Hans Einhell AG, Landau / Isar

Consolidated balance sheet to 31 December 2007

A s s e t s

	Notes	31.12.2007		31.12.2006	
		€	€	€	€
A. Non-current assets	(2.1)				
I. Intangible assets					
1. Franchises, development costs, trademarks, patents and licences and similar rights and values and licenses and similar rights and values	(2.2)	3.050.054,76		3.380.355,33	
2. Goodwill	(2.3)	7.548.412,47		2.216.093,42	
3. Prepayments on intangible assets		43.901,43	10.642.368,66	0,00	5.596.448,75
II. Property, plant and equipment					
1. Land, leasehold rights and buildings, including buildings on non-owned land		12.982.803,86		11.065.157,36	
2. Technical equipment, plant and machinery		354.489,37		481.274,20	
3. Other equipment, fixtures and fittings and equipment		3.416.558,80		2.921.453,73	
4. Prepayments and plant and machinery under construction		5.351,71	16.759.203,74	66.088,66	14.533.973,95
III. Non-current financial assets					
Security investments			976.223,95		955.006,15
IV. Other non-current assets	(2.6)		2.953.468,12		4.475.426,81
V. Deferred tax assets	(2.4)		4.960.829,91		3.704.346,35
			36.292.094,38		29.265.202,01
B. Current assets					
I. Inventories	(2.5)				
1. Raw materials and supplies		465.310,64		1.293.705,29	
2. Work in progress		219.069,27		290.038,19	
3. Finished goods		98.139.818,62		74.212.652,70	
4. Prepayments		678.585,71	99.502.784,24	0,00	75.796.396,18
II. Receivables and other current assets	(2.6)				
1. Trade receivables		67.591.973,08		53.186.424,91	
2. Other current assets		13.943.696,26	81.535.669,34	16.036.844,32	69.223.269,23
III. Cash and bank balances and cheques	(2.7)		14.591.975,40		26.325.040,86
			195.630.428,98		171.344.706,27
			231.922.523,36		200.609.908,28

L i a b i l i t i e s

		Notes	31.12.2007		31.12.2006	
			€	€	€	€
A.	**Equity**					
I.	**Subscribed capital**	(2.8)		9.662.464,00		9.662.464,00
II.	**Capital reserves**	(2.10)		26.676.696,37		26.676.696,37
III.	**Retained earnings**					
	1. Legal reserve	(2.10)	54.708,23		54.708,23	
	2. Other earnings reserve		60.576.308,72	60.631.016,95	52.062.375,50	52.117.083,73
IV.	**Minority interest**	(2.11)		4.609.787,66		2.904.054,88
V.	**Other cumulated equity**	(2.12)		-1.825.890,08		-880.474,29
VI.	**Adjustment charges for foreign currency exchange**			-2.806.257,12		-1.255.062,75
VII.	**Consolidated net income**			14.853.637,66		9.569.360,51
				111.801.455,44		98.794.122,45
B.	**Non-current liabilities**					
1.	Non-current liabilities to banks	(2.13)		15.437.500,00		16.047.218,95
2.	Bonded loans	(2.13)		30.000.000,00		30.000.000,00
3.	Pension obligations	(2.14)		1.598.044,00		1.730.424,00
4.	Other provisions	(2.15)		524.874,27		311.237,65
5.	Non-current liabilities	(2.17)		3.257.905,85		245.001,00
6.	Deferred taxes	(2.4)		1.960.542,77		2.127.495,25
				52.778.866,89		50.461.376,85
C.	**Current liabilities**					
1.	Provisions for taxes			1.486.367,09		2.408.047,69
2.	Other provisions	(2.15)		17.860.396,83		17.594.533,04
3.	Current liabilities to banks	(2.16)		2.397.432,36		770.684,22
4.	Trade payables	(2.17)		32.147.717,36		20.439.617,48
5.	Other liabilities	(2.17)		13.450.287,39		10.141.526,55
				67.342.201,03		51.354.408,98
				231.922.523,36		200.609.908,28

Hans Einhell AG, Landau / Isar

Consolidated income statement for the period from 1 January to 31 December 2007

		Notes
1.	Revenues	(3.1)
2.	Decrease (previous year: increase) in finished goods and work in progress	
3.	Own work capitalised	
4.	Other operating income	(3.2)
5.	Cost of materials	
	a) Cost of raw materials and supplies	
	b) Cost of purchased services	
6.	Personnel expenses	(3.3)
	a) Wages and salaries	
	b) Social security, pensions and other benefit costs	
7.	Depreciation and amortisation costs and other write-offs on intangible assets, plant and equipment	(2.1)
8.	Other operating expenses	(3.4)
9.	Net finance costs	(3.5)
10.	Profit from operations	
11.	Income taxes	(3.6)
12.	Consolidated net income	
13.	Share of other shareholders in consolidated net income	
14.	Consolidated net income less share of other shareholders	
15.	Retained earnings carried forwards	
16.	Transfer to other retained earnings	
17.	Consolidated net profit	

* the income statement 2006 includes pro rata figures from the company deconsolidated on 29 December 2006: weka Holzbau GmbH, Neubrandenburg.

	2007		2006 *	
	€	€	€	€
		385.716.396,54		411.760.429,63
		-70.968,92		404.290,71
		0,00		33.629,75
		7.074.983,25		5.453.262,47
	-278.356.772,99		-293.572.489,47	
	-599.589,27	-278.956.362,26	-246.322,26	-293.818.811,73
	-27.983.120,15		-30.812.035,80	
	-4.874.425,74	-32.857.545,89	-5.796.150,19	-36.608.185,99
		-4.532.102,73		-4.736.438,40
		-49.618.776,91		-55.923.056,38
		-2.173.790,80		-2.732.011,90
		24.581.832,28		23.833.108,16
		-6.627.243,84		-6.338.131,08
		17.954.588,44		17.494.977,08
		-1.262.522,07		-1.230.475,75
		16.692.066,37		16.264.501,33
		6.675.504,51		25.021.234,68
		-8.513.933,22		-31.716.375,50
		14.853.637,66		9.569.360,51

Hans Einhell AG, Landau / Isar

Consolidated cash flow statement

		1.1. - 31.12.2007	1.1. - 31.12.2006
		€ thousand	€ thousand
Net cash from/used in operating activities			
Profit before taxes		24.582	23.833
+	Depreciation of intangible assets and property, plant and equipment	4.532	4.736
-	Interest income	-747	-603
+	Interest expenses	3.380	3.316
+/-	Other non-cash income and expense	250	408
Operating profit before changes of net working capital		31.997	31.690
+/-	Decrease/increase in trade receivables	-11.786	-9.265
+/-	Decrease/increase in inventories	-20.476	15.415
+/-	Decrease/increase in other assets	1.611	-4.651
+/-	Increase/decrease in non-current liabilities	-523	-1.020
+/-	Increase/decrease in current liabilities	793	-5.354
+/-	Increase/decrease in trade payables	10.321	-8.738
Cash flows from operating activities		11.937	18.077
-	Taxes paid	-8.613	-9.279
+	Interest received	514	441
-	Interest paid	-3.383	-2.654
Net cash flows from operating activities		**455**	**6.585**
Cash flows from investing activities			
-	Payments to acquire assets	-11.625	-5.326
+	Proceeds from disposal of assets	110	213
-	Payments for acquisition of equity investments	-4.806	-353
+	Increase in goodwill	5.332	941
+	Proceeds from sale of consolidated companies	0	10.588
-	Decrease from changes to consolidation group of companies	0	-7.548
Net cash flows from investing activities		**-10.989**	**-1.485**
Cash flows from financing activities			
+/-	Increase/decrease in loan obligations	1.017	-544
-	Payments to shareholders including minority shareholders	-2.894	-2.516
-	Payment for liabilities for finance leases	-88	-96
Net cash flows from financing activities		**-1.965**	**-3.156**
Changes to capital funds due to currency exchange		-144	-74
Net cash acquired from acquisitions		910	0
Net decrease/increase of cash and cash equivalents		**-11.733**	**1.870**
Cash and cash equivalents at beginning of period		26.325	24.455
Cash and cash equivalents at end of period		**14.592**	**26.325**

Hans Einhell AG, Landau / Isar

Consolidated statement of changes in equity

	Subscribed capital	Capital reserve	Legal reserve	Other reserves	Minority interests	Other cumulated equity	Currency adjustment	Consolidated net profit	Total equity
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Position on 1 January 2006	**9.662**	**26.677**	**55**	**20.346**	**3.080**	**1.215**	**165**	**27.538**	**88.738**
Hedge Accounting						-2.110			-2.110
Currency adjustments							-1.421		-1.421
Available-for-sale securities						15			15
Dividend payment								-2.516	-2.516
Transfer to retained earnings				31.717				-31.717	0
Minority share					-176				-176
Net profit								16.264	16.264
Position on 31 December 2006	**9.662**	**26.677**	**55**	**52.063**	**2.904**	**-880**	**-1.256**	**9.569**	**98.794**
Hedge accounting						-965			-965
Currency adjustments							-1.551		-1.551
Available-for-Sale securities						19			19
Dividend payment								-2.894	-2.894
Transfer to retained earnings				8.513				-8.513	0
Minority share					1.706				1.706
Net profit								16.692	16.692
Position on 31 December 2007	**9.662**	**26.677**	**55**	**60.576**	**4.610**	**-1.826**	**-2.807**	**14.854**	**111.801**

IFRS – Notes to the Consolidated Financial Statements

of

Hans Einhell AG, Landau/Isar

for the financial year from

1 January to 31 December 2007

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1 Principles and methods used in consolidated financial statements

1.1 General information

Hans Einhell AG, Landau/Isar, was formed on 18 November 1986. The Einhell Group (hereinafter the "Group") manufactures and sells electronic goods, plastic goods and automobile accessories along with garden equipment, greenhouses and garden buildings and water technology equipment.

The address of the parent company is:

Hans Einhell AG
Wiesenweg 22
94405 Landau/Isar
www.einhell.de
www.einhell.com

The Board of Directors of Hans Einhell AG approved the consolidated financial statements on 28 March 2008 for consideration by the Supervisory Board. The Supervisory Board is responsible for examining the consolidated financial statements and to declare whether it approves the consolidated financial statements.

The consolidated financial statements and the consolidated management report of Hans Einhell AG for the financial year 2007 will be published in the electronic German Federal Gazette (*Bundesanzeiger*) and deposited with the Commercial Register of the Local Court in Landshut under number HRB 2171. The consolidated financial statements 2007 were prepared in euros (€), and some items are rounded to thousands of euros (€ thousand).

1.2 Basis of preparation

The consolidated financial statements of Hans Einhell AG were prepared in accordance with the regulations of the International Accounting Standards Board (IASB), London. The interpretations of the International Financial Reporting Interpretations Committee (IFRIC) were also used. In preparing the consolidated financial statements, all International Financial Reporting Standards (IFRS) and interpretations effective and applicable as of 31 December 2007 were applied.

The IASB has published the following standards, interpretations and amendments to existing standards whose application was not mandatory as of 31 December 2007 and which were therefore not applied prematurely by the Einhell Group. Application would have no significant effect on the consolidated financial statements.

- IAS 23 “Borrowing Costs (revised)”; to be applied for qualified assets recognised as from 1 January 2009.
- IFRIC 11/IFRS 2 “Group and Treasury Share Transactions”; to be applied for financial years beginning on or after 1 March 2007.
- IFRIC 12 “Service Concession Arrangements”; to be applied for financial years beginning on or after 1 January 2008.
- IFRIC 13 “Customer Loyalty Programmes”; to be applied for financial years beginning on or after 1 January 2008.
- IFRIC 14/IAS 19 “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction“; to be applied for financial years beginning on or after 1 January 2008.

The standard IFRS 8 “Segment reporting” is mandatory for all financial years which begin on or after 1 January 2009. The required presentation in accordance with the management approach should not lead to any significant amendments to presentation of the consolidated financial statements as far as we are currently aware.

The introduction of IFRS 7 “Financial instruments: disclosures” meant that certain amendments were required to IAS 1 “Presentation of financial statements (revised)”. Both standards were used for the first time in the consolidated financial statements to 31 December 2007. Disclosures regarding financial instruments were supplemented by additional information.

1.3 Basis of consolidation

The consolidated financial statements include Hans Einhell AG and the companies it controls. IAS 27 defines control as the possibility of influencing the economic and business policies of a company in order to derive a benefit. If the Group either directly or indirectly holds more than 50% of a company's voting rights, it is deemed to have rebuttable control of that company.

Hansi Anhai Youyang Import & Export Co., Ltd., Chongqing/China, was included in the consolidated financial statements of Hans Einhell AG until 2006 as a special purpose entity pursuant to SIC-12. The shares of this company were held by the Foreign Trade Department of the Youyang Tujiazu Miaozu Zizhixian region. In 2007, the shares of this company were taken over. As the company was already fully consolidated, the takeover had no significant effect on the assets or liabilities of the Einhell Group.

The subsidiary iSC GmbH, Landau/Isar, partially applies the waiver of the limitations of §264(3) of the German Commercial Code (*HGB*).

Companies which were acquired or sold during the course of the financial year are included in the consolidated financial statements from the time of their acquisition until the date on which they are sold.

