ANNUAL REPORT 2005

UNITEDLABELS AG

UNITED LABELS COMICWARE

MISSION STATEMENT

»Our company is the link between media and retail. Worldwide, we design, market and sell consumer products that are based on the most powerful international comic brands, with the aim of generating value and growth for our customers and shareholders.
That is what our company is all about«

Key Financials 2005

	2005 (€ '000)	2004 (€ '000)
Revenue	40,273	39,201
EBITDA	1,923	2,618
EBIT	1,358	1,533
Profit from ordinary activities	1,071	1,285
Net profit	770	786
Cashflow	12	1,191
Earnings per share (€)	0.19	0.20
Number of employees	127	110
Number of licence agreements	65	64

Contents

Peter M. Boder
Chairman of the
Management Board

Dear Shareholders and Business Associates,

Overall, 2005 proved to be a successful year for **UNITED**LABELS AG. We managed to increase consolidated sales to € 40.3 million, which represents year-on-year growth of 2.8 %. EBIT totalled € 1.4 million in the period under review. At € 0.8, consolidated net profit was again well above par. We stepped up our sales activities over the course of 2005, establishing subsidiaries in two key markets for licensed products, the UK and Italy. While start-up costs associated with **UNITED**LABELS Ltd. translated into a net loss of € 0.5 million for the newly established UK subsidiary, with a concomitant effect on the Group's consolidated earnings, **UNITED**LABELS Italia Srl., our other start-up company, posted a break-even result.

The performance of our two business segments Key Account and Special Retail was bifurcated: while the Special Retail segment generated revenue of € 10.2 million and therefore fell slightly short of last year's figure (-5.6 %), our Key Account segment recorded growth of 6 %, taking sales within this area to € 30.1 million.

In 2005, **UNITED**LABELS AG deployed four distinct sales concepts within the Key Account category, thus securing access to vital retail shelf space. These are: cross-product concept marketing, the "my comicworld" display concept, Never-Out-of-Stock listings (NOS) and single-item promotional business. Our goal within the Key Account segment is to expand our activities in all four areas and to drive growth with the help of more frequent and more extensive merchandise placements.

Within the Special Retail segment, we stepped up our efforts in terms of concept marketing and delivered highly targeted product-brand combinations tailored to the specific requirements of specialist retailers. We are committed to guiding this segment back towards profitability by enhancing our merchandise presence, optimising our product range and extending new licences. In addition, we intend to drive forwards the selective distribution of our premium "Best of" brand and add new products to our high-end chinaware collection.

For the purposes of expanding the Group's European sales activities, we established **UNITED**LABELS Italia Srl., Italy, in March 2005 and **UNITED**LABELS Ltd., UK, in April 2005. The Italian subsidiary will be focusing on the specialist retail sector, while the UK-based unit will be targeting its business at the key account segment. Having ventured into England and Italy, we are now represented in all of Europe's key markets for licensed products, from Germany, France and Spain to Italy and the United Kingdom.

UNITEDLABELS AG added a number of high-impact Entertainment/Character licences to its portfolio in the year under review. The new arrivals include Disney Accessories, Ice Age 2, Little Red Tractor, Over The Hedge, Pucca and Spider-Man. At the beginning of 2006 we also welcomed Die wilden Kerle (The Wild Soccer Bunch) to our family of licences. Comicware merchandise associated with this theme, which is particularly popular with youngsters, includes apparel and giftware.

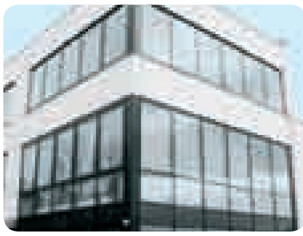
In order to finance continued growth and increase our free float, the Management Board of **UNITED**LABELS AG, with the consent of the Supervisory Board, decided to increase capital from Authorised Capital by issuing 200,000 new no-par value bearer shares ("Stückaktien“ governed by German law), with the exclusion of subscription rights. The capital increase was executed on October 13, 2005, with the issuance of 200,000 new no-par value bearer shares at an issue price of €7.40 per share. The Company's subscribed capital thus increased from €4,000,000 to €4,200,000.

Our share price performed very well over the course of the 2005 financial year. In Xetra trading it was propelled upwards by 67%, improving from €3.77 to €6.30. Trading volumes also increased significantly year on year. Based on this performance, there can be little doubt that more and more investors have been inspired by the opportunities and prospects associated with our enterprise.

For **UNITED**LABELS AG, the Entertainment/Character segment continues to be a highly attractive and dynamic segment of the licensing market. With a strong focus on selling comicware merchandise, we are now represented in all of Europe's key markets. Supported by high-impact concepts for large-floorspace operators as well as specialist retailers, we are committed to channelling our resources into high-growth, high-profit segments. What is more, we are confident that we can achieve our corporate goals in the coming years and leverage value for our shareholders.

I would like to take this opportunity to thank all members of staff for their accomplishments over the course of the year as well as their vibrant ideas and dedication. I would also like to express my gratitude to you, our shareholders, customers and business associates, for the trust you have placed in our enterprise. Please continue to accompany us over the coming years.

Peter M. Boder, CEO



UNITEDLABELS – Germany

UNITEDLABELS – Spain

UNITEDLABELS – Belgium

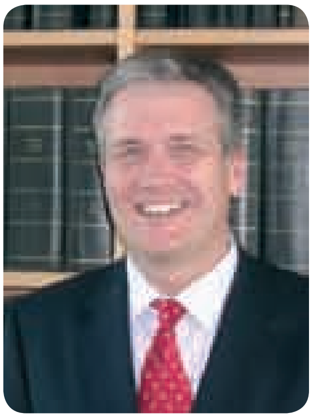
UNITEDLABELS – France

UNITEDLABELS – UK

UNITEDLABELS – Hong Kong

Report of the Supervisory Board

Report of the Supervisory Board



Dr. Jens Hausmann
Chairman of the Supervisory Board

The Supervisory Board assessed thoroughly the company's state of affairs and future prospects as well as specific corporate issues in the financial year just ended. It was regularly kept informed by the Management Board in a timely and comprehensive manner, on the basis of both verbal and written reports. In total, four ordinary meetings were convened by the Supervisory Board at regular intervals. In addition, the Supervisory Board convened two extraordinary meetings and passed other resolutions by circulation. In between these meetings, the Management Board furnished information on significant events on the basis of verbal and written reports. The Chairman of the Supervisory Board was regularly kept informed by the Management Board about key developments and upcoming decisions.

Furthermore, the Supervisory Board examined agreements of material importance for the purpose of assessing the proper documentation of associated transactions and the incorporation of appropriate safeguarding measures. To a greater extent than in the past, the Supervisory Board also focused its attention on the strategic alignment of the company and, in particular, the performance of the Special Retail segment; this included a strategy meeting convened together with the Management Board and senior management of the various departments.

The Supervisory Board was informed by the Management Board, in a timely and comprehensive manner, on all decisions of significant importance, in particular the founding of the subsidiaries **UNITED**LABELS Italia Srl. and **UNITED**LABELS Limited (UK), the purchase of land for a building extension on an adjacent property and the establishment of a logistics centre for the company, and was involved in the decision-making process. The Supervisory Board agreed to the proposals put forward by the Management Board.

The Supervisory Board approved the use by the Management Board of Authorised Capital in the amount of € 200,000.00 through issuance of 200,000 new no-par value bearer shares ("Stückaktien" governed by German law), with the express purpose of allowing additional shareholders to invest in the company as part of a capital increase for cash, in the interests of the company.

The Supervisory Board regularly focuses on issues relating to the implementation of Corporate Government principles within the company and their further development. In the period under review, the Supervisory Board discussed the amended version of the German Corporate Governance Code of June 2, 2005, as part of its meeting convened in November. Furthermore, the Supervisory Board satisfied itself that the company had complied with the recommendations of the German Corporate Governance Code in accordance with the company's Declaration of Conformity, which included details regarding any recommendations the company had not applied. Based on this assessment, it was in a position to adopt the latest Declaration of Conformity that now applies accordingly.
The Audit Committee convened two meetings, both of which were also attended by the company's auditor. Within this context, the focal points were centred around

intragroup service transactions and the deployment of the risk management system, as well as the findings of the year-end audit. In consultation with the auditor, the Supervisory Board satisfied itself that the risk management system has been implemented within the company and is being observed accordingly. This was confirmed by the auditor in an interim report furnished for the first six months of the financial year.

The financial statements for the 2005 financial year, as prepared by the Management Board, were audited in conjunction with the accounting records and the management report by Dr. Schumacher & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Münster, who was appointed as independent auditor by the General Meeting of Shareholders on May 18, 2005. Among other things, this audit focused on assessing inventories, licence prepayments, the internal controlling system and the non-impairment of company assets. The audit also assessed measures implemented by the Management Board to identify, in a timely manner, any potential risks that may jeopardise the financial success and future of the company as a going concern.

The statutory auditor raised no objections and issued an unqualified audit opinion.

The financial statements, consolidated financial statements, the combined management report and Group management report as well as the related-party disclosure report were examined by the Supervisory Board as part of meetings convened by the Audit Committee and the Supervisory Board itself. These meetings convened by the Audit Committee and Supervisory Board were attended by the appointed auditor, who furnished a report relating to his audit. The Supervisory Board concurred with the outcome of audit and approved the financial statements and consolidated financial statements for the 2005 financial year. The financial statements are thereby adopted. Furthermore, the Supervisory Board raised no objections to the management report or the related-party disclosure report.

The Supervisory Board agrees to the proposal of the Management Board regarding the appropriation of net profit to revenue reserves in the amount of € 250,000.00 and the carryforward of an amount of € 513,103.82. The Supervisory Board would like to thank all members of staff, including the senior management team and the Management Board, for its accomplishments in driving the company forward over the course of the financial year just ended.

Münster, March 2006
On behalf of the Supervisory Board

Dr. Jens Hausmann,
(Chairman)

Business model

Only well-known characters sell well

Cartoons are all around us, and it would be hard to imagine life today without them. We encounter these familiar and popular cartoon characters not only on TV or at the movies but also on everyday products like cups and socks, screen savers and even ring tones.

Producers of cartoon figures are, in the main, global media giants. They hold the copyright to the best-known figures, whose brand recognition value is built up through massive media exposure. At the same time, these popular cartoon characters are there to generate product sales. Cartoon stars are demand-tested in movies or TV series before they come onto the retail market as comicware products. The high recognition and identification factor of such comicware products also guarantees long-term product demand.

In order to sell a wide variety of products from different fields in almost all countries of the world, producers of cartoon figures, as the licensors, sell the production and distribution rights to licensees. In doing so, it is critical for the producers to choose highly capable partners. Only licence holders with a strong background in product rendition and sales, like **UNITED**LABELS, can guarantee brand recognition will be translated into product sales. The licensing business with cartoon figures falls under the Entertainment/Character segment.

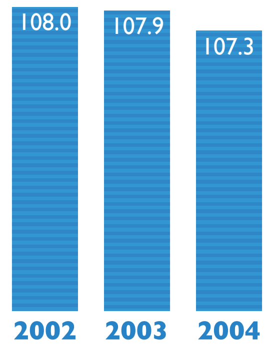
Global licensing market

The global licensing market is huge and has maintained a high level in recent years. It has particularly profited from the ongoing proliferation of TV channels. This includes TV stations dedicated solely to children's programmes. The licensing market has also benefited from new media in the mobile communication domain.

Global sales of licensed products in the year 2004 were worth around USD 107.3 billion (compared to about USD 107.9 billion in 2003). But there were considerable regional variations. While the USA/Canada (-1.3%) and Japan (-4.0%) recorded a drop in sales of licensed products, turnover in Western Europe climbed by 1.4% to around USD 24.5 billion. Eastern Europe showed the largest growth in this area, with an increase of 10.7%. In other words, **UNITED**LABELS AG in Western Europe is operating in a market that has gained ground in recent years.

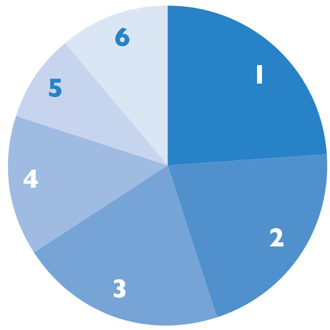
In the Entertainment/Character segment, worldwide retail sales in the year 2004 amounted to approximately USD 25.7 billion. This represented 24% of all global sales in licensed products. Western Europe is the second-largest market for licensed sales in the Entertainment/Character segment and accounted for 28% of turnover in this area (compared with USA/Canada: 52% and Japan: 13%) (Source: The Licensing Letter. Copyright 2005 EPM Communications, Inc.).

Global sales of licensed products 2002–2004 (in USD billion)



Source: The Licensing Letter ©2005 EPM Communications, Inc.

Global sales of licensed products in 2004 by licensing type in %

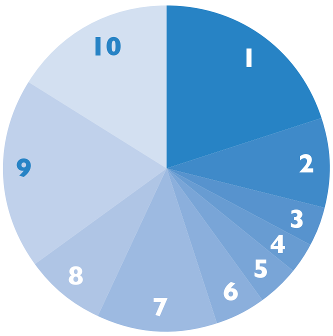


1 **Entertainment/Character** 24%
2 **Corporate trade-marks/Brand** 21%
3 **Fashion** 21%
4 **Sports** 14%
5 **Art** 9%
6 **Other** 11%

Source: The Licensing Letter ©2005 EPM Communications, Inc.

Business Model

Breakdown of estimated licence sales (royalties) of character licences in Germany by product category



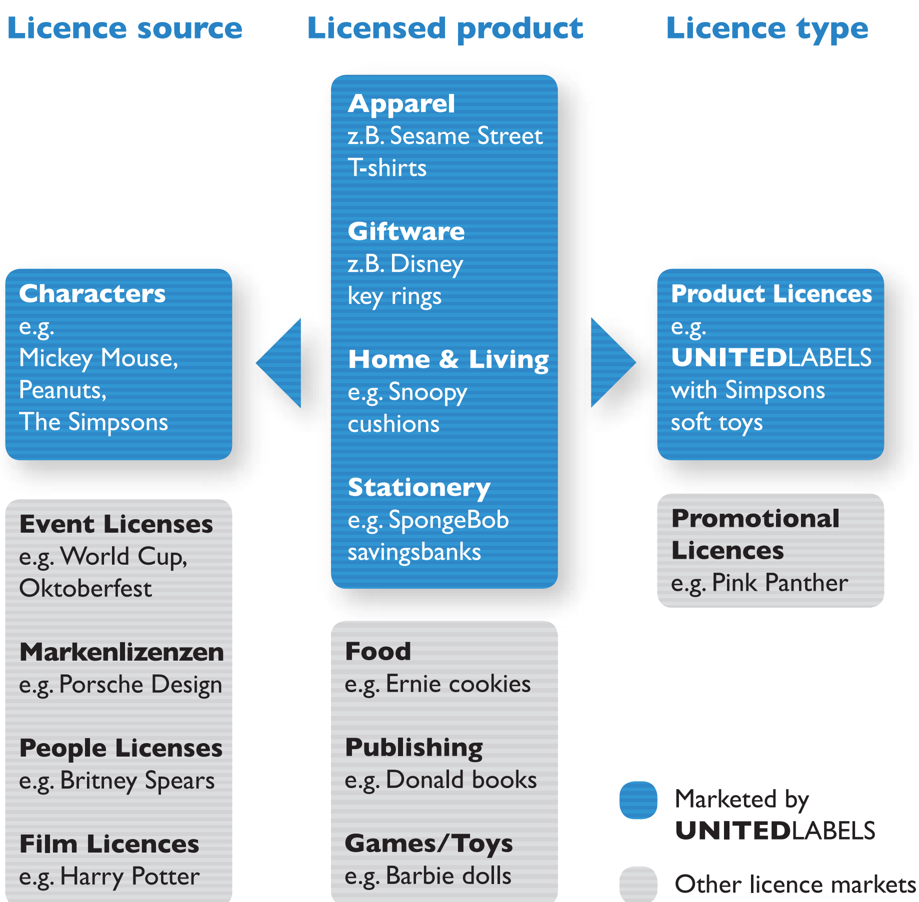
1. **Apparel**
   20 % (€ 18.2 million)
2. **Food/Beverage**
   9 % (€ 8.2 million)
3. **Gifts/Collectibles**
   4 % (€ 3.6 million)
4. **Home Décor**
   3 % (€ 2.7 million)
5. **Music/Video**
   4 % (€ 3.6 million)
6. **Paper Products**
   5 % (€ 4.6 million)
7. **Publishing**
   12 % (€ 10.9 million)
8. **Software/Video Games**
   8 % (€ 7.3 million)
9. **Toys/Games**
   19 % (€ 17.3 million)
10. **Others**
    16 % (€ 14.6 million)

Source: Lizenzmarkt Deutschland (German Licensing Market) Study by LIMA and Intelect Marktforschung GmbH, 2005.

According to projected figures for retail licensing sales in the Character (Entertainment/TV/Movie) segment in Germany, published by the International Licensing Industry Merchandisers' Association (LIMA) in its study of the German licensing market ("Lizenzmarkt Deutschland"), which was completed in association with Intelect Marktforschung GmbH, goods and services to the value of approximately USD 1.2 billion were sold in the year 2004. No such figures for 2005 were available at the time of publication.

