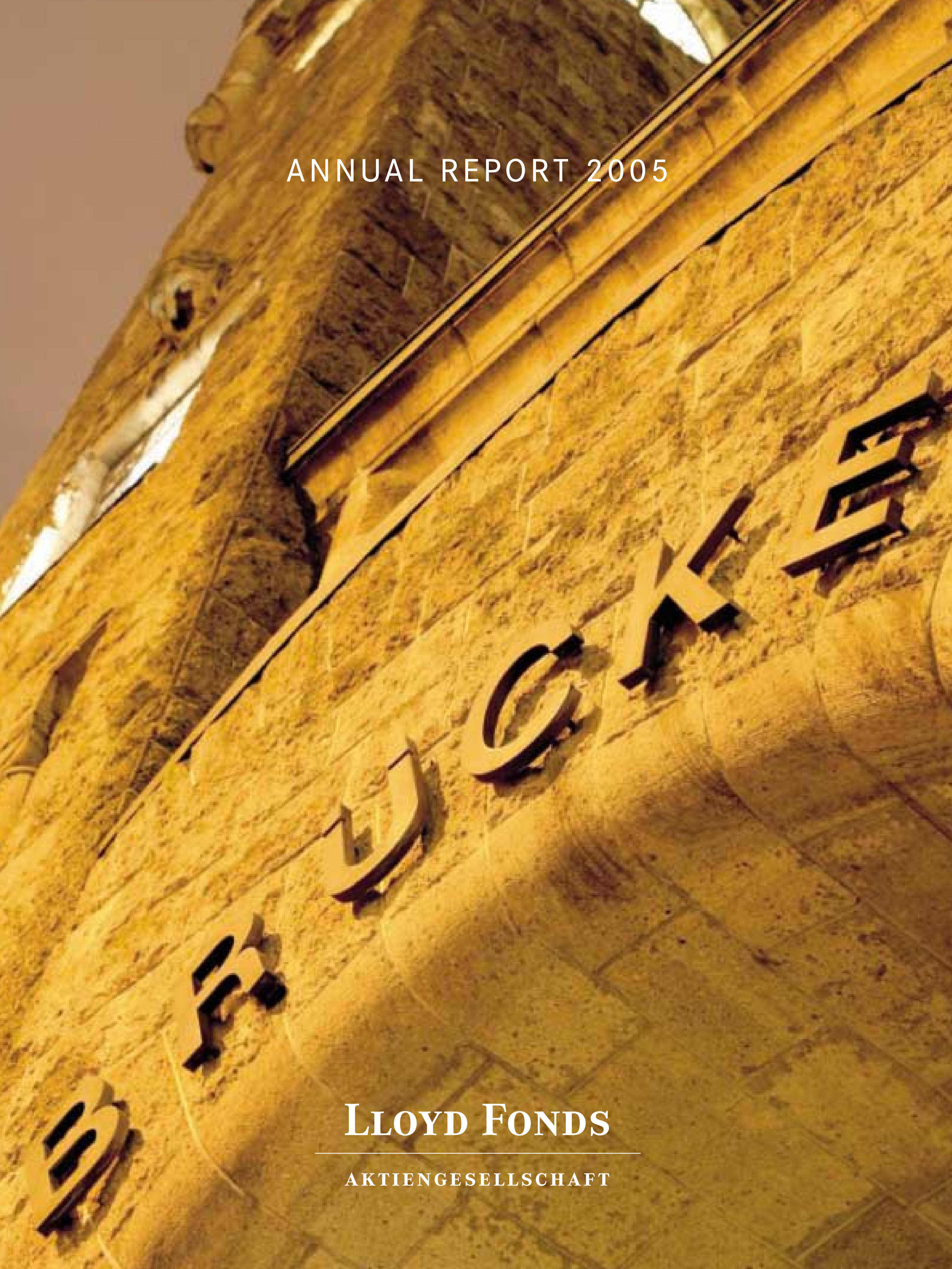


ANNUAL REPORT 2005

LLOYD FONDS

AKTIENGESELLSCHAFT

Lloyd Fonds is one of the leading arrangers of closed-end funds in Germany. Working together with selected partners, we design, retail and manage first-class investments in high-return assets. The investment products designed by Lloyd Fonds aim to achieve long-term value, attractive returns and a balanced risk/reward profile. The range of investment products currently comprises ships, traded UK endowment policies, regenerative energies and real estate and is continually widened. All our investments are characterized by quality and our commitment to intensive investor care.

This is something from which Lloyd Fonds AG's shareholders also benefit as our value chain encompasses the entire process comprising the development of the product idea, the acquisition of the asset to be invested in, the design of a fund for this asset, the sale of the investment and investor care by the trustee as well as long-term management of the fund by our Company.

Key figures (in EUR million)	2005	2004	Δ
Sales	71.0	52.0	+36.5%
EBIT	22.8	14.0[1]	+62.9%
Consolidated profit for the year	17.1	9.5	+80.0%
EBIT margin	32.1%	27.0%[1]	+5.1% pts
Return on sales	24.1%	18.3%	+5.8% pts
Headcount (annual average)	65	41	+58.5%
Earnings per share (in EUR)	1.60	1.02[1]	

[1] Comparison figures restated, see Note 2.18 to the Consolidated Financial Statements

1995

- Lloyd Fonds Gesellschaft für Unternehmensbeteiligungen mbH & Co. KG established

1999

- Range extended with the first real estate fund
- Own trust company, known today as Lloyd Treuhand GmbH, established

2000

- Dr. Torsten Teichert appointed CEO
- Lloyd Fonds one of the top ten arrangers of ship funds

TEN YEARS LLOYD FONDS

Fund performance (in EUR million)	2005	2004	Δ
Equity placed per year	286	191	+49.7 %
Equity placed, cumulative	870	584	
Number of funds arranged per year	9	16	
Number of funds arranged, cumulative	66	57	
Number of investors, cumulative	18,870	11,878	+58.9 %

▲ KEY FIGURES

2001

- Lloyd Fonds converted into a stock corporation (“AG”)
- Cumulative investment volume reaches EUR 500 million
- Lloyd Fonds again one of the top ten arrangers of ship funds

2002

- Coppanz wind farm: Funds for regenerative energies added to the range
- Lloyd Fonds offering investors a new type of ship fund: Dormant shares with the right to convert them into limited-partnership capital
- Six new ship funds, total investment volume of EUR 129 million

2003

- Strong growth with the arrangement of 19 ship funds
- Lloyd Fonds arranging tanker fund for the first time
- Lloyd Fonds one of the top five arrangers of ship funds
- Record sum of EUR 140 million total equity placed

2004

- 50th fund: Issue volume of EUR 45 million
- Lloyd Fonds achieving growth of 36 % compared with 24 % for the overall closed-end fund market
- Traded UK endowment policies added to the range
- Record volume of equity placed of EUR 191.4 million
- Lloyd Fonds again one of the top five arrangers of ship funds

2005

- Two ship funds dissolved following the successful sale of the underlying assets
- Investment volume exceeding the EUR 2 billion mark
- Lloyd Fonds stock listed in the stock market for the first time in October
- Lloyd Fonds one of the top four arrangers of ship funds for the first time

CONTENT


LOTSE

PERFORMANCE

In the absence of experienced and skilled pilots, many endeavors would literally run aground. The pilot's skills determines the success of the task. This also applies to Lloyd Fonds. Thus, our excellent track record testifies to our skills and expertise as pilots in the financial markets. We channel capital to where it can be put to the most efficient use. At the same time, we show our customers the most favorable risk / reward profile for them. Moreover, our shareholders can take advantage of an attractive investment.

Sea pilots navigate ships headed for Hamburg in the German Bight at "Elbe 1", before handing them over to the River Elbe pilots at the mouth of the Elbe near Brunsbüttel. Later on, the port pilot goes on board off "Teufelsbrück" and takes over until the ship reaches its berth in the port.

FOREWORD

The management of Lloyd Fonds AG: Dr. Torsten Teichert (CEO) and Holger Schmitz

Dear shareholders, customers and business associates,

2005 was a very eventful and successful year for us. We were able to continue our growth course on a sustained basis, adding a further impressive chapter to our track record. At the same time, Lloyd Fonds continues to operate highly profitably.

Sales widened from EUR 52 million in 2004 to EUR 71 million in 2005, with earnings before interest and tax (EBIT) rising by over 60 % to more than EUR 22 million. As a result, Lloyd Fonds' net income for the year surged by over 80 % to more than EUR 17 million.

At the same time, the equity placed by Lloyd Fonds reached a new record in spite of a whole series of legal and tax amendments in 2005. With 21 funds in the market, we placed equity of EUR 242 million and US-Dollar 52 million, making a total of EUR 286 million. This compares with a sum of EUR 191 million in 2004. These outstanding figures confirm our position as one of the fastest growing arrangers of closed-end funds in Germany.

We also continued to diversify our asset classes. Whereas some 95 % of equity had been placed in ship funds in 2004, this figure shrank to only around 85 %. The balance was split between the two growth segments traded UK endowment policies and regenerative energies. We were additionally aided by the fact that we had decided relatively early on to concentrate on yield driven funds, into which over 80 % of the equity gained was paid – and turned our back on tax-minimization models as it was already clear that loss allocation would no longer be possible.

This positive business performance found its culmination in our initial public offering last November. The foray into the capital market has provided us with access to a new and large circle of investors and generated the capital which we needed to continue diversifying into new asset classes. An added advantage was that Lloyd Fonds' operative business benefited from the added publicity arising from its stock-market listing.

The greater transparency attracted heightened market attention. This applies not only to fund customers and shareholders but particularly also to our asset partners, with whom we initiate projects, as well as the banks which assist us with finance. All this simplifies the acquisition process for attractive assets and ultimately funding operations. These facts are imbuing us with added strength in an increasingly more sophisticated market. Accordingly, the flotation was the logical next step in Lloyd Fonds' business model. We are already playing a pioneering role in the transparency and quality of our funds and track record and this is something which we can apply to the stock market as well. We do not see any conflict between the interest of our shareholders and our fund investors. Both groups benefit from the performance of the funds and the Company.

Lloyd Fonds has built up a strong position in this setting. One of our trumps is our very good statement of performance, which is already published with preliminary figures for 2005. Thus, cumulative payouts and repayments for all funds have exceeded the forecasts stated in the prospectus by around EUR 55 million.

This forms an excellent basis for continued growth. Against this backdrop, Lloyd Fonds' task is to make the right strategic decisions and to be in a position to offer the right products at the right time. A successful fund arranger must not fall behind as the demand for intelligent investment products is strengthening steadily given the growing need to provide for old age. We will continue to analyze and design a wide range of investment options to provide our investors with attractive products and to ensure sustained profit growth for our shareholders.

Lloyd Fonds has its roots in ship financing. We are strong here and plan to stay that way. That said, the Company's declared aim remains to apply the skills and high renown which it has gained in arranging ship investments to other attractive asset classes step by step. We have already achieved this with traded UK endowment policies and investments in regenerative energies.

Against this backdrop, we have every right to be very satisfied with our performance in fiscal 2005. Turning to 2006, we are confident of a continuation of this success with a substantial increase of around 30 % in equity placed to around EUR 370–390 million. In the first quarter of the year, Lloyd Fonds placed a ship fund worth US-Dollar 137 million exclusively via Deutsche Bank and we are steadily working to continue the diversification process.

We are happy to have recruited Dr. Simon as an experienced member of the Management Board for the Finances area.

Yours sincerely

Dr. Torsten Teichert

Holger Schmitz


TÄT

KNOWLEDGE

Knowledge provides a decisive lead not only in learning and in the career world but also in the capital markets. Lloyd Fonds knows where to find the most attractive assets, the best partners and the most efficient concepts and designs. Its customers and shareholders benefit from this equally. Looking forward, Lloyd Fonds will continue to utilize this knowledge for the benefit of all parties connected with the Company.

The new Central Law Library (2004) of Hamburg University on Rothenbaumchaussee not only holds around 370,000 books but offers students over 1,000 modern work and reading places virtually around the clock.

LLOYD FONDS AG'S BUSINESS MODEL

Lloyd Fonds AG is one of the top independent issuing houses for closed-end funds in Germany, offering private investors access to investments which they would otherwise not be able to buy in this attractive form, if at all. Working together with selected partners, it has been designing, retailing and managing first-class investments offering high returns for over ten years. The business model adopted by Lloyd Fonds AG can be summed up as follows: to preserve assets and to make use of opportunities. For one thing, this offers investors high-return investments rich in opportunities. For another, the shareholders of Lloyd Fonds AG benefit from a stable and steadily rising flow of income as well as profit from the arrangement of investment products.

STEPS OF SUCCESS

RELATIONS WITH FUND INVESTORS
Lloyd Treuhand GmbH

FUND MANAGEMENT / FUND CONTROLLING
Commercial administration, controlling of asset partners

RETAIL AND MARKETING
Retailing of the fund products via retail partners

DESIGN AND STRUCTURING
Calculation of fund products, production of selling prospectuses

ACQUISITION
Acquisition of selected assets

PLANNING OF BUSINESS AREAS
Selection of suitable asset classes, individual assets and retail partners

At this stage, Lloyd Fonds still generates the bulk of its sales in its core ship fund business. Here, it has since advanced to become the fourth largest operator in the German market, a position which it plans to reinforce and further extend. Yet, at the same time, the Company is also seeking to diversify its business operations to a greater extent in the closed-end fund segment to reduce its dependence on the ship fund market. To this end, business in areas in which the Company is already engaged, is to be broadened swiftly. Lloyd Fonds is a first-mover in secondary-market UK life insurance policies. At the same time, it wants to step up business in regenerative energy funds. This range will be supplemented with real estate and new investment products such as private equity or other asset classes still waiting to be tapped.

The basis for this success is Lloyd Fonds' experienced management

Backed by a potent team of generalists and sector specialists with extensive experience in issuing business, the Company has placed equity of some EUR 1 billion with investors and realized an investment volume of some EUR 2.6 billion over the last ten years. The impressive track record in acquiring new assets and selling investment products is not least of all due to Lloyd Fonds' broad network of established partners. This involves links spanning many years with renowned shipping companies, exclusive arrangements with leading experts in the UK endowment policy market and close collaboration with retail platforms and independent financial advisors. A further factor in our success is the financing and retailing provided by renowned top banks.

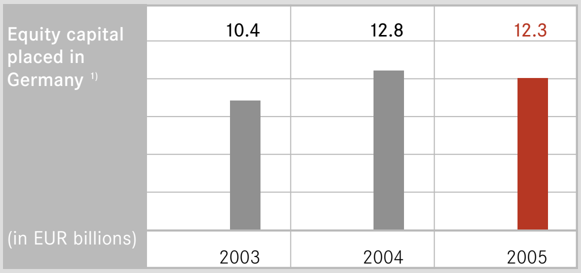
STEPS OF SUCCESS

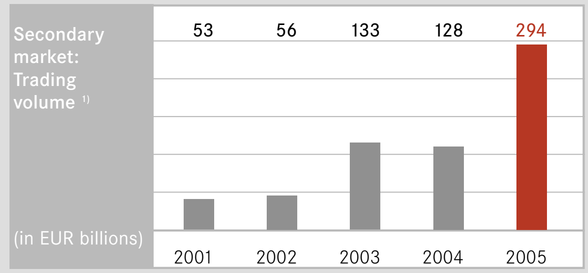
Regardless of the asset type, Lloyd Fonds AG's business model is always based on several steps: the identification and planning of a new investment including the selection of the best asset partner, the acquisition of the assets suitable for the planned investment, the specific design and calculation of the fund products and finally marketing and retailing. All this is insufficient without the intensive investor relations management provided by Lloyd Treuhand.

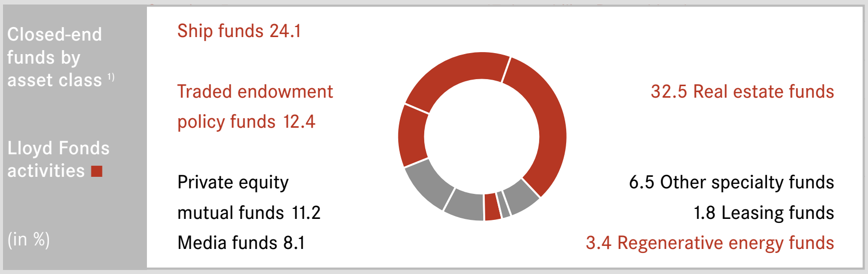
At Lloyd Fonds, SUITABLE ASSETS ARE SELECTED and the PRODUCT STRATEGY IS DEVELOPED in close consultation between the Asset Acquisition, Investment Design and Retailing departments. They are jointly responsible for identifying and acquiring economically appealing and profitable assets suitable for inclusion in an investment product in the asset class in question (ships, traded UK endowment policies, regenerative energies and real estate). The final selection of assets is made on the basis of extensive research and calculations. In this connection, Lloyd Fonds works with partners who, as experts in their specific fields, are integrated in the development and the management of the funds. For example, ships are bought in conjunction with renowned shipping companies, which also assume the role of contract carrier during the lifetime of the fund.

In selecting and acquiring assets, Lloyd Fonds makes sure that strict quality criteria are applied. The assets are not acquired by Lloyd Fonds AG itself but by the individual fund companies. Depending on the asset in question, 30 – 100 % of the financing takes the form of the investors' capital contributions with the balance covered by bank loans. A fund arranger's success stands and falls with its ability to acquire attractive assets at the right time for retailing fund products. Lloyd Fonds, for example, was able to order or buy a large number of new ships in 2003 and 2004 at prices which were very favorable in the light of market conditions in the second half of 2004 and 2005. This allowed us to harness lucrative potential for our investors. Lloyd Fonds' partners actively supported these endeavors, making a key contribution to our success.

THE MARKET OF CLOSED-END FUNDS







Source:
[1] Loipfinger, Marktanalyse der Beteiligungsmodelle 2006

The responsible department **DESIGNS AND STRUCTURES THE FUNDS** in close consultation with the Asset Acquisition and Retail departments. This involves turning “raw” assets into high-yielding investments. At the same time, any complex tax and legal questions are clarified in conjunction with external experts. Where necessary, this is supplemented with additional expertise, e.g. the opinions of ship surveyors, experts on charterers, market surveys or studies on wind conditions. In addition, each fund budget is checked by a public accountant to ascertain its plausibility and to ensure that it has been prepared with the necessary care.

A key role in fund design is played not only by asset diversification but also by innovativeness in new fund products. For example, Lloyd Fonds started concentrating on yield-oriented ship funds based on the tonnage tax regulations early on in 2004. As well as this, it was also the first to place fund ships in a “tanker pool”, which generates income partly from deployment at spot-market prices. Also in 2004, Lloyd Fonds was one of the first fund arrangers to launch a fund comprising traded UK endowment policies. It is only by adopting such innovative approaches that a fund arranger can hope to be successful in the market on a long-term basis.

Lloyd Fonds AG’s products are primarily **RETAILED VIA INDEPENDENT PARTNERS,** with many of whom it maintains long-standing relations based on trust. This includes banks and non-captive independent retail partners – such as investment advisors or distribution systems. In the case of open retailing, customers are sought throughout Lloyd Fonds AG’s entire distribution network, with each retail partner able to take part in the placement of the planned capital. In the case of exclusive retailing arrangements, the capital is mostly placed via a single retail partner. Such exclusive arrangements can be entered into with banks as well as distribution systems. As far as Lloyd Fonds is concerned, such exclusive arrangements generally involve low retailing expense as the partner in question handles the entire coordination. Overall Lloyd Fonds ensures that all distribution partners are provided with Lloyd Fonds products.

Over the last few years, fund retailing activities across the sector have tended to concentrate on the final quarter of the year for tax reasons. In the meantime, however, a trend in favor of return-oriented investments in tandem with growing placement volumes via institutional partners has resulted in consistent sales of fund products over the year as a whole. One material element in successful fund retailing is the selling prospectus, which forms the basis for the investor's decision. In this respect, Lloyd Fonds stands apart from the rest of the industry as its prospectuses describe the products in detail and comprehensively including descriptions of all opportunities and risks.

RELATIONS WITH FUND INVESTORS have been managed by a wholly owned subsidiary of Lloyd Fonds AG, Lloyd Treuhand GmbH, since 1999. In addition to managing the funds, Lloyd Treuhand GmbH sees itself as being at the intersection of investors, on the one side, and the fund management and partners, on the other. Lloyd Treuhand operates as the trustee limited partner and administrator, representing the investors' interests for the duration of the fund company in question.

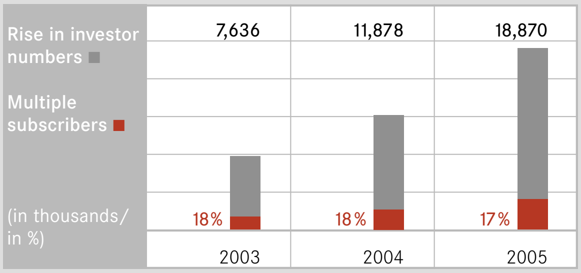
In addition to providing information on the economic performance of the fund and answering any questions which investors may have, its tasks include handling new issues, managing the trust accounts, seeing to the fund companies' tax matters and organizing the annual general meetings. The trustee works with the advisory committees, ascertains the results achieved by the fund companies and then publishes them. The quality of these services for investors is also directly reflected in the high degree of their satisfaction.

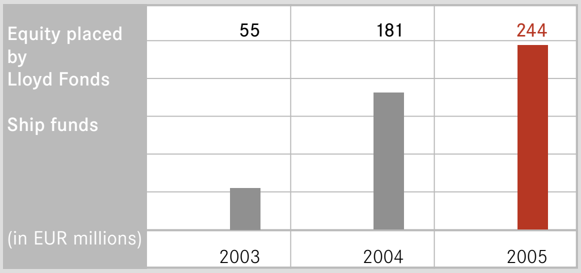
Further key areas are FUND MANAGEMENT and FUND CONTROLLING, which primarily represent investors' interests. Fund controlling, which since the beginning of 2006 has been integrated in Lloyd Treuhand, handles the commercial administration of the individual fund companies and handles controlling and relations with Lloyd Fonds AG's asset partners. On top of this, it is integrated in ongoing reporting on the fund companies and preparations for the annual general meetings.

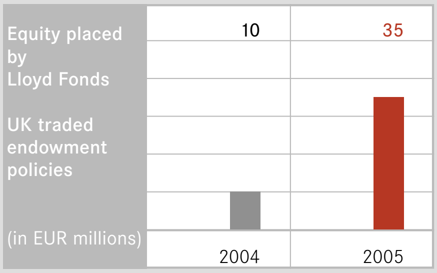
For this purpose, fund controlling relies on specially developed information technology systems which register all relevant economic data pertaining to the fund companies. Using the "Corporate Planner", it is possible to identify any deviations between forecast and actual performance early on, i.e. possible risks, and to take suitable countermeasures in conjunction with the partner in question. Thanks to this efficient planning and controlling system, fund controlling can react immediately not only to changes in the market but also to movements in all relevant determinants and parameters. The "Corporate Planner" performs financial, ratio and cost analyses and also helps to optimize services for our investors.

In the case of ship funds, management activities are primarily performed by the contractual shipping companies. Even so, fund management is involved in all main decision-making processes, including the chartering of the vessels as well as activities on the interest and currency side. In addition, all reports produced by the shipping companies and the annual financial statements are checked by fund management for any errors or omissions before being sent to the investors.

Similarly, fund management is closely integrated in the process of selling assets and the activities for winding down fund companies. It examines possible exit options and calculates the value for investors in the event of premature dissolution of the share.







Favorable track record proving the merits of the business model

Lloyd Fonds holds proven expertise in the form of repeated awards for the performance achieved in tandem with fund returns which have consistently beaten the competition – its successful business model is thus reflected in an extremely favorable track record. As a result, Lloyd Fonds is one of the leading initiators in Germany in its core ship fund business. According to a market analysis conducted by renowned rating agency Scope in 2006, Lloyd Fonds ranked for the first time as fourth largest ship fund arranger in 2005 in terms of equity placed. On the basis of the preliminary figures in the statement of performance as of December 31, 2005, 7 out of 64 current funds are achieving payouts greater than those forecast in the respective prospectus, while the payments made by 46 funds match the prospectus forecasts.

Scope Group, Berlin, assigned Lloyd Fonds ship funds a rating of "A-" (high quality) on a scale from A to E in 2005. Lloyd Fonds' favorable track record is also reflected in its high number of multiple subscribers. Of the nearly 19,000 investors which the Company had on its books at the end of 2005, around 16 % are multiple subscribers. Accordingly, the ratio of multiple subscribers is set to continue growing assuming a consistently favorable track record.

The quality of the assets and the fund designs have been crucial for the Company's success to date, something which will continue to apply in the future. This will be spurred by favorable underlying conditions over the next few years. Thus, the market for closed-end funds should keep on growing, while new and larger customer segments will arise. The seasonal fluctuation in retailing activities will continue to decline due to the growing importance of return-oriented models in lieu of tax-optimized structures. The emergence of secondary markets and access to new asset classes will also provide added appeal. Yet, the ability for a fund arranger to benefit from this on a sustained basis is not a coincidence but the result of hard work.

The strengths of Lloyd Fonds

Skill forms the basis for success. And in this respect, Lloyd Fonds boasts several skills, such as the ability to ensure transparency in relations with customers, shareholders and partners. Indeed, the Company has already been rated as one of the best in the industry by market participants for the transparency and quality of its trust activities. This is joined by the ability to operate on a consistently profitable basis and to generate regular wide margins, specifically operating margins well over 20 % of sales, and rising capital inflows. This trend is set to continue with the Company's forays into new asset classes.

Lloyd Fonds is able to respond to and harness growth potential and growth. For instance, it taps growth potential by making use of its extensive innovative skills in fund design, implementing further extensions to the already successful diversification strategy through the inclusion of further asset classes and making additions to its existing product pipeline. This is supplemented with the ability to detect trends – such as a shift in preference away from tax-optimized to return-oriented products – early on.