In the Czech Republic, Hans Einhell AG bought all shares in Einhell-Unicore s.r.o. In Turkey, Intratek Mühendislik ve Dis Ticaret A.S., Istanbul/Turkey was acquired and the Einhell Group holds 85% of the shares. In Greece, ANXALL Hellas A.E. was founded and the Group holds 96% of the shares. Einhell Holding AG in Switzerland was completely liquidated in 2007.

All changes to companies included in the consolidation as against the previous year were completely disclosed in the consolidated financial statements. The subsidiaries included in the consolidated financial statements are shown in note 14.

1.4 Principles of consolidation

The financial statements of the subsidiaries included in the consolidation were prepared pursuant to IAS 27 in accordance with uniform accounting and valuation policies. Balance sheet date for all consolidated companies is 31 December; this is also the balance sheet date of the parent company.

Capital consolidation is made by the purchase method by offsetting investment carrying amounts with the pro rata newly valued equity of the subsidiary at the time of acquisition (IAS 22/IFRS 3). Remaining excess of cost of acquisition over net assets acquired is recognised as goodwill.

Intra-Group revenues, expenses and income, all receivables and liabilities and inter-company profits or losses held in inventory assets are eliminated.

1.5 Accounting and valuation policies

Currency conversion

The foreign investments within the consolidation group are financially, economically and organisationally autonomous and are therefore regarded as economically independent, foreign entities. Their reporting currency is their relevant local currency.

In the individual financial statements of the companies in the Einhell Group, all foreign currency transactions are converted from the local currency into the reporting currency at the rate of exchange applicable at the time of the transaction. Monetary foreign currency holdings existing at balance sheet date are valued at balance sheet date at the relevant daily exchange rate. Conversion differences from monetary transactions or the valuation of monetary items of a company which vary from the exchange rates during the period in which they were originally valued, or in previous transactions, are recognised in the period in which they arose.

Financial statements of foreign subsidiaries are converted at the exchange rates applicable at the end of the year for the balance sheet, and at average rates of exchange during the reporting year for the income statement. All resulting conversion differences are recognised in equity as an adjustment for currency conversion.

Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are recognised at gross acquisition or production cost less cumulated deprecation and amortisation. Intangible assets are recognised when it is likely that a future benefit will be derived from the asset and the acquisition or production cost of the asset can be reliably determined.

Amounts paid for patents, trademarks and licences are recognised and subsequently amortised by the straight-line method over their estimated useful life. Cost for new software are recognised and treated as intangible assets, so long as these costs are not an integral part of the relevant hardware.

Research and development costs are capitalised in the period in which they arise. This does not include project development costs which meet the following criteria:

- the product or process is clearly defined and relevant costs can be clearly allocated and determined;
- the technical feasibility of the product can be proven;
- the Group intends and is able to either market the product or process or to use it for its own purposes;
- the assets will generate a future economic benefit (i.e. existence of a market for the product or evidence of product use by the company for internal purposes);
- there are sufficient technical, financial and other resources available to conclude the project.

Capitalisation of costs begins with the initial fulfilment of the above criteria. Costs recognised as expenses in the prior reporting period may not be capitalised retrospectively. Other than development costs, there are no self-produced intangible assets.

Capitalised development costs are amortised by the straight-line method over the estimated useful life of the asset, but not normally for more than three years. The realisable amount of development costs is estimated if there are indications of impairment of the asset or indications that previous impairment losses no longer exist.

Goodwill from capital consolidation pursuant to the purchase method stipulated by IAS 22/IFRS 3 is recognised at acquisition cost less cumulated amortisation and impairment expenses.

Property, plant and equipment is normally depreciated on a straight-line basis. If an item of property, plant or equipment is sold or destroyed, relevant acquisition costs and cumulated depreciation are derecognised; any realised profit or loss from the disposal is recognised in the income statement. Maintenance and repair costs for property, plant and equipment or maintenance costs for intangible assets are recognised as an expense when they arise. Subsequent expenses which meet the criteria for an asset are recognised as subsequent acquisition costs for the relevant property, plant and equipment. IAS 38 distinguishes between assets with limited useful lives and assets with unlimited useful lives. Basically, all intangible assets and property, plant and equipment which are shown on the balance sheet of the Einhell Group have only limited useful lives. Only goodwill is not amortised.

Depreciation and amortisation of assets of use for a limited period is made taking into account the estimated useful life of the assets. Estimated useful lives are:

	Estimated useful life
	Years
Intangible assets:	
Development costs, franchises, trademarks and similar and licences	3 - 5
Property, plant and equipment:	
Buildings	20 - 30
Technical equipment, plant and machinery	3 - 15
Other equipment, fixtures, fittings and equipment	3 - 10

Estimated useful lives and depreciation and amortisation methods for a depreciable intangible asset and property, plant and equipment must be checked periodically to see if the depreciation and amortisation periods and methods are in line with expected economic use of the asset for property, plant and equipment.

Property, plant and equipment which is no longer used is shown as the lower of carrying amount or the estimated net realisable value less sale costs.

Financial assets

Securities under investment assets refers mainly to a money market fund to hedge pensions, holiday and flexible working hours entitlement. Financial instruments are recognised on the day of transaction and derecognised upon realisation. Valuation is made at fair value against the new valuation reserve in equity. Determination of fair value is made by bank valuations. Earnings from the fund amounted to €19 thousand (previous year €15 thousand) and the expected yield is 3%.

Deferred taxes

The amount of income tax levied depends on the amount of profits and takes into account deferred taxes which are determined in accordance with the asset and liability method. Determination of deferred taxes is made pursuant to IAS 12: temporary differences between the carrying amounts shown in the consolidated financial statements and the tax values of assets and liabilities are shown as future probable tax savings and charges.

Measurement of deferred tax assets and liabilities is made on the basis of tax rates for the period in which the temporary differences will probably be reversed. The expected tax rate is determined on the basis of tax rates applicable or mainly applicable at balance sheet date for this period. Deferred tax assets and liabilities are not discounted and are shown separately in the balance sheet.

Actual taxes and deferred taxes are charged or credited directly in equity if the tax refers to items which are charged or credited directly in equity in the same or another period. No deferred tax liabilities may be set aside for undistributed profits from foreign investments which are to remain invested in this company for an indeterminate time.

A deferred tax liability is recognised for all temporary differences with the exception of temporary differences for goodwill, for which tax amortization is not deductible.

Inventories

Inventories, including work in progress, are valued at the lower of cost of acquisition or manufacturing or net realisable value. Net realisable value is the sale price less costs up to completion and related sale costs. Raw materials and supplies are valued at weighted average acquisition cost. Acquisition costs are determined in accordance with the weighted average method.

Finished and unfinished goods are valued at actual cost of manufacture. Manufacturing costs include both directly attributable costs and overheads based on normal production capacity. The costs of interest for the period of manufacture are not included. Inventories unable to be sold are written off in full.

Receivables and other assets

Receivables and other assets are recognised at the time of provision of the underlying consideration and valued at amortised cost after consideration of any impairment losses.

Receivables are examined regularly for indications of impairment. Such indications may, for example, be defaulted payments or economic difficulties of the debtor. Where such indications are present, an impairment loss is recognised, if the carrying value is higher than the realisable amount of the asset. This is determined on the basis of expected future cash flows.

Where the grounds for impairment no longer apply, a reversal of impairment is recognised. General credit risk is covered by valuation allowances on receivables based on statistical empirical values. An increase in value (or reduction of an impairment) of an asset is only recognised so long as it does not exceed the carrying amount which would have resulted (taking depreciation effects into account) if no impairment had been made in previous years.

Cash and cash equivalents

Cash and cash equivalents include cash in banks, cheques and bank balances. It includes all funds whose original maturity is not more than three months. Foreign currency amounts are converted at the exchange rate at the end of the period.

Adjustment for currency conversion

The adjustment for currency conversion results from the conversion of financial statements of consolidated companies, whose functional currency is different than the reporting currency of the Group. The consolidated companies are economically autonomous foreign entities.

Conversion differences from a monetary item which is a significant part of the net investment of the company in an economically autonomous foreign entity are recognised in equity in the consolidated financial statements until sale of the net investment. Upon sale of the relevant asset, the entire new valuation or the reserve for currency conversion are shown as income or expense in the same period in which the profit or loss from the disposal is shown.

Minority interest

Equity attributable to minority shareholders is shown on the balance sheet within equity. The attributable portion of the annual earnings is shown separately in the income statement.

The minority interest includes shares of minority shareholders in the present value of identifiable assets and liabilities at the time of purchase of an affiliated company. Changes result from capital increases in which the minority shareholders participate, distributions and shares of the minority shareholders in earnings and currency changes.

Provisions

A provision is made if the company has a current (legal or constructive) obligation on the basis of a past event and it is likely that the fulfilment of the obligation will result in an outflow of resources of economic value and if the amount of the obligation can be determined with certainty. Provisions are reviewed at each balance sheet date and adjusted to best current estimate. Where the present value of money is relevant, the provision amount shall be the current value of the expense necessary to meet the obligation.

As is clear from the definition, there is uncertainty about whether a provision will be needed and this is covered by necessary estimates. Provisions are based on statistical evaluation and years of experience about the probability of the likelihood of the underlying event causing a cash outflow and the amount of that outflow.

Income from the anticipated disposal of assets is not taken into account when setting aside provisions. When some or all of the economic benefit required to settle an obligation is expected to be recovered from a third-party, the reimbursement shall not be recognised until it is certain that the company will receive the reimbursement.

Both defined benefit obligation and contribution plans form company employee pension schemes which are based on length of employment and salaries. In Germany there is a contributory statutory basic pension scheme for employees, which provides pension payments dependent on income and contributions made. After payment of contributions to the statutory pension organisation, the company has no further obligations. Current contributions are shown as an expense in the relevant period.

The provision shown in the consolidated financial statements for pension commitments concerns defined benefit plans for pensions, invalidity and surviving dependents. Pension commitments are determined in consideration of anticipated future increases in premiums and pensions in line with IAS 19 and the international norm of projected unit credit method. A discount factor for interest rates for claimants of 5.46% was used, along with 5.09% for pensioners (both 4.50% in previous year). As in the previous year, the rate of pension progression for commitments with adjustment guarantee was 3.00% and 2.00% for commitments without adjustment guarantee. No index-linked increase was available for non-salary based commitments.

The pension provision shown at balance sheet date is equivalent to the qualifying present value of pension commitments (defined benefit obligation). Actuarial gains or losses, interest expense and current service cost are realised in the year they are incurred and included under personnel expenses. The balance sheet obligation of the defined benefit obligation is not secured by a pension fund but there is partial pension plan reinsurance.

Liabilities

Valuation of additions to liabilities is made at fair value of compensation received; subsequent valuation is made at amortised cost. Valuation of liabilities in foreign currencies is made at balance sheet date at the closing rate on that day or at the hedged rate.

Realisation of revenues and revenue recognition

Revenues are recognised when it is likely that the economic benefit from the business transaction will accrue to the company and the amount of the revenue can be reliably determined. Revenues are recognised net (after value added tax (*Umsatzsteuer*) and after deduction of any price reductions and general conditions. Revenues include income from the sale of goods. They are recognised after delivery of the goods has been made and all risks and opportunities have been transferred to the buyer.

Interest is included, pro rata, taking into account the effective interest rate of the asset.

Licence income is included in the relevant period in accordance with the requirements of the underlying contract.

Derivative financial instruments

In the Einhell Group, derivative financial instruments are used only for hedging transactions as part of risk management. They hedge against risks from fluctuations in cash flows, and are allocated to the risk associated with a specific asset or liability or with the risk of a prior transaction.

All derivative financial instruments are recognised at fair value in accordance with the regulations under IAS 39. The fair value of currency futures is determined on the basis of the exchange rates applicable on the currency futures market at balance sheet date. For interest swaps it is determined as the present value of estimated future cash flows. The fair value of options is calculated on the basis of option pricing models. For all the above instruments the Group fair values are confirmed by financial institutions which have provided the Group with the relevant contracts.

The financial instruments used on the day the transaction is concluded, derecognition upon realisation.

The positive fair value of derivatives is recognised under other assets. A negative fair value of derivatives is recognised under other liabilities. Any change in fair value of derivatives recognised as an income or expense is shown under net financial income; derivatives taken directly to equity are recognised under other cumulated equity.

Any changes in fair value are normally recognised as profit or loss in the income statement. Changes in fair value of derivative financial instruments such as currency futures and currency options, which are classified as highly effective hedging instruments under cash flow hedges, are recognised directly to equity, adjusted for deferred taxes pursuant to IAS 39.95.

As the derivative financial instruments under cash flow hedges are short-term hedging instruments, these are included in the income statement within a year.

Leasing

Finance leases

A lease is classified as a finance lease when all risks and opportunities associated with ownership of an asset have been transferred to the lessee. The classification of a lease depends on the economic content of the contract, not on a particular formal contract format.

The Einhell Group is a lessee and classifies finance leases on its balance sheet from the start of the leasing arrangement equally as an asset and liability, at the present value of the leasing object at the start of the lease arrangement or at the present value of minimum leasing payments, whichever amount is lower. In calculating the present value of minimum leasing payments, the underlying interest rate of the leasing arrangement serves as discount factor if it can be reliably determined. If this is not the case, the lessee’s incremental borrowing rate of interest is used. Initial direct costs are shown as part of asset value. Leasing instalments are divided between finance costs and repayment or principal. Finance costs are divided throughout the period of the lease so that a constant rate of interest on the remaining principal is possible across all periods.