The ABC of the licensing business

Key elements of the licensing business are licence source, licence product and licence type. Licence sources include event licences, brand licences, people licences, film licences and the preferred licence source of **UNITED**LABELS AG: characters. Licensed products are classified into segments such as apparel, accessories, giftware and soft toys, which are also offered by **UNITED**LABELS. A distinction in terms of licence type is also made between promotional licenses and product licences. **UNITED**LABELS is a licensee of product licences.



comicware – cartoons you can touch

UNITEDLABELS AG turns screen heroes into real-life stars that people can touch. In doing so, the focus is on global development, production and marketing of consumer products based on the best-known cartoon licensing themes. This makes it the only company to offer the major cartoon licences across Europe, with a large product portfolio marketed through key distribution channels. As one of the leading European specialists for licensed comicware, **UNITED**LABELS AG, with its well-developed sales network, years of experience, market knowledge and creative designs, is the ideal licensee. Strategic partners and licensors of the Münster-based, independent media company include such global players from the world of media and entertainment as Disney and 20th Century Fox.

Selection of the biggest licence partners

Three factors determine the success of the cartoon character licensing business: the licensing theme, product range and sales network. In all three areas, **UNITED**LABELS has years of experience and is in a position to offer customers effective solutions.

The licensing theme is where it all starts. If the theme is popular, it will sell well. The best-selling products are those associated with the best-known characters. **UNITED**LABELS AG concentrates on adding popular licences to its portfolio and is quick to research and identify new trends in markets where its products are sold. This means it always has a selection of topical themes to choose from when developing its licensed products.

The second key factor in the successful marketing of cartoon licences is product range. Licensed cartoon products have a very powerful emotional appeal, so they have to be presented in themes and product realms that reflect consumer preferences. Product realms are created by strategic selection of products and designs. This is where the creativity of the **UNITED**LABELS design team comes into play. They pick up on current trends in designing suitable product lines for each cartoon character. When products accurately reflect licences, consumers tend to identify more with the goods on sale.

United Media

Disney

Disney

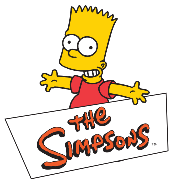
Sesame Workshop

EM TV & Merchandising AG

Warner Bros.

Paws Inc.

Nickelodeon
© 2005 Viacom



20th Century Fox
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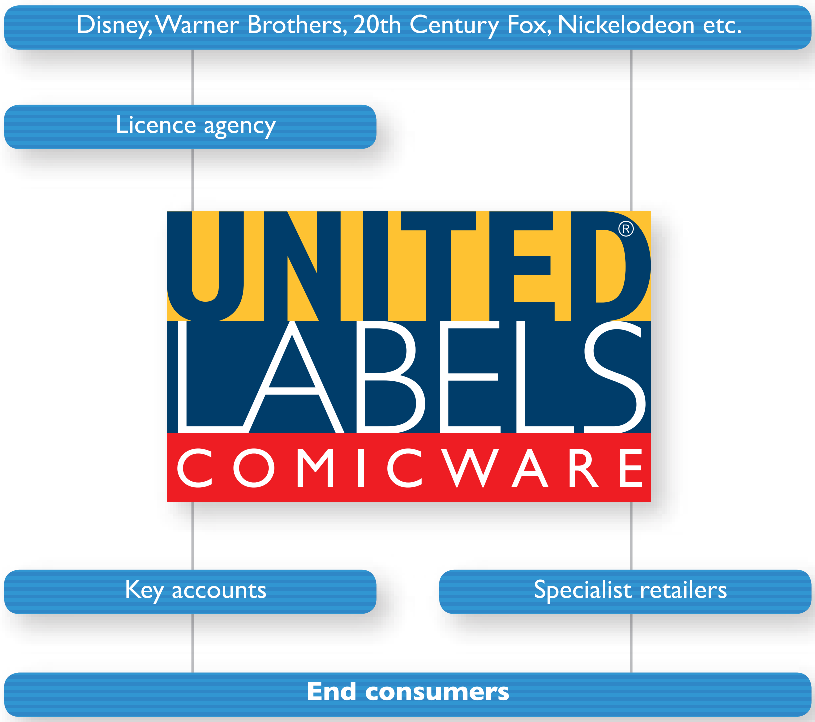
UNITEDLABELS uniquely placed between rights holder and retail



The third and most important factor is the sales network, as only products that reach the shelves can ever be sold. From its pole position, **UNITED**LABELS' ultimate goal is to achieve blanket coverage of the retail trade in licensed products. Its sales unit knows the market and offers both licensor and retail trade effective solutions and sales concepts. **UNITED**LABELS provides licensors with access to retail markets and at the same time offers retailers the opportunity to create attractive shopping experiences. **UNITED**LABELS already has a high level of market penetration for comicware in Europe and distributes its products in more than 61,400 sales outlets of various trading companies. Despite these sales networks in many European countries, this is only the beginning for **UNITED**LABELS, as the sale of licensed products could potentially occur at all POS across Europe. The strength of its sales network and broad product range have allowed **UNITED**LABELS to achieve good economies of scale and portfolio effects.

Licence portfolio – the core competency of **UNITED**LABELS

The appeal of its licence portfolio is a particular priority for **UNITED**LABELS. By the end of 2005, it included 65 licence agreements. **UNITED**LABELS focuses on classic licence themes, newcomers, film themes and regionally successful cartoon characters in marketing its comicware products.

Well-established classics in the **UNITED**LABELS portfolio going back several decades include Mickey Mouse, Snoopy, Sesame Street and The Simpsons. Successful newcomers include SpongeBob SquarePants and Pucca, who have won the hearts of millions of fans worldwide in recent months. Cartoon figures from films like Madagascar, Ice Age 2 and Over The Hedge or the TV series Little Red Tractor are also famous cartoon heroes and popular licence themes. In France, where Marsupilami and Totally Spies are among the top-rating licences, **UNITED**LABELS has been quick to include these successful themes in its licence portfolio.

With its licence themes, **UNITED**LABELS reaches all age groups in the European market for licensed products. Licensing agreements for popular and fast-selling themes are therefore signed for a period of one to three years and extended without delay. Newcomers are also included in the portfolio with similar speed. This ensures a balanced licence portfolio of attractive themes and simplifies the process of budget planning.

Excellent design

Once again, **UNITED**LABELS AG won countless awards in 2005 for its design achievements and product developments. In July, for instance, along with Sassenberg design studio, sieger design and internet agency avency from Telgte it was selected by an expert jury as joint winner of the international ”red dot“ design award for communication design, for the high-quality design of its ”Best of Mickey“ and ”Best of Snoopy“ website. In September 2005, **UNITED**LABELS AG picked up the LIMA Germany Award for licensed product of the year, for its porcelain collection, ”Best of Mickey“ and ”Best of Snoopy“. This was conferred by the International Licensing Industry Merchandisers' Association (LIMA), which is one of the world's leading associations in the field of media licences, brands and merchandising. **UNITED**LABELS AG also won the Gold category ”International Homey Award“ in 2005 as ”Licensee of the Year“, after it was declared by 20th Century Fox to have achieved the world's most successful product rendition and marketing of The Simpsons label.

Awards

reddot

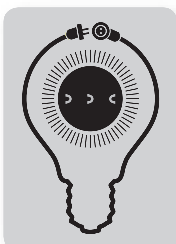
2005 – red dot for high-quality design

2002, 2003 und 2005 – International Homey Award – Licensee of the Year

2004 – LIMA Award for Best Licensee
2005 – LIMA Award, Best Licensed Product

GRAPHIS
PackagingDesign9

2004 – „Graphis PackagingDesign9“



2004 – Design-award of the DDC

Sales

High level of penetration generates European-wide sales

The distribution channels of **UNITED**LABELS are as far-flung as the recognition level of its licence themes. The European sales network has been progressively expanded over recent years through acquisitions in Belgium, France and Spain. In the year 2005, **UNITED**LABELS also gained a foothold in two further key markets for licensed products by setting up offices in Italy and the UK.

In its locations abroad, **UNITED**LABELS has employees on the ground who know the local markets and purchasing patterns and are in a position to offer nationally tailored products to their customers. This means **UNITED**LABELS is in the best possible position to offer comicware products to consumers right throughout Europe via all the key distribution channels, irrespective of any national or language barriers. In essence, Europe has thus become a single market for **UNITED**LABELS.

Licensed products have universal appeal and are very much in demand. In 2005 alone **UNITED**LABELS sold 25.7 million items, and thus achieved yet another increase in the number of products sold annually. It means that about 85,600 items or 2.4 items per second were sold to buyers every trading day by **UNITED**LABELS somewhere in Europe.

UNITEDLABELS achieved this impressive result with the help of more than 3,700 retail partners in over 15 countries and around 61,400 points of sale. This high degree of penetration ensured **UNITED**LABELS, as a globally active company, generated € 23.4 million or 58% of its sales outside Germany (compared to €23.5 million or 60 % in 2004). It not only supplies its comicware products to international corporations but also supports German chain stores in their European expansion efforts into such markets as Eastern European cities. In 2005 as a whole, **UNITED**LABELS increased the amount of shelf space in the various countries via a range of different distribution channels. The aim over the next few years is to continue expanding its total shelf space.

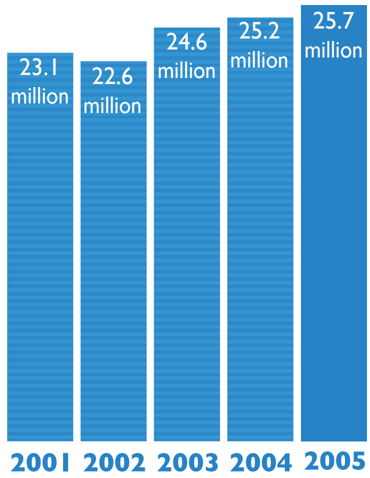
UNITEDLABELS already distributes its high-quality porcelain collection "Best of Mickey" and "Best of Snoopy" far beyond Europe and in fact all over the world. "Best of products" were marketed in 30 countries in 2005. Further expansion of its distribution network is also planned in this area over the years ahead.

Number of outlets

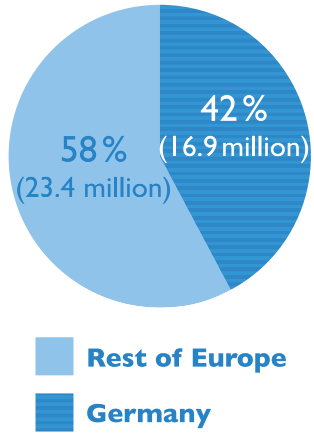
2005: 61,400

Sales

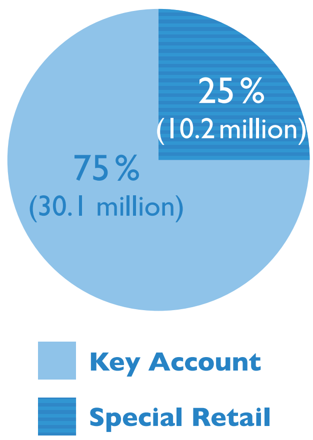
No. of items sold in millions (2001–2005)



Breakdown of UNITEDLABELS sales in Europe for 2005 in % (€)



Breakdown of sales in 2005 for key accounts and special retail in % (€)



Key Account

High-turnover, high-volume business

UNITEDLABELS AG also focused particularly on chain stores and mega stores in 2005, as the growth trend in this area persisted. These sales outlets grew not only as a result of the continued trend away from specialist stores to mega stores but also the relentless global expansion of retail giants. As **UNITED**LABELS AG works with almost all major retail companies, it benefits from such expansion, as it allows it to tap into new sales markets in places like Eastern Europe. **UNITED**LABELS AG is also growing independently of this trend by increasing the amount of shelf space used by existing customers, through further take-up of its in-store display concepts.

UNITEDLABELS AG has consistently adapted to changes in the retail landscape and, as a result, this growth segment now accounts for some 75% of Group revenue. It also recorded an increase in key account business to € 30.1 million (compared to € 28.4 million the previous year) and achieved the most growth in this segment, with a 6% rise in sales. **UNITED**LABELS AG services key accounts in Germany, France, the UK, Belgium and the Netherlands, as well as in Spain and Portugal. The British office established in 2005 has already achieved widespread stock listings in major chain stores in only its first year of trading.

UNITEDLABELS makes shopping a memorable experience

Chain stores and major retail companies continually need new product images to entice their customers into theme-based shopping experiences. A good way to tap into new buyer groups is to create totally new shopping experiences that appeal to different target groups. The great popularity, for instance, of cartoon classics like Snoopy and the high novelty value of licence themes like SpongeBob SquarePants and the associated emotional appeal are ideal for new concepts and presentation ideas.

UNITEDLABELS creates these new product realms and makes shopping a memorable experience. With its comicware products, **UNITED**LABELS offers retailers the chance to combine ever-changing merchandise images within a certain licence theme or product group with a host of different selling options. As the biggest increases are expected to continue coming from the key account area in the future, **UNITED**LABELS AG is focusing on four different offerings carefully tailored to the needs of its high-volume customers.

Sales Key Account

KAISER'S TENGELMANN
NETTO
Carrefour
Müller
WAL★MART
BAUR
KARSTADT
WOOLWORTH
3 SUISSES le Chouchou
Nestlé
El Corte Inglés
Auchan
LA REDOUTE

... and more

SpongeBob SquarePants licensed products

Cushion

Wall clock

Bowl

Cups

Alarm clocks

Tailor-made solutions for high-volume customers

Concept marketing is in demand

Concept marketing across a variety of products is the most important and most lucrative area of key account business. It proved a good way of winning new customers and increasing the number of promotions run by retailers. **UNITED**LABELS AG, as one of the few licensees, has the opportunity to offer high-volume customers items of uniform design across a whole range of products.

Concept marketing usually takes the form of one-off specials, which means items are on the shelves for a limited time only of around two to eight months. When one special promotion finishes, the wealth of different licences offered by **UNITED**LABELS provides plenty of scope for the next promotions. **UNITED**LABELS AG believes the future lies in this area and will continue to concentrate on creating new shopping experiences at the Point of Sale (POS).

”My comicworld“ – a world of inspiration

As well as concepts for special promotions, high-volume customers also require novel ideas for permanent stock items. With ”my comicworld“, **UNITED**LABELS has introduced a new concept for key accounts that involves managing the selling space itself. These shelf spaces belong solely to **UNITED**LABELS AG. This means the company determines the products and sale price, has direct access to the end consumer and thus maintains a year-round presence with a wide range of comicware items in retail outlets.

Depending on each customer profile, the new displays may depict textile products or glass, porcelain and ceramics (GPC), along with giftware featuring internationally famous cartoon characters like Snoopy, Mickey Mouse, the Simpsons, SpongeBob SquarePants, Pucca and many others. The licence mix is tailored to suit the profile of each key account customer.

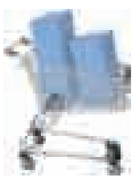
With this ”my comicworld“ concept, **UNITED**LABELS once again offers the entire product spectrum for each licence theme from a single source. Concerted marketing of these self-contained theme worlds was undertaken by **UNITED**LABELS AG in the year 2005. Further take-up of these shelf spaces managed solely by **UNITED**LABELS is planned in the years ahead.

Never-out-of-stock (NOS) listings

Another area of business for key accounts are NOS (never-out-of-stock) listings, which also ensure the comicware products of **UNITED**LABELS AG maintain a year-round retail presence. The items, which are primarily displayed in specialist departments, are specifically tailored to the needs of each department.

Large-volume promotional business with individual products

As well as these permanent stock items, single product business or large-volume promotional business based on one item or one promotional line continues to be effective. This generally consists of a promotion run for a fixed period with one or two items sold at a discounted price. Large-volume promotional business is generating good economies of scale on the purchasing side, as it focuses on only a small number of products. For this reason, it will remain an integral part of key account business.



Key account partners in 2005

162 retail partners

57,300 outlets

Plus

real,- riesig einkaufen

Toys R Us

REWE

SCHLECKER

Ernsting's family

MARKTKAUF

GLOBUS

MGR

C&A

NKD

... and more

Special Retail

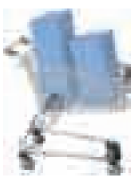
New concepts offer solutions for specialist stores

Specialist stores, with their more extensive product ranges and higher-priced items, are fundamentally different from mega stores. Despite the general downward pressure on pricing, they can impress by offering sophisticated products as their point of difference. **UNITED**LABELS supports specialist stores by providing concepts designed specifically for this high-end retail trade.

The licensed comicware products of **UNITED**LABELS, due to their popularity, the novelty value of the licence themes and unconventional product range, help independent retailers to achieve a higher profile. In return, specialist retailers help improve the profile of licence themes, as they are positioned among the lifestyle products on their shelves.

Since 2005, **UNITED**LABELS has been offering specialist stores the entire lifestyle product range from a single source on new, specially designed displays for each licence theme. By providing seasonal changes of these lifestyle concepts and designer products focusing on current trends, **UNITED**LABELS offers specialist stores a clear competitive edge. On each display, up to four product lines are depicted and interpreted with appropriate designs, including Peanuts, Donald Duck, the Disney Princess Cinderella, the Simpsons and SpongeBob SquarePants. The product spectrum includes items such as fashion accessories, giftware and glass, porcelain and ceramics (GPC).

