

6 MONTHS REPORT  
2004 / 2005



# Hönle at a glance

<b>Figures Hönle Group</b>	<b>2004/2005 6 months</b>	<b>2003/2004 6 months</b>	<b>Changes</b>
<b>Income Statement</b>	<b>T €</b>	<b>T €</b>	<b>in %</b>
Revenues	11,124	10,423	6.7
EBITDA	1,836	1,426	28.8
EBIT	1,590	1,164	36.6
EBT	1,894	1,436	31.9
Net income	1,162	911	27.6
Earnings per share (1)	0.22	0.17	29.4
<b>Balance sheet (2)</b>			
Current assets	15,747	16,372	- 3.8
Long-term assets	14,203	13,130	8.2
Current liabilities	3,491	3,521	- 0.1
Long-term debts	992	968	2.5
Shareholders' equity	24,876	24,647	0.1
Total assets	29,950	29,502	1.5
Capital ratio in %	83.1	83.5	- 0.5
<b>Cashflow</b>			
Cash from ongoing business activities	523	441	18.6
Cashflows from operating activities	- 26	668	n.a.
Cashflows from investments	- 909	- 8,863	n.a.
Cashflows from financing activities	- 50	- 354	n.a.
Net decrease in cash	- 984	- 8,570	n.a.
<b>Staff</b>			
At the end of the period	124	109	13.8

(1) Shares inscribed in the Commercial Register as of 31/03/2005 (5,240,000)

(2) Balance sheet as of 31/03/2005 and 30/09/2004

All figures are unaudited.



## *Dear Shareholders*

*The Hönle Group posted a revenue increase of 6.7% in the first half of the year, bringing total revenues to € 11.1 million. EBIT was up by 36.6 % to € 1.6 million. Net return on sales was 10.4 %.*

*As announced in the last quarterly report, the revenues of € 4.6 million reported in the second quarter of the 2004/2005 financial year were below the revenue level of € 5.6 million reported in the same period in the previous year.*

*In previous periods, quarterly fluctuations in revenues and earnings have been indicative of Hönle's business development. They are founded in the large proportion of project business.*

*The Annual Meeting of Dr. Hönle AG was held on 16 March. We reported in detail on the development of the last financial year. Shareholder advocates who took the floor expressed satisfaction with the company's development and the distribution of a dividend of € 0.20.*

*At the Annual Meeting we held ourselves accountable to you and we also intend to communicate frankly and openly with you in the future. We are happy about the positive response and will do our best to keep you satisfied with our future business development.*

*Dear shareholders, we would like to express our gratitude for your confidence in our company.*

*Kindly regards*

*Yours*

Norbert Haimerl  
Managing Board

Heiko Runge  
Managing Board

# The Hönle Group Report

for the six months from 1 October 2004 to 31 March 2005

## Sales Revenue

In the first six months of the 2004/2005 financial year the Hönle Group posted revenues of T€ 11,124. Hence, sales revenue was up 6.7 % on the same period in the previous year.

An analysis of sales revenues by region shows that a significant growth took place in Germany. While foreign revenues remained constant at last year's level, domestic revenue grew by 15.0% to T€ 5,711.

The most important company segment, inks and coatings, developed positively. Revenues rose by 3.7% to T€ 6,554. Even higher revenues were reached in the adhesives and hardening segment with an increase of 18.8% to T€ 3,518.

## Earnings

Earnings before income taxes (EBIT) rose by 36.6% to T€ 1,590 in the first half of the current financial year. In the same period, pre-tax earnings (EBT) climbed by 31.9 % to T€ 1,894 and income for the period rose by 27.6% to T€ 1,162. Thus, relative to the 5.24 million of Hönle shares, earnings per share rose from € 0.17 in the previous year to € 0.22 in the current year. The EBIT margin in the first half of 2004/2005 was at 14.3 % compared to 11.2% in the previous year. Net return on sales rose from 8.7% to 10.4%.

## Expenses

In particular, the upgrading of our vertical range of manufacture contributed to the reduction of cost of materials ratio from 39.6% in the previous year's period to 37.5% in the first six months of the current financial year. In the same period, the personnel expense ratio remained basically unchanged at 30.4%. Personnel expenses were up by T€ 248 to T€ 3,411 in absolute figures.

Other operating expenses rose by T€ 127 to T€ 2,061 and the ratio of other operating expenses thus dropped marginally to 18.3%.

## Research and Development

Hönle is a leader in the development of new UV-Systems, and constantly invests in the continued development of existing products. In the current financial year, the number of staff in the research and development department rose by 2 to twenty in comparison to the previous year.

