05

ESSANELLE HAIR GROUP

KEY FIGURES

	HGB, AG			IFRS, CONSOLIDATED GROUP		
million €	2005	2004	Change	2005	2004	Change
Sales	112.6	113.3	-0.6%			
Group sales*				129.8	131.1	-1.0%
Consolidated sales				113.5	114.7	-1.0%
essanelle – Ihr Friseur	71.8	74.3	-3.4%	71.8	74.3	-3.4%
Jürgen Tröndle by essanelle	5.1	5.5	-7.3%	5.1	5.5	-7.3%
TOP TEN	0.3	0	–	0.3	0	–
Super Cut	18.5	17.8	+3.9%	18.5	17.8	+3.9%
HairExpress	13.7	13.1	+4.6%	13.7	13.1	+4.6%
mod's hair*				17.2	17.8	-3.4%
Beauty Hair Shop	3.2	2.6	+23.1%	3.2	2.6	+23.1%
EBITDA	8.8	8.9	-1.1%	10.1	10.1	0.0%
EBIT	3.1	2.7	+14.8%	5.4	4.9	+10.2%
EBT	2.6	1.8	+44.4%	4.3	3.5	+22.9%
Annual net income	2.3	1.5	+53.3%	2.6	2.0	+30.0%
Earnings per share	0.52 Euro	0.33 Euro	+57.6%	0.57 Euro	0.47 Euro	+21.3%
Cash flow from operating activities	9.9	6.5	+52.3%	10.4	6.2	+67.8%
Cash flow per share	2.20 Euro	1.45 Euro	+51.7%	2.32	1.38	+68.2%
Number of employees	3,847	3,782		3,852	3,812	
Number of shares	4.5 million	4.5 million		4.5 million	4.5 million	
Free float	66.2%	7.18%		66.2%	7.18%	

*of which external sales generated by franchisees and not included in consolidated sales: Euro 16.3 million (previous year: Euro 16.4 million)

ESSANELLE HAIR GROUP

BRIEF GUIDE TO HAIRSTYLES

Trends and evergreens

FOREWORD OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

We are very pleased to present you a 2005 Annual Report which impressively demonstrates that it is possible to be successful in spite of the lull in consumer confidence, weak domestic demand and increased competition. With the exception of sales, we have exceeded all of our targets. We have also achieved considerable improvements compared with the previous year.

What is more, in the past year we laid the foundations for placing our company on a consistent growth path and thus initiated a new stage in its history. We had already accelerated the pace of investment by the end of 2005. Having operated a constant total of around 550 salons in Germany in recent years, this figure rose to almost 600 by the end of the year. This pace of investment is to be matched, if not exceeded, in the coming years. Our specific objective is to grow by 50 salons per annum.

The foundation for successfully implementing our plans is provided by the degree of financial strength now achieved by our company: a high cash flow, which secures our financial strength; a healthy equity basis, with an equity ratio of over 40%; and clean cost structures at all of our salon concepts, thus safeguarding pleasing levels of profitability at our salons.

On the other hand, we have provided our strategy with a clearer focus on the market, demand structures and consumer behaviour in terms of the salon structure and selection of locations. Our new concepts, Super Cut and HairExpress, made a considerable contribution to our pleasing performance in 2005. Our focus on a comparatively young customer group at Super Cut and on extremely price-sensitive customers at HairExpress has proved to be absolutely right. We now operate 79 Super Cut and 81 HairExpress salons. Given that we have simultaneously succeeded in achieving significant improvements in terms of numbers at our strongest concept essanelle – Ihr Friseur we now stand on very solid foundations indeed.

UWE GRIMMINGER

ACHIM MANSEN

In order to maintain our successful course – growth with new concepts – we developed a further concept, TOP TEN, in 2005 and brought it to market. The 10 euro hairdresser is currently the talk of the country. There is now a whole series of hairdressers seeking salvation in this genre. However, the coming years will see the sheep being separated from the goats in this area. Having undertaken detailed market studies, we decided to become active in this segment with TOP TEN. The first such salons have already exceeded our expectations. Customers find the concept convincing and we are certain that TOP TEN will enable us to generate significant sales and earnings growth in the coming years.

One more word on our location strategy: over a period of more than ten years, Essanelle Hair Group has developed from merely being a hairdresser at department stores into a company which now also offers its hairdressing services in shopping centres and consumer markets. Our new TOP TEN salon concept has also enabled us to expand our range of locations. We will operate this concept almost exclusively in so-called free situations at highly-frequented locations.

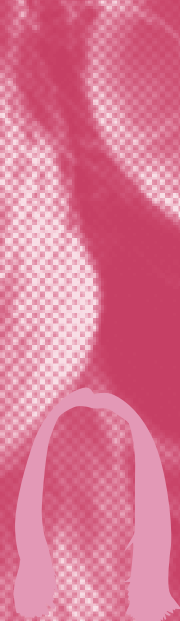
Our plans foresee an expansion of around 50% in the total number of our salons in the coming five years compared with the beginning of 2005. This will have a corresponding impact on our sales and an even more marked impact on our earnings, which already improved for the fourth consecutive year in 2005. We plan to open at least 50 salons in the current 2006 financial year alone. We also expect to close fewer salons than in the previous year, during which 17 salons were shut down. The salons newly opened in 2005 and in the first months of 2006 mean that the foundations have been laid for sales growth in 2006. We expect sales to grow by between 5% and 10%, but naturally continue to depend on consumer confidence levels in this respect. Our key earnings figures were more than positive in 2005. Our pre-tax earnings of Euro 4.3 million in line with IFRS not only represent the best results since our IPO – they are also in excess of our own forecasts. The majority of our new salons were only opened in the second half and towards the end of 2005. This means that a lower level of start-up losses was incurred in 2005, which in turn had a positive impact on our earnings. We will now incur part of these start-up losses in 2006, which means that it will not be possible to achieve any significant rise in earnings this year. This will then follow in 2007. It goes without saying, however, that our minimum target for 2006 is at least to match the strong 2005 figures. The developments so far in 2006 give us confidence in this respect.

The perm

Since the beginning of the 20th century

BRIEF GUIDE TO HAIRSTYLES

The desire for curly hair is as old as the history of humankind. Curlers were curled on clay curlers in 3100 BC already. In 1906 the hairdresser Karl Nessler invented the first hot wave. Today's hairdressers use the alkaline and mildly alkaline perm, which is more gentle on the hair and the scalp. Each perm changes the structures within the hair, with certain joins being slackened and rejoined. This lends a new shape to the hair.



A permanent favourite for people with long hair

The ponytail

BRIEF GUIDE TO HAIRSTYLES

Long hair held together with a band at the back of the head. This hairstyle resembles a horse's tail and is popular among all those with long hair – and not only when playing sport. Bad hair days can also be effectively handled with the assistance of a ponytail.

Not only popular for sport!

Our employees represent the most important success factor in achieving these ambitious targets. We already provide about 4,000 secure jobs and will further expand this number in the coming years. After all, there is hardly any other sector which benefits as much from high-quality employees as does the hairdressing business. Everybody knows never to go back to a hairdresser who has once cut their hair badly. We therefore accord high priority to high-quality training, regular training sessions in new up-to-date techniques and to enabling our hairdressers to participate directly in sales in cases of exceptional achievement. In this eminently important and decisive area – the personnel factor – we benefit particularly strongly from our competitive advantages over standalone hairdressers, who still make up 90% of the market in Germany.

In line with the positive changes at our company, our share has also shown splendid developments. Following our first two extremely weak stock market years, since mid-2004 we have gained a considerable amount of ground, reaching an all-time high of Euro 8.78 in the past financial year. No small number of the analysts tracking our share believes an even higher price to be justified. This naturally represents a key objective of our growth plans: we aim to provide our shareholders with a pleasing performance and an appropriate return on their investments. We will continue to work towards achieving this goal with further pleasing developments at the company in 2006.

We should like to take this opportunity of thanking our investors for the trust they have placed in us and our employees for their hard work, without which the success of our company in the past financial year and in future years would not be possible.

The Management Board

Uwe Grimminger

Achim Mansen

REPORT OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

In the past 2005 financial year, Essanelle Hair Group AG succeeded in building on the pleasing performance seen in previous years. The Supervisory Board assisted in these developments in accordance with its duties as a supervisory body and accompanied the Management Board in an advisory capacity. In June 2005, the Chairman of the Supervisory Board, Dr. Hans-Jürgen Knauer, retired from office for reasons of ill health. We should like to take this opportunity of thanking him for his longstanding activities on behalf of the company. He was at all times fully committed to the interests of the company. The same is true of Paul Deiters, who also retired from his position as representative of the then major shareholders. Joachim Dübner, who has long been familiar with the company, and Werner Schneider, a specialist in personnel matters, were appointed as new members by court order. Martin Tresser, who has been a member of the Supervisory Board of the company since its stock market flotation, was elected as the new Chairman at the meeting of the Supervisory Board held on 24.06.2005. He resigned as Chairman and member of the Supervisory Board as of 11 April 2006. On 23.06.2005, the Supervisory Board extended the management board contracts of Messrs. Grimminger and Mansen by three years up to 30.04.2009.

The members of the Supervisory Board regularly attended the meetings of the Board whenever possible. In cases where this was not possible, the members in question mostly participated in the adoption of resolutions by casting their votes in writing. At the five meetings of the Supervisory Board held on 05.04., 23.06., 24.06., 29.09. and 30.11.2005, we discussed and analysed in great detail the strategy and overall situation of the company, as well as key operative transactions, both exclusively with the members of the Supervisory Board and jointly with the Management Board. The Management Board provided us with extensive and prompt written and verbal information for this purpose. The main topics included the risk management system of the Essanelle Hair Group and the buyback of its own shares. The buyback of own shares undertaken in October and November 2005 was primarily aimed at covering the risks resulting from the latest option programme adopted at the 2005 Annual General Meeting.

Within the framework of its regular activities, the Supervisory Board reviewed the monthly and quarterly figures presented to it. At the final meeting of the past financial year we discussed the budgets and objectives for 2006 with the Management Board, as well as the overall planning for the 2007 to 2009 financial years. Outside the framework of meetings, the Chairman of the Supervisory Board is also in regular contact with the Management Board in order to exchange views as to major business events and the current economic and financial situation of the Essanelle Hair Group. Measures not requiring our consent but nevertheless of major significance were also discussed in detail with the Management Board. Examples of such measures include the decision to press ahead

A provocative punk hairstyle

BRIEF GUIDE TO HAIRSTYLES

This colourful and provocative hairstyle worn by punks in the 1980s shocked the middle classes in those days and is now witnessing a successful comeback among both men and women. Fringy short haircuts are styled up with the fingers and a great deal of gel and then fixed in place with hairspray. The punks themselves used gelatine and sugar water.

styled upwards and fixed

The Iroquois

The Bob

Since the beginning of the sixties

BRIEF GUIDE TO HAIRSTYLES

At the beginning of the 1960s, the London hairdresser Vidal Sassoon perfected a hairstyle which had already been a classic among fashionable hairstyles since the days of ancient Egypt – the bob. This famous hairstyle involving chin-length hair, a round back and edgeless contours remains one of the top favourites in the hairdressing charts. The bob forms the basis for many modern hairstyles, with variations such as layering and asymmetrical or overlong pony sections.

edgeless contours

with the growth strategy once again in 2005, the related development of new salons and the launch and establishment of the new TOP TEN salon brand. We also approved the company changing segment to the Prime Standard of the German Stock Exchange. The Management Board informed us regularly with regard to all of these matters.

Together with the Management Board, the Supervisory Board submitted the company's updated joint Statement of Compliance with the Corporate Governance Code in December. The company was in agreement that it should adopt the new recommendations included in the Code in full. In future, the company will also comply with further points contained in the old recommendations with which it did not comply in the past. The key points worthy of mention in this respect are: the establishment of committees (audit committee, personnel committee), the review of the effectiveness of supervisory board activities, the disclosure of conflicts of interest and the setting of an age limit for members of the Supervisory Board. More detailed information has been provided in the Corporate Governance Report. In view of the specific circumstances of Essanelle Hair Group AG, the Management and Supervisory Boards have also for good reason decided to continue not to comply with certain recommendations.

The Audit Committee and the Personnel Committee were established at the September meeting and have since met on two occasions. The Audit Committee has dealt with key points relating to the annual audit and the new IFRS valuation requirements. The meetings of the Personnel Committee addressed amendments to the contracts of members of the Management Board and the determining of bonuses. The remuneration of the Management Board of Essanelle Hair Group AG consists of fixed and variable components. The variable remuneration is structured in line with medium and long-term incentive factors primarily based on the increase in the value of the company.

The annual financial statements of Essanelle Hair Group AG compiled in accordance with the German Commercial Code (HGB) and the consolidated financial statements, which have been compiled for the first time in accordance with IFRS, as well as the combined management reports, have been audited by the auditing company PwC Deutsche Revision AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf. Both sets of financial statements were granted unqualified audit opinions. These financial statements, the combined management reports and the audit reports compiled by the auditor were provided to all members of the Supervisory Board and were discussed in detail in the presence of the auditor at the meeting of the Supervisory Board held on 29.03.2006.

On the basis of the extensive information provided by the auditor and of the results of the audit undertaken by the Audit Committee, the Supervisory Board did not see any grounds for discrepancies or any necessity to undertake or commission any more far-reaching audit measures.

We audited the annual financial statements of Essanelle Hair Group AG and the consolidated financial statements as of 31 December 2005, as well as the combined management reports of the company and the Group. We concurred with the results of the audit of the annual financial statements undertaken by the auditor and raised no objections. We approved the annual financial statements compiled by the Management Board for Essanelle Hair Group AG and for the Group. The annual financial statements of Essanelle Hair Group AG are therefore adopted. We also endorse the statements made and the depiction of the situation of the company provided in the management reports.

Following several difficult years, Essanelle Hair Group AG now finds itself on a pleasing and sustainable course. This has only been possible as a result of the commitment and performance shown by all employees and by the Management Board. The Supervisory Board would like to take this opportunity of expressing its thanks and its acknowledgement of the successes achieved so far.

Martin Tresser
Chairman of the Supervisory Board

Fashionable hairstyle from the eighties

The mullet

BRIEF GUIDE TO HAIRSTYLES

”Short at the front and long at the back” was particularly modern in the 1980s. Well-known mullet wearers included the pop star Nena, the singer Dieter Bohlen and footballers such as Rudi Völler. The mullet is currently witnessing a revival and is conquering the fashion stages in its new version with a short, full upper body of hair and long hair at the back with irregularly cut tips.

Revival of a scene hairstyle

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE IN 2005

In 2005, Essanelle Hair Group AG continued to implement the regulations and recommendations of high-quality corporate governance at the company in the interests of ensuring a high standard of transparency and of achieving corresponding improvements in the management of the company. A retrospective analysis of corporate governance revealed that in 2005 the company met all of the points not excluded in the Statement of Compliance dated December 2004. All deviations from the code still valid are listed in the Statement of Compliance below. The Essanelle Hair Group endorses the objectives of the German Corporate Governance Code with regard to efficient company management, transparent information policies for shareholders and the increase in the value of the company in the long term.

SHAREHOLDERS AND ANNUAL GENERAL MEETING

As usual, in the run-up to the Annual General Meeting of Essanelle Hair Group AG on 24 June 2005, all major documents, such as the agenda and information concerning voting proxies, could be viewed on the internet and downloaded. Following the Annual General Meeting, the speech and presentation made by the Chairman of the Management Board, Uwe Grimminger, were available, as was press information.

MANAGEMENT BOARD AND SUPERVISORY BOARD

As recommended in the Corporate Governance Code, the Supervisory Board of Essanelle Hair Group AG established an Audit Committee in 2005. This is chaired by Joachim Dübner, a member of the Supervisory Board. Furthermore, a Personnel Committee was also established. This committee is chaired by the Chairman of the Supervisory Board. Relevant specialist topics were referred by the Supervisory Board to these committees, in some cases for discussion, in others for the drafting of resolutions and in yet others for the adoption of a corresponding resolution.

The requirement set out in the Corporate Governance Code that the effectiveness of the activities of the Supervisory Board be subject to review was also complied with for the first time. This review was undertaken in the context of an anonymous self-assessment in which the auditor was also involved. The results were evaluated and provided to all members of the Supervisory and Management Boards. Suggestions and proposed improvements were discussed and then implemented as far as possible.

In June 2005, the then Chairman of the Supervisory Board, Dr. Hans-Jürgen Knauer, retired from the Supervisory Board of the company for reasons of ill health. Paul Deiters also retired from the Supervisory Board. Joachim Dübner, who has long been familiar with the company, and Werner Schneider, a specialist in personnel matters, were appointed as new members by court order. Martin Tresser, who has been a member of the Supervisory Board of the company since its stock market flotation, was elected as the new Chairman at the meeting of the Supervisory Board held on 24.06.2005.

The restructuring of the Supervisory Board was taken as an opportunity for disclosing potential conflicts of interests on the part of all members of the Supervisory Board and for dealing with these at a meeting of the entire Board. The concluding assessment found there to be no truly grave conflicts of interest and that the members were in a position to perform their duties with the necessary autonomy.

REMUNERATION OF THE MANAGEMENT BOARD

No changes were made to the system for remunerating the Management Board during the 2005 financial year. The basic features of this system have been depicted on page 97 of the notes to the consolidated financial statements.

REMUNERATION OF THE SUPERVISORY BOARD	Euro
Martin Tresser (Chairman from 24.06.05)	25,000.00
Peter M. Herold (Deputy Chairman)	15,000.00
Michael Eberhard, Gabriele Eick, Dr. Gabriele Fontane, Cornelia Glaß, Jürgen Tröndle, Ulrike Witt	10,000.00 each
Joachim Dübner (from 15.06.05)	5,416.66
Werner Schneider (from 24.06.05)	5,000.00
Dieter Bonk (from 30.11.05)	833.34
Dr. Hans-Jürgen Knauer (Chairman until 24.06.05)	20,000.00
Paul Deiters (until 07.06.05)	3,110.20
Ulrike Muschalle (until 31.10.05)	8,333.34
Marina Schacht (until 31.07.05)	5,000.00

TRANSPARENCY

As stipulated in the Investor Protection Improvement Act from 2004, Essanelle Hair Group AG has taken all measures required for it to fulfil its obligations in the areas of ad-hoc publication obligations, insider registers and directors' dealings. All areas are regularly updated and reviewed. Five ad-hoc announcements were published in 2005. Moreover, in line with legal stipulations and the requirements of the Prime Standard of the German Stock Exchange, Essanelle Hair Group AG has since the past financial year compiled its financial statements in accordance with IFRS accounting standards.

OPTION PROGRAMME

In line with the resolution passed by the Annual General Meeting on 24.06.2005, the Management Board has been authorised up to the Annual General Meeting in 2008 to issue subscription rights as variable salary components. The subscription rights may be exercised at the earliest two years following their subscription. The exercising of the subscription rights is linked to the performance of the company's share both in absolute terms and in relation to the performance of the SDAX.

DIRECTORS' DEALINGS IN 2005:

(Publication pursuant to Point 6.6 of the German Corporate Governance Code)

DIRECTORS' DEALINGS 01.01.2005 – 31.12.2005

Date	23.09.05	10.10.05	16.12.05	20.12.05
Name	Uwe Grimminger	Uwe Grimminger	Uwe Grimminger	Dieter Bonk
Position	MB	MB	MB	SB
Transaction	Sale	Sale	Sale	Sale
Exchange	Off-market	Off-market	Off-market	Xetra
Number	14,000	50,000	30,000	1,500
Price (EUR)	7.95	8.00	8.34	8.20
Volume (EUR)	111,300	400,000	250,200	12,300

DIRECTORS' HOLDINGS (as of 31.12.2005)

Management Board

Shares: Uwe Grimminger 256,131 shares (5.69%), Achim Mansen 44,980 shares (1%)

Options: Uwe Grimminger 29,757 options, Achim Mansen 19,838 options

Supervisory Board

Shares: Jürgen Tröndle 155,750 shares (3.46%), Gabriele Eick 600 shares, Dr. Gabriele Fontane 100 shares

STATEMENT OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE BY THE MANAGEMENT BOARD AND SUPERVISORY BOARD OF ESSANELLE HAIR GROUP AG

pursuant to Section 161 of the German Stock Corporation Act (AktG)

The Management Board and Supervisory Board of Essanelle Hair Group AG endorse the suggestions and rules contained in the German Corporate Governance Code. They fulfilled the recommendations contained therein in the past financial year and will continue to do so in future. Deviations from the Code have been disclosed by the Board of Management and Supervisory Board below.