A finance lease creates a write-down expense and a financing expense for the recognised asset in each period. Principles governing write-downs for leased assets are the same as the methods used for similar depreciable assets owned by the company.

Finance leases are used mainly for fixtures and fittings and office equipment.

The relevant non-current assets are as follows (in € thousand):

		future lease payments			thereof interest		
Residual value 31.12.2007	Annual Write-downs to 31.12.2007	within 1 year	between 1 and 5 years	after 5 years	within 1 year	between 1 and 5 years	after 5 years
€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€thousand	€ thousand
172	54	54	98	0	8	8	0

Operating leases

A lease is classified as an operating lease if all risks and opportunities associated with ownership of an asset remain with the lessor. Leasing instalments during an operating lease arrangement are shown as an expense in a straight-line method throughout the term of the lease.

The monetary value of incentives which the lessor grants at conclusion of the leasing contract is recognised as a reduction in leasing expenses in a straight-line method throughout the term of the lease. Operating leases are used mainly for fixtures and fittings and office equipment (in € thousand).

	future leasing payments		
	within 1 year	between 1 and 5 years	After 5 years
	€ thousand	€ thousand	€thousand
Operating leases	438	396	0
Finance leases	54	98	0
Total leasing fees	492	494	0

Segment reporting

The segmentation of the Group into two segments mirrors the presentation of company divisions and internal control and reporting within the Group. The two segments are Tools and Garden & Leisure.

Financial information concerning the business segments and geographical segments is contained in note 4.

Contingent liabilities and contingent assets

Contingent liabilities are not shown on the balance sheet. As part of normal business operations, it is possible that the Einhell Group will be involved in litigation.

As of 31 December 2007 the company's management and its legal advisors were not aware of any claims against the company which could have a significant impact on the company, its net assets, financial position and earnings.

Events after balance sheet date

Significant events after balance sheet date which could have an impact on the position of the Group at balance sheet date are taken into account in the financial statements up to 14 March 2008. Insignificant events after balance sheet date are – where appropriate – included in the notes.

2 Notes to Consolidated Balance Sheet

2.1 Changes in non-current assets

Changes in non-current assets (not including other non-current assets) are shown in the appendix to the IFRS consolidated notes of Hans Einhell AG**.**

2.2 Capitalised development costs

Capitalised development costs consist mainly of expenses of the company for the development of new products. New product developments fulfil the criteria for recognition as intangible assets. Capitalised development costs are amortised over the expected life cycle of the product. In the financial year 2007 expenses for research and development amounted to €3.2 million (previous year: €2.5 million). Of these expenses €1.4 million (previous year: €1.2 million) were capitalised as expenses in 2007. A total of 34 employees (previous year: 27 employees) were employed in this division.

Development costs are as follows (in € thousand):

Cost				Cumulated amortization				Carrying amount	
Gross value 1.1.07	Additions 2007	Disposals 2007	Gross value 31.12.07	Gross value 1.1.07	Additions 2007	Disposals 2007	Gross value 31.12.07	Net value 31.12.07	Net value 31.12.06
€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
6,747	1,413	4,091	4,069	4,310	1,849	4,091	2,068	2,001	2,437

2.3 Goodwill

Goodwill as of 31 December 2007 amounted to €7,548 thousand (previous year: €2,216 thousand). Additions of €2,141 thousand refer to Einhell-Unicore s.r.o., €137 thousand for Einhell Export-Import GmbH, €41 thousand for Einhell Romania S.R.L. and €3,013 thousand for Intratek Mühendislik ve Dis Ticaret A.S, Istanbul/Turkey.

Additions to goodwill from Einhell-Unicore s.r.o. refers to the purchase of all shares in January 2007.

Additions to goodwill for Einhell Export-Import GmbH result from payment of the variable part of the purchase price for the financial year 2006. Recognised costs refer to the share of the variable purchase price which exceeded expectations due to above-average earnings performance in the previous year. The amount of investment was not changed over the past financial year.

Additions to goodwill for Einhell Romania S.R.L. refer to the purchase in the financial year 2005 of 70% of the shares in Einhell Romania. The agreed purchase price consisted of a fixed portion due immediately and a variable portion in the following years. The goodwill recognised in 2005 was based on the total purchase price, based on available planning. The purchase price instalment due in the financial year 2007 exceeded the planning, which is why an extra €41 thousand of goodwill by also recognised in the financial year 2007.

In June 2007 the Einhell Group bought 85% of the shares in Intratek Mühendislik ve Dis Ticaret A.S., Istanbul/Turkey, upon which the additions to goodwill are based.

2.4 Deferred taxes

Deferred tax claims and liabilities of the company are as follows:

	Deferred tax claims		Deferred tax liabilities		Net deferred taxes	
	2007	2006	2007	2006	2007	2006
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Non-current assets	58	45	935	1,158	-877	-1,113
Current assets	2,256	1,567	914	1,080	1,342	487
Other financial investments at present value	801	554	-57	-75	858	629
Pension obligations	0	0	-25	-101	25	101
Provisions	1,720	1,353	194	65	1,526	1,288
Tax losses carried forwards	126	185	0	0	126	185
Total	4,961	3,704	1,961	2,127	3,000	1,577

Deferred tax assets amounting to €25 thousand (previous year: €101 thousand) from differences in pension obligations under IFRS and the tax accounts are shown with a negative sign under deferred tax liabilities, as the netting option for deferred tax liabilities is being utilised.

Deferred taxes result from the above items from the following circumstances:

- capitalisation and amortisation of development costs
- property, plant and equipment: increased tax write-offs result in tax valuations being less than carrying amount.
- valuation of trade receivables is made differently than in the tax accounts.
- financial assets valued at present value (available-for-sale assets and financial trading assets) show differing tax and carrying amounts, as an impairment is only made for accounting purposes and not for tax purposes.
- valuation of pension provisions is different than in the tax account.
- in some local financial statements of foreign subsidiaries, deferred expenses may not be deducted for tax purposes until they occur, whereas they can be deducted for tax purposes in the financial statements over a longer period of time.

2.5 Inventories

	31.12.2007	31.12.2006
	€ thousand	€ thousand
Raw materials and supplies (at acquisition cost)	465	1,294
Work in progress (at production cost)	219	290
Finished goods (at cost) less impairment	98,140	74,212
Prepayments	679	0
Total	99,503	75,796

Devaluation amounting to €7,062 thousand (previous year: €7,789 thousand) was made. The carrying amount of devalued goods amounts after devaluation to €34,472 thousand (previous year: €11,034 thousand). No goods were assigned by way of collateral at balance sheet date (previous year: €1,461 thousand).

2.6 Receivables and other assets

Trade receivables were shown after allowances for bad debt.

Other assets are shown at nominal value less specific allowances for bad debt. Other current assets include income tax receivables of €971 thousand (previous year: €1,234 thousand), and other non-current assets include income tax receivables of €1,240 thousand (previous year: €1,517 thousand).

Trade receivables and other current assets all have a maturity of up to one year.

2.7 Cash position, cash and cash equivalents

For the purposes of the cash flow statement pursuant to IAS 7, all funds with an original maturity of up to three months are shown as cash. This item consists of cash in banks, cheques and bank accounts.

2.8 Subscribed capital

The share capital of Hans Einhell AG is unchanged from the previous year and divided as follows:

	€
Ordinary shares	
2,094,400 ordinary bearer shares	
No-par shares each with a par value of € 2.56	5,361,664
Preference shares	
1,680,000 bearer preference shares	
No-par shares each with a par value of €2.56	4,300,800
Total share capital	**9,662,464**

All payments for shares have been made in full. For the financial year 2007 Hans Einhell AG is proposing a dividend payment of €3,271,296.00 (previous year: €2,893,856.00).

A minimum dividend of €0.15 per share must be paid to holders of the preference shares and this has preference over payment of a dividend to ordinary shareholders. The dividend per preference share is €0.06 higher than the dividend per ordinary share. If the net retained profit is not sufficient over one or more financial years to pay a dividend of €0.15 per preference share, the amount will be made up without interest from the net retained profit of following financial years after payment of the minimum dividend for the preference shares for that financial year and before distribution of a dividend for ordinary shares. No distributions of minimum dividends are outstanding. The preference shares do not have any voting rights. With regard to the remaining assets of the company, all shares are of equal rank.

Voting rights in the Annual General Meeting are held by the ordinary shares.

2.9 Authorised capital

Authorised capital I

The Board of Directors is authorised until 24 June 2009 to raise the capital of the company with the approval of the Supervisory Board by issuing new ordinary bearer shares and/or bearer preference shares without voting rights for cash in one or more tranches up to an amount of €3,864,985.60 (authorised capital I). A right of subscription is to be granted to shareholders. However, the Board of Directors is authorised with the approval of the Supervisory Board to exclude fractional amounts from the shareholders' rights of subscription, and where ordinary and preference share are being issued at the same time to exclude shareholders of one class of share from subscribing to shares of the other class, so long as the subscription ratio for both classes of issue is determined equally. The authorisation also includes the authority to issue further preference shares which have priority over or are equal with previously issued preference shares without voting rights with regard to distribution of profit or company assets.

Authorised capital II

The Board of Directors is authorised until 24 June 2009 to raise the capital of the company with the approval of the Supervisory Board by issuing new ordinary bearer shares and/or bearer preference shares without voting rights for cash in one or more tranches up to an amount of €966,246.40 (authorised capital II). The Board of Directors is authorised with the approval of the Supervisory Board to exclude fractional amounts from the shareholders' rights of subscription and where ordinary and preference share are being issued at the same time to exclude shareholders of one class of share from subscribing to shares of the other class, so long as the subscription ratio for both classes of issue is determined equally. The Board of Directors may also exclude all subscription rights in order to issue new bearer preference shares without voting rights for an issue amount which is not substantially below the stock market price (§203(2), §186(3) sentence 4 of the German Stock Corporation Act (*AktG*)). The authorisation also includes the authority to issue further preference shares which have priority over or are equal with previously issued preference shares without voting rights with regard to distribution of profit or company assets.

2.10 Capital reserve and legal reserve

The capital reserve is unchanged as against the previous year at €26,676,696.37. As last year, the legal reserve amounts to €54,708.23 and together with the capital reserve this fulfils the requirements of 10% of share capital pursuant to §150(2) of the German Stock Corporation Act (*AktG*).

2.11 Minority interest

Shares of minority shareholders are as follows:

	2007	2006
	€ thousand	€ thousand
Position 1 January	2,904	3,080
Capital contributions/additions	199	317
Currency adjustments	65	-19
Additions/disposals	179	-1,704
Net profit/loss	1,263	1,230
Position 31 December	4,610	2,904

2.12 Other cumulated equity

Other cumulated equity includes fair value of derivative financial instruments of €-1,869 thousand (previous year: €-904 thousand) and the available-for-sale securities of €43 thousand (previous year: €24 thousand), each after taking deferred taxes into account.

In the application of cash flow hedge accounting for derivative financial instruments €4,611 thousand (previous year: €1,703 thousand) was reclassified out of equity and shown under the initial valuation of acquisition costs of inventories. Changes taken directly to equity due to the application of cash flow hedge accounting amounted to €-5,823 thousand (previous year: € -3,813 thousand).

2.13 Non-current financial liabilities

The following secured non-current loans exist as of 31 December 2007:

	31.12.2007	31.12.2006
	€ thousand	€ thousand
Secured	13,402	13,991
Unsecured	32,036	32,056
Total	45,438	46,047

Securities exist in the form of charges amounting to €14,960 thousand (previous year; €14,960 thousand), including charges against property, plant and equipment with a carrying amount of €5,455 thousand (previous year: €6,110 thousand). No assignment of goods and other assets by way of collateral are made with respect to these loans (previous year: €1,591 thousand). The securities refer to both non-current and current financial liabilities.

Non-current financial liabilities include a bonded loan for €30 million with a maturity of 5 years. The bonded loan contract included financial covenants which when breached allow the bonded loan creditors to demand premature repayment of the loan before maturity. In the financial year 2007, all covenants were fulfilled.

Hedging of interest rate risk is carried out using derivative financial instruments in the form of interest swaps and interest cap agreements.

2.14 Pension commitments

See point 1.5 (provisions) for actuarial assumptions made in the course of expert reports.

Changes to commitments to employees are as follows;

Year	2007	2006
	€ thousand	€ thousand
Qualifying present value of pension commitments at start of year	1,730	1,803
Current service expense	32	36
Interest expense	77	71
Actuarial gains and losses	-194	-134
Pension payments	-47	-46
Qualifying present value of pension commitments at end of year	1,598	1,730

Actuarial losses refer mainly to changes in the discount rate.

2.15 Provisions

	1.1.2007	Utilised	Additions	Release	31.12.2007
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Guarantees	7,267	1,528	3,753	385	9,107
Holiday entitlement	595	481	242	0	356
Employee profit participation	2,718	2,312	1,988	150	2,244
Credits to customers	2,185	1,197	1,168	93	2,063
Other provisions	5,141	2,083	2,404	847	4,615
Total	17,906	7,601	9,555	1,475	18,385

The provisions of €18,385 thousand include non-current provisions of €525 thousand.

