Matth. Hohner AG
BUSINESS REPORT
2011/2012

SONOR · MARINE BAND · CORONA · HOHNER

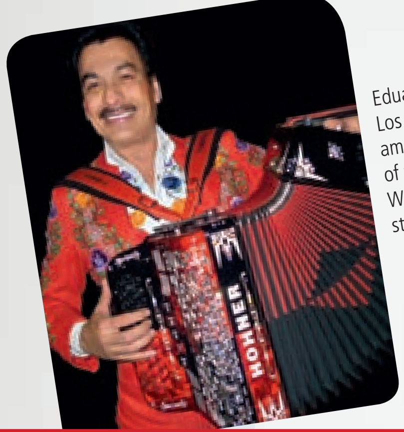
Anacleto COLLECTION · LANIKAI Makes Me Happy! · Sonor Orff

Kohala · Play n' Rock! HOHNER kids · TOY SOUND

Matthias Hohner

*"Bringing music across
the world is our mission."*
Matthias Hohner 1890

EnjoyMusic
PLAY HOHNER



Eduardo Hernandez and Los Tigres Del Norte number among the undisputed top stars of the Latin American music scene. With their music they fill football stadiums with enthusisatic fans.

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Close cooperation with leading artists and top endorsees is an integral part of the HOHNER/SONOR corporate philosophy. For decades, renowned musicians in varied styles have relied on the professional quality of instruments from HOHNER and SONOR.

The photo shows Heidi Newfield with her HOHNER Special 20 Classic. As a singer, guitarist and harmonica player, this remarkable musician is one of today's top country artists.

At a Glance

Zach Gill

Matth. Hohner AG, Trossingen

IFRS- statement, key figures in TEUR

	2011/2012	2010/2011
group turnover	67,156	63,930
earnings before tax	2,636	2,002
group net income	2,719	1,484
balance sheet profit	11,521	10,318
balance sheet total	50,716	44,217
capital stock	7,950	7,950
equity	26,029	23,286
Cash-Flow		
from continuous business activities	12	3,297
from investment activities	-1,094	-665
from financing activities	2,329	-1,109
earning per share	0.91	0.49
personnel	339	334

Christoph Schneider (Rammstein)
photo © by Olaf Heinze

Eric Noden and Joe Filisko

Committees of the Company

Supervisory Board

Heinz Michael Meier
Lugano/ Switzerland
(Chairman of the Supervisory Board
of Matth. Hohner AG)

Dr. Bernd Rabald
Munich/ Germany
(Vice Chairman of the Supervisory Board
of Matth. Hohner AG)

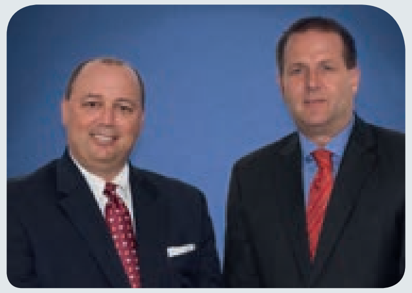
Kun S. Chen
Taipeh/ Taiwan

Fu Y. Hsieh
Taipeh/ Taiwan

Wu H. Hsieh
Taipeh/ Taiwan

Prof. Dr. Hans Marutschke
Hagen/ Germany

Board of Management



Clayman Bruce Edwards
Virginia/USA
(left)

Stefan Althoff
Münster/Germany
(right)

Letter to the Shareholders

Dear Stakeholders

This annual report for business year 2011/2012, illustrates continued improvement in the results for the HOHNER Group as it adapts and changes to face the challenges of a modern global business.

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

During the business year, while the global economy and music industry grew by 3%, sales growth of the HOHNER Group´s international brands posted a 5% increase to 67.2 m€ versus prior year results of 63.9 m€. This sales increase was attributable to growth in North America of +9.7%, Asia of +21.9%, and South and Central America of +34.4% partially offset by a 4.5% decline in sales to Europe, the company's largest market.

As a result of the positive sales improvement as well as cost controls and a refocusing of expenses, the HOHNER Group improved its net income performance by 82.3% to TEUR 2,719 in business year 2011/2012 compared to TEUR 1,484 in 2010/2011. The liquidity position of the HOHNER Group also improved during the year as the company showed an increase in cash and cash equivalents by TEUR 1,201 to TEUR 12,112.

In the first quarter of the new business year 2012/2013, sales continue to develop positively as a result of reed and stringed instruments increases offsetting percussion and other instruments declines. Stagnating demand in the European market for percussion and other instruments are the primary causes for the declines. While always mindful of the principal performance risks of the HOHNER Group, sales developments combined with efforts to minimize, control and direct costs leads the Management Board to confidently look forward to positive net income results for 2012/2013.

After careful consideration of the financial position and positive results of the HOHNER Group, the respective Supervisory and Management Boards propose a dividend distribution for the business year 2011/2012, to be voted by the shareholders on this year's Shareholders Meeting.

Notwithstanding the aforementioned results, the HOHNER Group continues to initiate changes necessary to secure and position the organization for the future. A change became also necessary in the Management Board of Matth. Hohner AG. On April 2, 2012 Mr. Manfred Stöhr was dismissed as Member of the Management Board with immediate effect and was replaced by Mr. Clayman B. Edwards. This change in the Management Board was necessary to secure the observance of core principals of the organization and to restore the confidence of the Supervisory Board.

Second, the company is making the changes necessary to refocus its marketing efforts in order to position its brands for the future. In concert with customers who increasingly look to the web and social media for information about music, musicians and instruments, in the coming year, the HOHNER Group will launch a new series of websites showcasing its corporate and brand identities. These sites will be filled with audio, video, images, and informational content regarding music, musicians, instruments and the stories related to them. The sites will be interconnected with popular social media outlets and dealer networks to proliferate information and messages to consumers and enthusiasts in the most convenient and motivating way possible.

At retail, the HOHNER Group continues to undertake efforts to improve product and brand positioning in key retail stores worldwide. Significant investments have been and continue to be made for point of purchase merchandise displays, self-selective packaging, and promotional materials designed to emotionally stimulate consumers in retail environments. In addition, the company will continue to use technologies such as QR codes and tag readers allowing consumers to use smart phones to garner information or incentives about a product while they are shopping.

Third, in order for the HOHNER Group to achieve its marketing and sales strategies to consistently deliver timely and relevant products to the marketplace, the Group companies started to place additional emphasis during 2011/2012 on improving internal and external manufacturing supplier relationships with regard to lead times, on-time delivery, product quality, the ability to supply sufficient quantities and finally market driven pricing reflecting overall relationships. Considerable efforts remain ongoing to work with internal and external supplier partners by educating, training and monitoring them with respect to the HOHNER Group's performance standards for various products. As a result of its initial and ongoing efforts, the HOHNER Group has been able to shorten its lead times (from 5 months to 3.5 months on harmonicas and from 7.4 months to 5.4 months on fretted instruments), it identified 6 new factory suppliers creating considerable additional capacity to service market demand for ukuleles, guitars and harmonicas and eliminated a number of non-performing external suppliers whose on time delivery or product quality were unable to achieve the standards.

Fourth, the HOHNER Group must continue the process of utilizing existing and new IT technology to insure that a proper information backbone protects and supports the company's decision making efforts as well as improves the organizations efficiency and effectiveness.

Finally, the HOHNER Group is also starting the process of improving its research and development efforts by becoming more connected to music, musicians and enthusiasts so that the right questions can be asked, information collected and products can be developed after a thorough vetting of their business case.

In the 2011/2012 business year, HOHNER introduced a number of new reed instrument products into the marketplace. A John Lennon Signature Harmonica was developed in cooperation with Yoko Ono to pay tribute to one of the greatest musicians of the 20th century. The limited edition HOHNER C chromatic harmonica was launched to celebrate the 100th anniversary of the chromatic harmonica. The Discovery 48 chromatic harmonica improved HOHNER's entry level chromatic products with its new plastic comb. The FlexRack was launched during 2011/2012 for the multi instrumental player who requires a stable harmonica rack with three dimensions of adjustability to suit their playing position.

For professional musicians playing tejano, norteno and conjunto music in Mexico and the southwestern US, HOHNER introduced the new Anacleto Collection of super-premium accordions. These accordions were designed and manufactured at the highest standards in the market today and serve the most demanding professional musicians. The Morino accordion has been completely refurbished so that it can become fully customized due to individual musician demands.

With regard to stringed instruments, the HOHNER Essential Guitars added five new models to its offerings while new HOHNERkids guitars were introduced to penetrate the pre-school market segment. LANIKAI ukuleles added a Quilt Ash Series while KOHALA ukuleles created a new Rainbow Series both designed to continue to penetrate the ukulele market.

Percussion offerings from SONOR GmbH & Co. KG saw the addition of the highly anticipated ProLite series of drums and an innovative new drum pedal inspired by Jojo Mayer. Launched under the name "Perfect Balance", this product differentiates itself from others in its unique folding and clamping mechanism and overall balance. SONOR GmbH & Co. KG has also initiated a new line of Cajones made in Germany for players from childhood to seniors.

While the Management Board realizes that change can be stressful or can appear awkward at moments, it would like to stress that all of these efforts are designed specifically to improve shareholder value in the short and long term.

The Management Board thanks each employee of the company for their flexibility and performance as well as each shareholder and business partner, for their support in the preceding year. We look forward to continuing our mutual efforts to position the company for a vibrant future.

Sincerely

Management Board of Matth. Hohner AG

Clayman Bruce Edwards

Stefan Althoff

Report of the Supervisory Board

Dear shareholders,

In the expired fiscal year 2011/2012, the Supervisory Board of Matth. Hohner AG performed the responsibilities and duties assigned to it by law, the German Corporate Governance Code and the Articles of Association of Matth. Hohner AG. The activities of the Management Board were regularly supervised and accompanied in a consultative manner on the basis of written and oral reports in the sense of Art. 90 Sec. 1 and 2 German Stock Corporation Act. In addition the Supervisory Board and its members informed themselves about the company and the markets in which it operates.

The composition of the Supervisory Board did not change during the business year 2011/2012. In the Management Board, a change was necessary. On April 2, 2012 Mr. Manfred Stöhr was removed with immediate effect as member of the Management Board and was replaced by Mr. Clayman B. Edwards. This change in the Management Board was necessary to secure the observance of core principals of the organization and to restore the confidence of the Supervisory Board. Since the examination of the acts of the Management Board during the business year 2011/2012 is currently still ongoing, the Management Board and the Supervisory Board propose jointly to the shareholder meeting that the members of the Management Board are not granted discharge for the business year 2011/2012 at this stage.

In the business year 2011/2012, the Supervisory Board examined and discussed in two regular meetings per half-year important business transactions and decided on submissions requiring approval. Apart from meetings, resolutions of the Supervisory Board were taken in accordance with the Rules of Procedure by circular vote, as far as appropriate and necessary, and in some cases were prepared by conference calls.