Research and development expenses rose from T€ 556 in the previous year to T€ 622 in the first half of 2004/2005.

## **Personnel**

The staff of the Höhle Group rose from 109 as of 31 March 2004 to 124 as of 31 March 2005. The personnel increase was mainly in the production, sales and R&D areas.

For the first time, in March, options to purchase Dr. Höhle AG shares were granted to employees within the framework of the company's stock option program. In all, 109,740 purchase options were exercised.

## **Assets and Financial Position**

Höhle has a very solid financing base with an equity ratio of 83.1 percent.

During the first six months, liquid assets were reduced by T€ 984 to T€ 6,550. The decline in liquid assets is primarily due to the payout of a dividend of T€ 1,019 and to the acquisition of commercial real estate. In March, the rented company building of Aladin GmbH was purchased by Dr. Höhle AG within the scope of a foreclosure sale, and was financed in part through liquid assets.

Liquid assets, financial assets and treasury stock now amount to T€ 16,238. This represents a cash value of € 3.10 per share.

## **Outlook**

After a strong first quarter and a somewhat weaker second quarter, the revenues of the Höhle Group continued to grow in the first half year, rising by 6.7% to T€ 11,124 in comparison to the same period of the previous year. In this time period, earnings before income taxes (EBIT) grew by 36.6% to T€ 1,590.

This year we will focus on the upgrading of our vertical range of manufacture, which will enable us to lower the cost of materials ratio for the medium-term to long-term. Within this context we will invest in new manufacturing facilities this year. The cost of materials ratio was successfully scaled down from 39.6% in the previous year to 37.5% in the current financial year.

In the second quarter of the financial year, incoming orders developed positively, and orders on hand as of 31 March 2005 were clearly above the corresponding level as of 31 March 2004. We expect that third quarter revenues and earnings will be up on those of the second quarter.

The international trade fair "European Coatings Show" was held in Nuremberg in April 2005. Visitors to the fair for specialty chemicals showed great interest in our company's system solutions. The inertisation technology was received with particularly

great interest among the professional audience. The new technique offers a high quality standard and a clear cost advantage in the coating of three-dimensional objects. We expect that this procedure will provide further growth impulses for Hönle in the future.

We also expect positive effects for the UV-inkjet printing applications at the “FESPA“ trade fair at the end of May, from which our company will also benefit.

# Consolidated Income Statement

for the period October 1, 2004 until March 31, 2005 according to the regulations of the IASB

	01/01/2005 -31/03/2005 in T€	01/01/2004 -31/03/2004 in T€	01/10/2004 -31/03/2005 in T€	01/10/2003 -31/03/2004 in T€
<b>Revenues</b>	<b>4,634</b>	<b>5,569</b>	<b>11,124</b>	<b>10,423</b>
Other operating income	75	156	285	267
Changes in inventories of finished goods and work in progress	6	- 196	111	- 64
Cost of purchased materials and services	- 1,717	- 2,044	- 4,212	- 4,103
Personnel expenses	- 1,693	- 1,607	- 3,411	- 3,163
Depreciation and amortization inclusive Goodwill	- 126	- 154	- 246	- 262
Other operating expenses	- 979	- 983	- 2,061	- 1,934
<b>Operating income / loss</b>	<b>200</b>	<b>741</b>	<b>1,590</b>	<b>1,164</b>
Interest income and expenditure	149	155	304	272
<b>Result before income taxes</b>	<b>349</b>	<b>896</b>	<b>1,894</b>	<b>1,436</b>
Income tax	- 85	- 378	- 638	- 589
Extraordinary expenses	0	0	0	0
<b>Result before minority interest</b>	<b>264</b>	<b>518</b>	<b>1,256</b>	<b>847</b>
Minority interest	- 6	78	- 94	64
<b>Net income</b>	<b>258</b>	<b>596</b>	<b>1,162</b>	<b>911</b>
Accumulated income			3,159	1,939
<b>Accumulated net income</b>			<b>4,321</b>	<b>2,850</b>
Net income per share (basic) in €			0.23	0.17
Net income per share (diluted) in €			0.21	0.17
Weighted average shares outstanding (basic)			5,096,961	5,216,961
Weighted average shares outstanding (diluted)			5,552,261	5,517,991