Additions during the past 2005 financial year:

5.3.2 In line with the recommendations of the Corporate Governance Code, the Supervisory Board of Essanelle Hair Group AG last year established a Personnel Committee and an Audit Committee – with the remits recommended in the Code.

5.4.1 The Essanelle Hair Group resolved during the 2005 financial year to comply with Point 5.4.1 and thus to follow the recommendation that an age limit be set.

Deviations still valid:

3.8 The D&O insurance policy established by the company for the Management Board and the Supervisory Board did not include any deductible for the members thereby insured in the past and will not do so in future.

4.2.3 Variable remuneration components of a long-term incentive nature have been in place since 2003. However, the balanced structure of the parameters to be achieved makes any cap redundant. Moreover, the low volume of share options means that no detailed publication is required on the homepage.

4.2.4 The remuneration of members of the Management Board will continue to be reported as an overall sum in the notes to the consolidated financial statements.

5.4.7 The members of the Supervisory Board will continue only to receive fixed remuneration in view of the fact that the current level of remuneration means that it is not expedient to divide such remuneration into fixed and variable components.

7.1.1 Accounting
Essanelle Hair Group AG provided comprehensive and regular information in the form of annual and interim financial statements compiled in accordance with the German Commercial Code (HGB). In line with legal stipulations and the Code, the company will compile its annual financial statements for the 2005 financial year in accordance with the requirements of IFRS.

7.1.2 The Essanelle Hair Group will in future continue to compile its consolidated financial statements within 90 days and its quarterly financial statements within 45 days and to publish them at the earliest possible date. These deadlines may be exceeded in individual cases.

Düsseldorf, 22.12.2005

The Management Board The Supervisory Board

THE SHARE

The share of Essanelle Hair Group AG began the 2005 financial year at a price of Euro 4.35. In the course of the year, the price rose by a total of around 89%, to Euro 8.20 by the end of the year and thus considerably outperforming the increase of 35.16% reported by the SDAX index. This pleasing development in the share price is primarily attributable to the positive business performance of the Essanelle Hair Group. Moreover, further measures have also boosted shareholders' confidence in the share. The company was admitted to the Prime Standard quality segment of the German Stock Exchange on 15 September, for example. By meeting the related increase in transparency and information disclosure obligations, the Essanelle Hair Group has on the one hand thus accounted for the considerable increase in its free float and resultant expansion in its circle of shareholders in 2005. On the other hand, the company hopes that this move will enable it to access further private and institutional investors.

The fact that the company always accords high priority to its dialogue with shareholders was also illustrated by this year's Annual General Meeting. In its presentation, the Management Board outlined the business performance in 2004 and provided information concerning the 2005 financial year. In return, shareholders demonstrated their satisfaction with the key figures for 2004 and with the future prospects of the Essanelle Hair Group. As a result, the Annual General Meeting approved all of the items on the agenda with large majorities, thus affirming the successful course taken by the Management Board.

The financial community also responded positively to the past financial year. It was possible, for example, to attract well-known funds as new shareholders and to achieve a significant increase in the free float to around 66% after the previous largest single shareholder in the Essanelle Hair Group, the investment company Halder, had replaced its shareholding of around 36%. Moreover, analysts also showed increasing interest in the company. The recommendations made in the context of three studies were in each case “Buy”.

SHAREHOLDER STRUCTURE

Management Board	6.7%
Klier GmbH	25.8%

Free float pursuant to Deutsche Börse	67.5%

of which:

dit Vermögensverwaltung	8.9%
Axxion SA	13.2%
FPM	9.4%
Other	36.0%

SHARE INFORMATION

Overall Year 2005

Annual high	Euro 8.78
Annual low	Euro 4.35
Performance 01.01. - 31.12.	+88.51%
SDAX	+35.16%
Price at 31.12.	Euro 8.20
Market capitalisation at 31.12.	Euro 36.90 million
Market capitalisation of free float at 31.12.	Euro 24.43 million

GROUP MANAGEMENT REPORT (IFRS) FOR THE 2005 FINANCIAL YEAR

ECONOMIC FRAMEWORK

The German economy showed a slight overall improvement in 2005. Based on figures published by the Federal Statistics Office, the country's gross domestic product (GDP) rose by 0.9 percent. As in previous years, however, this increase was almost exclusively attributable to the momentum in the export sector, which reported growth of 6.2%. By contrast, consumer spending, which is of key relevance to the retail sector and thus to the hairdressing services segment as well, remained weak. With a decline of 0.3% consumer spending once again developed negatively. Key factors in this development included the sharp rise in oil and energy prices, as well as the situation on the employment market remaining tense.

In comparison with European countries, Germany also hardly managed to leave the weak position it has held in recent years. Only Italy (+0.2%), Portugal (+0.4%) and the Netherlands (+0.5%) reported lower levels of economic growth. Average growth in the Euro zone amounted to 1.3% in 2005 (previous year: 2.0%).

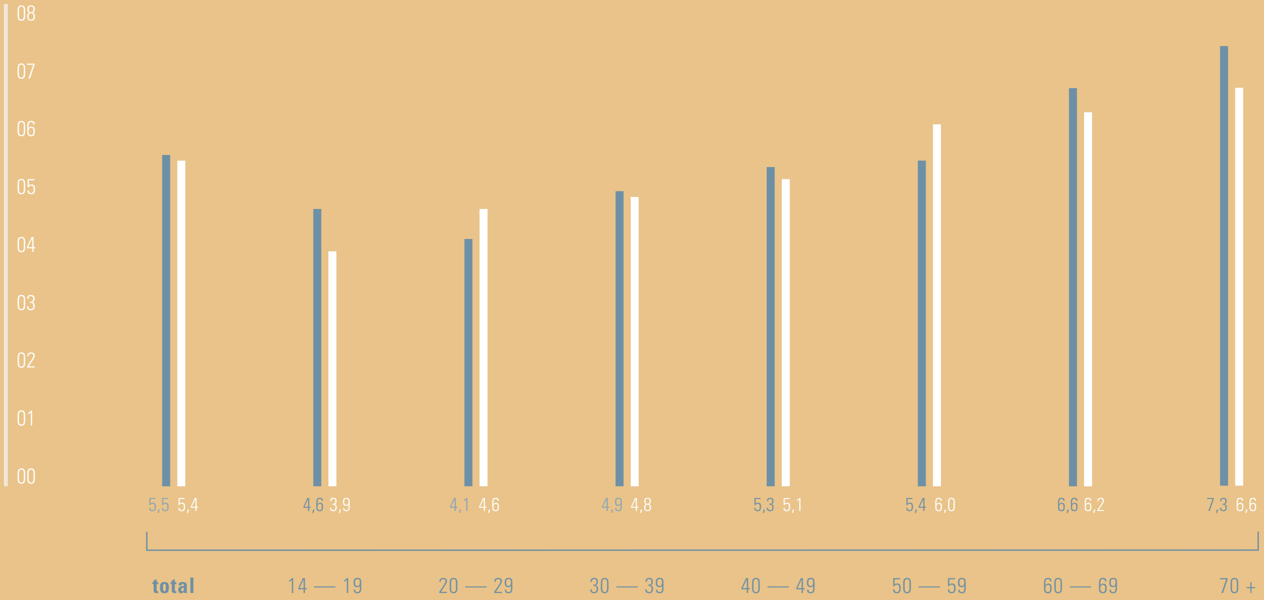
Leading research institutes have forecast a slight economic recovery for Germany in 2006. The Federal Government expects the economy to grow by around 1.4%. The research institutes expect to see a slight improvement in consumer spending and have forecast growth of 1.5% to 2.0% for 2006.

The same cautious optimism can be found in the results of studies undertaken by the Company for Consumer Research (GfK), which showed an improvement in the consumer climate in Germany at the end of 2005 – even though overall growth levels stagnated. The "propensity to spend" measured by the GfK, for example, was positive for the first time since 2001. The trend may well continue, but, as in the past, its impact on the retail sector, in which Essanelle Hair Group AG operates, remains surrounded by numerous uncertainties.

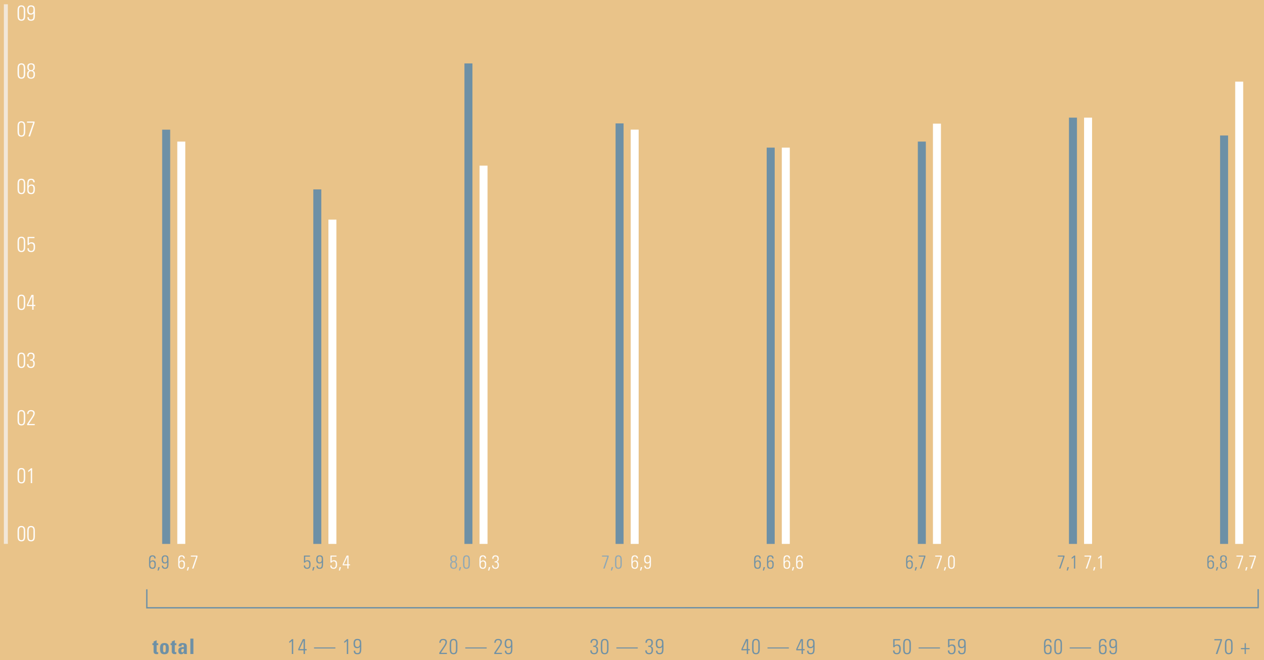
NUMBER OF VISITS TO HAIRDRESSER PER YEAR – AGE GROUP COMPARISON

2004 2005

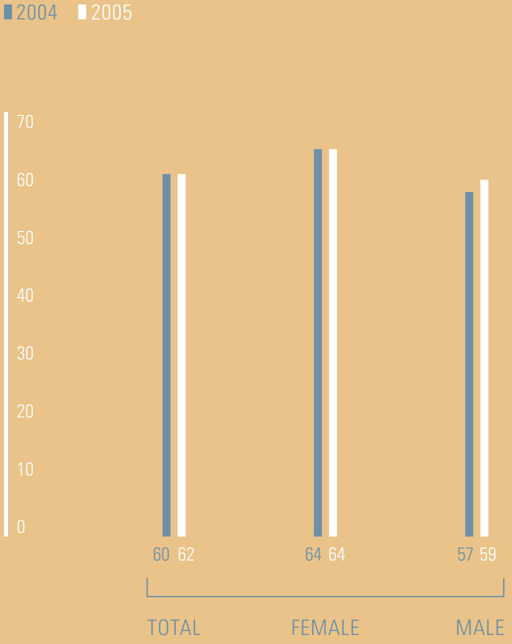
WOMEN



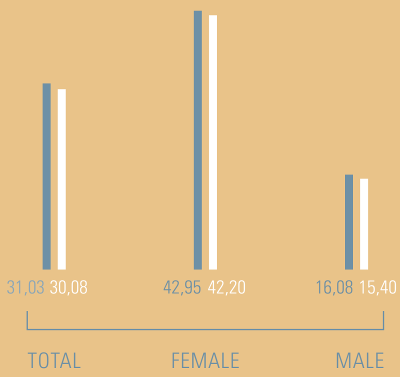
MEN



SHARE OF POPULATION USING A HAIRDRESSING SALON in %



EXPENDITURE PER VISIT TO HAIRDRESSER in €



SECTOR DEVELOPMENT

Based on representative data compiled by the Company for Consumer Research (GfK), there was an increase in the trend towards visiting hairdressing salons in 2005. While around 60% of the individuals questioned in the previous year usually had their hair treated in a salon, this figure rose to 62% in 2005. This development was observed across all age groups. Older consumers are traditionally more likely to go to the hairdresser than younger ones. Between 64% and 69% of consumers in the age groups from 50 and upwards frequented hairdressing salons. There was an increase once again in the percentage of men using hairdressing salons in 2005. In the past year, the percentage of men going to the hairdressers returned to 59%, while only 57% had done so in 2004. The share of the female target group visiting a hairdressing salon, by contrast, remained constant at the same high figure of 64% seen in the previous year.

The frequency of visits to hairdressers also remained virtually unchanged in the course of the year. While frequency rates averaged 6.0 visits per year for both sexes in 2004, the equivalent figure in the past year was 5.9. On average, men had their hair cut and treated at a hairdressing salon 6.7 times per year (previous year: 6.9) and women 5.4 times per year (previous year: 5.5). In this respect, a total of 80% of both target groups always chose the same hairdressing salon (previous year: 81%). 17% (previous year: 15%) tried out a different salon on occasion. This trend towards switching hairdressers or spontaneously deciding to visit another salon, which has been growing in significance for years now, is advantageous for the Essanelle Hair Group, given that the large majority of its proprietary salons are to be found at locations with high numbers of walk-in customers. It can also be observed that younger target groups, with rates of more than 20% in each case, are more likely to switch hairdressers or to spontaneously decide to visit a different salon on occasion, while customers over 50 generally remain regular customers at the same salon.

Regardless of the choice of hairdresser, there was a decline in average expenditure (including product purchases) per visit to the hairdresser in 2005. Men saved 4.2% compared with the previous year, spending Euro 15.40 per visit (previous year: Euro 16.08), while women spent Euro 42.20 per visit to the hairdresser, 1.7% less than in the previous year (Euro 42.95). A total of 16% of customers questioned purchased exclusive hairdressing products regularly or on occasion (previous year: 18%). As might possibly be expected, the share of women making such purchases was higher than the equivalent figure for men. Customers' satisfaction with their hairdresser remained unchanged at a very high level. As in the previous year, 96% of the customers questioned stated that they were "very satisfied" or "satisfied".

GENERAL INFORMATION ABOUT THE COMPANY

THE COMPANY

The Essanelle Hair Group provides hairdressing services and exclusive hairdressing products at around 600 salons and outlets across the whole of Germany. The services and products are offered via the retail concepts essanelle – Ihr Friseur, Super Cut, HairExpress, TOP TEN and Jürgen Tröndle by essanelle, as well as via the franchise salons operating under the mod's hair brand. The individual concepts are directed in each case at clearly defined target groups determined on the basis of various criteria. The sole purpose of the Beauty Hair Shops is that of selling exclusive hairdressing articles. The mod's hair retail concept is managed via the 100% shareholding held in CFS Coiffure Franchising System GmbH. This company manages 45 mod´s hair franchise salons. Based on the data compiled by the Company for Consumer Research (GfK), the Essanelle Hair Group estimates that its consolidated sales of Euro 113.5 million and Group sales of Euro 129.8 million represented a market share of around 2% in Germany in 2005.

As of 31.12.2005, the consolidated Essanelle Hair Group had 3,852 employees, compared with 3,812 in the previous year. Of this total, 81 individuals were employed in the company's head office and sales force and 3,771 in the salons. As customary in the segment, part-time employees made up 36% of the workforce.

STRATEGY AND CONCEPTS

The market for hairdressing services is highly fragmented. More than 90% of the hairdressing salons in Germany are managed by their proprietors. In view of the size of the company, its financial and personnel resources and its strategic alignment, Essanelle Hair Group AG therefore occupies a special position. Only one other competitor has achieved a comparable position in the market.

The company exploits this potential by focusing its offerings on specific target groups. The various salon groups are targeted at particular groups within society, thus meeting homogeneous customer requirements. The essanelle – Ihr Friseur concept, which has enjoyed longstanding success in the market and is targeted at the entire family, is worthy of particular mention in this respect. Furthermore, the strategy of the company has a strong focus on young consumers and on price-sensitive customers, given that the management believes that these groups harbour the greatest potential for the Essanelle Hair Group AG hairdressing chain. As a result of its cost structures, the company is in a position to operate low-price concepts profitably and thus simultaneously to access consumers who have increasingly not had their hair cut at salons in recent years. The Super Cut and HairExpress concepts, which are aimed at both of these trends, reported the highest growth rates in the past years. The TOP TEN salon concept newly launched in 2005 is also intended to raise access levels to the two specific target groups of "young customers" and "price-sensitive customers" referred to above.

The selection of locations for the new salons plays a major strategic role. Essanelle Hair Group AG prefers locations within shopping centres, consumer markets and department stores. Thanks to its longstanding partnerships with the leading providers of these centres, the company has succeeded in expanding its salon network on an ongoing basis. These environments have a high frequency of customers, passers-by and visitors, thus providing corresponding potential for the salons. The salon concepts are selected in line with the respective environment.

A further pillar of the company's strategy is the sale of exclusive hairdressing products at the salons and at the Beauty Hair Shops. In this respect, Essanelle Hair Group AG is able to rely on benefits of scale in its procurement and its specially trained staff to raise its sales far above segment averages. The Beauty Hair Shops, which have been specially designed for sales purposes, enable product sales to be boosted outside the hairdressing salons. Overall, the company generally generates a higher margin from the sale of exclusive hairdressing products than from its services. This division is therefore of strategic significance.

BUSINESS PERFORMANCE OF THE CONSOLIDATED ESSANELLE HAIR GROUP

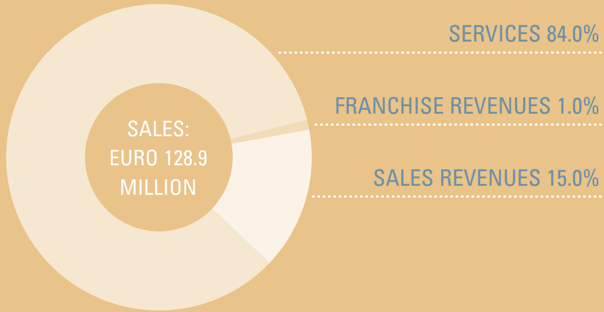
OBJECTIVES OF THE PAST FINANCIAL YEAR

At the beginning of 2005, the Essanelle Hair Group placed its strategy on a clear growth course. The aim was to open 20 to 30 new salons, primarily involving concepts targeted at young and price-sensitive customers. This would involve an increase in sales with a simultaneous negative impact on earnings as a result of the start-up losses incurred for new salons. Based on the scheduled implementation of the growth strategy, the company expected to generate pre-tax earnings at the same level as in the previous year. An EBT figure of between Euro 1.8 million and Euro 2.3 million was targeted. In parallel to this, the company aimed to achieve a further reduction in its liabilities and to increase its equity ratio to at least 30%.

