**	**4.4**
Sewing Technology	Investments	3.7	1.8	–	0.8	–0.5	5.8	4.9	18.4
Materials Handling		0.2	0.0	–	–	–	0.2	0.2	0.0
Total		**3.9**	**1.8**	**0.0**	**0.8**	**–0.5**	**6.0**	**5.1**	**17.6**

The operating profit results from earnings before tax and interest, adjusted for income from investments, 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 on 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 parties
In addition to business relations to companies fully consolidated in the Group report, relations exist to affiliated companies defined as related parties as defined under IAS 24.

Related Companies

(in thousand EUR)	Services rendered 2006	Services rendered 2005	Services received 2006	Services received 2005
ShangGong (Europe) Holding Corp. GmbH	8	–	2,280	1,080
SGSB Group Co., Ltd.	–	888	–	–
Shanghai Shanggong Import & Export Co., Ltd.	94	–	147	–
Dürkopp Adler Trading (Shanghai) Co., Ltd.	297	–	108	–

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

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

Accounts receivable with related companies

(in thousand EUR)	Dec. 31, 2006	Dec. 31, 2005
SGSB Group Co., Ltd.	–	888
Shanghai Shanggong Import & Export Co., Ltd.	12	–
Dürkopp Adler Trading (Shanghai) Co., Ltd.	916	–
Receivables	**928**	**888**

Trade payables with related companies

(in thousand EUR)	Dec. 31, 2006	Dec. 31, 2005
ShangGong (Europe) Holding Corp. GmbH	54	21
Dürkopp Adler Trading (Shanghai) Co., Ltd.	4	–
Liabilities	**58**	**21**

Declaration of Conformity to the Corporate Governance Code
In November 2006, the Executive Board and the Supervisory issued a joint declaration of conformity with respect to the recommendations of the Government Commission on German Corporate Governance Code in accordance with Article 161 of the German Stock Corporation Act (Aktiengesetz). 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)
By December 31, 2006, Dürkopp Adler AG had not received any information on directors' dealings with respect to Article 15a WpHG. The total share ownership of all Executive Board and Supervisory Board members at December 31, 2006 amounted to less than 1% of the total shares issued by the company.

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 in letters dated July 1, 2005 and July 4 2005 that with effect June 30 2005, 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. 7.788.540 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 Article 22, para. 1 subsection 1, point 1, sub-para. 3 WpHG.

In accordance with information available, ShangGond (Europe) Holding Corp. GmbH, Bielefeld holds an 89.93% stake.

Audit of annual accounts
In 2005, auditors' fees amounted to EUR 89 thousand. 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 fulfilment of their duties, Executive Board members were paid a total of EUR 375 thousand (prior year: EUR 315 thousand). Of this sum, EUR 115 thousand (prior year: EUR 102 thousand) was apportioned to a performance-related variable component of salary. Supervisory Board members received a total of EUR 31 thousand (prior year: EUR 21 thousand). In 2006, former members of the Executive Board and their surviving dependents were paid a total of EUR 374 thousand (prior year: EUR 347 thousand). A total of EUR 3,692 thousand (prior year: EUR 3,717 thousand) 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.

A resolution passed at the Shareholders' Meeting on June 29, 2006 waived the listing of emoluments for individual members of the Executive Board and the Supervisory Board.

Non-disclosure Option – Article 264, para. 3 of the German Commercial Code (Handelsgesetzbuch – HGB)
The subsidiary 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 HGB.