UNITEDLABELS AG markets its specialist retail business in Germany, France, Italy, Belgium and the Netherlands, as well as in Spain and Portugal. With its new branch office in Italy it is able to service the attractive specialist retail landscape already established in that country. Over the next few years, **UNITED**LABELS AG will be aiming to increase turnover in the specialist retail trade by increasing its product presence and optimising its product portfolio.



Specialist retail partners in 2005
2,700 retail partners
3,200 outlets

Product line displays for specialist stores


BEST
OF
MICKEY
Disney

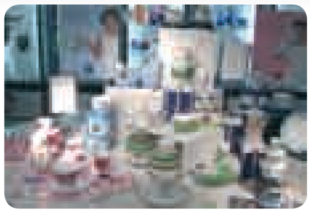
Mickey Mouse and Snoopy set the table

“Best of Mickey“ and ”Best of Snoopy“ represent exclusive porcelain collections, high-quality giftware and ”cool“ accessories. However, ”Best of“ is more than a premium brand in the porcelain and giftware market. Above all else, it pays homage to two well-loved heroes of cartoon history: Mickey Mouse and Snoopy. Working in close collaboration with the licensors, Walt Disney Company (Mickey Mouse) and United Features Syndicate (Snoopy), and with the expertise of the sieger design studio, high-quality products have been created for everyone who has grown up with these cartoon stars and now relishes the resurgence in popularity of their childhood heroes.

The target market for ”Best of“ is broad and multifaceted: collectors and connoisseurs of high-quality crockery, cartoon lovers plus everyone who appreciates the little extras and novel gift ideas. With ”Best of“, **UNITED**LABELS gained a foothold in the world of exclusive porcelain collections and thus opened a door for itself into upmarket specialist stores. Selling ”Best of“ has given **UNITED**LABELS access to a new and elevated buyer bracket that is prepared to spend more money on sophisticated products.

Trade fair stand in Frankfurt

Sales Best of...



Denmark, Copenhagen

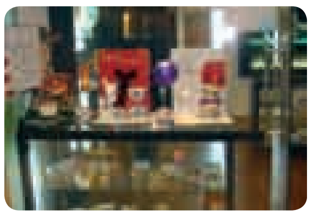
Japan, Tokyo

Germany, Hamburg

South Africa, Capetown

Germany, Hamburg

Russia, Moscow



China, Shanghai


ALOHA
SNOOPY
BEST
OF
SNOOPY

The porcelain collection was launched in 2003 with espresso cups, coffee mugs, cups and saucers, muesli bowls and plates featuring a whole range of design lines and individual packaging. In 2005 milk jugs, paper serviettes, salt and pepper sets, key rings, music bags and metal boxes were added to the collection. In the spring of 2006, **UNITED**LABELS launched some more first-class products in the form of dinner plates, pasta plates and candlelights, which add a touch of class to any table setting.

These "Best of" products are sold worldwide in over 30 countries, although the porcelain collection is only available at selected POS. In Germany, **UNITED**LABELS AG increased the number of these points of sale to 270. The company's aim in the years ahead is to continue expanding this selective sales approach and the product range itself.

„Best of" in 30 countries – with 870 retail partners

Germany	England	Taiwan
Austria	Denmark	Russia
Switzerland	Finland	Belarus
Belgium	Sweden	Ukraine
Luxembourg	Norway	Kazakhstan
Netherlands	China	Turkey
France	Malaysia	South Africa
Spain	Singapore	Greece
Portugal	Australia	Slovenia
Italy	Japan	Lebanon

Best-of-Snoopy in the "Home Run" design

bowl

cup and saucer

music bag

salt and pepper set

milk jug

dinner plate

pasta plate

Our Shares

Successful trading in 2005

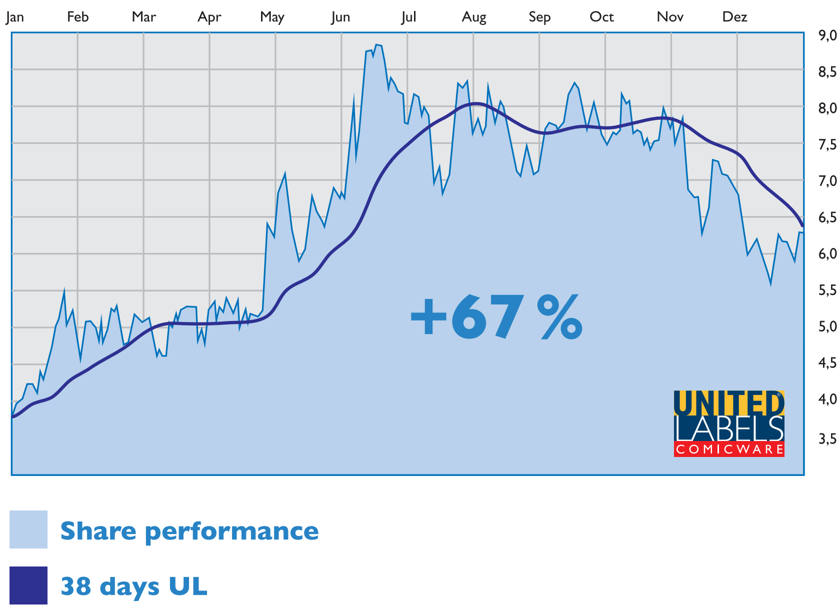
Overall, 2005 proved to be a successful year for German stocks. The SDAX share index performed particularly well, climbing by 36 %. It was closely followed by the MDAX, which recorded growth of 35 % in the period under review. The DAX increased by 27 % over the course of the year, thus finding a solid base beyond the 5,000 mark. The TecDax improved by 15 %. European stock markets had also climbed to record levels by the end of 2005.

Encouraging performance of **UNITED**LABELS' shares

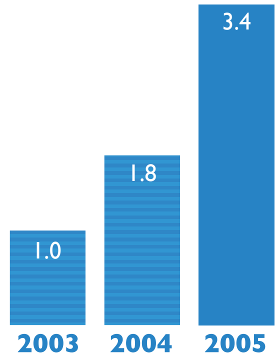
Shares in **UNITED**LABELS AG performed admirably over the course of 2005. As part of Xetra-based trading, the Company's share price increased by 67 %, thus outperforming Germany's benchmark indices. From a base of € 3.77 on January 3, 2005, **UNITED**LABELS' share price was propelled upwards to € 6.30 at December 30, 2005. The highest price was recorded on June 14, 2005, at € 8.93 (variable price, Xetra).

Trading volumes for **UNITED**LABELS shares doubled year on year in the period under review. In 2004, approx. 1.8 million units changed hands as part of Xetra and on-the-floor trading in Frankfurt. In contrast, the trading volumes were in excess of 3.4 million in 2005. This clearly reflects the growing appeal of the Company's investment case and the increase in **UNITED**LABELS' free float.

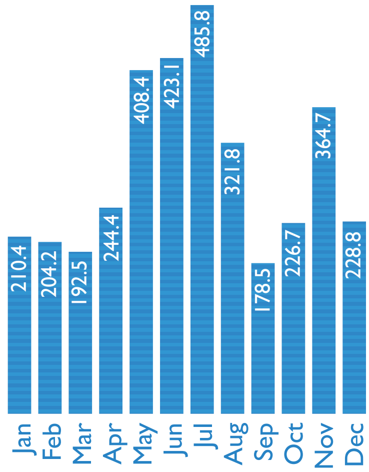
Performance of **UNITED**LABELS' shares in 2005 (Xetra, in €)



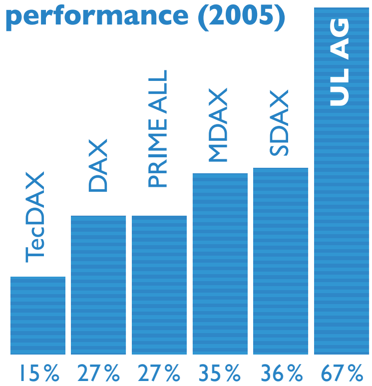
Trading volumes 2003–2005 (Xetra + Frankfurt, units)



Trading volumes 2005 (Xetra + Frankfurt, units)



Comparison of UNITEDLABELS' performance (2005)



First listing
May 10, 2000

Number of shares
4,200,000 no-par value shares

Free float
1,572,000 shares

ISIN-Code
DE 000 548 956 1

WKN
548 956

Ticker Symbol
ULC

Market segment
Prime Standard
Deutsche Börse

Shareholder structure

Peter M. Boder, CEO	62.6 %
Free float	37.4 %

Designated Sponsor
HSBC Trinkaus & Burkhardt KGaA

Capital increase broadens shareholder structure

In October 2005, **UNITED**LABELS AG performed an increase in capital from Authorised Capital by issuing 200,000 new no-par value bearer shares (Stückaktien governed by German law), with the exclusion of subscription rights. With the proceeds from this issuance, the company has established a solid position when it comes to financing its future growth. At the same time, the liquidity of shares within the marketplace has been increased. As a result of the share issuance, the Company's subscribed share capital increased from € 4,000,000 to € 4,200,000. The new shares will be furnished with full profit participation rights for the 2005 financial year and all subsequent years. The price per share was set at € 7.40, within the range specified in the Articles of Association. The new shares were placed entirely with institutional investors.

Strict transparency requirements in the Prime Standard

UNITEDLABELS AG's shares are listed in the Prime Standard of Deutsche Börse. In choosing this segment of the stock exchange, the Company has obliged itself to observe strict transparency standards. Listing requirements applicable within the Prime Standard include quarterly financial reporting in German and English, publication of a financial calendar, at least one analysts' meeting per annum and ad hoc announcements in German and English, as well as the additional listing requirements specified for the General Standard.

5th General Meeting of Shareholders

On May 18, 2005 **UNITED**LABELS AG held its fifth General Meeting of Shareholders in the German city of Münster. The Supervisory Board and Management Board welcomed around 320 shareholders and representatives of the press at Halle Münsterland, the venue of the meeting. The shareholder attendance figure at the point of voting was calculated as 71.07 %. This corresponded to 2,842,748 of shares furnished with voting rights.

All items on the agenda that were put to the vote were passed by shareholders. The Management Board and Supervisory Board actions associated with the 2004 financial year were approved by a substantial majority. Dr. Schumacher & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuer-beratungsgesellschaft, Münster, was appointed as the auditor and Group auditor for the 2005 financial year. With a large majority, the General Meeting of Shareholders also passed resolutions regarding the reversal of existing Authorised Capital, the creation of new Authorised Capital as well as the associated amendments to the Articles of Association. It also agreed to an amendment to the Articles of Association with regard to Supervisory Board compensation, other changes to the Articles of Association in connection with the government's proposed Act on Corporate Integrity and Modernisation of the Right of Avoidance (Gesetz zur Unternehmens-integrität und Modernisierung des Anfechtungsrechts – UMAG), as well as a resolution on the acquisition of own equity instruments (so-called treasury shares).

The 6th General Meeting of Shareholders will be held at Halle Münsterland, Münster/ Germany, on May 23, 2006. All relevant information as well as documents pertaining to proxy voting at the coming General Meeting of Shareholders are available online at www.unitedlabels.com in the Investor Relations/Annual General Meeting section.

Greater emphasis on Investor Relations

The Investor und Public Relations department of **UNITED**LABELS AG is responsible for the full range of activities associated with corporate communication. It operates as the key point of contact for all internal and external enquiries, delivering comprehensive and transparent information in a timely manner. The Company stepped up its Investor Relations activities in 2004, thus gradually raising awareness of its investment case, particularly with regard to institutional investors. These activities were restructured and taken to the next level in 2005, with the express purpose of meeting the need of the financial community and ensuring continued compliance with statutory requirements.

The management held a number of meetings with analysts and fund managers in the period under review, as well as with representatives of the financial press. It also showcased the Company's activities at two major analyst conferences in 2005. On June 21, 2005, **UNITED**LABELS AG took part in the 8th Baader Small- and Mid-Cap Conference in Unterschleißheim near Munich. On November 21, 2005, the Management Board represented the Company at the Deutsche Eigenkapitalforum in Frankfurt am Main.

All relevant information on **UNITED**LABELS's share performance can be accessed online at www.unitedlabels.com in the Investor Relations section. The Company published ad hoc announcements, press releases, financial reports as well as a financial calendar in a timely manner, both in German and as an English translation. In addition, shareholders are provided with information about the Company's latest share price as well as relevant details relating to the General Meeting of Shareholders, Corporate Governance and Directors' Dealings. Alongside Investor Relations news and statutory disclosures, the Company also publishes information about its operational activities and licences as well as information for its business partners.

Supervisory Board

There were no changes to the structure of the Supervisory Board.

Financial calendar 2006

March 15
Publication of financial statements 2005; annual results press conference in Münster

May 9
Publication of 3-Months' Report

May 23
6th Annual General Meeting in Münster

August 8
Publication of 6-Months' Report

November 7
Publication of 9-Months' Report

Corporate Governance Report

The German Corporate Governance Code contains nationally and internationally recognised standards of good and responsible corporate governance aimed and promoting the trust of investors in the management and supervision of listed German stock corporations. **UNITED**LABELS AG is committed to fostering and maintaining the confidence of its shareholders, customers, suppliers, employees and the general public by embracing the idea of openness and transparency. It is for this reason that **UNITED**LABELS AG complies with the majority of recommendations set out in the German Corporate Governance Code.

At their meeting held in November the Supervisory Board and Management Board discussed extensively the amended version of the German Corporate Governance Code, subsequently issuing the Declaration of Conformity of December 2005 based on the aforementioned deliberations. The Declaration of Conformity is presented at the end of this chapter and can also be accessed online at www.unitedlabels.com in the Investor Relations/Corporate Governance section.

Two-tier board structure

The German Stock Corporation Act includes provisions that require **UNITED**LABELS AG to operate a two-tier board structure, comprising a Management Board and a Supervisory Board. Within this two-tier system, the duties of corporate management and corporate supervision are performed by two completely separate bodies. The structure of management and supervision implemented by **UNITED**LABELS AG consists of one Management Board member and three Supervisory Board members. Both the Management Board and the Supervisory Board act in accordance with the principles of proper corporate governance.

The Management Board

The Management Board of the company is the body responsible for directing the Group and consists of one member. It is bound by the interests of the company and is obliged to pursue sustainable growth in company value. It determines the company's strategy, which also encompasses the subsidiaries. The Management Board is responsible for overseeing compliance with statutory provisions and for ensuring observance of these regulations by the Group companies. For the benefit of the company, the Management Board works in close cooperation with the Supervisory Board. It consults with the Supervisory Board on the strategic positioning of the company and discusses the status of strategy implementation with the Supervisory Board in regular intervals. The Management Board informs the Supervisory Board, comprehensively, regularly and on a timely basis, about all issues that are of relevance to the company with regard to corporate planning, the course of business, exposure to risks as well as risk management. Within this context, the Management Board furnishes information pertaining to possible deviations of business performance from specified targets and forecasts, which includes explanations as to possible causes. Management Board reports as well as documentation required for the purposes of decision-making, in particular the financial statements, consolidated financial statements and audit report, are forwarded to the members of the Supervisory Board in a timely manner, generally eight days, prior to meetings.

The Supervisory Board

The Supervisory Board appoints the members of the Management Board and represents the company in its dealings with the latter. It advises the Management Board and monitors its activities associated with the governance of the company, as well as participating in all significant corporate transactions for which Supervisory Board authorisation is required. It discusses the course of business, corporate planning and strategic management on a regular basis. As part of its regular meetings, the Supervisory Board focuses its attention on information furnished on a monthly basis as well as details outlined in quarterly reports. It examines the annual financial statements of **UNITED**LABELS AG, the annual consolidated financial statements and the management report for the Group and the company in consultation with the independent auditor, as well as assessing the findings of the Audit Committee. It subsequently decides on their adoption and approval.

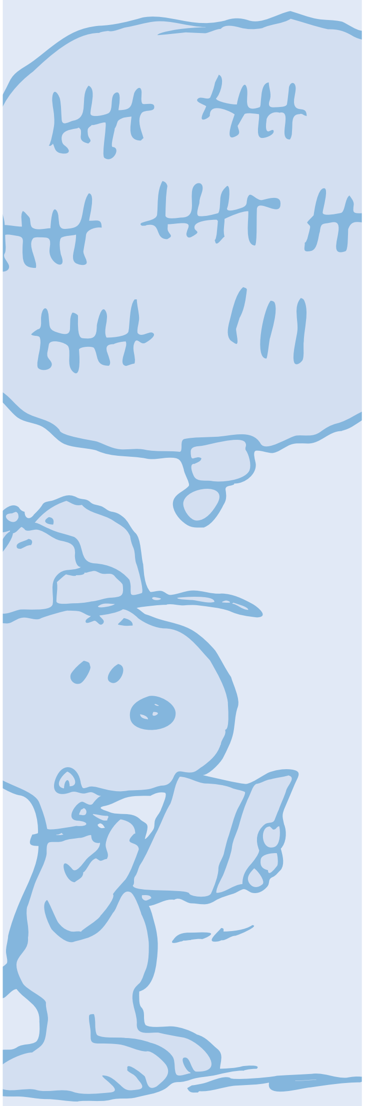
The Supervisory Board has formed an Audit Committee in accordance with the recommendations of the German Corporate Governance Code. The Audit Committee consists of two members of the Supervisory Board. The Supervisory Board has ascertained that the Chairman of the Audit Committee possesses specialist expertise and experience when it comes to applying accounting standards and methods of internal controlling. In particular, the Audit Committee addresses issues relating to accounting and risk management, the necessary independence required of the auditor, the determination of auditing focal points and the fee arrangement with the auditor.