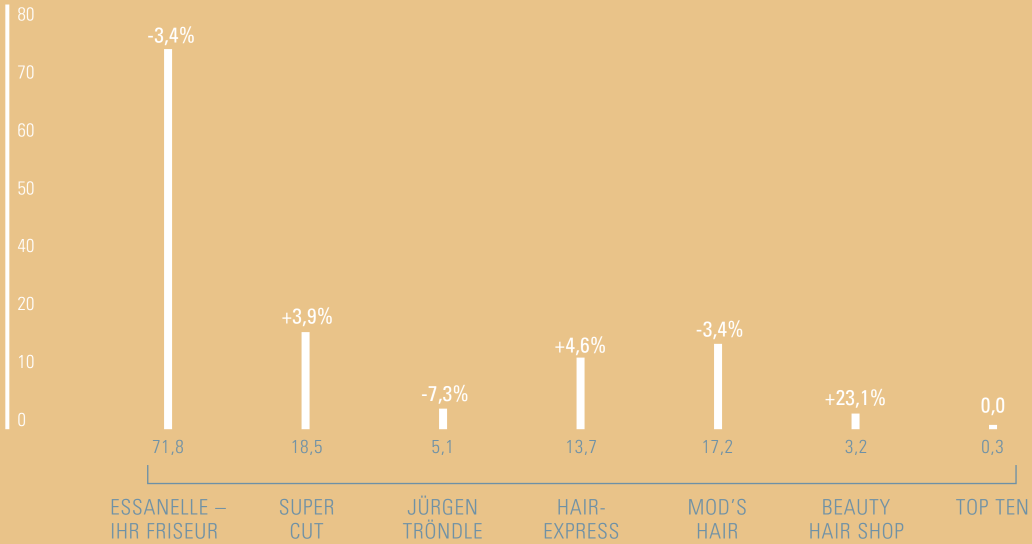
BUSINESS PERFORMANCE IN 2005

The Essanelle Hair Group basically implemented its growth course in 2005. However, the company only opened a moderate number of new salons. This resulted in a weaker sales performance than planned, not least because salon closures also had to be compensated for. On the other hand, the lower number of salon openings, most of which were opened in the second half of the year, also resulted in a lower level of start-up losses, which meant that the earnings performance was better than expected. Overall, these factors have resulted in a partial postponement of the budgeted impact on sales and earnings to the 2006 financial year. As planned, the company will press ahead with its expansion in the current financial year. Pleasing performance figures have been reported for the newly established TOP TEN salon concept, which is targeted at both young and price-sensitive customers.

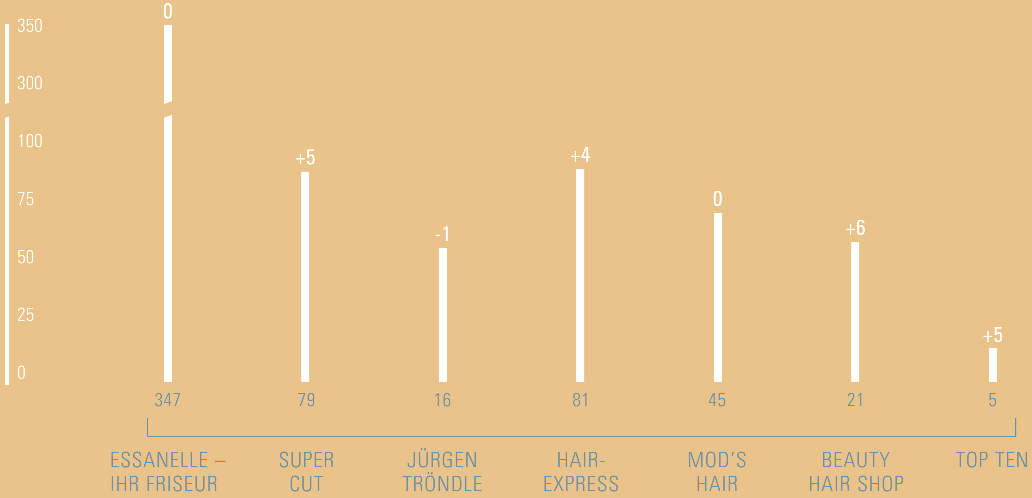
The Essanelle Hair Group generated total consolidated sales of Euro 113.5 million, compared with Euro 114.7 million in the previous year. This decline in sales is attributable to subdued levels of consumer demand, the closure of unprofitable salons and also to the spin-off of the final mod's hair salons in 2004, which had contributed Euro 400,000 to the sales figures for that year. The majority of the 36 newly opened salons were not yet able to make any significant contribution to the overall sales performance. Group sales, which also include the sales reported by the franchisees, amounted to Euro 129.8 million in 2005, compared with Euro 131.1 million in the previous year. Sales at the franchise salons correspondingly amounted to around Euro 16.3 million, compared with Euro 16.4 million in 2004.



SALES OF SALON CONCEPTS IN € MILLION
(CHANGE ON PREVIOUS YEAR)



NUMBER OF SALONS BY CONCEPTS (CHANGE ON PREVIOUS YEAR)



The consolidated sales of Essanelle Hair Group AG are dominated by services, which generated sales of Euro 95.9 million. This is equivalent to 84% of total sales. As in previous years, there was an increase in the sales generated by the sale of exclusive hairdressing products. These rose by 3.7% to Euro 16.9 million in the 2005 financial year, thus attaining a 15% share of sales. Franchising revenues amounted to Euro 0.7 million, or 1% of sales.

The number of salons operated by the company rose from 575 in 2004 to 594 as of 31.12.2005. This increase accounts for the opening of a total of 36 new salons and the closure of 17 salons. The number of employees rose from 3,812 at the end of the 2004 financial year to a total of 3,852 at the end of the past financial year. Of this total, 3,771 individuals were employed at the salons and 81 in overhead functions.

PERFORMANCE OF THE SALON CONCEPTS

essanelle – Ihr Friseur is the classic concept and by far the largest concept operated by the company. It is targeted at all age groups in most cases in shopping centres and department stores. With sales of Euro 71.8 million (previous year: Euro 74.3 million) the concept generated 63.3% of total sales (2004: 64.8%). At 347, the number of salons remained unchanged on the previous year.

The Super Cut concept is aimed at a young, trend-conscious target group. Uncomplicated and personal, with familiar forms of address and up-to-date music, the salons represent an environment suitable to attracting customers who are young or young-at-heart. The sales of Super Cut rose by 3.9% in 2005 to reach Euro 18.5 million (2004: Euro 17.8 million). The number of salons rose from 74 in 2004 to 79 at the end of the past financial year.

The TOP TEN concept newly launched in summer 2005 is located in the lower price segment and targeted at a price-sensitive customer group which it has not yet been possible to access with the HairExpress concept. Moreover, with its workshop character and the latest hits from the top ten in the music charts, the concept also addresses a young public. The new concept is also characterised by a price of Euro 10 for each service. TOP TEN generated sales of Euro 0.3 million in the past financial year and had a total of 5 salons by the end of 2005.

HairExpress also achieved growth in 2005 in spite of the new TOP TEN concept. With its focus on price-sensitive customers, this concept provides unadulterated, professional core services. Its sales amounted to Euro 13.7 million in the past financial year (previous year: Euro 13.1 million), which is equivalent to growth of 4.6%. The number of salons rose from 77 to 81.

Jürgen Tröndle by essanelle is the exclusive concept offered by Essanelle Hair Group AG and is to be found at superb locations, such as the exclusive Berlin department store KaDeWe, the newly opened Alsterhaus in Hamburg or on the Königsallee in Düsseldorf. This salon brand provides high-quality services to a sophisticated business public. Its sales amounted to Euro 5.1 million in the 2005 financial year, compared with Euro 5.5 million in the previous year. At 16, the number of salons was reduced by one compared with the previous year.

mod's hair is the company's franchise concept. Its Parisian flair and elaborate fittings are aimed at an exquisite, fashion-conscious target group. Franchise revenues amounted to Euro 0.9 million in the past financial year (previous year: Euro 1.4 million).

The Essanelle Hair Group does not only offer its traditional services. The company also offers products exclusive to hairdressers at the salons and at its Beauty Hair Shops, of which there are now 21. These products include System Professional and High Hair from Wella, Redken from L'Oréal, as well as products offered under the company's private label Keranelle. Although the Beauty Hair Shops are located in close proximity to the salons, the intention is nevertheless to motivate customers to buy the products not only when they visit the hairdresser. The Beauty Hair Shops generated revenues totalling Euro 3.2 million in the 2005 financial year, an increase of 23.1% on the previous year (Euro 2.6 million). The number of Beauty Hair Shops has increased from 15 to 21.

DEVELOPMENT OF EXPENSES AND EARNINGS

In spite of the expansion, a rise in the number of salons and the resultant increase in the number of employees, Essanelle Hair Group AG nevertheless succeeded in reducing key expense items. Personnel expenses declined from Euro 64.4 million to Euro 63.3 million. The personnel expense ratio now amounts to around 56%. Only material expenses showed a slight increase from Euro 10.4 million to Euro 10.5 million. Other operating expenses, including rental expenses, also showed a slight decline from Euro 31.2 million to Euro 31.0 million. The Essanelle Hair Group therefore generated earnings before interest, taxes, depreciation and amortisation (EBITDA) calculated in line with IFRS of around Euro 10.1 million. EBITDA was thus at exactly the same level as in the previous year in spite of the marked growth in the number of salons.

There was a marked decline in the level of depreciation, which fell by almost 10% from Euro 5.2 million to Euro 4.7 million in the past financial year. Pursuant to IFRS, this item almost exclusively includes depreciation of property, plant and equipment, as well as an exceptional write-down of goodwill in the brand Jürgen Tröndle by essanelle required as a result of an impairment test. This item thus differs considerably from that included in the calculation of the 2004 earnings in line with the German Commercial Code (HGB), which had included additional goodwill write-downs of around Euro 2 million. Earnings before interest and taxes (EBIT) calculated in line with IFRS therefore showed an overall increase of around 10% to Euro 5.4 million, compared with Euro 4.9 million in 2004.

As a result of the reduction in liabilities in 2004, the net financial expenses of the Essanelle Hair Group were significantly more positive in the 2005 financial year. Net financial expenses thus improved from Euro -1.35 million to Euro -1.05 million. This led to earnings before taxes of Euro 4.3 million, compared with Euro 3.5 million in the previous year. Given that the amortisation of goodwill was not required, earnings before taxes calculated in line with IFRS are considerably higher than this year's pre-tax earnings based on the German Commercial Code (HGB), which amount to Euro 2.6 million.

The share of earnings resulting from the goodwill amortisation not being undertaken is subject to fictitious taxation pursuant to IFRS. Moreover, in contrast to HGB accounting requirements, IFRS do not permit the company to utilise its losses carried forward. Overall, IFRS therefore result in an absolute level of taxation which is considerably higher than the taxes actually paid, which are calculated in line with HGB. Pursuant to IFRS, tax expenses amounted to Euro 1.8 million, compared with Euro 1.5 million in 2004. Pursuant to HGB, however, the tax burden based on pre-tax earnings of Euro 2.6 million only amounted to Euro 0.3 million.

In line with IFRS, the company generated annual net income of Euro 2.6 million. The equivalent figure for the previous year was Euro 2.0 million. This is equivalent to earnings growth of around 30%. Earnings per share therefore amounted to Euro 0.57, compared with Euro 0.45 in 2004. Excluding the fictitious taxation of earnings, earnings per share would amount to Euro 0.90, compared with Euro 0.73 in the previous year.

ASSET AND FINANCIAL POSITION

The cash flow of the Essanelle Hair Group once again attained its usual strong level in the 2005 financial year. The net inflow of funds from operating activities showed a considerable increase from around Euro 6.2 million in 2004 to now Euro 10.4 million. This is partly a direct result of the pleasing course of business and of the resultant annual net income, as well as of the change in working capital. As a result of the implementation of the expansion strategy, the cash flow from investment activities rose considerably from Euro -1.5 million to Euro -4.7 million. The repayment of numerous liabilities resulted in a cash flow from financing activities of Euro -6.8 million, compared with Euro -8.5 million in the previous year. Overall, the change in financial funds therefore amounted to around Euro -1.1 million. Given a volume of Euro 5.1 million at the beginning of the year, liquid funds therefore now amount to Euro 4.0 million.

Essanelle Hair Group AG also achieved further improvements in its balance sheet ratios in 2005. The company's equity ratio based on IFRS rose from 35.2% as of 31.12.2004 to around 40.9% as of 31.12.2005. This extremely positive development, which far exceeded the company's targets, is attributable on the one hand to the further reduction in liabilities by more than Euro 4 million from Euro 34.3 million to Euro 30.2 million. On the other hand, the consolidated net income facilitated an improvement in shareholders' equity from Euro 18.6 million to Euro 20.8 million. On the asset side, fixed assets amounted to Euro 39.6 million and were thus at around the same level as the figure of Euro 40.3 million reported at the end of the previous year. Current assets declined from Euro 12.6 million to Euro 11.4 million, which is largely due the reduction in cash holdings from Euro 5.1 million to Euro 4.0 million.

As planned, there was a considerable increase in investments in property, plant and equipment in 2005. These amounted to Euro 5.2 million, compared with Euro 2.9 million in 2004. The company invested around Euro 1.8 million in the 36 newly opened salons and the new TOP TEN salon concept. Renovations of existing salons were financed with Euro 1.8 million. A further Euro 1.2 million related to financial leasing and Euro 0.4 million to other investments.

THE SHARE

The performance of the share of Essanelle Hair Group AG exceeded that of all of the main indices on the German Stock Exchange in the 2005 financial year. Having started the year with a Xetra price of Euro 4.35, the company's share finished the year with a price of Euro 8.20 as of 31.12.2005. This represents an increase in value of around 89%. The value of the company calculated on this basis for 4.5 million shares thus amounted to Euro 36.9 million at the end of the past financial year. To take due account of the increase in the free float and thus also in the company's circle of investors, the management decided in the 2005 financial year to switch to the Prime Standard of the German Stock Exchange and to meet the high information disclosure requirements of this segment. These requirements include both the provision of reports in English and of more extensive reports on the respective quarterly results.

On 20 October 2005, the Management Board decided to buy back up to 10% of the outstanding shares via the stock exchange. This decision was based on the authorisation provided by the Annual General Meeting held on 25 June 2004. The share buyback was undertaken within the framework of the authorisation in order to cover price risks relating to the existing share option programme in particular. The buyback was undertaken in agreement with the requirements of Regulation (EC) No. 2273/2003 of the Commission dated 22 December 2003. The company purchased a total of 60,000 of its own shares in the period between 28 October and 10 November 2005. During the year under report, the company issued 138,072 subscription rights to senior employees and the Management Board within the framework of the share option programme. Following a lock-up period, these rights entitle their holders to subscribe shares. Further details have been provided in the notes to the financial statements.

RISK REPORT

EARLY IDENTIFICATION

The Essanelle Hair Group has already had an early warning risk identification system pursuant to Section 91 (2) of the German Stock Corporation Act (AktG) in place for several years now. This system is regularly adjusted to account for changes in the company and encompasses all divisions of the company and its subsidiaries. A handbook sets out the respective functionalities, responsibilities, reporting requirements and possible controls and determines the corresponding handling of the information from the early warning risk identification system.

The management has commissioned decentralised risk managers to monitor the implementation of these measures. The risks within the respective areas of responsibility are recorded in a regularly updated inventory and reported to the central risk controller at intervals of three months. Following an in-depth review, the risk controller then informs the Management Board. The Management Board in turn informs the Supervisory Board of major risks at its regular meetings.

CONTROLLING AT THE SALONS

To facilitate the management of the company, controlling structures are in place at the salons, enabling prompt analyses to be compiled and targets and measures to be set. Weekly and monthly budget/actual comparisons and analyses are compiled at this level and forwarded to the Management Board. In view of the forthcoming future expansion in the number of salons, the controlling system will act as an important aid enabling the performance of the individual new salons to be assessed at all times.

MARKET RISK

The salons of the Essanelle Hair Group are in most cases located in department stores, consumer markets and shopping centres. This means that they are particularly dependent on the respective overall location, its consumer structure, totals and behaviour. As a result of its in-depth review and selection of highly-frequented locations, the company views its locations and the fundamental decision in favour of locations in such centres as constituting an advantage. As in previous years, the company's management still believes these criteria to be valid. There is nevertheless the risk that individual cooperation partners could close down outlets, thus forcing the company to relinquish a particular location.

Irrespective of the location issue, the development of hairdressing services depends to a certain extent on the overall development of the retail sector. On the basis of all previous experience, however, developments in the overall retail sector are only passed on in diluted form. The ongoing lull in consumer confidence, which has now lasted since 2001, is correspondingly also reflected in the sales of the company's salons. The Essanelle Hair Group has countered this trend by developing and expanding suitable salon concepts. The TOP TEN salon brand newly established in 2005 is thus directed at the target groups of price-sensitive customers and of young people, a group which is relatively immune to developments in the economic cycle.

All data available at the individual salons is recorded and analysed in order to identify any additional individual risks or inappropriate developments at an early stage and, if necessary, to take countermeasures. A total of 38 salons for which no possibility of achieving profitability improvements in the medium term was expected were thus closed in the past two years.

RENTAL

The Essanelle Hair Group has concluded long-term rental agreements with a large number of letting partners. Contracts for several locations have been concluded with some partners. If the lessor accords priority to hairdressing services being offered at weak locations as well, then it is in some cases not possible to close salons in spite of their failing to reach the profitability requirements of the Essanelle Hair Group. From a current perspective, however, the number of profitable salons is in the clear majority in the case of these partners. Moreover, the long-term nature of the agreements protects the company against the risk of losing particularly good and highly sought-after locations. The relationships with the letting partners, which are in most cases longstanding and good, provide additional security. Furthermore, the Essanelle Hair Group is making efforts to optimise its mix of lessors to the greatest possible extent.

SUPPLIERS

Contracts involving exclusive hairdressing product acceptance obligations running over several years have been concluded with two major suppliers of the Essanelle Hair Group. The company currently expects to meet the agreed acceptance obligations.

PERSONNEL

Hairdressing services are an extremely personnel-intensive business. Functioning relationships between customers and employees are of decisive importance for the success of the Essanelle Hair Group. In view of this, the company accords a high degree of attention to the motivation and further training of its employees. Moreover, detailed analyses of personnel productivity, turnover and development levels are compiled and evaluated on a regular basis. The exchange of information between the Management Board and the regional sales directors, as well as that between the latter and the employees on location, provides an additional communication and information system which facilitates the monitoring of this critical factor in the hairdressing service segment.

Over and above the risks outlined above, no particular risks to the future development of the company have currently been identified.

EVENTS SUBSEQUENT TO THE REPORTING DATE

There have been no events with a significant impact on the sales and earnings situation of the Essanelle Hair Group AG subsequent to the reporting date on 31.12.2005.

OUTLOOK

The leading economic research institutes expect to see an improvement in the performance of the German economy in the current 2006 financial year. This is also expected to involve renewed growth in domestic demand following years of weak development. Overall, GDP growth of between 1.5% and 2% has been forecast. Should this be the case, and should a significant portion of such growth be attributable to consumer demand, then this could also have a positive impact on the business performance of Essanelle Hair Group AG.

In order to be independent of this development, which is still uncertain, the company will maintain the growth course initiated in 2005 in the 2006 financial year as well. It aims to open around 50 new salons, primarily involving the TOP TEN and Super Cut concepts. The acceleration in the growth in the number of salons, and thus of the company, will be facilitated in part by the regular high operating cash flow of Essanelle Hair Group AG, which amounted to more than Euro 10 million in the 2005 financial year. This level is also forecast for 2006. Should the expansion be implemented on schedule, then the company expects to achieve sales growth of 5% to 10%. A particular contribution will be made in this respect by the salons already opened in the past financial year.

On the earnings side, the annual net income reported by Essanelle Hair Group AG for the past financial year was in excess of expectations. This was primarily attributable to the new openings in 2005 taking place later than planned. This means that the resultant start-up losses were partly no longer incurred in the 2005 financial year, but have rather been postponed to the current financial year. For this reason, the company does not expect to achieve significant earnings growth in 2006. Its target for 2006 is at least to match the earnings before taxes reported for the 2005 financial year. In 2007, the Essanelle Hair Group will then profit even more substantially from the growth in the total number of salons, given that new salons generally work at full capacity following one year and can then make maximum contributions to sales and earnings. As a result of the salons opened in 2005 and 2006, the Essanelle Hair Group expects earnings to rise as a proportion of sales in the 2007 financial year. The 2005 and 2006 financial years thus form the foundation for ongoing future sales and earnings growth.