In order to improve the efficiency of its work, the Supervisory Board has, in accordance with the Corporate Governance Code, made use of three committees: the Steering Committee, the Audit Committee and the Corporate Governance and Nomination Committee. The only change with regard to the chair of the committees during the period of this report was that Prof. Dr. Marutschke took over as chair of the Corporate Governance and Nomination Committee. During the period of this report, the Steering Committee met six times, the Audit Committee three times and the Corporate Governance and Nomination Committee twice. The Supervisory Board has been informed regularly about the work of the committees.

The whole Supervisory Board as well as the Steering and Audit Committee dealt intensively with the economic situation of the company and the Group, as well as with questions of the enterprise's strategy. Important basis of decision-making in this contexts were the reports of the Management Board about the situation of the company, especially about the development of the business and financial situation and about fundamental questions of the company's development. The different know-how of the individual members of the Supervisory Board helped to complete a set of all information which was important for an adequate formation of opinion and decision-making. Important sources of information were, besides the written monthly reports of the Management Board, reports on the company's situation by the Chairman of the Supervisory Board and by some of its members who accompanied the work of the Management Board also through informal discussions outside of regular meetings as well as through need-based visits at the company's subsidiaries and discussions with the respective Managing Directors.

Important issues of debate in the Supervisory Board and its committees in the expired business year were, besides the Group planning, the economic situation of the company and the Group in general, in particular in its most important sales markets and the risk management within the Group. Particular attention was paid to the financial crisis in Europe and its impact on the music industry as well as to the development of the individual segments. The Supervisory Board and the Corporate Governance and Nomination Committee dealt intensively with the rules of the Corporate Governance Code. The Rules of Procedure of Management Board and Supervisory Board were updated in accordance with good corporate governance. In order to control the compliance with the Rules of the German Corporate Governance Code the Supervisory Board reviewed the implementation of the recommendations. Supervisory Board and Management Board have submitted the Declaration of Conformity pursuant to Art. 161 Stock Corporation Act and explained deviations from the recommendations of the Government Commission in the „Corporate Governance Report".

The Management Board has established for the business year ending on March 31, 2012 the annual financial statements and the management report, the consolidated financial statements and the consolidated management report as well as a report on the relations with affiliated companies and submitted it to the Supervisory Board together with a proposal for the appropriation of the profit. Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Munich, who was assigned as auditor, examined the annual financial statements, the management report, the consolidated financial statements and the consolidated management report of Matth. Hohner AG as of March 31, 2012, including the accounting, in accordance with the legal regulations and issued in each case an unqualified audit certificate. The corresponding audit reports were available to every single member of the Supervisory Board.

The annual financial statements, the management report, the consolidated financial statements and the consolidated management report as well as the proposal of the Management Board for the appropriation of the profit and the audit report of the auditors were subject of intensive discussions within the Audit Committee as well as within the whole Supervisory Board. The auditor participated at the accounts review meetings of the Audit Committee and the Supervisory Board and reported about important results of the auditing, especially with regard to the accounting process and the related internal control and risk management system. After its own independent examination, the Supervisory Board took affirmative notice of the auditing result of the auditor concerning the annual financial statements.

The Supervisory Board reviewed the annual financial statements and the management report as well as the consolidated financial statements and the consolidated management report and did not raise any objections. The annual financial statements for 2011/2012 and the consolidated financial statements for 2011/2012, set up by the Management Board and audited by the auditor, have each been approved by the Supervisory Board. The annual financial statements for 2011/2012 are thereby approved.

The report of the Management Board concerning the relation with affiliated companies (dependency report) was submitted to the Supervisory Board as well. With respect to this report, the auditor gave the following certification:

"After our due audit and assessment we certify that

1. the factual statements in the report are correct.
2. the consideration of the Company for the legal transactions described in the report was not inappropriately high."

The Supervisory Board took affirmative note of the result of the review of the Management Board's report on the relation with affiliated companies by the auditors. The Supervisory Board examined the report of the Management Board and did not raise any objections against the statements of the Management Board at the end of the report.

The Supervisory Board examined the proposal of the Management Board regarding the appropriation of the balance sheet profit. The Supervisory Board considers the proposal adequate and agrees with the proposal.

The Supervisory Board addresses its thanks to all domestic and foreign employees of the Hohner Group and to the Management Board for their dedicated commitment in the expired business year. Special thanks are given also to all shareholders of Matth. Hohner AG.

Trossingen, October 2012

Supervisory Board of Matth. Hohner AG

1857

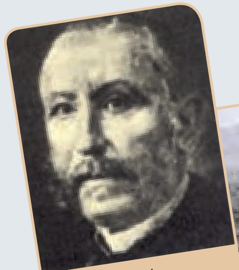
Matthias Hohner (1833 – 1902)

1857: Matthias Hohner (1833 – 1902) starts the manufacturing of harmonicas.

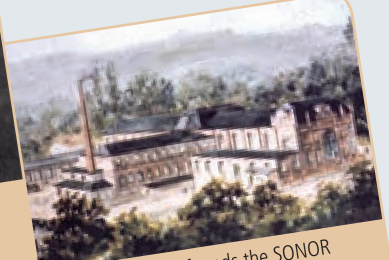
1867: HOHNER starts exporting harmonicas to the USA – by the end of the 19th century the export quota exceeds 80%.

The HOHNER Group's lengthy tradition of high quality musical instrument manufacture began in the mid-19th century. In 1857 Matthias Hohner founded a small harmonica factory and in 1875 Johannes Link embarked on the production of SONOR percussion instruments.

In time, what started off as a cottage industry grew to become one of the most firmly established companies in international musical culture. In cooperation with global stars, HOHNER's legendary instruments created unforgettable musical milestones.



Johannes Link (1848 – 1914) Founder of SONOR.

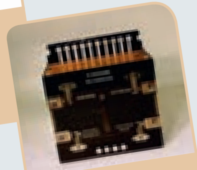


1875: Johannes Link founds the SONOR company in Weißenfels an der Saale (East Germany)

1900

1896: Introduction of the legendary Marine Band harmonica.
Fig.: Patent drawings

1912: HOHNER introduces the chromatic harmonica.



1903: Start of accordion production.
Fig.: The first HOHNER accordion

1920: The founder's grandson Dr. Ernst Hohner (1886 – 1965) joins the executive board. 4.000 employees produce 20 million harmonicas per year.

1900: Matthias Hohner passes his company to his five sons – 1,000 employees manufacture 4 million harmonicas per year.

1928: Venanzio Morino comes to Trossingen and leads accordion department to a golden age.

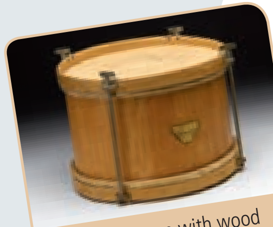
1901: Hans Hohner founds the HOHNER US department in New York.

1909: Foundation of the Matth. Hohner AG.

1931: In the middle of the century's biggest accordion boom with hundreds of accordion orchestras HOHNER founds the HOHNER music publishing house, the DHV (German Harmonica Association) and the HOHNER conservatory.

1930

1899: Production of Timpani and Concert Percussion.



1925: First Drum with wood hoops. SONOR had 145 employees and was one of the largest businesses of its kind.

1930: Snare Drum with first multi 3-way-strainer.

1900: First single bass drum pedal worldwide.

1927: First Bass Drum Double Pedal worldwide.

1935: Single Bass Drum Pedal and first Hi Hat.

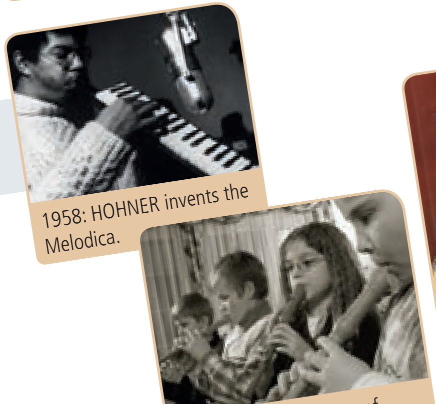
1950

1952: Begin serial production of electronic and electromechanical HOHNER instruments like Electronium or Electra-Vox.

1956: Giovanni Gola becomes head of the accordion department and sets new standards in the high end premium segment.

1964: HOHNER introduces the Clavinet.

1965: The first music instrument in outer space: The little Lady harmonica is played by Walter Schirra during the Gemini 6 mission.



1958: HOHNER invents the Melodica.

1962: Begin production of recorders.

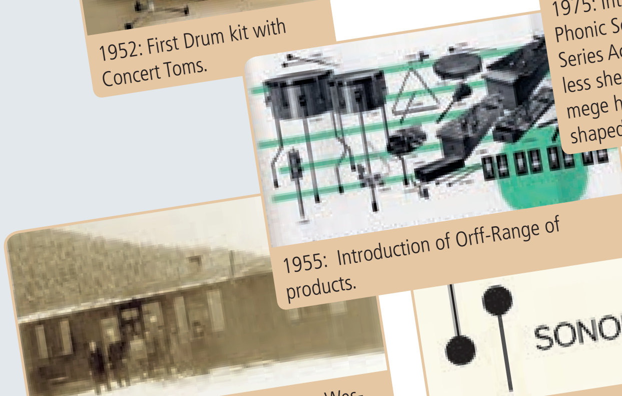
1952: First Drum kit with Concert Toms.

1962: Glockenspiel Case.

1973: Introduction of "Vertical Grain" Drums, SONOR Champion Series Drum kit in Rosewood.

1975: Introduction of the Phonic Series and Champion Series Acrylic Drums. Seamless shells and seamless mege hoops. Shell edges shaped to exakt 45o.

1985: Signature bell bronze Snare Drum. Heaviest snare drum ever.



1955: Introduction of Orff-Range of products.

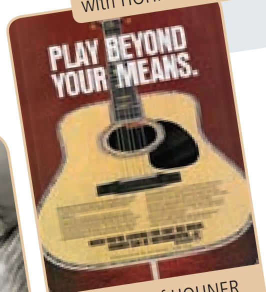
1946: Restart in Bad Berleburg-Aue, Western Germany, starting with making natural calfskin drumheads.

1961: For the first time, Mallets were used as part of the logo.

1970

1985: The Hooters make the Melodica popular also in Pop/Rock music.

Mid 1960ies: Legendary icons such as Johnny Cash, Sammy Davis jr. or The Beatles sign endorsements with HOHNER.



1975: Start of HOHNER guitar line; big success of the "HOHNER Professional" guitar series in the 1980ies.

1982: Signature Series kit in Bubinga and Ebony veneer.

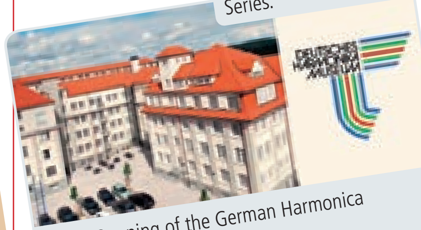
1980: First "Single Post" Bass Drum Pedal introduced.

1991: Sonor joins the HOHNER group.