Yet, corporate growth is also something which must be mastered. Over the last few years, Lloyd Fonds has expanded swiftly, with its headcount more than tripling from 22 in 2002 to 72 at the end of 2005. During the same period, the number of active retail partners increased from 201 to 289. Simultaneously, the number of new investors has surged from around 4,600 to just under 19,000. This is something which has called for organizational and management skills. Thus, looking forward, Lloyd Fonds will continue to apply to new product areas the structuring, selling and managing capabilities which it has demonstrated countless times before successively and systematically. At the same time, however, it will continue to optimize its own corporate structures in the interests of heightening efficiency as part of its growth process.

Secondary market for closed-end fund shares now available

In the past, shares in closed-end funds were generally investments which had to be held until their final maturity and thus frequently for a period of up to 20 years. This has since changed as a secondary market in which it is possible to trade in such shares has now arisen. In December 2005, Lloyd Fonds also established facilities for selling fund shares in its own liquid secondary market. For this purpose, the Company not only provides parties with transaction contracts checked by legal experts but also offers them a transparent market place on which it is possible to find a representative value for the share in question by means of a bidding process complete with price limits. Finally, the transaction list for the secondary market is openly available. In fact, this service is provided free of charge to subscribers of Lloyd Fonds funds.

Shareholders benefiting from comprehensive value chain

Lloyd Fonds AG generates income from a number of different sources. As a result, it is not confined to individual segments of the value chain for the design and sale of closed-end funds but covers the entire process. The variety of income sources ensures high as well as steady revenues.

HEADING FOR FURTHER GROWTH

Lloyd Fonds remains committed to covering the entire value chain arising from business activities in all asset classes. At the same time, income from fund company management, which can be forecast in the long term, will play an increasingly important role. Even so, sustained corporate success hinges on the reliability – demonstrated in the past – with which customers can be offered attractive investment products offering high returns. In any case, Lloyd Fonds has laid the foundations for ensuring this.


FAIRPLAY VIII

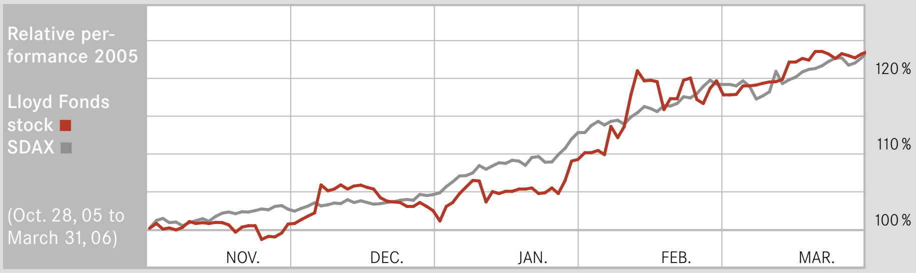
RELATIONS

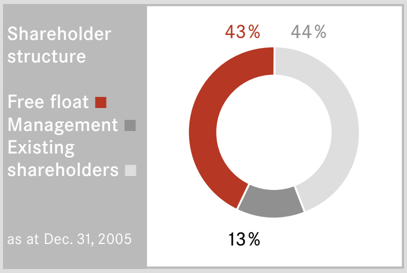
It is the tug's strength which brings the ocean giant spot on to its destination either its berth in the port or back out to the open sea. This is possible only if there is an inseparable link between the ship and the tug. The quality and resistance of this relationship determines the outcome of the mission. With this in mind, Lloyd Fonds attaches particular importance to its relations with customers, partners and shareholders. The basis of successful business is complete and utter trust in your partner.

Ships are towed whenever necessary – normally as of a length of 200 meters, as they are unable to turn around on their own. The tugs tow the ship from the port boundary to its berth.

THE LLOYD FONDS STOCK

The growing volume of our Company's business and the role played by Lloyd Fonds AG in the market called for greater equity resources than had previously been the case. For this reason, it decided to float itself on the stock market last year and opted for membership in the Frankfurt Stock Exchange's Prime Standard. Lloyd Fonds AG's stock was listed for the first time on October 28, 2005. The placement volume including green shoe options comprised 6,372,917 shares at an issue price of EUR 16. This translated into gross proceeds totaling some EUR 102 million. Of this, Lloyd Fonds received net proceeds of around EUR 45 million after deducting bank commission and estimated issuing costs. Lloyd Fonds will be using these funds to finance future growth and implement and finance its strategic targets as well as for general business purposes.





Lloyd Fonds AG	
German securities code number (WKN)	617487
ISIN (International Securities Identification Number)	DE0006174873
Reuters ticker	L1O
Market	Official trading in Frankfurt/Main
Market Segment	Prime Standard
Subscribed capital	EUR 12.67 million
Designated sponsors	DZ BANK, Sal. Oppenheim jr. & Cie. KGaA, Close Brothers Seydler AG
First day of trading	October 28, 2005
Syndicate banks	DZ BANK (Lead), Sal. Oppenheim and HSBC Trinkaus & Burkhardt (Co-Lead), M.M. Warburg (Co-Manager)
Type	Bearer shares with a notional share of EUR 1 per share in the Company's subscribed capital

Lloyd Fonds stock in 2005	
Number of shares (Dec. 31, 2005)	12,666,667
Price on issue date (Oct. 28, 2005)	EUR 15.39
High	EUR 19.50
Low	EUR 15.01
Price on Dec. 30, 2005	EUR 15.56
Market capitalization (Dec. 31, 2005)	EUR 197,093,338.52
Average trading volume per day, 2005	32,593
Price on March 31, 2006	EUR 19.50

Rally in the fourth quarter of 2005

Global stock markets performed rather disparately in 2005. Whereas US markets tended to move sideways throughout the entire year in spite of rising company earnings, the Japanese Nikkei index, for example, advanced by around 40 % in the course of 2005. Conditions in European bourses were also very upbeat. Despite rising oil and commodity prices, the relevant indices in Frankfurt, London, Paris and Zurich posted gains well into double-digit territory. Thus, the European blue-chip index Euro STOXX 50 climbed by 21.3 % in the course of 2005 to 3,579 points, while the German DAX closed the year at 5,408 on December 30, 2005, an increase of 27.1 % over the previous year.

German stocks achieved a large part of their gains in the final three months of the year, with numerous equities which had previously been performing only moderately, posting double-digit quarter-on-quarter advances. It was against this backdrop that Lloyd Fonds AG decided to float itself on the Frankfurt Stock Exchange. After the first day of trading, the stock ranged around the issue price and closed the year at EUR 15.56. Since entering the new stock market year in 2006, the Lloyd Fonds stock was spurred by brisk investor interest and was already trading at above EUR 19.50 in mid-March.

Lloyd Fonds AG has a balanced shareholder structure. At the end of 2005, the existing shareholders, i.e. those not employed by the Company, still held a good 44 % of the Company's stock, thus demonstrating their confidence in Lloyd Fonds' potential for the future. This also applies to the members of the Supervisory Board and the Company's management, who hold 13 % of the shares. The free float also accounts for a large proportion (43 %). The green shoe option, which would have resulted in a free float of over 50 %, was not exercised due to the muted market conditions for fund arrangers.

Transparency and active dialog

Even before its flotation, Lloyd Fonds had embarked on intensive communications with the capital market. And to this day, relations with investors are characterized by openness and transparency. Lloyd Fonds provided information on the Company's economic situation and strategy in over 12 one-on-ones, group discussions and road shows (international visits to investors) as well as at investor and analyst conferences. The main subjects covered by financial communications involved the market situation and potential in the individual asset classes, the even greater customization of fund products to meet investors' specific needs and the Company's growth strategy. Interest is also increasingly being expressed by non-German sources. The Company released its preliminary figures for 2005 as early as on January 25.

At the moment, Lloyd Fonds is working on providing private investors with a comprehensive array of information. In a preliminary step, this involves making substantial up-to-the-minute data and news available on the Company's website at www.lloydfonds.de.


KAMMER

VALUES

Commercial activity and values have a long tradition in Hamburg. For centuries now, buying and selling have been practiced and encouraged by all parties concerned as a pursuit aimed at increasing wealth. Lloyd Fonds is also committed to this virtue. We buy and sell attractive assets for the benefit of our investors. At the same time, our Company and our shareholders benefit from the creation of this value. The ancient Hamburg merchant spirit is the secret to our success.

Constructed in 1841, the Hamburg Chamber of Commerce building on Adolphsplatz is also home to the securities, insurance, real estate, coffee and cereal exchanges.

GROUP MANAGEMENT REPORT

»In January, retailing of the ›Lloyd Fonds Schiffsportfolio‹ fund exclusively via Deutsche Bank branches commenced. The fleet fund comprises seven container ships with equity of over US-Dollar 137.5 million and an investment volume of over US-Dollar 370 million.«

»In the market as a whole, Lloyd Fonds is aiming to further strengthen its position as a fund initiator and join the industry Top 5 in terms of equity placed and rate of growth. On the basis of the Loipfinger study, Lloyd Fonds was one of the year's top climbers in 2005 in terms of growth in equity placed. In 2005, Lloyd Fonds ranked 11th with respect to total equity placed.«

INTERNATIONAL ECONOMY

Global economy continuing to grow sharply

The international economy continued to recover in the course of 2005, with North America and a large number of Asian countries still performing well. In Europe, the economic situation also improved steadily in the year under review. This development was underpinned by low interest rates at the long end of the market, a weaker euro as well as robust export markets. Even so, European domestic demand remained lackluster. The global economy would have been in an even better state in 2005 had it not been for the sharp rise in energy and commodity prices, which exerted downside pressure.

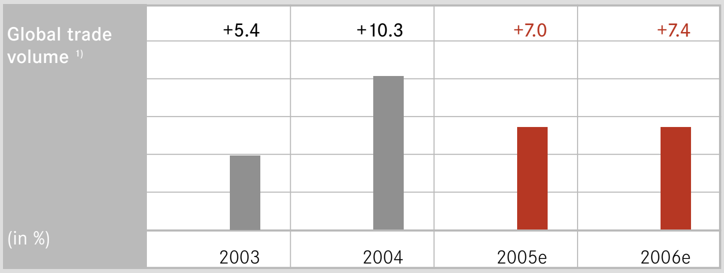
Despite the higher commodity prices, general inflation rates remained relatively benign at between one and three percent in most industrialized nations according to the calculations of the Organization for Economic Cooperation and Development (OECD) in Paris and the International Monetary Fund (IMF) in Washington. In any case, the favorable momentum of the global economy was not disrupted on any sustained basis by these low inflation rates in 2005. Thus, growth in global gross domestic product (GDP), the value of all goods and services created, came to around 4.3 % in 2005 according to IMF estimates. Although this was below the figure recorded for the previous year (6.1 %), it did signal the end of the temporary downturn in the economy in the first six months of the year, ushering in a rebound in the second half.

As in the previous year, the most important growth driver was China, for which the IMF calculates GDP growth of 9 % in 2005 (9.5 % in 2004). With growth of around 7 %, India also continued to boast a very strong economy, while the IMF figures indicate that Japanese gross domestic product also expanded by 2.4 % in 2005. Of the Western industrialized nations, the United States achieved GDP growth of 3.5 % last year according to the IMF, down from 4.2 % in 2004, thus continuing to perform very well.

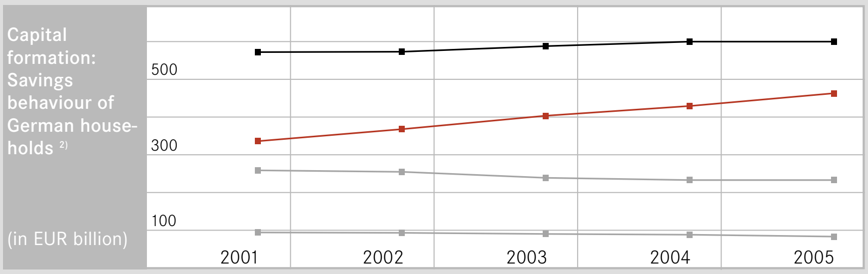
Europe lagging behind

The European economies grew a good deal more slowly than the global economy in 2005. According to IMF and OECD figures, eurozone GDP expanded by a total of only 1.4 %, down from 1.8 % in 2004. This muted growth was primarily due to protracted domestic consumption restraint. Only exports grew and in this way bolstered the eurozone economy. Growth in Europe remained muted not least of all due to high oil prices. In addition, weak domestic demand placed a damper on the eurozone economy according to the IMF and the OECD.

In fact, the OECD calculated GDP growth of only 1.1 % for Germany in 2005, down from the figure of 1.6 % determined by the IMF for 2004. Only foreign trade generated any impetus in Germany in 2005 and thus proved to be the most important underpinning for growth. However, the Kiel Institute for the Global Economy identified substantial signs of improvement in the German economy as of the fourth quarter, with the relevant economic indicators increasingly generating positive signals resulting for the most part from the sharp increase in order receipts in the processing industry.



The volume of international trade determines the demand for shipping capacities.



Monetary assets of the Germans increased steadily over the last years.

Household bank balances:

- Savings books
- Balances available on call
- Term deposits
- Savings certificates

Sources:
1) International Monetary Fund, World Economic Outlook, September 2005
2) Deutsche Bundesbank, Monthly Report March 2006

Global trade stopping for a breather

Growth in international trade slowed in 2005. Whereas global volumes of imports and exports had expanded by between 9.4 % (OECD) and 10.3 % (IMF) in 2004, this rate of expansion slowed to between 7.0 % (IMF) and 7.4 % (OECD) in the year under review, reflecting the slight weakness in the global economy. Even so, trading in emerging markets offset the downturn in economic growth in the industrialized nations, although it too was down. Whereas the visible exports of emerging markets rose by 10.4 % in 2005 (down from 14.5 % in 2004) according to IMF calculations, the equivalent figure for industrialized nations grew by only 5.4 % (8.8 %).

TRENDS IN THE CLOSED-END FUND AND INVESTMENT SECTOR

Steady growth in investments

In 2005, the volume of fixed-income securities and equities traded in the market as well as the assets held by investment funds in Germany continued to grow sharply. According to Deutsche Bundesbank, it achieved a value of EUR 4,065 billion at the end of 2005, up roughly 6.8 % on the end of 2004. The rate of growth also accelerated given that the year-on-year increase over 2004 had stood at only 5.5 %. At the same time, the monetary assets of private households in Germany increased. Thus, Deutsche Bundesbank states that household bank balances – i. e. balances available on call, term deposits and savings books as well as savings certificates, money-market paper and bank-issued bearer bonds – widened by 3.1 % to EUR 3,071 billion from December 2004 to October 2005 (the most recent date for which data is available). By contrast, this figure had risen by 3.4 % for 2004 as a whole. This sustained propensity to save also reflects growing efforts on the part of individuals to independently provide for their old age together with the statistical effects of the relatively high assets held by private households.

Closed-end fund sales remaining steady at a high level

The market for closed-end funds in Germany is the relevant business segment for Lloyd Fonds. At the same time, it constitutes a key subsegment of the far larger market for investments as a whole. In this context, the accumulation of wealth by individuals for the purpose of providing for old age and by companies for the purpose of funding corporate pension schemes is playing an increasingly important role.

To date, the Company's fund products have been sold exclusively in Germany with all of its sales generated in Germany. However, in the period under review, preparations were made for the commencement of activities in other German-speaking countries in 2006.

According to the "2006 Market Analysis of Investment Models" by renowned business journalist Stefan Loipfinger[1], closed-end funds have been a proven form of investment in Germany for many years. However, in the recent past, there has been a change in the motives pursued by investors. In the years up to and including 2003 as well as in 2004, they were primarily targeted at higher-income investors who were particularly attracted by the scope for saving tax by claiming loss allocations. However, 2005 saw a clear shift in fund designs in favor of generating maximum returns on the assets invested in.

Whereas in earlier years the absence of any trading platform for shares in closed-end funds and the high minimum capital contributions acted as a barrier for a broader public, the sector is now increasingly tapping new customer groups according to the Loipfinger analysis. One of the reasons for this is the abolition of the tax deductibility of loss allocations. In addition, the growing focus on the return generated, the assets invested in, the emerging secondary markets, the secondary market platforms being established by fund arrangers, exchanges for closed-end funds as well as new fund models with extended contribution periods, savings options or lower minimum contributions have rendered the market more appealing to new groups of investors. In 2005, this trend was spurred by the move towards greater transparency and openness in the sector, e. g. in the form of the annual statements of performance, the examination of issuing prospectuses by the German Federal Financial Supervisory Authority (BaFin) and the issue of ratings by independent agencies.

Against this backdrop, sales of closed-end funds as a product remained largely steady in Germany in 2005. At around EUR 12.3 billion in 2005, the total volume of equity placed was down just on 5 % on 2004 (EUR 12.9 billion). The use of margin financing for funds resulted in a total investment volume for closed-end funds of around EUR 24.1 billion, roughly 4 % less than one year earlier.

The greatest issuing activity in the market as whole was to be found in the real estate and ship segments. However, market share is not evenly distributed. At the end of 2005, real estate accounted for 32.5 % of the closed-end fund market, followed by ship funds with a share of 24.1 %. Lagging well behind were the traded endowment policy segment (12.4 %) and the regenerative energies segment (3.4 %).

1) All figures quoted below are taken from the "2006 Market Analysis of Investment Models", which is referred to as the "Loipfinger analysis" – "Marktanalyse der Beteiligungsmodelle 2006", published by Fondstelegramm, Rosenheim.

Consolidation and mounting concentration

In the course of 2005, there was a growing tendency for fund arrangers to include offerings from different asset classes in an attempt to set themselves apart from competitors confined to only a single asset class. On the one hand, the market as a whole underwent a substantial concentration process, which was reflected in the fact that a small number of large operators were able to attract an increasingly greater proportion of total capital volumes. According to Loipfinger, 10 % of the fund arrangers placed 79.8 % of the total equity.

In his analysis, Loipfinger mentions a total of 142 fund arrangers which placed more than EUR 10 million in 2005. Whereas industry leader MPC placed total equity of EUR 827 million in Germany, the 20th largest arranger achieved a figure of only EUR 170 million. Although, on the other hand, there was an increase in the number of fund issuers, these figures indicate the strength of the concentration process which has reached this industry.

According to the aforementioned Loipfinger figures, Lloyd Fonds ranked as the 11th largest fund arranger. However, in terms of the total investment volume of all funds placed in 2005, Lloyd Fonds was the eighth largest according to a list published by “Cash.” magazine.

Of the ten fund arrangers who placed more equity than Lloyd Fonds in 2005, seven had one or more banks amongst their shareholders, while three were independent non-captives.

New legal and tax developments

One of the most important legal changes in 2005 entails the duty imposed on fund arrangers to submit new prospectuses for retail funds with a minimum capital contribution of under EUR 250,000 to the German Federal Financial Supervisory Authority (BaFin) for examination prior to commencement of the placement phase. This obligation came into force on July 1, 2005. Accordingly, the industry experienced a minor boom in placements in May and June, while volumes were down slightly between July and September. All told, however, this obligation did not result in any decline in sales at all across the industry.

In 2005, the new federal government passed the new Section 15 b of the Income Tax Act, which had already been prepared by the previous government, to ban the allocation of tax-deductible losses from funds as of November 15, 2005. This marks an end for the time being of the former loss allocation model for closed-end funds. As a result, it is no longer possible for closed-end funds to allocate losses to the limited partners, meaning that return-based models making use of strategies to avoid tax by applying the tonnage tax or double-taxation treaties will now come to the fore.

Strong demand for ship funds and return-oriented investments

Whereas the main appeal of ship funds used to be the ability to claim tax-deductible losses, this model has now lost considerable significance with the introduction of tonnage tax. So-called “combination” models incorporated both approaches (loss allocation and return potential) and involved a switch from an initial stage with loss allocations to tonnage tax liability, a more or less flat-rate form of tax assessment. Yet, in 2005 the ship fund segment completed the transition to pure tonnage tax models free of any initial tax-deductible loss allocations. This structural change did not have any adverse effects on placement volumes for ship financing. In fact, if anything, the opposite was the case, with this segment actually experiencing slight growth in 2005. Last year, the investment volume accounted for by closed-end ship funds came to around EUR 8.0 billion, up from EUR 7.2 billion in 2004. At the same time, equity placed climbed from EUR 2.9 billion to EUR 3.0 billion and was mostly channeled into container ships (61%), crude oil tankers (13%) as well as product and chemicals tankers (5%). In the year under review, 42 arrangers were active in the ship fund segment in Germany. Of these, the largest operator placed equity of around EUR 536 million and the smallest less than EUR 100,000 in 2005. In the ship segment, around 15% of arrangers had a "bank background", while 85% were independent, down from 90% one year earlier. Lloyd Fonds completed the transition to a provider of straight return-based bonds in 2005 once and for all and largely dispensed with "combination models" in anticipation of the planned amendments to tax legislation as of the end of 2005. Accordingly, all the ship funds which it initiated in 2005 were solely tonnage tax oriented.

Of particular importance for the future of ship funds is the fact that the new federal government confirmed in its coalition contract that the tonnage tax system is to be retained.

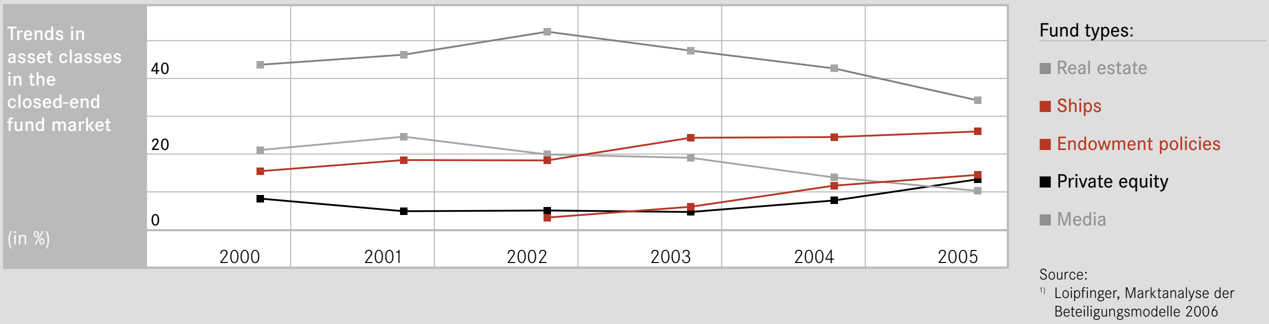
Traded endowment polices a growth segment

Endowment policies continue to be a crucial instrument for pension savings and for providing for dependants. According to the Loipfinger analysis, fund products based on traded endowment policies are the fastest growing segment in the total closed-end fund market. Thus, equity placed in Germany in 2005 rose from EUR 1.2 billion to EUR 1.5 billion, constituting an increase of over 25%. At the same time, the total investment volume climbed from EUR 1.6 billion to EUR 2.0 billion. With a share of 55%, funds investing in US policies continued to dominate, followed by funds with UK policies (23%) and funds with German ones (22%). Looking ahead, however, this dominant position will presumably weaken given that the youngest and fastest growing segment is that of UK endowment policies. The UK is already the largest insurance market in Europe and Number 3 in the world. In the year under review, 30 arrangers were active in this segment. Of these, 64% had a bank background, while 36% were independent. This is an almost complete reversal of the ratio in 2004, with the number of arrangers backed by commercial banks continuing to rise sharply since they first entered the market in 2003. The largest arranger issued shares worth around EUR 328 million and the smallest shares in the five-digit range in 2005.

Slump in closed-end real estate funds

In Germany, the term "closed-end real estate fund" covers both German real estate as well as international real estate in countries such as the United States, Canada or the Netherlands. Historically, this segment is the most established within the market for closed-end funds. Last year, 45 arrangers were active in this segment. Of these, around one third were backed by a commercial bank, while the remaining two thirds were independent non-captives. However, this did not prevent a drastic decline in the volume of attractive assets on offer and the availability of lucrative investment products in the year under review on account of the difficult situation in the real estate market. Thus, the volume of equity placed came to EUR 4.0 billion in the year under review, down almost one quarter on the 2004 figure of EUR 5.3 billion. Investment volumes were also lower, standing at only EUR 8.6 billion at the end of December 2005 and thus also down 25% year on year.

Traded endowment policies are the fastest growing segment in the total closed-end fund market.



Even so, total outstanding investment volumes climbed to EUR 180 billion. A breakdown by real estate type for 2005 reveals the domination of office properties once more (over 80 % of investment volumes), although residential property achieved the greatest gains and now accounts for over 5 % of the total. The equity ratio of closed-end real estate funds rose slightly from 46 % to 47 % in 2005. The largest operator in this segment placed capital of around EUR 364 million, the smallest only around EUR 100,000 in 2005.

Funds for regenerative energies experiencing strong momentum

Sales of funds investing in regenerative energies improved substantially in the year under review after the weak spell in 2003 and particularly in 2004. The decline of almost 26 % in equity placed to EUR 260 million was followed in 2005 by an increase of more than 60 % to EUR 421 million. Investment volumes also climbed sharply by 46 % from EUR 875 million to EUR 1,277 million. More than half of this amount was invested in power stations in the German states of Bavaria, Saxony and Brandenburg. Just under 8 % of investments were arranged by bank-backed operators, with non-captive initiators accounting for over 92 %. Accounting for 69 % of the investment volume, wind power systems constituted the lion's share of this segment of the market, while solar energy systems contributed only around 20 %. Biogas systems and other power stations have a share of only 11 %. In 2005, the largest operator placed a volume of around EUR 68.7 million and the smallest one less than EUR 100,000. With equity placed of EUR 7.5 million, Lloyd Fonds ranked 15th.