2.16 Current liabilities to banks

	Notes	31.12.2007	31.12.2006
		€ thousand	€ thousand
Secured		535	632
Unsecured		1,862	139
Total		2,397	771
thereof current part due of non-current loan	2.13	535	505
thereof current part due of loan or overdraft		1,862	266

Security is held in the form of charges.

Hedging of interest rate risk is made by using derivative financial instruments in the form of interest swaps and interest cap agreements.

2.17 Current liabilities, trade payables and other liabilities

Other liabilities of €13,450 thousand (previous year: €10.142 thousand) consist of tax liabilities (thereof income tax €911 thousand; previous year: €927 thousand), liabilities for wages and salary payments and social security liabilities.

3 Notes to Consolidated Income Statement

3.1 Revenues

For reasons of transparency, presentation of revenues includes an additional column in which revenues from Weka products were eliminated.

Revenues are classified as follows:

	2007		2006		2006 adjusted for Weka-products	
	€ thousand	%	€ thousand	%	€ thousand	%
By segment						
Garden & Leisure	144,849	38	183,712	45	132,527	37
Tools	240,867	62	228,048	55	228,048	63
	385,716	100	411,760	100	360,575	100
By region						
Germany	142,349	37	189,866	46	149,607	41
European Union	161,628	42	134,659	33	126,142	35
Asia	27,589	7	23,756	6	23,756	7
Other	54,150	14	63,479	15	61,070	17
	385,716	100	411,760	100	360,575	100

Since 1 January 2007 Romania and Bulgaria have been members of the European Union. Therefore, revenues in these countries of €17.2 million for 2007 have been included under European Union.

3.2 Other operating income

This refers principally to income from costs to be passed on to suppliers (€2,687 thousand; previous year: €441 thousand), release of provisions (€1,475 thousand, previous year: €1,734 thousand) and income from the disposal of non-current assets (€61 thousand, previous year: €637 thousand). Income from the receipt of devalued receivables amounted to €337 thousand (previous year: €365 thousand). Otherwise, there was no significant income from other periods.

3.3 Personnel expenses and average number of employees

Personnel expenses	2007	2006
	€ thousand	€ thousand
Wages and salaries	27,983	30,812
Diverse social security payments and pension expenses	4,875	5,796
Total	32,858	36,608

Average number of employees	2007	2006
Germany	342	545
Other countries	622	514
Total	964	1,059

3.4 Other operating expenses

	2007	2006
	€ thousand	€ thousand
Operations	7,991	8,328
Administration	6,931	7,812
Sales	29,811	37,101
Other	4,886	2,682
Total	49,619	55,923

Other operating expenses include expenses for postage of goods, guarantees and customer services, impairment, advertising and product design. Expenses for the impairment of trade receivables amounts to €3,392 thousand (previous year: €2,532 thousand).

Due to the short-term nature of the item trade receivables and the short-term expectation of payment receipts, the interest effect in calculating impairments is insignificant.

3.5 Net financial income

	2007	2006
	€ thousand	€ thousand
Interest income	747	603
thereof from hedges	31	104
Interest expense	-3,380	-3,316
thereof from hedges	43	-3
Gain/loss from currency conversion	460	-19
thereof from hedges	-156	-6
Impairment of financial assets	-1	0
Net financial income	-2,174	-2,732

Net financial income also includes valuation income from derivatives for which hedge accounting is not applied, and for ineffective parts of changes to values of hedging instruments designated in hedge accounting.

3.6 Income tax

	2007	2006
	€ thousand	€ thousand
Actual tax expense	8,050	5,375
Deferred taxes	-1,423	963
Total	6,627	6,338

Losses carried forwards which are expected to be recoverable in future are recognised. In valuing a recognised asset for future tax relief, the probability of recovery of anticipated tax amounts is taken into account.

Deferred taxes on changes to present value of cash flow hedges amounting to €801 thousand (previous year: €554 thousand) are recognised directly in equity.

The reconciliation of the income tax amount with the theoretical amount which would have been applicable if the relevant tax rate in the company's country of domicile had been applied is as follows:

	2007	2006
	€ thousand	€ thousand
Earnings before tax	24,582	23,833
Tax rate	38 %	38 %
Forecast tax expense/income	-9,341	-9,057
Tax expense/income from intra-Group income/expenses	60	-358
Impairment of goodwill	0	-151
Other non-deductible expenses for tax purposes	-1,926	-3,494
Difference tax rates	3,598	3,896
Tax free earnings	982	2,826
Tax burden	-6,627	-6,338

3.7 Earnings per share

Earnings per share pursuant to IAS 33 refer to the ordinary shares of a company. As the ordinary shares of Einhell AG are not publicly traded, we have waived this calculation.

4 Segment reporting

Business operations of the Einhell Group are divided between the segments Tools and Garden & Leisure. The Tools segment comprises transformers and drive engineering, automobile accessories, processing, cleaning and welding technology. The Garden & Leisure segment includes the areas garden technology, greenhouses, metalhouses and water technology.

2007	Tools	Garden & Leisure	Total segments	Reconciliation	Group
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Segment revenues	240,867	144,849	385,716	0	385,716
Operating segment revenues (EBIT)	**19,972**	**6,784**	**26,756**	**0**	**26,756**
Net finance cost	-	-	-	-2,174	-2,174
Income tax	-	-	-	-6,627	-6,627
Group earnings	**12,602**	**4,090**	**16,692**	**0**	**16,692**
Segment assets	135,614	74,808	210,422	21,501	231,923
Segment liabilities	41,673	25,569	67,242	52,879	120,121
Investments	4,048	2,245	6,293	5,332	11,625
Depreciation/amortisation/impairment	2,428	2,104	4,532	0	4,532

2006	Tools	Garden & Leisure	Total segments	Reconciliation	Group
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Segment revenues	228,048	183,712	411,760	0	411,760
Operating segment revenues (EBIT)	**17,946**	**8,619**	**26,565**	**0**	**26,565**
Net finance cost	-	-	-	-2,732	-2,732
Income tax	-	-	-	-6,338	-6,338
Group earnings	**11,214**	**5,050**	**16,264**	**0**	**16,264**
Segment assets	107,985	60,954	168,939	31,671	200,610
Segment liabilities	32,717	16,351	49,068	52,748	101,816
Investments	2,234	2,151	4,385	941	5,326
Depreciation/amortisation/impairment	2,190	2,149	4,339	397	4,736

Segment reporting without Weka products

For reasons of transparency, below we show the previous year's figures without the figures from Weka Holzbau GmbH and income and expenses without Weka products.

2006	Tools	Garden & Leisure	Total segments	Reconciliation	Group
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Segment revenues	228,048	132,527	360,575	0	360,575
Operating segment revenues (EBIT)	**17,946**	**6,382**	**24,328**	**0**	**24,328**
Net finance cost	0	0	0	-2,474	-2,474
Income tax	0	0	0	-5,929	-5,929
Group earnings	**11,214**	**3,631**	**14,845**	**0**	**14,845**
Segment assets	107,985	60,954	168,939	31,671	200,610
Segment liabilities	32,717	16,351	49,068	52,748	101,816
Investments	2,234	1,451	3,685	941	4,626
Depreciation/amortisation/impairment	2,190	1,631	3,821	397	4,218

Reconciliation shows income and expenses which are not directly attributable to the segments, together with assets and liabilities which cannot be allocated. Assets and liabilities which were not allocable include financial receivables and liabilities and tax receivables and liabilities.

5 Segment reporting by region

Segment reporting by region is as follows:

2007	Germany	EU	Other countries	Asia/ Pacific	Reconciliation	Group
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
External revenues	142,349	161,628	54,150	27,589	0	385,716
Operating assets	71,318	100,328	24,590	14,186	21,501	231,923
Investments	2,025	3,582	374	312	5,332	11,625

2006	Germany	EU	Other countries	Asia/ Pacific	Reconciliation	Group
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
External revenues	189,866	134,659	63,479	23,756	0	411,760
Operating assets	65,985	69,513	16,238	17,203	31,671	200,610
Investments	2,754	411	337	883	941	5,326

<u>Segment reporting without Weka products</u>

For reasons of transparency, below we show the previous year's figures without the figures from Weka Holzbau GmbH and income and expenses without Weka products.

2006	Germany	EU	Other countries	Asia/ Pacific	Reconciliation	Group
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
External revenues	149,607	126,142	61,070	23,756	0	360,575
Operating assets	65,985	69,513	16,238	17,203	31,671	200,610
Investments	2,054	411	337	883	941	4,626

Reconciliation shows income and expenses which are not directly attributable to the segments, together with assets and liabilities which cannot be allocated. Assets and liabilities which were not allocable include financial receivables and liabilities and tax receivables and liabilities.

6 Notes to Consolidated Cash Flow Statement

The consolidated cash flow statement shows changes to cash flows divided by cash inflows and outflows from current operations, investment and financial activities. Effects arising from changes to companies included in the consolidation are eliminated.

Current operations

Cash flows from current operations is mainly from operating profit.

Investment activity

Payments for investments in property, plant and equipment and intangible assets refer principally to land and buildings, development projects and fixtures and fittings.

The increase in goodwill to €5,332 thousand results from the investments in Einhell-Unicore s.r.o., Einhell Export-Import GmbH, Einhell Romania S.R.L. and Intratek Mühendislik ve Dis Ticaret A.S.

Financing activity

Cash flows from financing activity include mainly cash inflows and outflows from loans and payment of dividends.

Changes in cash and cash equivalents

Cash and cash equivalents include cash, cheques and cash in banks at balance sheet date. The effects of changes arising from exchange rates are shown separately.

7 Financial instruments

Financial risk management

The Group operates internationally and is thus subject to changes in interest rates and currency exchange rates.

The Group uses derivative financial instruments to manage these risks. The guidelines used for risk management are implemented with the authority of the Board of Directors by a central treasury department working closely with Group companies.

Further information regarding risk management can be found in the Management Report.

Default risk

Company policy is to minimise default risks both from customers and suppliers by using common international instruments. These help the company to evaluate default risks of the ordering company for each order and the economic milieu. In particular, security or letters of credit are required with regard to new customers or risky countries. In the offer phase, sales and finance departments jointly decide on security requirements and adjust these requirements when orders are made. To support risk estimation, we also use external information from banks and credit agencies. In order to minimise default risk from suppliers, both buying and project management teams work with the finance department to develop security concepts.

Trade receivables amount to €67.6 million (previous year: €53.2 million). In the financial year 2007 there were no significant receivables for which new payment targets were agreed. The share of receivables which were due for more than 60 days and not impaired amounts to 3.8% (previous year: 3.5%).

The maximum default risk for the derivative financial instruments used is the carrying amount of each financial asset recognised in the balance sheet including derivative financial instruments. As the derivatives have been acquired from renowned financial institutions, the Group expects that the maximum default risk is covered by the amount shown in the balance sheet.

At balance sheet date cash in banks amounted to €14.6 million. The cash was held in first-rate, well-known banks.

Price and supply risks in supply markets are countered by the Einhell Group by long-term supply relationships which are constantly subjected to quality management.

Interest rate risks

The interest rate risk of the Einhell Group stems mainly from financial liabilities, loans and interest on loans. The risk is reduced by using derivative financial instruments such as interest caps and interest swaps.

The Group-wide treasury department manages interest risk for the Group, in order to optimise interest income and expenses for the Group and to minimise total interest rate risk. This also includes Group-wide interest overlay management, which is designed to directly connect interest from concluded hedge transactions to specific intended assets and liabilities.

The Group uses all interest caps and swaps either as an economic cash flow hedge or as economic present value hedge and uses them at present value. The nominal value of existing hedge transactions at balance sheet date is €32,523 thousand.

Liquidity risk

The liquidity risk is the possibility that a company will no longer be in a position to meet its financial obligations (such as repayment of financial liabilities or payment for orders). The Einhell Group limits this risk by using effective management of net working capital and cash and traditional credit lines from well-known banks. At balance sheet date the Group's operations had unsecured current credit lines amounting to ca. €50 million. The Group also keeps a close eye on opportunities available in the financial markets in order to secure flexibility of the Group's finances and to limit unpleasant refinancing risks.

The following table shows all contractual payments as of 31 December 2007 for amortisation, repayments and interest for financial liabilities in the balance sheet including derivative financial instruments with a negative fair value. Derivative financial instruments are shown at fair value.

Liabilities from finance leasing are included under other liabilities. A separate presentation of liabilities from finance leasing is shown in note 1.5.

	2007	2008	2009	2010-2012	2013 -
Bonded loans	1,621	1,754	30,992	0	0
Medium-term and non-current liabilities to banks	1,084	1,155	978	14,359	983
Trade payables	32,148	0	0	0	0
Other liabilities	13,450	0	0	0	0

The risk to cash flows shown in the table is limited to cash outflows. Trade payables and other financial liabilities result mainly from financing for operative assets (such as property, plant and equipment) and from investments in working capital (such as inventories and trade receivables). These asset values are taken into account in effective management of total liquidity risk. Risk management was extended and strengthened by implementation of a Group-wide, internet-based risk management information system.

Presentation of current liabilities to banks was waived.