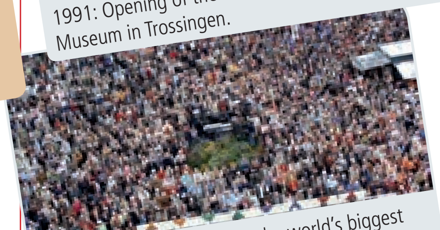
2007: market introduction of HOHNER kids

2012: John Lennon Signature Harmonica.

2009: Bob Dylan Signature Series.



1991: Opening of the German Harmonica Museum in Trossingen.



2007: New world record for the world's biggest harmonica orchestra (2898 players) during the celebrations of 150 years HOHNER – topped in 2009 by 6131 HOHNER players in Hong Kong.

2006: Launch of the All-Custom Drum Series SQ2 Drum System. Exclusive online Drum Set builder.

1994: Designer Series – first custom Drum kit.

2001: Introduction of High End Giant Step Bass Drum Pedals.

2004: Delite Series.

2012: "Perfect Balance by Jojo Mayer" - simplicity meets innovation

The HOHNER Group around the World

Worldwide, millions of music lovers play instruments by HOHNER and SONOR. Beginners, advanced players and professionals of all ages and in all musical styles value their reliability, quality and outstanding product design, created in cooperation with musicians to meet their specific needs.

Pop, rock and blues artists from all over the world, TexMex or Vallenato players in Central and Latin America, harmonica orchestras in Asia, jazz and classical musicians in Europe, or iconic stars like Bob Dylan or Stevie Wonder - they all live the joy of music every day with instruments from HOHNER and SONOR.

HOHNER
Trossingen

For over 150 years it has been HOHNER's declared mission to bring the joy of music making to people all over the world, to provide them with the best possible instruments so that they can discover their own musical creativity and experience the emotional and communicative power of music for themselves. Today the assortment ranges from harmonicas and accordions to melodicas, recorders, guitars and ukuleles as well as children's instruments.

At the company headquarters in Trossingen with 180 employees, state-of-the-art precision tools, constantly optimized production methods and finest craftsmanship come together to create top quality musical instruments which are sold in over 85 countries.
For decades, HOHNER has been the worldwide market leader in the area of harmonicas and accordions , regularly setting new standards for quality and innovation in these fields. With LANIKAI and KOHALA, HOHNER has also recently developed two of the most successful ukulele brands in the world. This position is not merely a consequence of technological advantage, but is primarily a result of closeness to our customers, focused marketing and a real passion for music.

SONOR
Bad Berleburg

In 1875 Johannes Link, a trained wood turner and tanner, started a small workshop for simple military drums and drum heads in Weissenfels an der Saale in Eastern Germany. From these modest beginnings developed a flourishing business, which at the turn of the century already offered a comprehensive range of percussion instruments. Around 1925 SONOR had 145 employees and was one of the largest businesses of its kind. In 1946, SONOR relocated to Bad Berleburg-Aue in West Germany and started a new phase in the history of the company.

Through consistent transfer of know-how and global thinking, SONOR is served today by 120 suppliers from 13 countries and creates its quality products in production facilities in China and Germany. Today 90 employees work at the company headquarters in Bad Berleburg-Aue. Our international distribution network currently markets SONOR's highly competitive products in about 80 countries around the globe.

Hohner-Konservatorium Trossingen GmbH

HOHNER's history is inseparably bound up with the company's location in Trossingen. Trossingen is not just the headquarters of the HOHNER Group, but also home to a number of highly regarded musical institutions:
Since 1931 the HOHNER Conservatory has set the educational standard for accordion and classical harmonica. The German Harmonica Museum, founded in 1991, has established itself as the leading historical institution for reed instruments worldwide.

HOHNER Inc.,
USA

HOHNER Inc. is located in Glen Allen, VA., 9 miles north of the city of Richmond which is part of the Piedmont region of Virginia. Hohner Inc. operates out of a 55,000 square foot office and warehouse facility. Approximately 60 employees engage in sales, marketing, and fulfillment activities aimed at promoting HOHNER and SONOR products throughout the USA and Canada, generating approximately $30 million in annual sales.

Hohner Inc. does business with some of the top retailers in the world including Amazon.com, CostCo, Best Buy, Sam Ash and Guitar Center, top national distributors such as Kaman Music Corp. and hundreds of independent music stores. Working with many iconic artists like Steven Tyler, Bob Dylan, and John Lennon's estate, Hohner Inc. has recently created several signature harmonica products that promote the utilization of the harmonica in the music of these legendary musicians.

HOHNER S.A.,
Frankreich

HOHNER S.A. was founded in 1928. Since 1982 the company has been based in Semur-en-Auxois (Burgundy region). With 20 employees and an annual turnover of ca. 8 Million EUR HOHNER S.A. belongs to the five biggest musical instrument companies in France. Besides the core assortment of the HOHNER group, the company also distributes top brands like Kawai, Farfisa, Orla or Ventura Bags.

HOHNER S.A. Supports numerous top endorsers in France, including Jean-Jaques Milteau, Michael Boudoux, Olivier Ker Ourio, Greg Zlap, Claude Gastaldin, Sébastien Charlier, Marko Balland, Alexandre Thollon and the young harmonica newcomer Rachelle Plas. The young accordion team led by master educator Frederic Dechamps has proven extremely successful. For many years his students have regularly been among the top winners of the most renowned international accordion competitions.

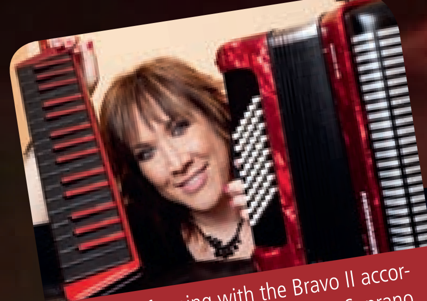
HOHNER SONOR AG,
Schweiz

The HOHNER-SONOR AG was founded in 1992 in Berne. The predecessor organisation had been active as a wholesale trading company for SONOR Musical Instruments ever since 1942. More than 8.500 articles by brands such as HOHNER, SONOR, Lanikai, Meinl, Nino, Bull, Hearsafe and Carbosticks are distributed to ca. 650 retail stores in Switzerland.

With an average annual turnover of CHF 2.700.000 and five employees the HOHNER-SONOR AG belongs to the most successful music instrument companies in Switzerland. On 1st September 2012 managing director Beat Erni celebrated his 40th anniversary within the company.

„I am a Marine Band Man!“

Joe Filisko (USA)

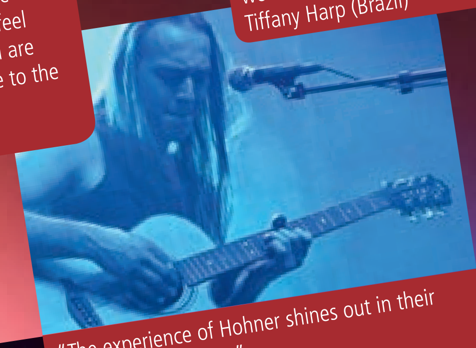


"I love performing with the Bravo II accordion, Jubilee Melodica and Sonor Soprano Glockenspiel. They sound amazing, are comfortable to play and are very beautiful to look at."
Jodelle Boorady (USA)

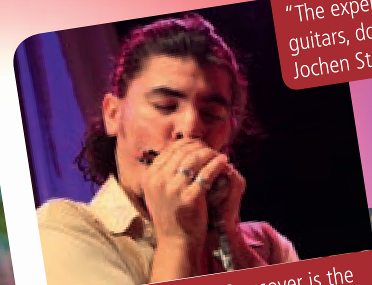
"For me as an artist it is key to embrace both tradition and innovation, and the guys at the Sonor drum company do the same thing. I feel close to people that love what they do and are dedicated to quality. That's why I feel close to the Sonor Company."
(Benny Greb - Stoppok)

"I really love the Marine Bands. They are the best harmonicas in the world."
Tiffany Harp (Brazil)

"We LOVE having SONOR instruments!!! After involving my principal how we use/play/apply these instruments in the classroom it looks like he is committed to helping convince the board to purchase more SONOR instruments. The students are SO excited to start music this year! Thank you for all you do for music teachers everywhere."
(Apopka, Florida)



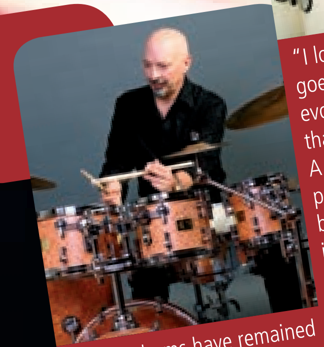
"The experience of Hohner shines out in their guitars, doubtlessly..."
Jochen Stock - DORNENREICH (Austria)



"The Marine Band Crossover is the most versatile harmonica I've ever played!"
Marcos Coll (Spain)

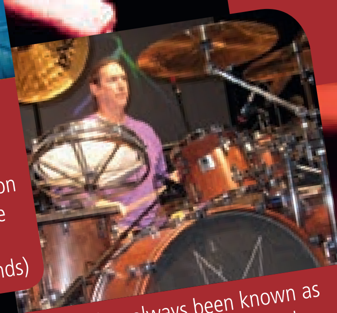
"I love the tradition that goes hand in hand with the evolution of the music. For me, that's what SONOR stands for. A company that considers the purity of my sound and contributes to my very own progress in the world of music."
Nené Vasquez
(Shakira, Ritmo Del Mundo)

"The Hohner Morino is and will always be the true original for 40 years of Oberkrainer music."
Slavko Avsenik (Slowenia)



"Sonor drums have remained my first and only choice as a high quality instrument for the past 30 years. My sound is the "Sonor sound," I can't imagine playing any other drumset."
(Steve Smith - Vital Information / Journey)

"I like to play the Hohner Hardbopper and Mellowtone, because they have the warmest sound I ever heard on a harmonica. For me they are simply the best."
Hermine Deurloo (Netherlands)



"Sonor has always been known as the leader in drum design, hardware durability, and sound quality. The tradition continues through today. Every discerning drummer still knows, if you want the best, you buy Sonor." (Danny Carey - Tool)

Foto: © Aigars Lapsa

"I've been playing the 1896 Marine Band professionally for 35 years. The warmth of the sound and depth of the tone remain unmatched for playing the blues."
Jerry Portnoy (USA)

"I love your instruments and so do my children... I teach all ages from 3 months to 5 years...what great designs."
Bren Norris
(Early Childhood Music Teacher)

"The Sonor sound is one of the few authentic, distinctive and exceptional voices left in the drum industry today."