The expansion plans focus in particular on the newly established TOP TEN concept. With this concept, the company aims on the one hand to attract young customers by means of “cool” furnishings and music taken exclusively from the top ten in the German charts. On the other hand, it aims to appeal to price-sensitive customers as a result of its consistent basic price of ten euros. The first salons opened in 2005 have performed better than expected. This positive performance should also be maintained in 2006 and in subsequent years.

CONSOLIDATED BALANCE SHEET (IFRS)

as of 31 December 2005

ASSETS

€	Note	31.12.2005	31.12.2004
ASSETS			
Fixed assets			
Property. plant and equipment	6	19,803,198.26	19,520,628.50
Goodwill	7	19,243,872.10	19,651,238.35
Other intangible assets	7	204,967.52	184,951.59
Financial assets valued at equity	8	1.00	7,000.00
Other loans	9	336,483.80	535,143.03
Deferred tax claims	18	0.00	395,000.00
		39,588,522.68	**40,293,961.47**
Current assets			
Inventories	10	5,838,391.02	5,826,725.87
Accounts receivable	11	327,520.14	248,547.16
Other assets	12	1,204,502.67	1,425,168.75
Cash and cash equivalents	13	4,023,586.86	5,112,518.48
		11,394,000.69	**12,612,960.26**
Total assets		**50,982,523.37**	**52,906,921.73**

LIABILITIES

€	Note	31.12.2005	31.12.2004
SHAREHOLDERS' EQUITY			
Capital and reserves allocable to the shareholders in the parent company			
Share capital	14	4,440,000.00	4,500,000.00
Capital reserve	15	14,922,074.35	15,214,773.20
Revenue reserves	16	1,465,846.08	-1,107,337.24
		20,827,920.43	**18,607,435.96**
DEBT			
Long-term debt			
Financial debt	17	7,522,245.01	9,034,750.66
Deferred tax liabilities	18	1,104,000.00	0.00
Pension provisions	19	164,745.00	60,460.00
Other provisions	20	753,560.96	621,726.24
		9,544,550.97	**9,716,936.90**
Short-term debt			
Financial debt	21	7,182,302.22	12,054,727.71
Accounts payable	22	5,892,106.47	4,528,483.73
Current income tax liabilities	23	373,029.63	284,000.00
Other liabilities	24	4,132,429.83	4,690,673.84
Other provisions	25	3,030,183.82	3,024,663.59
		20,610,051.97	**24,582,548.87**
Total debt		**30,154,602.94**	**34,299,485.77**
Total shareholders' equity and debt		**50,982,523.37**	**52,906,921.73**

CONSOLIDATED INCOME STATEMENT (IFRS)

for the period from 1 January 2005 to 31 December 2005

€	Note	2005	2004
Sales	26	113,534,270.44	114,672,663.03
Other operating income	27	1,332,703.76	1,422,031.06
Cost of materials	28	-10,487,123.97	-10,422,965.50
Personnel expenses	29	-63,308,712.56	-64,356,549.86
Depreciation and amortisation	30	-4,717,599.61	-5,226,725.50
Rental and ancillary rental expenses	31	-20,807,785.40	-20,750,809.79
Other operating expenses	32	-10,166,314.20	-10,456,084.85
Operating earnings		**5,379,438.46**	**4,881,558.59**
Financing income	33	86,671.18	88,832.55
Financing expenses	34	-925,411.19	-1,248,368.00
Share of losses in companies valued at equity	35	-6,999.00	0.00
Losses on financial loans	36	-206,240.46	-185,891.33
Net financial expenses		**-1,051,979.47**	**-1,345,426.78**
Earnings before taxes		**4,327,458.99**	**3,536,131.81**
Tax expenses	37	-1,754,275.67	-1,522,963.43
Consolidated net income		**2,573,183.32**	**2,013,168.38**
Earnings per share	38		
undiluted		0.57	0.45
diluted		0.56	0.44

CONSOLIDATED CASH FLOW STATEMENT (IFRS)

for the period from 1 January 2005 to 31 December 2005

€k	Note	2005	2004
1. CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated by ongoing business activities	40	11,335	7,159
Interest paid		-750	-887
Taxes on income paid		-155	0
Net inflow of funds from operating activities		**10,430**	**6,272**
2. CASH FLOW FROM INVESTMENT ACTIVITIES			
Acquisition of property. plant and equipment	6	-5,172	-2,981
Proceeds from the sale of property. plant and equipment	40	436	1,360
Acquisition of intangible assets	7	-83	-44
Loans paid out	9	-57	-27
Loans repaid	9	187	168
Loans paid out to closely related persons	43	-42	-70
Loans repaid by closely related persons	43	22	16
Interest received		36	83
Net outflow of funds for investment activities		**-4,673**	**-1,495**
3. CASH FLOW FROM FINANCING ACTIVITIES			
Buyback of own shares	14. 15	-460	0
Receipts from the taking up of financial loans	17. 21	3,998	918
Repayment of financial debt	17. 21	-10,384	-9,421
Net outflow of funds for financing activities		**-6,846**	**-8,503**
Net decline in cash and cash equivalents		-1,089	-3,726
Cash and cash equivalents at beginning of year	13	5,113	8,839
Cash and cash equivalents at end of year		**4,024**	**5,113**

SCHEDULE OF CHANGES IN GROUP EQUITY (IFRS)

as of 31 December 2005

	Note	Share capital	Capital reserve	Revenue reserves	Minority interests	Total equity
Balance at 01.01.2004		**4,500,000.00**	**15,165,776.62**	**-3,120,505.62**	**0,00**	**16,545,271.00**
Consolidated earnings	16			2,013,168.38		2,013,168.38
Value of the services of employees in connection with employee share option programmes	15		48,996.58			48,996.58
Balance at 31.12.2004		**4,500,000.00**	**15,214,773.20**	**-1,107,337.24**		**18,607,435.96**
Balance at 1.1.2005		**4,500,000.00**	**15,214,773.20**	**-1,107,337.24**		**18,607,435.96**
Consolidated earnings	16			2,573,183.32		2,573,183.32
Value of the services of employees in connection with employee share option programmes	15		107,363.03			107,363.03
Buyback of own shares	14. 15	-60,000.00	-400,061.88			-460,061.88
Balance at 31.12.2005		**4,440,000.00**	**14,922,074.35**	**1,465,846.08**	**0.00**	**20,827,920.43**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

as of 31 December 2005

BASIC INFORMATION

The consolidated Essanelle Hair Group, which consists of the parent company Essanelle Hair Group AG (in short: the company or Essanelle) and the subsidiary CFS Coiffure Franchising System GmbH (in short: CFS GmbH) and the CFB GmbH shareholdings is one of the leading providers of hairdressing services in Germany. Furthermore, Essanelle also sells products exclusive to hairdressers in its hairdressing salons and in specialist sales shops and acts as franchisor for proprietor-managed hairdressing salons.
The store network of Essanelle Hair Group AG comprised 594 hairdressing salons and sales shops as of 31 December 2005, compared with 575 in the previous year. 45 proprietor-managed salons are affiliated as franchisees via CFS GmbH (previous year: 45).

Essanelle has developed various salon concepts which are targeted at various customer groups under the following brand names:

- essanelle – Ihr Friseur
- SuperCut
- HairExpress
- Jürgen Tröndle by essanelle
- TOP TEN
- mod´s hair

The original concept “essanelle - Ihr Friseur” is targeted at regular and occasional customers of all age groups. The “Super Cut” concept is tailored to the needs of younger hairdressing customers, with the “HairExpress” and “Jürgen Tröndle by essanelle” concepts being targeted at price-conscious and luxury-oriented customers respectively. Essanelle’s hairdressing salons are in most cases located in department stores and in shopping centres. The concept with the name “TOP TEN” offers hairdressing services in the 10 euro segment primarily at standalone locations. The franchising business is predominantly managed under the “mod’s hair” brand name and is intended to appeal to individualist and fashion-conscious customers.

The head office for all operating units of the Group is located in

40547 Düsseldorf
Niederkasseler Lohweg 20
Germany.

The company's corporate planning provides for an increase in the company's market share by means of the expansion of its network of outlets. The parent company, Essanelle Hair Group AG, is a stock corporation which was converted from Essanelle GmbH on 4 May 2001 by means of a corporate transformation.

Essanelle Hair Group AG has been listed on the Frankfurt Stock Exchange since 22 June 2001. The company was listed until 20 December 2002 in the SMAX quality segment and until 30 September 2005 in official trading. Since then, Essanelle Hair Group AG has been listed in the Prime Standard. As previously, Essanelle Hair Group AG has its legal domicile in Düsseldorf und is registered under the number HRB 40749 in the Commercial Register of the Düsseldorf District Court.

These consolidated financial statements were approved for publication by the Management Board on 24 February 2006.

MEMBERS OF THE MANAGEMENT BOARD

The members of the Management Board during the year under report and currently are:

Uwe Grimminger, Kerpen, Chairman of the Management Board
Achim Mansen, Monheim, Member of the Management Board

Subsidiary activities of the members of the Management Board:

Uwe Grimminger	Member of the Administrative Board (Employer Representative) of the Essanelle Company Health Insurance Fund, Düsseldorf
Achim Mansen	Member of the Administrative Board (Employer Representative) of the Essanelle Company Health Insurance Fund, Düsseldorf

MEMBERS OF THE SUPERVISORY BOARD

Shareholder representatives

	Profession
Dr. Hans-Jürgen Knauer, Mülheim/Ruhr Chairman until 24 June 2005	Management consultant
Martin Tresser, Canterbury/UK Chairman from 24 June 2005	Industrial engineer
Paul Deiters, The Hague/Netherlands until 7 June 2005	Investment manager
Joachim Dübner, Düsseldorf from 15 June 2005	Management consultant
Werner Schneider, Cologne from 24 June 2005	Economist
Gabriele Eick, Frankfurt am Main	Management consultant
Dr. Gabriele Fontane, Frankfurt am Main	Lawyer
Jürgen Tröndle, Kelsterbach	Businessman

Employee representatives

	Profession
Peter-Michael Herold, Stuttgart Deputy Chairman	Trade union secretary
Marina Schacht (previously Becker), Berlin until 31 July 2005	Sales manager
Cornelia Glaß, Erlbach	Salon manager
Michael Eberhard, Gerlingen	Trade union secretary
Ulrike Muschalle, Kassel until 31 October 2005	Salon manager
Ulrike Witt, Essen	Hairdresser
Dieter Bonk, Düsseldorf from 30 November 2005	Sales director

The following members of the Supervisory Board also sit on supervisory or administrative boards at other companies:

Gabriele Eick	**Supervisory boards** Marketing Club, Frankfurt am Main (President) DMV-Deutscher Marketing Verband, Düsseldorf (Vice President) Baden-Badener Unternehmensgespräche - Gesellschaft zur Förderung des Unternehmensnachwuchses (Director)
	Administrative boards Frankfurter Kulturkomitee, Frankfurt am Main (Member) Plan International, Hamburg (Member) Student Exchange Organisation AIESEC Germany (Member) Plan Stiftung (Member)
Michael Eberhard	**Supervisory boards** Stadtwerke Leipzig GmbH, Leipzig (Member) Technische Werke Dresden GmbH, Dresden (Member)
Joachim Dübner	**Supervisory board** Procon Multimedia AG, Hamburg (Member)

SUMMARY OF PRINCIPAL ACCOUNTING AND VALUATION METHODS

General provisions

The consolidated financial statements of Essanelle Hair Group AG were compiled for the first time as of 31 December 2005 in accordance with the requirements of International Financial Reporting Standards (IFRS) as applicable in the EU. In 2004, the consolidated financial statements were compiled in accordance with the German Commercial Code (HGB). The consolidated financial statements are in compliance with the legal requirements applicable to parent companies oriented towards the capital market and subject to reporting obligations pursuant to Section 315a of the German Commercial Code (HGB) in connection with Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and Council dated 19 July 2002 in respect of the application of current international accounting standards in their current respective version (IAS-Regulation).

Application has been made of the supplementary provisions of the German Stock Corporation Act (AktG). The group management report as of 31 December 2005 has also been compiled in accordance with the requirements of the German Commercial Code (HGB).

The annual financial statements of subsidiaries and second-tier subsidiaries have been compiled as of the reporting date of the Group. In the interests of clarity, individual items have been summarised within the balance sheet and the income statement. Corresponding explanations have been provided in the notes.
The conversion of accounting from the German Commercial Code (HGB) to IFRS has been undertaken in accordance with the requirements of IFRS 1 "Initial Application of International Financial Reporting Standards".
The consolidated financial statements have been compiled on the basis of historical costs of acquisition or manufacture.

The date of the transition to IFRS is 1 January 2004. The Group has therefore compiled its opening IFRS balance sheet as of this date. Application has been made of all IFRS accounting and valuation methods valid as of the reporting date for the first set of IFRS financial statements (31 December 2005). Essanelle has merely drawn on the following possibility of exemption set out in IFRS in respect of complete retrospective application: application has been made of the exemption from the depiction of business combinations. No reverse projection was undertaken for business combinations occurring prior to 1 January 2004.

Account was taken of mandatory exceptions to retrospective application pursuant to IFRS 1.26.

The impact of the conversion to IFRS on the balance sheet has been depicted in the reconciliation of the shareholders' equity as of 1.1.2004 (IFRS opening balance sheet) and as of 31.12.2004. The impact on the 2004 income statement (comparison period) has been depicted in a reconciliation of consolidated earnings pursuant to IFRS.

International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) already published but not yet requiring mandatory application

On 26 January 2006, within the framework of its endorsement, the EU adopted IFRS 7 "Financial Instruments: Disclosures" and the corresponding amendments to IAS 1 "Presentation of Financial Instruments – Capital Disclosures". The new explanatory requirements set out herein are to be applied to financial years beginning on or after 1 January 2007. Given that these requirements exclusively relate to disclosure obligations, their initial application will not have any significant impact on the net asset, financial and earnings position of Essanelle Hair Group AG.

The additional interpretations (IFRIC 4, 5 and 7) already published and requiring application in subsequent years, and the amendments and supplements to existing standards (IAS 19, 21 and 39) will also not have any significant impact on the net asset, financial and earnings position of the Group.

TRANSITION OF THE SHAREHOLDERS' EQUITY AND THE CONSOLIDATED EARNINGS FROM THE GERMAN COMMERCIAL CODE (HGB) TO IFRS

Reconciliation of the shareholders' equity with IFRS as of 1 January 2004:

€	HGB 01.01.2004	Adjustment to amounts stated	Equity changes due to IFRS	IFRS 01.01.2004
ASSETS				
Fixed assets				
Property. plant and equipment	17,756,467.08	-203,000.00	4,598,600.66	22,152,067.74
Goodwill	20,454,848.92	0.00	0.00	20,454,848.92
Intangible assets	211,641.33	0.00	0.00	211,641.33
Financial assets valued at equity	7,000.00	0.00	0.00	7,000.00
Other loans	700,910.02	0.00	0.00	700,910.02
Deferred tax claims	0.00	0.00	1,656,000.00	1,656,000.00
	39,130,867.35	**-203,000.00**	**6,254,600.66**	**45,182,468.01**
CURRENT ASSETS				
Inventories	5,425,460.07	0.00	0.00	5,425,460.07
Accounts receivable	311,823.29	0.00	0.00	311,823.29
Other assets	1,751,072.43	4,668.00	0.00	1,755,740.43
Cash and cash equivalents	8,838,841.72	0.00	0.00	8,838,841.72
	16,327,197.51	4,668.00	0.00	16,331,865.51
Total assets	**55,458,064.86**	**-198,332.00**	**6,254,600.66**	**61,514,333.52**
SHAREHOLDERS' EQUITY				
Share capital	4,500,000.00	0.00	0.00	4,500,000.00
Capital reserve	17,102,563.50	0.00	-1,936,786.88	15,165,776.62
Revenue reserves	-10,804,871.63	0.00	7,684,366.01	-3,120,505.62
	10,797,691.87	**0.00**	**5,747,579.13**	**16,545,271.00**
DEBT				
Long-term debt				
Financial debt	17,512,068.71	-67,519.96	183,628.75	17,628,177.50
Pension provisions	286,632.00	-198,332.00	-30,983.00	57,317.00
Other provisions	0.00	570,323.88	-8,992.75	561,331.13
	17,798,700.71	**304,471.92**	**143,653.00**	**18,246,825.63**
Short-term debt				
Financial debt	0.00	11,153,686.69	811,509.06	11,965,195.75
Accounts payable	4,201,709.34	0.00	0.00	4,201,709.34
Current tax obligations	0.00	43,864.72	0.00	43,864.72
Other liabilities	18,405,781.08	-11,086,166.73	0.00	7,319,614.35
Tax provisions	43,864.72	-43,864.72	0.00	0.00
Other provisions	4,210,317.14	-570,323.88	-448,140.53	3,191,852.73
	26,861,672.28	-502,803.92	363,368.53	26,722,236.89
Total debt	44,660,372.99	-198,332.00	507,021.53	44,969,062.52
Total shareholders' equity and debt	**55,458,064.86**	**-198,332.00**	**6,254,600.66**	**61,514,333.52**

Reconciliation of equity pursuant to IFRS as of 31 December 2004:

€	HGB 31.12.2004	Adjustment to amounts stated	Equity changes due to IFRS	IFRS 31.12.2004
ASSETS				
Long-term assets				
Property. plant and equipment	15,409,710.35	-126,664.05	4,237,582.20	19,520,628.50
Goodwill	17,546,278.32	0.00	2,104,960.03	19,651,238.35
Intangible assets	184,951.59	0.00	0.00	184,951.59
Financial assets valued at equity	7,000.00	0.00	0.00	7,000.00
Other loans	535,143.03	0.00	0.00	535,143.03
Deferred tax claims	0.00	0.00	395,000.00	395,000.00
	33,683,083.29	**-126,664.05**	**6,737,542.23**	**40,293,961.47**
Short-term assets				
Inventories	5,826,725.87	0.00	0.00	5,826,725.87
Accounts receivable	248,547.16	0.00	0.00	248,547.16
Other assets	1,528,417.69	-103,248.94	0.00	1,425,168.75
Cash and cash equivalents	5,112,518.48	0.00	0.00	5,112,518.48
	12,716,209.20	-103,248.94	0.00	12,612,960.26
Total assets	**46,399,292.49**	**-229,912.99**	**6,737,542.23**	**52,906,921.73**
SHAREHOLDERS' EQUITY				
Share capital	4,500,000.00	0.00	0.00	4,500,000.00
Capital reserve	17,102,563.50	0.00	-1,887,790.30	15,214,773.20
Revenue reserves	-9,290,939.93	0.00	8,183,602.69	-1,107,337.24
	12,311,623.57	**0.00**	**6,295,812.39**	**18,607,435.96**
DEBT				
Long-term debt				
Financial debt	9,387,891.75	-1,125,229.66	772,088.57	9,034,750.66
Pension provisions	329,868.00	-229,913.00	-39,495.00	60,460.00
Other provisions	0.00	577,227.19	44,499.05	621,726.24
	9,717,759.75	**-777,915.47**	**777,092.62**	**9,716,936.90**
Short-term debt				
Financial debt	0.00	11,764,017.38	290,710.33	12,054,727.71
Accounts payable	4,528,483.73	0.00	0.00	4,528,483.73
Income tax obligations	0.00	284,000.00	0.00	284,000.00
Other liabilities	15,089,461.55	-10,398,787.71	0.00	4,690,673.84
Tax provisions	524,000.00	-524,000.00	0.00	0.00
Other provisions	4,227,963.89	-577,227.19	-626,073.11	3,024,663.59
	24,369,909.17	548,002.48	-335,362.78	24,582,548.87
Total debt	34,087,668.92	-229,912.99	441,729.84	34,299,485.77
Total shareholders' equity and debt	**46,399,292.49**	**-229,912.99**	**6,737,542.23**	**52,906,921.73**

Reconciliation of consolidated earnings pursuant to IFRS for 2004:

in €	2004 (HGB)	Conversions	Impact on earnings	2004 (IFRS)
Sales	114,672,663.03	0.00	0.00	114,672,663.03
Other operating income	1,263,755.65	55,060.97	103,214.44	1,422,031.06
Cost of materials	-10,422,965.50	0.00	0.00	-10,422,965.50
Personnel expenses	-64,329,833.28	67,259.80	-93,976.38	-64,356,549.86
Depreciation	-6,465,195.54	16,397.03	1,222,073.01	-5,226,725.50
Ancillary rental expenses	0.00	-20,750,809.79	0.00	-20,750,809.79
Other operating expenses	-31,711,426.37	20,659,242.18	596,099.34	-10,456,084.85
Income from loans of financial assets	55,060.97	-55,060.97	0.00	0.00
Other interest and similar income	88,832.55	-88,832.55	0.00	0.00
Amortisation of financial assets	-185,891.33	185,891.33	0.00	0.00
Interest and similar expenses	-1,167,426.27	1,167,426.27	0.00	0.00
Result of operating activities	**1,797,573.91**	**1,256,574.27**	**1,827,410.41**	**4,881,558.59**
Financing income	0.00	88,832.55	0.00	88,832.55
Financing expenses	0.00	-1,181,194.27	-67,173.73	-1,248,368.00
Losses on financial loans	0.00	-185,891.33	0.00	-185,891.33
Net financial expenses	**0.00**	**-1,278,253.05**	**-67,173.73**	**-1,345,426.78**
Earnings before taxes	1,797,573.91	-21,678.78	1,760,236.68	3,536,131.81
Taxes on income	-261,963.43	0.00	-1,261,000.00	-1,522,963.43
Other taxes	-21,678.78	21,678.78	0.00	0.00
Net income	**1,513,931.70**	**0.00**	**499,236.68**	**2,013,168.38**

GROUP ACCOUNTING AND REPORTING ENTITY

Subsidiaries

Subsidiaries, i.e. companies in which Essanelle Hair Group AG either directly or indirectly controls more than half of the voting rights or is able to control their financial and business policies in other ways, have been included in the reporting entity. The assessment as to whether Essanelle Hair Group AG is in a position to control another company in this respect has taken account of the existence and implications of potential voting rights which could be exercised or converted as of the balance sheet reporting date.