Management Board and Supervisory Board compensation

The Management Board receives a fixed salary as well as a variable, performance-based bonus calculated as a percentage of consolidated net profit before taxes, graded according to the successful attainment of targets. At the 2005 Annual General Meeting, Supervisory Board compensation was adjusted in line with the provisions set out in the German Corporate Governance Code. Supervisory Board compensation comprises a fixed component as well as a variable component calculated on the basis of consolidated net profit. The Chairman of the Supervisory Board receives double the amount of fixed-component Supervisory Board compensation. The members of the Audit Committee receive additional fixed compensation; the Chairman receives double the amount.

Shareholdings of the Management Board and the Supervisory Board

The members of the Supervisory Board hold the following shares:
Prof. Dr. Helmut Roland holds 5,728 shares and Mr. Michael Dehler 441 shares. No shares are held by Dr. Jens Hausmann.
The Chairman of the Management Board, Mr. Peter M. Boder, holds 2.63 million shares in the company.



Share transactions by the Management Board and Supervisory Board

Pursuant to Section 15a of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG), the members of the Management Board and the Supervisory Board, as well as related parties, are legally obliged to inform the company of any acquisition or disposal of securities relating to **UNITED**LABELS AG. Within this context, acquisitions and disposals in excess of €5000 per calendar year are subject to disclosure. In 2005, **UNITED**LABELS AG was informed of the following transactions:

Date	Name	Function	Type of Security	ISIN	Trans-action	Total amount	Price	Remarks
10.01.2005	Peter M. Boder	Member of governing body	**UNITED**LABELS-shares	DE0005489561	Disposal	20,000	3.80 €	Placement with institutional investor
25.04.2005	Peter M. Boder	Member of governing body	**UNITED**LABELS-shares	DE0005489561	Disposal	20,000	4.75 €	Placement with institutional investor
31.10.2005	Peter M. Boder	Member of governing body	**UNITED**LABELS-shares	DE0005489561	Disposal	100,000	7.40 €	The shares were placed with institutional investors in order to satisfy demand within the framework of the capital increase

All share transactions were also published on the corporate website at www.unitedlabels.com, Investor Relations/Directors' Dealings section.

Investor Relations

In total, **UNITED**LABELS AG issues four reports to shareholders, informing them of its course of business as well as its financial position, financial performance and cash flows. The Annual General Meeting of Shareholders takes place within the first five months of the financial year. For further information relating to the Investor Relations activities of **UNITED**LABELS AG, please refer to the section entitled "Our Shares".

Corporate Governance on the Internet

The current as well as the previous Declarations of Conformity issued in connection with the German Corporate Governance Code have been made permanently available on the Internet and can be accessed via the corporate website at www.unitedlabels.com, Investor Relations/Corporate Governance section.

Declaration of Conformity

Declaration issued by the Management Board and Supervisory Board of **UNITED**LABELS Aktiengesellschaft pursuant to Section 161 of the Stock Corporation Act (Aktiengesetz - AktG) with regard to the German Corporate Governance Code in the version of June 2, 2005. The Management Board and Supervisory Board of **UNITED**LABELS Aktiengesellschaft hereby declare that the Company complied and continues to comply with the recommendations of the Commission of the German Corporate Governance Code, as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette. The Management Board and the Supervisory Board of **UNITED**LABELS Aktiengesellschaft shall continue to observe the recommendations set out in the German Corporate Governance Code.

At present, the following recommendations are not being applied:

1. Para. 4.2.1:

   The Management Board shall be comprised of several persons and have a Chairman or Spokesman. Terms of Reference shall regulate the allocation of areas of responsibility and the cooperation in the Management Board.

The recommendations have not been implemented. The Management Board of **UNITED**LABELS Aktiengesellschaft is comprised of one member. The Supervisory Board continues to be of the general opinion that appointing a second Management Board member would be apposite. Insofar as at least one additional Management Board member is appointed, the Management Board shall be furnished with a Chairman or Spokesman as well as Terms of Reference (i.e. rules of procedure) that specify the assignment of responsibilities and the basis of collaboration within the Management Board.

2. Para. 5.4.1:

   An age limit shall be specified for members of the Supervisory Board.

The Company has not specified such an age limit for members of the Supervisory Board. Any resolutions relating to an age limit shall be passed by the General Meeting of Shareholders. This item will be placed on the agenda of the next General Meeting of Shareholders.

3. Para. 5.6:

   The Supervisory Board shall examine the efficiency of its activities on a regular basis.

In the case of long-term mandates, the Supervisory Board is generally of the opinion that the self-assessment of efficiency levels based on predefined criteria is apposite. Taking into consideration the two-year tenure pursuant to Section 7 (2) of the Articles of Association, the Supervisory Board is not of the opinion that an examination of efficiency as set out in the Corporate Governance Code is necessary at this moment in time. Insofar as members of the Supervisory Board are re-elected for an additional period in office, a new decision shall be made as to the necessity of an efficiency assessment, taking into consideration any experience gained with regard to this new instrument of self-supervision. Since issuing the last Declaration of Conformity in December 2004, the Company has conformed with the Code in the version of May 21, 2003, with the exception of the deviations from the recommendations relating to paragraphs 4.2.1, 4.2.3, 4.2.4, 5.4.1, 5.4.5 and 5.6.

The Management Board | The Supervisory Board

Financial Statements

Financial Statements

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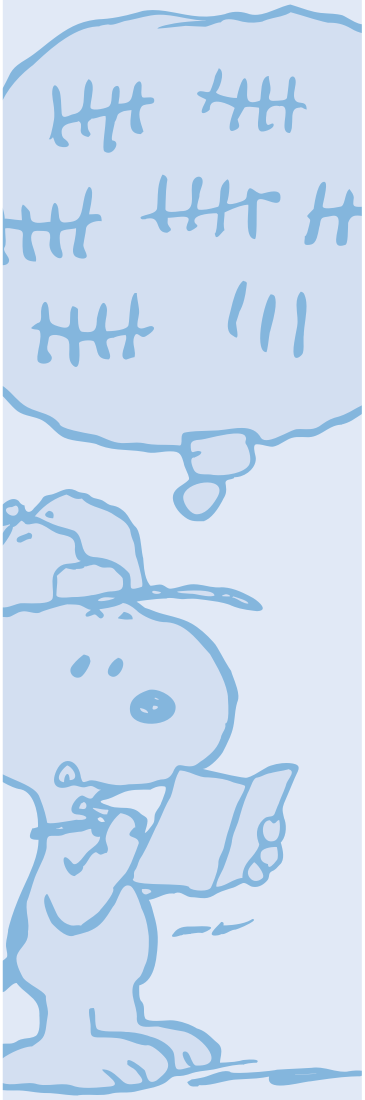
The full financial statements of the parent company are archived at **UNITED**LABELS AG in Münster and can be viewed upon request.



UNITEDLABELS Aktiengesellschaft, Münster

Company and Group Management Report for FY 2005

General economic conditions

According to data published by the Statistisches Bundesamt, Germany's gross domestic product (GDP) grew by 0.9% (price-adjusted) in 2005. Thus, economic momentum was less pronounced than in 2004 (+1.6%). Having said this, 2005 had fewer working days than the previous year. Having accounted for these calendar-related effects, GDP growth stood at 1.1%, thus emulating the performance in 2004. In 2005, economic growth was driven mainly by exports. Based on Statistisches Bundesamt figures, private consumption stagnated at the same level recorded in 2004. The disposable income of private households increased by 1.4%.

According to the Statistisches Bundesamt, nominal revenue generated by Germany's trading sector as a whole increased by 1.2% compared with 2004, while real year-on-year growth amounted to 0.7%. Within this context, the non-food retail segment recorded real year-on-year revenue growth of 0.4%. Based on figures published by Eurostat, the EU 25 retail sector grew by 0.1% in the second quarter of 2005. Within the euro zone, retail trading revenue declined by 0.3%.

Sector trends

The market for products sold under licence remained buoyant. Worldwide sales generated with licensed products amounted to USD 107.3 billion in 2004 (2003: USD 107.9 billion). However, there were significant regional differences. While the US/Canada region and Japan had to contend with a decline of 1.3% and 4.0% respectively, revenue generated through licensed products in Western Europe rose by 1.4% to USD 24.5 billion. Recording an increase of 10.7%, Eastern Europe took pole position in terms of growth.

Committed to its European strategy, **UNITED**LABELS is currently operating in a market that has grown considerably over recent years. Moreover, Western Europe is the second-largest market for license revenues within the areas of Entertainment/Character (source: The Licensing Letter. Copyright 2005 EPM Communications, Inc.).

According to data published by the International Licensing Industry Merchandisers' Association (LIMA) in its "Licence Market Germany" study for 2004, domestic trading revenue generated with goods and services amounted to approx. USD 1.2 billion calculated on the basis of end consumer prices. At the time this annual report went to press, data for 2005 had not yet been published.

The apparel category continues to be the key revenue driver for retailers and wholesale operators. According to the LIMA study, apparel is also the most significant product category in Germany as regards licensed merchandise sold within the so-called Character segment (Entertainment/TV/Movie). Overall, apparel ranks as **UNITED**LABELS' key revenue driver, followed by soft toys and giftware.

In 2005, Snoopy, Disney – particularly the Disney princesses and Winnie The Pooh –, The Simpsons and Sesame Street remained the most popular and successful licences within the European and German market. These classics were joined by characters such as SpongeBob SquarePants and Madagascar.

A substantial volume of new animated series and movies is likely to be produced in the coming years. As a result, new cartoon characters will appear, some of whom may even achieve cult status, thus driving demand for licensed merchandise.

Revenues and orders

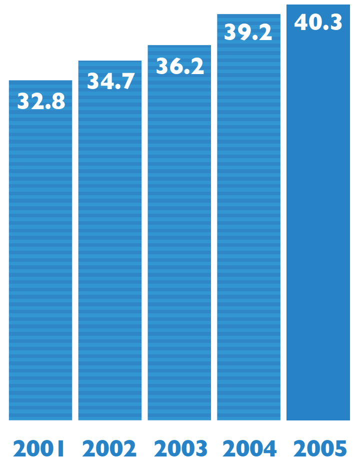
Sales performance

Consolidated sales increased to €40.3 million in 2005 (FY 2004: €39.2 million). This corresponds to growth of 2.8% compared with the previous financial year. Growth within this area is attributable to higher sales from domestic Key Accounts (+ €1.2 million), with a particular emphasis on food retailers. As a result, the proportion of revenue generated through customers based in Germany increased from 40% to 42% of total sales, while the share of foreign sales contracted slightly from 60% to 58%. In absolute terms, however, foreign sales remained stable.

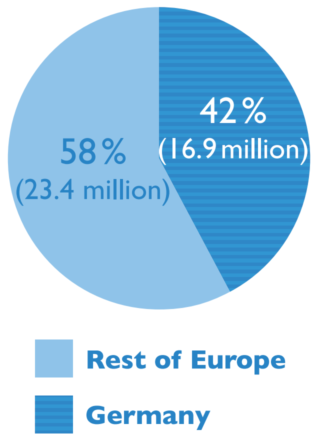
Key Account sales in relation to total consolidated sales increased to 75% (FY 2004: 72%). This clearly reflects the growing trend towards large-floorspace operators.

The proportion of Special Retail sales contracted from 28% to 25%, which corresponds with a decline of €0.7 million; in Germany alone revenues from Special Retail operators declined from €2.9 million to €2.4 million. In response to this trend, **UNITED**LABELS AG has implemented a realignment of its Special Retail segment in Germany. By focusing on key customers operating within this segment and by introducing new concepts, improved delivery schedules and significant cost reductions, the Company intends to enhance earnings in the Special Retail segment over the course of the 2006 financial year.

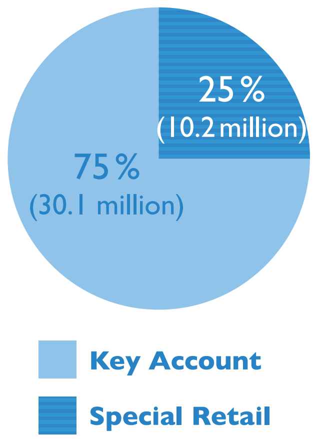
Past sales performance (in €m)



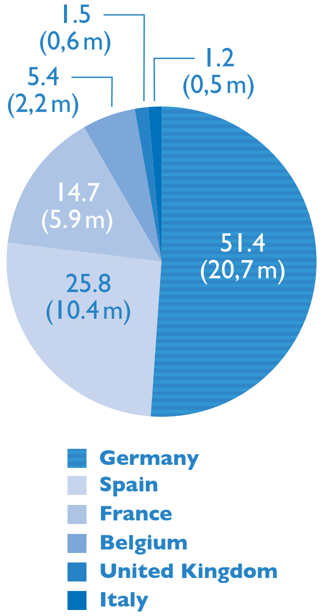
Breakdown of UNITEDLABELS sales in Europe for 2005 in % (€)



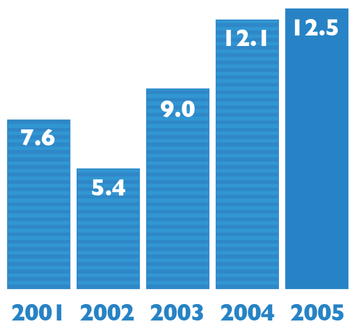
Breakdown of sales in 2005 for key accounts and special retail in % (€)



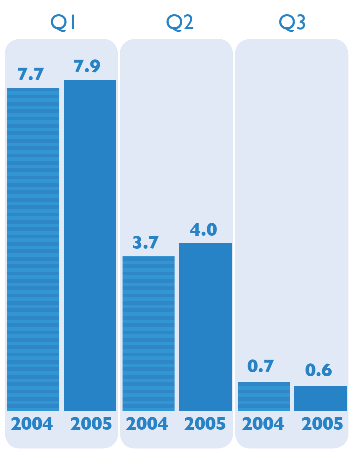
Breakdown of sales by company (consolidated) in % (€)



Overview of order backlog at Dec. 31 (in €m)



Breakdown of order backlog at Dec. 31 (in €m)



UNITEDLABELS AG itself, i.e. the parent company, generated €20.7 million (FY 2004: €20.4 million), or 51% (FY 2004: 52%), of consolidated revenues. Within this context, revenues formerly generated in the United Kingdom, amounting to €303 thousand, were transferred to the newly established UK subsidiary.

The proportion of sales attributable to **UNITED**LABELS Ibérica, Spain, amounted to 26% (FY 2004: 27%). The French-based subsidiary **UNITED**LABELS France contributed 15% (FY 2004: 18%) to consolidated revenues. The Belgian subsidiary, Colombine, increased its share of consolidated revenues to 5% (FY 2004: 3%). The newly established subsidiaries in the United Kingdom and Italy recorded a total share of 3% in their abridged financial year.

Order backlog

The order backlog, i.e. the level of orders on hand, as at December 31, 2005, was €12.5 million (FY 2004: €12.1 million). This represents an increase of 3.3%. The breakdown of our total order backlog is as follows: €7.9 million for Q1 2005 (FY 2004: €7.7 million), €4.0 million for Q2 2005 (FY 2004: €3.7 million) and €0.6 million for Q3 2005 (FY 2004: €0.7 million).

Financial performance

Earnings

UNITEDLABELS recorded a consolidated net profit of €0.8 million in the 2005 financial year (FY 2004: €0.8 million).

In terms of segments, earnings generated through Key Account business increased to €2.0 million (FY 2004: €1.8 million). The Special Retail segment registered a loss of €0.6 million in 2005 (FY 2005: loss of €0.3 million).

Group earnings before interest and taxes (EBIT) amounted to €1.4 million (FY 2004: €1.5 million).

As regards the separate financial statements of the parent company **UNITED**LABELS AG, Münster, net profit for the period under review amounted to €0.5 million (FY 2004: €0.2 million), while the loss before interest and taxes stood at €0.3 million (FY 2004: loss of €0.4 million). Reconciliation from EBIT to net profit is dominated mainly by a dividend payment of **UNITED**LABELS Ibérica in the amount of €0.7 million (FY 2004: €0.5 million).

Cost of sales

The cost of sales, which mainly comprises expenses relating to materials, transportation, customs and licences, totalled €25.2 million in the financial year under review (FY 2004: €25.4 million). This resulted in an improvement in the cost-of-sales ratio by 2.2 percentage points to 62.5%, compared with 64.7% a year ago. In particular, we were able to generate higher margins within our Key Account business, benefiting from cross-product marketing activities for individual themes. In view of these developments, high-margin products will continue to play a pivotal role in our Key Account business.

Total cost of sales includes inventory write-downs of €0.4 million (FY 2004: €0.6 million).