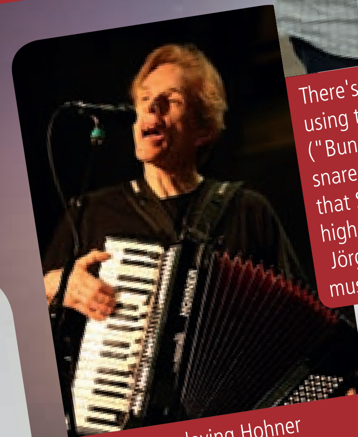
Jojo Mayer (Nerve)

"My Hohner has been my Instrument, my Friend, my Confidant for all my life!"
Toots Thielemans (Belgium)

"What ever your need is, they have it covered. What/where ever your world is- they dwell. So what are u waiting for????."
(Chris Coleman - New Kids On The Block / Prince / Chaka Khan)

There's a good reason why I teach using the SONOR MP 1412 XM ("Bundeswehr" model) marching snare drum. Experience has proven that SONOR instruments fulfil the highest standards.
Jörg Lesch (Korpsführer des Stabsmusikkorps der Bundeswehr)

"Having seen the Sonor factory first hand, I know how much attention is put to every single drum, be it student level kits or the fantastic SQ² series!! True craftsmanship and a genuine understanding of wood as a tone material!!"
(Tomas Haake - Meshuggah)

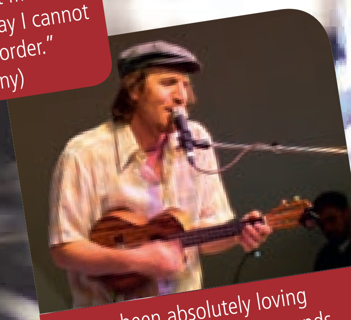


"I've been playing Hohner Accordions for over 20 years with my band, the Hooters, and I've become a very satisfied collector and player of these quality instruments."
Rob Hyman - The Hooters (USA)

"At the age of six, the Hohner recorder was my first musical instrument. To this day I cannot imagine a better recorder."
Giulia Serra (Germany)

"People always say 'They used to make accordions this way in the past.' The Anacleto Collection makes them that way, but even better."
Alfredo "El Zurdo" Gonzalez (Los Tucanes De Tijuana)

"Every time I play a Hohner harmonica I feel like being part of the history of my favorite music: from Slim Harpo to Doc Watson, from DeFord Bailey to Stevie Wonder. Great sound, great feelings..."
Jean-Jacques Milteau (France)



"I have been absolutely loving the zebrawood Lanikai, it sounds amazing, played it every night of the tour and was really stoked on it!"
Zach Gill (ALO, Jack Johnson, USA)

"When I play on stage, I have to be inspired by the tones coming off of my drums - and Sonor drums are the only drums that match my primal scream for music and allow me to sound how I want to sound!!! The Absolute Ultimate!!"
(Tommy Clufetos - Ozzy Osbourne/ Black Sabbath)

"I believe every drummer has an inner voice they're trying to convey. Sonor drums articulate that inner voice and help me express my true 'drum personality'. Sonor drums speak my language." (Gavin Harrison - Porcupine Tree / King Crimson)

"The clear and pure tone of the Silver Concerto has been there with me during innumerable concerts all around the world, and it fascinates me still today."
Yasuo Watani (Japan)

"I have been playing Sonor drums for more than 30 years and have always appreciated the innovative and consistent high quality of their instruments."
(Jack De Johnette - Drumming Great)

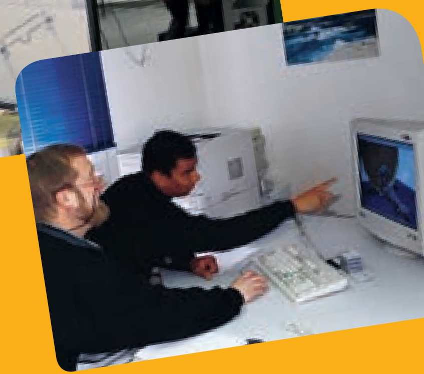
At the two locations of Trossingen and Bad Berleburg, a highly motivated staff produces top quality musical instruments for the entire world. Legendary harmonicas such as the Marine Band, the world-renowned Sonor-Orff instruments, or premium accordions like the Gola and Morino are only conceivable thanks to the skill and experience of our instrument makers.

In our factories, state of the art manufacturing methods and precision tools are united with the highest levels of craftsmanship. Only the finest quality raw materials are used, obtained from worldwide leading suppliers.

Every instrument from HOHNER and SONOR embodies not only the decades of experience and enormous treasury of knowledge of our staff, but also the aspiration to build the best possible musical instruments, driven by an abiding passion for music.

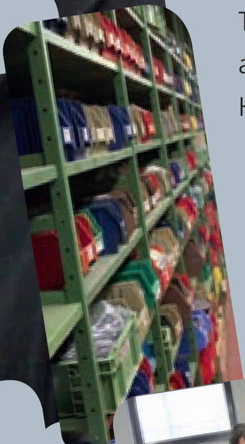
The engineers and constructors of our research and development team work continually on the further development of our instruments. Especially in the areas of reed (harmonica, acordion, melodica) and percussion instruments, the specialists at HOHNER and SONOR number among the leading experts worldwide. They have a lengthy track record of developing numerous groundbreaking innovations which have subsequently become established industry standard, a process which continues unabated today.

For many years, our engineers have used CAD systems that allow them to simulate diverse features before the first prototypes are even built. The flow of information in tool making, prefabrication and manufacture is also all digital, guaranteeing the highest levels of precision and efficiency. This constitutes a major advantage over numerous competitors in musical instrument manufacture. R&D is supported by the in-house prototyping department and the acoustics lab.



Engineers and constructors from HOHNER and SONOR work on the development of new instruments.

Artists and endorsees play a key role for our R&D department in the improvement of existing instruments and the development of new ones. Their opinions, wishes and suggestions flow into R&D work on an ongoing basis. Musicians provided decisive inspiration for numerous innovations of HOHNER and SONOR and are also the first to test new instruments.
Photos: HOHNER accordion specialists with Rob Hyman from The Hooters and Flaco Jimenez

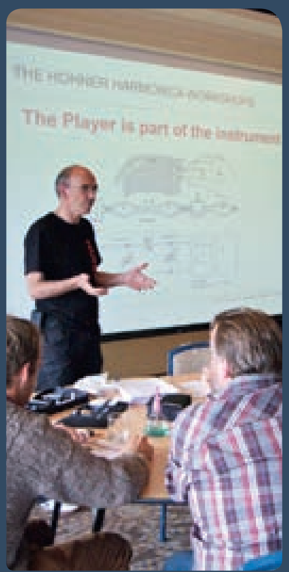


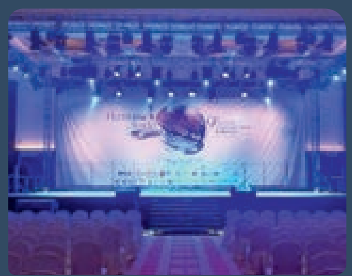
HOHNER SERVICE CENTER TEAM

Our service departments in Trossingen, Bad-Berleburg, Richmond, VA and Semur-en-Auxois provide a vital element of customer service as well as supporting the high quality of our instruments.

Here end users and retailers alike can contact trained specialists and can also access our extensive spare parts depots. This ensures many years of pleasure and satisfaction with instruments from HOHNER and SONOR.

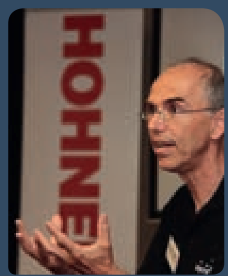
The HOHNER Service Team is present at many events every year and is also internationally active in training retailers and players in the optimal maintenance of their instruments.





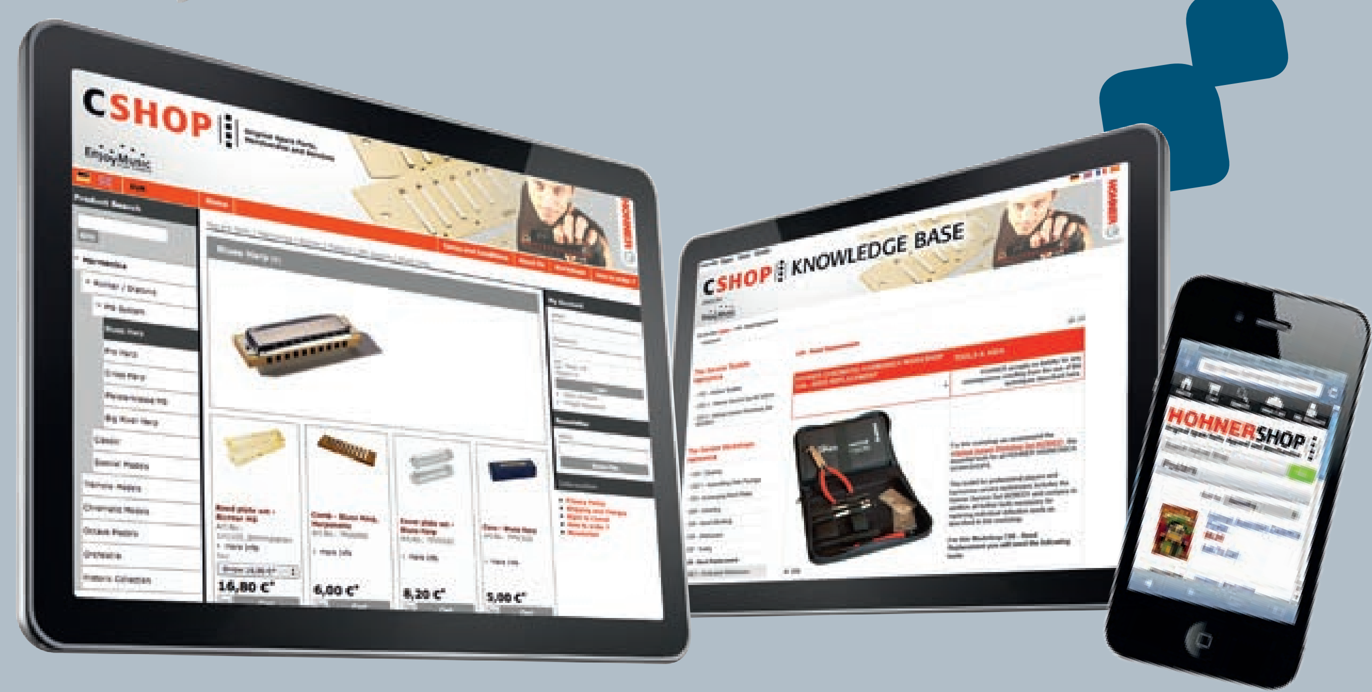
The experts of the HOHNER Service Team are active around the world, passing on their knowledge of harmonica maintenance and repair at important events in the international harmonica calendar.

This year the team was able to present their innovative service concept at numerous festivals including the renowned Asian Pacific Harmonica Festival, at the SPAH Convention 2012 in Dallas, Texas as well as at events organized by partners in Hong Kong, Singapore or Australia.

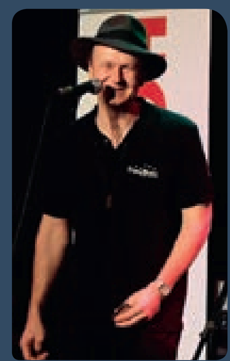


HOHNER SERVICE WORKSHOPS HARMONICA

The essential tools required for all HOHNER HARMONICA WORKSHOPS. This toolset for pro players and harmonica service technicians includes the HOHNER Service Set MZ99331, but in addition contains a number of new specialist tools designed to enable the professional execution of all necessary maintenance operations on HOHNER harmonicas.