MARKET TRENDS IN THE INDIVIDUAL ASSET CLASSES

Trends in shipping markets as a whole[1)]

Global economic growth and an increase in the volume of world trade led to an increase of 4.4 % in the sea-based transportation of goods as measured in terms of tons transported. This was primarily underpinned by rapid growth in China and India. As a result, new-building and secondary-market prices for ships (tonnage) hit record levels in nearly all shipping segments. Charter rates also remained at a very high level, comparable in some segments with the historical highs hit in the previous year. This ensured a continuation of the close correlation between tonnage prices and the charter rates achievable in the market for both tankers and container ships.

Trends in container shipping[1)]

Container shipping in particular continued to grow strongly in 2005, with global container turnover volumes rising to 96 million TEU (Twenty Foot Equivalent Unit) in 2004 and 105 million TEU in 2005, equivalent to year-on-year growth of around 13 % in 2004 and 9.4 % in 2005. Charter rates also kept on rising until mid 2005. However, as of the second half of the year, market liquidity declined, resulting in mounting pressure on charter rates.

For 2005 as a whole, the annual average charter rate for a term of 6 – 12 months came to US Dollar 38,747 per day, up from US-Dollar 37,615 per day in the previous year in the Panamax classes over 2,750 TEU. With smaller vessels (between 1,000 and 2,500 TEU), charter rates for a term of 6 – 12 months rose from US-Dollar 24,177 per day to US-Dollar 26,670 per day.

Turning now to trends in the container ship fleet, shipyard order books contained roughly 1,196 ships accounting for a total of 32.5 million CGT (compensated gross tons) at the end of 2005, equivalent to around 36 % of the active container ship fleet in volume terms.

Trends in tanker shipping[1)]

Market conditions in the tanking shipping segment were also favorable in 2005. According to the IEA (International Energy Agency) global demand for oil rose by around 1.3 % year on year in 2005, with global oil transport volumes by sea, expressed in tons/miles, up 3.2 %. Demand for crude oil tankers expanded by 1.7 % and for product tankers by 8.4 % year on year in 2005.

Average charter rates for product tankers climbed from US-Dollar 28,979 per day in 2004 to US-Dollar 31,123 per day. Broken down by type, VLCCs (very large crude oil carriers) commanded a 12-month charter averaging US-Dollar 58,583 per day in 2005, compared with US-Dollar 55,448 per day in 2004. Average rates for charters with a term of 12 months for tankers in the Suezmax class (120,000 – 200,000 DWT, deadweight all told) were as follows: 2005 US-Dollar 34,992 per day; 2004: US-Dollar 33,875 per day.

[1)] Sources: IEA, Intertanko, Clarkson Research Studies, Fernresearch

With respect to new buildings within the tank ship fleet, shipyards had orders on their books for some 1,112 ships over 10,000 DWT accounting for a total of 23 million CGT as of the end of 2005, equivalent to over 25 % of the active tanker fleet in DWT terms. One determinant for tanker fleet growth in 2005, albeit one which exerted only moderate influence, was the phase-out program for single-hull vessels. In response to tanker accidents, which have caused considerable harm to the environment, the United States enacted the Oil Pollution Act (OPA 90) to introduce a program phasing out the use of single-hull tankers, with the EU and the IMO (International Maritime Organization, a sub-organization of the United Nations) following suit with the Maritime Pollution Act (MARPOL). This capacity is to be gradually abandoned by 2010, or in certain exceptions 2015, primarily by scrapping the vessels concerned. In terms of units, this was equivalent to around 41 % of the active global tanker fleet in 2005.

Mounting interest in traded endowment policies

In contrast to Germany, there has been a secondary market for endowment policies in the United Kingdom for many years. This secondary market has been growing substantially thanks to a legal stipulation requiring insurers to inform their policyholders of its existence.

Whereas German and UK life insurance policies offered via funds are endowment policies – in contrast to US temporary life assurance policies – there is a difference between the two in terms of the structure of their return. German policies are based on a guaranteed return (2.75 % in 2005) calculated by reference to long-term government bonds. While German insurers invest a maximum of 35 % of their assets in equities – with the actual ratio far lower in the year under review – UK insurers can invest up to 100 % of the capital received in the stock market. This explains the greater returns achieved on UK endowment policies in 2005.

Regenerative energies: Favorable prospects for the future

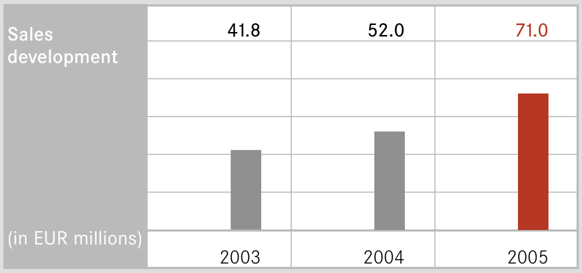
Demand for energy continued to rise in 2005, with requirements increasing in Asia in particular on account of the strong economic growth in that region. In the course of 2005, higher demand for the commodities required to produce energy caused the price of oil to surge to around US-Dollar 70 per barrel. Against this backdrop, the development of regenerative energies is growing in importance.

This economic aspect is being joined by a political one: The commitments embodied in the Kyoto Protocol, for example, stipulate an appreciable worldwide reduction in CO_2 emissions. At the same time, the share of regenerative energies is to be widened to 4.2 % of total primary energy consumption by 2010, with this figure to increase to 10 % by 2020. At the European level, regenerative energies are expected to account for 12.0 % of primary energy consumption by 2010 according to the German Federal Wind Power Association. In Germany, the Renewable Energies Act (EEG) currently provides for the promotion of regenerative energies. Notwithstanding this, spending in this segment is still relatively muted.

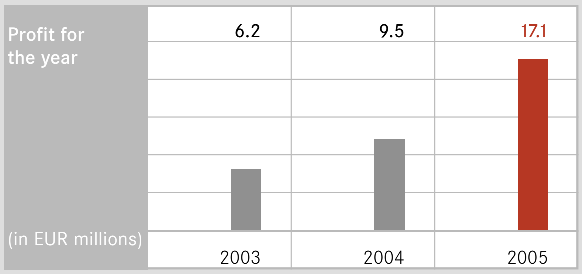
Real estate market facing major challenges

The situation in the national – and in some cases also international – real estate market remained difficult in 2005 on account of shortfalls on the supply side. This posed considerable problems for closed-end funds in search of attractive investments. Generally speaking, the real estate market

COMPANY DEVELOPMENT



Sales were almost doubled in the last two years.



Efficiency improvements led to an almost threefold increase in profits since 2003.

comprises three segments: residential, office and special-purpose properties – with the latter comprising, for example, shopping malls, logistic companies, cinemas or clinics. At the same time, there are national as well as regional market differences.

The purpose of an investment in the real estate market is to acquire properties and equity interests offering potential for value growth in tandem with income which is as high as possible and, more importantly, steady. Such potential for value growth arises in particular from local changes on the demand side. Sustained income flows are achieved by means of long-term leases with tenants of a high credit rating together with low vacancy rates for the property in question.

LLOYD FONDS' BUSINESS PERFORMANCE: MILESTONES REACHED IN THE COURSE OF 2005

In fiscal 2005, Lloyd Fonds generated total sales of EUR 71 million in euro terms, up from EUR 52 million in the previous year. Equity placed rose from EUR 191 million in 2004 to EUR 286 million in 2005 thanks to new investment offerings as well as funds for which retailing activities had been launched in 2004. The year under review saw the launch of very successful investments, such as two fleet funds in the ship segment as well as several individual ships, the "Windpark Breberen" fund in the regenerative energies segment as well as "Britische Kapital Leben" II and III in the traded UK endowment policies segment. The total volume of these investments came to around EUR 600 million. All of these funds – except "Britische Kapital Leben III", which did not enter the retailing phase until the end of December, and "Flottenfonds VIII" – were placed in full.

At the beginning of December, Lloyd Fonds established its own trading platform for fund shares via Lloyd Zweitmarkt GmbH. Using this Internet platform, it is possible for shares in funds initiated by Lloyd Fonds to be bought and sold in a bidding process.

Spurred by this business activity, net profit for 2005 rose by 80 % over the previous year to EUR 17.1 million. As a result, the Management Board will be asking the shareholders to approve a dividend of EUR 1.10 per share for the year under review.

SEGMENT REPORTING: FUND/PRODUCT SEGMENTS

Core business: ship funds

Lloyd Fonds is one of the leading initiators in Germany in its core ship fund business. On the basis of equity placed in the ship fund segment, Lloyd Fonds was fourth largest fund arranger in this area last year (Loipfinger figures). As of the end of 2005, it had arranged 60 ship funds, including six in the year under review. At the same time, Lloyd Fonds had acquired a further 16 vessels at the end of 2005 with a total investment volume of US-Dollar 500 million accounting for expected capital placements of around US-Dollar 250 million for future projects. Of these 16 ships, nine had already been chartered to investment-grade shipping companies as of December 31, 2005.

Traded UK endowment policies

In the year under review, Lloyd Fonds continued its exclusive partnership with Allgemeiner Versicherungsdienst Gesellschaft mbH (AVD), Austria. These very successful exclusive arrangements were first forged in 2004. Following the premiere in 2004, Lloyd Fonds launched a further two traded UK endowment policy funds ("Britische Kapital Leben"), "BKL II" and "BKL III", in the year under review with a total investment volume of over EUR 80 million. After an increase of EUR 20 million in its equity, BKL II was placed in full as of December 31, 2005. BKL III has equity of at least EUR 25 million, which can be increased to EUR 45 million. Thanks to the high credit rating of these two fund products, bank finance for the purchase of a share in the fund was also offered for the first time. In a new development in the year under review, policies held were sold on the secondary market again, resulting in trading gains with an average return of 15 % on the policy level for the fund company.

Regenerative energies

In the year under review, Lloyd Fonds arranged and fully placed the "Windpark Breberen" fund with equity of EUR 7.3 million. The total investment volume for this project stands at EUR 26.3 million. This fund was arranged in conjunction with experienced partners. In addition to the service lives of the wind turbines, the economic performance of "Windpark Breberen" primarily hinges on energy yield as well as the wind power potential. The remuneration received for electricity produced by this wind farm is governed by the Energy Feed-In Act, which also imposes on utilities an obligation to buy this energy and feed it into their grids.

Real estate

In the real estate segment, Lloyd Fonds extended its activities on the asset side in particular. Thus, in the year under review, a hotel project in Hamburg was acquired, with the building scheduled for completion in mid 2007. With an investment volume of around EUR 35 million and equity of some EUR 17 million, the fund is to be placed in 2006. In addition, Lloyd Fonds worked with various partners in Germany, conducted talks on an international level and examined possibilities for partnership ventures during the year under review. Thus, it forged a partnership in the family apartments area in the United States with US operator TVO, under the terms of which a portfolio of four apartment blocks was jointly acquired in Georgia and Texas.

Partners

The Company's partners play a crucial role in the successful acquisition of new assets as well as fund retailing activities. Even since starting business, Lloyd Fonds has attached key importance to working with renowned and experienced asset, finance and retail partners.

In the year under review, funds were arranged for general distribution as well as in the form of exclusive offerings for one or more partners. The exclusive retail partners in 2005 with one fund each were Commerzbank, Deutsche Bank ("Private Wealth"), Dresdner Bank, Brenneisen Capital AG, IC Consulting AG and others. All other funds were retailed via general channels.

In the shipping area, the Company worked solely with renowned partners in the year under review. Shipping companies included CST (Chemikalien See Transport), NSC, Reederei Thomas Schulte, Vega Reederei and Reederei Gebrüder Winter. With respect to charterers, special attention was paid to credit ratings. Thus, partners included APL, P&O Nedlloyd, A.P. Moeller-Maersk A/S, Heidmar INC, Australia Asia Line, Compañia Sud Americana de Vapores S.A. (CSAV) and others.

With respect to traded UK endowment polices, Lloyd Fonds concentrated on extending and widening its partnership with AVD in Austria. "Windpark Breberen" was constructed using equipment supplied by Vestas Deutschland GmbH.

Customers

Last fiscal year, Lloyd Fonds was able to substantially increase the number of investors to 18,870 as of December 31, 2005, up from 11,878 one year earlier. This translates into a year-on-year rise of 6,992. All told, investors held 23,924 shares. There were 3,148 multiple subscribers holding two or more shares.

Roughly 68 % of the subscribers in 2005 were men, 30 % women and 2 % married couples or legal entities.

Product and retail development

Personnel resources were stepped up in all areas last year, with special attention being paid to core segments shipping and traded UK endowment policies as well as the development of the real estate department and the acquisition of suitable real estate and regenerative energy projects. At the same time, preparations were made for the initiation of private equity funds. Retailing activities focused primarily on developing ties with new partners and strengthening relations with banks. Moreover, preparations were commenced for retailing closed-end funds in Austria, with these activities launched in March 2006.

Placement volumes

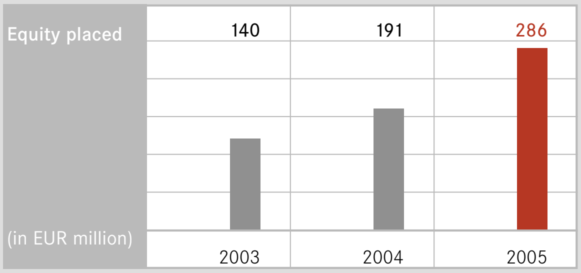
In 2005, the Lloyd Fonds Group was able to boost the volume of equity placed by almost 50 % to EUR 286 million (previous year: EUR 191 million). Of this, roughly 85 % found its way into ship funds, equivalent to an equity volume of EUR 244 million. A sum of EUR 75 million was placed in traded UK capital endowment funds and EUR 7 million in regenerative energies.

Trends in equity volumes in the market as a whole were materially affected by a statutory rule coming into force on July 1, 2005 which required a formal examination of all funds by the German federal financial services regulatory body BaFin as well as discussion concerning the abolition of loss allocations provided for in Section 15 b of the Income Tax Act. In November 2005, the German parliament passed a bill which very largely did away with tax-deductible loss netting.

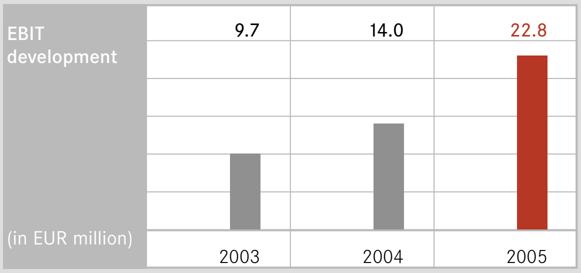
Lloyd Fonds prepared carefully for the introduction of the duty to have offering prospectuses examined and was one of the first companies to submit a fund prospectus which complied with all formal requirements of the examination. At the same time, it placed numerous funds in full prior to the date on which the new rule took effect, meaning that it was only necessary to revise three prospectuses in order to meet the new requirements before placement could continue. All other funds were arranged in the second half of the year ("Britische Kapital Leben III", "Flottenfonds VIII", "Athens Star").

Lloyd Fonds was for the most part not affected by the abolition of loss allocations as it had hardly arranged any funds based on this model since the beginning of the year. In terms of equity placed across all asset classes, only 17 % of the equity received by Lloyd Fonds found its way into funds based on loss allocations, while 83 % was used for return-oriented funds.

COMPANY DEVELOPMENT



Equity placed by Lloyd Fonds more than doubled in the past three years.



EBIT was significantly increased on the previous years respectively.

RESULTS OF OPERATIONS OF THE LLOYD FONDS GROUP

The Group's results of operations were as follows:

EUR millions	2005	2004
Sales	71.0	52.0
Cost of sales and changes in inventories	–39.0	–30.5
Personnel expenses	–5.7	–3.7
Depreciation, amortization, impairment losses less reversals	–0.7	–1.4
Other operating result	–4.3	–2.7
Share of profit of associates	1.5	0.3
Earnings before interest and tax (EBIT)	**22.8**	**14.0**
Net financial result	0.1	–1.0
Earnings before tax (EBT)	**22.9**	**13.0**
Income tax expense	–5.8	–3.5
Profit for the year	**17.1**	**9.5**
Equity placed	286	191

The Lloyd Fonds Group's results of operations in 2005 were primarily affected by the sharp rise in equity placed. At the same time, there was a disproportionately large increase in (recurring) income from trust and fund management activities. Sales break down as follows:

EUR millions	2005	2004
Issuing income	40.8	31.4
Income from fund design and arrangement of financing	23.9	16.0
Trust fees	4.4	3.0
Other, including management fees	1.9	1.6
Total sales	**71.0**	**52.0**

The share of income from fund design and the arrangement of financing as well as trust activities rose at a disproportionately strong rate. This was the main reason for the decline of 3.7 percentage points in the ratio of sales to the cost of sales. The cost of sales primarily comprises commission expenses and, to a small extent, other services purchased and changes in inventories.

The 54 % increase in personnel expenses and the higher staff cost ratio is due to strong growth in business operations and correlates to the number of people employed by the Lloyd Fonds Group. Average employee numbers rose by around 59 % from 41 to 65. Even so, at 8 % of sales, the staff cost ratio is still well below that of the Company's listed peers.

Key factors impacting other operating result particularly include the EUR 0.5 million increase in legal and consulting costs, which is related to the Company's stock market flotation. Entertainment costs rose by EUR 0.6 million, reflecting the 50 % increase in equity placed, and were related to heightened retail efforts.

In addition to the aforementioned effects stemming from the lower ratio of the cost of sales to sales, non-recurring factors also contributed to the widening of the EBIT margin from 27 % to 32 %. In the Rental and Leasing segment in particular, the restatement of repayment obligations towards other limited partners (EUR 0.4 million), damage payments (EUR 0.5 million) and the derecognition of liabilities (EUR 0.4 million) generated income. Similarly, the ratio of EBIT to equity placed rose by 0.6 percentage points.

The improvement in net financial result is primarily due to gains from foreign-currency conversion (EUR 0.8 million) arising from the increased volume of funds denominated in US-Dollars.

The actual tax rate of 25.3 % (previous year: 26.9 %) for 2005 is below the projected figure of 26.4 % particularly due to the fact that tax effects in the Rental and Leasing segment arise at the limited partner level and therefore do not have any influence on the consolidated financial statements.

For the purposes of managing the Group, Lloyd Fonds regularly tracks certain parameters and any changes in them. The key parameters are set out in the following table:

	2005	2004
Cost of sales ratio	54.9 %	58.7 %
Personnel expense ratio	8.0 %	7.0 %
EBIT as a percentage of sales	32.1 %	27.0 %
EBIT/equity placed	8.0 %	7.4 %
Profit for the year/equity placed	6.0 %	5.0 %
Return on sales	24.1 %	18.3 %
Earnings per share (in EUR), basic	1.60	1.02
Stock price on March 31, 2006	19.50	–
Price/earnings ratio	12.19	–

The individual sales drivers exert a very disparate effect on EBIT. Additional details are set out in the description of the business performance of the individual segments.

NET ASSETS OF THE LLOYD FONDS GROUP

The Group's net assets were as follows:

ASSETS in EUR millions	Dec. 31, 2005	Dec. 31, 2004
Property, plant and equipment and intangible assets	2.4	2.3
Investment property	–	14.0
Financial assets	18.3	4.6
Current receivables and other assets	26.8	15.6
Cash and cash equivalents	51.3	5.8
Total assets	**98.8**	**42.3**

SHAREHOLDERS' EQUITY AND LIABILITIES in EUR millions	Dec. 31, 2005	Dec. 31, 2004
Shareholders' equity	75.2	16.3
Borrowings for real estate and repayment obligation	–	13.0
Other borrowings	10.7	1.1
Deferred tax liabilities	1.1	0.2
Current liabilities	11.8	11.7
Total shareholders' equity and liabilities	**98.8**	**42.3**

The increase in total assets particularly relates to the stock market flotation completed on October 28, 2005, first-time consolidation of a US real estate fund company as well as the increase in current receivables as a result of sales growth. On the other hand, a German real estate fund was deconsolidated as the Lloyd Fonds Group no longer exerted control over this company as of the end of the year following amendments to that company's bylaws. This fund is accounted for using the equity method of accounting as of December 31, 2005.

Additions to property, plant and equipment as well as intangible assets comprise operating and office equipment as well as software of EUR 0.5 million less scheduled depreciation/amortization of EUR 0.2 million. As in the previous year, scheduled depreciation charges of EUR 0.2 million were additionally taken on capitalized trust contracts.

The first-time consolidation of a US real estate fund company which had not yet been placed as of the balance sheet date resulted in an increase in financial assets and current borrowings of EUR 10.3 million and EUR 10.6 million, respectively, as a result of Lloyd Fonds' controlling position in this company. Further additions to financial assets include the equity value of German real estate funds of EUR 1.5 million, which arose as a result of deconsolidation, as well as the fund companies and the general-partner companies incorporated in the year under review.

Cash and cash equivalents rose particularly as a result of the proceeds from the stock market flotation. Of this, an amount of EUR 45.0 million was held as a short-term term deposit with a bank as of the balance sheet date. These sums will be primarily used to ensure the necessary bridge finance for new assets acquired for funds and will be invested on a short and medium term basis.

The increase in current receivables and other assets is related to the development of projects for and the collection of equity for investment funds, particularly the development and arrangement of financing for the Lloyd Fonds ship fund to be placed in full in 2006 as well as project development and equity collection for “Flottenfonds VIII”. Other assets include inventories (EUR 0.6 million), tax reimbursement claims (EUR 0.8 million) and other receivables of EUR 1.1 million.

Shareholders’ equity rose as a result of the proceeds of EUR 50.7 million from the stock market flotation as well as the consolidated net profit for the year of EUR 17.1 million. Transaction costs of EUR 4.9 million less the related income tax advantage of EUR 1.3 million were deducted from the share premium on the flotation, which is recognized as additional paid-in capital. An opposing effect arose from the payment of the dividend of EUR 4.3 million for fiscal 2004. The equity ratio improved from 38.5 % in 2004 to 76.1 % in the year under review.

Deferred tax liabilities primarily comprise tax-deductible loss carryforwards of EUR 1.1 million arising from shares in limited partnerships.

The decline in current liabilities is related to the absence of current tax liabilities of EUR 1.4 million as the advance tax payments exceeded the Group’s calculated tax expense. In addition, tax liabilities contracted by EUR 1.0 million. On the other hand, liabilities, which primarily comprise commission liabilities to retail partners, rose by EUR 0.8 million on account of the growth in operative business. Moreover, liabilities to associates were up EUR 1.4 million primarily as a result of outstanding capital contributions in connection with the incorporation of fund companies as well as dividends paid by fund companies in the form of interest-free loans.

As of the date of deconsolidation, the German real estate fund (5. LF) held the following assets and liabilities. The difference of EUR 1.5 million was accounted for in the consolidated financial statements using the equity method of accounting.

EUR millions	Dec. 30, 2005
Investment property	13.8
Current receivables and other assets	0.8
Cash and cash equivalents	0.4
	15.0
Minority interest	1.0
Borrowings	10.5
Net assets attributable to other limited partners	1.9
Current liabilities	0.1
	13.5

With net working capital standing at EUR 15.0 million (previous year: EUR 3.8 million), the Group’s liquidity situation is secure. Net working capital is defined as short-term assets less cash and cash equivalents and interest-free current liabilities.

Cash flow from operating activities increased noticeably year-on-year.

FINANCIAL CONDITION OF THE LLOYD FONDS GROUP

The Group's financial condition was as follows:

EUR millions	2005	2004
Consolidated profit for the year before share of profit of associates, interest and income tax	21.9	13.6
Non-cash income and expenses	–0.2	0.9
Cash changes to working capital	–9.6	–3.2
Net investment income, interest and income taxes	–4.6	–5.3
Cash flow from operating activities	7.5	6.0
Cash flow from investing activities	–12.3	–1.0
Cash flow from financing activities	50.9	–4.1
Net cash inflow	46.1	0.9
Cash and cash equivalents at the beginning of the period	5.5	4.6
Changes in the companies consolidated	–0.3	–
Cash and cash equivalents at the end of the period	**51.3**	**5.5**

In fiscal 2005, the Lloyd Fonds Group's cash flow from operating activities increased by 25 %. The cash decline in working capital is particularly due to the increase in current receivables.

The cash flow from investing activities results particularly from the addition of the share in US properties valued at EUR 10.3 million. In addition, payments were made for further additions to financial assets totaling EUR 1.6 million as well as for property, plant and equipment and software for a total of EUR 0.5 million. Payments received from the sale of non-current assets came to EUR 0.2 million.

Cash flow from financing activities was characterized by the net inflow of proceeds from the stock market flotation of EUR 45.7 million, less the net outflow of EUR 4.3 million for the dividend for 2004. Further inflows resulted from the raising of finance of EUR 10.6 million for the investments in US real estate. In addition, loan repayments of EUR 1.3 million were made in fiscal 2005.

The cash flow margin – defined as the ratio of cash flow from operating activities to sales – stands at 10.6 % (previous year: 11.5 %) and testifies to the continued high profitability of the Lloyd Fonds Group's operations.

BUSINESS PERFORMANCE BY SEGMENT

Issuing segment

EUR millions	2005	2004
Sales	65.6	47.8
Changes in inventories	0.6	–
Cost of sales	–39.5	–30.4
Gross profit	26.7	17.4
Depreciation and amortization	–0.3	–0.1
Other operating expenses and income	–9.7	–5.7
Share of profit of associates	1.4	0.2
Profit from operating activities (EBIT)	**18.1**	**11.8**

Sales in the Issuing segment are made up of proceeds from issuing, income from fund design, the arrangement of finance as well as management fees. Gross profit for the individual fund types within the Issuing segment (shipping, traded endowment policies, regenerative energies and real estate) is broken down in detail in the following. Depreciation includes scheduled depreciation charges on lessee fixtures as well as operating and business equipment. Other operating income and expenses particularly include personnel expenses of EUR 4.8 million (previous year: EUR 3.1 million), which rose particularly as a result of the growth in business volumes. Investment income comprises interim profit from the sale of ships (EUR 0.7 million; previous year: EUR 0.2 million), the liquidation of funds (EUR 0.3 million; previous year: EUR 0) and net profit from general partners, which primarily comprises liability compensation and management fees.