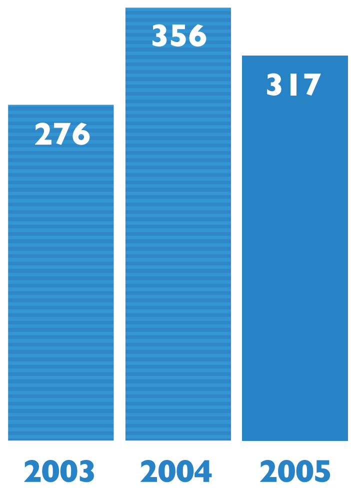
Staff costs

Staff costs in relation to sales increased from 12.8% to 14.0%. In absolute terms, costs rose from €5.0 million to €5.6 million. This was attributable to the recruitment of new sales staff as well as a core team for the recently established UK-based subsidiary **UNITED**LABELS Ltd.

The average headcount was 116, compared with 114 a year ago. At December 31, 2005, 127 members of staff were employed within the Group (FY 2004: 110).

Revenue per employee totalled €317 thousand (FY 2004: €356 thousand).

Revenue per employee (in € '000)



Other operating expenses

The percentage share of other operating expenses increased from 17.1% to 19.7%. Expressed in absolute terms, costs rose to €7.9 million (FY 2004: €6.7 million). This increase is associated, among other things, with the newly established subsidiaries in the UK and Italy.

Depreciation and amortisation

Depreciation and amortisation expense decreased significantly from €1.1 million to €0.6 million. This was due to changes to International Financial Reporting Standards, on the basis of which goodwill is no longer subject to systematic amortisation, an item which had previously accounted for €0.5 million in expense per annum.

Financial Position and Cash Flows

ASSETS

At the balance sheet date, the Group had at its disposal cash and bank deposits of € 3.5 million (FY 2004: € 3.7 million).

Trade receivables decreased from € 12.8 million to € 11.5 million as a result of period-end adjustments.

Of total inventories in the amount of € 9.3 million (FY 2004: € 7.9 million), 31% (€ 2.8 million; FY 2004 31%, € 2.4 million) was attributable to Spain, 68% (FY 2004: 69%) to Germany (€ 6.4 million; FY 2004 € 5.5 million) and 1% (€ 0.1 million) to the newly established subsidiary in the UK, **UNITED**LABELS Ltd. Compared with the previous year, this represents an increase in gross inventories of 17%, or € 1.4 million.

Net merchandise inventories (total inventories less goods already sold) amounted to € 7.6 million in the period under review (FY 2004: € 7.5 million), thus remaining virtually unchanged year on year.

Prepaid expenses declined from € 3.0 million to € 2.5 million. This item includes € 2.1 million (FY 2004: € 2.7 million) in prepaid licence fees. The reduction was attributable mainly to improvements in contractual terms and conditions, with payment schedules being adjusted in line with the actual development of license costs.

The balance sheet item "property, plant and equipment" encompasses land and commercial buildings (€ 2.9 million), technical equipment and machinery (€ 0.1 million) as well as furniture, fixtures and office equipment (€ 1.1 million). In 2005, **UNITED**LABELS AG purchased land for the future expansion of its own logistical activities.

Intangible assets comprise industrial property rights amounting to € 0.3 million, as well as goodwill totalling € 7.6 million. The breakdown of goodwill is as follows: **UNITED**LABELS Ibérica S.A. (€ 2.6 million), **UNITED**LABELS Belgium N.V. (€ 3.2 million) and **UNITED**LABELS AG (€ 1.8 million). In accordance with IFRS, impairment tests are carried out once a year; the carrying amounts are adjusted if applicable. No adjustments to the carrying amounts were required in the 2005 financial year.

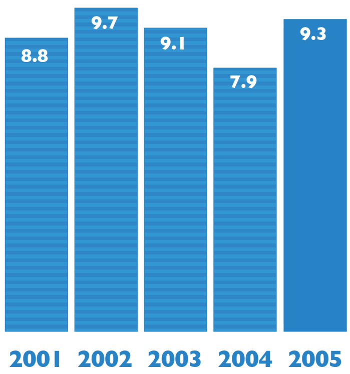
LIABILITIES AND EQUITY

Short-term and long-term bank borrowings amounted to €5.2 million (FY 2004: € 4.9 million). The purchase of land in Germany was financed by means of a low-interest building loan totalling € 1.1 million.

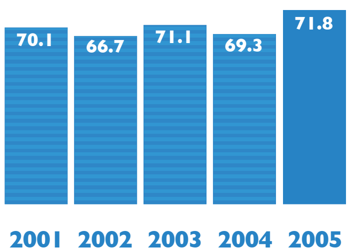
Trade receivables fell from € 5.2 million to € 4.7 million as a result of period-end adjustments.

Current provisions decreased slightly year on year. Sufficient amounts have been allocated to provisions.

Overview of inventories (in €m)



Overview of equity ration (in %)



Other current liabilities include payables attributable to invoices outstanding (€ 0.5 million), licence payments (€ 0.3 million) as well as other liabilities (€ 0.9 million). In total, this item amounted to € 1.7 million in 2005 (FY 2004: € 1.7 million).
At the balance sheet date, Group equity stood at € 32.0 million (FY 2004: € 29.8 million). Correspondingly, the equity ratio increased to 71.8 % (FY 2004: 69.3 %).
In October 2005, subscribed capital was increased by a nominal € 200,000 through the issuance of new shares.

Total assets amounted to € 44.5 million (FY 2004: € 43.0 million).

Cashflow

Group cash flow from operating activities totalled € 12 thousand (FY 2004: € 1.2 million). This was attributable mainly to the start-up of business at the newly established subsidiaries in the UK and Italy, as well as the increase in the carrying amount of inventories due to period-end adjustments.
The purchase of land by **UNITED**LABELS AG for a consideration of € 1.1 million was financed by a building loan in the same amount.

Cash and cash equivalents declined slightly by € 0.2 million to € 3.5 million (FY 2004: € 3.7 million).

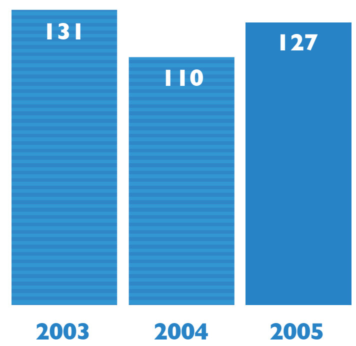
Licences

The portfolio of licences held by the **UNITED**LABELS Group at December 31, 2005, encompassed 65 licence agreements (FY 2004: 64), spanning a range of different categories and countries.
The licence portfolio is regularly extended to incorporate new themes with significant growth potential. In 2005, new licence agreements included "Disney Accessories", "Family Guy", "Garfield", "Ice Age 2", "Little Red Tractor", "Over The Hedge", "Pucca", "Spider-Man" and "Totally Spies". In addition, the licence for "The Simpsons" was extended to include soft toys.

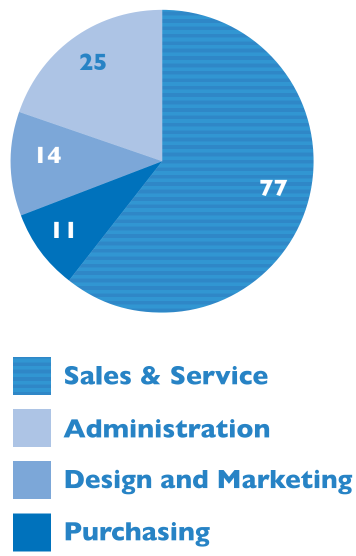
Employees

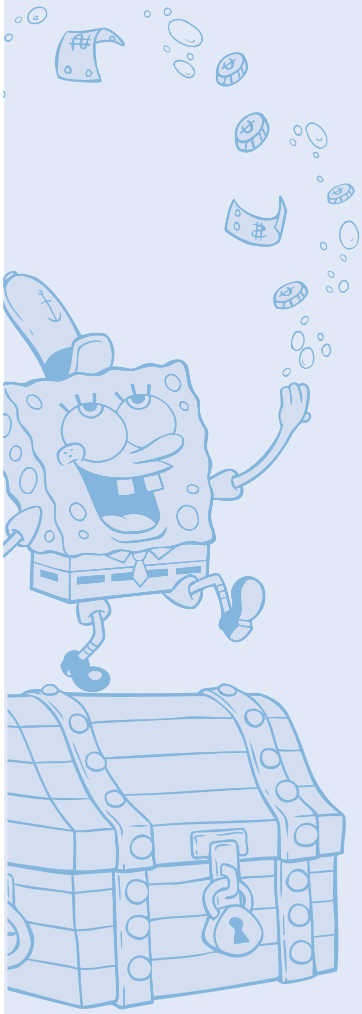
At December 31, 2005, 127 members of staff were employed throughout the Group (FY 2004: 110). In the period under review **UNITED**LABELS AG employed 69 members of staff (FY 2004: 63), Colombine Belgium 9 members of staff (FY 2004: 6), **UNITED**LABELS France 7 members of staff (FY 2004: 4) and **UNITED**LABELS Ibérica 34 members of staff (FY 2004: 37). At the end of the period under review, **UNITED**LABELS Ltd. had 9 members of staff, while our Italian subsidiary had one full-time employee.
At 116, the average headcount was slightly higher than a year ago (FY 2004: 114).

Headcount Dec. 31, 2005



Staff structure Dec. 31, 2005





Performance of subsidiaries

UNITEDLABELS Ibérica, Spain, generated revenue of € 11.3 million in the period under review (FY 2004: € 11.9 million). Net profit for the year amounted to € 0.2 million (FY 2004: € 0.8 million). Whereas the year-on-year change in revenue was attributable to lower intragroup sales, the decline in earnings was associated with fierce price competition in the fourth quarter of 2005.

In Belgium, Colombine managed to propel sales upwards by almost 100% to € 2.2 million in the period under review (FY 2004: € 1.2 million). Within this context, net profit grew faster in relation to sales, totalling € 0.9 million at the end of the reporting period (FY 2004: € 0.4 million). For the first time, Colombine generated higher sales in its Key Account segment than in the Special Retail category. Net profit included a dividend of **UNITED**LABELS France amounting to € 0.3 million (FY 2004: € 0.1 million).

UNITEDLABELS France generated sales of € 5.9 million in 2005 (FY 2004: € 6.9 million). By focusing on higher margin business, the subsidiary was able to emulate last year's performance, posting a net profit of € 0.3 million (FY 2004: € 0.3 million) and achieving a profit margin of 4.8%.

Established in April 2005, **UNITED**LABELS Ltd., UK, generated sales of € 0.6 million in its abridged financial year, posting a net loss of € 0.5 million. The UK-based company focuses on Key Account business, which is generally characterised by substantial lead times.

UNITEDLABELS Italia Srl., based in Florence, was established in March 2005. In its abridged financial year, the company generated sales of € 0.5 million and posted a break-even result. The company focuses entirely on the Italian specialist retail sector. Distribution is handled via freelance sales representatives.

Risk report

A significant proportion of merchandise purchases is effected in US dollars. Although suitable hedging instruments are currently in place, it is impossible to eliminate totally the risk of increased cost of sales as a result of long-term exchange rate fluctuations. At the balance sheet date, forward exchange contracts amounted to USD 1.7 million.

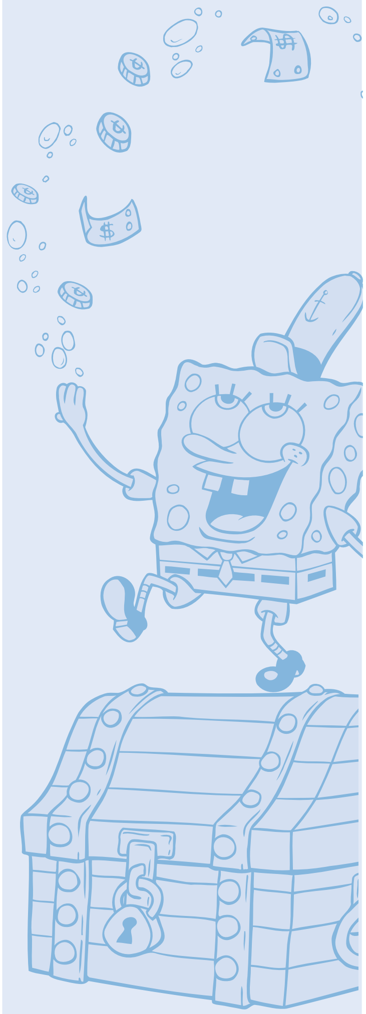
As a licensee, **UNITED**LABELS utilises third-party proprietary rights. Although close, long-term business relationships have been established with the Group's key licensors, it is possible that certain licence agreements will not be extended. This may have an adverse effect on the Group's revenue and earnings performance.

In addition to the risks outlined above, other risks generally associated with commercial activities, such as risks relating to price fluctuations, bad debt and liquidity, are captured by a specially developed risk management system and updated on a continual basis. The risk management system mainly consists of a mechanism aimed at identifying risks at an early stage, assessing the extent of such risks and the probability of their occurrence, as well as initiating suitable countermeasures.

Significant events in the financial year

For the purposes of expanding the Group's European sales activities, **UNITED**LABELS established **UNITED**LABELS Italia Srl., Italy, in March 2005 and **UNITED**LABELS Ltd., UK, in April 2005. The Italian subsidiary will be focusing on the specialist retail sector, while the UK-based subsidiary will be targeting its business at the key account segment. **UNITED**LABELS has thus built a network of companies spanning Europe's key markets for products sold under licence, which includes Germany, Italy, the United Kingdom, Spain, France and the Benelux region.

In October, the Management Board of **UNITED**LABELS AG, with the consent of the Supervisory Board, decided on an increase in capital from Authorised Capital by issuing 200,000 new no-par value bearer shares ("Stückaktien" governed by German law), with the exclusion of subscription rights. The capital increase was executed on October 13, 2005, with the issuance of 200,000 new no-par value bearer shares at an issue price of € 7.40 per share. The Company's share capital thus increased from € 4,000,000 to € 4,200,000. The new shares are furnished with full profit participation rights for the 2005 financial year and all subsequent years. They were placed entirely with institutional investors. The proceeds from the issuance of new shares will be channelled into financing future growth and raising the free-float level. Following the capital increase and subsequent stock placements, free float increased from 31.8% (1,272,000 shares) to 37.4% (1,572,000 shares).



Related-party disclosure

In addition to his 62.6% interest in **UNITED**LABELS AG, Peter M. Boder has a 100% shareholding in Facility Management Münster GmbH. Facility Management Münster GmbH maintains business contacts with **UNITED**LABELS AG. There is no control or profit transfer agreement between the aforementioned entities. Pursuant to Section 312 AktG (German Stock Corporation Act), the Management Board of **UNITED**LABELS AG has provided a related-party disclosure. The Management Board concluded the disclosure report by issuing the following statement: "The Management Board hereby states that, according to the circumstances known to me at the time of the transaction, **UNITED**LABELS AG received appropriate compensation, on the basis of quid pro quo, for any such transaction. There were no occurrences within the reporting period that would require disclosure."

Events after the balance sheet date

There were no significant events requiring disclosure after the financial year 2005.

Business Development and Outlook

Demand for comicware sold under licence is as buoyant as ever. It is further enhanced by the formidable presence of cartoon characters established in movies, on the internet, in video games and in mobile content, as well as by the gradual expansion of children's television. The uninterrupted, cross-border appearance of cartoon characters in various media is the best possible advertisement for products sold by **UNITED**LABELS. Before being marketed as comicware products within the retail sector, the licence themes selected by our Company have already proven their popularity in cinemas and on television. The high level of product recognition and the close affinity with the characters featured on this merchandise will continue to translate into steady, reliable customer demand in the future.

The most substantial growth rates recorded by **UNITED**LABELS over the past years have been in the Key Account segment. This clearly reflects the current trend in the retail sector, which has been witnessing a steady shift from specialist retailing towards large-floorspace operations. This has been in evidence not only in Germany but also, in varying degrees, within other European regions. Within this context, the key to successful marketing of licensed products is access to shelf space.
At present, **UNITED**LABELS offers key account customers four marketing concepts. Cross-product concept marketing is designed to provide retail and wholesale partners with all-embracing themes that cover a wide range of products. As part of the "my comicworld" display concept, **UNITED**LABELS assumes responsibility for servicing its own shelf space within the store. This approach is designed to speed up product placement at the point of sale.

Based on the NOS concept (Never-Out-of-Stock), **UNITED**LABELS is able to guarantee a year-round presence of its merchandise in retail shelves.
The strategy of one-off promotional business with a single product or a small range of merchandise is targeted at marketing high-impact items for a limited period of time.

Supported by these tailor-made concepts, **UNITED**LABELS is able to fulfil the specific requirements of its retail and wholesale partners, while at the same time securing valuable shelf space. The objective is to step up activities in all four areas and to accelerate growth with the help of more frequent and more extensive product listings.