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

Supervisory Board:

Min Zhang
Chairman of the Supervisory Board
Chairman of the Board of Directors of SGSB Group Co., Ltd., China

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

Lixi Wang
Vice-Chairman of the Supervisory Board
Chairman of ShangGong Export & Import Co., Ltd., China, (Chairman)*

Other positions:
b) ShangGong Hongkong Co., Ltd., China, (Chairman)*
ShangGong Sewing Machine Co., Ltd., China, (Chairman)*

Hengliang Zhang (until February 28, 2007)
Consultant of the SGSB Group Co., Ltd., China

Prof. Fangyu Fei (until February 28, 2007)
Professor Shanghai Communication University, China

Other positions:
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** (until June 29, 2006)
Vice-Chairman of the Works' Committee

Klaus-Jürgen Stark** (from June 29, 2006)
Vice-Chairman of the Works' Committee

Executive Board:

Werner Heer (until November 30, 2006)
Chairman of the Executive Board (until August 31, 2006)

Other positions:
b) Minerva Boskovice, a.s., Czech Republic (Chairman)* (until August 31, 2006)
Dürkopp Adler DaFuJi (Dalian) Sewing Machines Co., Ltd., China, (Chairman)* (until August 31, 2006)
Dürkopp Adler International Trading (Shanghai) Co., Ltd., China, (Chairman)* (until August 31, 2006)
Dürkopp Adler Far East Ltd., China, (Chairman)* (until August 31, 2006)
Dürkopp Adler America, Inc., USA, (Chairman)* (until August 31, 2006)
Dürkopp Adler Italia S.r.l., Italy, (until August 31, 2006)
Dürkopp Adler Trading (Shanghai) Co., Ltd., China* (until August 31, 2006)
Dürkopp Adler Manufacturing (Shanghai) Co., Ltd., China* (until August 31, 2006)

Alfred Wadle (from July 1, 2006)
Chairman of the Executive Board (from September 1, 2006)

Other positions:
b) Dürkopp Adler DaFuJi (Dalian) Sewing Machines Co., Ltd., China, (Chairman)* (from September 1, 2006)
Dürkopp Adler International Trading (Shanghai) Co., Ltd., China, (Chairman)* (from September 1, 2006)
Dürkopp Adler Far East Ltd., China, (Chairman)* (from September 1, 2006)
Dürkopp Adler America, Inc., USA, (Chairman)* (from September 1, 2006)
Dürkopp Adler Italia S.r.l., Italy, (Chairman)* (from September 1, 2006)
Dürkopp Adler Trading (Shanghai) Co., Ltd., China* (from September 1, 2006)
Dürkopp Adler Manufacturing (Shanghai) Co., Ltd., China* (from September 1, 2006)

Ying Zheng
Managing Director of ShangGong (Europe) Holding Corp. GmbH, Bielefeld

* Group position
** Employee representative

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

Bielefeld, March 3, 2007

Alfred Wadle   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, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs 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 financial position, financial performance and cash flows of the Group in accordance with IFRSs 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, 3 March 2007

BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

Dyckerhoff, Wirtschaftsprüfer | Horn, Wirtschaftsprüfer

Equity Holdings

at December 31, 2006 for Dürkopp Adler Aktiengesellschaft and the Group

Number	Name and based in	Equity interest AG in %	Equity interest Group in %	Equity capital* (in thousand EUR)	Result after taxes* (in thousand EUR)
Germany					
1	Dürkopp Fördertechnik GmbH, Bielefeld	100.00	100.00	2,045	– **
2	Adler Industrienähmaschinen Verkauf GmbH, Bielefeld	100.00	100.00	104	2
3	Beisler GmbH, Hösbach	100.00	100.00	970	13
Europe					
4	Dürkopp Adler France S.A.S., Paris, France	100.00	100.00	2,119	358
5	Dürkopp Adler Italia S.r.l., Mailand, Italy	100.00	100.00	2,860	3
6	Dürkopp Adler Austria GmbH i. L., Wien, Austria	100.00	100.00	249	158
7	Dürkopp Adler Polska Sp. z o.o., Wroclaw, Poland	100.00	100.00	–361	–66
8	S.C. Dürkopp Adler masini de cusut S.R.L., Sangeorgiu de Mures, Romania	100.00	100.00	2,527	40
9	Minerva Boskovice, a.s., Boskovice, Czech Republic	87.99	87.99	9,354	362
10	Dürkopp Adler Ukraina Ltd., Kiew, Ukraina	97.26	97.26	58	–77
America					
11	Dürkopp Adler Mexico S.A. de C.V., Mexico City, Mexico	0.00	99.98	–1,862	–32
12	Dürkopp Adler America, Inc., Atlanta, USA	100.00	100.00	2,261	–14
Asien					
13	Dürkopp Adler Far East Ltd., Hongkong, China	100.00	100.00	369	16
14	Dürkopp Adler International Trading (Shanghai) Co., Ltd., Shanghai, China	100.00	100.00	–853	–211
15	Dürkopp Adler DaFuJi (Dalian) Sewing Machines Co., Ltd., Dalian, China	75.00	75.00	1,248	22
16	Dürkopp Adler Trading (Shanghai) Co., Ltd., Shanghai, China	25.00 ***	25.00	1,128	–43
17	Dürkopp Adler Manufacturing (Shanghai) Co., Ltd., China	30.00 ***	30.00	773	1