The individual fund types break down as follows:

EUR millions 2005	Shipping	Traded endowment policies	Regen-erative energies	Real estate	Concerning all fund types	Total
Issuing	35.3	4.4	1.0	–	–	40.7
Design	18.7	0.5	0.3	–	–	19.5
Arrangement of financing	3.6	0.7	0.1	–	–	4.4
Other and changes in inventories	0.4	0.1	0.5	0.6	–	1.6
Total sales and changes in inventories	58.0	5.7	1.9	0.6	–	66.2
Commission expense	33.0	3.1	0.7	–	–	36.8
Cost of services bought	1.2	0.3	0.1	0.6	0.5	2.7
Total cost of sales	34.2	3.4	0.8	0.6	0.5	39.5
Gross profit	**23.8**	**2.3**	**1.1**	**–**	**–0.5**	**26.7**
Gross margin	41.0 %	40.4 %	57.9 %	–	–	40.3 %
Equity placed	244	35	7	–	–	286
Share in total equity placed	85 %	12 %	3 %	–	–	–
2004						
Issuing	30.1	1.3	–	–	–	31.4
Design	14.6	0.4	–	–	–	15.0
Arrangement of financing	0.8	0.2	–	–	–	1.0
Other	0.4	-	–	–	–	0.4
Total sales	45.9	1.9	–	–	–	47.8
Commission expense	28.0	1.0	–	–	–	29.0
Cost of services bought	0.8	0.2	–	–	0.4	1.4
Total cost of sales	28.8	1.2	–	–	0.4	30.4
Gross profit	**17.1**	**0.7**	**–**	**–**	**–**	**17.4**
Gross margin	37.3 %	36.8 %	–	–	–	36.4 %
Equity placed	181	10	–	–	–	191
Share in total equity placed	95 %	5 %	–	–	–	–

In 2005, issuing income from shipping funds came to EUR 18.0 million and primarily arose from “Flottenfonds IV – VIII”, with a further EUR 17.3 million from eleven individual ship funds. Fund design income in 2005 primarily breaks down into EUR 13.9 million for “Flottenfonds V – IX” and EUR 4.8 million for four individual ship funds. Income from the arrangement of finance arose in connection with “Flottenfonds VI, VII and IX”. The gross margin widened particularly as a result of designing activities and the arrangement of finance for “Flottenfonds IX” (EUR 5.6 million), as the cost of sales attributable to these activities only rose disproportionately little. At 93.5 % (previous year: 93.0 %), the ratio of commission income to issuing income remained fairly constant.

The share of traded endowment policies in total equity placed grew from 5.2 % to 12.2 %. Issuing income primarily arose from the "BKL I" and "BKL II" funds. Income from designing and from the arrangement of finance relates to "BKL II" and "BKL III". The gross margin was up on the previous year due to the income from designing and the arrangement of finance for "BKL III", which for the most part will not be placed until 2006.

With the design and full placement of the "Windpark Breberen" fund, Lloyd Fonds successfully launched its second regenerative energies fund. With this fund type accounting for 3 % of equity placed, the Group was able to achieve additional diversification.

Trusteeship segment (investor relations management)

EUR millions	2005	2004
Sales	4.3	2.9
Depreciation and amortization	–0.2	–0.2
Other operating expenses and income	–1.5	–0.9
Share of profit of associates	0.1	0.1
Profit from operating activities (EBIT)	**2.7**	**1.9**

Sales from management activities break down by fund type as follows:

EUR millions	2005	2004
Shipping	3.8	2.8
Traded endowment policies	0.4	0.1
Regenerative energies	0.1	–
Total	**4.3**	**2.9**

Depreciation primarily relates to the trust contracts from first-time consolidation of Lloyd Treuhand GmbH which were capitalized at the Group level and are written off over their service lives. Other operating expenses and income primarily comprise personnel expenses of EUR 0.9 million (previous year: EUR 0.5 million) arising in connection with the growth in business volumes.

Rental and Leasing segment (real estate funds)

EUR millions	2005	2004
Sales	1.1	1.3
Cost of sales	–0.1	–0.2
Depreciation, amortization, impairment losses and reversals	–0.2	–1.1
Other operating expenses and income	1.2	0.3
Profit from operating activities (EBIT)	**2.0**	**0.3**

This segment primarily relates to the rental and leasing of the “5. Lloyd Fonds - Vier Einzelhandelsobjekte in Norddeutschland” fund, which was established in 1999. The decline in rental income is due to the termination of one lease as of June 30, 2005. Talks are currently ongoing regarding a replacement lease. As the termination of the lease resulted in a dispute, the Lloyd Fonds Group received EUR 0.5 million under an out-of-court settlement. This sum is shown under other operating expenses and income. Depreciation, amortization and impairment losses and reversals comprise scheduled depreciation on the real estate (EUR 0.1 million), impairment losses from the property for which the lease was terminated (EUR 0.6 million; previous year: EUR 1.0 million) as well as impairment reversals for two other properties (EUR 0.5 million). In addition, income relates to derecognition of a liability (EUR 0.4 million).

Employees

The number of employees stood at 72 as of December 31, 2005 (previous year: 50). The average head count for the year was 65, up from 41 in 2004. Of these, 44 (2004: 28) were employed by Lloyd Fonds AG and 21 (2004: 13) by Lloyd Treuhand GmbH. Staff numbers were up in all departments.

In connection with the stock market flotation, Lloyd Fonds AG decided to issue convertible bonds to its employees. 500,000 convertible bonds with a nominal value of up to EUR 500,000 divided into three installments are to be issued to the members of the Management Board, management staff of the companies related to Lloyd Fonds and the employees of Lloyd Fonds AG and related companies until 2008. The program seeks to encourage identification with the Company and is to be used as a medium and long-term incentive system.

Stock market flotation

Lloyd Fonds AG has been listed in the Prime Standard of the Frankfurt Stock Exchange since October 28, 2005. This means that the Company itself is as transparent to the capital market and its business partners as the investment products which it initiates. With the proceeds of the flotation, Lloyd Fonds is reinforcing its acquisition resources on a national and international level.

Preparations for the stock market flotation, which commenced in 2004, resulted in a thorough review of internal processes and structures. With the knowledge gained, Lloyd Fonds was able to enhance its internal processes in the year under review and align its strategy even more resolutely to further growth.

BEGINNING OF 2006

Important events occurring after the balance sheet date

In January, retailing of the "Lloyd Fonds Schiffsportfolio" fund exclusively via Deutsche Bank branches commenced. The fleet fund comprises seven container ships with equity of over US-Dollar 137.5 million and an investment volume of over US-Dollar 370 million. One of these ships is already in operation, while the others will be delivered in 2006 and 2007. All ships are being managed by experienced partners and have long-term initial charters with investment-grade charterers. The product has been designed as a return-oriented fund so that investors will benefit from the low tonnage tax. The fund was placed in full after just over four weeks. All preparations for this fund were completed in 2005.

At the beginning of March, Lloyd Fonds opened a sales branch in Vienna (Lloyd Fonds Austria GmbH). With its first representative office outside Germany, Lloyd Fonds wants to capitalize on the strong demand in the Austrian market in the future and offer Austrian investors the opportunity of investing in high-return funds.

At the beginning of 2006, Lloyd Fonds agreed with Dr. Marcus Simon that he is to be appointed Chief Financial Officer as of the beginning of August at the latest. As of that date, the present Chief Financial Officer, Mr. Holger Schmitz, will be Chief Operating Officer responsible for the various asset classes and for designing new funds.

STRATEGIC AND OPERATIVE TARGETS

Positioning

In the market as a whole, Lloyd Fonds is aiming to further strengthen its position as a fund initiator and join the industry Top 5 in terms of equity placed and rate of growth. On the basis of the Loipfinger study, Lloyd Fonds was one of the year's top climbers in 2005 in terms of growth in equity placed. In 2005, Lloyd Fonds ranked 11th with respect to total equity placed.

Strategy

At the moment, Lloyd Fonds generates the bulk of its sales in its core ship fund business segment, a position which it plans to reinforce and further extend. Yet, at the same time, the Company's strategic target is to diversify its business operations to a greater extent in the closed-end fund segment to reduce its dependence on the ship fund market. To this end, the existing product segments such as traded UK endowment policies and real estate are to be extended considerably. At the same time, however, Lloyd Fonds is planning forays into new areas such as private equity. In addition, it wants to step up business in regenerative energy funds.

Over the past few years, Lloyd Fonds has established a potent, flexible and extendable base for keeping the Company on a sustained growth path. Among other things, this growth and diversification strategy seeks to reduce the proportion of ship funds in the Company's business to around 50 % in tandem with an increase in total equity placed. For this purpose, it is developing “asset pipelines” to ensure timely acquisition of suitable assets for investment and simultaneously widening distribution channels. Both goals can be achieved if Lloyd Fonds acquires shares in other companies engaged in this area or forges joint ventures with them. In addition, the Lloyd Fonds Group attaches particular importance to extending investor services. The common aim of these strategies is to extend Lloyd Fonds’ value chain and, in particular, to steadily increase the volume of recurrent income from investor relations management (trust business) and management activities.

Measures and decisions

Looking ahead over the next few years, Lloyd Fonds plans to continue on the course which it has adopted and reinforced with its successful stock market flotation. To this end, the Group will be building up a competent team of specialists and generalists on all levels and in all departments. Strong staff recruitment is a key basis for achieving the planned growth.

Other activities relate to extensions to existing asset classes and the establishment of new ones to place growth on a broader footing. Strengthening proven partnerships and forging new ones in new and existing areas forms a further key aspect of the Group’s efforts to extend its business activities.

OUTLOOK FOR 2006 AND 2007

Trends in the global economy and investment industry

According to the IMF and the OECD, the global economy will remain largely unchanged over the previous year in 2006. All told, global economic growth will not be materially stronger than in 2005. The IMF projects growth of 4.3 % in global gross domestic product (GDP), the sum total of goods and services produced in the world, with higher commodity prices and continued muted domestic demand in Europe in particular exerting a dampening effect. At the same time, economic growth is expected to slow in the United States and Japan.

Thus, according to OECD forecasts, the US economy will expand by 3.5 % in 2006, although this is still relatively high by international standards. Growth in Asia is expected to remain strong, with the IMF forecasting expansion of over 8.2 % for China and 6.3 % for India alone this year. In Japan, the economy is expected to expand by 2.0 % both this year and next. By contrast, the eurozone economies will pick up considerable speed. The OECD projects GDP growth of 2.1 % in 2006, up from 1.4 % in 2005, with a further increase of 2.2 % forecast for 2007. In Germany, economic growth will be a relatively muted 1.2 % in 2006.

The IMF and OECD see the main risks to the global economy in a further massive increase in the price of oil, a possible significant deterioration in the trade balance in the United States in particular and sudden strong changes in exchange rate parities between large trading nations. Further strain for the international economy will come from a sharp rise in long-end yields as well as a reversal in the currently positive price trends in the capital and real estate markets. The OECD considers one possibility for capping these risks to involve a further opening of the global trading system as well as advances in international negotiations on agricultural reform, both of which should support global economic growth.

Global trade

According to the OECD and the IMF, a further sizeable increase in global economic output should be accompanied by a substantial increase in international trade. Thus, the IMF expects the volume of global trade to increase by 7.4 %, with the OECD looking for an increase of as much as 9.4 %. The IMF sees the emerging markets as growth drivers as they will generate an increase of around 10.3 % on the export side and no less than 11.9 % on the import side.

The pressure on freight rates in container shipping which emerged in mid 2005 is set to continue until the end of 2006 according to market estimates. Given the expected strong fundamental data on global economic growth, world trade and particularly container trading, freight rates are expected to rebound by mid 2007 at the latest. The short to medium-term outlook for tanker shipping remains positive. Market participants expect a relatively balanced supply/demand situation and stable charter rates.

Expected industry trends

Forecasts for the closed-end fund market as a whole for 2006 are very disparate. Determinants include underlying interest rates, income trends, rising demand for high-return investments and also the necessity of providing for old age. At the same time, the number of new subscribers is rising, while average subscription amounts are declining. Loipfinger projects total equity volumes of almost EUR 11 billion for 2006.

Against this backdrop, Lloyd Fonds will be able to grow more quickly than the market. The Company assumes that the need for private and company pension savings schemes will drive short to medium-term growth in the closed-end fund segment. At the same time, new asset classes are being discovered and new fund structures, particularly those involving capital preservation guarantees and installment-based capital contributions, are being developed. Lloyd Fonds assumes that equity placed will return to record levels by 2007 at the latest.

Business performance

Lloyd Fonds anticipates a substantial increase of around 30 % in equity placed to EUR 370 – 390 million in 2006. This will be accompanied by sales of around EUR 90 million and consolidated profit of some EUR 18 – 19 million. The share of fund types other than ship funds is to be widened to over 30 % of the total volume of equity placed.

In the first quarter of 2006, Lloyd Fonds placed a ship fund worth US-Dollar 137 million exclusively through Deutsche Bank. At the same time, the “Flottenfonds VIII” ship fund and the third fund with traded UK endowment policies are in the placement phase. Traded UK endowment policy fund “Britische Kapital Leben IV” will also be launched in the spring as an exclusive placement alongside “Flottenfonds X”, which comprises two container ships with long-term charters and first-class shipping companies. This fund will be retailed via general channels.

Turning to 2007, Lloyd Fonds expects a further increase in sales, consolidated profit and equity placed. At the same time, the share of fund types other than ship funds in total equity placed is to increase again over 2006.

RISK REPORT

The Group's business performance may be adversely affected by a number of different variables, which may lead to a deterioration of its net assets, results of operations and liquidity. Such risks may particularly arise from adverse economic or political changes as well as amendments to tax legislation. In addition, there is a risk of actual performance failing to live up to forward-looking statements, deficiencies in product design and related liability questions, unfavorable changes in personnel and, finally, unwanted developments in the financial instruments used.

However, none of these risks had any measurable impact in 2005. In addition, Lloyd Fonds has taken appropriate measures to adopt a suitable organizational structure and to implement corresponding monitoring programs to ensure that any adverse developments are detected early on and appropriate countermeasures are implemented to avert any risks.

Market and price

Lloyd Fonds initiates closed-end funds and sells limited partnership interests via its retail partners mainly to high-earning and medium-earning private investors. Here, there is a risk of demand for the fund products offered by Lloyd Fonds weakening significantly, for instance as a result of products offered by competing companies or changes in investors' preferences in favor of other investment instruments.

The closed-end funds market, which is mainly relevant for the Company, is exposed to numerous factors, changes in which might have an impact on the investment decisions of potential investors and on the performance of their funds.

The Company's business success depends to a high degree on its ability to rapidly adapt the offered products to changed investment motives of future subscribers to the fund products offered by the Company. Lloyd Fonds assumes that the fund products which it offers will continue to take account of such changes in future. Nevertheless, it is possible that investor demand may shift to fund products which the Group does not offer at this stage and which it will not be able to develop quickly.

In the shipping segment, there is the risk of volatile charter rates and ship purchase prices. As a matter of principle, Lloyd Fonds and its partners address this risk by entering into long-term charters. In addition, this risk is minimized by the customary correlation between available long-term time-based charter rates and the ship purchase prices prevailing at a given point in time.

Competition

The market for closed-end funds is characterized by a development in which market shares are increasingly shifting towards larger fund initiators. The operations of Lloyd Fonds in this market environment face strong and fierce competition from other fund initiators.

There is no guarantee that the Company will be able to assert itself in the current or future climate of competition as successfully as it has done in the past. However, Lloyd Fonds is of the opinion that there are no specific indications of any major loss of market share or unfavorable effects on its market position. Lloyd Fonds assumes that its stock market flotation, the clear growth strategy, its high prestige and its efficient structures will form the basis for a continuation of its excellent market position.

Availability of assets for investment

Among other things, the operations of Lloyd Fonds require that new fund products are constantly initiated to ensure an attractive range. As a result, Lloyd Fonds is exposed to the risk of the limited availability of attractive assets for investment at competitive prices as a basis for initiating competitive fund products. By systematically extending its network of partners, Lloyd Fonds is strengthening its presence in all asset classes to avert this risk.

Changes in tax background

Changes in the tax background may have a direct influence on the design and sales of fund products. For this reason, any change in the tax background in Germany and abroad may have a negative impact on the financial success of the funds which have already been placed and also the design of future Lloyd Fonds funds.

Changes in legal background

Under current law, Lloyd Fonds AG does not require any permission pursuant to the German Banking Act for its operations in Germany as an investment company because sales of limited liability investments are not covered by the scope of the Act. However, the possibility cannot be precluded that legislation may be enacted in the future imposing more far-reaching regulatory requirements on investments which have so far been unregulated under the German Banking Act, either by extending the scope of current laws or by adopting new ones. Changes in the current legislation may mean that the operations of Lloyd Fonds will require permission from the German Federal Financial Supervisory Authority (BaFin).

In addition, court judgments are indicating a trend towards more stringent duties of disclosure and advice in connection with sales of investment products. Similarly, the possibility cannot be precluded that incorrect advice given by third parties who are involved in sales of investment products will be incorporated to an increasing extent in the area of responsibility of the product supplier. However, such a trend is unlikely to have any major ramifications for market operators with many years of experience.

Dependence on qualified personnel in key positions

The success of Lloyd Fonds depends to a large extent on the activities of the members of the Management Board and members of management as well as suitably qualified senior executives. For the future financial success of Lloyd Fonds, it is therefore essential that adequate numbers of senior executives and specialists continue to work for Lloyd Fonds. If members of the Management Board, managing directors of subsidiaries or other senior executives and senior employees of Lloyd Fonds resign, this may have a negative impact on the Group and its future business performance in individual cases.

Given the mounting competition in the market for closed-end investments, there is a growing risk that suitably qualified employees will be headhunted or that it will not be possible for adequate numbers of new suitably qualified employees to be recruited. The Group aims to adopt an employee incentive scheme as one of the methods for providing a financial incentive for its senior executives to remain with the Group. However, there is no guarantee that the Group will succeed in retaining its senior executives and employees in key positions or in recruiting new employees with appropriate qualifications.

A staff participation program in the form of convertible bonds was launched at the same time as the stock market flotation in October 2005 to create additional incentive for existing and new staff. These convertible bonds are to be issued to staff in three installments over a period to 2008.

Dependence on retail partners

The Group sells its fund products almost exclusively via its independent retail partners. The agreements which the Group has signed with its retail partners are normally subject to four weeks' notice before they can be terminated. If several of these important retail partners were to terminate or restrict their business relations with the Company at around the same time, this may have a significantly negative impact on the Company's business. However, Lloyd Fonds is confident that, on the strength of its reputation, it would be able to sign up alternative sales partners in such a case.

Placement guarantees

In connection with bridge finance for fund products, Lloyd Fonds issues a placement guarantee to the financing banks and, as soon as a fund has been established, also to the fund company in question, under the terms of which it undertakes to assume the outstanding capital itself by acquiring the limited-partner shares or to have a third party do so at its own expense.

The Company bears the issuing and placement risk to the extent of its corresponding exposure. Accordingly, if after the acquisition of an asset it becomes evident that this asset is not suitable for a new fund or if a new fund cannot be placed in full, Lloyd Fonds AG is subject to a payment/funding obligation.

Lloyd Fonds attempts to take account of this issuing and placement risk by exercising maximum care in selecting the assets.

Foreign currency exposure

Some of the fund products are initiated on a US dollar basis and not in euros. Accordingly, commission income is also paid in US-Dollars to the Group. In 2005, Lloyd Fonds generated approx. 13 % of its overall sales in US-Dollars. At the same time, most costs are denominated in euros. Accordingly, changes in the value of the euro in relation to the US-Dollar may result in a fluctuation in the reported sales and earnings of Lloyd Fonds on the basis of a comparison between periods in spite of otherwise unchanged business conditions.

Lloyd Fonds has established its own interest and currency management department to minimize risks from foreign-currency exposure. These experts examine the consequences of any changes in exchange rates and interest for the Group and its subsidiaries and establish suitable counter measures. A large volume of hedges is transacted in the form of currency forwards and interest rate swaps if it is possible for such hedges to effectively shield the underlying instrument from risks.

Prospectus and adviser liability

Lloyd Fonds AG produces selling prospectuses to obtain equity from investors. These selling prospectuses must contain full and correct information on all matters of relevance for investors. In its capacity as the publisher of the prospectus, Lloyd Fonds AG is jointly and severally liable with the fund company in question towards individual investors in the event of any errors or omissions in the selling prospectuses. The selling prospectuses are regularly produced in accordance with the "Principles for the Proper Assessment of Prospectuses for Investments Offered Publicly" (IDW S 4), a standard issued by Institut der Wirtschaftsprüfer in Deutschland e.V., and examined by a public auditor in accordance with this standard.

In the case of all audited prospectuses, the auditor has generally confirmed that the information provided is complete, correct and clear and has also confirmed that the assessments in the prospectuses are plausible, the conclusions are logical and also that the risks and rewards associated with the investment have been detailed in accordance with IDW S4; however, in individual cases, the auditor has made comments which do not qualify the audit result. In addition, Lloyd Fonds AG regularly has the tax-related statements contained in the prospectus reviewed by a tax expert. As well as this, the retail partners (particularly banks) regularly submit the prospectuses to internal examination prior to retailing the products.

However, the assessment of the prospectus by an auditor as well as other measures do not provide any guarantee of the absence of errors or omissions in the content of the prospectus nor of the economic benefits or tax ramifications of the investment. Accordingly, it cannot be ruled out that damages may be awarded against the Company under its liability for the prospectus on account of errors or omissions in the contents of past or future prospectuses particularly if the investors' expectations of returns are not fulfilled on account of deficiencies in the asset or for any other reasons.

In order to reduce these risks, Lloyd Fonds AG applies the greatest possible care in the selection of the products which it offers, their design, the description of these products and the selection and monitoring of its retail partners.

Risks in connection with the duties of Lloyd Treuhand GmbH

As of the end of 2005, Lloyd Treuhand GmbH, a subsidiary of Lloyd Fonds AG, managed the capital of more than 18,000 fund investors – on a trust basis in some cases – in accordance with trust and management agreements. As part of its management duties, it is responsible for handling all the rights and duties of the investors in accordance with the trust agreement with the greatest possible care. However, it is not possible to preclude the possibility that an individual investor may institute legal action on account of a purported breach of duty on the part of Lloyd Treuhand.

To avoid this risk from the outset, Lloyd Treuhand selects its staff carefully and ensures the greatest possible reliability by means of employee training and regular quality checks.

Legal disputes

Neither Lloyd Fonds AG nor any of its subsidiaries are currently parties to any court litigation or arbitration proceedings or the subject of any government intervention liable to adversely affect the economic condition of the Lloyd Fonds Group. As far as the Group is aware, no such litigation, proceedings or intervention is pending.

OPPORTUNITIES

With the proceeds from the stock market flotation of October 28, 2005, Lloyd Fonds is able to finance its planned growth. In particular, it now has sufficient financial resources in the investment and financing area to secure new assets. Moreover, it has established the basis for systematically continuing the diversification strategy commenced. The expansion in management services related to closed-end funds as a result of the growth in business activity can be implemented in the near future.

Hamburg, April 12, 2006

The Management Board

Dr. Torsten Teichert

Holger Schmitz


DIALOG IN

TRANSPARENCY

Credibility requires dialog. And only the constant dialog between the Company, shareholders and customers creates this high degree of productive transparency, which has allowed Lloyd Fonds to grow into something of which it can be rightly proud today. Practiced transparency towards all parties involved in the investment process helps to render products successful and ensure sustainable business strategies.

The rooms of what was formerly a warehouse in "Alter Wandrahm" in the historical Hamburg docks district is one of the numerous buildings in Hamburg offering a fitting backdrop to unusual exhibitions and premium events.

CORPORATE GOVERNANCE

Good corporate governance stands for responsible management aimed at creating long-term value and harmonizing conflicting interests. It also calls for optimum enterprise structures ensuring adequate supervision alongside the formulation of strategies and targets. This, in turn, necessitates close and efficient collaboration between the Management Board and the Supervisory Board based on a spirit of mutual trust aimed at protecting the interests of shareholders and business partners and encouraging openness and transparency as expressed in swift and regular disclosure.

Since going public on October 28, 2005, Lloyd Fonds AG has taken all necessary steps to further enhance its corporate governance. This has particularly entailed the careful analysis and implementation of new requirements and recommendations set out in national and international corporate governance codes.

Corporate governance: Transparency for shareholders' benefit

Lloyd Fonds AG's current corporate governance principles are for the most part based on the provisions of the German Stock Corporation Act and the German Corporate Governance Code as last amended on June 2, 2005. In addition, it has adopted the provisions of the Act on Corporate Integrity and Modernization of the Right of Avoidance (UMAG), which took effect on November 1, 2005, and the Act to Improve Investor Protection (AnSVG). Accordingly, the Company's corporate governance principles conform to the recommendations of the German Corporate Governance Code save for only a few exceptions. The Management Board and the Supervisory Board of Lloyd Fonds AG have expressly confirmed their commitment to the updated corporate governance declaration, which they signed in April 2006. Lloyd Fonds has always applied acknowledged international and national standards of good and responsible corporate governance. For Lloyd Fonds, good corporate governance is a key requirement covering all aspects of the Company. Thus, all organizational measures were taken at an early stage to ensure compliance with the requirements stipulated in the Act to Improve Investor Protection (AnSVG). For example, it maintains a regularly updated insider directory which includes all relevant persons.