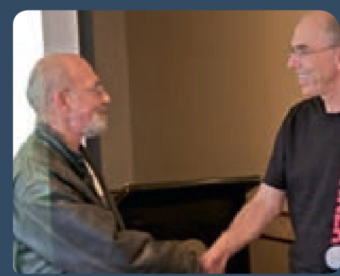
The HOHNER CSHOP expands our service concept to include an online department responsible for the worldwide distribution of original HOHNER spare parts. In combination with our new website playhohner.com we are able to present detailed service information and infotainment regarding the repair or modification of HOHNER instruments. In addition, detailed technical specifications for retailers, distributors and players are available online as downloads.



Leader of Certification Process Joe Filisko.

HOHNER Affiliated Customizers

The HOHNER Affiliated Customizer logo brings together the world's finest harmonica customizers, once again demonstrating the exceptional quality and potential of HOHNER harmonicas, which these high-end craftsmen have undertaken to use as the exclusive basis for their work. Following intensive evaluation by master customizer Joe Filisko, we granted the first certification to Thomas Hanke from Leipzig, Germany. Thomas has since been followed by Neil Graham from Australia and Joe Spiers from the USA.



Neil Graham (left) with Michael Timler, head of HOHNER Service Department .

Joe Spiers (left) with Ryan Wear, Harmonica Product Manager for HOHNER USA.

John Lennon

The year 2012 brought numerous highlights in the harmonica sector: the John Lennon Signture Harmonica, developed in cooperation with Yoko Ono, pays tribute to one of the greatest musicians in the history of popular music. HOHNER commemorated the centenary of the chromatic harmonica with the exclusive special model "HOHNER C" and the new starter chromonica "Discovery 48". Numerous new POP displays ensure greatly increased visibility for the harmonica in retail outlets.

Linda Krieg

Flex to the Max - the revolutionary new harmonica holder from HOHNER offers maximum comfort and optimal adjustment possibilities.

The "Hank Harp" with Hank Williamson from "The Boss Hoss", well known in the German speaking countries through the popular TV show "The Voice of Germany". The corresponding harmonica workshop DVD is available nationwide, also at newsagents.

Fabienne Waga (La Mixtura)

Commemorating the centenary of the chromatic harmonica: the exclusive special edition model "HOHNER C" and the new starter chromatic "Discovery 48".

Derek Crowder from HOHNER jamming with Steve Baker.

Setting new standards in the area of orchestral instruments: HOHNER Bass 58 / 78.

New POP displays ensure greatly increased visibility for the harmonica at retail outlets in the USA.

Hans-Günther Kölz

Morino+ Customizing: optical design entirely according to the wishes of the customer.

As colorful as the world of music - the new full color packaging for the Bravo and Nova starter accordions.

Thanks to numerous improvements, the legendary Morino remains the first choice for discerning professionals in 2012.

This year saw two important milestones in the accordion sector: several years of development work led to the complete refurbishment of the legendary Morino. The new Morino+ not only features numerous inprovements, but also offers the player completely individual customizing options. The Anacleto Collection is a new premium series for the professional Latin sector featuring a range of colorful design variations.

Gilbert Reyes from HOHNER with Juan Villarreal and Paulino Bernal.

Anacleto COLLECTION BY HOHNER

The new Anacieto Collection was developed in cooperation with numerous top stars of the Latin scene in order to create the world's best instruments for the world's best players.

Juan Villarreal

HOHNER special correspondent Jenny Rochin at the presentation of the new Anacieto Collection on the "Premios de la Calle".

David Hildalgo

The new Vámonos accordion microphone offers maximum flexibility thanks to its simple attachment mechanism and built in radio transmitter.

HOHNER presents the new Anacieto Collection at the "Premios de la Calle"

"Premios de la Calle" is the largest and most important event for Norteño and Mexican music in America, attracting the biggest stars of this scene including Los Cachorros de Juan Villareal, Los Tucanes de Tijuana, Voz de Mando and many more. As official sponsor, HOHNER used the event to present the new Anacieto Collection in a grand setting. Stars and cognoscenti loved them and numerous top musicians and multipliers insisted on using the new Anacieto accordions in their live performances.

Eric Noden and Joe Filisko

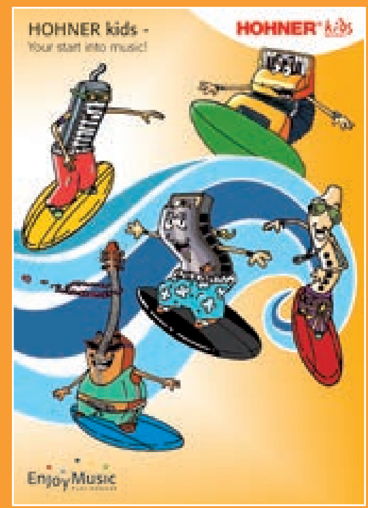
Daniel Granado

Eric Bazilian from THE HOOTERS contributed numerous tips which helped inspire the new Essential models.

The successful Essential Series was expanded to include five new models. Once again, the secret of this success lies in the combination of vintage-inspired designs with modern guitar technology.

HOHNER® kids MUSIC

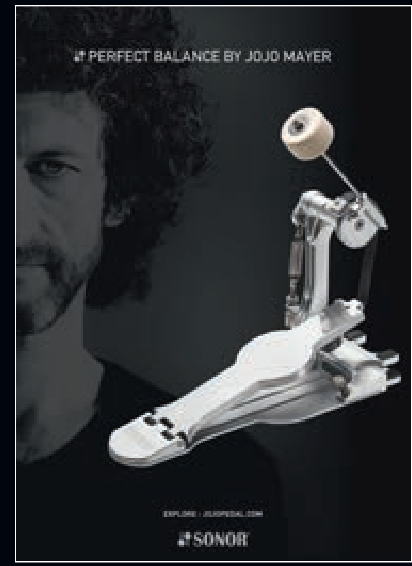
The Music Edition of the new HOHNER Kids Series was specially designed to conform to the needs of children of kindergarten age. The accompanying songbook with well known children's songs from all over the world and its own color-coded notation system offers a playful introduction to reading music and ensures rapid learning success. This series also sets new standards in terms of musicality. HOHNER Kids instruments aren't merely great toys, but also full-value musical instruments, where great emphasis is placed on accurate tuning and optimal playability. They're not just fun to play, but also motivate children to take further steps in the world of music.



New POP displays for the popular HOHNER HC starter guitars.

Jost Nickel

Tal Bergman



The main philosophy behind this pedal - developed with one of the world's most talented and renowned drummers, Jojo Mayer - is to achieve perfect harmony and interplay between the pedal's moving parts and the player's foot. The pedal combines careful design and perfectly balanced linear action and includes an innovative and unique folding / mounting mechanism.

Paul Walsham

Florian Alexandru-Zorn

Mikkey Dee, best known as the drum powerhouse for rock'n roll's loudest live band "Motörhead", has been part of the SONOR family of artists for more than 30 years. His new snare drum in genuine Motörhead design adds another rock heavyweight to the signature line.

The ProLite series sets a new standard of quality "made in Germany", combining innovation and state-of-the-art technology to raise the bar to the next level in Sonor's long history of drum making excellence. The videos accompanying the launch of the new series combine artist performances with a virtual factory tour and reached over 200000 views on Youtube in only three months.

The latest cajon line "Made in Germany" offers 5 new models from student level to high end, as well as 2 innovative cajon pads.

Lively participation in SONOR's activities by visitors of "The 66" fair.

Nené Vasquez

SONOR Orff

The biggest fair in Germany for the generation 50+, "Die 66" took place for the 7th time from April 20th to 22nd 2012 in Munich. 43000 consumers and 2000 trade visitors came to see the show and get the latest news from a wide range of different fields: from rock'n'roll dancing classes to high-tech walking sticks, wheel chairs, clothing, cars and outdoor activities, all the way to actively making music, a topic which made its debut at this year's show. The SONOR booth and the activities on the open stage drew large numbers of visitors, many of whom had a great time trying out instruments themselves.

A focal point of SONOR's presentation was Christine Kandert's new book “Wir machen Musik” (“We make music”), which is specifically directed at the elderly.

Once again 2012 has seen an unbelievable ukelele boom. With the leading brands LANIKAI and KOHALA, the HOHNER Group has a strong presence in this sector and our innovative marketing concepts have had a decisive influence on the image and presentation of the ukelele on the worldwide market.

Rev Ken

Björn Sonnenberg

Thanks to their their exceptionally fast response, the instruments of the new Quilt-Ash Series further consolidate LANIKAI's market leadership in the ukelele sector.

LANIKAI has expanded its range of accessories to include attractive gigbags and soft cases in Hawaiian look, a new ukelele stand and the best ukelele strings currently available, manufactured in cooperation with Aquila Corde S.R.L.

A further success factor for LANIKAI: new displays for the retail trade.

The new Rainbow Series from KOHALA proves that the premium segment can also be colorful with its great new POP display.

• 1 Business and Economic Environment

Sales Developments and Trends

In fiscal year 2011/2012, globally the economy grew by 3 %, while the music products industry mimicked this growth. In the current fiscal year, sales growth of the HOHNER Group´s many brands including HOHNER, HOHNER Kids, SONOR, SONOR ORFF, Lanikai and Kohala, outperformed the global economy by maintaining their strong international market positions.

For fiscal year 2011/2012, total sales of EUR 67.2 million increased by 5.0 % (6.6 % adjusted for exchange rate effects) over the previous year level of EUR 63.9 million. This sales increase was attributable to growth in North America of +9.7 %, Asia of +21.9 %, and South and Central America of +34.4 % partially offset by a 4.5 % decrease in sales to Europe.

Sales Development – Reed instruments (plus recorders)

For fiscal year 2011/2012, reed instruments comprised 47 % of the total sales of the HOHNER Group (versus 46 % in the prior fiscal year). Sales of reed instruments increased by 5.9 % (7.3 % adjusted by exchange rate effects) during fiscal year 2011/2012 to TEUR 31,360 compared to the prior fiscal year level of TEUR 29,623.

The European market segment represented 43 % of total reed instrument sales for fiscal year 2011/2012. Sales in Europe decreased by 0.2 % in the current fiscal year due to declines in Spain of -11 %, Italy of -9 % and Portugal of -33 %, nearly completely offset by increases in Germany of +21 %, in Russia of +7 %, Ukraine of +63 % and Croatia of +125 %.
The US market represents 34 % of the total reed instrument sales for fiscal year 2011/2012. Sales in the US increased by 7.2 % (11.7 % adjusted by exchange rate effects) during the current fiscal year.