# Consolidated Balance Sheet

as of March 31, 2005 according to the regulations of the IASB

<b>ASSETS</b>	<b>31/03/2005</b>	<b>30/09/2004</b>
	<b>in T€</b>	<b>in T€</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	6,550	7,534
Trade accounts receivable	3,053	3,549
Accounts receivable due from related parties	1	0
Inventories	4,599	4,204
Prepaid expenses and other current assets	1,242	779
Tax refund claims	302	306
<b>Total current assets</b>	<b>15,747</b>	<b>16,372</b>
<b>LONG-TERM ASSETS</b>		
Property, plant and equipment	3,124	1,926
Intangible assets	610	641
Goodwill	153	153
Investments	8,745	8,660
Deferred taxes	305	309
Other long-term assets	1,266	1,441
<b>Total long-term assets</b>	<b>14,203</b>	<b>13,130</b>
<b>TOTAL ASSETS</b>	<b>29,950</b>	<b>29,502</b>

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>31/03/2005 in T€</b>	<b>30/09/2004 in T€</b>
<b>CURRENT LIABILITIES</b>		
Short-term debt due and current portion of		
Long-term debt	839	0
Trade accounts payable	611	876
Liabilities to		
associated companies	0	1
Advance payments received	74	411
Other accrued expenses	1,149	1,429
Income tax payable	482	377
Other current liabilities	336	427
<b>Total current liabilities</b>	<b>3,491</b>	<b>3,521</b>
<b>LONG-TERM DEBTS</b>		
Deferred taxes	12	12
Pension accruals	826	801
Other long-term debts	154	155
<b>Total long-term debts</b>	<b>992</b>	<b>968</b>
<b>MINORITY INTEREST</b>		
Special item "For the exercise of the		
resolved capital increase paid-in capital"	132	0
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	5,240	5,240
Own shares	- 943	-943
Additional paid-in capital	16,465	16,465
Legal reserve	49	49
Special item revaluation	- 290	- 375
Retained earnings	4,321	4,178
Currency disparities	34	33
<b>Total Shareholders' Equity</b>	<b>24,876</b>	<b>24,647</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>29,950</b>	<b>29,502</b>

# Statement of Changes in Equity

for the period 1 October 2003 until 31 March 2004

	Share capital in T€	Own shares in T€	Additional paid-in capital in T€	Legal reserve in T€	Special item revalu- ation in T€	Consolidated retained earnings/ loss in T€	Currency dispari- ties in T€	Total in T€
<b>Balance at 1 October 2003</b>	<b>5,240</b>	<b>- 120</b>	<b>16,465</b>	<b>49</b>	<b>- 447</b>	<b>2,356</b>	<b>41</b>	<b>23,584</b>
Dividend disbursement	0	0	0	0	0	- 417	0	- 417
Currency disparities	0	0	0	0	0	0	- 21	- 21
Valuation of investments due to IAS 39 not effecting net income	0	0	0	0	82	0	0	82
Net income of the year 2003/2004	0	0	0	0	0	911	0	911
<b>Balance at 31 March 2004</b>	<b>5,240</b>	<b>- 120</b>	<b>16,465</b>	<b>49</b>	<b>- 365</b>	<b>2,850</b>	<b>20</b>	<b>24,139</b>

# Statement of Changes in Equity

for the period 1 October 2004 until 31 March 2005

	Share capital in T€	Own shares in T€	Additional paid-in capital in T€	Legal reserve in T€	Special item revalu- ation in T€	Consolidated retained earnings/ loss in T€	Currency dispari- ties in T€	Total in T€
<b>Balance at 1 October 2004</b>	<b>5,240</b>	<b>- 943</b>	<b>16,465</b>	<b>49</b>	<b>- 375</b>	<b>4,178</b>	<b>33</b>	<b>24,647</b>
Dividend disbursement	0	0	0	0	0	- 1,019	0	- 1,019
Currency disparities	0	0	0	0	0	0	1	1
Valuation of investments due to IAS 39 not effecting net income	0	0	0	0	85	0	0	85
Net income of the year 2004/2005	0	0	0	0	0	1,162	0	1,162
<b>Balance at 31 March 2005</b>	<b>5,240</b>	<b>- 943</b>	<b>16,465</b>	<b>49</b>	<b>- 290</b>	<b>4,321</b>	<b>34</b>	<b>24,876</b>

# Consolidated Statement of Cashflows

for the period 1 October 2004 until 31 March 2005 according to the regulations of the IASB