Close collaboration between the Management Board and the Supervisory Board

Lloyd Fonds AG's Management Board currently comprises two members. A third member was appointed in February and will be commencing his activities in the foreseeable future. The Management Board manages the Company independently in accordance with statutory provisions in the best interests of the Company and is committed to raising its enterprise value on a sustained basis. The Management Board's primary duties include defining the Company's strategic orientation, developing executive staff, engaging in corporate communications particularly with the capital market and establishing appropriate risk management and supervision procedures. In addition, it determines the allocation of resources and personnel within the Company.

The Management Board works closely with the Supervisory Board and briefs it regularly and comprehensively on all relevant matters pertaining to planning, business performance, risk exposure and risk management with minimum delay. The compensation paid to the members of the Management Board, which also includes a variable performance-tied and target-achievement-based component, is disclosed in the Notes to the Annual Financial Statements in this Report (page 103).

The Supervisory Board is responsible for monitoring the basic business decisions made by the Management Board and advising it on management matters. It comprises three members, all of whom are elected at the annual general meeting as representatives of the shareholders. By means of regular dialog with the Management Board, the Supervisory Board is kept informed at all times of the condition of the Company, its forecasts and the implementation of its strategy.

Decisions of fundamental importance for the Company, e.g. the inclusion of new business areas or the abandonment of existing ones, must be approved by the Supervisory Board. Other key duties performed by the Supervisory Board include the appointment of the members of the Management Board as well as the examination and approval of the annual financial statements of Lloyd Fonds AG and the Lloyd Fonds Group. The compensation paid to the members of the Supervisory Board, which comprises solely fixed components, is disclosed in the Notes to the Annual Financial Statements in this Report (page 104).

Focus on transparency

The consolidated annual and interim financial statements of Lloyd Fonds are prepared in accordance with the principles of the internationally acknowledged International Financial Reporting Standards (IFRS). The financial statement auditor is proposed by the Supervisory Board, which pays particular attention to ensuring the former's independence, and elected at the annual general meeting. In the interests of timely reporting, Lloyd Fonds publishes the consolidated financial statements no later than 120 days after the end of the fiscal year and the quarterly financial statements within 60 days of the end of the period in question.

In addition to ongoing reporting, Lloyd Fonds issues adhoc bulletins and press releases to publicize all matters liable to impact its financial condition, net assets and results of operations. Relevant facts are disclosed immediately in accordance with the principle of fair disclosure to ensure that information is made available to all relevant target groups at the same time. In this respect, the Company's website at www.lloydfonds.de plays a crucial role as it holds all key information for examination or downloading. In this way, Lloyd Fonds is creating the basis for a high degree of transparency reflecting its commitment to its shareholders as defined by the principles of good corporate governance.

Members of the Management Board and the Supervisory Board hold shares in Lloyd Fonds AG. The shareholdings are disclosed in the Notes to the Annual Financial Statements in this Report (page 104).

The Chairman of the Supervisory Board, Dr. Stefan Duhnkrack, is a partner of the law firm Heuking Kühn Lüer Wojtek which provided consultancy services in specific legal areas.

The member of the Supervisory Board, Hans-Bernd vor dem Esche, is one of the Managing Directors of the Fünfte PAXAS Treuhand- und Beteiligungsgesellschaft mbH, Düsseldorf (Fünfte PAXAS). Fünfte PAXAS concluded an agency agreement with Lloyd Treuhand GmbH for supporting investments in a fund.

To this extent and in addition there were no conflicts of interest.

Modifications and extensions for 2005

The amendments to the German Corporate Governance Code of June 2, 2005 did not result in any material changes to Lloyd Fonds' corporate governance principles.

Declaration of conformance additionally updated

The current declaration of conformance in accordance with Section 161 of the German Stock Corporation Act was adopted and signed by the Management Board and Supervisory Board of Lloyd Fonds AG on April 18, 2006. Lloyd Fonds complies with the recommendations set out in the German Corporate Governance Code (GCGC) in its current version (published in the electronic Bundesanzeiger on July 20, 2005 by the German Federal Ministry of Justice) aside from a small number of exceptions as set out below (these exceptions are also disclosed on the Company's website at www.lloydfonds.de).

1. Contrary to Article 3.8 Sentence 3 of the GCGC, the D&O cover taken out by the Company does not include any deductibles for individual members of the Management Board or the Supervisory Board.

2. The remuneration model for the Management Board members Dr. Teichert and Mr. Schmitz does not include any share option or similar component. To this extent there is a deviation from 4.2.3. of the GCGC.

3. The members of the Supervisory Board receive solely fixed compensation. There is no variable compensation as defined in Article 5.4.7 (2) Sentence 1 of the GCGC.

4. Due to its size Lloyd Fonds AG does not form committees in line with 5.2 ff GCGC. The relevant functions are carried out by all three members jointly.

5. The annual and interim consolidated financial statements are not published within the shorter periods provided for in the GCGC for the publication of annual and interim financial reports. In accordance with the rules of the Frankfurt Stock Exchange (regulated market with additional post-listing rules for the Prime Standard), Lloyd Fonds AG's consolidated annual financial statements are published within four months and the quarterly reports within two months.

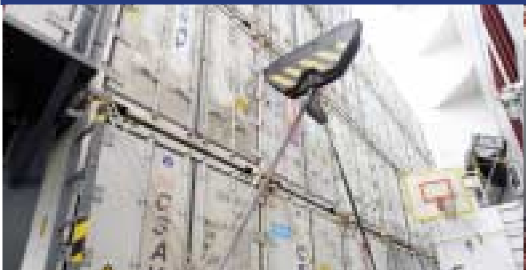

GALAXY

TARGETS

You must never lose sight of your targets even if they are a long way off. Hence, Lloyd Fonds' goal is not only to create ongoing value for its shareholders and to design consistently profitable investments for its customers. As well as this, it is committed to ranking amongst the best and most successful in the market for closed-end funds. We have our sights set firmly on these targets and, with our intensive efforts, will achieve them. In the past we not infrequently exceeded the targets we set.

The visitor's telescope on a pontoon in the "historic port" provides an uninterrupted view of one of the numerous terminals in Hamburg's container port, the second largest in Europe after Rotterdam.

CONSOLIDATED FINANCIAL STATEMENTS



CONSOLIDATED INCOME STATEMENT

for the year ended December 31, 2005

TEUR	Note	2005	2004[1]
Sales	6.1	71,006	52,056
Increase in inventories	7.8	621	–
Cost of sales	6.2	–39,584	–30,530
Personnel costs	6.3	–5,673	–3,664
Depreciation, amortization and impairment losses	6.4	–1,212	–1,376
Other operating result	6.5	–3,917	–2,737
Share of profit of associates	6.6	1,515	280
Profit from operating activities		22,756	14,029
Finance income	6.7	1,076	60
Finance costs	6.7	–912	–1,058
Profit before income tax		22,920	13,031
Income tax expense	6.8	–5,800	–3,509
Profit for the year		**17,120**	**9,522**
Attributable to:			
Equity holders of the parent company		16,133	9,654
Minority interest	7.10.d	987	–132
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in EUR per share)			
- basic	6.9	1.60	1.02
- diluted	6.9	1.60	1.02

[1] adjusted, see Note 2.18
The notes on pages 64 – 106 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

as of December 31, 2005

TEUR	Note	Dec. 31, 2005	Dec. 31, 2004[1]
Assets			
Non-current assets			
Property, plant and equipment	7.1	692	502
Investment property	7.2	–	14,023
Intangible assets	7.3	1,669	1,811
Investments in associates	7.4	14,785	1,655
Available-for-sale financial assets	7.5	3,565	2,962
Deferred income tax assets	7.13	–	40
		20,711	20,993
Current assets			
Trade and other receivables	7.6	17,673	14,357
Receivables from related parties	7.7	7,805	1,190
Inventories	7.8	621	–
Current income tax assets		799	–
Cash and cash equivalents	7.9	51,251	5,795
		78,149	21,342
Total assets		**98,860**	**42,335**
Equity			
Share capital	7.10.a	12,667	1,000
Additional paid-in capital	7.10.b	43,971	639
Retained earnings	7.10.c	18,537	14,665
Capital and reserves attributable to the parent company's equity holders		75,175	16,304
Minority interest	7.10.d	8	–
Total equity		75,183	16,304
Liabilities			
Non-current liabilities			
Borrowings	7.11	117	10,429
Net assets attributable to other limited partners	7.12	–	2,153
Deferred income tax liabilities	7.13	1,088	168
		1,205	12,750
Current liabilities			
Trade and other liabilities	7.14	8,661	8,487
Amounts due to related parties	7.15	3,206	1,758
Current income tax liabilities		–	1,440
Borrowings	7.11	10,605	1,596
		22,472	13,281
Total liabilities		23,677	26,031
Total equity and liabilities		**98,860**	**42,335**

[1] adjusted, see Note 2.18
The notes on pages 64 – 106 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

TEUR	Note	2005	2004
Cash flow from operating activities			
Consolidated profit for the year before share of profit of associates, interest and income taxes	8.3	21,875	13,580
Depreciation and amortization of non-current assets	6.4	614	393
Impairment losses on investment property	6.4	598	983
Profit from the disposal of property, plant and equipment		–10	–15
Other non-cash income and expenses	8.1	–1,359	–483
Changes in trade and other receivables	7.6	–3,311	3,995
Change in receivables from related parties	7.7	–7,308	981
Change in inventories	7.8	–621	–
Changes in trade and other liabilities	7.14	1,042	–8,683
Changes in amounts due to related parties	7.15	539	510
Changes in the companies consolidated		9	–
Interest received	6.7	290	49
Interest paid	6.7	–563	–803
Dividends and profit distributions received	6.6	1,515	280
Income tax refunds received	6.8	1	66
Income tax paid	6.8	–5,780	–4,887
Net cash generated from operating activities		7,531	5,966
Cash flow from investing activities			
Purchases of			
Intangible assets and property, plant and equipment	7.1,3	–606	–232
Available-for-sale financial assets and investments in associates	7.4 – 5	–11,866	–1,014
Proceeds from the disposal of			
Intangible assets and property, plant and equipment	7.1,3	16	30
Available-for-sale financial assets and investments in associates	7.4 – 5	165	198
Net cash used in investing activities		–12,291	–1,018
Cash flow from financing activities			
Dividend paid to the equity holders of the parent company	6.10	–4,300	–3,000
Proceeds from borrowings	7.11	10,730	–
Repayment of the net assets attributable to other limited partners	7.12	–	–102
Proceeds from the issuance of new shares	7.10.a – b	50,667	–
Transaction costs for the issuance of new shares	7.10.b	–4,948	–
Repayment of borrowings	7.11	–1,273	–1,003
Net cash generated from / used in financing activities		50,876	–4,105
Net increase in cash and cash equivalents		**46,116**	**843**
Cash and cash equivalents at January 1	8.2	5,473	4,630
Changes in the companies consolidated	2.2.c	–338	–
Cash and cash equivalents at December 31	8.2	**51,251**	**5,473**

The notes on pages 64 – 106 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

TEUR	Note	Share capital	Additional paid-in capital	Retained earnings	Minority interest	Total equity
		Attributable to equity holders of the parent company				
Amount at January 1, 2004	7.10	1,000	639	8,011	132	9,782
Profit for the year		–	–	9,654	–132	9,522
Dividend paid for 2003		–	–	–3,000	–	–3,000
Amount at December 31, 2004	7.10	**1,000**	**639**	**14,665**	**–**	**16,304**
Amount at January 1, 2005	7.10	1,000	639	14,665	–	16,304
Equity issue using Company funds	7.10.a–b	8,500	–539	–7,961	–	–
Equity issue and issue of new shares	7.10.a–b	3,167	47,500	–	–	50,667
Transaction costs, net of tax	7.10.b	–	–3,644	–	–	–3,644
Equity component of the convertible bond, net of tax	7.10.b	–	15	–	–	15
Profit for the year		–	–	16,133	987	17,120
Deconsolidation	2.2.c	–	–	–	–987	–987
Changes in the companies consolidated	2.2.b	-	–	–	8	8
Dividend paid for 2004	6.10	–	–	–4,300	–	–4,300
Amount at December 31, 2005	7.10	**12,667**	**43,971**	**18,537**	**8**	**75,183**

The notes on pages 64 – 106 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2005

1 GENERAL INFORMATION

Lloyd Fonds AG (hereinafter referred to as the “Parent Company”) and its subsidiaries (hereinafter referred to as the “Lloyd Fonds Group”) are primarily engaged in the arrangement and initiation of investments for private individuals. In fiscal 2005, these activities particularly entailed ship funds. Other Group activities encompass trust management activities as well as the rental and leasing of commercial real estate.

The Parent Company is a joint stock corporation (Aktiengesellschaft) established in accordance with German law with registered offices in Hamburg. The Company’s address is: Lloyd Fonds AG, Neuer Wall 72, 20354 Hamburg. Lloyd Fonds AG has been listed on the regulated market Prime Standard segment of the Frankfurt Stock Exchange since October 28, 2005.

These consolidated financial statements were approved for issue by Lloyd Fonds AG’s Management Board on April 12, 2006.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

Individual items of the income statement and the balance sheet have been combined in the interests of heightening understanding of the presentation. These items are described in the Notes. The income statement has been prepared using the nature-of-expense method.

2.1 Basis of preparation

In accordance with Section 290 of the German Commercial Code (HGB), Lloyd Fonds AG is under an obligation to prepare consolidated financial statements. As a listed company, it is additionally required by Article 4 of Regulation (EC) No. 1606 / 2002 of the European Parliament and The Council of July 19, 2002 to prepare its consolidated financial statements pursuant to Section 315a of the German Commercial Code (HGB) using International Accounting Standards.

Lloyd Fonds AG's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) as accepted by the European Union (EU) as of December 31, 2005.

The following standards and rules, which are compulsory as of January 1, 2005, were applied for the first time:

- IAS 21 "The Effects of Changes in Foreign Exchange Rates"
- IFRS 2 "Share-based Payment"
- IFRS 4 "Insurance Contracts"
- IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"
- IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities"
- IFRIC 2 "Members' Shares in Co-operative Entities and Similar Instruments"
- Amended standards IFRS 1 "First-Time Adoption of IFRS", IAS 39 "Financial Instruments: Recognition and Measurement" and SIC 12 "Consolidation – Special Purpose Entities" (accepted by the EU Commission on October 25, 2005)

The accounting methods with respect to first-time adoption of IFRS 2 "Share-based Payment" in fiscal 2005 are described in Sections 2.14.b and 2.11. The application of these methods resulted in additional disclosure obligations and affects the amount of personnel expenses shown in Note 6.3, borrowings (see Note 7.11), additional paid-in capital (see Note 7.10.b) and deferred income tax (see Note 7.13). Retroactive application of IFRS 2 was not necessary as there were no share-based payment transactions prior to January 1, 2005. The first-time application of the other standards did not result in any changes to the Group's accounting methods or its net assets, financial condition or results of operations.

The amendments adopted by the EU Commission on December 21, 2005 to IAS 39 "Financial Instruments: Recognition and Measurement" with respect to the depiction of internal Group transactions as the hedged item in hedging relationships were adopted early. The amendments are compulsory as of the beginning of fiscal 2006. The early adoption of this standard did not result in any changes to the Group's accounting methods or its net assets, financial condition or results of operations, either.

This section will now describe the new IAS and IFRS standards and additions to existing standards and interpretations, most of which are binding as of January 1, 2006, particularly those standards, additions and interpretations which are of relevance for the Lloyd Fonds Group. Earlier adoption is recommended. The Lloyd Fonds Group early adopted only those new standards and interpretations as well as amendments to existing standards which have been accepted by the EU Commission.

As of January 1, 2006, IAS 39 in its amended form is binding. Among other things, the scope for measuring financial assets and liabilities at their fair value has been limited to some extent. This is not expected to exert any influence on first-time application.

IFRS 7 is compulsory as of January 1, 2007. This results in various further disclosure requirements with respect to financial instruments, e. g. the risks arising from these financial instruments. The Company is currently reviewing the potential effects on its consolidated financial statements.

In accordance with IFRIC 4, which must be observed as of January 1, 2006, contractual relations must be examined to determine whether specific assets of which the contractual partner is the legal owner are under the physical and economic control of the preparer of the financial statements, with the result that, for example, third parties are not able to use the asset and no third party acquires more than an insignificant proportion of the volume produced using this asset. With respect to the utilization of such assets, the classification of this embedded lease and its ramifications for accounting must be examined in accordance with IAS 17. In the light of the conditions prevailing on the balance sheet date, however, the application of IFRIC 4 is unlikely to exert any material influence on the Company's net assets or results of operations.

In accordance with the amended IAS 1, which is binding as of January 1, 2007, the composition and management of economic equity must be disclosed. This includes, for example, external capital requirements and capital restrictions. The Company is currently reviewing the potential effects on its consolidated financial statements.

Similarly, the Lloyd Fonds Group will not be materially affected by the provisions contained in IAS 19, IAS 21, IFRS 6, IFRIC 5, all of which are binding as of January 1, 2006, as well as the rules on financial guarantees in IAS 32, IAS 39 and IFRS 4.

The consolidated financial statements have been prepared under the historical cost convention.

2.2 Consolidation

2.2.a Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanied by a shareholding of more than one half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group (full consolidation). They are de-consolidated from the date on which control ceases.

Not included in the consolidated financial statements are 42 subsidiaries (previous year: 22) which are of immaterial importance in their entirety for the Group's net assets, financial condition and results of operations.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

The hidden reserves and charges disclosed when the assets and liabilities are recognized at fair value during initial consolidation are amortized, written down or released in subsequent periods in line with the development of the assets and liabilities. Any derivative goodwill is subject to an annual impairment test in subsequent periods and also when there are certain indicators and is recognized at its original cost of purchase less accumulated impairment losses.

Inter-company transactions and balances between group companies are eliminated. Eliminations of inter-company gains and losses were not necessary within the Group due to the absence of any relevant transactions.

2.2.b Companies consolidated

The companies consolidated comprise the Parent Company as well as 7 (previous year: 3) fully consolidated subsidiaries.

The consolidated financial statements as of December 31, 2005 include the Parent Company as well as the following seven entities, in which the following shares are held:

■ Lloyd Treuhand GmbH (until January 28, 2005: LF Treuhand GmbH)	Hamburg	100 %
■ Lloyd Fonds Gesellschaft für Immobilienbeteiligungen mbH & Co. KG	Hamburg	100 %
■ Lloyd Zweitmarkt GmbH (formerly: Verwaltung der Lloyd Fonds Gesellschaft für Unternehmensbeteiligungen mbH)	Hamburg	100 %
■ Lloyd Shipping GmbH	Hamburg	100 %
■ Lloyd Fonds Real Estate Management GmbH	Hamburg	100 %
■ Lloyd Fonds US Real Estate Management Inc.	Naples, United States	100 %
■ Lloyd Fonds US Real Estate I L.P.	Naples, United States	50 %

The latter five entities have been consolidated for the first time. Lloyd Zweitmarkt GmbH arose from a “shelf company” and is performing all the functions relating to the secondary-market platform operated since the end of 2005. The object of Lloyd Shipping GmbH, which has not yet commenced operations, entails project development, ship brokering and the operation of ocean-going ships. Lloyd Fonds Real Estate Management GmbH was established in 2005 and will be primarily performing holding and management functions for real estate funds. Lloyd Fonds US Real Estate Management Inc. is responsible for managing Lloyd Fonds US Real Estate I L.P. As the company controls Lloyd Fonds US Real Estate I L.P. pursuant to the provisions of the bylaws, both companies were consolidated. Lloyd Fonds US Real Estate I L.P. for its part holds a share in a company which invests in four property companies investing in condominiums. The first-time consolidation of Lloyd Fonds US Real Estate I L.P. primarily includes investments in associates of TEUR 10,262, current borrowings of TEUR 10,605 as well as minority interest from first-time consolidation of TEUR 8. This has not had any material impact on the Group’s results of operations. The first-time consolidation of the other companies has not materially affected the Group’s net assets, financial position or results of operations. Note 2.2.c provides information on the de-consolidation of Fünfte LF Immobiliengesellschaft mbH & Co. KG.

The 19 (previous year: 5) associates in which the Group holds more than 50 % of the capital are not subsidiaries as Lloyd Fonds AG is only able to exercise 50 % of the voting rights.

The balance sheet date of the financial statements of the Lloyd Fonds Group is identical to the balance sheet dates of the individual financial statements of all fully-consolidated companies (namely December 31). The financial statements of Lloyd Fonds AG and of the consolidated subsidiaries have been prepared using uniform accounting policies.

2.2.c Deconsolidation

Following amendments to the bylaws of Fünfte LF Immobiliengesellschaft mbH & Co. KG effective December 30, 2005, Lloyd Fonds AG lost the ability which it had on December 31, 2004 to determine the financial and business policies of Fünfte LF Immobiliengesellschaft mbH & Co. KG. Accordingly, Fünfte LF Immobiliengesellschaft mbH & Co. KG, in which the Group holds 44.86 % of the capital, was deconsolidated in the consolidated financial statements as of December 31, 2005 and is now accounted for using the equity method of accounting as an associate.

Deconsolidation does not have any effect on the Group's results of operations. The outgoing assets and liabilities in fiscal 2005 were reclassified at their net book value as investments in associates:

TEUR	Note	
Assets		
Investment property	7.2	13,848
Trade and other receivables		99
Receivables from related parties		693
Cash and cash equivalents		338
		14,978
Equity		
Minority interest	7.10.d	987
Liabilities		
Non-current borrowings	7.11	10,356
Net assets attributable to other limited partners	7.12	1,881
Trade and other liabilities		78
Amounts due to related parties		17
Current borrowings	7.11	155
		12,487
Investments in associates		**1,504**

As deconsolidation was executed as of December 30, 2005, the income statement includes all income and expenses relating to Fünfte LF Immobiliengesellschaft mbH & Co. KG as in the previous year. The results of operations of Fünfte LF Immobiliengesellschaft mbH & Co. KG are set out in the rental segment in segment reporting (Note 5.1).

2.2.d Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 % and 50 % of the voting rights. The 121 (previous year: 68) investments in associates are accounted for by the equity method of accounting and initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement and its share of post-acquisition movements in reserves is recognized in reserves. The accumulated post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The balance sheet date of the financial statements of the Lloyd Fonds Group is identical to the balance sheet dates of the individual financial statements of all entities accounted for using the equity method of accounting (namely December 31). The financial statements of Lloyd Fonds AG and of the entities accounted for using the equity method of accounting have been prepared using uniform accounting policies.

With respect to fund companies which have not yet entered the placement phase, the Lloyd Fonds Group generally exercises a controlling influence on account of the business relations. For this reason, 3 (previous year: nil) companies in which the Group has an interest of less than 20 % were classified as associates.

2.3 Property, plant and equipment

Items of property, plant and equipment are carried at historical cost and are depreciated (using straight-line depreciation) over their useful lives. Historical cost comprises the expenses directly attributable to the acquisition. Profits or losses attributable to the disposal of property, plant and equipment are stated under other operating result.

Scheduled depreciation is calculated on a uniform Group-wide basis. Fittings in leased office premises have so far been written down over an expected rental period of 10 years. Following the termination of the lease effective December 31, 2006, the residual useful life was reduced to one year in 2005. Please refer to the description in Note 9.4. Useful lives of between 4 and 13 years are assumed for other equipment, operating and business equipment. The useful lives and any residual values are re-evaluated annually to ensure that they are adequate.

2.4 Investment property

In accordance with the option provided in IFRS 1, investment property is recognized at their fair value at the date of transition to IFRS (January 1, 2002). The fair value is to a large extent equivalent to the value in use. Using the assumptions applicable for assessing the value in use of the property, any externally established market value, less selling costs, would not differ significantly from the value in use. The values in use assessed in this way supersede the previously used costs of purchase and production and are depreciated over the useful life (using straight-line depreciation) to their assumed residual values. The cost model is accordingly applied.

The useful life corresponds to the probable investment duration, which will end uniformly in the year 2016. With regard to the determination of the values in use, please refer to Notes 3.4.a and 7.2. The useful lives and any residual values are re-evaluated annually to ensure that they are adequate.

2.5 Intangible assets

Acquired intangible assets are initially recognized at historical cost.

There are no intangible assets with an indefinite useful life in the Lloyd Fonds Group. Internal expenses for the development and operation of the Company's own websites are expensed. Acquired intangible assets are amortized (using the straight-line method) over their useful lives, namely 11 years in the case of trust agreements and 3 years in the case of software.

The trust agreements have resulted from the acquisition of Lloyd Treuhand GmbH in 2002 and comprise a total of nine agreements with investment companies relating to the trusteeship of acquired investment capital. On the date of acquisition, the equity placing volume underlying the valuation amounted to a total of TEUR 125,202 with a fee rate of 0.5 % p. a. The following assumptions have been used for establishing the value of the trust agreements for measuring the assets of Lloyd Treuhand GmbH for purposes of initial consolidation:

■ Net cash flow TEUR	2,616
■ Capitalization interest	6.0% p.a.
■ Maturity in	11 years

The useful life of the trust agreements is based on the average maturities of the underlying assets.

2.6 Impairment of assets

Intangible assets which have an indefinite useful life or which are not yet in a condition in which they are capable of operating as well as goodwill are not amortized; instead, they are subject to an annual impairment test. Assets which are subject to depreciation or amortization are subjected to an impairment test if corresponding events or changes in circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is recognized to the extent by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.7 Financial assets

Financial assets are divided into the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Financial assets held to maturity, and
- Available-for-sale financial assets

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. The following categories are of relevance for the Lloyd Fonds Group:

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money or services directly to a debtor with no intention of trading the receivable. They are included in current assets if they are due not more than 12 months after the balance sheet date. Assets which are due more than 12 months after the balance sheet date are stated as non-current assets. Loans and receivables are included in trade and other receivables as well as in receivables from related parties in the balance sheet.
- Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They include shares in subsidiaries which are not consolidated as a result of their insignificant nature. They are classified as non-current assets unless management intends to sell them within 12 months of the balance sheet date.