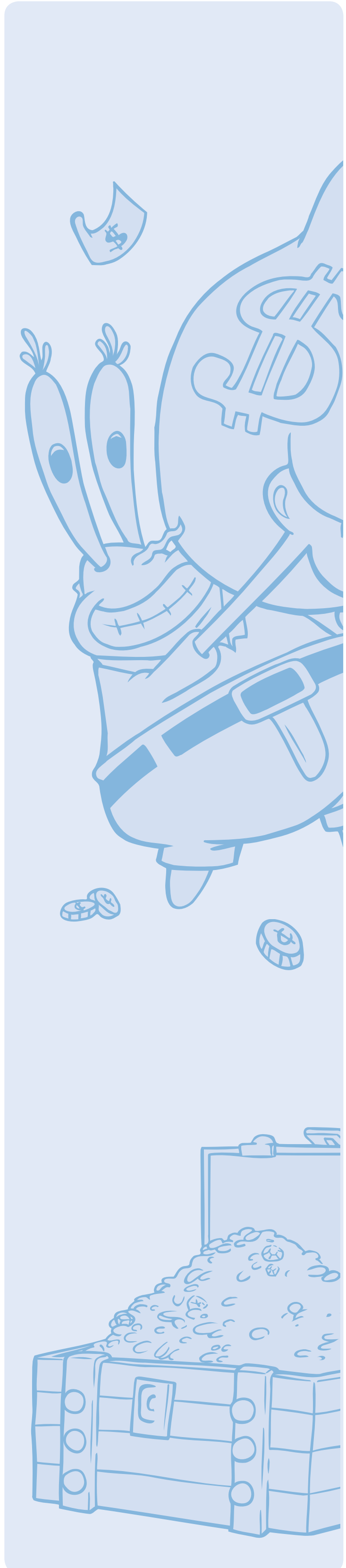
Within the Special Retail segment, the portfolio on offer is geared towards more unusual, premium-price products. Within this area, **UNITED**LABELS is looking to enhance its merchandise presence, optimise the product range and implement new licence solutions within the lifestyle category. We intend to respond to the challenges facing Germany's specialist retailers by pursuing the approach outlined above, by focusing on display concepts that are tailored to the needs of specialist retailers and by concentrating on key customers. In addition, we remain thoroughly committed to the selective sales approach chosen for the "Best of" premium brand as well as the extension of our chinaware collection. Supported by these measures, the Special Retail segment is to be guided back towards profitability in the coming year.

UNITEDLABELS AG has established an outstanding base position from which to expand its share of the market in a sector characterised by continued growth. By focusing on comicware, we have created a tailor-made product offering for mass-market and specialist retailers. In doing so, we have also channelled our resources into high-growth, high-profit segments of the market – with our sights set on increasing **UNITED**LABELS' value.

Münster, February 2006

UNITEDLABELS Aktiengesellschaft
The Management Board

Peter M. Boder



Consolidated Balance Sheet as at 31 December 2005

ASSETS

	Index	31.12.2005 €	31.12.2004 €
Current assets			
Cash and bank deposits		3,458,234.83	3,696,731.07
Trade receivables		11,528,411.90	12,761,269.71
Inventories	C.1.	9,030,885.26	7,855,798.91
Prepayments for inventories		239,235.70	33,909.50
Tax receivables		608,884.29	294,447.83
Prepaid expenses	C.2.	2,539,223.01	2,990,390.16
Other current assets	C.3.	1,767,885.61	1,383,767.06
Total current assets		**29,172,760.60**	**29,016,314.24**
Non-current assets			
Property, plant and equipment	C.4.	4,118,683.09	2,629,003.89
Intangible assets	C.4.	296,344.78	383,585.78
Goodwill	C.4.	7,583,216.45	7,583,216.45
Deferred tax assets	C.5.	3,362,792.54	3,362,792.54
Total non-current assets		**15,361,036.86**	**13,958,598.66**
Total assets		**44,533,797.46**	**42,974,912.90**

Consolidated Balance Sheet as at 31 December 2005

LIABILITIES AND EQUITY

	Index	31.12.2005 €	31.12.2004 €
Current liabilities			
Short-term payables to banks	C.6.	3,810,914.33	4,404,992.58
Trade payables	C.6.	4,706,541.91	5,221,900.81
Current provisions	C.7.	79,276.13	218,529.75
Tax liabilities	C.6.	599,501.33	965,705.38
Other current liabilities	C.6.	1,672,648.69	1,657,936.34
Total current liabilities		**10,868,882.39**	**12,469,064.86**
Non-current liabilities			
Provisions for pensions	C.7.	292,867.68	254,323.20
Long-term payables to banks	C.6.	1,407,775.42	473,293.35
Other non-current liabilities	C.6.	0.00	0.00
Total non-current liabilities		**1,700,643.10**	**727,616.55**
Capital and reserves	C.8.		
Issued capital		4,200,000.00	4,000,000.00
Capital reserves		24,384,570.63	23,151,558.29
Revenue reserves		2,883,209.63	2,380,385.55
Currency translation		(16,612.11)	0.00
Consolidated unappropiated surplus		513,103.82	246,287.65
Total capital and reserves		**31,964,271.97**	**29,778,231.49**
Total liabilities and equity		**44,533,797.46**	**42,974,912.90**

Consolidated Income Statement for the period from 1 January to 31 December 2005

	Index	2005 €	2004 €
1. Sales revenues	D.1.	40,272,550.83	39,201,168.97
2. Other operating income	D.2.	350,900.47	495,173.03
		40,623,451.30	**39,696,342.00**
3. Cost of materials			
a) Expenditure on goods purchased		(21,328,566.38)	(20,857,804.85)
b) Expenditure on services purchased		(3,821,594.39)	(4,521,727.18)
4. Personnel cost			
a) Wages and salaries		(4,703,414.03)	(4,156,447.16)
b) Social insurance contributions and expenditure on old-age provision and on support		(923,766.89)	(856,661.81)
- of which for old-age provision: € 77,888.00			
5. Depreciation of intangible fixed assets and tangible assets	D.3.	(564,294.27)	(1,084,718.77)
6. Other business expenditure	D.4.	(7,923,552.70)	(6,685,813.30)
7. Other interest and similar income		90,298.38	115,693.62
8. Interest and similar expenditure		(377,673.89)	(364,061.72)
9. Result from ordinary activities		**1,070,887.13**	**1,284,800.83**
10. Taxes on income and earnings	D.5.	(253,926.08)	(457,000.85)
11. Other taxes		(47,320.80)	(42,237.39)
12. Net income for the year		**769,640.25**	**785,562.59**

Earnings per share	2005	2004
basic	0.19 €	0.20 €
diluted	0.19 €	0.19 €
Weighted average shares outstanding		
basic	4,033,333 pieces	4,000,000 pieces
diluted	4,033,333 pieces	4,042,850 pieces

Cashflow Statement

	2005 T€	2004 T€
Consolidated net profit for the year	770	786
Depreciation and amortisation of non-current assets	564	1,085
Change in provisions	(101)	103
Other non-cash expenses	32	77
Loss on the disposal of non-current assets	9	3
Changes in inventories, trade receivables and other assets not attributable to investing or financial activities	(395)	(2,009)
Changes in trade payables and other liabilities not attributable to investing or financial activities	(867)	1,146
Cashflow from operating activities	**12**	**1,191**
Proceeds from the disposal of property, plant and equipment	0	9
Payments for investments in non-current assets	(1,976)	(223)
Cashflow from investing activities	**(1,976)**	**(214)**
Proceeds from capital increases	1,402	0
Proceeds from financial loans/repayment of financial loans	339	183
Cashflow from financing activities	**1,741**	**183**
Net cash change in cash and cash equivalents	(223)	1,160
Currency translation	(16)	0
Cash and cash equivalents at the beginning of the period	3,697	2,537
Cash and cash equivalents	**3,458**	**3,697**
Gross debt bank	5,219	4,878
Net debt bank	1,761	1,181
Composition of cash and cash equivalents		
Cash in hand	**3,458**	**3,697**

Consolidated Statement of Changes in Equity

	Subscribed capital € '000	Capital reserves € '000	Revenue reserves € '000	Translation reserve € '000	Consolidated unappropriated surplus € '000	Total € '000
Balance at 31.12.2003	**4,000**	**23,151**	**1,841**	**0**	**0**	**28,992**
Consolidated net profit 2004	0	0	539	0	246	785
Balance at 31.12.2004	**4,000**	**23,151**	**2,380**	**0**	**246**	**29,777**
Capital increase on Oct. 14, 2005	200	1,280	0	0	0	1,480
Share issuance costs of capital increase	0	(78)	0	0	0	(78)
Tax effect on share issuance costs of capital increase	0	31	0	0	0	31
Currency translation	0	0	0	(16)	0	(16)
Consolidated net profit 2005	0	0	503	0	267	770
Balance at 31.12.2005	**4,200**	**24,384**	**2,883**	**(16)**	**513**	**31,964**

UNITEDLABELS **Aktiengesellschaft, Münster**

Notes to the Consolidated Financial Statements for FY 2005

A. General Information

1. General Information about the Company

UNITEDLABELS Aktiengesellschaft has its registered office in Münster, Germany. The Company focuses on the development and marketing of licensed products associated with international cartoon characters (so-called "comicware"). As an enterprise within the product categories "Apparel", "Gifts" and "Soft Toys", the Company creates designs and develops products, which, upon authorisation by the licensor, are manufactured predominantly in Asia and marketed in Europe. To a lesser extent, the Company also develops and markets its own licences. In mid-2003, the Company introduced a product range with worldwide marketing rights.

2. Basis of preparation (IFRS/IAS) and statement of compliance

The consolidated financial statements and the Group management report and management report of **UNITED**LABELS Aktiengesellschaft have been prepared in accordance with internationally accepted accounting standards, on the basis of the International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB) and applicable at the balance sheet date.

Material differences between the accounting policies and consolidation methods specified by IFRS/IAS and German law relate mainly to leasing, deferred taxes, costs of equity transactions, financial instruments and provisions for post-employment benefits.

Goodwill is not subject to systematic amortisation. If applicable, impairment losses are recognised as part of annual impairment testing. In accordance with IAS 17, property, plant and equipment that are subject to lease agreements are recognised as assets and liabilities in the balance sheet if the lease agreement transfers to the entities within the **UNITED**LABELS Group all the risks and rewards incident to ownership. Deferred tax assets are recognised in connection with the carryforward of tax losses to the extent that it is probable that they can be utilised. Costs of equity transactions are accounted for as a deduction from equity, in contrast to the method of accounting for costs in net profit or loss under HGB regulations. Financial instruments are covered by the provisions of IAS 39. Post-employment benefits are accounted for on the basis of IAS 19.

The financial years of all consolidated enterprises included in the consolidated financial statements end on December 31, 2005, and essentially the preparation of the separate annual financial statements has been performed using consistent accounting policies for the group enterprises. The financial statements are presented in euros.

In preparing the consolidated financial statements in conformity with IFRS, the Management Board is required to make estimates and assumptions that affect the reported amounts of assets and liabilities/equity, the data contained within the Notes as well as the amounts disclosed in the income statement. It is possible that these assumptions and estimates may not coincide with actual occurrences.

3. Basis of consolidation

a) Scope of consolidation

In accordance with regulations governing the scope of consolidated financial statements, in addition to **UNITED**LABELS Aktiengesellschaft as the parent company the following enterprises are included in the consolidated financial statements as at December 31, 2005, as subsidiaries controlled by **UNITED**LABELS Aktiengesellschaft:

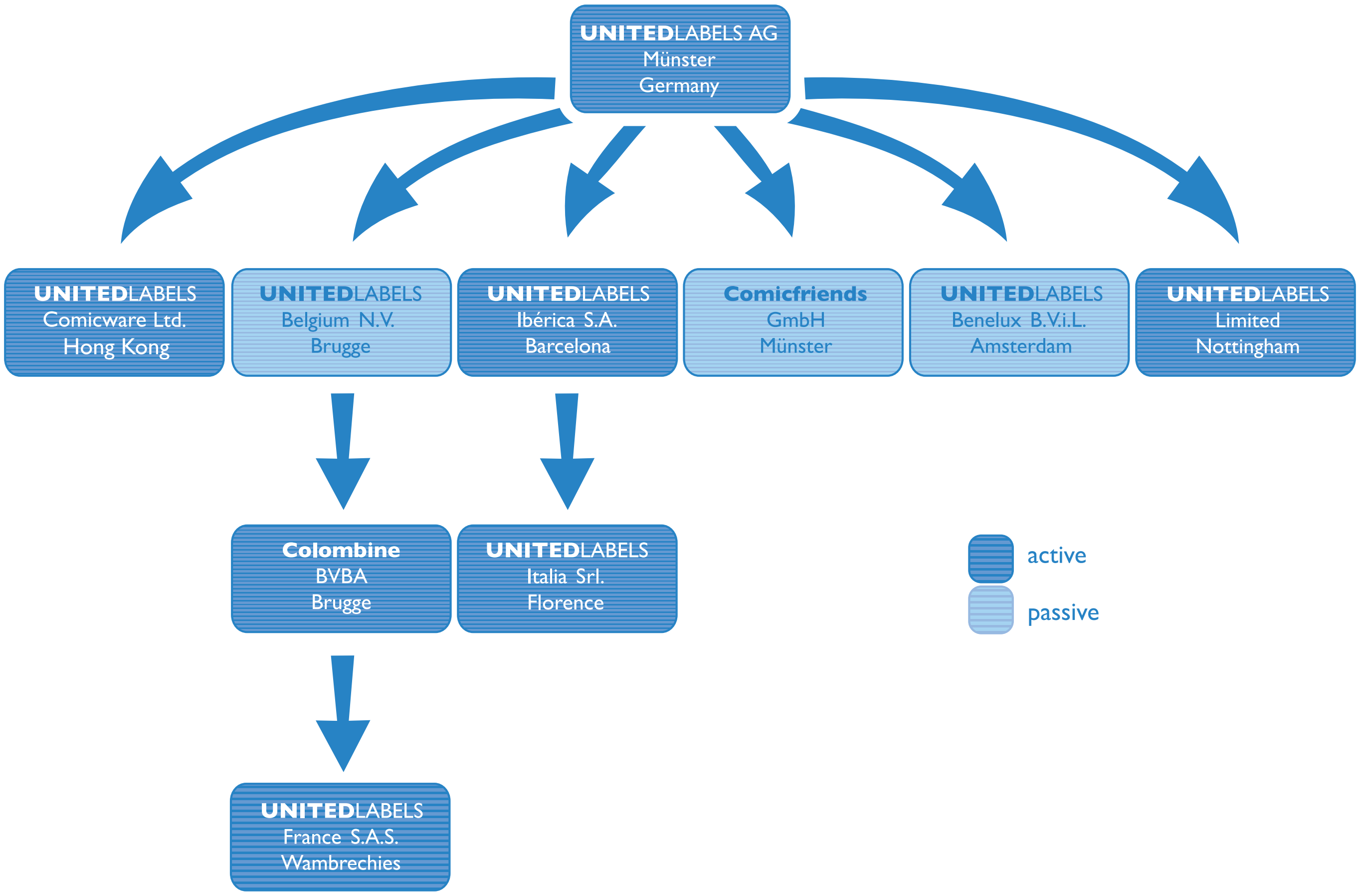
Company	Ownership Interest	Period that enterprise is included in consolidated financial statements
UNITEDLABELS Benelux B.V.i.L., Amsterdam, Netherlands	100,000 %	01.01-31.12.2005
UNITEDLABELS Ibérica S.A., Barcelona, Spain	100,000 %	01.01.-31.12.2005
as its wholly owned subsidiary		
UNITEDLABELS Italia Srl., Florence, Italy	100,000 %	09.03.-31.12.2005
UNITEDLABELS Belgium N.V., Brugge, Belgium	99,999 %	01.01.-31.12.2005
as its wholly owned subsidiary		
Colombine BVBA, Brugge, Belgium	100,000 %	01.01.-31.12.2005
as its wholly owned subsidiary		
UNITEDLABELS France SAS, Wambrechies, France	100,000 %	01.01.-31.12.2005
UNITEDLABELS Ltd., Nottingham, U.K.	100,000 %	20.04.-31.12.2005
UNITEDLABELS Comicware Ltd., Hong Kong	100,000 %	01.01.-31.12.2005
Comicfriends GmbH, Münster, Germany	100,000 %	01.01.-31.12.2005

UNITEDLABELS Italia Srl., Italy, and **UNITED**LABELS Ltd., United Kingdom, were newly established in 2005.

In addition, **UNITED**LABELS Ibérica S.A., Spain, has an 0.001 % interest in **UNITED**LABELS Belgium N.V., Belgium, as well as a fiduciary interest in **UNITED**LABELS Comicware Limited, Hong Kong.

Since August 2004, **UNITED**LABELS Benelux B.V. has been in liquidation; the business activities were taken over by Colombine BVBA, Belgium.