Foreign currency risk

Due to the international aspect of its normal business operations, the Einhell Group is subject to currency risks. To manage and minimise these risks, the Einhell Group uses derivative financial instruments with a maturity of up to one year. The foreign currency risk management system of the Einhell Group has been successfully operated for several years.

Fluctuations in exchange rates can lead to undesirable and unpredictable earnings and cash flow volatility. This affects each company in the Einhell Group which trades with international partners in a currency that is not the functional currency (the relevant national currency). Within the Group this applies in particular to procurement made regularly in US dollars. In contrast, the sale of Einhell products is mainly made in the relevant national currency.

Companies in the Einhell Group are forbidden to buy or sell foreign currencies for speculative purposes. Intra-Group financing or investments are made in relevant national currencies where possible or using currency hedges.

A sensitivity analysis to market risks showed currency risk of an amount equivalent to €27.3 million. For an exchange rate fluctuation of €/US$ 0.01, there is an exchange rate impact of €187 thousand. This is determined by multiplication of currency fluctuations with purchases in unsecured foreign currencies.

The nominal volume of derivative financial instruments is equivalent to the total of gross purchase and sale amounts between the parties and is therefore not a reliable indicator for Group risk from the use of derivative financial instruments. Opportunities and risks are expressed through fair value which is equivalent to the cash value of the derivatives at balance sheet date.

Deferred taxes based on these financial instruments amounted in the financial year 2007 to €801 thousand (previous year: €554 thousand).

a) Financial instruments with positive fair value to cash flow hedge

	Nominal volume		Fair value	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
	€ thousand	€ thousand	€ thousand	€ thousand
Currency futures	9,923	3,916	771	44
Options	2,039	12,139	6	118
Total	11,962	16,055	777	162

b) Financial instruments with negative fair value to cash flow hedge

	Nominal volume		Fair value	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
	€ thousand	€ thousand	€ thousand	€ thousand
Currency futures	55,338	66,595	3,376	1,453
Options	1,019	6,069	71	168
Total	56,357	72,664	3,447	1,621

Designated hedged items are contracted and planned purchases. All cash flows are anticipated in 2008 and are recognised as cost of inventories. Ineffectivity of cash flow hedges is insignificant due to their short-term nature.

Fair value and carrying amounts of financial instruments

Pursuant to IAS 39 financial instruments are allocated to different valuation categories depending on whether they are recorded as assets or liabilities. The allocation to a particular valuation category affect whether the financial instrument is recognised at cost or fair value. The following table shows carrying amount and fair value for individual categories and valuation classification in the balance sheet. Bonded loans are subject to variable rates of interest and therefore the fair value is set at the carrying amount. Other fair values are provided by banks or determined on the basis of recognised valuation models. For current assets values and liabilities, the carrying amount provides a good indication of the fair value.

Valuation category	Valuation	Carrying amount		Fair value	
		31.12.2007	31.12.2006	31.12.2007	31.12.2006
Assets and liabilities held for trading	Fair value				
- Derivatives in other assets		98	55	98	55
- Derivate in other liabilities		2,932	1,500	2,932	1,500
Loans and receivables	Amortised costs				
- Trade receivables		67,592	53,186	67,592	53,186
- Other assets		6,593	9,221	6,593	9,221
Available-for-sale financial instruments	Fair value				
- Investment securities		976	955	976	955
Other financial liabilities	Amortised costs				
- Liabilities to banks		15,438	16,047	14,785	15,443
- Bonded loans		30,000	30,000	30,000	30,000
- trade payables		32,148	20,440	32,148	20,440
Cash and cash equivalents	Fair Value	14,592	26,325	14,592	26,325

The significant net profit from the financial instrument “assets and liabilities held for trading” amounts to €-157 thousand (previous year: €-6 thousand).

A presentation of current liabilities to banks was waived.

8 Other obligations

Other financial obligations from leasing and rents are divided across the years as follows:

	€ thousand
2008	1,829
2009 to 2012	1,365
2013 and later	0
Total	3,194

The company and its subsidiaries have entered into various operating lease agreements for company cars, office equipment and other facilities and equipment. The terms for leased objects range from two to five years. Leasing agreements are not normally cancellable.

Other bank guarantees at balance sheet date amounted to €4,367 thousand (previous year: €4,835 thousand) and open letters of credit for purchased goods at suppliers and possible obligations arising from bills of exchange amounted to €718 thousand (previous year: €0 thousand).

Money market funds recognised as assets amounted to €628 thousand (previous year: €616 thousand) which were used to secure various pension commitments.

Further possible obligations amounted to €3,929 thousand (previous year: €0 thousand).

9 Corporate Governance Code

The Board of Directors and the Supervisory Board of Hans Einhell AG have made a proscribed declaration of compliance pursuant to §161 of the German Stock Corporation Act (*AktG*) and made this permanently available to shareholders on the company's website at www.einhell.com.

10 Related party transactions

Remuneration paid to members of the Board of Directors

Members of the Board of Directors receive short-term and long-term performance-based salary components. There are no stock option programmes, share-price related salary components or similar arrangements. For the financial year 2007 total salaries of members of the Board of Directors of Hans Einhell AG amounted to €2,234 thousand (previous year: €1,853 thousand). Pension provisions amounting to €106 thousand were also recognised for this group.

Pension provisions amounting to €1,202 thousand (previous year: €1,390 thousand) have been made for former members of the Board of Directors. In this financial year €59 thousand was paid out in pension commitments to former members of the Board of Directors (previous year: €57 thousand).

Total remuneration paid to members of the Supervisory Board in the past financial year amounted to €77 thousand (previous year: €72 thousand).

No loans or share options were granted to members of the Board of Directors or to members of the Supervisory Board.

11 Dependency report

As in 2002, pursuant to §21(1) of the German Securities Trading Act (*WpHG*) the company was informed by Thannhuber AG with registered office in 94405 Landau/ Isar, that it had exceeded the threshold of 75% of ordinary shares.

The majority of shares in Hans Einhell AG are held by Thannhuber AG. We confirm that during the reporting period Hans Einhell AG had no legal transactions with Thannhuber AG, nor did it take or fail to take any measures to the detriment of Hans Einhell AG.

12 Auditors’ fees

Auditors fees for the financial year recognised as an expense for auditing of the consolidated financial statements amounted to €120 thousand (previous year: €106 thousand). The fees amount to €96 thousand for auditing and €24 thousand for consultancy advice. No other certification services, tax advice or other services were made either for the parent company or subsidiaries.

13 Events after balance sheet date

No further events took place after balance sheet date which could have a significant impact on net assets, financial position and earnings.

14 List of subsidiaries

	Equity investment direct	Equity investment indirect	IFRS equity as of 31 December 2007
	%	%	€ thousand
iSC GmbH, Landau/Isar	100.0		1,345
Hansi Anhai Far East Ltd., Hong Kong, China	100.0		17,484
HAFE Trading Ltd., Hong Kong, China	100.0		2,410
Hans Einhell (China) Chongqing Co. Ltd., Chongqing, China	100.0		-4,074
Hansi Anhai Youyang Import & Export Co., Ltd., Chongqing, China		100.0	3,679
Hans Einhell (Shanghai) Trading Co., Ltd., Shanghai, China	100.0		690
Hans Einhell Österreich Gesellschaft m.b.H., Vienna, Austria	100.0		5,419
Einhell Portugal – Comércio Int. Lda., Arcozelo, Portugal	99.9		6,343
Einhell Benelux B.V., Breda, Netherlands	100.0		628
Einhell Italia s.r.l., Milan, Italy	100.0		3,633
iSC Italia S.r.l., Milan, Italy		100.0	16
Comercial Einhell S.A., Madrid, Spain	100.0		3,042
Einhell Ceska republika spol. s.r.o., Prague, Czech Republic	100.0		-407
Einhell Polska Sp.z o.o., Wrozlaw, Poland	90.0		13,295
Einhell Hungaria Kft., Budapest, Hungary	100.0		1,739
Einhell Schweiz AG, Winterthur, Switzerland	100.0		1,368
Einhell UK Ltd., Birkenhead, United Kingdom	100.0		754
Einhell Bulgarien ODD, Varna, Bulgaria	67.0		776
Einhell Export-Import GmbH, Tillmitsch, Austria	76.0		442

	Equity investment direct	indirect	IFRS equity to 31 December 2007
	%	%	€ thousand
Einhell Croatia d.o.o., Lepajci, Croatia		76.0	5,422
Einhell BiH d.o.o., Vitez, Bosnia		50.7	1,425
Einhell d.o.o. Beograd, Belgrad, Serbia		76.0	252
Einhell Romania S.R.L., Bucharest, Romania	90.0		6,118
Einhell Ukraine TOV, Kiev, Ukraine	100.0		-387
Svenska Einhell AB, Stockholm, Sweden		100.0	-26
Einhell Holding Gesellschaft m.b.H., Vienna, Austria	100.0		1,213
Einhell-Unicore s.r.o., Karlovy Vary, Czech Republic	100.0		1,988
iNTRATEK MÜHENDISLIK VE DIS TICARET A.S., Istanbul, Turkey	85.0		1,415
ANXALL Hellas A.E., Nea Ionia, Greece	96.0		500

15 Statement of responsibility

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the financial year.

16 Company bodies

The **Board of Directors** of Hans Einhell AG in the financial year 2007 was:

- Andreas Kroiss, Linz/Austria (Chairman)
  Sales and international expansion

- Jan Teichert, Metten
  Finance

- Dr. Markus Thannhuber, Landau/Isar
  Technology and development

- York Boeder, Landau/Isar (since 1 January 2008)
  International

The **Supervisory Board** of Hans Einhell AG was composed as follows:

- Josef Thannhuber, Landau/Isar (Chairman)
  Businessman

- Professor Dieter Spath, Sasbachwalden
  (Deputy Chairman)
  Director Frauenhofer-Institut für Arbeitswirtschaft und Organisation (IAO), Stuttgart

- Heribert Lukas, Wallersdorf-Haidlfing
  Employee representative workers‘ council

Professor Dieter Spath is a member of the following Supervisory Boards and Management Boards:

- Christophsbad GmbH und Co., Göppingen, Member of Management Board

- LIEBICH & PARTNER Management- und Personalberatung AG, Baden-Baden, Chairman of Supervisory Board

- Zeppelin GmbH, Garching, Member of Supervisory Board

- ict Innovative Communication Technologies AG, Kohlberg, Deputy Chairman of Supervisory Board (since 7 February 2007)

Landau/Isar, 25 March 2008

Hans Einhell AG

The Board of Directors

Andreas Kroiss	Jan Teichert
Dr. Markus Thannhuber	York Boeder

Hans Einhell AG Group, Landau / Isar

Statement of non-current assets in financial year 2007

		Acquisition or production cost						
		1.1.2007	Additions	Additions/disposals in consolidated group of companies	Disposals	Reclassification	Currency differences	31.12.2007
		€	€	€	€	€	€	€
I.	**Intangible assets**							
	1. Franchises, development costs, trademarks, patents and licences and similar rights and values	12.139.054,75	2.030.874,83	72.479,60	4.137.516,31	0,00	-7.925,38	10.096.967,49
	2. Goodwill	4.314.380,53	5.332.319,05	0,00	0,00	0,00	0,00	9.646.699,58
	3. Prepayments on intangible assets	0,00	43.901,43	0,00	0,00	0,00	0,00	43.901,43
		16.453.435,28	7.407.095,31	72.479,60	4.137.516,31	0,00	-7.925,38	19.787.568,50
II.	**Property, plant and equipment**							
	1. Land, leasehold rights and buildings, including buildings on non-owned land	23.990.202,14	2.703.389,88	0,00	0,00	-48.559,59	143.130,21	26.788.162,64
	2. Technical equipment, plant and machinery	2.267.049,61	83.012,45	0,00	0,00	-131.355,96	-11.033,13	2.207.672,97
	3. Other equipment, fixtures and fittings and equipment	9.015.235,04	1.404.428,46	324.574,50	413.689,52	248.133,33	-57.109,62	10.521.572,19
	4. Prepayments and plant and machinery under construction	66.088,66	5.351,71	0,00	0,00	-68.217,78	2.129,12	5.351,71
		35.338.575,45	4.196.182,50	324.574,50	413.689,52	0,00	77.116,58	39.522.759,51
III.	**Non-current financial assets**							
	Security investments	957.554,18	22.514,80	0,00	0,00	0,00	0,00	980.068,98
		52.749.564,91	11.625.792,61	397.054,10	4.551.205,83	0,00	69.191,20	60.290.396,99

Depreciation						Carrying amounts	
1.1.2007	Depreciation in financial year	Additions/disposals in consolidated group of companies	Disposals	Currency differences	31.12.2007	31.12.2007	31.12.2006
€	€		€	€	€	€	€
8.758.699,42	2.402.239,45	29.018,04	4.136.754,13	-6.290,05	7.046.912,73	3.050.054,76	3.380.355,33
2.098.287,11	0,00	0,00	0,00	0,00	2.098.287,11	7.548.412,47	2.216.093,42
0,00	0,00	0,00	0,00	0,00	0,00	43.901,43	0,00
10.856.986,53	2.402.239,45	29.018,04	4.136.754,13	-6.290,05	9.145.199,84	10.642.368,66	5.596.448,75
12.925.044,78	879.683,32	0,00	0,00	630,68	13.805.358,78	12.982.803,86	11.065.157,36
1.785.775,41	75.074,05	0,00	0,00	-7.665,86	1.853.183,60	354.489,37	481.274,20
6.093.781,31	1.175.105,91	76.689,76	215.418,70	-25.144,89	7.105.013,39	3.416.558,80	2.921.453,73
0,00	0,00	0,00	0,00	0,00	0,00	5.351,71	66.088,66
20.804.601,50	2.129.863,28	76.689,76	215.418,70	-32.180,07	22.763.555,77	16.759.203,74	14.533.973,95
2.548,03	1.297,00	0,00	0,00	0,00	3.845,03	976.223,95	955.006,15
31.664.136,06	4.533.399,73	105.707,80	4.352.172,83	-38.470,12	31.912.600,64	28.377.796,35	21.085.428,85