The South and Central American market represents 12 % of total reed instrument sales in fiscal year 2011/2012. Sales in South and Central America increased by 27 % versus the prior fiscal year due to increases in sales in Mexico of +86 %, Colombia of +52 % and Argentina of +37 % as well as Brazil of +400 %.
The Asian market represents 11 % of total reed instrument sales in fiscal year 2011/2012. Sales in Asia increased by 2 % versus the prior year due to increases in sales in Korea (+21 %) and Singapore (+25 %) and China (+96 %) partially offset by sales declines in Australia (-13 %) and New Zealand (-20 %).

The HOHNER Group anticipates for fiscal year 2012/2013 that sales growth of reed instruments will increase by 5 % to 10 % over prior fiscal year levels.

Sales Development – Percussion Instruments

For fiscal year 2011/2012, percussion instruments comprised 25 % of the total sales of the HOHNER Group (versus 27 % in the prior year). Sales of percussion instruments decreased by 4.4 % (3.4 % adjusted by exchange rate effects) during fiscal year 2011/2012 to TEUR 16,738 compared to the previous level of TEUR 17,507. The global market situation in this segment showed a decline of 5 % in fiscal year 2011/2012 and has been characterized by too much inventory chasing too few customers

The European market segment represents 63 % of percussion instrument sales for 2011/2012. Sales in Europe decreased by 9 % in fiscal year 2011/2012 due to declines in Germany of -10 %, Netherlands of -26 %, Austria of -13 %, partially offset by sales increases in Italy of 68 %.
The US market represents 17 % of the total percussion instrument sales for fiscal year 2011/2012. Sales in the US decreased by 9 % (5 % adjusted by exchange rate effects) during the current fiscal year.

The remaining markets (South- and Central America, Canada, Asia and Africa) represent 20 % of total percussion instrument sales for fiscal year 2011/2012. Sales in these markets increased by 24 % due to growth in Asia of +16 %, Canada of +30 % and South and Central America of +34 %.
The HOHNER Group anticipates for fiscal year 2012/2013 that sales growth of percussion instruments will increase up to 4 %.

Sales Development – Stringed Instruments

For fiscal year 2011/2012, stringed instruments comprised 20 % of the total sales of the HOHNER Group (versus 17 % in the prior year). Sales of stringed instruments increased by 26.5 % (30.5 % adjusted by exchange rate effects) during fiscal year 2011/2012 to TEUR 13,614 compared to the previous fiscal year level of TEUR 10,765.

The US market represents 59 % of the total stringed instrument sales for fiscal year 2011/2012. Sales in the US increased by 27 % (33 % adjusted by exchange rate effects) during 2011/2012.

The European market segment represents 31 % of stringed instrument sales for fiscal year 2011/2012. Sales in Europe during the current fiscal year increased by 25 % due to increases in Germany of +88 % partially offset by declines in the Ukraine of -61 % and France of -12 %.
The remaining sales markets represent 10 % of stringed instrument sales for fiscal year 2011/2012.
The HOHNER Group anticipates for fiscal year 2012/2013 that sales growth of stringed instruments will increase between 4 % and 8 %. This growth forecast recognizes that the market for Ukuleles is saturated and will have significantly slower growth rates in the coming year.

Sales Development – Other Instruments

For fiscal year 2011/2012, other instruments (notably pianos, amplifiers, stands) comprised 8 % of the total sales of the HOHNER Group (versus 9 % in the prior year). Sales of other instruments decreased by 9.8 % (9.0 % adjusted by exchange rate effects) during fiscal year 2011/2012 to TEUR 5,444 compared to the previous fiscal year level of TEUR 6,035.

The European market segment represents 74 % of other instrument sales for fiscal year 2011/2012. Sales in Europe during the current fiscal year decreased by 12 % mainly due to decreases in France of 12 %.
The US market represents 25 % of the total stringed instrument sales for fiscal year 2011/2012. Sales in the US during the current fiscal year maintained the prior year's level.

The remaining sales markets represent 1 % of other instrument sales for fiscal year 2011/2012.
The HOHNER Group anticipates for fiscal year 2012/2013 that sales of other instruments will decrease between 5 % and 15 % notably due to the declines in Europe, particularly in France.

Capital Investments

Capital investments of the Group of TEUR 976 in fiscal year 2011/2012 increased by TEUR 367 from the prior fiscal year amount of TEUR 609. Furthermore, capital goods in an amount of about EUR 0.3 million were ordered at Hohner Musikinstrumente GmbH & Co. KG in fiscal year 2011/2012, but will be delivered during fiscal year 2012/2013. Capital Investments primarily related to the procurement of factory equipment utilized in accordion and harmonica production.

• 2 Results of Operations

The analysis of the results of operations is performed according to the gross yield of the individual segments, all other expenses and income as well as the taxes on income.

Gross Yield of the Business Segment Reed instruments

The gross yield of reed instruments increased by EUR 1.5 million to EUR 18.4 million compared to prior fiscal year. Gross yield as a percentage of total output (sales and variance of inventory) amounts to 59 % in fiscal year 2011/2012 compared to also 59 % in the prior fiscal year. The increase in absolute gross yield for reed instruments is a direct result of sales increases.

Gross Yield of the Business Segment Percussion Instruments

In fiscal year 2011/2012, the gross yield for percussion instruments of EUR 7.4 million increased by EUR 0.2 million compared to the prior fiscal year. Gross yield as a percentage of total output (sales and variance of inventory) amounts to 43 % in fiscal year 2011/2012 after 40 % in the prior year. The improvement of gross yield was mainly due to higher sales as a percentage and as an amount of high-quality drums with a high added value and thus a high gross yield.

Gross Yield of the Business Segment Stringed Instruments

In fiscal year 2011/2012, the gross yield for stringed instruments of EUR 3.6 million increased by EUR 0.6 million compared to the prior fiscal year. This increase was due to the sales increase of about 30.5 %. Gross yield as a percentage of total output (sales and variance of inventory) amounts to 27 % in the current fiscal year after 28 % in the prior fiscal year. The decrease in gross yield percentage was due to cost increases from suppliers which were not fully passed to customers through price increases.

Gross Yield of the Business Segment Other Instruments

In fiscal year 2011/2012, the gross yield for other instruments of EUR 1.7 million decreased by EUR 0.1 million compared to the prior fiscal year. Gross yield as a percentage of total output (sales and variance of inventory) amounts to 31 % in fiscal year 2011/2012 after 29 % in the prior fiscal year. The improvement of the percental gross yield was due to the positive impacts of the JPY exchange rate and a favorable product mix.

Personnel expenses, other expenses and income as well as depreciation and amortization

In fiscal year 2011/2012, total personnel expenses, other expenses and income as well as depreciation and amortization of EUR 27.9 million increased by EUR 1.7 million compared to prior fiscal year. This was a result of increases in personnel costs of 11.5 % attributable to the creation of reserves for restructuring (EUR 1.3 million) and the reduction of short time work.

Results from ordinary activities

Despite the necessary formation of provisions due to initiated restructuring measures, overall results from ordinary activities have improved by TEUR 634 to TEUR 2,636.

Income Taxes

In fiscal year 2011/2012, taxes on income of TEUR 82 (tax income) decreased by TEUR 600 compared to the prior fiscal year. TEUR 701 of the income tax reduction results from deferred tax assets on tax loss carry-forwards that were capitalized in the reporting year because of increased expected future tax savings on tax loss carry forwards of Matth. Hohner AG (derived from an improved business plan taking into account the expected impact of the initiated restructuring measures as well as the improved economic outlook).

• 3 Net Assets

Non-current assets

Intangible assets of TEUR 346 in fiscal year 2011/2012 increased by TEUR 24 compared to the prior fiscal year. This development results from the fact that amortization of intangible assets (TEUR 95) was lower than the capital investments of TEUR 118 (related to the development of internet websites) and exchange rate effects of TEUR 1. The intangible assets disposed had no remaining net book value.

Property, plant and equipment of TEUR 9,685 increased by TEUR 285 compared to prior fiscal year. Capital investments of TEUR 976 were higher than depreciation (TEUR 845). In addition, there were exchange rate effects of TEUR 154.

The increase in shareholdings by TEUR 19 to 343 TEUR results from exchange rate influences relative to the prior fiscal year.

Other receivables which are comprised of reinsurance claims decreased by TEUR 62 to TEUR 321.

Deferred tax assets of TEUR 3,647 increased by TEUR 1,450 over the prior fiscal year amount of TEUR 2,197. This increase results from the higher capitalization of deferred tax assets to existent loss carry-forward on the current five-year planning, which had been improved due to a slightly positive income planning as a result of the expected market recovery as well as the expected impact of the initiated restructuring measures. In addition, the increase of deferred tax assets was due to the deviating valuation for the inventories and accruals in the tax balance sheet.

Current assets

Inventories of TEUR 16,443 increased by TEUR 3,201 relative to the prior fiscal year. The increase is due to higher inventories at Hohner, Inc. of TEUR 1,479 and at Hohner Musikinstrumente GmbH & Co. KG of TEUR 767 in order to shorten delivery lead times, eliminate stock outs and improve brand growth. In addition, SONOR GmbH & Co. KG increased inventory levels relative to the prior fiscal year by TEUR 437. Exchange rate translation of Hohner, Inc. inventory at a higher rate effective at the balance sheet date also resulted in an additional TEUR 418 of inventory.

Trade receivables increased from TEUR 6,646 in the prior fiscal year to TEUR 7,270 in the current fiscal year mainly due to the increase in sales. This development contains an increase of about TEUR 195 that results from the conversion of trade receivables of Hohner Inc. with a higher exchange rate as at balance sheet date.

Other receivables (including other tax claims) of TEUR 523 in fiscal year 2011/2012 decreased by TEUR 246 compared to the prior fiscal year.

Cash and cash equivalents of TEUR 12,112 increased by TEUR 1,201 relative to the prior fiscal year.

Equity

Group equity of TEUR 26,029 increased by TEUR 2,743 compared to the prior fiscal year. The equity to total capitalization ratio decreased from 52.7 % in fiscal year 2010/2011 to 51.3 % in the current fiscal year. This increase, which is by TEUR 24 higher than the net income for the current fiscal year of TEUR 2,719, results from currency translation adjustments of TEUR +545, actuarial losses for pension accruals (TEUR -142) associated with employees of the company prior to January 1, 1987, the marked-to-market valuation of hedging instruments (TEUR +11) as well as from the dividend payment in fiscal year 2011/2012 (TEUR -390).

Liabilities

Payables to affiliated companies of TEUR 5,912 in the current fiscal year increased due to accrued interest in the amount of TEUR 342.

Liabilities to banks of TEUR 4,500 increased by TEUR 2,122 relative to the prior fiscal year. This is due to an increased utilization of Hohner, Inc.'s line of credit utilized to finance working capital.

The provisions and accruals for fiscal year 2011/2012 in the amount of TEUR 6,118 increased by TEUR 917 compared to the prior fiscal year. The development notably results from the setup of restructuring provisions in the amount of TEUR 1,328 and from the release of miscellaneous legal accruals.

Trade payables and other liabilities for fiscal year 2011/2012 in the amount of TEUR 7,218 increased by TEUR 378 relative to the prior fiscal year.