Group Structure at 31 December 2005



Key financials of main operational subsidiaries (non-consolidated)

(in € '000)	**UNITED** LABELS Ibérica S.A., Spain		**UNITED** LABELS France SAS, France		Colombine BVBA, Belgium		**UNITED** LABELS Ltd., U.K.	**UNITED** LABELS Italia Srl. Italy
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2005**
Revenue	11,315	11,930	5,930	6,877	2,232	1,252	592	478
Cost of sales	6,792	7,013	4,260	5,370	1,325	731	389	255
Margin	4,523	4,917	1,670	1,507	907	521	203	223
Margin %	40.0	41.2	28.2	21.9	40.6	41.6	34.3	46.7
EBITDA	861	1,444	513	588	593	453	(403)	11
EBIT	557	1,135	476	549	540	399	(417)	5
Net profit/(loss)	227	762	285	330	878	397	(426)	1
Key Facts & Figures								
Employees (average)	35	36	7	6	8	7	6	1
Revenue per employee (in € '000)	323	331	847	1,146	279	179	99	478
Order backlog (in € '000)	994	1,517	31	689	177	106	530	24
Inventories (in € '000)	2,845	2,438	0	0	0	0	93	0
Trade receivables (in € '000)	4,447	4,811	2,729	4,055	1,378	625	239	291
Cash and bank deposits (in € '000)	441	776	67	380	55	121	189	14
Payables to banks (in € '000)	3,647	4,273	0	0	34	46	0	50

The result for Colombine BVBA includes a dividend payment by **UNITED**LABELS France SAS in the amount of € 330 thousand.

B. Summary of Significant Accounting Policies

1. Basis of revenue recognition

The income statement was prepared on the basis of the nature of expense method. Revenue was recognised upon delivery of the goods.

2. Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment were measured at acquisition or manufacturing costs, less systematic amortisation and depreciation based on usage. Amortisation/depreciation was calculated according to the straight-line method. The depreciable amount of an asset is based on calculations provided by tax depreciation tables, which specify the useful life of the asset. Low-value items with acquisition costs under €410.00 were expensed in full at the time of acquisition, in line with the IFRS principle of materiality. Expenditure on research and development was recognised as an expense.

3. Goodwill

Goodwill was carried at cost; until the preceding financial year it was carried at cost less any accumulated amortisation and any accumulated impairment losses recognised in accordance with IAS 36. Pursuant to IAS 36, impairment testing for goodwill is only carried out once a year; impairment losses are recognised if applicable.

4. Inventories

Merchandise was measured at cost, including associated costs directly attributable to the purchase. Unsaleable merchandise was written down accordingly. Measurement of inventories was performed in accordance with IAS 2. Prepayments were carried on the basis of the prepaid amount.

5. Receivables and other assets

Accounts receivable and other assets were measured at their nominal values. Recognisable risks were sufficiently accounted for on an item-by-item basis. In addition, a general allowance for doubtful accounts was recognised.

6. Provisions

Provisions for post-retirement benefits were accounted for in accordance with IAS 19. Within this context, an interest rate of 4.5% (FY 2004: 6%) was applied. Future increases in salaries were accounted for with an interest rate of 2.5%, and an interest rate of 2.0% was applied as regards future increases in pensions. Claims from a reinsurance policy were offset with the provisions for post-retirement benefits.

Provisions for taxes and other provisions take into account all recognisable risks and obligations of the Group, and the amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

7. Liabilities

Liabilities are carried at the total amount payable.

8. Currency translation

The financial statements of the foreign subsidiaries have been prepared in the respective local currency, or in euros. Assets and liabilities were translated into euros at the applicable closing rate, while equity was accounted for on the basis of the historical rate. Translation of income and expense items was performed on the basis of the average annual exchange rates. All resulting exchange differences have been classified as equity. The financial statements of the subsidiary in Hong Kong, as an integrated foreign entity, have also been prepared in euros, while the financial statements of **UNITED**LABELS Ltd., United Kingdom, have been prepared in British pounds. Accounts receivable and payable in foreign currency were translated at the closing rate in compliance with the "Imparitätsprinzip" (principle of imparity).

9. Principles of consolidation

Business combinations were accounted for by applying the purchase method, based on the cost or fair value at the date of acquisition or founding. The excess of the cost of acquisition over the acquirer's interest in the fair value was recognised as goodwill. Pursuant to IFRS 3 in conjunction with IAS 36, effective from the 2005 financial year goodwill is no longer subject to systematic amortisation. Instead, goodwill is tested for impairment once a year. Intragroup receivables and liabilities have been offset. There were no differences attributable to offsetting. Intragroup sales and intragroup income were offset against the respective expenses. Unrealised profits resulting from intragroup transactions were eliminated.

10. Currency risks

Standard foreign exchange forward contracts were entered into for the purpose of hedging against currency risks associated with payment obligations denominated in foreign currencies. The aforementioned contracts were not used for speculative purposes. Changes in the value of current forward contracts were accounted for in net profit or loss.

C. Notes to individual items of the consolidated balance sheet

1. Inventories

Of the total inventories amounting to € 9,270 thousand (FY 2004: € 7,890 thousand), 31 % (€ 2,846 thousand; FY 2004 31 %, € 2,438 thousand) were attributable to the storage location in Spain, 68 % (FY 2004 69 %) to the storage location in Germany (€ 6,331 thousand; FY 2004 € 5,451 thousand) and 1 % (€ 93 thousand) to the newly established subsidiary **UNITED**LABELS Ltd. in the UK. Compared with the 2004 financial year, this represents an increase in inventories of 17 % or € 1,380 thousand.

The net merchandise inventory (total inventories less goods already sold) amounted to € 7,550 thousand in FY 2005 (FY 2004: € 7,515 thousand) and thus remained virtually unchanged year on year.

2. Prepaid expenses

This item mainly includes advance licence payments in the amount of € 2,148 thousand (FY 2004: € 2,666 thousand).

3. Other current assets

This item mainly includes receivables from the factoring agency in Germany and creditors with debit balances.

4. Non-current assets

The categorisation and development of non-current assets is shown in the following fixed assets schedule.

Gross Fixed Assets Schedule

Fixed Assets Schedule for FY 2005

	Acquisition or Manufacturing Costs				
	Balance at 01.01.2005 €	Reclassifications €	Additions €	Disposals €	Balance at 31.12.2005 €
I. Intangible assets					
1. Concessions, industrial property rights and similar rights and values, as well as licences thereto	1,047,028.50	7,500.00	81,366.58	0.00	1,135,895.08
2. Goodwill	9,779,375.22	0.00	0.00	0.00	9,779,375.22
3. Prepayments	7,500.00	(7,500.00)	0.00	0.00	0.00
	10,833,903.72	**0.00**	**81,366.58**	**0.00**	**10,915,270.30**
II. Property, plant and equipment					
1. Land and leasehold rights and buildings, including buildings on third-party land	2,217,402.05	0.00	1,308,770.92	0.00	3,526,172.97
2. Technical equipment and machinery	479,798.40	0.00	1,589.77	0.00	481,388.17
3. Other plant, operating and office equipment, furniture and fixtures	2,794,964.19	0.00	553,228.50	(238,564.72)	3,109,627.97
4. Prepayments and assets under construction	0.00	0.00	30,647.06	0.00	30,647.06
	5,492,164.64	**0.00**	**1,894,236.25**	**(238,564.72)**	**7,147,836.17**
	16,326,068.36	**0.00**	**1,975,602.83**	**(238,564.72)**	**18,063,106.47**

Accumulated depreciation/amortisation					Net Value	
Balance at 01.01.2005 €	Reclassifications €	Additions €	Disposals €	Balance at 31.12.2005 €	Balance at 31.12.2005 €	Balance at 31.12.2004 €
670,942.72	0.00	168,607.58	0.00	839,550.30	296,344.78	376,085.78
2,196,158.77	0.00	0.00	0.00	2,196,158.77	7,583,216.45	7,583,216.45
0.00	0.00	0.00	0.00	0.00	0.00	7,500.00
2,867,101.49	**0.00**	**168,607.58**	**0.00**	**3,035,709.07**	**7,879,561.23**	**7,966,802.23**
585,264.82	0.00	81,918.85	0.00	667,183.67	2,858,989.30	1,632,137.23
323,774.45	0.00	36,765.18	0.00	360,539.63	120,848.54	156,023.95
1,954,121.48	0.00	277,002.66	(229,694.36)	2,001,429.78	1,108,198.19	840,842.71
0.00	0.00	0.00	0.00	0.00	30,647.06	0.00
2,863,160.75	**0.00**	**395,686.69**	**(229,694.36)**	**3,029,153.08**	**4,118,683.09**	**2,629,003.89**
5,730,262.24	**0.00**	**564,294.27**	**(229,694.36)**	**6,064,862.15**	**11,998,244.32**	**10,595,806.12**

Goodwill was calculated as follows

	2005 € '000	2004 € '000
Balance at 01.01.	7,582	8,072
Amortisation	0	(490)
Balance at 31.12.	**7,582**	**7,582**

This includes goodwill associated with the corporate acquisitions of Colombine BVBA in the amount of € 3.2 million and **UNITED**LABELS Ibérica S.A. in the amount of € 2.6 million. Pursuant to IFRS 3 in conjunction with IAS 36, effective from FY 2005 goodwill accounted for at Group level is no longer subject to systematic amortisation. Impairment testing is performed once a year and may result in the recognition of impairment losses for goodwill.

In accordance with IAS 36, the impairment tests are performed for defined cash-generating units, which are contained within the segments Special Retail and Key Account. Within this context, the recoverable amount of the cash-generating units is determined by means of the fair value less costs of disposal or value in use. The fair value represents the best-possible estimate of the amount obtainable from the sale of the cash-generating units in an arm's length transaction between knowledgeable and willing parties at the balance sheet date. The fair value is determined on the basis of a company valuation method. The calculations are based on corporate forecasting covering a period of three years. These forecasts are based on past experience as well as expectations regarding future market development. The inflation-induced growth rate at the end of the three-year forecasting period was set consistently at 2 %. The discount rate is 15 %. No write-downs were necessary in the period under review.

5. Deferred taxes

The deferred tax assets in the amount of € 3,363 thousand (FY 2004: € 3,363 thousand) comprise an amount of € 3,298 thousand (FY 2004: € 3,312 thousand) for the carryforward of unused tax losses as well as an amount of € 65 thousand (FY 2004: € 51 thousand) for temporary difference between the carrying amounts in the IFRS balance sheet and the tax base.

Please also refer to the explanations given regarding income tax expense.

6. Liabilities

The type and scope of liabilities are presented in the following schedule:

	Total 2005 € '000	Repayment Schedule up to 1 year € '000	more than 5 years € '000	Secured amounts € '000	Type of security	Total 2004 € '000	up to 1 year € '000
1. Payables to banks	5,219	3,811	611	1,488	Land charges	4,878	4,405
2. Trade payables	4,707	4,707	0	0		5,222	5,222
3. Other liabilities	2,272	2,272	0	0		2,623	2,623
	12,198	**10,790**	**611**	**1,488**		**12,723**	**12,250**

In the previous financial year, there were no liabilities with a repayment schedule in excess of 5 years.

The trade receivables are associated with standard reservations of title.

"Other liabilities" include € 142 thousand (FY 2004: € 107 thousand) in liabilities relating to social security.

"Other liabilities" also include the remaining payment obligation associated with the acquisition of Colombine BVBA, Belgium, amounting to € 102 thousand in total. Furthermore, this item comprises liabilities attributable to licences in the amount of € 340 thousand (FY 2004: € 515 thousand), liabilities relating to invoices outstanding in the amount of € 529 thousand (FY 2004: € 533 thousand) and social liabilities, e.g. holiday pay, Berufsgenossenschaft (employee's industrial compensation society) and bonuses, totalling € 318 thousand (FY 2004: € 402 thousand).

7. Provisions

There is a retirement benefit obligation of € 457 thousand (FY 2004: € 379 thousand) towards a member of the Management Board in connection with performance-related pension obligations. Claims from a reinsurance policy in the amount of € 164 thousand (FY 2004: € 125 thousand) were offset with the provisions for post-retirement benefits. In accordance with IAS 19, provisions for post-retirement benefits are measured using the benefit/years of service method (also referred to as the projected unit credit method) for the purposes of actuarial valuation, taking into account future developments. A discount rate of 4.5 % (FY 2004: 6.0 %) was applied as part of the projected unit credit method. Future increases in salaries were accounted for with a rate of 2.5 % (FY 2004: 2.5 %), while future increases on pensions were accounted for with a rate of 2.0 % (FY 2004: 2.0 %). The unrecognised actuarial losses are attributable mainly to changes in the valuation parameters, e.g. the rate of interest applied, and are expected to balance out again in the long term.

Reconciliation to reported provisions is as follows:	31.12.2005 € '000	31.12.2004 € '000
Present value of the obligation	1.007	557
Asset value of reinsurance obligation	(164)	(125)
Unrecognised actuarial losses	(550)	(178)
Provisions for pensions and similar obligations	**293**	**254**

The composition of provisions for pensions is as follows:	31.12.2005 € '000	31.12.2004 € '000
Current service cost	39	38
Interest cost	33	31
Amortisation of losses	6	7
Provisions for pensions and similar obligations	**78**	**76**

Provisions developed as follows in the period under review:

	Balance at 01.01.2005 € '000	Reversed € '000	Utilised € '000	Provisions made € '000	Balance at 31.12.2005 € '000
Pension provisions	254	0	0	39	293
Other provisions	219	(40)	(100)	0	79
	473	**(40)**	**(100)**	**39**	**372**

"Other provisions" mainly include provisions for contingent losses attributable to licence agreements (€61 thousand; FY 2004: €141 thousand). "Other provisions" are of a current nature.

8. Capital and reserves

As at December 31, 2005, the share capital of the Company amounted to €4,200,000, divided into 4.2 million no-par value bearer shares (”Stückaktien“ governed by German law). On May 18, 2005, the General Meeting of Shareholders passed a resolution to increase by May 17, 2010, the Company’s share capital, subject to the consent of the Supervisory Board, in one of more stages by up to a total of € 2,000 thousand, through the issue of no-par value ordinary shares (so-called ”Stückaktien“ governed by German law) (Authorised Capital I). The increases in capital can occur through cash contributions and/or contributions in kind.

The Management Board availed itself of this authorisation with the consent of the Supervisory Board and agreed a capital increase of € 200 thousand. It was executed on October 13, 2005, by issuing 200,000 new no-par value bearer shares at an issue price of € 7.40 per share. The Articles of Association were amended accordingly, and the Management Board is now authorised to increase the Company’s share capital, in one or more stages in the period up to May 17, 2010, by up to € 1,800 thousand through the issue of new no-par value bearer shares (”Stückaktien“ governed by German law), subject to the consent of the Supervisory Board (Authorised Capital I).

The resolution passed by the General Meeting of Shareholders on April 3, 2000, with regard to the conditional increase in share capital by up to € 300 thousand remains in effect. The conditional capital increase is designed to safeguard the granting of options as part of the stock option plans. The capital increase in connection with so-called Conditional Capital will only be effected insofar as the holders of options exercise their rights.

The capital reserve amounts to € 24,384 thousand (FY 2004: € 23,151 thousand). The increase is due to the issuance of capital executed on October 13, 2005. The capital reserve comprises all amounts paid by investors in excess of the par value of shares, less withdrawals.

The effects of currency translation associated with foreign subsidiaries are accounted for in equity.

Changes in revenue reserves and the consolidated unappropriated surplus (Group Bilanzgewinn, also referred to as net retained earnings) are reported in the consolidated statement of changes in equity. The unappropriated surplus reported for **UNITED**LABELS AG and the unappropriated surplus reported for the Group are identical as a result of changes in revenue reserves. The comparative figures for the preceding year have been adjusted accordingly.

9. Financial instruments

Foreign exchange forward contracts are entered into for the purpose of hedging against currency risks. The notional volume of existing forward contracts at the balance sheet date was € 1,392 thousand (USD 1,730 thousand), while the fair value was € 1,457 thousand. Changes in the value of current derivatives are recognised in net profit or loss and are included in other assets.
The remaining maturities are less than one year.

The notional volume represents the amount from which the payments are derived. The fair value corresponds to the amount that **UNITED**LABELS Aktiengesellschaft would have to pay or would receive at the balance sheet if the hedge transaction were terminated.

10. Other financial obligations and contingent liabilities

Significant financial obligations are presented below:

	Total 2005 € '000	Total 2004 € '000
Contractual obligations for the purchase of license rights	2,068	1,478
Orders to suppliers	3,782	3,941
Leasing agreements	323	234
Rental agreements	915	922
	7,088	**6,575**

Of these obligations, an amount of € 6,295 thousand (FY 2004: € 5,957 thousand) is due within one year.

The liabilities arising from non-cancellable operating lease agreements for non-capitalised leased assets amount to € 323 thousand (FY 2004: € 234 thousand) (due within one year: € 153 thousand; due within one to five years: € 170 thousand) and are on the basis of multiple-year lease agreements, mainly stipulating the return of the leased asset, or to a lesser extent, the transfer of the asset at the end of the lease term. Other operating expenses contain leasing fees amounting to € 123 thousand (FY 2004: € 76 thousand).

Other equipment, furniture and fittings, and office equipment include capitalised assets related to finance lease agreements (generally with the option to purchase at book value) in the amount € 124 thousand (FY 2004: € 163 thousand). The repayment obligation amounts to € 95 thousand (FY 2004: € 103 thousand) (due within one year: € 48 thousand; due within one to five years: € 47 thousand) and is carried under "other liabilities".

11. Cashflow statement

The cash flow statement reports cash flows of the Group over the course of the financial year. Within this context, cash flows are classified by operating, investing and financing activities (IAS 7).

The cash outflows for income taxes paid and refunded amounted to € 354 thousand, while those for interest payments and interest received amounted to € 288 thousand.

12. Segment reporting

Segment reporting covers "Special Retail" and "Key Account".