Hans Einhell AG Group, Landau a. d. Isar

Statement of non-current assets in financial year 2006

	Acquisition or production cost						
	1.1.2006	Additions	Additions/disposals in consolidated group of companies	Disposals	Reclassification	Currency differences	31.12.2006
	€	€	€	€	€	€	€
I. Intangible assets							
1. Franchises, development costs, trademarks, patents and licences and similar rights and values	10.993.618,06	1.540.530,35	-165.293,17	319.574,67	103.378,89	-13.604,71	12.139.054,75
2. Goodwill	3.431.375,06	941.143,74	0,00	58.138,27	0,00	0,00	4.314.380,53
3. Prepayments on intangible assets	25.964,37	0,00	0,00	0,00	-26.148,89	184,52	0,00
	14.450.957,49	2.481.674,09	-165.293,17	377.712,94	77.230,00	-13.420,19	16.453.435,28
II. Property, plant and equipment							
1. Land, leasehold rights and buildings, including buildings on non-owned land	27.628.470,09	766.179,84	-3.795.007,08	604.007,82	-7.756,33	2.323,44	23.990.202,14
2. Technical equipment, plant and machinery	5.283.574,10	226.387,42	-3.199.537,47	26.630,48	9.811,33	-26.555,29	2.267.049,61
3. Other equipment, fixtures and fittings and equipment	9.519.058,26	1.406.255,74	-985.472,21	872.293,07	-4.488,05	-47.825,63	9.015.235,04
4. Prepayments and plant and machinery under construction	140.496,26	291.315,13	-285.901,31	0,00	-74.796,95	-5.024,47	66.088,66
	42.571.598,71	2.690.138,13	-8.265.918,07	1.502.931,37	-77.230,00	-77.081,95	35.338.575,45
III. Non-current financial assets							
Security investments	938.308,09	19.246,09	0,00	0,00	0,00	0,00	957.554,18
	57.960.864,29	5.191.058,31	-8.431.211,24	1.880.644,31	0,00	-90.502,14	52.749.564,91

Depreciation							Carrying amounts	
1.1.2006	Depreciation in financial year	Additions/disposals in consolidated group of companies	Disposals	Reclassification	Currency differences	31.12.2006	31.12.2006	31.12.2005
€	€	€	€	€	€	€	€	€
7.478.888,25	1.653.402,55	-170.090,70	213.777,42	15.511,00	-5.234,26	8.758.699,42	3.380.355,33	3.514.729,81
1.759.350,05	397.075,33	0,00	58.138,27	0,00	0,00	2.098.287,11	2.216.093,42	1.672.025,01
0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	25.964,37
9.238.238,30	2.050.477,88	-170.090,70	271.915,69	15.511,00	-5.234,26	10.856.986,53	5.596.448,75	5.212.719,19
13.250.468,34	978.060,93	-1.199.619,74	98.388,61	0,00	-5.476,14	12.925.044,78	11.065.157,36	14.378.001,75
2.869.848,83	386.470,42	-1.448.444,06	17.186,47	0,00	-4.913,31	1.785.775,41	481.274,20	2.413.725,27
6.211.062,66	1.321.429,17	-702.419,99	715.810,14	-15.511,00	-4.969,39	6.093.781,31	2.921.453,73	3.307.995,60
0,00	0,00	0,00	0,00	0,00	0,00	0,00	66.088,66	140.496,26
22.331.379,83	2.685.960,52	-3.350.483,79	831.385,22	-15.511,00	-15.358,84	20.804.601,50	14.533.973,95	20.240.218,88
2.548,03	0,00	0,00	0,00	0,00	0,00	2.548,03	955.006,15	935.760,06
31.572.166,16	4.736.438,40	-3.520.574,49	1.103.300,91	0,00	-20.593,10	31.664.136,06	21.085.428,85	26.388.698,13

Group Management Report of Hans Einhell AG, Landau a. d. Isar, for the Financial Year 2007

Business Conditions

In 2007, **Global Economy** had been in a lasting sound condition when the financial market crisis originating from the US real estate market began in July. Overall, the dynamic diminished most notably in the USA and Japan, whereas the gross domestic product in the Euro zone and in the emerging markets of Southeast Asia increased substantially. The European Central Bank and the Bank of Japan cushioned the weakening of the capital market due to non-payment of US mortgage loans by the postponement of the interest rate rise for the time being. The Federal Reserve Bank even reduced its prime rate for September and October. One of the consequences of these events were losses on the stock market. The whole situation eased off however by Autumn 2007. The oil price peaked in the course of 2007 and so as well deflated the global economy. The growth rate of the worldwide production amounted to 3.7 % in the year 2007.

The gross domestic product of the **European Union** increased by 2.9 % in the year 2007, while the Euro zone listed an increase of 2.6 %. This increase has been spurred by growth rates of more than 3.0 % in Finland, Greece, Ireland, Austria, and Spain. France, Italy, and Portugal on the other hand display lower expansion rates. The economic growth has been sustained by the rise in private consumption in the second half of the year and by the high gross fixed capital formation. On the labour market the increase in employment continued. The consumer prices in the Euro zone rose by a moderate 2.1 %. Yet in the other member states of the EU inflationary pressure developed due to rising commodity prices and a shortage on the labour markets. With 7.3 %, the unemployment rate in the Euro zone reached the lowest level since the introduction of the Euro. The Euro passed the mark of EUR/USD 1.4 and thus in 2007 reached its highest level since its introduction.

The **German National Economy** continued to be in good order in 2007. The growth of the gross domestic product declined indeed by 0.3 % points to 2.6 %, nevertheless, the negative expectations resulting from the value-added tax increase have been revised. This positive development is based not only on the cyclic recovery, but also on the requisite adjustment to the mounting competitive pressure on the global goods and financial markets, political reforms, collective labour agreements with flexible wage settlements, streamlining of organisational structures, and adjustments in corporation's balance sheets. The positive trend on the labour market provided for an increase of the number of gainfully employed persons by 1.7 %. This includes a rise in employment subject to social insurance contribution by 2.2 %. In November 2007, the consumer price index passed the 3 percent mark for the first time since 1994. Yet, in consequence of the rise in prices and the restrictive financial policy, private consumption declined in spite of dropping unemployment figures by 0.1 %.

The start into the gardening year 2007 proved to be gratifying for the **German DIY market**. The early onset of warm weather led to a noticeable growth in sales, the most successful month being April with a turnover of almost Euro 2 billion. This positive trend was subdued already in May, traditionally the most important month for the gardening market. In July and August, the turnover even declined by up to 7.0 % compared to the same months in the previous year. This decline is attributed to the customers' buying ahead already in spring. Furthermore, the entire retail trade was experiencing other influencing factors during the first half of the year 2007: the value-added tax increase combined with rising prices for food, fuel, and energy. Those factors led the customers to assume an observant attitude.

Since the mid 1990s, a concentration took place in the DIY market. In the long term, an estimated maximum of seven DIY groups will presumably exist in Germany. Even in 2007 the tendency appeared, as shown in several examples like the acquisition of the Max Bahr DIY superstores by Praktiker in February 2007. The merger of Globus and hela ProfiZentren has also been authorized by the Federal Cartel Office in December.

The growth of the **Chinese** gross domestic product is increasing steadily for several years now. It peaked with 11.6 % in the year 2007. This result has been obtained in spite of interest rate rises, credit restrictions, and a branche-specific, restrictive licensing policy for investments. Driving forces for this growth are the unexpected increase in fixed asset investments in the heavy industry and the strong domestic demand. In the first half of 2007, the retail sector has shown the highest growth since 1997. The share of private consumption in the gross domestic product amounts to over 40 %. Despite of numerous measures to reduce exports (e.g. abatement of VAT-refunding), these show an increase by 25.1 %. The imports on the other hand increased only by 20,3 % and consequently the monetary reserves continued to rise. To contain inflation is an important objective for 2008, as it reached 4.5 % in 2007 - with a peak of 6.5 % in October.

The economic growth in **Poland** has stabilized on a high level in 2007. This means a growth of the gross domestic product by approximately 6.6 %, which is based on the consumption and investments. In the medium-term, this growth will slow down though, because the domestic demand is higher than the current production capacities. The Polish National Bank has reacted to the inflation peril with a raise of the interest rates, and so the inflation rate levels itself off in an annual average of 2.5 %. In the industry as well as in the building sector the companies complain about labour shortages and strong wage pressure. At times, the average wages rose by double-digit numbers. The unemployment figures declined to under 10.0 %. Up to the parliamentary elections in October 2007, the urgently necessary reforms of the basic economic conditions failed to appear. What the new government - it is considered to be liberal concerning the economy - will be able to achieve, remains to be seen.

The **Italian** economy did not develop as positively as anticipated in 2007. An actual growth of the gross domestic product by approximately 1.7 % could be achieved. Reasons for that are the financial crisis, the high rate of the Euro as opposed to the US-dollar, and the cyclical slowdown of the Global Economy. The foreign trade contributes to this roughly a quarter. The aggregate debt remains with almost 104 % of the gross domestic product the highest in the whole Euro zone. Since the foundation of the Democratic Party (PD) by Autumn 2007, radical cuts of government aids for companies, an abatement of tax rates, and new possibilities for depreciation for investments in research and development are expected.

The **Austrian** gross domestic product achieved an increase by 3.3 % in the year 2007. Due to rising food and oil prices an increase of the inflation rate by approximately 2.1 % ensued, whereat even in Austria the mark of 3.0 % has been passed in November. The unemployment figures are declining since 2005 and amount to 6.3 % according to national definition. Moreover, these figures profit from the employment of new full-time jobholders. In spite of this development, the private consumption appeared to be muted at a rate of 1.6 %. Additionally intensified by high spendable household incomes the savings ratio increases since 2002. For the year 2008, a moderate rise of the gross domestic product of about 2.4 % has been predicted. Furthermore, a rising inflation rate is expected, causing a decline in private consumption.

The economic growth in **Romania** slowed down in 2007 to a rate of 5.8 %. A crucial damper was the lasting drought und the resulting decline of the agricultural production, which had negative effects on the domestic economy as well as on the export performance. On the other hand, the building industry, which reported a record year and the services sector acted furthering. Due to the rising prices of food the inflation rate amounted to 4.3 %. This fact, but also the fast rising wages and salaries and the huge current account deficit cast some doubt on the ability of the government to conduct necessary reforms. The market receptiveness for goods and services on the other hand is beneficial to foreign investors. This became apparent in the private consumption, which amounted to 11.0 % in 2007. Accordingly, imports increase with 26.0 % twice as fast as the exports.

The gross domestic product of **Spain** increased in the year 2007 by roughly 3.8 %. The forecasts for 2008 exceed those of the Euro zone and level themselves off at about 3.0 %. Accordingly, there exist numerous business opportunities and many German companies expand their involvement in Spain. The state also makes efforts to improve the competitive capacity and quality of the location. The main support of the economic situation is the domestic demand. The growing population leads to lasting positive impulses, in spite of increasing interest rates on credits and just moderate rises in the real income. Thus the import rate with 6.8 % was higher than the export rate by 1.5 %. The inflation rate developed positively at the beginning of 2007. Yet in the second half of the year a rise in prices occurred, which was due mainly to food, education, and the hotel and catering industry. Therefore, the inflation rate for 2007 amounts to approximately 2.9 %. The number of employed persons increased, so the unemployment rate could be reduced to 8.1 %. In the first quarter of 2008 many decision makers are expected to adopt a wait-and-see attitude, as the new parliament will be elected in March.

Organisation of the Einhell Group

The parent company of the internationally positioned Einhell Group is the Hans Einhell AG based in Landau a. d. Isar/Germany. Its affiliates consist mainly of distribution companies located in Europe and trading companies in Asia. The Asian affiliates are in charge of procurement from several bigger or smaller production companies. Since the production takes place in Asia, the quality management has also been moved there. Thus, quality defects may be addressed and remedied promptly on location.

Structural Changes of the Group

The structure of the group changed in 2007 due to the purchase and foundation of several affiliates. Since the organic growth holds great potential, the organisation of the Einhell Group constitutes an important task for the persons responsible. Particularly within the scope of the continual expansion, business units and lines of communication have to be re-evaluated constantly. During the integration of new affiliates great importance is attached to connecting the affiliate with our business software systems to ensure a smooth flow of information.

Since January 2007 the company Einhell-Unicore s.r.o. belongs to the Group. The company was formed in 1993 and sells its brand "Primex" since 1998 not only to retailers, but also to DIY superstores and wholesalers in the Czech Republic and Slovakia. Additionally, the distribution is conducted via an online store of its own. Since January, the 30 employees distribute Einhell products via these established routes as well.