Subsidiaries are first consolidated at the time at which Essanelle acquires the possibility of controlling the company thereby acquired. They are deconsolidated upon Essanelle losing the possibility of control.

The acquisition of subsidiaries has been accounted for using the purchase method. The acquisition costs relating to the acquisition of the company are measured in terms of the cash and cash equivalents spent on such acquisition, as well as of the attributable present values of assets thereby transferred, shares issued and/or liabilities assumed, plus the expenses directly allocable to such acquisition. The identifiable assets, liabilities and contingent liabilities thereby acquired are stated at their attributable values at the time of acquisition regardless of the existence of any minority interests. The costs of acquisition in excess of the share of net assets valued at present values thereby acquired are stated as goodwill. In the event of the costs of acquisition being lower than the share of net assets valued at present values thereby acquired in the subsidiary, then the difference is recorded in the income statement with a corresponding impact on earnings.

Inter-company receivables and liabilities are offset, as are inter-company expenses and income. Non-realised profits on business transaction between group companies are eliminated in full. Non-realised losses are eliminated to the extent that the resulting costs of acquisition/manufacture do not exceed the achievable amount for the respective asset. The accounting and valuation methods of the subsidiaries have been adapted wherever necessary to the methods applied by the Group.

ASSOCIATED COMPANIES

Associated companies are deemed to be companies upon which a group company is able to exercise significant influence by participating in the financial and business decision-making processes at the shareholding, but which nevertheless do not constitute subsidiaries or joint ventures. These include companies at which Essanelle directly or indirectly holds 20% to 50% of the voting rights. Associated companies are accounted for using the equity method. Their initial statement is based on costs of acquisition. Any goodwill present upon acquisition (less cumulative write-downs) is recorded in the book value of the financial assets valued at equity.

The Group's share of the profit or loss of associated companies following acquisition is recorded in the income statement; its share in adjustments to reserves at the associated companies which do not impact on earnings are recorded under reserves. The counter-entry is made in the book value of the financial assets valued at equity. Should the Group's share in the loss incurred at an associated company exceed the book value of the net investment in the associated company, then the Group does not record any further losses, unless it has assumed obligations on behalf of the associated company or made payments as a result of obligations on the part of the associated company.

Unrealised profits on business transactions between the Group and its associated companies are eliminated in accordance with the level of shareholding. Unrealised losses are also eliminated on a prorated basis, unless the value of the asset thereby transferred has been impaired. The accounting and valuation methods of the associated companies have been adjusted wherever necessary to the methods used by the Group.

REPORTING ENTITY

The following companies were included in the reporting entity of Essanelle as of 31 December 2005:

Parent company

Essanelle Hair Group AG, Düsseldorf

Direct shareholdings (100%)

CFS Coiffure Franchising System GmbH, Düsseldorf

Indirect shareholdings (subsidiaries of CFS)

CFB Dorsten 1 GmbH in liquidation, Dorsten
CFB Ludwigsburg 1 GmbH in liquidation, Ludwigsburg
CFB Offenburg 1 GmbH in liquidation, Offenburg
CFB Erfurt 1 GmbH in liquidation, Erfurt

The share capital of the CFB companies amounts in each case to € 37,500. With the exception of the company in Offenburg, CFS Coiffure Franchising System GmbH holds 83.33% of the shares on its own account (in the case of CFB Offenburg in liquidation: 50%) and 16.67% in a fiduciary capacity for CCP Coiffure Cosmetic Partner GmbH, Neuss.

CFS GmbH exercises control over the CFB salons. Their financing and strategic alignment is undertaken via Essanelle Hair Group AG. For this reason, in spite of the lack of a majority shareholding, which is also the case in Offenburg, a group relationship has been assumed between Essanelle and the CFB companies.

Pursuant to the shareholder resolution dated 19 December 2003, the CFB companies in Dorsten, Ludwigsburg and Offenburg are in liquidation. CFB Erfurt is in liquidation pursuant to the shareholder resolution dated 12 December 2004. Hairdressing operations have been discontinued in Dorsten and the store premises let to third parties. The hairdressing salons in Ludwigsburg, Offenburg and Erfurt are being maintained within the framework of the Essanelle store network.

Via CFS, Essanelle holds a 20% shareholding in CFS-A Coiffure Franchising System GmbH, Vienna / Austria. This company reported equity of € -84k as of 31.12 2005 (previous year: € -35k).

CURRENCY CONVERSION

The consolidated financial statements have been compiled in Euros, which constitute the functional currency and reporting currency of the German parent company and of its subsidiaries and second-tier subsidiaries.

No foreign currency transactions were undertaken either in 2004 or in 2005. In the event of any foreign currency transactions being undertaken, then these will be converted into the functional currency on the basis of the exchange rate valid at the time of such transaction. Profits and losses incurred on the performance of such transactions and on the conversion of monetary assets and liabilities denominated in foreign currencies using the rate valid on the reporting date will be recorded in the income statement with a corresponding impact on earnings.

PROPERTY, PLANT AND EQUIPMENT (including financial leasing)

Property, plant and equipment are stated at cost of acquisition/manufacture and in most cases subject to straight-line depreciation over their expected useful lives. Costs of acquisition/manufacture include expenses directly allocable to such acquisition. Costs of repairs are recorded as current expenses. Debt capital costs are not capitalised as part of the costs of acquisition/manufacture (IAS 23). Grants and subsidies for the acquisition of assets are deducted from the costs of acquisition of the respective assets. Scheduled depreciation is in most cases based on useful lives of ten years in the case of salon furnishings and of four to seven years in the case of other plant and office equipment.

Property, plant and equipment classified as financial leasing are capitalised at the beginning of the term of the leasing relationship at the lower of the attributable present value of the object leased or the present value of the minimum leasing payments and then depreciated over their expected useful lives. The corresponding liabilities relating to the leasing relationship are reported under other liabilities. The repayment portion of the leasing instalments is then offset against this liability on an ongoing basis, while the interest portion is recorded under interest expenses.

Dismantling obligations relating to the salon infrastructure are stated at present values and depreciated over the useful life of the salon in question. A provision is simultaneously capitalised as a liability and is compounded over the useful live involved until the full repayment amount has been reached.

The assets are reviewed should any triggering event occur, and at least once per financial year, in order to ascertain whether there any indications of value impairments. In the event of the achievable amount for an asset being lower than its respective book value, then such asset is subject to extraordinary depreciation. For the purposes of this impairment test, assets are combined at the lowest level for which cash flows can be separately identified (cash generating units). Should the reason for an exceptional write-down undertaken at an earlier date no longer pertain, then the value of the asset is written up to a maximum of the amount of the updated historical costs of acquisition/manufacture.

Profits and losses incurred on the disposal of fixed assets are calculated on the basis of the book value of the assets at the time of such disposal.

GOODWILL

Goodwill represents the excess value of the acquisition costs for the acquisition of a company over the attributable present value of the shares held by the Group in the net assets of the company thereby acquired at the time of acquisition. Goodwill arising on account of the acquisition of a company is allocated to the intangible assets. Goodwill is subject to an impairment test should there be any reason such test and at least once per year and valued at its original cost of acquisition less cumulative write-downs.

Pursuant to IAS 36, from the time of conversion to IFRS as of 1 January 2004, it is assumed in the case of goodwill that these assets can basically be used on an indefinite basis and are thus no longer subject to scheduled amortisation. Amortisation is accordingly only to be undertaken in the form of extraordinary amortisation should the annual or occasional impairment test render such measure necessary. Prior to 1 January 2004, any amortisation undertaken was offset against the costs of acquisition.

The goodwill is distributed among the cash generating units for the purpose of the impairment tests.

OTHER INTANGIBLE ASSETS

Other intangible assets are stated at cost of acquisition/manufacture and generally subject to scheduled amortisation over the period of their expected useful lives. Moreover, in the event of any occurrences or change in circumstances indicating that the book value might not be achievable, then the assets are reviewed to see whether any write-downs are required. The useful lives amount to between 3 and 5 years.

FINANCIAL ASSETS

Financial assets are generally subdivided into the following categories:

– Financial assets valued at fair value through profit or loss
– Loans and receivables
– Financial assets held to maturity
– Assets available for sale

The classification depends on the purpose for which the respective financial assets were acquired. The management determines the classification of the financial assets upon their being stated for the first time and reviews this classification at each subsequent reporting date. The Group did not hold any financial assets in the “held to maturity” or “at fair value through profit and loss” categories in this financial year.

(a) Cash holdings and bank balances are stated at their attributable present value at the time of their arising and upon subsequent valuations.

(b) Loans and receivables do not constitute derivative financial assets with fixed or determinable payments which are not listed on an active market. They arise when the Group provides money, goods or services to a debtor without any intention of trading in such receivables. They are included under current assets to the extent that their maturity does not lie 12 months after the balance sheet reporting date. Should this be the case, then they are reported as fixed assets. The subsequent valuation of loans and receivables is generally undertaken at updated cost of acquisition. Should there be any doubts as to their recoverability, then they are stated at the lower achievable value. They are cancelled from the books in the event of the related rights lapsing or being assigned and of the Group having assigned all significant risks and rewards relating to its ownership.

Cash and cash equivalents

Cash and cash equivalents include cash holdings, credit balances at banks and payments in transit at the salons.

Other assets

Other assets are stated at attributable present values less any individual write-downs required as a result of value impairments. Accrued income and prepayments made for assets are reported under other assets.

Deferred taxes

Deferred taxes are stated using the liability method for all temporary differences arising between the tax base of the assets and liabilities and their respective book values in the IFRS financial statements. However, if in the context of a transaction which does not constitute a business combination deferred tax arises from the initial statement of an asset or a liability which does not have any impact on the loss stated in the balance sheet or that stated for tax purposes at the time of such transaction, then no tax accrual shall be taken. Deferred taxes are valued at the respective tax rates (and tax regulations) valid or about to be adopted in law as of the balance sheet reporting date and which are expected to be valid at the time of the realisation of the tax claim or the settlement of the deferred tax liability.

Deferred taxes are stated to the extent that is probable that taxable earnings will be available for the temporary difference to be offset against.

Deferred tax liabilities arising as a result of temporary differences in connection with shareholdings in subsidiaries and associated companies are to be stated, unless the time at which such temporary differences can be reversed can be controlled by the Group and provided that it is likely that the temporary differences will not be reversed in the foreseeable future.

Inventories

Inventories are stated at the lower of their costs of acquisition or their net disposable value. The costs of acquisition are calculated using the first-in, first-out (FIFO) method. The net disposable value represents the estimated sales proceeds attainable in the course of normal business activities, less the required variable costs of such disposal.

Shareholders' equity

The share capital is stated at the nominal value of the shares in circulation. The capital reserve includes premiums paid in cash upon various capital increases, following the deduction of expenses directly allocable to the issuing of new shares (stock market flotation expenses), taking due account of prorated deferred taxes. It also includes the reserves resulting from the value of employees' services from share options issued at attributable present values. Moreover, the premium for the acquisition of own shares is also recorded as a negative item in the capital reserve.

Retained earnings and the annual results are stated under revenue reserves.

Financial debt

The initial statement of financial debt is based on attributable present values, less transaction expenses. In subsequent periods it is valued at updated costs of acquisition. Each difference between the amount paid out (following the deduction of transaction expenses) and the repayment amount is recorded in the income statement on a prorated basis over its respective term.

Financial debt is classified as a short-term liability to the extent that the Group does not have the unconditional right to postpone the settlement of such liability to a time at least 12 months following the balance sheet reporting date.

Pension provisions

The Group has made two individual commitments to members of the Management Board, for which reinsurance policies have been concluded.

The provision stated in the balance sheet is equivalent to the present value of the defined benefit obligation (DBO) as of the balance sheet reporting date, less the attributable present value of the plan assets, adjusted by cumulative unrecorded actuarial profits and losses. The DBO is calculated on an annual basis by an independent actuarial surveyor using the projected unit credit method. The present value of the DBO is calculated by discounting the expected outflow of funds using the interest rate for industrial bonds of top credit standing (interest rate: 4.25%; previous year: 5.5%).

Actuarial profits and losses based on historic adjustments and amendments in actuarial assumptions are recorded over the expected remaining period of service of the employee in question, provided that they do not exceed ten percent of the obligation.

Share-based remuneration

The Group has introduced share-based remuneration plans which are to be settled by issuing own shares and/or by means of a conditional capital increase. The attributable present value of the work performed by the employees as a counter-performance for the granting of options is recorded as an expense. The valuation has accounted for the particular circumstances involved in the individual design of the plan at Essanelle. The total expenses requiring to be recorded over a period up to unforfeitability are calculated on the basis of the attributable present value of the option granted, taking no account of market-oriented exercise hurdles (e.g. profit and sales growth targets). The assumptions underlying the calculation take account of exercise hurdles which are not market-oriented in respect of the number of options expected to be exercisable. The estimate as to the number of options expected to be exercisable is reviewed at each reporting date. The consequences of any changes in the original estimates requiring to be taken into consideration are recorded in the income statement in the form of a corresponding adjustment to equity over the remaining period up to unforfeitability. The payments received upon the options being exercised are credited to the share capital (nominal value) and the capital reserves following the deduction of directly allocable transaction expenses.

Payments resulting from the termination of employment relationships

Payments resulting from the termination of employment relationships are made in the event of an employee being dismissed prior to his/her reaching the regular retirement age or in the event of an employee voluntarily terminating the employment relationship in return for the payment of compensation. The Group records compensation payments when it can be proven that it is obliged to terminate the employment relationship with current employees in accordance with a detailed formal plan which cannot be reversed, or if it can be proven that it is obliged to pay compensation upon an employee voluntarily terminating the employment relationship. Payments with maturity dates more than 12 months following the balance sheet reporting date are discounted to their present values.

Other provisions

All other provisions take due account of all obligations identified as of the balance sheet reporting date relating to past business transactions or events and which are likely to be incurred and whose amount can be reliably calculated. The provisions are stated at the amount to be paid and are not offset against positive performance amounts.

In cases where the interest effect resulting from discounting is significant, long-term provisions are stated at their discounted payment amounts as of the balance sheet reporting date. The interest portion of additions to provisions has been stated under net financial expenses.

Realisation of income/delineation of expenses

(a) **Sales**

Sales include the attributable present value received for the sale of goods and services, excluding VAT, discounts and price reductions. Sales are recorded at the time at which the goods were delivered or the services performed. Retail sales and services are generally settled in cash or by debit (EC) or credit card.

(b) **Operating expenses**

Expenses impact on earnings upon the service being received or at the time of their being incurred. In cases where expenses which depend on certain reference values (e.g. sales rent) are incurred, or for which prepayments have been made, then such amounts are delineated as liabilities or provisions.

(c) **Financing income and expenses**

Financing income and expenses are recorded in line with the periods to which they relate.

(d) **Operating leasing**

Leasing relationships in which the major share of the risks and rewards relating to the ownership of the object thereby leased remain at the lessor are classified as operating leasing. The corresponding expenses are recorded in the income statement. The financial obligations resulting from such leasing relationships, particularly those resulting from the letting of premises for salons and Beauty Hair Shops, have been depicted under the multi-year obligations from rental relationships.

FINANCIAL RISK MANAGEMENT

Financial risk factors

As a result of its business activities, the Group is in principle exposed to various financial risks and other material risks. It is the responsibility of the overall risk management of the Group to identify and value financial risks and to minimise the potential negative effects on the financial situation of the Group in cooperation with the operating units (salons).

(a) **Market risk**

General market risks are closely linked to the location risks of the individual salons. In order to identify and remedy erroneous developments at an early stage, the principal data available at the individual salons is recorded and analysed, with countermeasures being taken when necessary.

The Essanelle Group is not exposed to any significant foreign currency risk given that its activities are exclusively based in Germany.

(b) Credit risk

The proprietary business of the Group does not in principle involve any credit risk in view of the fact that hairdressing transactions are generally settled in cash. However, risks may arise in individual cases in connection with payments involving debit (EC) cards for which insufficient funds are available. Such transactions are handed on to debt collection services for further handling. The granting of loans to franchise companies involves a certain degree of risk. However, these individual transactions are very closely monitored by the Management Board. Appropriate individual write-downs are undertaken on dubious receivables relating to payments not covered by sufficient funds and loans granted to franchise companies.

(c) Liquidity risk

Given that the hairdressing business is subject to economic, seasonal and fashion-related fluctuations, the possibility of liquidity risk cannot be excluded. It is the responsibility of the Group's financial management to structure its financial planning in such a way that these influences are suitably accounted for by taking financial reserves.

(d) Cash flow risk and fair value interest risk

Given that the Group does not own any significant interest-bearing assets, its consolidated income and operating cash flow are largely independent of changes in market interest rates.

The interest risk of the Group arises on account of its long-term interest-charging liabilities which are subject in part to variable and in part to fixed interest rates. The liabilities with variable interest rates expose the Group to cash flow interest rate risk. The fixed-interest liabilities give rise to a fair value interest risk. The Group reacts to the basic existence of this risk by ensuring that it has an appropriate balance of fixed and variable interest rates when taking up long-term loans.

No application is made of derivative financial instruments.

(e) Material risks

As the operator of a large number of hairdressing salons at various locations, Essanelle is subject to certain material risks, such as fire, burglary/theft, interruptions to operations, third-party liability etc. The Group has in principle covered itself against such risks by concluding insurance policies.

Calculation of attributable present value

In the case of accounts receivable and payable it has been assumed that the nominal amount less any write-downs is equivalent to the attributable present value. The attributable present value of financial liabilities stated in the notes to the financial statements has been calculated by discounting contractually agreed future cash flows with the current market interest rate granted to the Group for comparable financial instruments.

CRITICAL ESTIMATES IN THE ACCOUNTING AND VALUATION

All estimates and assessments are reviewed on an ongoing basis and have been based on historical experience and additional factors, such as expectations as to future events which appear reasonable in the given circumstances.