* 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 greement with Dürkopp Adler AG and making use of the non-disclosure option in accordance with Article 264, para. 3 of the German Commercial Code.

*** Outside of consolidated companies.

Duerkopp Adler in figures

Dürkopp Adler Group		IFRS 2004	2005	2006
Sales	**million EUR**	**133.3**	**128.6**	**146.1**
of which: international	%	84.0	85.7	85.4
Order position				
Orders received	million EUR	135.7	129.9	148.3
Orders on hand	million EUR	16.5	18.2	20.3
Personnel expenses	**million EUR**	**55.2**	**49.0**	**49.8**
Employees				
At year end		1,841	1,772	1,807
Average on year		1,929	1,805	1,753
Material expenses	**million EUR**	**50.4**	**52.1**	**61.0**
Earnings before interest and taxes	**million EUR**	**–0.1**	**4.9**	**10.4**
Interest balance	**million EUR**	**–3.7**	**–4.0**	**–4.0**
Earnings before taxes	**million EUR**	**–3.8**	**0.9**	**6.4**
Income taxes	**million EUR**	**–0.3**	**0.5**	**–1.1**
Net profit/loss for year	**million EUR**	**–4.1**	**1.4**	**5.3**
Non-current assets	**million EUR**	**52.5**	**53.3**	**54.4**
Ratio to balance sheet total	%	43.1	40.8	39.9
Fixes assets	million EUR	47.2	46.3	47.3
– Investments	million EUR	4.9	5.2	6.0
– Depreciation	million EUR	7.8	6.2	6.0
Current assets	**million EUR**	**69.3**	**77.4**	**82.0**
Ratio to balance sheet total	%	56.9	59.2	60.1
Inventories	million EUR	32.2	35.3	34.2
Equity	**million EUR**	**20.2**	**22.2**	**29.1**
Ratio to balance sheet total	%	16.6	17.0	21.3
Subscribed capital	million EUR	21.0	21.0	21.0
Non-current liabilities	**million EUR**	**53.1**	**87.0**	**82.0**
Ratio to balance sheet total	%	43.6	66.6	60.1
Current liabilities	**million EUR**	**48.5**	**21.5**	**25.3**
Ratio to balance sheet total	%	39.8	16.4	18.6
Balance sheet total	**million EUR**	**121.8**	**130.7**	**136.4**

Key data				
Sales per employee	thousand EUR	69.1	71.2	83.3
Personnel expenses per employee	thousand EUR	28.6	27.1	28.4
Return on Capital Employed	%	–0.1	5.1	11.1
Return on sales	%	–2.9	0.7	4.4
Cash flow from operating activities	million EUR	13.9	4.2	18.4
Added value	million EUR	55.1	53.8	60.1

Contact

Financial Calender

Shareholders' Meeting 2007 in Bielefeld: Juni 28, 2007
Interim Report 1. Half of 2007: August 2007

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