On June 13, 85 % of the stock corporation Intratek Mühendislik ve Dis Ticaret A.S. (Intratek engineering and foreign trade company) have been purchased by the Einhell Group. This corporation was formed in 1989 and began with selling as well as importing various products, ranging from air-conditioners and heating appliances to DIY products. Additionally, they began in 1997 to establish their private brand "DBK". By means of the integration into the Einhell Group, it is the objective of Intratek to become over the course of three years one of the leading companies in the Turkish market for electrical equipment, gardening, and hand tools.

Additionally, a new affiliate has been established in Greece in December 2007. The ANXALL Hellas A.E. has taken up its operational business in January 2008.

100 % of the shares of the Hansi Anhai Youyang Import & Export Co., Ltd., Chongqing/China have been taken over in 2007.

New Management Division

In the business year 2007 an important new management division has been assigned to Dr. Markus Thannhuber. He applies himself as new managing director particularly to the technology division. Dr. Markus Thannhuber majored in physics at the TU München and has been working at several scientific institutes. In 2001 he took over the management of the iSC GmbH in Landau a.d. Isar. Since January 1, 2007 he is a management board member of the Hans Einhell AG.

Performance Report

Increase of the Revenue in the Einhell Group

The Einhell Group has developed positively in the year 2007, despite of turbulences in the Global Economy. The presentation of the data of the profit and loss statement for 2007 is made in combination with the actual figures from 2006 and, for a better comparability, in combination with the figures adjusted for the weka-products. The sale of the weka Holzbau GmbH has been effected in 2006 due to strategic reasons, because the Einhell Group wants to focus further on its core competencies.

The revenue adjusted for weka-products in the year 2006 of € 360.6 million (actual revenue € 411.8 million) could be increased by 7.0 % to € 385.7 million for 2007. The ultimate ambition of the Einhell Group, the profitability-oriented revenue increase, is obtained via several subordinate objectives. For instance, in the business year 2007 the Einhell brand remained continually true to its slogan „Quality Brand for the Price-Conscious“. Quality improvement has been an important concern of the Einhell Group in the year 2007 as well, since it is a valuable measure to attain a stronger customer loyalty and to attract new customers. Customers of the Einhell Group are C+C markets, hyper- and supermarkets, specialist retailers, and first of all DIY-markets. These customers are a crucial factor in many divisions of the Einhell Group, ranging from the product development to the after sales customer service of the iSC GmbH, Landau a.d. Isar. In the course of internationalization, the **i**nternational **S**ervice **C**enter will step-by-step expand to other locations, in order to be able to provide better service to its customers locally.

In its domestic market **Germany**, the Hans Einhell AG is subject to enormous market pressure. Due to this intensity of competition, the domestic sales declined from € 189.9 million (€ 149.6 million adjusted) to € 142.3 million. This corresponds to an adjusted decline of 4.9 %. Accordingly, the share of the domestic sales amounts to 36.9 % (previous year: 41.5 % adjusted).

The listed sales growth originates in foreign markets. In the **European Union** the Group was able to increase its revenue from € 134.7 million (€ 126.2 million adjusted) to € 161.6 million. This was possible in spite of the high and intensive competition in the Western European Countries. A good deal of this growth is due primarily to the Eastern European affiliates, particularly Poland and Romania. It should be noted here that Bulgaria and Romania only belong to the European Union since January 1, 2007.

The revenue of the affiliates in **Asia** increased from € 23.7 million to € 27.6 million.

In **Third Countries** a further decline has to be denoted. The revenue from 2006 of € 61.1 million adjusted (actual € 63.5 million) declined by 11.3 %. It amounted to € 54.2 million in 2007. It should also be noted here that Romania and Bulgaria belong to the European Union since January 1, 2007. For that reason, the revenue of these countries amounting to € 17.2 million was reported in the EU in 2007, whereas they were still counted among the Third Countries in 2006. The top-ranking Third Countries in terms of revenue are Switzerland, Croatia, and Ukraine.

The share of revenue generated abroad continues to increase and already constituted 63.1 % in 2007 (previous year: 58.5 % adjusted).

Increase of the Total Output of Both Segments

The segment „Tools“ and the segment „Garden and Leisure“ were both able to increase their revenue with core products again in the business year 2007.

Since no weka-products have to be attributed to the segment „Tools“, no adjustment will be necessary. Insofar, a sales growth of 5.6 % could be obtained. This represents an increase from € 228.1 million in 2006 to € 240.9 million in 2007. The top-selling products in the „Tools“ segment were compressors, electric drills, and cordless screwdrivers.

In the „Garden and Leisure“ segment the revenue declined from € 183.7 million in the business year 2006 to € 144.8 million. Yet after adjustment for the weka-products, which are solely attributed to this segment, an increase in revenue of 9.3 % ensues (last year's adjusted revenue € 132.5 million). Significant influence on this increase had the top-selling products: pumps, lawn trimmers, and lawn mowers.

Earnings performance

In the business year 2007, the Einhell Group attained a profit from ordinary operations in the amount of € 24.6 million (previous year: € 23.8 million, € 21.9 million adjusted). Thus, the group performance increases compared to the business year 2006 unadjusted for weka-products by 3.4 % and adjusted by 12.3 %. Resulting from this is a raised return before taxes of 6.4 % (previous year: 5.8 %, 6.1 % adjusted).

The annual net profit of the group after minority interests increased with unadjusted data from the business year 2006 by 2.5 % to € 16.7 million, as well as adjusted by 12.8 %. In the previous year this value was € 16.3 million (€ 14.8 million adjusted). The ROI [1] amounts to 10.6 % on effective date (previous year: 11.9 %). The financial result amounted to € -2.2 million (previous year: € -2.7 million; € -2.5 million adjusted). This result is calculated basically from the net interest income in the amount of € -2.6 million (previous year: € -2.7 million; € -2.5 million adjusted) and from the results from the currency conversion in the amount of € 0.4 million (previous year: € 0 million).

Human Resources

In spite of the sale of the weka Holzbau GmbH the number of employees could be nearly maintained. Adjusted for the number of weka-employees, the overall number of employees even increased significantly due to the expansion of the group by 12.9 % to average 964 (previous year: 1059; 854 adjusted). Accordingly, the revenue per employee amounted to € 400 thousand (previous year: € 389 thousand).

The overall fluctuation among the employees of the Einhell Group is very low, so that many anniversaries of longtime employees could be celebrated again in 2007. To be able to achieve this pleasant data, the Hans Einhell AG has been working intensively on a human resources development concept at the beginning of the year 2007. It has been adopted by the management board and has been implemented step by step. The completion of the implementation still continues in the year 2008. One of the constituents of this campaign is the training of qualified new employees. It is due to be constantly improved, accordingly the new apprentices of the Hans Einhell AG started in September 2007 with an introduction week. They received information about the company, its products, customers, and IT systems. Additionally, in September 2008 an apprenticeship program in various training areas will be offered for grammar school graduates at a university of cooperative education. The opportunity to become thoroughly acquainted with the company's various departments by means of a trainee-program has also been expanded. To ensure future recruitment options, another component of the concept is the internal identification of talents. This component is already put into effect in the parent company. The intensive identification and advancement of high potentials is going to be expanded to the affiliates in the next step.

Due to the achievements and the extraordinary efforts of each individual employee of the Einhell Group the outstanding results of the business year 2007 have been accomplished. The management board of the Hans Einhell AG thanks all employees for this achievement!

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1 ROI (Return on Investment) = result from ordinary operations / total capital * 100

Earnings

In the business year 2007 the Einhell Group has been able to stabilize its profitability. Crucial to this development were particularly the strategic steps of focussing on core competencies, the further expansion, and the constant improvement of the quality management.

The earnings before interest and taxes (EBIT) increased from € 26.6 million (€ 24.3 million adjusted) to € 26.8 million. This corresponds to an adjusted growth of 10.3 % in the business year 2007. The quota of the cost of sales and expenses changed only insignificantly.

With this development of profits the Einhell Group was able to achieve its ambitious objectives for the business year 2007.

Net assets

The essential items of the balance for the business years 2006 and 2007 are as follows:

	2007	2006
	€ Mio	€ Mio
Non-current assets	28.4	21.1
Inventories	99.5	75.8
Trade receivable	67.6	53.2
Cash and cash equivalents	14.6	26.3
Equity	111.8	98.8
Liabilities to banks	47.8	46.8

It should be noted concerning the figures for the business year 2006 that from effective date the company weka Holzbau GmbH, Neubrandenburg, does not belong to the Einhell Group any longer. Consequently, the balance sheet data already shows the conclusively consolidated figures.

The profit of the consolidated accounts has been announced corresponding to the net profit of the Hans Einhell AG.

Investments

The investments amounted to € 11.6 million in the business year 2007. Of this amount, € 7.4 million are intangible assets, the remaining € 4.2 million are property, plant and equipment. The intangible assets contain among other things the goodwill of the Czech affiliate bought on January 1, 2007, the goodwill of the share (85 %) in the company Intratek, as well as activated product development costs. The property, plant and equipment comprise mainly investments in buildings, fixtures and fittings, as well as prepayments on assets.

The depreciations amounted to € 4.5 million in 2007 and consequently declined compared to the previous year by € 0.2 million (increased by € 0.3 million adjusted).

The cashflow from investing activity declined from € -1.5 million to € -11.0 million. This is largely owing to the fact that higher investments in assets and shares were made compared to the previous year. Furthermore, the proceeds of the sale of the weka Holzbau GmbH, Neubrandenburg, had been included in the cash inflow from investment activity in the previous year.

Current Assets

On effective date the inventories increased from € 75.8 million to € 99.5 million. The increase is due to the growth in sales. The trade receivables increased by € 14.4 million to € 67.6 million. No factoring has been conducted in the business year 2007.

Financial Position

Financing

The projected growth of the Einhell Group requires a sound financial structure. The group is able to produce this strong net equity base, consequently the foundations for the projected sales growth and potential additional purchases of shares are at hand.

The Einhell Group has been financed dominantly by long-term loans again in the business year 2007. Beside the classic long-term bank loans this includes the bonded loan issued in the business year 2004. The most important liquidity, balancing, and P&L key figures have been maintained or even improved in 2007. The financing of the group is handled by the parent company. In order to minimize currency exchange risks, it was effected mainly in Euro. The Einhell Group does not expect any difficulties meeting its repayment obligations according to the loan agreements.

The cashflow from financing activities amounted to € -2.0 million (previous year: € -3.2 million). Particularly relevant were the increase of the repayment obligations and the dividend payment.

On December 31, 2007, the balance sheet total amounted to € 231.9 million (previous year: € 200.6 million). The equity ratio added up to 48.2 % (previous year: 49.3 %) on effective date.

Procurement

Due to the procurement of Einhell's products being effected via production sites in China, the focus was once more on the development of the Chinese Renminbi in the business year 2007. Since the easing of the bond with the US-dollar in July 2005 it has gained against the US-dollar by approx. 9 %. Caused by the strong Euro, Europeans may as yet import on good terms, on the whole though, Chinese goods will become more expensive on the global market. As the procurement of the Einhell Group is effected in US-dollar, all of these developments will be monitored and continued to be taken into consideration in planning the procurement promptly und flexibly.

Another crucial factor are the commodity prices on the overall global market. The growing demand of the previous years originating from the Chinese market results in a shortage of raw materials and consequently in rising prices. These affect various metals, crude oil, and consequently synthetic materials. The necessary rise in product prices afflict the entire global market and thus will concern every company dependent on raw materials.

A large part of Einhell's product range is currently produced in China. The quality requirements demanded by the Einhell Group from the Chinese suppliers are determined by the customers' wishes. The quality assurance and quality management are improved constantly. Since high priority is given to the quality inspection before the shipping from China, this domain is constantly under surveillance. Currently, 58 employees are engaged in this area. Aside from the tight shipping inspections on location, monitoring of the compliance with customer-specific quality requirements, inspections of production in progress, and improvement of procedures on the manufacturer's side are also effected.

The quality of the suppliers is improved constantly. Dependency on individual suppliers is avoided by an adequate number of suppliers and a broad distribution of orders.

Research and Development

The expenses for research and development increased in the business year 2007 from € 2.5 million to € 3.2 million. The research and development division is based predominantly in the parent company. In this division, 34 staff members are employed. These employees attach importance not only to collaboration with other divisions, like the quality management for example, but also to the communication with customers. In this manner, customer needs are included from the start in the development of new products or product versions. The customer is regarded as partner. This ensures a consistent adjustment to the market for the entire Einhell Group. This is also the way it became one of the fastest acting companies in the industry. The positive experiences with our customers encourage us to maintain this course.

The business objective of differentiation from competitive products played a special role in the business year 2007. The examination of the product colors and the closely linked divisions brand portfolio and package design in the third quarter of 2006 has initiated two new product lines. They shall gradually replace the existing lines and consequently bring about a coordinated appearance of the Einhell brand on the market. This decision has been necessary, because the present Einhell products show a diffusely differentiated portfolio to the end customer. The two new product lines will differ in prices and design. The line „Blue“ shall designate the low price segment and the line „Red“ the upper price segment. Here, too, the prices will remain below those of the current reference market makers, but the products will distinguish themselves decidedly by means of design, exclusiveness, and customer service. Along with the desired effects on the side of the customer this introduction will increase the efficiency of logistics and distribution. The market introduction of both lines will be made step by step, starting early in 2008.