Purchases and sales of investments are recognized on the trade date, i. e. the date on which the Group commits to purchase or sell the asset.

Available-for-sale financial assets are initially recognized at fair values plus transaction costs and adjusted to their fair values on the following balance sheet dates. Any unrealized gains or losses arising from changes in the fair value are recognized in equity allowing for the tax effects.

Loans and receivables are carried at amortized cost using the effective interest method. Reasonable adjustments are made for discernible risks of default.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired and the Group has transferred substantially all risks and rewards of ownership.

The Group assesses at every balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in profit or loss – is removed from equity and recognized in profit or loss. Impairment losses relating to equity securities which have been recognized in profit or loss are not subsequently reversed through profit or loss.

2.8 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method less provision for impairment. The effective interest method is used only if the receivable has a residual maturity of more than 12 months. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the effective interest rate. The amount of the provision is recognized in the income statement. Please refer to Note 3.4.c for the calculation of fair values.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and, for the purposes of the cash flow statement, bank overdrafts. On the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.10 Equity

Incremental costs which are directly attributable to the issue of new shares or options are recognized in equity as a deduction, net of tax, from the proceeds of the issue. Costs relating to the issue of new shares as well as the stock-market listing of shares already issued are split and assigned to the individual transactions. Transaction costs arising in connection with the stock-market listing of shares already issued are taken to the income statement.

2.11 Liabilities and borrowings

Liabilities and borrowings are recognized initially at fair value, net of transaction costs incurred. In subsequent periods, liabilities and borrowings are stated at amortized cost; any difference between the proceeds and the redemption value is recognized in profit or loss over the period of the liability or borrowing using the effective interest method. Liabilities and borrowings are classified as current liabilities if they are due not more than 12 months after the balance sheet date; otherwise they are classified as non-current liabilities.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity net of income tax effects.

The net assets attributable to the other limited partners are due to the right of termination provided for in the bylaws in favor of the shareholders of Fünfte LF Immobiliengesellschaft mbH & Co. KG, which as a matter of principle may be exercised for the first time effective December 31, 2015. As this is a "puttable instrument" as defined in IAS 32.18 (b), the capital contributions are classified as a liability. The amount of the settlement entitlement is governed by Article 16 of the bylaws and is based on the fair value of the net assets. It is initially recognized at its fair value (present value of the settlement entitlement). Remeasurement was based on the present value of the settlement entitlement as the fair value in accordance with IDW ERS HFA 9 (new version) Section 50.

Please refer to Note 3.4.c - e for the calculation of fair values.

2.12 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is only provided on temporary differences arising on investments in subsidiaries and associates if the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.13 Revenue recognition

Revenues comprise the fair value received for the sale of services excluding value added tax, discounts and rebates and after eliminating transactions within the Group.

2.13.a Issue

With regard to the placement of investment capital, the benefit is deemed to have been provided at the point at which the corresponding certificates have been signed; the time of accession is accordingly not decisive. Correspondingly, expenses incurred in conjunction with equity placements are recognized at the same time.

In the absence of any stipulation to the contrary in the contract in question, fund design revenues are recognized at the time at which the benefit is provided. The provision of the benefit generally coincides with the completion of the fund prospectus.

2.13.b Rental and leasing as well as trust activities

Revenues generated by rental and leasing and trust activities are recognized in the financial year in which the services are provided.

2.13.c Interest and dividend income

Interest income is recognized on a time-proportion basis using the effective interest method. Dividend income is recognized when the right to receive payment is established, i. e. the date on which the corresponding resolution is passed.

2.14 Employee benefits

2.14.a Profit-participation plans

Allocations of profit, based on certain profit-sharing arrangements for the members of the Management Board and certain employees, are recognized as expenses and stated as a liability in the balance sheet. The Group recognizes an accrued liability in the balance sheet where contractually obliged or where a past business practice has created a constructive obligation.

2.14.b Share-based compensation

The Group operates an equity-settled share-based compensation plan in the form of convertible bonds, in connection with which the conversion rights are satisfied by the issuance of new shares. The fair value of the employee services received in exchange for the grant of the equity component of the convertible bond (hereinafter referred to as the "conversion rights") is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the conversion rights granted. At each balance sheet date, the estimates of the number of conversion rights that are expected to become exercisable are revised. The effect of any revision in the original estimates is recognized in the income statement and a corresponding adjustment made to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and additional paid-in capital when the conversion rights are exercised.

The calculation of the fair value of the liability and equity component is described in Note 3.4.d.

2.15 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.16 Borrowing costs

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifiying asset are capitalized as part of the cost of that asset within the Lloyd Fonds Group.

2.17 Foreign currency translation

2.17.a Functional currency and presentation currency

The functional currency is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency.

2.17.b Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss unless they are required to be recognized in equity as a qualifying cash flow hedge.

2.18 Comparatives

In the interests of heightened comparability associates with a total carrying value of TEUR 1,655, which were recognized as available-for-sale financial assets in the previous year, have been reclassified as investments in associates. Management came to the conclusion that classification as available-for-sale financial assets was inappropriate as it had no intention to sell the assets. Similarly, the investment income (TEUR 280) has been reclassified as share of profit of associates. The inclusion in profit from ordinary activities aptly reflects the Group's activities as the liability remuneration, management fees and interim profits from the sale of ships on the part of associates can be assigned to the Group's operative business.

The Group has previously recognized part of advertising, agency and printing costs as cost of sales. Management takes the view that reclassification of these items as other operating profit reflects the Group's activities more aptly as these expenses are not directly related to funds. This change in recognition of the comparatives for 2004 results in a reduction in the cost of sales as well as a reduction in other operating result of TEUR 237 in either case and solely concerns the Issuing segment.

For the purposes of calculating earnings per share, the equity issue described in Note 7.10.a using Company funds has been included with retrospective effect as of January 1, 2004 in accordance with IAS 33.28 and IAS 33.64. Diluted and basic earnings per share for 2004 have thus been modified and lowered from EUR 9.65 to EUR 1.02.

In addition, net profit and loss from foreign currency translation for 2004 was included in other operating result. However, the Management Board felt that the recognition of these items in net financial result was more appropriate in the light of the Group's activities. This change in the comparative figures for 2004 leads to an increase of TEUR 168 in other operating result as well as an increase of TEUR 12 in financial income and an increase of TEUR 180 in finance costs and is attributable solely to the Issuing segment.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: The market risk (comprising foreign currency risk, interest risk, issuing risk, placement risk and prospectus liability risk), liquidity risk and loss-of-earnings risk. The Group's overall risk management program focuses on the unpredictability of financial markets, and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain types of risk exposure.

Risk management is the responsibility of the central Treasury Department in line with the guidelines adopted by the Management Board. The Treasury Department identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units (Fund Management, Retailing, Fund Design). The Management Board provides written principles for overall risk management and also written policies covering specific areas.

3.1 Market risk

3.1.a Foreign exchange risk

The Group has international operations, particularly in connection with the development and initiation of shipping investments, and is therefore exposed to foreign exchange risks primarily with respect to the US dollar. Foreign-exchange risks arise when future transactions as well as recognized assets and liabilities are denominated in a currency other than the Company's functional currency.

Part of the fund products are initiated on a US dollar basis and not in euros. The Group's risk management policy provides for transactions expected in the next 12 months (primarily income from fund design and the arrangement of financing) to be hedged if the Group takes the view that the transaction constitutes a material amount. Foreign currency forwards are entered into with financial institutions with excellent investment-grade ratings to hedge such risks from expected future transactions.

The equity for funds initiated in US dollars is also offered in US dollars. The relevant commission liabilities are recognized on the date on which these foreign-currency receivables are realized. By means of stringent liabilities and receivables management as well as minimum delay in accounting, it is possible to ensure that the Group is shielded from most of the foreign-exchange exposure by closing positions.

In addition, there are shares in ship fund companies which are exposed to foreign-exchange risks as the ships acquired by these companies as well as the related finance costs and expected income (particularly charter income and proceeds from the sale of the ships) are US-dollar-based whereas part of these companies' expenses as well as the dividends paid to investors are denominated in euros. The Interest and Currency Management department, which is integrated in the Fund Management department, monitors these shares to minimize any potentially negative impact on the Group. Potential risks are averted by the fund companies by means of currency forward transactions and, to a lesser extent, currency option contracts.

3.1.b Interest risk

Interest risk arises from the exposure of financial assets and liabilities to changes in market interest levels. In order to avoid the risk of changes in interest rates, the Lloyd Fonds Group assumes financial liabilities on a fixed-rate basis as far as possible.

In addition, there are shares in ship fund companies which are exposed to interest risks. These are primarily finance contracts entered into by the ship fund companies. The Interest and Currency Management department, which is integrated in the Fund Management department, monitors the interest risks to minimize any potentially negative impact on the Group. The Company endeavors to limit such risks at the level of the fund companies by means of interest-rate derivatives such as interest swaps and, to a lesser extent, interest/currency swaps.

3.1.c Issuing risk

Lloyd Fonds AG develops and initiates investments, particularly in ship funds, for private investors. These activities involve the risk that the company might develop products for which there is no demand on the market. The risk of not having developed marketable products is diminished by the fact that the market is constantly assessed and analyzed by the Retailing department. New products are only developed when clearly positive market acceptance has been established and investors have been signed up before the product start.

3.1.d Placement risk

The Company cannot offer the material part of its fund products to investors until it has acquired the assets in question via the fund companies. As a matter of principle, the acquisition of the assets is financed by the fund companies in the form of bank loans and the partnership capital sought from the investors. Temporary bridge finance is sought from banks to cover the period until the partnership capital has been paid in by the investors. This does not apply to traded UK endowment policies. In connection with this bridge finance, the Company issues a placement guarantee to the financing bank and, as soon as a fund has been established, also to the fund company in question, under the terms of which it undertakes to assume the outstanding capital itself by acquiring the limited-partner shares or to have a third party do so at its own expense.

If after the acquisition of an asset it becomes evident that this asset is not suitable for a new fund or if a new fund cannot be placed in full, Lloyd Fonds AG is liable under such placement guarantee and is subject to a payment/funding obligation. With respect to ship funds, for example, this risk may arise if the value of the ship drops between the date of acquisition and the date on which retailing of the fund product commences or an attractive charter cannot be gained for the ship acquired.

Lloyd Fonds AG attempts to minimize the placement risk as well as the issuing risk described in Note 3.1.c by applying the greatest possible caution to the selection of assets, performing an intensive analysis of the market and making a preliminary selection of retail partners.

3.1.e Prospectus liability risk

Lloyd Fonds AG produces selling prospectuses to obtain equity from investors. These selling prospectuses must contain full and correct information on all matters of relevance for investors. As the publisher of the prospectus, Lloyd Fonds AG is jointly and severally liable with the fund company in question towards individual investors in the event of any errors or omissions in the selling prospectuses.

The selling prospectuses are regularly produced in accordance with the "Principles of proper assessment of prospectuses regarding publicly offered investments" (IDW S 4), a standard issued by the Institut der Wirtschaftsprüfer in Deutschland e.V., and examined by a public auditor for any errors, omissions, ambiguities and implausibilities.

However, the assessment of the prospectus by an auditor as well as other measures do not provide any absolute guarantee of the absence of errors or omissions in the content of past or future prospectuses nor of the economic benefits or tax ramifications of the investment. Accordingly, it cannot be ruled out that damages may be awarded against the Company under its liability for the prospectus on account of errors or omissions in the contents of past or future prospectuses particularly if the investors' expectations of returns are not fulfilled on account of deficiencies in the asset or for any other reasons. In this case, there is a risk of Lloyd Fonds AG having to make large payments to customers either for legal reasons or in the interests of its reputation.

In order to reduce these risks, Lloyd Fonds AG applies what it considers to be the greatest possible care in the selection of the products which it offers, their design, the description of these products and the selection and monitoring of its retail partners. In addition, Lloyd Fonds AG regularly has the tax-related statements contained in the prospectus reviewed by a tax expert. As well as this, the retail partners (particularly banks) regularly submit the prospectuses to internal examination prior to retailing the products. Moreover, Lloyd Fonds AG endeavors to support its retailing partners on a sustained basis by means of suitable training.

3.2 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient liquidity reserves. As a result of the dynamic nature of the environment in which the Group operates, the aim of the Treasury department is to maintain the necessary flexibility in financing by ensuring that there are sufficient liquidity reserves as well as unutilized credit lines.

3.3 Loss-of-earnings risk

At Fünfte LF Immobiliengesellschaft mbH & Co. KG, there is a risk of loss of rental income; this risk is being averted by means of constant supervision by the Treasury department in conjunction with the relevant Property department.

Adjustments are made to allow for the loss of rental income. Following the termination by a lessee, impairment charges of TEUR 598 were taken on one of the four leased properties. As the validity of the termination was disputed between the parties and became the subject of litigation, Fünfte LF Immobiliengesellschaft mbH & Co. KG accepted an out-of-court settlement with the lessee, as a result of which it collected an amount of TEUR 480, which was recognized in the income statement.

To date, the area concerned has not been leased again. If it is not possible for the property, which is located in Hamburg, to be leased again or at only a substantially lower price than previously budgeted, this will have a long-term negative effect on share of profit of associates and hence the Group's results of operations.

The Lloyd Fonds Group is averting the risk of additional impairment losses by utilizing the services of independent experts to verify its calculations.

3.4 Calculation of fair value

3.4.a Investment property

The fair value of investment property reflects rental income from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental income from future leases in the light of current conditions. The best evidence of fair value is given by current prices quoted in an active market for similar properties in the same location and condition and subject to similar leases and other contracts. As the current prices of an active market are not available in this form, a discounted cash flow method is used instead. This is based on the value in use due to the identity of the parameters of relevance for measurement purposes. The calculation and assumed parameters are described in Note 7.2.

3.4.b Available-for-sale financial assets

The fair value of available-for-sale financial assets is calculated using the capitalized earnings method based on a standard market discount rate matching the term of the asset in question.

3.4.c Trade receivables and payables

It is assumed that the fair value of trade receivables and payables equals their nominal value less estimated credit adjustments. The fair value of non-current financial assets is derived by discounting the future contractual cash flows at the current market interest rate that is available to the Group for comparable financial instruments.

3.4.d Share-based compensation and convertible bonds

The fair value of convertible bonds is calculated using a binomial model as of the date of the grant. The parameters to be identified as of this date, i. e. primarily the term, expected volatility, expected dividend yield as well as the risk-free interest rate, are described in Note 7.10.e.

The fair value of the liability component of non-current liabilities was calculated using market interest rates for comparable non-convertible bonds. The residual value of the fair value derived from the binomial model representing the value of the equity conversion component is recognized in equity on a time-proportion basis net of tax.

3.4.e Net assets attributable to other limited partners

The fair value of the net assets attributable to other limited partners was calculated on the basis of a defined effective interest rate. This is the internal interest rate for the payouts originally stated in the selling prospectus for Fünfte LF Immobiliengesellschaft mbH & Co. KG. Thereupon, the present values of payments to the limited partners are discounted at the effective interest rate. As in the previous year, the forecast payouts were adjusted to allow for the economic performance of Fünfte LF Immobiliengesellschaft mbH & Co. KG.

4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

All estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events which are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may deviate from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The estimates made at the date of transition to IFRS (January 1, 2002) correspond with the estimates made as of the same date in accordance with German GAAP (HGB).

4.1 Estimated impairment losses on investment property

The Lloyd Fonds Group annually tests whether the investment properties have suffered any impairment in accordance with the accounting method described in Note 2.4. The recoverable amounts of the investment properties are assumed to equal TEUR 13,848 (previous year: TEUR 14,023) on the basis of value-in-use calculations as comparable market data for calculating the fair values of investment properties is not available. These calculations require the use of estimates. Reference is made to Notes 3.4.a and 7.2 in this connection. As a result of the deconsolidation described in Note 2.2.c, the possible effects of the circumstances actually arising or necessary changes to assumptions in later periods will impact the investments in associates and share of profit of associates.

4.2 Net assets attributable to other limited partners

The net asset value attributable to the other limited partners of Fünfte LF Immobiliengesellschaft mbH & Co. KG is recognized at its fair value. The fair value is based on the calculation of the present value of the settlement entitlement and on this basis comes to TEUR 1,881 (previous year: TEUR 2,153). These calculations also require the use of estimates. Reference is made to Notes 3.4.e and 7.12. As a result of the deconsolidation described in Note 2.2.c, the possible effects of the circumstances actually arising or necessary changes to assumptions in later periods will impact the investments in associates and share of profit of associates.

5 SEGMENT INFORMATION

5.1 Primary reporting format – business segments

A business segment is a distinguishable component of an entity that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. In accordance with the Group's internal management reporting systems, the primary reporting format matches the Group's business segments.

The Lloyd Fonds Group comprises the following business segments:

- Issuing: The Issuing segment comprises all activities connected with the fund design and issuing of investments for private investors. In addition to focusing on shipping investments, the range of products also comprises real estate, renewable energies and traded endowment policies.
- Rental and Leasing: The subject of the Company's business activities is the rental and leasing of four retail properties in Northern Germany as well as condominiums in the United States. The business also comprises the disposal of the properties after the end of the originally planned investment period.
- Trusteeship: Trusteeship mainly comprises responsibility for handling new issues on a trust basis and also managing the relevant trust accounts Additional information and general services are also provided to the trustors.

Segment results break down as follows:

TEUR 2005	Note	Issuing	Rental and Leasing	Trusteeship	Unallocated	**Group**
Sales	6.1	65,622	1,127	4,257	–	71,006
Changes in inventories		621	–	–	–	621
Cost of sales	6.2	–39,471	–113	-	–	–39,584
Personnel expenses	6.3	–4,771	–	–882	–	–5,653
Depreciation and amortization	6.4	–295	–78	–240	–1	–614
Impairment losses	6.4 – 5	–	–611	–	–	–611
Reversal of impairments	6.5, 8.1	–	502	–	–	502
Non-cash expenses	8.1	–20	–	–	–	-20
Other non-cash income	8.1	110	772	8	–	890
Other operating result	6.5	–5,044	381	–594	–39	–5,296
Share of profit of associates	6.6	1,373	–	142	–	1,515
Profit from operating activities		18,125	1,980	2,691	–40	22,756
Net financial result	6.7	758	–681	85	2	164
Profit before income tax		18,883	1,299	2,776	–38	22,920
Income tax expense	6.8					–5,800
Profit for the year						**17,120**

The other operating result in the Rental and Leasing segment includes income of TEUR 480 from a settlement relating to the termination of a lease (see Note 3.3).

TEUR **2004**	Note	Issuing	Rental and Leasing	Trusteeship	**Group**
Sales	6.1	47,821	1,281	2,954	52,056
Cost of sales	6.2	–30,377	–153	–	–30,530
Personnel expenses	6.3	–3,148	–	–516	–3,664
Depreciation and amortization	6.4	–145	–21	–227	–393
Impairment losses	6.4 – 5	–	–1,049	–	–1,049
Non-cash income	8.1	158	391	–	549
Other operating result	6.5	–2,701	–159	–360	–3,220
Share of profit of associates	6.6	239	–	41	280
Profit from operating activities		11,847	290	1,892	14,029
Net financial result	6.7	–264	–747	13	–998
Profit before income tax		11,583	–457	1,905	13,031
Income tax expense	6.8				–3,509
Profit for the year					**9,522**

The expenses and income in other operating result arising from transactions between the individual segments are, if necessary, eliminated. Please refer to Note 2.18 for details of adjustments to the comparison figures for the Issuing and Trusteeship segments.

The cost of sales in the Rental and Leasing segment comprises the operating expenses directly attributable to rental income. Thereof expenses of TEUR 23 (previous year: nil) did not result in any rental income.

Segment assets, liabilities and investments are as follows:

TEUR **2005**	Issuing	Rental and Leasing	Trusteeship	Unallocated	**Group**
Segment assets	78,260	360	4,124	1,331	84,075
Investments in associates	2,888	11,767	130	–	14,785
Segment liabilities	11,638	10,605	313	1,121	23,677
Purchase of intangible assets and property, plant and equipment	537	–	45	24	606
2004					
Segment assets	21,645	14,387	4,607	41	40,680
Investments in associates	1,640	–	15	–	1,655
Segment liabilities	10,543	13,551	329	1,608	26,031
Purchase of intangible assets and property, plant and equipment	201	–	31	–	232

Segment assets are the operating assets that are employed by a segment in its operating activities. They comprise intangible assets, real estate investments, property, plant and equipment, shares in subsidiaries and associates as well as current assets. Segment liabilities are those operating liabilities that result from the operating activities of a segment. Current and deferred tax assets and liabilities are not included in segment assets or liabilities. For the purpose of reconciling segment results with the balance sheet, these assets and liabilities are included in the Unallocated column. Purchases comprise expenditure on intangible assets and property, plant and equipment.

The average number of employees within the Group by segment is as follows:

	Issuing	Rental and Leasing	Trustee-ship	**Group**
2005	44	-	21	65
2004	28	-	13	41

5.2 Secondary reporting format

10,73 % of the Group's assets (TEUR 10,622) are accounted for by assets held in foreign countries (United States) (previous year: nil). These primarily entail the share in the investment company for US condominiums (see Note 2.2.b).

As in the previous year, no sales were generated in foreign countries and no investments in property, plant or equipment or intangible assets were executed.

6 NOTES ON THE CONSOLIDATED INCOME STATEMENT

6.1 Sales

Sales break down as follows:

TEUR	Note	**2005**	**2004**
Issuing			
Placement of investment capital		40,792	31,433
Fund design		19,491	15,028
Arrangement of financing		4,429	983
Others		910	377
	5	65,622	47,821
Trusteeship	5	4,257	2,954
Rental and Leasing	5	1,127	1,281
		71,006	**52,056**

6.2 Cost of sales and changes in inventories

The cost of sales breaks down as follows:

TEUR	2005	2004
Commission	36,851	29,079
Cost of other services bought	2,733	1,451
	39,584	**30,530**

Commission contains performance-related remuneration payable to the retail partners for acquiring investment capital. See Note 2.18 for details of the adjustments to comparative figures.

See Note 7.8 for details of changes in inventories.

6.3 Personnel expenses

Personnel expenses break down as follows:

TEUR	Note	2005	2004
Wages and salaries		5,119	3,308
Convertible bonds granted to employees	7.10.b	20	-
Social security		507	343
Post-retirement benefit costs		27	13
		5,673	**3,664**

Wages and salaries include variable remuneration of TEUR 981 (previous year: TEUR 840) payable to employees and members of the Management Board.

The personnel expenses for the convertible bond granted are calculated by allocating the equity component as of the date of grant over its entire life.

The employer contributions to the statutory pension scheme as well as contributions to direct insurance cover are classified as defined contribution plans in accordance with IAS 19.38. In the current year, this expenditure came to TEUR 308 (previous year: TEUR 203).

6.4 Depreciation, amortization and impairment losses

Depreciation, amortization and impairment losses break down as follows in accordance with Notes 7.1 – 7.3:

TEUR	Note	2005	2004
Depreciation and amortization			
Property, plant and equipment	7.1	310	149
Investment property	7.2	78	20
Intangible assets	7.3	226	224
		614	393
Impairment losses			
Investment property	7.2	598	983
Depreciation, amortization and impairment losses		**1,212**	**1,376**

6.5 Other operating result

Other operating result breaks down as follows:

TEUR	Note	2005	2004
Other operating income			
Income from reversal of impairment losses	7.2	502	–
Income from the reduction in the net assets attributable to other limited partners	7.12	396	391
Damages	3.3	480	175
Derecognition of liabilities		376	158
Remuneration in kind		64	38
Rentals		59	85
Other income		449	150
		2,326	997
Other operating expenses			
Financial statement, legal and consulting costs		–1,282	–683
Entertainment expenses		–1,021	–587
Non-deductible input tax		–471	–276
Circulars, press and advertisements		–591	–328
Office supplies and communications		–530	–397
Rentals, ancillary rental costs and cost of premises		–500	–371
Other staff costs		–446	–167
Motor vehicle and travel costs		–380	–245
Catering costs		–266	–262
IT costs		–150	–121
Repairs and maintenance		–142	–9
Other expenses		–464	–288
		–6,243	–3,734
Other operating result		**–3,917**	**–2,737**

See Note 2.18 for details of the adjustments to comparative figures. The impairment losses on trade receivables came to TEUR 13 in the current year (previous year TEUR 66).

6.6 Share of profit of associates

Of the share of profit of associates of TEUR 1,515 (previous year: TEUR 280), a sum of TEUR 849 (previous year: TEUR 252) is due to interim profits from the sale of ships. See Note 2.18 for details of the adjustments to comparative figures.

6.7 Net financial result

Net financial result breaks down as follows:

TEUR	Note	2005	2004
Finance income			
Interest income on bank balances		286	44
Gains from foreign-currency transactions		777	12
Interest income on convertible bonds	7.10.e	9	–
Interest income from related parties	9.2	4	4
		1,076	60
Finance costs			
Interest expenses on liabilities to banks		–644	–697
Losses from foreign-currency transactions		–143	–180
Interest expenses due to other limited partners		–124	–176
Convertible bonds	7.10.e	–1	–
Interest expenses due to related parties	9.2	–	–5
		–912	–1,058
Net financial result		**164**	**–998**

See Note 2.18 for details of the adjustments to comparative figures.