Segment data derived from internal reporting was as follows:

in € '000	**2005**		**2004**	
	Special Retail	**Key Account**	**Special Retail**	**Key Account**
Sales revenue	10,187	30,087	10,848	28,352
Segment expenditure	(10,801)	(28,115)*	(11,139)	(26,528)*
Segment result	**(614)**	**1,972**	**(291)**	**1,824**
Financial result	-287		(248)	
Result on ordinary activity	**1.071**		**1,285**	
Taxes	-301		(500)	
Net profit	**770**		**785**	
Total assets (in € millions)	10.6	16.3	10.9	15.5
Inventories (in € millions)	6.5	2.8	6.6	1.3
Debt (in € millions)	1.4	4.9	1.5	5.4

Within the area of "Administration" € 17.6 million (FY 2004: € 16.6 million) was attributable to total assets and € 6.2 million (FY 2004: € 6.3 million) to debt.

* These include net administrative expenses of € 4,178 thousand (FY 2004: € 4,418 thousand).

D. Notes to Individual Items of the Consolidated Income Statement

1. Revenue

Sales revenue has been divided into "Germany" and the "Rest of Europe".

	Revenue 2005		Revenue 2004	
Country	**€ '000**	**in %**	**€ '000**	**in %**
Germany	16,908	42	15,676	40
Rest of Europe	23,365	58	23,525	60
	40,273	**100**	**39,201**	**100**

2. Other operating income

This item mainly includes income from exchange differences in the amount of € 111 thousand (FY 2004: € 88 thousand) as well as insurance compensation totalling € 47 thousand (FY 2004: € 20 thousand).

3. Depreciation and amortisation of property, plant and equipment, and intangible assets

This item declined by € 521 thousand compared with the previous financial year. The lower carrying amount was attributable to changes in IFRS regulations. The figure reported in FY 2004 included systematic amortisation expense of € 490 thousand in connection with goodwill. Effective from the 2005 financial year, goodwill is no longer subject to systematic amortisation. Instead, impairment tests are performed once a year, resulting in the recognition of so-called impairment losses if applicable.

4. Other operating expenses

Other operating expenses mainly include distribution costs amounting to € 3,161 thousand (FY 2004: € 2,596 thousand), trade fair expenses of € 439 thousand (FY 2004: € 357 thousand) and rental expense totalling € 1,095 thousand (FY 2004: € 948 thousand). The remaining expenses consist of general administrative and operating expenses.

5. Income tax expense

Income tax expense is calculated as follows:

	2005 € '000	2004 € '000
Current tax expense	254	380
Deferred tax expense	0	77
Total income tax expense	**254**	**457**

Based on the consolidated result before income taxes, income tax expense can be calculated as follows:

	2005 € '000	2004 € '000
Consolidated result before income taxes	1,024	1,243
Applicable tax rate	39.65 %	39.65 %
Expected tax expense	406	493
Difference to foreign tax on income	(51)	(73)
Tax effect on non-deductible expenses	42	121
Tax effect on non-taxable income	(144)	(150)
Tax effect of goodwill amortisation	0	77
Tax effect attributable to utilisation of tax loss carryforwards not previously recognized	(244)	(194)
Tax effect of loss carryforwards for which no deferred tax assets were recognized in the current period	245	183
Effective tax expense	**254**	**457**
Effective tax rate	**24.8 %**	**36.8 %**

The applicable tax rate of 39.65 % used to calculate expected tax income is based on the domestic tax rate (corporation tax, solidarity surcharge, trade tax).

Composition of deferred taxes and changes during the financial year:

	Deferred tax assets		Expense (-) Income
	31.12.2004	31.12.2005	2005
	€ '000	€ '000	€ '000
Loss carryforwards	3,312	3,298	(14)
Provisions for pensions	26	41	15
Other provisions	25	24	(1)
	3,363	**3,363**	**0**

The deferred taxes have been calculated on the basis of an average tax rate of 39.65 % for domestic enterprises and 35 % for foreign enterprises.

Deferred tax assets are only recognised for tax loss carryforwards if the deferred tax assets are considered to be recoverable in the future. In the period under review – as in the previous financial year – no deferred tax assets were accounted for in connection with unrecognised tax loss carryforwards. In total, no deferred taxes were recognised for tax loss carryforwards in the amount of € 4,234 thousand (FY 2004: € 4,488 thousand). The deferred tax assets for the carryforward of unused tax losses only apply to **UNITED**LABELS Aktiengesellschaft. Deferred taxes in the amount of € 31 thousand were charged directly to equity.

E. Other Notes and Information

1. Governing bodies

The Supervisory Board of the Company is made up of the following members:

- Dr. iur. Jens Hausmann, Lawyer, Münster (Chairman)
- Michael Dehler, Merchant, Managing Director of Compass Yachtzubehör Handels GmbH & Co. KG, Ascheberg (Deputy Chairman)
- Prof. Dr. rer. pol. Helmut Roland, Chairman of the Board of Directors and CEO of FR Finance Relations AG, St. Gallen (CH)

An Audit Committee was established in 2004. The members of the Audit Committee are Prof. Dr. Helmut Roland (Chairman) and Michael Dehler.

Supervisory Board compensation was reorganised based on a resolution passed by the General Meeting of Shareholders in 2005. The fixed component of total Supervisory Board compensation amounts to € 40 thousand (FY 2004: € 23 thousand) per financial year. The Chairman of the Supervisory Board receives € 20 thousand p.a., and the two other Supervisory Board members receive € 10 thousand p.a. In addition, the members of the Supervisory Board received variable compensation which is calculated on the basis of 0.25 % of consolidated net profit (before payment of the variable compensation component); the maximum amount is € 10 thousand. Variable compensation amounted to € 6,000 in 2005. The members of the Audit Committee receive an additional € 2,000 as compensation, the Chairman receives double this amount.

Prof. Dr. Helmut Roland holds 5,728 shares and Mr. Michael Dehler 441 shares. No shares are held by Dr. Jens Hausmann.
In addition to the duties performed for **UNITED**LABELS Aktiengesellschaft, the following Supervisory Board members are also members of the supervisory boards or similar bodies listed below:

Dr. Jens Hausmann:
- Parsch Schläuche Armaturen GmbH & Co. KG, Ibbenbüren; Sole Member of the Advisory Board
- Gansow Reinigungssystem AG Cleaning Systems, Bergkamen; Deputy Chairman of the Supervisory Board
- Thermobalance AG, Stein am Rhein (CH); Member of the Board of Directors
- Dr. Gansow AG, Bergkamen; Deputy Chairman of the Supervisory Board

Prof. Dr. Helmut Roland:
- Bohlen & Doyen AG, Wiesmoor; Member of the Supervisory Board
- FR Finance Relations AG, St. Gallen (CH); Chairman of the Board of Directors

The Management Board consists of:

Herr Peter M. Boder, Diplom-Kaufmann, Münster (Vorsitzender)

Management Board compensation totalled € 426 thousand for the 2005 financial year. This includes the allocation to provisions of € 77 thousand for expected bonus payments. Mr. Peter M. Boder holds 2.63 million shares in the Company.

2. Number of employees

The headcount at the end of the financial year was as follows:

	2005	2004
Salaried staff	121	106
School-leaver trainees	6	4
	127	**110**

3. Corporate Governance

The Company issued a Declaration of Compliance as regards the German Corporate Governance Code and made it available to shareholders.

4. Employee stock option plan

The conditional increase in capital in the amount of € 300 thousand is solely in connection with the granting of stock options (300,000 options) to members of the Management Board and employees of **UNITED**LABELS Aktiengesellschaft as well as members of the management of subsidiary companies.

This capital increase is only to be executed to the extent that the holders of the options exercise them pursuant to Section 192 Paragraph 2 No. 3 AktG (German Stock Corporation Act).

The new no-par value bearer shares have a notional value of € 1.00 per share and are eligible for a share in profits from the beginning of the respective financial year in which the shares are created through exercising the options.

As at December 31, 2005, there were no warrants and no valid stock option plan. In the 2005 financial year, 3,000 stock options were paid out as a bonus in the form of a cash payment. The total bonus payment amounted to €5,000 and is included in staff costs.

5. Professional fees

Professional fees accounted for as expense in the period under review in connection with the annual audit of the separate financial statements of **UNITED**LABELS Aktiengesellschaft and the consolidated financial statements for the Group amounted to € 60 thousand; tax consulting fees totalled € 10 thousand, while fees for other professional services amounted to € 14 thousand.

6. Related-party disclosure

In accordance with IAS 24, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

In addition to his 62% interest in **UNITED**LABELS Aktiengesellschaft, Mr. Peter M. Boder has a 100 % shareholding in Facility Management Münster GmbH. In 2005, services received amounted to € 87 thousand (FY 2004: € 78 thousand).

The company Wilhelm Clausmeyer Vertrieb GmbH & Co. KG, Bissendorf, the majority interest of which is held by the father-in-law of Peter M. Boder, was responsible for managing a part of the Company's logistical activities and received € 57 thousand for services rendered. Business relations with this company were discontinued in mid-2005.

All business transactions were effected on the basis of terms and conditions that are deemed standard practice within the marketplace.

Münster, February 2006

UNITEDLABELS Aktiengesellschaft
The Management Board

Peter M. Boder

F. Auditor's Report

We have audited the consolidated financial statements prepared by **UNITED**LABELS Aktiengesellschaft – comprising balance sheet, income statement, statement of changes in equity, statement of cash flows and notes – as well as the management report for the Company and the Group for the financial year from January 1 to December 31, 2005. The legal representatives of the Company are responsible for preparing the consolidated financial statements and the management report for the Company and the Group in accordance with IFRS, as applicable in the EU, as well as in compliance with the provisions set out in Section 315a paragraph 1 of the German Commercial Code (Handelsgesetzbuch – HGB).
Based on our audit, our responsibility is to express an opinion on the consolidated financial statements and the management report for the Company and the Group. In addition, we were mandated to express an opinion as to whether the consolidated financial statements are in compliance with IFRS.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code and in compliance with generally accepted German auditing standards promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit to identify material misstatements and contraventions which may have a significant influence on the true and fair view presented by the consolidated financial statements, in compliance with applicable accounting standards, and the management report for the Company and the Group as regards financial position, financial performance and cash flows. The process of defining the audit procedures takes account of knowledge about the business activities and the economic and legal environment of the Group, as well as expectations with regard to possible misstatements. The audit includes assessing, on a test basis, the efficacy of the accounting-related internal control system, as well as examining evidence supporting the amounts and disclosures in the consolidated financial statements and the management report for the Company and the Group. The audit also includes assessing the financial statements of those enterprises included in the consolidated financial statements, the delimitation of the consolidated group, the accounting and consolidation principles applied and the significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the management report for the Company and the Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

Based on the evidence of the audit, we are of the opinion that the consolidated financial statements comply with IFRS, as applicable in the EU, the additional Commercial Code provisions set out in Section 315a paragraph 1 HGB as well as IFRS in their entirety and give a true and fair view of the state of affairs of the Group in terms of its financial position, financial performance and cash flows. The management report for the Company and the Group reflects the contents of the consolidated financial statements, conveys the state of affairs of the Group and accurately presents the opportunities and risks associated with the future progression of business.

Münster (Westf.), February 24, 2006

DR. SCHUMACHER & PARTNER GMBH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

(Röttger)
Certified Public Accountant

(Tönnes)
Certified Public Accountant

UNITEDLABELS Aktiengesellschaft, Münster

Income Statement for the period from 1 January to 31 December 2005

	01.01.2005 31.12.2005 T€	in % of revenue	01.01.2004 31.12.2004 T€	in % of revenue
Revenue	23,689	100%	24,323	100 %
Other operating income	867	3.7%	1,146	4.7%
Cost of materials and services purchased	(16,715)	(70.6%)	(18,437)	(75.7%)
Staff costs	(3,299)	(13.9%)	(3,181)	(13.1%)
Depreciation/amortisation of property, plant and equipment, and intangible assets	(450)	(1.9%)	(481)	(2.0%)
Other operating expenses	(4,346)	(18.4%)	(3,760)	(15.5%)
Profit/(loss) from operations	**(254)**	**(1.1 %)**	**(390)**	**(1.6 %)**
Income from investments	698	2.9%	510	(2.1%)
Interest income/(expense)	(84)	(0.4%)	(146)	(0.6%)
Write-down of financial assets	0	0.0%	(18)	(0.1%)
Earnings before taxes (and minority interests)	**527**	**2.2 %**	**250**	**1.0 %**
Income tax expense	(10)	0.0%	(4)	0.0 %
Earnings before minority interests	**517**	**2.2 %**	**246**	**1.0 %**
Net profit for the period	**517**	**2.2 %**	**246**	**1.0 %**
Unappropriated retained earnings brought forward from the previous year	246		0	
Allocation to other revenue reserves	(250)		0	
Unappropriated surplus	**513**	**2.2 %**	**246**	**1.0 %**

UNITEDLABELS Aktiengesellschaft, Münster
Balance Sheet as at 31 December 2005

ASSETS	31.12.2005 €	31.12.2004 €
A. Non-current assets		
I. Intangible assets		
1. Concessions, industrial property rights and similar rights and values, and licences thereto	124,427.62	185,093.62
2. Goodwill	1,732,018.54	1,855,734.10
3. Prepayments	0.00	7,500.00
	1,856,446.16	**2,048,327.72**
II. Property, plant and equipment		
1. Land and leasehold rights and buildings, including buildings on third party land	2,858,989.30	1,632,137.23
2. Technical equipment, plant and machinery	18,462.55	21,394.06
3. Other equipment, furniture and fixtures, and office equipment	697,664.78	410,570.98
4. Prepayments and assets under construction	30,647.06	0.00
	3,605,763.69	**2,064,102.27**
III. Financial assets		
1. Investments in affiliated companies	8,136,583.53	7,443,120.43
2. Loans to affiliated companies	1,095,618.47	1,869,593.88
	9,232,202.00	**9,312,714.31**
	14,694,411.85	**13,425,144.30**
B. Current assets		
I. Inventories		
1. Finished goods and merchandise	6,091,543.63	5,417,320.88
2. Prepayments	239,235.70	33,909.50
	6,330,779.33	5,451,230.38
II. Receivables and other assets		
1. Trade receivables	2,430,395.70	3,322,166.51
2. Receivables from affiliated companies	4,177,598.86	3,154,178.87
3. Other current assets	1,915,019.58	1,459,573.82
of which with remaining term of more than one year: € 165,678.32 (FY € 125,114.80)		
	8,523,014.14	**7,935,919.20**
III. Cash, bank deposits, cheques	**2,662,443.80**	**2,391,423.44**
	17,516,237.27	**15,778,573.02**
C. Prepaid expenses		
of which discounts: € 43,217.04 (FY € 1,657.64)	**2,071,541.88**	**2,359,475.71**
Total assets	**34,282,191.00**	**31,563,193.03**

UNITEDLABELS Aktiengesellschaft, Münster
Balance Sheet as at 31 December 2005

LIABILITIES AND EQUITY	31.12.2005 €	31.12.2004 €
A. Capital and reserves		
I. Issued capital	4,200,000.00	4,000,000.00
II. Capital reserves	24,431,558.29	23,151,558.29
III. Other revenue reserves	250,000.00	0.00
IV. Unappropriated surplus	513,103.82	246,287.65
	29,394,662.11	**27,397,845.94**
B. Provisions		
1. Provisions for pensions and similar obligations	355,157.00	313,284.00
2. Other provisions	1,259,178.47	1,065,479.19
	1,614,335.47	**1,378,763.19**
C. Liabilities		
1. Payables to banks	1,531,274.67	559,097.65
of which with a remaining term of up to one year: € 127,822.98 (FY € 127,822.98)		
2. Trade payables	1,480,160.75	1,980,439.60
of which with a remaining term of up to one year: € 1,480,160.75 (FY € 1,980,439.60)		
3. Other liabilities	261,758.00	247,046.65
of which attributable to taxes: € 136,896.78 (FY € 126,506.82)		
of which attributable to social security: € 68,830.82 (FY € 65,605.57)		
of which with a remaining term of up to one year: € 261,758.00 (FY € 247,046.65)		
	3,273,193.42	**2,786,583.90**
Total liabilities and equity	**34,282,191.00**	**31,563,193.03**

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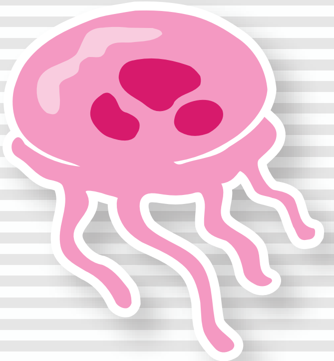

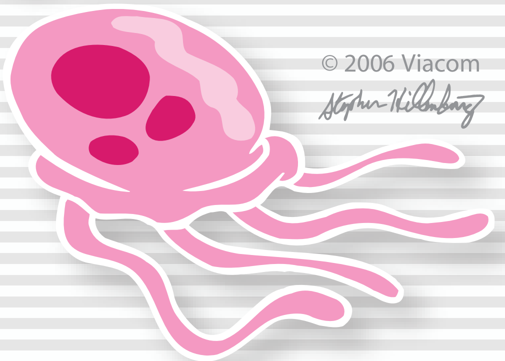

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