The Einhell Group possesses a portfolio of various German and European patents, utility models, registered designs, and brands. The company strategy considers it an essential task to extend the number of patent applications notably.

Main Features of the Company's Compensation System

The members of the management board especially receive compensation bound to the business success of short-term as well as long-term nature. The members of the management board hold shares of the Hans Einhell AG. Share option plans or comparable arrangements do not exist. For further details we would like to refer to the particulars in the IFRS-explanatory notes to the consolidated financial statement.

Events after Balance Sheet Date

From the end of the business year 2007 until the compilation of the management report no events relevant for reporting have occurred.

Dependency Report

The majority of shares in Hans Einhell AG are held by the Thannhuber AG, Landau a. d. Isar. We confirm that during the reporting period Hans Einhell AG had no legal transactions with Thannhuber AG, nor did it take or fail to take any measures to the detriment of Hans Einhell AG.

Risk Report

Internal Control System

The companies of the Einhell Group plan the following business year ahead in the current business year. Based on a differentiated sales planning a corresponding planning of the cost of sales and expenses will be made. These target figures are consolidated for the Group into one projected profit and loss statement.

The actual figures are edited monthly by the individual companies. Subsequently, a complete profit and loss statement is generated, in which the target and actual figures are contrasted and may be analysed accordingly. The development of the orders on hand, margins, etc. are presented monthly as well.

This comparison is discussed with the members of the management board as well as with the persons in charge of the individual companies and divisions. By means of analysing the target and actual figures, suitable measures for the regulation will be developed and implemented.

The Risk Management System

In a company, the seizing of opportunities means taking risks. To be able to take these risks calculatedly, a risk management system is required. Essential part of such a system is information. In order to make this information available to the administrative management and the persons in charge of corporate management in summarized and compacted form, the Einhell Group has established an IT-based risk management information system in the fourth quarter of 2007. The system is to facilitate the collection of data among the affiliates, to minimize the effort for the risk manager at Hans Einhell AG, and to make information available to the management in a timely manner.

The process of risk management is divided into two steps in the Einhell Group. In the first step, the decentral recording of risks with the affiliates and divisions of the AG is effected by the persons responsible for risks appointed by the management board. Their task is to identify and evaluate risks. Most important to the Einhell Group is the identification, because unidentified risks prevent further planning. The evaluation of the existing risks is effected by means of the calculation of the product of the occurrence probability and the maximum amount of damage. It is the net risk that will be evaluated, the risk that remains after taking various measures. The second step comprises the consolidation, analysis, and management of the risks by the risk manager and the administrative management. Several methods are at the disposal of the company to manage the risks. Risk avoidance means that the risks and accordingly the associated opportunities will not be taken. Another management option minimizes the risk by organizational measures among other things and is consequently called risk reduction. Yet another method is the risk transfer by insurances, contracts with suppliers, etc. The remaining risks are deliberately borne by the Einhell Group.

The risks will be presented by the risk management software arranged according to the integration into the company hierarchy. In this way, it is possible to represent the risks of each individual affiliate and those of the parent company as well as the accumulated risks. Additionally, a company specific structuring into the risk-relevant divisions is made: Procurement, development, financing, IT, human resources, product management, distribution, and commercial law. The risks are monitored regularly and reported quarterly. In addition, a discussion of the most important risks takes place at the board meeting.

Procurement Risks

Procurement is a primary process in the business model of the trade and accordingly constitutes an important part in the risk management of the Einhell Group. The objective of the procurement is to purchase products in due time with appropriate quality at a fair price. A crucial factor in this are the suppliers. Since the Einhell Group already maintains long standing relations with its suppliers, price and procurement risks can be minimized. By means of constant inspections, the suppliers are included into the quality assurance system of the Einhell Group. A dependency of the Einhell Group on individual suppliers does not exist. To optimize the procurement planning, the purchase quantities are arranged with the distribution on a bi-weekly basis. The risk of currency fluctuations during procurement is handled, if possible, by hedging activities in the form of futures and options dealing. Currency hedging is made according to the IAS/IFRS directions for hedge accounting for the individual hedge periods.

Sales Market Risks

The Einhell Group considers loss of receivables and the sales volume to hold the main risks at the sales market. The Einhell Group counters the credit risk by effecting Euler-Hermes credit insurance. The risk of a decline of the sales volume is minimized by innovative products, which meet the customers' demands in design, functionality, and price-performance ratio. By means of market analysis, the inconsistent brand profile has been identified. This risk will be countered by the step by step introduction of two clearly defined product lines. In this way, the Einhell Group manages to increase its sales volume and to gain additional market shares even in economically difficult times.

Financial Risks

The continuous growth rate of the Einhell Group certainly involves risks in connection with financing. In order to cope with the financial risks, the Einhell Group relies on both long-term and short-term financial strategies. The domain of long-term financing consists of long-term bank loans and the bonded loan issued in 2004. In the short-term domain, the Einhell Group has at its disposal mainly classical credit lines, which have been used only partly in the business year 2007. Both the endowment with liquid funds and with equity capital has been excellent in the reporting year. Risks in connection with changes and fluctuations of interest rates are managed by the application of derivative financial instruments like long-term interest rate swap and interest cap agreements.

Risks of Expansion

Risks result as well from acquisitions of the Einhell Group. These risks are sought to be reduced by the fact that the acquisition candidates are mostly long standing partners of the Einhell Group. By that means, the integration of the new affiliates into the structure and strategies of the Group is achieved right from the start. In addition to that, due diligence reviews are effected in the companies due to acquisition, which are conducted by internal employees of the subsidiary controlling, supported by external consultants.

Liability Risks

Liability risks arise for the Einhell Group mainly in connection with product liability. The procurement market for Einhell products is the People's Republic of China. To assure the quality on location, a quality assurance system has been established in China, which directly monitors the supplier's production and issues corresponding product briefing. The remaining risk concerning claims from product liability has been covered economically reasonable with appropriate insurances. As in the previous year, no cases of product liability worth mentioning have occurred in the reporting year.

Declaration concerning Corporate Governance

The Corporate Governance Code designed by a German governmental commission shall contribute to making the legally effective regulations concerning corporate governance and controlling in Germany transparent for national and international investors. By the voluntary issue of a corporate governance declaration, the Hans Einhell AG has committed to assure a responsible management and control of the group, concentrating on sustainable value added. By means of this declaration, the Hans Einhell AG creates transparency about the legal and company specific general conditions and advances the trust of its national and international investors, its business associates and employees, as well as of the general public.

In this sense, the principles of the Einhell Group govern the relations to its shareholders and the social and political environment of the company, the efficient co-operation between board of directors and supervisory board, as well as the transparency and accounting requirements.

The Hans Einhell AG regularly reviews its Corporate Governance Declaration regarding new experiences and legal requirements, as well as advanced national and international standards and adjusts it if necessary.

The declaration may be consulted on the website of the Hans Einhell AG (www.einhell.com).

Forecast

Global Economic Development

For the **global economic condition** of 2008 a minor decline of the growth rates has been predicted. With an increase of the gross domestic product calculated at market exchange rates of 3.3 % though, one cannot speak of a worldwide setback in economic activity. In this respect the Asian countries, especially China play their part as motor of the economic activity. The developing and newly industrialized countries contribute with 48 % nearly half of the gross domestic product. Another positive influence on the development are the lowered prime rates, caused by the financial market crisis. They allow for the provision of additional liquidity. Yet, a negative influence for the development of global economy is the still important status of the United States. With a declining potential growth again in 2008, negative effects on the foreign economic situation ensue, because the exports to the USA will decline. The global monetary value will remain stable in 2008, in spite of a rise in energy prices. It is projected for the oil price to stabilize around a value of 80 US-dollar per barrel in 2008.

The forecast for the growth of the gross domestic product of the European Union amounts to 2.3 %. In the Euro zone the growth forecast turns out only insignificantly lower. This is attributed to the encumbering factor foreign trade, caused by the strong Euro. Motor of the growth are nevertheless the revival of the private consumption, the decline of unemployment, and increasing nominal incomes. With 2.1 %, the inflation rate will also remain nearly unchanged compared to the year 2007. These positive expectations are based on a high level of the indicator of consumer confidence. In the Middle and Eastern European member states of the European Union a monetary streamlining is likely in the year 2008. Reasons for this are the high capacity utilization and the low unemployment rates. The growth rates of the gross domestic product are estimated to be 5.2 % and are thus nearly one percentage point lower than the figures of the previous year. The economic slowdown in the United Kingdom and the Scandinavian member states will turn out comparatively low.

The Federal Republic of **Germany** will also have to face a limited economic growth. This is due to the dependency on the development of the sales markets, as the exports are of major significance for the German economy. The growth of the gross domestic product will decline accordingly by about seven basis points to 1.9 %. The contribution of the foreign trade will decline in 2008 to 0.2 %. The growth will largely be supported by the private consumption, because it will not be dampened any longer by measures of the fiscal policy as in 2007 and the gross wages and salaries will also rise. In the customer domain gainful employment is an important factor and in this respect positive signs continue to be perceived. Thus the unemployment rate shall decline to 8.3 %. The public budgets will also profit from this. The budgets will be able to present a small surplus predominantly due to income tax and social security increments. The forward volume caused by the lowering of the corporate tax in the year 2008 amounts to approximately € 4 billion and thus these investments are missing in the first quarter of 2008. The effect of the declining investment market caused by rising costs of capital in the course of the business tax reform will not occur to a great extent until 2009, with the introduction of the withholding tax on dividends and capital gains. The inflation rate will amount to an annual average of 2.0 %, consequently the currency stability will not be endangered.

In 2008, customers will recover from the negative consequences of the value-added tax increase. The consequent increase of private consumption has positive effects on the retail industry. The DIY-market will also profit from these effects. The DIY-market sector presumes growth potential particularly in the categories energy conservation, safety, and refurbishment. The specific addressing of individual target groups is also very important to the retail industry.

Objectives of the Einhell Group for 2008

Among the objectives for the business year 2007 were the differentiation from competitive products, the improvement of quality and customer service, and the further organic growth. The achievement of all those objectives brought about a further sales growth. To ensure a long standing existence of the Einhell Group, ambitious business objectives have to be achieved in the following years. The Einhell Group has set itself three main objectives for 2008.

For 2008, the management board and the executive staff have set themselves the paramount business objective to improve the quality in order to enhance customer satisfaction. Therefore, in the quality assurance division high investments into the sectors personnel, development of new systems, and optimization of established systems shall be made. Another objective is to significantly reduce the failure rates compared to the years 2006 and 2007.

Yet another objective is the formation of new affiliates. The focus is on foreign companies here. These already contributed a large part to the sales growth in the previous year. Especially Eastern Europe offers potential in this respect. Already in 2007 new companies have been bought in the Czech Republic and Turkey. Moreover, the newly founded affiliates in Greece and Chile shall be built up. Further foundations and acquisitions of affiliates are intended in 2008.

The improvement of service is the third main objective. The iSC GmbH is developing for this purpose an international service-concept. It will be introduced in some affiliates already in 2008 by means of the establishment of the necessary infrastructure.

The management board assumes that the segments „Tools“ and „Garden & Leisure“ will develop positively in the following years. Particularly due to the development of the new product lines, Einhell products address the customer consistently. For the business year 2008 a revenue of between € 400 million and € 420 million is targeted. In the business year 2009 the management board intends to increase the revenue with a constant rate of return, like it did in the past.

Strategically, the Einhell Group will increasingly sharpen its profile as manufacturer of power and gardening tools over the next years. Irreversibly connected with this strategy is the objective to concentrate on core products and core target groups as well as to be listed with every international DIY-market chain as the highest-performing supplier in the following years. In addition, the step by step introduction of the product lines „Blue“ and „Red“ shall improve the brand presence and recognition value. Over the next years, the Einhell Group shall become the most innovative and the fastest supplier of the industry regarding gardening and power tools.

Proposal on the Allocation of the Unappropriated Profits

The management board and the board of directors of the Hans Einhell AG propose to the general meeting on June 20, 2008 to effect a distribution of € 3,271,296.00 from the balance sheet profit of the Hans Einhell AG according to the German Comercial Code (HGB) in the amount of € 10,302,855.12. This corresponds to a dividend of € 0.90 per preference share and € 0.84 per ordinary share. The remaining amount of € 7,031,559.12 shall be carried forward.

Landau a. d. Isar, 25 March 2008

Hans Einhell AG

The Board of Directors

Andreas Kroiss   Jan Teichert

Dr. Markus Thannhuber   York Boeder

Independent Auditors' Report

We have audited the consolidated financial statements prepared by Hans Einhell AG, Landau a. d. Isar, comprising the balance sheet, the statements of income, the changes in equity, the statements of cash flow and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2007 to December 31, 2007.

The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the Managing Board of the Company. 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 § 317 HGB (Handelsgesetzbuch „German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures.

The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Managing Board, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 26, 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Kozikowski	David
Wirtschaftsprüfer	Wirtschaftsprüfer

(Independent Auditors)