6.8 Income tax expense

Income tax expense comprises income taxes paid or owed as well as deferred taxes. Taxes entail corporate tax plus the solidarity surcharge. In the previous year, trade tax expense also arose to a minor extent. Income tax expense breaks down as follows:

TEUR	Note	2005	2004
Current taxes		4,844	3,624
Deferred taxes	7.13	956	–115
Income tax expense		**5,800**	**3,509**

Income tax expense can be reconciled as follows with the expected income tax expense which would have arisen on IFRS profit before income tax on the basis of an average tax rate of 26.375 % for the Group parent (Lloyd Fonds AG):

TEUR	2005	2004
Profit before income tax	22,920	13,031
Tax rate (Lloyd Fonds AG)	26.375%	26.375%
Notional tax expense	6,045	3,437
Share of notional tax expense attributable to other limited partners	–436	28
Tax-free income	–389	–
Tax refunds and derecognition of tax liabilities for prior years	–1	–159
Tax backpayments for prior years	8	13
Non-deductible operating expenses	119	113
Other tax rates	412	81
Losses from non-incorporated entities	–	–8
Other	42	4
Income tax expense	**5,800**	**3,509**

As an incorporated entity, the Parent Company is subject to corporate tax of 25 % plus the solidarity surcharge of 5.5 % of the corporate tax owed. For the most part, no trade tax liability arises as the trade income of the Parent Company from its business interests in the limited-partnerships are eliminated in accordance with the simplification rules provided for in the Trade Tax Act.

6.9 Earnings per share

Basic

Basic earnings per share are calculated by dividing profit or loss attributable to the ordinary equity holders by the average number of ordinary shares outstanding during the year:

	2005	2004
Profit attributable to equity holders in parent company (TEUR)	16,133	9,654
Average number of shares issued (in thousands)	10,064	9,500
Basic earnings per share (EUR per share)	1.60	1.02

Diluted

Diluted earnings per share are calculated by adding all conversion rights to the average number of ordinary shares outstanding. It is assumed that the convertible bond will be converted into shares and the net profit will be adjusted to allow for interest expense and the tax effect. With respect to the conversion rights, the number of shares which it was possible to acquire at the fair value (determined by reference to the annual average market price of the Company's shares) is calculated. This calculation is based on the monetary value of the rights attached to the still outstanding conversion rights. The number of shares thus calculated is compared with the number which would have arisen had the conversion rights been exercised.

	Note	2005	2004
Profit attributable to equity holders in parent company (TEUR)		16,133	9,654
Interest expense on convertible bond (net; in TEUR)	6.7	1	–
Interest income on convertible bond (in TEUR)	6.7	–9	–
Deferred income taxes (in TEUR)	6.8	2	–
Profit for determining diluted earnings per share (in TEUR)		16,127	9,654
Weighted average number of shares issued (in thousands)		10,064	9,500
Adjustments for assumed conversion of convertible bonds (in thousands)		14	–
Weighted average number of shares for diluted earnings per shares (in thousands)		10,078	9,500
Diluted earnings per shares (EUR per share)		**1.60**	**1.02**

See Note 2.18 for details of the adjustments to comparative figures.

6.10 Dividend per share

Amounts available for payment as dividends are based on the annual financial statements of Lloyd Fonds AG, which are prepared in accordance with German GAAP (HGB).

The dividend paid in 2005 for the previous year equaled TEUR 4,300 (EUR 4.30 per share) on the basis of 1,000,000 dividend-entitled shares. The Management Board of Lloyd Fonds AG will be asking the shareholders to approve a dividend of EUR 1.10 per share for 2005. 12,666,667 shares are dividend-entitled. This dividend liability of TEUR 13,933 is not included in these consolidated financial statements.

7 NOTES ON THE CONSOLIDATED BALANCE SHEET

7.1 Property, plant and equipment

The carrying values break down as follows:

TEUR	Note	Buildings on leasehold-land	Other equipment, operating and business equipment	Total
At January 1, 2004				
Cost		289	720	1,009
Accumulated depreciation		–148	–358	–506
Net book amount		141	362	503
Fiscal 2004				
Opening net book amount		141	362	503
Additions		–	163	163
Disposals		–	–81	–81
Depreciation	6.4	–29	–120	–149
Accumulated depreciation on disposals		–	66	66
Closing net book amount		112	390	502
At December 31, 2004				
Cost		289	802	1,091
Accumulated depreciation		–177	–412	–589
Net book amount		112	390	502
Fiscal 2005				
Opening net book amount		112	390	502
Additions		20	502	522
Disposals		–147	–193	–340
Depreciation	6.4	–64	–246	–310
Accumulated depreciation on disposals		134	184	318
Closing net book amount		55	637	692
At December 31, 2005				
Cost		162	1,111	1,273
Accumulated depreciation		–107	–474	–581
Net book amount		55	637	692

7.2 Investment property

The four retail properties in Göttingen, Hardegsen, Leezen and Hamburg are no longer included in the consolidated financial statements as of December 31, 2005 on account of the deconsolidation referred to in Note 2.2.c.

With regard to the recognized rental and operating expenses for fiscal 2004 and 2005, please refer to the details in segment information (Rental and Leasing segment).

The carrying values break down as follows:

TEUR	Note	Investment property
At January 1, 2004		
Cost		16,209
Accumulated depreciation and impairment losses		–1,183
Net book amount		15,026
Fiscal 2004		
Opening net book amount		15,026
Depreciation	6.4	–20
Impairment losses	6.4	–983
Closing net book amount		14,023
At December 31, 2004		
Cost		16,209
Accumulated depreciation and impairment losses		–2,186
Net book amount		14,023
Fiscal 2005		
Opening net book amount		14,023
Depreciation	6.4	–78
Impairment losses	6.4	–598
Reversal of impairments	6.5	501
Deconsolidation	2.2.c	–13,848
Closing net book amount		–
At December 31, 2005		
Cost		–
Accumulated depreciation and impairment losses		–
Net book amount		–

The carrying values break down as follows:

TEUR	Dec. 31, 2005	Decon-solidation	Dec. 31, 2004
Göttingen property	–	5,926	5,664
Hardegsen property	–	2,646	2,472
Leezen property	–	1,611	1,621
Hamburg property	–	3,665	4,266
Total book values	**–**	**13,848**	**14,023**

The impairment loss of TEUR 598 for 2005 (previous year: TEUR 983) concerns the Hamburg property (previous year: all properties) and is due to vacancies in the year under review following the termination of the lease. The reversals of impairment losses in fiscal 2005 of TEUR 501 (previous year: TEUR 0) primarily relate to the Göttingen property (TEUR 313) and the Hardegsen property (TEUR 188) and are due to more favorable rental income forecasts. Impairment losses and reversals are based on calculations of the value in use determined by discounting future cash flows.

The net cash flow for the investment is as follows:

TEUR	Dec. 31, 2005	Decon-solidation	Dec. 31, 2004
Göttingen	–	12,047	10,983
Hardegsen	–	5,361	4,928
Leezen	–	3,134	3,124
Hamburg	–	7,527	8,674

The net cash flow is calculated from the rental income over the entire investment duration less the total costs. Indexing of the rental income of between 1.2 % and 2.0 % p. a. as stipulated in the contracts have been taken account of. Total costs are calculated using an inflation mark-up of 2 % p. a. In order to assess the residual value, the disposal factor which is applied is multiplied by the net rental income of the final investment year. These calculations are all based on an investment period up to the year 2016 (year of disposal). The calculations for all properties continued to be based on a standard market discount rate for matching maturities of 6.8 % p. a. and a disposal factor of 11. The discount rate comprises the interest rate for the funding plus a premium to cover the risk. The future cash flows have been estimated without taking account of any possible increase in the earnings power of the assets. The estimated costs include 4 % general administrative expenses as well as 5 % maintenance costs and risk of non-payment of rent, in relation to the rental income. Management retained the services of an outside expert in August 2005 to verify the appropriateness of the results of the discounted cash flow method.

7.3 Intangible assets

The carrying values break down as follows:

TEUR	Note	Intangible assets
At January 1, 2004		
Cost		2,283
Accumulated depreciation		–316
Net book amount		1,967
Fiscal 2004		
Opening net book amount		1,967
Additions		68
Depreciation	6.4	–224
Closing net book amount		1,811
At December 31, 2004		
Cost		2,351
Accumulated depreciation		–540
Net book amount		1,811
Fiscal 2005		
Opening net book amount		1,811
Additions		84
Depreciation	6.4	–226
Closing net book amount		1,669
At December 31, 2005		
Cost		2,435
Accumulated depreciation		–766
Net book amount		1,669

Intangible assets primarily comprise the trust agreements referred to in Note 2.5, which have a carrying value of TEUR 1,537 as of December 31, 2005 (previous year: TEUR 1,729). Scheduled annual amortization comes to TEUR 192.

7.4 Investments in associates

This item breaks down as follows. In this connection, it should be noted that subsequent reductions or additions to the amortized cost of existing assets are not included in the number stated:

		2005		**2004**
	Number	TEUR	Number	TEUR
Beginning of year	68	1,655	56	878
Additions	52	11,679	20	949
Deconsolidation (Note 2.2.c)	1	1,505	–	–
Disposals	–1	–59	–1	–94
Reclassification from related companies	4	75	6	153
Reclassification to related companies	–1	–14	–1	–21
Reclassification to affiliated companies	–2	–56	–12	–210
End of the year	**121**	**14,785**	**68**	**1,655**

See Note 2.18 for details of the adjustments to comparative figures. Additions in the current year primarily relate to the share held by Lloyd Fonds US Real Estate I L.P. (see Note 2.2.b) in the investment company for property companies with US condominiums. The disposals for the current year generated profits of TEUR 18 (previous year: nil); there were no losses in the current year.

7.5 Available-for-sale financial assets

Available-for-sale financial assets break down as follows:

	Dec. 31, 2005		Dec. 31, 2004	
	Number	TEUR	Number	TEUR
Subsidiaries	42	235	22	281
Affiliated companies	68	3,330	59	2,681
	110	**3,565**	**81**	**2,962**

Movements in the individual items are shown below. In this connection, it should be noted that subsequent reductions or additions to the amortized cost of existing assets are not included in the number stated:

	2005		2004	
Shares in subsidiaries:	Number	TEUR	Number	TEUR
Beginning of year	22	281	18	332
Acquisition of related companies	27	51	15	99
Disposals	–2	–8	–6	–18
Additions to companies consolidated	–2	–28	–	–
Reclassification from associates	1	14	1	21
Reclassification to associates	–4	–75	–6	–153
End of the year	**42**	**235**	**22**	**281**

	2005		2004	
Affiliated companies:	Number	TEUR	Number	TEUR
Beginning of year	59	2,681	34	1,421
Additions	11	648	15	1,021
Disposals	–4	–55	–2	–78
Reclassification from associates	2	56	12	317
End of the year	**68**	**3,330**	**59**	**2,681**

7.6 Trade and other receivables

All trade and other receivables are current and break down as follows:

TEUR	Dec. 31, 2005	Dec. 31, 2004
Receivables from issuing business	16,043	12,311
Receivables from Trusteeship	533	1,273
Limited-partnership shares outlaid in favor of individual limited partners	7	424
Receivables from renting and leasing, net	–	66
Others	1,090	283
	17,673	14,357

Impairment losses on trade receivables are set out in Note 6.5. Receivables from rental and leasing in the previous year are shown net of accumulated impairment of TEUR 123.

7.7 Receivables from related parties

Receivables from related parties break down as follows:

TEUR	Dec. 31, 2005	Dec. 31, 2004
Receivables from associates	7,714	1,063
Receivables from non-consolidated subsidiaries	91	110
Receivables from shareholders and members of the Management Board	–	17
	7,805	1,190

The increase in receivables from associates corresponds to the sales reported in Note 9.2.a.

7.8 Inventories

Inventories comprise costs invoiced and advanced by third parties, which will be charged to a fund company still to be established in 2006. Inventories are recognized at cost.

7.9 Cash and cash equivalents

See Note 8.2 for the breakdown of cash and cash equivalents. It should be noted that bank overdrafts are assigned to current borrowings in the balance sheet.

7.10 Equity

Movements in the Lloyd Fonds Group's consolidated equity are set out in the statement of changes in equity.

7.10.a Share capital

As of December 31, 2005, share capital consists of 12,666,667 (previous year: 1,000,000) ordinary bearer shares with no par value, each with a nominal value of EUR 1. The ordinary shares are fully dividend-entitled for fiscal 2005.

At the extraordinary shareholder meeting on August 3, 2005, a resolution was passed authorizing an equity issue of TEUR 8,500 from the Company's own funds, raising the share capital to TEUR 9,500. This was entered in the companies register on September 8, 2005.

Acting with the approval of the Supervisory Board, the Management Board used Authorized Capital I, which had been established at the shareholders' meeting of August 3, 2005, to increase the Company's share capital by TEUR 3,167 to TEUR 12,667 on October 25, 2005. This was entered in the companies register on October 26, 2005.

At Lloyd Fonds AG's annual general meeting held on June 23, 2005, the Management Board was granted authorization to initiate and execute the stock-market flotation of the Company's shares by no later than December 31, 2006. Following the admission to trading in the official market of the Frankfurt Stock Exchange in the Prime Standard segment, the stock was listed for the first time on October 28, 2005. For this purpose, 3,166,667 new shares and 2,375,000 old shares were floated. The shares are traded under the securities number 617487.

Authorized capital

In accordance with Section 4 (1) and (2) of the Company's bylaws as amended on October 25, 2005, the Management Board acting with the Supervisory Board's approval is authorized to

- issue new no-par-value bearer shares in return for a cash capital contribution once or several times by up to TEUR 333 on or before December 31, 2006 (Authorized Capital I). Statutory preemptive subscription rights are excluded,
- issue new no-par-value bearer shares in return for a cash capital contribution and/or a callable deposit once or several times by up to TEUR 1,250 on or before June 22, 2010, exclude fractional amounts from the preemptive subscription rights and exclude the preemptive subscription rights provided that the new shares are issued at a price not materially less than the market price (Authorized Capital II).

Contingent capital

Pursuant to a resolution passed at the annual general meeting on August 3, 2005 and entered in the companies register on September 8, 2005, the Management Board increased the Company's share capital by up to TEUR 500 through the issue of up to 500,000 new no-par-value bearer shares on a contingent basis. The contingent capital is to be used to grant shares to satisfy the conversion rights of the holders of convertible bonds, which are to be issued to members of the Management Board and managers and employees of Lloyd Fonds Group as part of the "2005 Staff Participation Program". The contingent equity issue will be executed only to the extent that holders of conversion rights make use of such rights. The new shares are dividend-entitled as of the beginning of the fiscal year for which the shareholders have not yet passed any resolution concerning the allocation of the distributable profit as of the date of exercise of the conversion rights. The nominal value of the contingent capital was unchanged at TEUR 500 as of December 31, 2005 as no conversion rights had been exercised as of the balance sheet date.

Disclosure of November 24, 2005 in accordance with Section 25 (1) of the German Securities Trading Act

The following persons notified us pursuant to Section 25 (1a) of the German Securities Trading Act that they held the following shares in our Company as of October 26, 2005:

- Zachariassen Beteiligungsgesellschaft mbH, Hamburg: 15,42 %.
- Ernst Russ GmbH & Co. KG, Hamburg: 15,42 %.
  - Ernst Russ Verwaltungsgesellschaft mbH, Hamburg: 15,42 %. Of these, 15.42 % of the voting rights are attributable to this party pursuant to Section 22 (1), Sentence 1, No. 1 of the German Securities Trading Act.
  - Mr. Robert Lorenz-Meyer, Hamburg: 15,42 %. Of these, 15.42 % of the voting rights are attributable to this party pursuant to Section 22 (1), Sentence 1, No. 1 of the German Securities Trading Act.
- Wehr Schiffahrts KG, Hamburg: 12,75 %.
  - Verwaltung Wehr Schiffahrtsgesellschaft mbH, Hamburg: 12,75 %. Of these, 12,75 % of the voting rights are attributable to this party pursuant to Section 22 (1), Sentence 1, No. 1 of the German Securities Trading Act.
  - Mr. Jürgen Peter Wehr, Hamburg: 14,62 %. Of these, 12,75 % of the voting rights are attributable to this party pursuant to Section 22 (1), Sentence 1, No. 1 of the German Securities Trading Act.
- Salomon Unternehmensberatung GmbH, Hamburg: 7,71 %.
  - Mr. Klaus D. Salomon, Hamburg: 7,71 %. Of these, 7,71 % of the voting rights are attributable to this party pursuant to Section 22 (1), Sentence 1, No. 1 of the German Securities Trading Act.
- KG DIS Beteiligungsgesellschaft für Immobilien- und Schiffsbeteiligung GmbH & Cie, Hamburg: 7,71 %.
  - DIS Beteiligungsgesellschaft für Immobilien- und Schiffsbeteiligungen GmbH, Hamburg: 7,71 %. Of these, 7,71 % of the voting rights are attributable to this party pursuant to Section 22 (1), Sentence 1, No. 1 of the German Securities Trading Act.
  - Mr. Jürgen Draabe, Hamburg: 7,71 %. Of these, 7,71 % of the voting rights are attributable to this party pursuant to Section 22 (1), Sentence 1, No. 1 of the German Securities Trading Act.
- Dr. Torsten Teichert, Hamburg: 9,08 %.

7.10.b Additional paid-in capital

The share premium of TEUR 47,500 from the placement of the new shares at their issue price of EUR 16.00 is carried as additional paid-in capital. From this was deducted the transaction costs attributable to the new shares totaling TEUR 4,949 net of income tax benefit of TEUR 1,305 in accordance with IAS 32.35 et seq., making a total of TEUR 3,644. Transaction costs primarily comprise bank commission, auditing and external accounting costs as well as legal and consulting fees.

The reserve for the convertible bond is based on the rules for compound financial instruments and is described below in Note 7.10.e. The equity component of TEUR 20 net of tax of TEUR 5 (see Note 7.13) was recognized in additional paid-in capital.

An amount of TEUR 639 arose as a result of the merger of Lloyd Fonds Gesellschaft für Unternehmensbeteiligungen mbH & Co. KG with Lloyd Fonds AG as of January 1, 2001. In connection with the equity issue using the Company's funds approved on August 3, 2005, a sum of TEUR 539 of this amount was withdrawn from additional paid-in capital.

7.10.c Retained earnings

As of December 31, 2005, retained earnings comprise solely profit carry-forwards which have not been distributed to shareholders. On December 31, 2004, they additionally comprised the reserves required by law or the Company's bylaws. In connection with the equity issue using the Company's funds approved on August 3, 2005, a sum of TEUR 7,961 was withdrawn from retained earnings.

7.10.d Minority interest

Minority interest comprise the interests of other shareholders from the first-time consolidation of Lloyd Fonds Real Estate I L.P. of TEUR 8 (see Note 2.2.b) as well as the interests of other shareholders in the greater IFRS assets and the lesser IFRS liabilities of the subsidiary Fünfte LF Immobiliengesellschaft mbH & Co. KG, Hamburg. Minority interest before deconsolidation (see Note 2.2.c) are valued at TEUR 987 and result from impairment losses taken on property, plant and equipment in accordance with German GAAP (HGB) in fiscal 2005.

7.10.e Staff participation program

The contingent capital of EUR 500,000 described in Note 7.10.a (hereinafter referred to as the convertible bond) is divided into two installments of 100,000 (Installment I) and 400,000 (Installment II) partial debentures respectively, in accordance with the conditions for the issue of bonds for the staff participation program. The partial debentures are interest-free with equal rights. The nominal amount and the issue amount per partial debenture is EUR 1.00.

The partial debentures grant their holders the right to subscribe to no-par-value, dividend-entitled ordinary shares issued by Lloyd Fonds AG on a one-for-one basis. The subscription rights are satisfied by the issue of new shares which are dividend-entitled as of the beginning of the fiscal year for which the shareholders have not yet passed any resolution concerning the allocation of the distributable profit as of the date of exercise of the conversion rights.

Members of the issuer's Management Board, employees of the issuer as well as companies related to it and the managing directors of companies related to the issuer are entitled to exercise the subscription rights. The exact group of entitled persons as well as the volume of partial debentures issued are determined by criteria such as length of service and achievement of personal objectives. Allocation of the partial debentures requires the Supervisory Board's approval.

The employee may only exercise his conversion rights if notice of termination has not been given for his employment contract with the Group. If the holder of the partial debenture terminates his employment contract with the Group prematurely, he will receive the nominal value of the partial debenture and relinquish all rights under it.

The issuing period for Installment I is determined by the Management Board with the Supervisory Board's approval. However, the earliest exercise period of 14 days does not commence before the date of publication of the interim annual financial statements for the third quarter of 2007. The partial debentures grant their holders the right to subscribe to no-par-value, dividend-entitled ordinary shares issued by Lloyd Fonds AG. Upon exercising the conversion rights, the holder receives one new share per partial debenture for a subscription price of EUR 10.00.

The issue periods for Installment II are described below. If less than the maximum number of partial debentures is issued in issue periods 1, 2 and 3, the remaining partial debentures may be issued in an additional fourth issue period.

- Issue period 1 for up to 133,333 partial debentures within the first month after the commencement of listing on the stock market. The exercise period comprises 14 days after the publication of the interim financial statements for the third quarter of 2007.
- Issue period 2 for up to 133,333 bonds within the first month after the annual general meeting at which the shareholders pass a resolution concerning the allocation of the profit for fiscal 2006. The exercise period comprises 14 days after the publication of the interim financial statements for the third quarter of 2009.
- Issue period 3 for up to 133,334 partial debentures within the first month after the annual general meeting at which the shareholders pass a resolution concerning the allocation of the profit for fiscal 2007. The exercise period comprises 14 days after the publication of the interim financial statements for the third quarter of 2010.
- Issue period 4 for the partial debentures previously not issued within the first month after the annual general meeting at which the shareholders pass a resolution concerning the allocation of the profit for fiscal 2008. The exercise period comprises 14 days after the publication of the interim financial statements for the third quarter of 2011.

The issue of partial debentures to members of the Management Board in Installment II is limited to 100,000. The conversion price in issue period 1 equals the conversion price for Installment 1 and stands at EUR 10.00 per new share. The additional amount payable in issue periods 2 and 3 per bond equals 60 % of the volume-weighted 5-day average XETRA price for the issuer's stock prior to commencement of the issue period, provided that this is no less than EUR 10.00 per bond.

Conversion rights assigned to members of the Management Board are subject to a minimum price. Conversion rights under Installment II partial debentures may only be exercised by members of the Management Board if the volume-weighted 5-day average XETRA price of the stock prior to the beginning of the exercise period exceeds the price of the issuer's stock prior to the commencement of the issue period by 25 %. For Installment 1, the initial issue price of the issuer's stock and not the average price is decisive. If the criteria for exercise are not met in the exercise period, the Supervisory Board may extend the exercise period.

On November 28, 2005, the Management Board granted 125,600 bonds from Installment II (issue period 1) at an exercise price of EUR 10.00 per share to employees of the Group. No conversion rights have been forfeited since being issued. No partial debentures were granted to members of the Management Board. The partial debentures granted vest in the fourth quarter of 2007.

The fair value of the partial debentures granted in the period equals TEUR 631. The main parameters for the valuation model are the stock price of EUR 15.49 on the grant date, the aforementioned exercise price, expected annual volatility of 30 %, a term of 2.025 years, an expected dividend yield of 6.0 % and an annual risk-free interest rate of 2.79 %. Volatility is based on an average of the implied volatility of call options on stocks issued by fund issuing companies with comparable terms on the date of the grant. The risk-free interest rate has been derived from listed German government bonds with a term of two years as of the date of the grant. The term was calculated on the basis of the current calendar of events for Lloyd Fonds AG for fiscal 2007 and the assumption that the conversion rights are exercised at the end of the 14-day exercise period.

The convertible bond is recognized in the balance sheet as follows:

TEUR	Note	**Dec. 31, 2005**	**Dec. 31, 2004**
Value of convertible bond issued on November 28, 2005		631	–
(thereof equity component)		(506)	–
Liability component as of measurement date on November 28, 2005		125	–
Interest expense	6.7	1	–
Interest income	6.7	–9	–
Liability component on December 31	7.11	**117**	**–**

The fair value of the liability component of the partial debentures stands at TEUR 117 as of December 31, 2005 and was calculated by discounting the liability component with the market yield on similar non-convertible bonds of 3.62 %. This interest rate was also used to calculate interest expense on the basis of the effective interest method.

Please refer to Note 9.5 for details of the other issue periods for Installment II.

7.11 Borrowings

Borrowings comprise a current loan to finance the acquisition of the share in the investment company for property companies with US condominiums (see Note 2.2.b) as well as the non-current liability component of the convertible bond. Most of the borrowings of prior year are related to Fünfte LF Immobiliengesellschaft mbH & Co. KG and are assigned to investments in associates as a result of deconsolidation. Please refer to Note 2.2.c.

The maturity structure breaks down as follows:

TEUR	**Dec. 31, 2005**	Deconsolidation	**Dec. 31, 2004**
Residual term of up to 1 year	10,605	155	1,596
Residual term of 1 – 5 years	117	689	660
Residual term of over 5 years	–	9,667	9,769
	10,722	**10,511**	**12,025**

The current loan as of December 31, 2005 for a nominal TUSD 12,600 expires on November 30, 2006 and is subject to a variable rate based on USD-LIBOR plus a margin of 1.15 %. The effective interest rate as of the balance sheet stands at 5.51 %. The loan is securitized in full and included in hedge relationships from interim equity finance in Note 9.3.

Loans in the previous year were subject to the following conditions:

	Loan 1	Loan 2	Loan 3
Amount at December 31, 2004 (TEUR)	5,241	5,337	1,125
Deconsolidation (TEUR)	5,196	5,315	–
Effective interest rate in % p. a.	5.362	5.015	6.69
Fixed interest rate until	30.06.2014	30.06.2009	variable

The liabilities of TEUR 12,578 as of the date of deconsolidation were secured by property charges, just as they were on December 31, 2004. In addition, rental and lease receivables were assigned. The carrying amount of the loans in the previous year was largely identical to their fair value.