Those estimates and assumptions involving a significant risk in the form of a major adjustment to the book values of assets and liabilities within the coming financial year have been outlined below:

(a) Estimated write-down of goodwill

In accordance with the accounting and valuation methods basically determined, the Group subjects goodwill to an impairment test in the event of any occurrence requiring such test to be undertaken and at least once per year. This involves the achievable earnings of the underlying cash generating unit, which are calculated by determining its use value, being set in relation to its assets. In the event of the total of the expected and discounted cash flows falling short of the asset value of the investment, then a write-down is undertaken. This involves adjusting the prorated book value of the goodwill to the reduced earnings prospects. The calculation of the use value requires assumptions to be made (Note 7). If the expected forecast cash flows or the expected discount rate used in the calculation of the cash flows were to be 10% above or below the estimates made by the management, then this would not result in any major changes to the existing result of the impairment test.

(b) Provision for customer subscriptions and customer vouchers

The Group sell subscriptions and vouchers for hairdressing services for which payments are received but for which no services have as yet been performed. Given that the obligations still outstanding are not individually recorded, their scope has to be estimated as of the balance sheet reporting date. In the case of customer subscriptions, the estimate is made on the basis of the months of October to December with different weightings in each case (October 1/3, November 2/3 and December 3/3), with the figures only being included in the calculation if sales are in excess of redemptions. In the case of vouchers, the sales figures for the months of October to December are included in the provision, provided that sales are in excess of redemptions. If the actual claims were to be 10% higher or lower than the estimated figure, then the provision would change by an amount of € 87k.

(c) Estimated value impairment of salon furnishings

Any impairments in the value of property, plant and equipment as a result of an unfavourable earnings performance at individual salons are also calculated within the framework of impairment tests, taking due account of reorganisation and closure measures. The income and expenses underlying such calculations are largely based on estimates as to future developments, both in regional and in overall economic terms. If the losses actually incurred were to be 10% higher than the estimated figure, then the extraordinary depreciation would increase by approx. € 10k. Conversely, a reduction of 10% in the estimated losses would not have any impact on the level of extraordinary depreciation.

SEGMENT REPORTING

The requirements for segment reporting are met neither in regional terms nor in respect of factual or organisational circumstances. A regional breakdown of our sales territory is not feasible given that our activities are exclusively based in Germany and that the risks and rewards relating to the hairdressing business are largely identical within Germany.

The breakdown into marketing lines or salon concepts in terms of factual or organisational structures is not expedient given that only one kind of service, namely hairdressing services, is offered, supplemented by the sale of hair care products. Although the individual salon concepts have different focuses, in principle the entire range of hairdressing services is available to customers at all concepts. Our internal reporting is based on accounting information at the level of the individual salons. The sales resulting from the sale of hair care products, which complement our hairdressing services, are integrated into these evaluations and not managed as a standalone segment. The income and expenses from the franchising business, as well as the asset and liability items allocable to this business, are of subordinate overall significance.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment showed the following developments:

€	Plant and office equipment	Capitalised leasing agreements	Total
As of 1 January 2004			
Costs of acquisition/manufacture	35,588,527.57	7,216,850.66	42,805,378.23
Cumulative depreciation	-16,345,397.81	-4,307,912.68	-20,653,310.49
Book value (net)	19,243,129.76	2,908,937.98	22,152,067.74
2004 financial year			
Opening book value (net)	19,243,129.76	2,908,937.98	22,152,067.74
Additions	2,980,672.76	510,334.08	3,491,006.84
Disposals	-1,590,839.90	0.00	-1,590,839.90
Disposals due to deconsolidation	-758,331.92	0.00	-758,331.92
Additions to depreciation	-3,724,208.09	-663,398.51	-4,387,606.60
Additions to write-downs (IAS 36)	-101,191.00	0.00	-101,191.00
Disposals from depreciation	356,897.85	0.00	356,897.85
Disposals from depreciation due to deconsolidation	358,625.49	0.00	358,625.49
Closing book value (net)	16,764,754.95	2,755,873.55	19,520,628.50
As of 31 December 2004			
Costs of acquisition/manufacture	36,220,028.51	7,727,184.74	43,947,213.25
Cumulative write-downs (IAS 36)	-101,191.00	0.00	-101,191.00
Cumulative depreciation	-19,354,082.56	-4,971,311.19	-24,325,393.75
Book value (net)	16,764,754.95	2,755,873.55	19,520,628.50
2005 financial year			
Opening book value (net)	16,764,754.95	2,755,873.55	19,520,628.50
Additions	3,962,956.82	1,209,540.37	5,172,497.19
Disposals	-911,428.40	0.00	-911,428.40
Additions to depreciation	-3,484,872.08	-749,750.99	-4,234,623.07
Additions to write-downs (IAS 36)	-49,260.20	0.00	-49,260.20
Disposals from depreciation	305,384.24	0.00	305,384.24
Closing book value (net)	16,587,535.33	3,215,662.93	19,803,198.26
As of 31 December 2005			
Costs of acquisition/manufacture	39,271,556.93	8,936,725.11	48,208,282.04
Cumulative write-downs (IAS 36)	-150,451.20	0.00	-150,451.20
Cumulative depreciation	-22,533,570.40	-5,721,062.18	-28,254,632.58
Book value (net)	**16,587,535.33**	**3,215,662.93**	**19,803,198.26**

Investments in property. plant and equipment amounted to € 5.172k in 2005 and with the exception of € 101k spent on IT equipment and copying machines predominantly related to salon furnishings at newly opened salons. The disposals of assets primarily relate to sale and lease back transactions with historic costs of acquisition amounting to € 569k and cumulative depreciation of € 20k. These transactions generated income of € 31k.

The plant and office equipment includes the following salon furnishings leased to franchisees:

€	2005	2004
Gross costs of acquisition		
Balance at 01.01	358,457.69	358,457.69
Addition	0.00	0.00
Balance at 31.12	358,457.69	358,457.69
Cumulative write-downs		
Balance at 01.01	213,758.69	76,717.69
Addition	20,410.00	137,041.00
Balance at 31.12	234,168.69	213,758.69
Book value at 31.12	**124,289.00**	**144,699.00**

The additions to write-downs reported for the 2004 financial year included the extraordinary depreciation of the salon assets leased to mod's hair in Dortmund (€ 101k). The leasing agreements have in each case been concluded for a term of 10 years. The monthly leasing payments amount to € 5k (previous year: € 5k). Rental income of € 58k was received (previous year: € 58k).

The following rental payments will be incurred in the following years:

	in €
Within 1 year	57,856.68
1-5 years	231,426.72
More than 5 years	42,483.54
	331,766.94

Leasing expenses relating to operating leasing agreements for motor vehicles amounting to € 156k have been recorded in the income statement (2004: € 166k). Moreover, rental expenses amounting to € 17,950k have also been included in connection with the letting of premises for hairdressing salons and Beauty Hair Shops (2004: € 17,875k). The impairment tests for property, plant and equipment have been undertaken in a differentiated manner in accordance with the individual salon locations based on the cash flows expected from the individual salons on an ongoing basis following deduction of prorated overhead expenses, interest and taxes. The cash flow forecasts are based on the salon earnings budgets approved by the management. The underlying average values were extrapolated over a period of ten years using a discount rate of 10%. No account has been taken of growth rates. In 2005, the impairment test resulted in extraordinary depreciation of property, plant and equipment amounting to € 49,260.20. In the previous year the extraordinary depreciation of property, plant and equipment had amounted to € 101,191.00.

INTANGIBLE ASSETS

Intangible assets showed the following developments during the year under report:

€	Goodwill	Other	Total
As of 1 January 2004			
Costs of acquisition/manufacture	20,454,848.92	672,029.39	21,126,878.31
Cumulative amortisation	0.00	-460,388.06	-460,388.06
Book value (net)	20,454,848.92	211,641.33	20,666,490.25
2004 financial year			
Opening book value (net)	20,454,848.92	211,641.33	20,666,490.25
Additions	0.00	43,996.56	43,996.56
Disposals	-121,281.34	-22,252.54	-143,533.88
Additions to write-downs (IAS 36)	-682,329.23	0.00	-682,329.23
Additions to amortisation	0.00	-55,598.67	-55,598.67
Disposals from amortisation	0.00	7,164.91	7,164.91
Closing book value (net)	19,651,238.35	184,951.59	19,836,189.94
As of 31 December 2004			
Costs of acquisition/manufacture	20,333,567.58	693,773.41	21,027,340.99
Cumulative write-downs (IAS 36)	-682,329.23	0.00	-682,329.23
Cumulative amortisation	0.00	-508,821.82	-508,821.82
Book value (net)	19,651,238.35	184,951.59	19,836,189.94
2005 financial year			
Opening book value (net)	19,651,238.35	184,951.59	19,836,189.94
Additions	0.00	82,723.65	82,723.65
Disposals	-718,686.86	-1,320.67	-720,007.53
Additions to write-downs (IAS 36)	-371,008.62	0.00	-371,008.62
Disposals from write-downs (IAS 36)	682,329.23	0.00	682,329.23
Additions to amortisation	0.00	-62,707.72	-62,707.72
Disposals from amortisation	0.00	1,320.67	1,320.67
Closing book value (net)	19,243,872.10	204,967.52	19,448,839.62
As of 31 December 2005			
Costs of acquisition/manufacture	19,614,880.72	775,176.39	20,390,057.11
Cumulative write-downs (IAS 36)	-371,008.62	0.00	-371,008.62
Cumulative amortisation	0.00	-570,208.87	-570,208.87
Book value (net)	**19,243,872.10**	**204,967.52**	**19,448,839.62**

Broken down into salons acquired, the goodwill is structured as follows:

€	Essanelle-Salons	Tröndle-Salons	Total
As of 1 January 2004			
Costs of acquisition/manufacture	19,243,872.10	1,210,976.82	20,454,848.92
Book value (net)	19,243,872.10	1,210,976.82	20,454,848.92
2004 financial year			
Opening book value (net)	19,243,872.10	1,210,976.82	20,454,848.92
Additions	0.00	0.00	0.00
Disposals	0.00	-121,281.34	-121,281.34
Additions to write-downs (IAS 36)	0.00	-682,329.23	-682,329.23
Closing book value (net)	19,243,872.10	407,366.25	19,651,238.35
As of 31 December 2004			
Costs of acquisition/manufacture	19,243,872.10	1,089,695.48	20,333,567.58
Cumulative amortisation (IAS 36)	0.00	-682,329.23	-682,329.23
Book value (net)	19,243,872.10	407,366.25	19,651,238.35
2005 financial year			
Opening book value (net)	19,243,872.10	407,366.25	19,651,238.35
Additions	0.00	0.00	0.00
Disposals	0.00	-718,686.86	-718,686.86
Additions to write-downs (IAS 36)	0.00	-371,008.62	-371,008.62
Disposals from write-downs (IAS 36)	0.00	682,329.23	682,329.23
Closing book value (net)	19,243,872.10	0.00	19,243,872.10
As of 31 December 2005			
Costs of acquisition/manufacture	19,243,872.10	371,008.62	19,614,880.72
Cumulative amortisation (IAS 36)	0.00	-371,008.62	-371,008.62
Book value (net)	**19,243,872.10**	**0.00**	**19,243,872.10**

The impairment tests undertaken on the goodwill were differentiated on the basis of groups of salon acquisitions (cash generating units), with Tröndle salons forming one main group and the remaining Essanelle hairdressing salons forming a further main group. The impairment tests have been based on the attainable income of these cash generating units, which is calculated on the basis of their use values. These in turn have been based on the expected sustainable cash flows within the main groups of salons following deduction of prorated overhead expenses, interest and taxes. The cash flow forecasts have been based on the salon earnings budgets approved by the management. The underlying average figures were extrapolated over a period of 10 years with a discount interest rate of 10%. No account has been taken of growth rates. In 2005, the impairment test resulted in extraordinary amortisation of goodwill in the "Tröndle salons" group amounting to € 371,008.62. This has been recorded in the income statement under depreciation and amortisation. In 2004, the extraordinary amortisation undertaken on "Tröndle salons" had amounted to € 682,329.23.

FINANCIAL ASSETS VALUED USING THE EQUITY METHOD

This relates to a 20% shareholding in CFS-A Coiffure Franchising System GmbH, Vienna / Austria. The company reported an accumulated loss of € 119k as of 31.12.2005 (previous year: € 70k) and equity of € -84k (previous year: € -35k).

The balance sheet statement showed the following development during the year under report:

	€
Balance at 1 January 2004 = 31 December 2004	
Costs of acquisition/manufacture	7,000.00
As of 31 December 2005	
Costs of acquisition/manufacture	7,000.00
At-equity results	-6,999.00
Book value (net)	**1. 00**

The share held by the Group in CFS - Austria is structured as follows:

€k	2005	2004
Assets	17.7	22.5
Liabilities	-34.4	-29.4
Income	18.4	21.0
Annual net deficit	-9.8	-12.7
Shareholders' equity	-16.7	-7.0

OTHER LOANS

Other loans principally relate to loans to proprietor-managed mod's hair hairdressing salons.

€	Loans to mod's hair franchisees	Miscellaneous loans	Total
As of 01 Januar 2004			
Costs of acquisition/manufacture	1,514,910.18	72,940.37	1,587,850.55
Cumulative amortisation	-871,638.64	-15,301.89	-886,940.53
Book value (net)	643,271.54	57,638.48	700,910.02
2004 financial year			
Opening book value (net)	643,271.54	57,638.48	700,910.02
Additions from the reclassification of current assets	713,149.82	0.00	713,149.82
Additions	27,332.36	70,000.00	97,332.36
Disposals	-522,111.62	-39,791.68	-561,903.30
Reclassifications	9,555.34	0.00	9,555.34
Additions to amortisation from the reclassification of current assets	-595,051.30	0.00	-595,051.30
Additions to amortisation	-185,891.33	0.00	-185,891.33
Disposals from amortisation	357,041.42	0.00	357,041.42
Closing book value (net)	447,296.23	87,846.80	535,143.03
As of 31 December 2004			
Costs of acquisition/manufacture	1,733,280.74	103,148.69	1,836,429.43
Cumulative amortisation	-1,285,984.51	-15,301.89	-1,301,286.40
Book value (net)	447,296.23	87,846.80	535,143.03
2005 financial year			
Opening book value (net)	447,296.23	87,846.80	535,143.03
Additions	57,015.20	42,000.00	99,015.20
Disposals	-195,871.34	-45,245.96	-241,117.30
Reclassifications	117,683.33	0.00	117,683.33
Additions to amortisation	-206,240.46	0.00	-206,240.46
Disposals from amortisation	25,000.00	7,000.00	32,000.00
Closing book value (net)	244,882.96	91,600.84	336,483.80
As of 31 December 2005			
Costs of acquisition/manufacture	1,594,424.60	99,902.73	1,694,327.33
Cumulative amortisation	-1,349,541.64	-8,301.89	-1,357,843.53
Book value (net)	**244,882.96**	**91,600.84**	**336,483.80**

INVENTORIES

Inventories are structured as follows:

€	31.12.2005	31.12.2004
Goods for sale	4,435,494.86	4,436,539.10
Goods for use	1,724,596.16	1,695,927.37
	6,160,091.02	6,132,466.47
Write-down	-321,700.00	-305,740.60
	5,838,391.02	**5,826,725.87**

Inventories have been stated at their cost of acquisition or at a lower net disposable value. Given the risk of obsolescence, damage and sinking retail prices, write-downs amounting to € 16k have been undertaken and recorded under cost of materials.

ACCOUNTS RECEIVABLE

€	31.12.2005	31.12.2004
Gross receivables	1,148,081.01	948,764.93
less		
Write-downs	-820,560.87	-700,217.77
	327,520.14	**248,547.16**

The values stated are equivalent to the attributable present values. The write-downs were undertaken on receivables from franchisees and from customers' return debit notes in cases where the recoverability was deemed to be low. The addition to the write-down in 2005 amounted to € 143,326.39 and has been recorded under other operating expenses.

There is no major default risk in respect of the remaining net book value. In view of the short-term nature of the receivables, it was not necessary to undertake any discounting.

The Group recorded a loss of €180k from write-downs of receivables during the 2005 financial year (2004: € 146k). The loss is reported under other operating expenses in the income statement.

OTHER ASSETS

€	31.12.2005	31.12.2004
Bonus claims from suppliers	520,761.91	668,588.14
Prepayments made on assets ordered	358,025.09	126,664.05
Accrued income	130,371.86	98,928.76
Receivables from employees	47,342.50	79,871.86
Tax refund claims	24,295.52	189,303.92
Other	123,705.79	261,812.02
	1,204,502.67	**1,425,168.75**

The values reported correspond to the attributable present values. No major default risks have been identified. In view of the short-term nature of the claims, no discounting has been undertaken.

CASH AND CASH EQUIVALENTS

€	31.12.2005	31.12.2004
Credit balances at banks	2,711,116.93	3,671,029.09
Payments in transit	781,320.68	927,554.46
Cash holdings	531,149.25	513,934.93
	4,023,586.86	**5,112,518.48**

The effective interest rate for short-term bank deposits amounted to an average of 2.0% (previous year: 1.7%). The short-term bank deposits bear interest at variable market interest rates.

SHARE CAPITAL

The capital of the minority shareholders was already reduced to zero as of 1 January 2004 by attribution of corresponding losses. The share capital of the company amounts to € 4,500,000.00 and is divided into 4,500,000 shares in the form of non-par individual shares. Each individual share entitles its holder to one vote.

€	31,12,2005	31,12,2004
Share capital	4,500,000.00	4,500,000.00
Acquisition of own shares	-60,000.00	0.00
Balance at 31.12	**4,440,000.00**	**4,500,000.00**

The company has acquired own shares on the basis of the authorisation provided to the Management Board by resolution of the shareholders and shareholder representatives at the Annual General Meeting held on 25 June 2004. The acquisition of 60,000 non-par individual shares, equivalent to 1.33% of the share capital, was undertaken in four transactions: 7,275 shares at a price of € 7.70 and 4,750 shares at a price of € 7.74 on 28 October 2005, 19,600 shares at a price of € 7.70 on 7 November 2005 and 28,375 shares at a price of € 7.625 on 10 November 2005.

The reason for the acquisition relates to the servicing of the employee share option programme. However, the Management Board is also authorised to use or collect own shares, subject to the consent of the Supervisory Board, for the purposes of compensating third parties in the context of the acquisition of companies or shareholdings in companies or of the merger of companies. The portion of the acquisition of own shares relating to the share capital has been openly deducted from the share capital.

(1) AUTHORISED CAPITAL

Pursuant to the resolution passed by shareholders and shareholder representatives at the extraordinary General Meeting of Essanelle AG on 28 May 2001 in connection with the amendment resolved by the Annual General Meeting on 21 June 2002, the Management Board was authorised until 1 January 2006, subject to the consent of the Supervisory Board, to increase the share capital of the company on one or several occasions by a total of up to € 2,150,000.00 by issuing new shares in return for cash or non-cash contributions (authorised capital). Subscription rights are to be granted to shareholders in this respect. The Management Board is nevertheless authorised, subject to the consent of the Supervisory Board, to exclude residual amounts from shareholders' subscription rights. Moreover, subject to the consent of the Supervisory Board, the Management Board is entitled

(a) to exclude shareholders' subscription rights in order to issue up to 450,000 new individual bearer shares in return for cash contributions at an issuing amount which does not fall significantly short of the stock market price of the company at the time of the issuing price being set by the Management Board (Section 186 (3) Sentence 4 of the German Stock Corporation Act – AktG)

(b) to exclude shareholders' subscription rights in order to issue up to 1,700,000 new individual bearer shares within the framework of a capital increase in return for non-cash contributions for the purpose of acquiring companies or shareholdings in companies in return for the transfer of shares in the company.

The Management Board is authorised, subject to the consent of the Supervisory Board, to determine the further details of the capital increase. The Supervisory Board is authorised to make corresponding amendments to the Articles of Association in the event of the authorised capital being used following the partial or complete execution of the capital increase.