• 4 Financial Position

The interaction of cash inflows and cash outflows from operating activities, investing activities and financing activities led to a cash affecting increase in cash and cash equivalents by EUR 1.2 million which led to an accordant increase in liquid funds from EUR 10.9 million to EUR 12.1 million in the current fiscal year.

Cash flow from operating activities decreased by EUR 3.3 million compared to the prior fiscal year. This decrease was mainly due to the increase of other assets (inventories and receivables) compared to prior fiscal year. Cash flow from investing activities relates to investments in factory equipment utilized in accordion and harmonica production as well as investments in intangible assets associated with the purchased development of internet web sites. The positive cash flow from financing activities is mainly related to increased utilization of Hohner, Inc.'s line of credit which is used to finance the company's working capital.

Taking into consideration expected results in future years and the options available for refinancing, the company's future funding, including its ability to fulfill any other financial commitments or obligations, can be considered secure.

• 5 Research and Development

With regard to reed instruments, the Group launched the following innovations during the current fiscal year: the new John Lennon Signature model diatonic harmonica, the new Discovery chromatic harmonica, the FlexRack harmonica holder, the Morino+ (a super premium chromatic accordion targeted at the European market) and the Hohner Anacleto series (a series of super premium diatonic accordions targeted towards the US and Latin American markets) for players of tejano, norteno and cujunto music.

In stringed instruments, the HOHNER Essential Roots and Essential Plus series were launched to connect to HOHNER´s historical role in blues music. The HOHNER HC Series of classical guitars introduced new solid top models designed according to EGTA (European Guitar Teacher Association). Product development for Lanikai ukuleles focused on higher priced product positioning with LM (Solid Mahogany) and LQA (Quilt Ash) Series, as well as several limited edition models. The company's Kohala brand featuring lower priced ukuleles was extended significantly with the new Kin'O, Kanikapila and Rainbow Series as well as the special edition KOGS model.

Percussion instrument product development for fiscal year 2011/2012 focused on the introduction of the new Made in Germany "ProLite" drum series. In addition, an innovative new "Perfect Balance" pedal was launched in cooperation with renowned artist Jojo Mayer. New Made in Germany premium Cajons were introduced to extend the line to higher price points; these include the "Mediano", "Chico", "Listado", "Tineo" and "Grande".

Compared to previous year, the R&D expenses decreased by 3.4 % to TEUR 942.

• 6 Significant Events after the Balance Sheet Date

On April 2, 2012 Mr. Manfred Stöhr was dismissed as member of the Management Board of Matth. Hohner AG with immediate effect and subsequently as Managing Director of Hohner Musikinstrumente Verwaltungs-GmbH. As a consequence, Mr. Stöhr appealed to court. No decision has been issued at this stage.

On April 2, 2012, Clayman B. Edwards became a member of the Management Board of Matth. Hohner AG.

After the balance sheet date, there were no further events of particular significance subject to a reporting requirement.

• 7 Remuneration Report according to § 315 Section 2 No. 4 German Commercial Code

Each Management Board member is employed as managing director of one of the group subsidiaries and he receives his full remuneration only from this subsidiary. This remuneration received does not contain any separate remuneration for the function as Management Board member. The remuneration consists of a fixed part, which is paid monthly, and a performance bonus, which depends on the fulfillment of performance criteria and is paid after year-end closing.

The current structure of the remuneration system for the Management Board is periodically checked and, if necessary, adjusted by the responsible Supervisory Board committee. The variable remuneration for members of the Management Board also includes components with long-term incentives in accordance with the German Corporate Governance Code. A retroactive change of the performance criteria is not excluded. In the current fiscal year, remuneration paid to the Management Board amounted to a total of TEUR 281 versus TEUR 402 in the prior fiscal year. From the TEUR 281, TEUR 267 related to fixed payments and TEUR 14 related to variable payments. The total remuneration paid to former members of the Management Board and their surviving dependants during the current fiscal year amounted to TEUR 116 (versus the prior fiscal year amount of TEUR 120). Pension provisions for former members of the Management Board employed prior to January 1, 1987 amounted to TEUR 951 in the current fiscal year relative to TEUR 1,195 in the prior fiscal year.

According to the resolutions of the shareholders' meeting, each member of the Supervisory Board receives an annual lump sum remuneration.

- 8 Disclosures according to § 315 Section 4 German Commercial Code

The capital stock of Matth. Hohner AG is EUR 7,950,000.00 and is subdivided into 3,000,000 bearer shares without any nominal value. Each share is entitled to one vote. With respect to the rights and obligations pertaining to the shares, please refer to the applicable provisions in the Stock Corporation Act. There are no privileges or preferences.

The Management Board is authorized by shareholder resolution dated November 16, 2010, to repurchase shares of the corporation until November 15, 2015. The authorization is limited to the repurchase of shares up to a proportional amount of the equity capital of EUR 795,000.00. This is about 10 % of the existing equity capital of EUR 7,950,000.00. The time limit only applies for purchasing and not for holding the shares.

The share repurchase is made via the stock exchange or by a purchase offer publicly addressed to the shareholders of the corporation so that the equality principle (§ 53a Stock Corporation Act) is observed. If the share repurchase is made via the stock exchange, the nominal value of each share paid by the corporation (without additional expenses of acquisition) may not exceed more than 15 % or undercut more than 15 % of the average closing price of the shares of the corporation in the Regulated Unofficial Market of the stock market in Stuttgart on the ten trading days preceding the purchase. If there is no closing price on a trading day, the bid price is used instead, if there is no bid price the appraisal price of this trading day is used.

If the share repurchase is made by a public purchase offer to all shareholders of the corporation, the bid or the marginal value of the bid price range for each share (without additional expenses of acquisition) may not exceed more than 15 % or undercut more than 15 % of the average closing price of the shares of the corporation in the Regulated Unofficial Market of the stock market in Stuttgart on the ten trading days preceding the publication of the offer. If there is no closing price on a trading day, the bid price is used instead, if there is no bid price the appraisal price of this trading day is used.

The Management Board is authorized to sell stocks via the stock exchange on behalf of the corporation, which have been purchased under the aforementioned authorization, so that the equality principle according to § 53a Stock Corporation Act is observed.

The Management Board is authorized to use the purchased shares as consideration in line with mergers, for the acquisition of companies or for the shareholding in a company, provided that the respective merger or purchase is on behalf of the company. In this case there will be no purchase right for the shareholders. The Management Board is authorized to use acquired shares for servicing subscription rights which are granted within one or several share option programs as far as the shareholder meeting concludes such programs in the future. In this case the subscription right of the shareholders is excluded. Each share option program has to be based on the following framework data:

- Option rights may exclusively be granted to members of the Management Board of Matth. Hohner AG as well as to members of management of affiliated companies.

- The option rights become effective under the condition that the budgeted earning targets of the group are fulfilled, as well as that the budgeted earning targets for managing directors of the subsidiaries are fulfilled for the respective company at the time when the subscription rights are granted.

The option rights can be granted in one or several parts until 2020. The option rights can be exercised for the first time after the expiration of the waiting period of four years after the granting of the options rights. When exercising the option right the shares are issued at a maximum of five percent under the day’s rate at the time of granting the option.

The Management Board is authorized to collect own shares without further shareholder meeting resolution. The collection can be limited to a part of the repurchased own shares. The authorization for the collection can be used once or several times. The Supervisory Board is authorized to change the version of the articles of association according to the extent of the collection.

The aforementioned authorizations can be used entirely or in several parts, once or several times, alternatively or cumulatively.

With respect to direct and indirect investments in the capital of Matth. Hohner AG that exceed 10 %, HS Investment Group Inc., Tortola/British Virgin Islands has informed us on February 11, 2008, that their share in the voting rights of Matth. Hohner AG exceeded the threshold of 75 % on December 28, 2007 and now amounts to 75.02 %.

Gotthold Meyer GmbH & Co. KG, Marburg/Lahn informed us on April 2, 2012 that it exceeded the threshold of 10 % and now holds 11.17 % of the shares of Matth. Hohner AG (these shares are attributed to Meyer Geschäftsführungs GmbH and Mr. Matthias Meyer, Marburg/Lahn).

Regarding appointment and dismissal of members of the Management Board, § 84 et sqq. German Stock Corporation Act (AktG) shall apply. According to § 6 Section 1 of the Articles of Association of Matth. Hohner AG, the Management Board shall consist of one or several individuals. If several individuals are appointed members of the Management Board, the Supervisory Board, pursuant to § 84 Section 2 German Stock Corporation Act (AktG) or § 6 Section 2 of the Articles of Association, shall be entitled to appoint one member as Chairman.

According to § 179 Section 1 German Stock Corporation Act (AktG), any amendments to the Articles of Association shall require a resolution adopted by the Shareholder’s Meeting which, pursuant to § 179 Section 2 German Stock Corporation Act (AktG), shall require a majority representing three quarters of the capital stock present at the vote, unless the Articles of Association call for a different majority. In the event that the amendment concerns a change to the Company’s purpose, the Articles of Association may only require a larger majority. In § 16 Section 1, the Articles of Association of Matth. Hohner AG make use of the option to use different provisions according to § 179 Section 2 German Stock Corporation Act (AktG), stipulating that resolutions shall in principle be adopted with a simple majority of the vote or, if a majority of the capital stock is required, with a simple majority of the capital stock.

• 9 Report on the Internal Control System and Risk Management System with reference to the Group Accounting Process according to § 315 section 2 no. 5 German Commercial Code

Matth. Hohner AG prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the supplementary regulations pursuant to the German Commercial Code (HGB) and the Stock Corporation Act (AktG). Amendments to laws, accounting standards and other announcements are continuously analyzed regarding relevance and effects on the accounting and the changes resulting from this are considered in the accounting process and in the financial statements.

The documentation of the accounting process is structured comprehensibly for experienced third parties. For the storage of the relevant documents the statutory periods are taken into account. The functions with regard to the departments of the company substantially involved in the accounting process are clearly separated from each other. The responsibilities for group accounting, general accounting, determination of the account-assignment rules, evaluation models, accounting system and control of the accounting program are clearly defined.

Payroll accounting is outsourced to another company in line with an outsourcing agreement. The continuous monitoring of this service provider is made by the monthly coordination of the booking lists provided by the external service provider. The accounting transactions are done manually.

The Management Board is informed timely about all relevant processes within the management information system. As in prior year this internal management system comprises a broad monthly reporting encompassing but not limited to the following topics calling: sales, gross yield, net income, production result, cash flow and balance sheets. The Internal Control System, Accounting Process and Risk Management Systems are sufficient to inform the Management Board about relevant processes and business developments. The Management Board periodically communicates with and informs the Supervisory Board about business developments.

• Opportunities and Risks Inherent in Future Developments

Risks are an integral part of each entrepreneurial thought and action. These principles apply for the opportunity and risk management of the Hohner Group: For all transactions concluded the chances have to predominate; transactions of purely speculative character are strictly prohibited; the actions of the employees do not only have to meet the requirements of the existing law but also ethic and moral standards.