7.12 Net assets attributable to other limited partners

The net assets attributable to other limited partners has been assessed on the basis of a fixed effective interest rate. This is calculated as the internal interest rate applicable to the originally forecast payments of Fünfte LF Immobiliengesellschaft mbH & Co. KG, and is between 6.8 % p.a. and 6.9 % p. a. depending on the date on which the company was joined. Thereupon, the present values of payments to the limited partners are discounted at the effective interest rate.

As in the previous year, the forecast payouts were adjusted to allow for the economic performance of Fünfte LF Immobiliengesellschaft mbH & Co. KG. In total, the adjustment amounted to TEUR 396 (previous year: TEUR 391) resulting in values of TEUR 1,881 (previous year: TEUR 2,153).

Movements in the net assets attributable to other limited partners are as follow:

TEUR	Note	2005	2004
Amount at January 1		2,153	2,650
Accrued interest	6.7	124	176
Repayment		–	–102
Interest payment		–	–180
Reduction	6.5	–396	–391
Deconsolidation	2.2.c	–1,881	–
Amount at December 31		**–**	**2,153**

7.13 Deferred income tax

Deferred income tax assets and liabilities arise from temporary differences as follows:

	Dec. 31, 2005		**Dec. 31, 2004**	
TEUR	Deferred tax assets	Deferred tax liabilites	Deferred tax assets	Deferred tax liabilites
Property, plant and equipment	–	–	109	32
Available-for-sale financial assets	–	1,096	–	148
Investments in associates	139	181	–	–
Receivables	87	32	–	20
Liabilities	–	–	–	37
Equity component of convertible bond	–	5	–	–
Netting	–226	–226	–69	–69
Total	**–**	**1,088**	**40**	**168**

Deferred tax on the equity component of the convertible bond is taken to equity (previous year: no deferred taxes taken to equity). Please refer to Note 7.10.b.

Deferred tax assets and liabilities are netted if there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes are payable to the same tax authority. The following amounts were netted:

TEUR	**Dec. 31, 2005**	**Dec. 31, 2004**
Deferred tax assets		
to be recovered after more than 12 months	–132	–86
to be recovered within 12 months	–94	–23
Netting	226	69
	–	–40
Deferred tax liabilities		
to be recovered after more than 12 months	292	217
to be recovered within 12 months	1,022	20
Netting	–226	–69
	1,088	168
	1,088	**128**

The gross movement in deferred taxes is as follows:

TEUR	Note	2005	2004
Beginning of year		128	243
Expense recognized in profit and loss	6.8	955	–115
Taxes recognized in equity	7.10.b	5	–
End of the year		**1,088**	**128**

Changes in deferred tax assets and liabilities in the current year ignoring the netting of open items due to the same tax authority are as follows:

Deferred tax liabilities:

TEUR	Amount at January 1	Deconso-lidation	Taken to income statement	Charged to equity	Amount at December 31
2004					
Investment property	–55	–	23	–	–32
Liabilities	–64	–	27	–	–37
Receivables	–36	–	16	–	–20
Available-for-sale financial assets	–148	–	–	–	–148
	–303	**–**	**66**	**–**	**–237**
2005					
Investment property	–32	32	–	–	–
Convertible bond	–	–	–	–5	–5
Liabilities	–37	37	–	–	–
Receivables	–20	20	–32	–	–32
Investments in associates	–	–89	–92	–	–181
Available-for-sale financial assets	–148	–	–948	–	–1,096
	–237	**–**	**–1,072**	**–5**	**–1,314**

Deferred tax assets:

TEUR	Amount at January 1	Deconso-lidation	Taken to income statement	Charged to equity	Amount at December 31
2004					
Investment property	61	–	48	–	109
	61	**–**	**48**	**–**	**109**
2005					
Investment property	109	–109	–	–	–
Receivables	–	–	87	–	87
Investments in associates	–	109	30	–	139
	109	**–**	**117**	**–**	**226**

The deferred tax assets and liabilities attributable to Fünfte LF Immobiliengesellschaft mbH & Co. KG were reclassified as a result of the deconsolidation described in Note 2.2.c. The calculation method was retained.

7.14 Trade and other liabilities

Liabilities break down as follows:

TEUR	Dec. 31, 2005	Dec. 31, 2004
Trade payables	7,040	6,277
Social security liabilities	88	57
Liabilities arising from operating taxes and levies	700	1,744
Other liabilities	833	409
	8,661	8,487

7.15 Amounts due to related parties

Amounts due to related parties break down as follows:

TEUR	Dec. 31, 2005	Dec. 31, 2004
Liabilities to associated companies	2,310	968
Liabilities to non-consolidated subsidiaries	40	54
Liabilities to shareholders, members of the Management Board and the Supervisory Board	856	736
	3,206	1,758

8 NOTES ON THE CONSOLIDATED CASH FLOW STATEMENT

8.1 Other non-cash transactions

Other non-cash income and expenses break down as follows:

TEUR	Note	2005	2004
Derecognition of liabilities	6.5	–376	–158
Income from reversal of impairments	6.5	–502	–
Reduction of the net assets attributable to other limited partners	6.5	–396	–391
Unrealized foreign-currency gains	6.7	–118	–
Personnel expenses relating to convertible bond	6.3	20	–
Impairment losses on receivables	6.5	13	66
		–1,359	**–483**

Additions to available-for-sale financial assets as well as the financial assets accounted for using the equity method of accounting (TEUR 12,378; previous year: TEUR 2,202) comprise non-cash additions as a result of outstanding capital contributions of TEUR 1,085 (previous year: TEUR 1,188). In the current year, payments of capital contributions outstanding in the previous year of TEUR 573 (previous year: nil) were made.

8.2 Composition of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents breaks down as follows:

TEUR	Dec. 31, 2005	Dec. 31, 2004
Cash at banks	51,247	5,792
Cash in hand	4	3
Bank overdrafts	–	–322
	51,251	**5,473**

8.3 Reconciliation with profit for the year

For the purposes of the cash flow statement, profit for the year before share of profit of associates, interest and income tax is calculated as follows:

TEUR	Note	Dec. 31, 2005	Dec. 31, 2004
Profit from operating activities	5.1	22,756	14,029
Share of profit of associates	6.6	–1,515	–281
Gains from foreign-currency transactions	6.7	777	12
Losses from foreign-currency transactions	6.7	–143	–180
		21,875	**13,580**

The adjustment of the comparative figures for the previous year is described in Note 2.18.

9 OTHER DISCLOSURES

9.1 List of shareholdings

The list of the Group's shareholdings has been lodged with the companies register of the Local Court of Hamburg.

9.2 Related-party transactions

Related parties comprise companies or individuals which control the Lloyd Fonds Group or exert significant influence on it or which are controlled by the Lloyd Fonds Group or on which it exerts significant influence. The conditions prevailing on the balance sheet date are decisive.

The shareholders of Lloyd Fonds AG have not disclosed any significant influence on the Company. Please refer to Note 7.10.a.

9.2.a Associates

The following services recognized as sales were provided for the benefit of associates:

TEUR	2005	2004
Fund design activities	3,815	849
Arrangement of finance	2,770	–
Management fees	197	–
Trusteeship	150	–
Placement of investment capital	12	–
	6,944	**849**

The loans granted to associates are as follows:

TEUR	Note	2005	2004
Beginning of year		74	–
Loans granted in the current year		33	74
Loan repayments received		–74	–
Interest charged	6.7	2	1
Interest received		–2	–1
End of the year		**33**	**74**

The loans granted to associates are subject to interest of 5.0 % (previous year: 4.0 %). The loan granted in 2004 was repaid in 2005. The loans granted in 2005 are due for repayment as soon as the borrower's liquidity permits repayment. Management expects this to be the case in 2006.

Please refer to Note 7.7 for details of outstanding receivables from the above services as of the balance sheet date. The date of settlement of the receivables depends on the liquidity situation of the associate in question provided that this is not later than 12 months after the claim for payment arises. The outstanding liabilities to associates referred to in Note 7.15 are primarily due to outstanding capital contributions as well as the payment of liquidity surpluses provided as interest-free loans.

No interim profit or loss requiring elimination arose from transactions with associates in the periods shown.

9.2.b Affiliated companies

A loan granted to an affiliated company is valued at TEUR 45 as of December 31, 2005 (previous year: TEUR 56). The loan, which is subject to interest of 5.0 %, is due for repayment as soon as the borrower's liquidity permits repayment. Management expects this to be the case in 2006. The interest of TEUR 2 calculated for 2005 is still outstanding. The interest of TEUR 2 for 2004 was paid in 2005 (see Note 6).

The open receivables from affiliated companies are set out in Note 7.7 and continue to contain a sum of TEUR 42 (previous year: TEUR 51) by way of outlaid costs for various affiliated companies.

9.2.c Related persons

The Management Board comprises:

- Dr. Torsten Teichert, businessman (chairman)
- Mr. Holger Schmitz, businessman
- Mr. Gunnar Dittmann, businessman (until January 31, 2005)

Compensation paid to members of the Management Board relates solely to short-term services:

	2005			2004		
TEUR	Fixed	Performance-related	Total	Fixed	Performance-related	Total
Dr. Torsten Teichert	241	350	591	214	241	455
Holger Schmitz	215	250	465	205	169	374
Gunnar Dittmann	286	–	286	154	289	443
	742	**600**	**1,342**	**573**	**699**	**1,272**

As in the previous year, the performance-related compensation as well as non-performance-related bonuses of a total of TEUR 210 are recognized as liabilities to shareholders, members of the Management Board and members of the Supervisory Board (Note 7.15). There were no long-term incentive components in the years reported upon.

The loans granted to members of the Management Board are as follows:

TEUR	Note	2005	2004
Beginning of year		15	15
Loans granted in the current year		–	5
Loan repayments received		–15	–5
Interest charged	6.7	1	1
Interest received		–1	–1
End of the year		**–**	**15**

The loans were granted to finance the personal shares in connection with the management activities for asset management and must be repaid at the termination of the service contract at the latest. The loans were subject to interest of 5.0 % p.a. As of December 31, 2005, there were no outstanding receivables in connection with travel or other expense advances.

The Supervisory Board comprises the following members:

- Mr. Dr. Stefan Duhnkrack, attorney at law (chairman)
- Mr. Hans-Bernd vor dem Esche, managing director (deputy chairman)
- Mr. Albert Lundt, managing director

Dr. Duhnkrack holds an office on the supervisory board of NetBid Industrie-Auktionen AG, Hamburg and of syskoplan AG, Gütersloh. Messrs vor dem Esche and Lundt do not hold any office on any other supervisory boards.

The compensation payable to the members of the Supervisory Board is not performance-related and breaks down as follows:

TEUR	2005	2004
Dr. Stefan Duhnkrack	20	17
Hans-Bernd vor dem Esche	15	10
Albert Lundt	10	20
	45	47

As in the previous year, compensation payable to the members of the Supervisory Board is recognized as liabilities to shareholders, members of the Management Board and members of the Supervisory Board.

As of December 31, 2005, the Management Board held a total of 11.80 % (previous year: 17.74 %) of the Company's stock. Members of the Supervisory Board and persons related to them held 1.52 % of the Company's stock (previous year: nil) at the balance sheet date. One person related to a member of the Supervisory Board acquired 2,000 shares at the issue price of EUR 16.00 on October 28. The wording of this declaration in accordance with Section 15a of the German Securities Trading Act is available permanently at the Group's website (www.lloydfonds.de). There were no other purchases or sales of the Company's stock by members of the Company's Management Board or Supervisory Board or any parties related to them subject to compulsory disclosure.

9.3 Contingencies

Contingencies break down as follows:

TEUR	Dec. 31, 2005	Dec. 31, 2004
Hedge relationships from interim equity finance	316,493	150,837
Placement guarantees for equity to be obtained	26,007	94,729
	342,500	245,566

The type of contingencies is described in Note 3.1.d.

Capital contributions of TEUR 3,480 (previous year: nil) for four shipping companies have been entered in the companies register but not yet called up.

Utilization is uncertain in terms of both extent and timing. At this stage, there is nothing to suggest that they will be utilized.

9.4 Operating lease commitments

The Group leases office space, motor vehicles and copiers under operating leases.

Commitments break down as follows:

TEUR	Dec. 31, 2005	Dec. 31, 2004
Office space	9,034	523
Vehicles and copiers	162	72
	9,196	595

The future cumulative minimum lease payments under non-cancelable operating lease agreements are as follows:

TEUR	Dec. 31, 2005	Dec. 31, 2004
Residual term of up to 1 year	470	334
Residual term of between 1 and 5 years	3,207	261
Residual term of more than 5 years	5,519	–
	9,196	595

In the year under review, minimum lease payments of TEUR 372 (previous year: TEUR 337) were recognized as expense.

Lloyd Fonds AG and Lloyd Treuhand GmbH leased new office premises in leases dated August 5, 2005. The leases are to commence on September 30, 2006 and have a non-cancelable period of ten years plus two renewal options of five years each. The first year of use is rent-free. Total expenditure has been expensed on a straight-line basis over the minimum term of 120 monthly rental installments. The renewal options are not included in the minimum lease payments. This results in minimum monthly lease payments of TEUR 72. The previous leases for office space expire on December 31, 2006. This results in minimum lease payments of TEUR 396 for 2006.

As part of trust business, shares of TEUR 728,457 (previous year: TEUR 467,150) are managed on the Company's own behalf but for the account of various trustors. In addition, trust accounts of TEUR 8,327 (previous year: TEUR 3,292) are maintained on the Company's own behalf but for the account of various trustors.

9.5 Disclosures pursuant to Section 315a of the German Commercial Code

9.5.a German Corporate Governance Code (GCGC)

On November 7, 2005, the Management Board and Supervisory Board of Lloyd Fonds AG issued their first declaration of conformance in accordance with Section 161 of the German Commercial Code. The wording of this declaration is available permanently at the Group's website (www.lloydfonds.de).

9.5.b Auditors' fees

The fees payable to the auditors of the consolidated financial statements in accordance with Section 314 No. 9 of the German Commercial Code break down as follows:

TEUR	2005	2004
Audit of annual financial statements	156	104
Other certification or valuation activities	247	21
Tax consulting services	–	3
Other services provided for the parent company or subsidiaries	2	–
	405	128

9.5.c Other disclosures

The disclosures on associates are set out in Notes 2.2.d and 9.1. Please refer to the segment information in Note 5.1 for details of the average number of employees. Details of the active and former members of the Management Board and the Supervisory Board can be found in Note 9.2.c. The management report has been published in conjunction with the IFRS consolidated financial statements.

9.6 Events after the balance sheet date

At the beginning of 2006, Lloyd Fonds agreed with Dr. Marcus Simon that he is to be appointed Chief Financial Officer as of the beginning of August at the latest. As of that date, the present Chief Financial Officer, Mr. Holger Schmitz, will be Chief Operating Officer responsible for the various assets classes and for designing new funds.

During the Supervisory Board meeting of February 7, 2006, the Management Board and the Supervisory Board unanimously agreed to revise the issue dates for the as yet unissued bonds in Installment II of the staff participation program. The currently applicable conditions are described in Note 7.10.e.

Other than this, no events of material importance for the Lloyd Fonds Group occurred after the balance sheet date of December 31, 2005.

Hamburg, April 12, 2006

The Management Board

Dr. Torsten Teichert

Holger Schmitz

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by Lloyd Fonds AG, Hamburg, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Article 315a (1) HGB is the responsibility of the Company's Board of Managing Directors. 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 Article 317 HGB and the 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 the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a (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.

Hamburg, April 13, 2006

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(signed Brandt)	**(signed ppa. Wilke)**
Wirtschaftsprüfer	Wirtschaftsprüfer

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board of Lloyd Fonds AG
(from left: Albert Lundt, Dr. Stefan Duhnkrack,
Hans-Bernd vor dem Esche)

Dear shareholders,

While the global economy continued to recover in 2005, growth in Germany remained lackluster. Even so, with equity placed of EUR 12.3 billion, down only marginally on the previous year's figure of EUR 12.8 billion, the German closed-end fund market asserted itself well. Against this backdrop, Lloyd Fonds AG was able to grow more quickly than the market last year. Thus, its EBIT climbed from EUR 14.0 million to EUR 22.8 million, while net profit for the year rose from EUR 9.5 million to EUR 17.1 million. In this way, our Company was able to impressively continue its growth course, ensuring its ranking as one of the leading companies in the industry. 22 % of EBIT is also fueled by long-term income such as trust fees and fund management. On the top line, sales rose sharply by 30 % in 2005 to EUR 71.0 million. At EUR 286 million, equity placed is now 50 % up on the year-ago figure of EUR 191 million.

In the year under review, the Management Board of Lloyd Fonds AG made the strategic decisions necessary for continued growth. In the ship fund segment, the decision to build up a pipeline of attractive assets early on paid off, allowing Lloyd Fonds to rank as one of the top four fund initiators in this segment for the first time. This was joined by extensions to new asset classes such as traded UK endowment policies, real estate and regenerative energies. By gaining new retail partners and strengthening its operative processes, Lloyd Fonds AG was able to stabilize its competitive position. Investment products which take advantage of tax-deductible loss allocations were removed from the range at an early stage. Lloyd Fonds was already placing over 80 % of equity without such loss allocation models and was able to convince investors of the merits of return-oriented funds. As a result, this business has overcome its seasonal nature, which was formerly characterized by sharp spikes at the end of the year.

With its stock market flotation in October 2005, Lloyd Fonds AG obtained the financial resources required to implement and back its growth strategy. Thus, the foundations for expansion into Austria were laid in the final quarter.

Changes to the Supervisory Board

There were no changes to the composition of the Supervisory Board last year.

Changes to the Management Board

With effect from June 1, 2006, the Supervisory Board appointed Dr. Marcus Simon as member of the Management Board with responsibility for Finances.

Supervision of management

In 2005, the Supervisory Board complied with its supervisory and monitoring functions on an extensive basis, performing the duties imposed on it by law and the Company's articles of incorporation. It was involved in all decisions of fundamental importance for the Company.

In the year under review, the Supervisory Board monitored and advised the Company's management at its nine meetings held on April 7, May 31, July 22, July 25, August 1, August 3, September 15, October 22 and November 11, 2005. All members of the Supervisory Board attended each of these meetings. The members of the Management Board also attended all meetings of the Supervisory Board, albeit only temporarily in some cases. At these meetings, the Management Board briefed the Supervisory Board on the condition of the Company and the Group, its business policies, particularly acquisitions, risk management and financing, capital spending and personnel plans for fiscal 2005 and 2006 comprehensively and with minimum delay.

Outside its normal meetings, the Supervisory Board also regularly sought information from the Management Board on the condition of the companies and subsidiaries and their business performance in the form of additional written and oral reports. Intended business policies, particularly the Company's stock market flotation, formed a key subject of communications between the Management Board and the Supervisory Board during the entire year. The Supervisory Board was able to satisfy itself that the Management Board had enhanced the corporate strategy to create a suitable basis for extending Lloyd Fonds AG's position in the market for closed-end funds as well as in the capital market.

In addition, the Chairman of the Supervisory Board maintained regular contact with the Management Board in connection with planned acquisitions, partnership ventures and all matters of material relevance for the Company's business performance. He was kept informed of the current business situation and material transactions with minimum delay.

The Management Board submitted to the Supervisory Board all transactions requiring the latter's approval according to statute or the Company's articles of incorporation including budget and liquidity planning, organizational and personnel matters, extensions to office leases and, above all, the execution of the stock market flotation.

In the course of 2005, the members of the Supervisory Board communicated and deliberated on matters of relevance to the Company by telephone, fax or e-mail and prepared statements and resolutions intensively. Various resolutions were passed outside the regular meetings as well as in telephone conferences.

The Supervisory Board of Lloyd Fonds AG has not formed any committees.

The Chairman of the Supervisory Board, Dr. Stefan Duhnkrack, is a partner of the law firm Heuking Kühn Lüer Wojtek, which provided consultancy services in specific legal areas.

The member of the Supervisory Board, Hans-Bernd vor dem Esche, is one of the Managing Directors of the Fünfte PAXAS Treuhand- und Beteiligungsgesellschaft mbH, Düsseldorf (Fünfte PAXAS). Fünfte PAXAS concluded an agency agreement with Lloyd Treuhand GmbH for supporting investments in a fund.

To this extent and in addition there were no conflicts of interest.

Corporate governance and declaration of conformance

Good corporate governance is playing an increasingly important role in corporate life. On April 18, 2006 the Management Board and the Supervisory Board issued an updated declaration of conformance in accordance with Section 161 of the German Stock Corporations Act and made this available to shareholders and the general public permanently on its website. Aside from a few exceptions, Lloyd Fonds AG complies with the recommendations of the German Corporate Governance Code as amended on June 2, 2005.

Further information can be found in the corporate governance report issued jointly by the Management Board and the Supervisory Board.

Annual and consolidated financial statements of Lloyd Fonds AG

At the annual general meeting held on June 23, 2005, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft was elected auditor of the annual and consolidated financial statements for 2005 and was immediately engaged by the Supervisory Board for this purpose. The consolidated financial statements as of December 31, 2005 prepared by Lloyd Fonds AG in accordance with the International Financial Reporting Standards (IFRS), as they are to be applied in the EU, the Group management report, the annual financial statements as of December 31, 2005 prepared according to German GAAP (HGB) and the Parent Company management report were audited. The annual and the consolidated financial statements were issued with an unqualified auditor's report. In addition, the auditor examined the risk early-detection system maintained by Lloyd Fonds AG in accordance with the Corporate Transparency Act and was satisfied that it complied with the statutory requirements.

The members of the Supervisory Board specifically examined the annual and consolidated financial statements, the Group management report, the Parent Company management report, the auditor's reports and the Management Board's proposal for the allocation of the Company's profit. All documents were made available to the Supervisory Board in good time. The Supervisory Board discussed in detail the annual and consolidated financial statements, the Group management report, the Parent Company management report and the auditor's reports and deliberated on the results of their own audit. The auditor also attended this meeting and explained the annual and consolidated financial statements and briefly presented the results of the audits. He also answered the questions asked by those present at the meeting. After deliberations on April 18, 2006, the Supervisory Board approved the result of the audit.

On the basis of the final results of its examination, the Supervisory Board did not raise any objections and adopted the annual financial statements and management report prepared by the Management Board.

The annual financial statements are thus final. Similarly, on the basis of the final results of its examination, the Supervisory Board did not raise any objections and adopted the consolidated financial statements and the Group management report prepared by the Management Board.

Profit allocation proposal

The Supervisory Board concurs with the Management Board's proposal and will advise the shareholders to allocate the unappropriated surplus reported as of December 31, 2005 of a total of EUR 14,804,682.18 as follows:

a) Distribution of a dividend of EUR 1.10 per share on the dividend-entitled share capital of EUR 12,666,667 to the shareholders	EUR 13,933,333.70
b) To be carried forward	EUR 872,348.48

Foundations laid for organic growth

2005 was a most successful year for Lloyd Fonds AG, during which it continued its growth course and additionally enhanced its profitability. With the stock market flotation, the Company has gained the resources to finance its future growth. In the first few months of 2006, Lloyd Fonds has continued its strong growth with exclusive retail arrangements for a US-Dollar 137.5 million ship fund via Deutsche Bank.

The Supervisory Board wishes to thank the Management Board and all staff at Lloyd Fonds AG for their strong commitment and great personal dedication, which has helped to achieve gratifying business performance with which all shareholders can be satisfied.

Hamburg, April 18, 2006

The Supervisory Board

Dr. Stefan Duhnkrack
Chairman

The information within our annual report is originally published in German. Discrepancies or differences created in the translation are not binding and have no legal effect for compliance or enforcement purposes. If any questions arise related to the accuracy of the information contained in the translation, please refer to the German version of our annual report, which is the official and only binding version.

Acknowledgements
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NOTES FROM THE BRIDGE

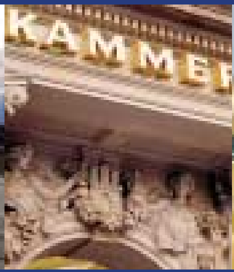
For this year's annual report, we have thought about the terms that best sum up our Company. These are the ones which we consider to be the most apt: PERFORMANCE, KNOWLEDGE, RELATIONS, VALUES, TRANSPARENCY and TARGETS.
In this way, we are describing three different things: our activities as an initiator and manager of fund investments and, hence, our relations with fund investors, our relationship with our shareholders and our Company as such.
The photographs which we have selected seek to reflect these ideas. They were all taken in Hamburg.

Title:
Landing stages

Page 2:
River Elbe
pilot boat

Page 6:
Hamburg University,
Central Law Library

Page 14:
Port tug



Page 18:
Hamburg
Chamber
of Commerce

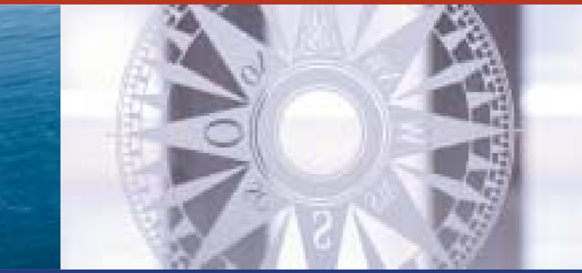
Page 50:
Historical
Hamburg docks
district

Page 56:
Historic port,
view of con-
tainer terminal

GREGOR SCHLÄGER, Photographs

Gregor Schläger has been working as a free-lance documentary photographer for various German magazines such as Geo, Focus, Spiegel and Stern for over 15 years. As well as this, he specializes as a PR and advertising photographer for renowned companies. He has received the World Press Award and the ADC Bronze Medal, among other things, for his widely acknowledged work.

FINANCIAL CALENDAR	2006
Preliminary results 2005	January 25
Year-end press conference in Hamburg, Annual Report 2005	April 25
Year-end analyst meeting in Frankfurt	April 26
1st quarter report	May 29
Annual General Meeting in Hamburg	June 29
2nd quarter report	August 24
3rd quarter report	November 23



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Annual Report 2005

Lloyd Fonds AG

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