(2) CONDITIONAL CAPITAL

The Annual General Meeting held on 28 May 2001 further resolved to conditionally increase the share capital of the company by up to € 263.141,00 by issuing up to 263,141 new individual shares in order to service an employee option program (conditional capital). The conditional capital is only to be executed to the extent that subscription rights to shares are issued and that their owners exercise the subscription rights thereby granted. The new shares in each case participate in the profit of the company from the beginning of the financial year in which they arise as a result of the exercising of subscription rights. The Management Board is authorised, subject to the consent of the Supervisory Board, to determine the further details of the conditional capital increase. In this respect, the conditional capital increase serves exclusively to grant subscription rights to:

- Members of the Management Board of Essanelle Hair Group AG,
- Members of the management bodies of certain subordinate affiliated companies
- Employees of Essanelle Hair Group AG and of certain subordinate affiliated companies.

The Management Board was further authorised to issue subscription rights to parties entitled to subscribe for a period of up to six months following the Annual General Meeting of Essanelle Hair Group AG in 2005. Following the expiry of this authorisation, the shareholders and shareholder representatives passed resolution at the Annual General Meeting on 24 June 2005 authorising the Management Board to issue further subscription rights to parties entitled to subscribe for a period of up to 6 months following the holding of the Annual General Meeting of Essanelle Hair Group AG in 2008. In the case of members of the Management Board of Essanelle Hair Group AG, the responsibility for granting subscription rights shall lie exclusively with the Supervisory Board.

(3) SHAREHOLDINGS DISCLOSED
pursuant to Section 160 (1) No. 8 of the German Stock Corporation Act (AktG)

In 2004 we received the following notifications pursuant to Section 25 in connection with Section 21 (1) and (1a) of the German Securities Trading Act (WpHG) from shareholders required to make such disclosures, which we in turn published in the Frankfurter Allgemeine Zeitung on 15 December 2004 in the case of notification No. 1 and on 9 December for notification No. 2 pursuant to Section 160 (1) No. 8 of the German Stock Corporation Act (AktG):

(1) Frisör Klier GmbH, Wolfsburg, notified us that its share of the voting rights in Essanelle Hair Group AG, Düsseldorf, had exceeded the 25% threshold on 8 December 2004 and now amounts to 25.80%.

(2) Stadtsparkasse Köln notified us that its share of the voting rights in Essanelle Hair Group AG, Düsseldorf, had fallen short of the 5% threshold on 24 November 2004 and now amounts to 1.56%.

During 2005, we received notifications pursuant to Section 21 (1), 22 (1) Sentence 1 No. 2 of the German Securities Trading Act (WpHG) from shareholders required to make such disclosures, which we in turn published pursuant to Section 25 (1) of the German Securities Trading Act (WpHG) in the Frankfurter Allgemeine Zeitung on 07.05.2005 in the case of notifications Nos. 1 and 2, in the Börsen-Zeitung on 17.05.2005 in the case of notification No. 3, in the Börsen-Zeitung on 14.09.2005 in the case of notifications Nos. 4 and 5 and in the Frankfurter Allgemeine Zeitung on 30.09.2005 in the case of notification No. 6.

(1) HALDER HOLDINGS B.V. notified us on behalf of and with due authorisation by INVESTMENTS IV-A CUSTODIAN B.V., INVESTMENTS IV-B CUSTODIAN B.V., HALDER INVESTMENTS IV-A C.V. and HALDER INVESTMENTS IV-B C.V., in all cases based at 2514 EA 's-Grafenhage, Netherlands, that

(a) The share held by INVESTMENTS IV-A CUSTODIAN B.V. in the voting rights of Essanelle Hair Group AG fell short of the 10% and 5% thresholds on 29 April 2005 and has since amounted to 3.79%.

(b) The share held by INVESTMENTS IV-B CUSTODIAN B.V in the voting rights of Essanelle Hair Group AG fell short of the 10% and 5% thresholds on 29 April 2005 and has since amounted to 0%.

(c) The shares held in Essanelle Hair Group AG by INVESTMENTS IV-A CUSTODIAN B.V. and referred to in section (a) were held in total for account of HALDER INVESTMENTS IV-A C.V. The shares held by INVESTMENTS IV-A CUSTODIAN b.v. were apportioned to HALDER INVESTMENTS IV-A C.V. pursuant to Section 22 (1) Sentence 1 No. 2 of the German Securities Trading Act (WpHG), so that, following its falling short of the 10% and 5% thresholds as of 29 April 2005, 3.79% of the voting rights in Essanelle Hair Group AG are apportioned to HALDER INVESTMENTS IV-A C.V.

(d) The shares in Essanelle Hair Group AG held by INVESTMENTS IV-B CUSTODIAN B.V. and referred to in section (b) were held in total for account of HALDER INVESTMENTS IV-B C.V. The shares held by INVESTMENTS IV-B CUSTODIAN B.V. were apportioned to halder INVESTMENTS IV-B C.V. pursuant to Section 22 (1) Sentence 1 No. 2 of the German Securities Trading Act (WpHG), so that, following its falling short of the 10% and 5% thresholds as of 29 April 2005, none (0%) of the voting rights in Essanelle Hair Group AG are any longer apportionable to HALDER INVESTMENTS IV-B C.V.

(2) Axxion S.A., 5365 Munsbach, Luxembourg, notified us that its share of the voting rights in Essanelle Hair Group AG had exceeded the 5% threshold on 28 April 2005 and now amounts to 13.2222%.

(3) dit – Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH, 60329 Frankfurt am Main, Germany, notified us that its share of the voting rights in Essanelle Hair Group AG had exceeded the threshold of 5% on 3 May 2005 and not amounted to 8.89% (equivalent to 400,000 voting rights in public funds).

(4) FBV Friseurbetriebe-Verwaltungsgesellschaft mbH, Kaiserstrasse 24, 60311 Frankfurt am Main, informed us that its share of the voting rights in Essanelle Hair Group AG based in Düsseldorf had fallen short of the 10% and 5% thresholds on 5 September 2005. Its share of the voting rights now amounts to 0%.

(5) LUXINIA S.à r.l., 23, Avenue de la Liberté, Luxembourg, informed us that its share of the voting rights in Essanelle Hair Group AG based in Düsseldorf had fallen short of the 10% and 5% thresholds on 5 September 2005. Its share of the voting rights now amounts to 0%. All of these voting rights have been apportioned to this company pursuant to Section 22 (1) Sentence 1 No. 1 in connection with (1) Sentence 3 of the German Securities Trading Act (WpHG).

(6) FPM Funds SICAV, 2 Boulevard Konrad Adenauer, L–1115 Luxembourg, notified us that its share of the voting rights in Essanelle Hair Group AG had exceeded the 5% threshold on 1 September 2005 and now amounts to 9.42%.

(4) SHARE OPTIONS

The Group has introduced share-based remuneration in three tranches for senior employees and the Management Board. This remuneration is to be settled by issuing own shares in the course of a conditional capital increase. A total of 239,620 of the subscription rights to shares thereby issued was accepted. The subscription rights for the first tranche (60,928), which were accepted in 2003, entail the right to purchase one share at a subscription price of € 2.53. The subscription rights of the second tranche (40,620) accepted in 2004 entail the right to purchase one share at a subscription price of € 3.98. The subscription rights of the third tranche (138,072) accepted in 2005 entail the right to purchase one share at a subscription price of € 6.88. These rights may in each case be exercised following the expiry of a lock-up period of at least 2 years. The term of the subscription rights lapses upon the expiry of the sixth exercise window following the expiry of the lock-up period. The exercise windows begin upon the third and end upon the twentieth stock market trading day following the Annual General Meeting and following the publication of the quarterly report for the third quarter of the financial year. The option right lapses if the employee leaves the company within the lock-up period.

The exercising of such rights is also linked to performance targets. The stock market price of ordinary shares in Essanelle Hair Group AG must have risen by an average of at least 1% per month between the issuing and the exercising of the subscription rights. Moreover, it also has to have outperformed the SDAX index over the same period.

The attributable present value of the work performed by the employees in return for the granting of options is recorded under expenses.

The corresponding prorated reserve developed as follows:

€	2005	2004
Balance at 01,01	78,698.98	29,702.40
Addition	107,363.03	48,996.58
Balance at 31.12	**186,062.01**	**78,698.98**

Of the addition reported, € 9,900.80 (previous year: € 39,603.20) related to the first tranche, € 37,573.50 (previous year: € 9,393.38) to the second tranche and € 59,888.73 (previous year € 0.00) to the third tranche.

According to the valuation survey provided by Firicon GmbH, Düsseldorf, the total present value of the options in the first tranche on the date of their issue on 29 March 2003 amounts to € 79,206.40 (= 60,928 options x € 1.30). The corresponding total present value of the second tranche on the date of issue on 29 September 2004 amounts to € 75,147.00 (= 40,620 options x € 1.85).

By analogy, the total present value of the third tranche on the date of issue on 29 September 2005 amounts to € 479,109.84 (= 138,072 options x € 3.47).

The valuation was undertaken using a Monte-Carlo simulation taking account of the performance targets and of the so-called premature exercise behaviour of the parties entitled to such options.

In 2005, none of the subscription rights in the first tranche was exercised.

(5) THE SHARE

Depiction and development of the share price and number of shares issued:

€	2005	2004
Annual high	8.78	4.35
Annual low	4.35	3.10
Year-end	8.20	4.35
Number of shares	4,500,000	4,500,000

CAPITAL RESERVE

The capital reserve contains the premiums paid in cash on the various capital increases and has been reduced by the stock market flotation expenses.

€	2005	2004
Premiums on cash deposits of the former GmbH shareholders as a result of capital increases	5,892,650.58	5,892,650.58
Agio from stock market flotation	11,209,912.92	11,209,912.92
Stock market flotation expenses (after taxes)	-1,966,489.28	-1,966,489.28
	15,136,074.22	15,136,074.22
Value of the services of employees from employee share option programmes	78,698.98	29,702.40
Balance at 01.01	**15,214,773.20**	**15,165,776.62**
Acquisition of own shares	-400,061.88	0.00
Value of the services of employees from employee share option programmes	107,363.03	48,996.58
Balance at 31.12	**14,922,074.35**	**15,214,773.20**

The portion of the acquisition of own shares not relating to the share capital has been openly deducted from the capital reserve.

REVENUE RESERVES

Revenue reserves developed as follows:

€	2005	2004
Balance at 01.01	-1,107,337.24	-3,120,505.62
Consolidated net income	2,573,183.32	2,013,168.38
Balance at 31.12	**1,465,846.08**	**-1,107,337. 24**

LONG-TERM FINANCIAL DEBT

Long-term financial debt is structured as follows:

€	2005	2004
Liabilities to banks	0.00	6,287,891.73
Liabilities relating to financial leasing	1,342,442.38	772,088.59
Investment loans from suppliers	6,179,802.63	1,974,770.34
	7,522,245.01	**9,034,750.66**

The remaining terms of the long-term debt are structured as follows:

	31.12.2004		
		ofwhich: remaining term	
€	Total	2-5 years	over 5 years
Long-term debt			
Liabilities to banks	6,287,891.73	6,287,891.73	0.00
Liabilities relating to financial leasing	772,088.59	762,787.59	9,301.00
Investment loans from suppliers	1,974,770.34	1,974,770.34	0.00
	9,034,750.66	**9,025,449.66**	**9,301.00**

	31.12.2005		
		of which: remaining term	
€	Total	2-5 years	over 5 years
Long-term debt			
Liabilities relating to financial leasing	1,342,442.38	1,342,442.38	0.00
Investment loans from suppliers	6,179,802.63	5,738,006.62	441,796.01
	7,522,245.01	**7,080,449.00**	**441,796.01**

LIABILITIES TO BANKS

No amounts have been reported in the long-term section of liabilities to banks. The amounts reported in this section in the previous year related to the following three loans provided by BNP Paribas, Frankfurt am Main:

Loan in €	Interest rate	31.12.2004
Credit line	Euribor +1.5% oder 2%	1,500,000.00
Purchase and transfer loan	Eonia +1.5%	3,403,075.33
Refinancing loan	Eonia +1.5%	1,384,816.40
		6,287,891.73

By means of a debt reschedule undertaken following the repayment of € 2.0 million in 2005, the purchase and transfer loan was redeemed in full. The credit line showed a corresponding increase and is to be repaid in two partial amounts in 2006, which has resulted in the book value of this loan being reported in full under short-term financial debt.

LIABILITIES FROM FINANCIAL LEASING

The liabilities are due to various leasing companies and, as in the previous year, charge interest of between 4.5% and 8% per annum.

INVESTMENT LOANS FROM SUPPLIERS

€	2005	2004
Financing of salon expansion in the Essanelle store network	1,038,726.50	1,616,913.34
Financing loan for CFS	199,280.12	357,857.00
Supplier loans	4,941,796.01	0.00
	6,179,802.63	**1,974,770.34**

The financing loans for Essanelle and CFS serve to finance investments made in new salons. They are due for payment within a time corridor of between 2 and 6 years. The salon furnishings acquired by means of the loans have been provided as security with extended retention of title in favour of the lender. As in the previous year, the interest rates amount to 2.9%.

The supplier loans relate to two credit lines at one supplier requiring repayment on a quarterly basis within the next six years. The amount to be repaid after 2006 has been recorded under long-term financial debt. The two credit lines charge interest at 3-month Euribor plus 0.5% and 1,2% respectively. The interest payments are due on a quarterly basis.

The values stated in each case represent the present values. Unscheduled payments are possible for all existing loans.

DEFERRED TAX REFUND CLAIMS / TAX LIABILITIES

Deferred tax claims and liabilities have been netted in cases where there is an enforceable right to offset current tax claims against current tax liabilities and where the deferred taxes relate to the same tax authority. The following amounts have been netted:

€k	31.12.2005 liabilities	31.12.2005 assets	31.12.2004 assets	31.12.2004 liabilities
Deferred tax claims on losses carried forward	**1,893**		**2,676**	
Deferred tax liabilities on increase/reduction in capital due to IFRS				
Fixed assets		3,347		2,452
Pension provisions		1		15
Other provisions		366		225
Other liabilities	717	0	411	0
	2,610	3,714	3,087	2,692
Net balances	-2,610	-2,610	-2,692	-2,692
	0	**1,104**	**395**	**0**

It is expected that half of the deferred tax claims on losses carried forwarded will be realised in the current year and half following the expiry of a period of 12 months.

Deferred tax claims on tax loss carryovers have been stated at the amount of related tax benefits likely to be realised by future tax profits. The Group has reported all deferred tax claims which relate to losses carried forward.

The change in deferred taxes was structured as follows:

€k	2005		2004
Beginning of the year		**395**	**1,656**
Expenses in the income statement			
From losses carried forwards	-783		
From increase in capital due to IFRS	-716	-1,499	-1,261
End of the year		**-1,104**	**395**

The change in deferred tax claims and liabilities in the current year has been calculated as follows:

€k	Losses carried forward	Increase in capital due to IFRS	Total
As of 01.01.2004	3,238	-1,582	1,656
Amount affecting earnings	-562	-699	-1,261
As of 31.12.2004	2,676	-2,281	395
Amount affecting earnings	-783	-716	-1,499
As of 31.12.2005	**1,893**	**-2,997**	**-1,104**

PENSION PROVISIONS

The provisions figure stated in the balance sheet has been calculated as follows:

€	2005	2004
Present value of the obligations	586,515.00	341,347.00
Attributable present value of plan assets	-318,717.00	-229,913.00
Non-realised actuarial losses	-103,053.00	-50,974.00
Balance at 31.12	**164,745.00**	**60,460.00**

The plan assets consist of the asset value of a reinsurance policy at AXA Lebensversicherung AG, Cologne.

The following amounts were recorded in the income statement:

€	2005	2004
Current period of service expenses	156,349.00	26,410.00
Interest expenses	17,750.00	13,768.00
Expected income on plan assets	-9,767.00	-8,504.00
Amortisation of actuarial losses	3,368.00	0.00
	167,700.00	**31,674.00**

The actual income on the plan assets amounted to € 25,389.

The amounts recorded in the provision in the balance sheet developed as follows:

€	2005	2004
Beginning of the year	60,460.00	57,317.00
Total expenses recorded in the income statement	167,700.00	31,674.00
Endowment of plan assets	-63,415.00	-28,531.00
Balance at 31.12	**164,745.00**	**60,460.00**

The following principal actuarial assumptions were made:

€	2005	2004
Discount rate	4.25%	5.50%
Expected income on plan assets	4.20%/3.50%	4.00%
Future salary increases	2.00%/0.00%	0.00%
Future pension increases	2.00%/1.50%	1.50%

OTHER LONG-TERM PROVISIONS

€	2005	2004
Anniversary provision	171,166.50	167,000.00
Provision for dismantling obligations	582,394.46	454,726.24
	753,560.96	**621,726.24**

The anniversary provision covers the financial obligations towards employees upon their attaining expected long-term service anniversaries.

The provision for dismantling obligations covers the renovation and conversion expenses expected to be incurred upon the expiry of the basic rental period for the hairdressing salons and which the company has contractually undertaken to cover.

The amounts stated for provisions for dismantling obligations and anniversaries have been discounted. They have been discounted using an interest rate of 6% in the case of dismantling obligations and of 5.5% in the case of anniversary obligations. The obligations extend over a longer period; the annual payments resulting from these items can be expected to remain at approximately the same level as the payment made in the current financial year.

SHORT-TERM FINANCIAL DEBT

Short-term financial debt is structured as follows:

€	2005	2004
Liabilities to banks	5,388,000.00	3,100,000.00
Liabilities relating to financial leasing	513,321.48	290,710.33
Supplier financing for salon expansion: Essanelle	578,186.85	578,186.65
Supplier financing for salon expansion: CFS	158,576.88	272,468.56
Shareholders' loans (former shareholders of Essanelle GmbH)	0.00	2,447,309.43
Supplier loans	500,000.00	5,366,052.74
Interest	44,217.01	0.00
	7,182,302.22	**12,054,727.71**

Interest-bearing liabilities to banks

This item involves a bank loan to be paid back on two dates in 2006. Interest is charged on the loans at Euribor +1.5% and +2%. The interest payments are made twice yearly.

Liabilities relating to financial leasing

These involve leasing expenses relating to financial leasing which are due for payment in 2006.

Supplier financing: salon expansion for Essanelle and CFS

The financing loans primarily relate to supplier loans in connection with the opening of new salons. The interest charged amounts to 2.9%. The respective asset items thereby financed have been provided as security and provided with extended retention of title in favour of the lender.

Shareholder loans (former shareholders of Essanelle GmbH)

The loans provided by the former shareholders date from 2001 and were repaid on 31 August 2005 in accordance with the respective contractual stipulations. They bore interest at 10%. The portion of interest expenses incurred in 2005 amounts to € 139,798.69.

Other loans

These involve the short-term portions of the supplier loans, which are to be repaid in 2006. Until then, these loans charge interest at 3-month Euribor plus 0.5% or 1.2%, with the interest being paid at the end of each respective quarter.

The values stated for all loans are equivalent to their attributable present values. Unscheduled repayments are possible in the case of all existing loans.

Interest

Cumulative interest liabilities which had not yet been transferred as of the balance sheet reporting date have been reported under interest. These relate to the interest payments for the two other loans for the fourth quarter.

Accounts payable

These primarily relate to liabilities towards suppliers of ongoing hairdressing requirements.

CURRENT INCOME TAX LIABILITIES

€k	01.01.2005	Utilised	Released	Added	31.12.2005
Trade tax and corporate income tax for accounting period	150,000.00	-113,822.17	0.00	0.00	36,177.83
2004 trade tax	58,000.00	0.00	0.00	0.00	58,000.00
2004 corporate income tax	76,000.00	-25,372.00	0.00	0.00	50,628.00
2005 trade tax	0.00	0.00	0.00	106,299.05	106,299.05
2005 corporate income tax	0.00	0.00	0.00	121,924.75	121,924.75
	284,000.00	**-139,194.17**	**0.00**	**228,223.80**	**373,029.63**

The remaining term for current taxes amounts to less than one year.