	01/10/2004- 31/03/2005 in T€	01/10/2003- 31/03/2004 in T€
<b>Cashflows from operating activities:</b>		
Net income/loss for the year before minority interest, taxes and extraordinary items	1,894	1,436
Adjustments for:		
Depreciation of fixed assets	246	232
Interest income	- 329	- 302
Interest expenses	24	30
<b>Operating result before changes to net current assets</b>	<b>1,835</b>	<b>1,396</b>
Increase/decrease of accrued expenses	- 255	- 239
Increase/decrease of trade accounts receivable	496	231
Increase/decrease of other assets and the prepaid expenses	- 464	- 348
Increase/decrease in inventories	- 395	- 223
Increase/decrease in trade accounts payable	- 265	- 140
Increase/decrease in liabilities to associated companies	- 1	- 3
Increase/decrease in advance payments received	- 337	77
Increase/decrease in other liabilities	- 91	- 310
<b>Cash from ongoing business activities</b>	<b>523</b>	<b>441</b>
Interest paid	- 24	- 30
Tax paid from income	- 525	257
<b>Net cash from operating activities</b>	<b>- 26</b>	<b>668</b>
<b>Cashflows from investment:</b>		
Purchase of tangible assets and intangible assets	- 1,412	- 204
Purchase of investments	0	- 9,080
Change in special item revaluation in equity	85	82
Change in investments	- 85	- 82
Change in other long-term assets	13	30
Interest and dividend received	490	391
<b>Net cash used for investment</b>	<b>- 909</b>	<b>- 8,863</b>
<b>Cashflows from financing activities:</b>		
Capital increase paid-in	132	0
Change in debts and liabilities towards banks	838	2
Change in minority interest (without allocation of results)	- 1	61
Dividends paid	- 1,019	- 417
<b>Net cash from financing activities</b>	<b>- 50</b>	<b>- 354</b>
Currency disparities	1	- 21
<b>Net increase/decrease in cash</b>	<b>- 984</b>	<b>- 8,570</b>
<b>Cash at the beginning of the period under review</b>	<b>7,534</b>	<b>15,536</b>
<b>Cash at the end of the period under review</b>	<b>6,550</b>	<b>6,966</b>

# Explanatory Notes

to the 2004/2005 6-Month Report

Significant accounting, valuation and consolidation methods have remained unchanged in comparison with the 2003/2004 annual report.

The shares held as financial assets, which were initially stated in accordance with IAS 39 in financial year 2001/2002, were adjusted to fair value as at 31 March 2005 without an effect on profits. The value of these shares amounted to T€ 697 at the end of the quarter compared to T€ 612 as at 30 September 2004. The difference of T€ 85 was offset against the special equity item Revaluation without an effect on earnings.

Participating certificates purchased in the 2003/2004 financial year for a total T€ 6,788 yielded interest of T€ 393 in the first six months of the 2004/2005 financial year. The corresponding premium of T€ 161 was recognized as income.

The Ordinary Annual Meeting of Dr. Höhle AG for the 2004/2005 financial year was held on 16 March 2005. In conformity with the proposal of the Board of Management and the Supervisory Board of Dr. Höhle AG, the Annual Meeting decided to pay a dividend of € 0.20 per eligible share. This yields a total dividend distribution to the shareholders in the amount of T€ 1,019.

The first-time exercise of the purchase options from the stock option program 2000/2002 was possible in March 2005. Eligible beneficiaries exercised a total of 109,740 purchase options. The exercise of the options would thus lead to an increase in the number of stock shares by 109,740 to a total of 5,349,740 shares. Since the entry of the capital increase in the Commercial Register is to be made as of the end of the financial year, the entry in the balance sheet is not yet matched by a corresponding entry under shareholder's equity. Consequently, the value of the new shares at € 1.20 per share in the total amount of T€ 132 was reported as a special item "For the exercise of the resolved capital increase paid-in capital".

In March, Dr. Höhle AG purchased the rented company building of Aladin GmbH, Rott am Inn as commercial real estate. The real estate was capitalized under fixed assets and was depreciated in accordance with the legal provisions.

The group figures to be segmented are allocated to primary segments as follows:

	Germany		Europe		Rest of the world		Eliminations		Consolidated	
	as at 03/05	as at 03/04	as at 03/05	as at 03/04	as at 03/05	as at 03/04	as at 03/05	as at 03/04	as at 03/05	as at 03/04
	T€	T€	T€	T€	T€	T€	T€	T€	T€	T€
<b>INCOME:</b>										
External sales	5,711	4,965	3,487	3,407	1,926	2,051			11,124	10,423
Intra-group sales	1,091	522	830	722			- 1,921	- 1,244		
Total sales	6,802	5,487	4,317	4,129	1,926	2,051	- 1,921	- 1,244	11,124	10,423
<b>RESULTS:</b>										
<b>Segment result (operating income)</b>	<b>851</b>	<b>521</b>	<b>523</b>	<b>409</b>	<b>223</b>	<b>250</b>	<b>- 7</b>	<b>- 16</b>	<b>1,590</b>	<b>1,164</b>
Interest received									94	145
Interest paid									- 24	- 30
Income from securities									234	157
<b>Results before income taxes (and minority interest)</b>									<b>1,894</b>	<b>1,436</b>
Extraordinary result									0	0
Taxes on income									- 638	- 589
<b>Net income for the period</b>									<b>1,256</b>	<b>847</b>
<b>OTHER INFORMATION</b>										
<b>Segment assets:</b>										
• by sales areas	7,687	6,611	4,258	3,969	2,326	2,504	- 1,187	- 1,309	13,084	11,775
• by location of asset	12,896	11,548	1,375	1,536			- 1,187	- 1,309	13,084	11,775
Non-allocated assets:										
• Financial assets									8,745	8,668
• Long term receivables									1,266	1,061
• Deferred tax assets									305	337
• Cash and cash equivalents									6,550	6,966
<b>Consolidated assets</b>									<b>29,950</b>	<b>28,807</b>
<b>Segment liabilities (by sales areas)</b>	<b>3,492</b>	<b>3,191</b>	<b>2,662</b>	<b>2,816</b>	<b>1,027</b>	<b>1,258</b>	<b>- 2,710</b>	<b>- 2,933</b>	<b>4,471</b>	<b>4,332</b>
<b>Investments:</b>										
• by sales areas	815	150	345	27	252	27			1,412	204
• by location of asset	1,407	204	5						1,412	204
<b>Segment depreciation (by sales areas)</b>	<b>158</b>	<b>154</b>	<b>50</b>	<b>59</b>	<b>38</b>	<b>49</b>			<b>246</b>	<b>262</b>
<b>Non-cash segment expenses (by sales areas)</b>	<b>499</b>	<b>393</b>	<b>253</b>	<b>209</b>	<b>149</b>	<b>151</b>			<b>901</b>	<b>753</b>

The values are allocated to individual sales areas on the basis of an allocation key that is uniformly derived from sales revenues. The segmental assets are defined as the sum total of intangible assets, property, plant and equipment, inventories and current receivables. Segment liabilities comprise long term and current liabilities. Non-cash segment expenses include alterations to pension accruals and other accruals. Internal prices of intra-group deliveries and services are subject to the same conditions as those applicable for third parties.

The group figures to be segmented are allocated as follows to the secondary segments:

	Adhesives / plastics		Inks / coatings		Others		Elimina- tions		Consolidated	
	as at 03/05 T€	as at 03/04 T€	as at 03/05 T€	as at 03/04 T€	as at 03/05 T€	as at 03/04 T€	as at 03/05 T€	as at 03/04 T€	as at 03/05 T€	as at 03/04 T€
<b>INCOME:</b>										
External sales	3,518	2,962	6,554	6,323	1,052	1,138			11,124	10,423
Intra-group sales	1,099	587	724	552	98	105	-1,921	-1,244	0	0
Total sales	4,617	3,549	7,278	6,875	1,150	1,243	-1,921	-1,244	11,124	10,423
<b>Segment assets:</b>										
• by business segments	4,829	3,861	8,137	7,839	1,305	1,384	-1,187	-1,309	13,084	11,775
<b>Investments:</b>										
• by business segments	489	116	788	74	135	14			1,412	204

The values are allocated to individual sales areas on the basis of an allocation key that is uniformly derived from sales revenues. The segmental assets are defined as the sum total of intangible assets, property, plant and equipment, inventories and current receivables. Internal prices of intra-group deliveries and services are subject to the same conditions as those applicable for third parties.

# Shareholdings and Option Rights of the corporate bodies

Securities portfolio as at 31 March 2005:

	<b>Number of shares</b>	<b>Shares as percentage of nominal capital</b>	<b>Number of options</b>
<b>Board of Management</b>			
Norbert Haimerl	30,000	0.57	26,500
Heiko Runge	16,100	0.31	26,500
<b>Supervisory Board</b>			
Dr. Hans-Joachim Vits	353,444	6.75	-
Prof. Dr. Karl Hönle	269,225	5.14	-
Eckhard Pergande	4,950	0.09	-
<b>Dr. Hönle AG</b>	143,039	2.73	-
<b>Total</b>	<b>816,758</b>	<b>15.59</b>	<b>53,000</b>

## Calendar

12 August 2005  
**9 Month Report**

## Trade Fairs

31 May - 04 June 2005  
**FESPA**  
Munich, Germany

21-24 September 2005  
**LABELXPO EUROPE**  
Brussels, Belgium

## Imprint

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