OTHER LIABILITIES

Other short-term liabilities are structured as follows:

€	31.12.2005	31.12.2004
Social security contributions	1,649,262.08	1,662,600.74
Wage tax. church tax and VAT liabilities	1,429,524.58	1,768,908.02
Liabilities to employees due to wages. salaries and commissions still to be paid	368,799.99	363,819.27
VAT liabilities for accounting period	216,919.17	240,000.00
Liabilities relating to rental agreements	253,374.82	509,423.07
Miscellaneous	214,549.19	145,922.74
	4,132,429.83	**4,690,673.84**

OTHER SHORT-TERM PROVISIONS

Composition and development of other short-term provisions:

€k	01.01.2005	Utilised	Released	Added	31.12.2005
Personnel provisions	978,657.15	-967,403.98	-11,253.17	1,226,981.64	1,226,981.64
Liabilities from subscriptions and customer vouchers	921,000.00	-921,000.00	0.00	867,789.60	867,789.60
Miscellaneous	1,125,006.44	-744,241.87	-183,247.39	737,895.40	935,412.58
	3,024,663.59	**-2,632,645.85**	**-194,500.56**	**2,832,666.64**	**3,030,183.82**

Personnel provisions cover customary obligations towards employees (remaining vacation, outstanding remuneration, mutual insurance associations etc.).

The provision for obligations from customer vouchers covers claims on the part of customers resulting from subscriptions and vouchers for hairdressing services already paid yet not yet taken up as of the balance sheet reporting date.

Miscellaneous short-term provisions mainly related to provisions for outstanding incoming invoices.
All other short-term provisions are expected to result in expenses being incurred in the 1st quarter of 2006.

SALES

Consolidated sales are structured as follows:

€	2005	2004
Revenues from services	95,274,200.09	97,273,098.07
Revenues from sales	16,893,318.68	16,306,069.13
Franchise fees	669,209.23	616,822.73
Other revenues	697,542.44	476,673.10
	113,534,270.44	**114,672,663.03**

Sales were exclusively generated in Germany.

OTHER OPERATING INCOME

Composition:

€	2005	2004
Cash discount income	355,523.12	392,139.98
Income from invoicing of ancillary rental expenses	323,853.55	213,337.82
Income from release of provisions	204,272.12	184,681.40
Income from disposal of assets	32,901.17	140,456.64
Other income	416,153.80	491,415.22
	1,332,703.76	**1,422,031.06**

COSTS OF MATERIAL

Costs of material include:

€	2005	2004
Expenses for goods purchased	10,471,164.57	10,542,632.91
Increase/reduction in write-down of inventories	15,959.40	-119,667.41
	10,487,123.97	**10,422,965.50**

PERSONNEL EXPENSES

Personnel expenses are structured as follows:

€	2005	2004
Wages and salaries	51,816,922.77	52,666,803.51
Social security contributions	11,166,886.76	11,585,193.77
Pension expenses for defined benefit obligations	149,950.00	17,906.00
Share options granted to managers and employees		
Other payments resulting from the termination	107,363.03	48,996.58
of employment contracts (compensation)	67,590.00	37,650.00
	63,308,712.56	**64,356,549.86**

DEPRECIATION AND AMORTISATION

Composition:

€	2005	2004
Depreciation of proprietary salon furnishings	3,534,132.28	3,825,399.09
Depreciation of leased salon furnishings	749,750.99	663,398.51
Amortisation of goodwill as a result of impairment tests	371,008.62	682,329.23
Amortisation of other intangible assets	62,707.72	55,598.67
	4,717,599.61	**5,226,725.50**

RENTAL AND ANCILLARY RENTAL EXPENSES

Composition:

€	2005	2004
Rent for hairdressing salons and head office in Düsseldorf	17,949,622.82	17,875,370.12
Ancillary rental expenses	2,858,162.58	2,875,439.67
	20,807,785.40	**20,750,809.79**

OTHER OPERATING EXPENSES

Other operating expenses include:

€	2005	2004
Losses on financial loans	206,240.46	185,891.33
Losses incurred on the disposal of receivables	130,483.74	0.00
Write-downs of receivables	143,326.39	193,367.58
Losses incurred on the disposal of fixed assets	88,834.41	345,178.03
Miscellaneous operating expenses	9,597,429.20	9,731,647.91
	10,166,314.20	**10,456,084.85**

Miscellaneous operating expenses primarily relate to administration and sales-related expenses.

Financing income

This relates to interest income amounting to € 86,671.18 on short-term credit balances at banks.

Financing expenses

These primarily relate to interest expenses in connection with long-term financial debt.

Share of losses in companies accounted for at equity

The share of losses assumed from the valuation at equity of the associated company included in the Group amounted to € 6,999.00 (previous year: € 0.00).

Losses from financial loans

The losses from financial loans relate to write-downs on loans to franchisees.

TAX EXPENSES

€	2005	2004
Current taxes		
Trade tax and corporate income tax for accounting period	0.00	130,000.00
Corporate income tax for current year	149,000.00	74,000.00
Trade tax for current year	107,000.00	60,000.00
Other taxes on income	-724.33	-2,036.57
	255,275.67	261,963.43
Deferred taxes		
Deferred corporate income tax for current year	839,000.00	670,000.00
Deferred trade tax for current year	660,000.00	591,000.00
	1,499,000.00	1,261,000.00
	1,754,275.67	**1,522,963.43**

At the balance sheet reporting date, the losses carried forward at Essanelle Hair Group AG amounted to around € 3,397k for trade tax purposes (previous year: € 5,504k) and to € 5,032k for corporate income tax purposes (previous year: € 6,669k). The losses carried forward may be carried forward for an indefinite period. The losses carried forward resulted in tax accruals amounting to € 1,893k as of the reporting date (previous year: € 2,676k). Of this amount, € 566k relates to trade tax (previous year: € 917k) and € 1,327k to corporate income tax (previous year: € 1,759k).

Deferred taxes have been accounted for at a percentage of 38.65% (previous year: 38.65%). This is equivalent to a trade tax rate of 20%, not accounting for the deductibility of trade tax, a corporate income tax rate of 25% and a solidarity surcharge of 5.5%.

The development of tax expenses has been depicted in the following tax reconciliation account:

€k	2005	2004
Earnings before taxes	4,327	3,536
Tax-related modifications	213	73
	4,540	3,609
Taxes based on a rate of 38.65%	1,755	1,395
Taxes on income as stated in income statement	1,754	1,523
of which:taxes relating to accounting period	0	-130
of which: taxes for previous years	1	2
	1,755	**1,395**

EARNINGS PER SHARE

(1) Undiluted

€	2005	2004
Earnings allocable to providers of equity	2,573,183.32	2,013,168.38
Average number of shares issued	4,491,027.05	4,500,000
Diluted earnings per share (€ per share)	0.57	0.45

Undiluted earnings per share are calculated by dividing the consolidated earnings by the weighted average of the number of shares in circulation during the financial year.

(2) Diluted

€	2005	2004
Earnings allocable to providers of equity	2,573,183.32	2,013,168.38
Average number of shares issued	4,627,477.83	4,571,279
Diluted earnings per share (€ per share)	0.56	0.44

When calculating the diluted earnings per share, the number of shares issued was increased to the extent that employees hold subscription rights relating to the share option programme and simultaneously reduced by the number of shares which the company would have been able to purchase at the average share price for the year under report from the exercise price received by the company in the event of such subscription rights being exercised.

The calculation did not include the conditional capital of the company, amounting to 263,141 new individual shares, which could nevertheless dilute the undiluted earnings per share in future.

DIVIDEND PER SHARE

No dividend was paid in 2005 and 2004.

CASH FLOW STATEMENT

The cash flow statement depicts the change in the level of financial funds as a result of inflows and outflows of funds during the financial year. In accordance with IAS 7, a distinction has been made between the cash flows from operating activites, investment activities and financing activities respectively.

The cash flow statement has been compiled using the indirect method and can be found in Annex IV.

The inflow of funds from operating activities is structured as follows:

€k	2005	2004
Consolidated annual earnings	2,573	2,013
Adjustments for…		
Taxes (Note 37)	1,754	1,523
Depreciation of property. plant and equipment (Note 6)	4,284	4,489
Amortisation of intangible assets (Note 7)	434	738
Amortisation of other loans (Note 9)	206	186
Additions to other loans (Note 9)	-117	-107
(Profits/losses) on the sale of property. plant and equipment	170	273
(Profits/losses) on the sale of intangible assets	36	137
Expenses relating to share option programme (Note 14)	107	49
Interest income (Note 33)	-87	-89
Interest expenses (Note 34)	925	1,248
Share in (loss/profit) of financial assets valued at equity (Note 8)	7	0
Change in working capital		
Inventories (Note 10)	-11	-401
Accounts receivable and other receivables (Note 11)	-79	63
Provisions (Notes 20 and 25)	242	-103
Other financial assets valued at attributable present values (Note 12)	221	331
Accounts payable and other liabilities (Notes 22 and 24)	670	-3,191
Inflow of payments from operating activities	11,335	7,159

The proceeds from the sale of property, plant and equipment recorded in the cash flow statement include:

€k	2005	2004
Net book value	606	1,633
Loss on the sale of property, plant and equipment (net)	-170	-273
Proceeds from the sale of property, plant and equipment	436	1,360

The differences between the cash flow statements compiled in accordance with the German Commercial Code (HGB) and IFRS respectively are of subordinate significance. The financial funds item includes the cash holdings, credit balances at banks and payments in transit at the salons reported in the balance sheet.

As of the balance sheet reporting date the company had unutilised credit lines of € 2.0m at two banks.

OTHER FINANCIAL OBLIGATIONS

(1) Financial leasing

n the past years, Essanelle has procured part of its salon furnishings by means of financial leasing. This was undertaken both within the framework of sale and lease back transactions, as well as by leasing assets directly. The income resulting from sale and lease back transactions was not significant and was recorded in full as income with immediate effect. The leasing agreements have been capitalised as assets under property, plant and equipment and as liabilities under financial debt in line with their respective terms and conditions. The scheduled depreciation has been based on an estimated useful life of ten years. The liabilities relating to leasing agreements have been repaid over periods of between 4 and 5 years. As of the balance sheet reporting date, the company had leased salon furnishings amounting to € 3,215,662.93 (previous year: € 2,755,873.55). Leasing liabilities amounted to € 1,855,763.88 (previous year: € 1,062,798.92). As in the previous year, the underlying interest rates amounted to between 4.5% and 8%.

€	2005 Nominal amount	2005 Discounted amount	2004 Nominal amount	2004 Discounted amount
Remaining term up to 1 year	622,421.37	513,321.50	362,900.57	290,710.33
Remaining term 2 to 5 years	1,479,319.22	1,342,442.38	857,198.71	762,787.59
Remaining term more than 5 years	0.00	0.00	9,301.00	9,301.00
	2,101,740.59	**1,855,763.88**	**1,229,400.28**	**1,062,798.92**

(2) Operating leasing

The Group rents numerous store premises for hairdressing salons within the framework of non-terminable operating leasing agreements. These rental agreements involve various conditions, rent increase clauses, in most cases linked to the German retail price index, and extension options, e.g. options for extension for a certain period on one or two occasions. The rental expenses for premises amounted to € 17,950k (previous year: € 17,875k).

The Group also leases motor vehicles and various equipment. The expenses relating to these assets amounted to € 156k (previous year: € 166k).

The following table depicts the existing future non-terminable leasing payments (operating lease):

€	2005	2004
Remaining term up to 1 year	16,075,790.11	15,742,095.81
Remaining term 2 to 5 years	42,374,530.98	42,546,305.90
Remaining term more than 5 years	8,691,715.97	10,261,189.32
	67,142,037.06	**68,549,591.03**

(3)Purchase obligations from supply agreements

The obligation existing as of 31.12.2005 in connection with a purchase agreement with a supplier, which involved an amount of € 6,791k for the period up to 31 December 2006, has been annulled in connection with a new agreement dated 22 February 2006.

A purchase agreement newly concluded with a further supplier has resulted in an estimated obligation for the acquisition of property, plant and equipment amounting to around € 7m over a period of five years. Moreover, the resultant obligation for goods amounts to an estimated level of € 49m.

(4) Purchase commitments

The obligations resulting from binding orders of assets are of subordinate significance.

(5) Possible obligations to adjust purchase price in connection with contracts governing the purchase of shareholdings.

The contracts governing the purchase of shareholdings involve potential financial obligations of up to € 1,887k.

(6) Contingent liabilities

The volume of possible claims from liabilities relating to guarantees and loan obligations to third parties on the part of affiliated companies amounted to € 371k as of the balance sheet reporting date. At present, we do not expect any claims to be made in this respect.

FINANCIAL INSTRUMENTS

The financial instruments reported by the company involve various risks. On the asset side, the financial assets involve the risk of default on the part of debtors. On the liabilities side, the liabilities charging interest involve risks resulting from variable components in the interest charged on liabilities or from the entire interest charged on the liabilities being variable (c.f. notes on liabilities charging interest). As a result, financial instruments are subject to interest rate change risks. Essanelle does not deploy any derivative financial instruments.

BUSINESS TRANSACTIONS WITH CLOSELY RELATED COMPANIES AND INDIVIDUALS

The loan liabilities of € 2,447,309.43 reported in the previous year towards former shareholders in Essanelle GmbH, which was discontinued upon its merger into Essanelle Hair Group AG, were repaid in full in 2005. Interest of € 139,798.69 was incurred on these loans in 2005. This has also been paid.

The interest rate on these loans amounted to 10%.

The company concluded an advisory agreement with Jürgen Tröndle, a shareholder and member of the Supervisory Board, on 24 February 1999. This has been replaced by two newly formulated contracts dated 9 February 2006. The remuneration paid in 2005 pursuant to the agreement valid as of the reporting date amounted to € 75k (previous year: € 77k). Moreover, travel expenses amounting to € 3k were paid (previous year: € 3k). Furthermore, remuneration of € 56k (previous year: € 0k) was paid to the company Tröndle Hairline for the provision of trainers to train Essanelle personnel. The overall remuneration of the Management Board and the Supervisory Board has been reported under Note 48.

A loan of € 70k was granted to one member of the Management Board at an interest rate of 4.5%. The loan has a term of 3 years and is to be repaid quarterly. An amount of € 22k was repaid during the financial year (previous year: € 16k), leaving a remaining amount of € 32k at the end of the financial year.

SHARES HELD BY THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

The members of the Management Board and the Supervisory Board owned the following shares in Essanelle Hair Group AG as of 31 December 2005:

	Number of Shares	Share of total volume of € 4.5 million
Management Board	301,111	6.69%
Supervisory Board	181,830	4.04%
	482,941	**10.73%**

Uwe Grimminger (256,131 shares; 5.69 %) and Jürgen Tröndle (155,750 shares; 3.46 %) held more than 1% of the shares issued by Essanelle as of 31 December 2005.

NUMBER OF EMPLOYEES

The company had an average of 2,228 (2,209) employees, 1,364 (1,362) part-time employees and 165 (208) trainees during the financial year.

BREAKDOWN OF EXPENSES FOR THE GROUP AUDITOR

pursuant to Section 314 (1) No. 9 of the German Commercial Code (HGB)

The fee for the auditor recorded as expenses in the financial year pursuant to Section 319 (1) Sentence 1, 2 of the German Commercial Code (HGB) amounted to:

a) for auditing of financial statements: € 125k
b) for other advisory services € 18k
c) for tax advisory services € 46k
d) for other services € 45k

EVENTS SUBSEQUENT TO THE BALANCE SHEET REPORTING DATE AND DIVISIONS TO BE DISCONTINUED

On the basis of the agreement dated 22 February 2006, which takes effect as of 1 January 2006, the existing purchase agreement with a supplier in respect of hairdressing articles has been replaced. The new agreement no longer provides for any quantified purchase obligation or for any penalty in the event of the agreements not being fulfilled by Essanelle. Accordingly, no provision has been taken for the possibility still valid as of the reporting date of a contractual penalty being incurred as a result of lower purchases made in connection with the former agreement. There have been no further events subsequent to the balance sheet reporting date which have had any major impact on the net asset, financial and earnings position of the company. Moreover, there are no divisions at which it is planned to discontinue activities in 2006.

STATEMENT CONCERNING CORPORATE GOVERNANCE

The Statement of Compliance with the German Corporate Governance Code (DCGK) required by Section 161 of the German Stock Corporation Act (AktG) has been submitted and made available to shareholders on an ongoing basis at our homepage at www.essanelle-hair-group.com.

REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

(1) Remuneration of the Management Board

The overall remuneration of the Management Board amounted to € 1,018k in 2005 (previous year: € 909k). This was structured as follows:

Basic salary	Bonus	Fair-value entitlement from share option rights issued in 2005	Other	Total
464,661.24	**364,643.00**	**172,094.65**	**16,756.32**	**1,018,155.21**

The entitlement from share option programmes results from the share of option rights apportioned to the Management Board in the share option programme issued in 2005. The Management Board was granted a total of 49,595 option rights, which have been valued at the fair value of € 3.47 determined for this tranche.

Defined benefit pension commitments have been made to both members of the Management Board. A net total of € 105k was added to pension provisions in connection with pension commitments made to members of the Management Board. The total amount of the pension provisions taken for the Management Board amounts to € 165k following the deduction of plan assets.

(2) Remuneration of the Supervisory Board

Remuneration of € 186k was paid during the financial year.

Düsseldorf, 24 February 2006

Uwe Grimminger	Achim Mansen
(Chairman of the Management Board)	(Member of the Management Board)

AUDIT OPINION

We have audited the consolidated financial statements compiled by Essanelle Hair Group AG, Düsseldorf, consisting of the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, as well as the group management report, for the financial year from 1 January to 31 December 2005. The compilation of the consolidated financial statements and the management report in accordance with IFRS as applicable in the EU, and with supplementary application of the stipulations of German commercial law as set out in Section 315a (1) of the German Commercial Code (HGB), is the responsibility of the management board of the company. Our responsibility involves providing an assessment of the consolidated financial statements and the group management report on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB), taking due account of the principles governing the proper auditing of financial statements promulgated by the German Institut der Wirtschaftsprüfer (IDW). These standards require the audit to be planned and executed in such a way that any inaccuracies and irregularities with a material impact on the presentation of the consolidated financial statements, taking due account of the accounting standards requiring application, and on the presentation of the company’s net asset, financial and earnings situation provided in the group management report can be identified with adequate reliability. Knowledge of the business activities and of the economic and legal environment of the group and expectations as to any possible misstatements are taken into consideration when determining the audit procedures. The effectiveness of the internal controlling systems in place for accounting purposes and the evidence supporting the amounts and disclosures made 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 an assessment of the annual financial statements of the companies included in the consolidated financial statements, the delineation of the reporting entity, the accounting and consolidation principles applied and significant estimates made by the management board, as well as an evaluation of the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a sufficiently secure basis for our opinion.

Our audit has not led to any objections.

In our assessment based on the findings of our audit, the consolidated financial statements are in accordance with IFRS as applicable in the EU and additionally comply with the stipulations of German commercial law set out in Section 315a (1) of the German Commercial Code (HGB) and provide a true and fair view of the net asset, financial and earnings position of the group in accordance with the aforementioned requirements. The group management report is consistent with the consolidated financial statements and provides a suitable overall portrayal of the position of the group and adequately depicts the opportunities and risks of its future development.

Düsseldorf, 24 February 2006
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Weiler)	(ppa. Schollmeyer)
Auditor	Auditor

CONTACT

Investor Relations, Business press

Haubrok Investor Relations
Michael Müller
Fon +49(0)211/3 01 26-0
Fax +49(0)211/3 01 26-172
m.mueller@haubrok.de
www.haubrok.de

Specialist press

PR & Kommunikation
Elisabeth Hammer
Stephanstraße 20a
41464 Neuss
Fon +49(0)2131/15 98-80
Fax +49(0)2131/15 98-15
hammer@hammerpr.de

IMPRINT

Published by

Essanelle Hair Group AG
Niederkasseler Lohweg 20
40547 Düsseldorf
Fon +49(0)211/17 48-0
Fax +49(0)211/17 48-290
kontakt@essanelle-hair-group.com
www.essanelle-hair-group.com

Concept, text and design

Haubrok Investor Relations GmbH, Düsseldorf
visuphil®, Düsseldorf

Production

Heining&Müller GmbH, Mülheim a.d.Ruhr

Essanelle Hair Group AG
Niederkasseler Lohweg 20
40547 Düsseldorf
Fon +49(0)211/17 48-0
Fax +49(0)211/17 48-290
kontakt@essanelle-hair-group.com
www.essanelle-hair-group.com