The risk management system is standardized and valid throughout the Group. The risks are analyzed and evaluated systematically, consistently and comprehensively. The risk management system captures and assesses risks to which the stock corporation (AG) and Group are exposed. The risk management system provides management with a base for decisions on how to address these risks. In principle, risks should be avoided, and safeguards should be used to mitigate the impact of inevitable significant risks on the stock corporation and the Group. Risk inventories and risk assessments for the stock corporation and its significant subsidiaries are regularly updated. Discussion and analysis regarding such risk inventories is a fixture at the regularly held Management meetings.

Risk inventories are structured to include the fields of

- Finance
- Purchase
- Sales
- IT
- Personnel
- Production
- Research & Development
- General Risks

The Hohner Group inherently has industry risk associated with selling its product in the music products industry. This risk is mitigated through geographic and product segment diversification within different affiliates of the Hohner Group. For example, despite the partly challenging environment at SONOR GmbH & Co. KG and Hohner S.A., overall a positive operating result could be reached. At SONOR GmbH & Co. KG there was a negative net income after tax due to establishment of accruals for restructuring costs regarding the adoption of the company to the changed market environment. At Hohner S.A. the net income after tax could even be slightly improved. At Hohner Musikinstrumente GmbH & Co. KG and Hohner Inc. sales as well as net profit have significant potential for improvement.

The further development of the U.S. dollar/Euro relation is a risk. In particular, the high price fluctuation in the last 12 months (with a range of more than 15 %) may cause disadvantages due to the rise in prices of the products resulted by the exchange rate. To date this development has been mitigated by the use of flexible quotation arrangements. In addition, to a minor extent, foreign exchange transactions are used to hedge risks. A monthly reporting regarding exchange risks is prepared by all consolidated companies to measure the situation.

Sourcing quality, timely and sufficient product is a risk for the Hohner Group as it seeks to establish a reliable supplier base avoid delays in delivery and supply bottlenecks, and improve the quality and availability of product. The Hohner Group has improved levels of inventory on hand and has intensified the identification and selection of alternative supply sources in order to mitigate these risks.

These are risks inherent in potential weakness of product demand within categories which is mitigated by a flexible arrangement of production capacities (e.g. reduction of overtime, short-time work) and an intensified close cooperation with the worldwide sales partners. In addition, affiliates of the Hohner Group involved in distribution activities maintain marketing contingency plans to reduce inventory in the event of unanticipated sales declines.

In manufacturing, any risks of deficiency of machines and employees are reduced by using foresight in our maintenance and capital investment policies and through continuous training and education for employees.

In sales, default risks are managed by stopping deliveries to customers who have reached individually set accounts receivable limits and by carefully monitoring potentially critical customers. Receivables and liabilities in foreign currency are all short-term, making currency risks manageable. Hedge instruments are used at the subsidiaries to manage currency risks. With regard to liquidity risk, it should be noted that, in addition to bank loans group financing is provided by retained earnings, capital stock, and a loan from the majority shareholder H.S. Investment Group Inc. Risks from cash flow fluctuations with regard to the use of financial instruments are immaterial.

Regarding Hohner Inc.'s line of cedit the company agreed to comply with following covenants: certain fixed charge and interest expense coverage ratios of Hohner Inc. In financial year 2011/2012 as well as in prior year HOHNER Group complied with these covenants.

• 11 Outlook for the Fiscal Year 2012/2013

The company´s largest and most important distribution partners all forecast growth for the coming year. The company remains mindful that any prognosis must reflect uncertainties due to the risks of procurement and further development of the bank and state debt crisis in Europe as well as the global economy. The company anticipates sales growth of 3 % to 6 % for the fiscal year 2012/2013 compared to previous fiscal year. For the subsequent fiscal year a comparable sales increase is forecasted.

Due to the expected effects from the restructuring measures already taken within the HOHNER Group management expects growing profits on Group level for fiscal years 2012/2013 and 2013/2014.

The successful focus of the HOHNER Group of the individual country strategies as well as innovative marketing and product development activities in the last years position the Group and its brands favorably to face the risks of the further economic declines. Continued improvements in the manufacturing facilities located Trossingen and Bad Berleburg/Aue are planned to increase efficiency and reduce costs. The target of these measures is to create and insure sustainable profitable growth of the company long-term.

Trossingen, June 29, 2012

Matth. Hohner Aktiengesellschaft

Management Board

Clayman Bruce Edwards

Stefan Althoff

Consolidated Balance Sheet as at March 31, 2012

ASSETS	Notes	EUR	March 31, 2012 EUR	March 31, 2011 TEUR
NON-CURRENT ASSETS				
Intangible assets				
Against payment acquired Franchises, industrial rights and similar rights and assets and licences in such rights and	(1)	225,038.67		220
assets Goodwill	(1)	102,406.00		102
Prepayments	(1)	18,680.00		0
Property, plant and equipment				
Land, land rights and buildings including buildings on third-party land	(2)	7,429,929.10		7,468
Technical equipment and machines	(2)	875,178.17		728
Other equipment, furniture and fixtures	(2)	1,303,117.51		1,151
Prepayments and assets under construction	(2)	77,016.33		53
Investments accounted for at equity	(3)	203,309.37		184
Other financial assets	(3)	140,000.00		140
Other receivables	(6)	321,292.81		383
Deferred tax assets	(4)	3,647,235.63		2,197
			14,343,203.59	12,626
CURRENT ASSETS				
Inventories				
Raw materials, consumables and supplies	(5)	1,847,378.56		1,703
Work in process	(5)	2,378,102.25		1,932
Finished goods and merchandise	(5)	12,007,230.56		9,356
Prepayments	(5)	210,181.19		251
Trade receivables	(6)	7,269,728.35		6,646
Other receivables	(6)	432,461.74		487
Income tax receivables	(13)	90,154.47		282
Derivative financial instruments	(21)	26,047.99		23
Cash on hand and bank balances	(7)	12,111,941.38		10,911
			36,373,226.49	31,591
			50,716,430.08	44,217

EQUITY AND LIABILITIESAND LIABILITIES	Notes	EUR	March 31, 2012 EUR	March 31, 2011 TEUR
EQUITY				
Subscribed capital	(8)	7,950,000.00		7,950
Revenue reserves	(8)	6,972,776.04		5,845
Other reserves	(8)	-414,829.98		-827
Consolidated retained earnings		11,520,728.43		10,318
			26,028,674.49	23,286
NON-CURRENT LIABILITIES				
Liabilities to affiliated companies	(9)	3,239,359.47		4,505
Liabilities to banks	(9)	978,554.38		1,156
Other liabilities	(11)	26,259.16		35
Provisions				
Provisions for pensions and similar obligations	(10)	3,971,705.98		4,008
Personnel-related	(10)	60,166.00		73
Other provisions	(10)	18,200.00		305
Derivative financial instruments	(21)	26,399.37		41
Deferred taxes	(4)	442,979.17		372
			8,763,623.53	10,495
CURRENT LIABILITIES				
Liabilities to affiliated companies	(9)	2,673,281.64		1,065
Liabilities to banks	(9)	3,520,510.40		965
Trade payables	(11)	2,615,872.45		2,567
Accruals and other liabilities	(11)	4,575,942.34		4,238
Income tax liabilities	(13)	469,957.28		786
Provisions				
Provisions for pensions and similar obligations	(12)	471,767.95		467
Personnel-related	(12)	1,328,000.00		7
Other provisions	(12)	264,800.00		341
Tax provision	(12)	4,000.00		0
			15,924,132.06	10,436
			50,716,430.08	44,217

Consolidated Income Statement for Fiscal Year from April 1, 2011 to March 31, 2012

	Anhang	EUR	2011/2012 EUR	2010/2011 TEUR
Sales	(14)		67,156,218.71	63,930
Decrease in finished goods and work in process			1,398,832.26	-599
Other operating income	(15)		1,983,999.30	1,878
			70,539,050.27	65,209
Cost of materials				
Cost of raw materials, consumables and supplies and of purchased merchandise	(5)	-36,276,310.23		-33,662
Cost of purchased services		-1,161,220.32		-871
		-37,437,530.55		-34,533
Personnel expenses				
Wages and salaries	(16)	-16,658,252.45		-14,596
Social security, pensions and other benefit costs		-3,271,342.16		-3,281
		-19,929,594.61		-17,877
Amortization of intangible assets and depreciation of property, plant and equipment	(17)	-941,047.30		-1,130
Other operating expenses	(17)	-8,968,999.15		-9,013
			-67,77,171.61	-62,553
Income from companies accounted for at equity	(18)	0.00		0
Other interest and similar income	(18)	97,434.68		70
Interest and similar expenses	(18)	-722,877.55		-724
			-625,442.87	-654
Result from ordinary activities			2,636,435.79	2,002
Income taxes	(19)		82,325.76	-518
Net income for the year			2,718,761.55	1,484
			EUR	EUR
Earnings per share	(20)		0.91	0.49

Statement of Comprehensive Income for Fiscal Year 2011/2012

	Anhang	2011/2012 EUR	2010/2011 TEUR
Net income for the year		2,718,761.55	1,484
Actuarial losses from defined benefit obligations	(10)	-162,377.00	-64
Actuarial gains and losses from income taxes		20,718.12	8
Gains and losses from hedging instruments, marked-to-market	(21)	34,789.69	49
Income taxes from hedging instruments, marked-to-market		-23,727.92	-18
Currency differences from investments accounted for At-Equity		19,019.94	2
Other currency differences		525,556.62	-308
Income and expenses recorded directly in equity (after deferred tax)		413,979.45	-331
Total income and expense recognized in equity		**3,132,741.00**	**1,153**

Statement of Changes in Group Equity for Fiscal Year 2011/2012

	Notes	Subscribed capital	Revenue reserves		Other reserves			Consolidated retained earnings	Total
			Legal reserve	Other revenue reserves	Currency translation	Actuarial gains/losses	Marked-to-market hedging instruments		
		TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
31.3.2010		7,950	305	5,275	-560	106	-42	9,099	22,133
Distribution of dividends according to the decision on Shareholder`s Meeting									
Allocation to other revenue reserves	(8)			244				-244	0
Net income for the year	(8)		21					1,463	0
Sub- total									23,617
Reserves recognized directly in equity									
– Currency differences due to consolidation measures					-306				-306
– Actuarial gains/losses including deferred taxes resulting thereof						-56			-56
– Hedging instruments including deferred taxes resulting thereof							31		31
Sub- total									-331
31.3.2011		7,950	326	5,519	-866	50	-11	10,318	23,286
Dividendenausschüttung gemäß Hauptversammlungsbeschluss	(8)							-390	-390
Allocation to other revenue reserves	(8)								0
Net income for the year	(8)		108	1,019				1,592	2,719
Sub- total									25,615
Reserves recognized directly in equity									
– Currency differences due to consolidation measures					545				545
– Actuarial gains/losses including deferred taxes resulting thereof						-142			-142
– Hedging instruments including deferred taxes resulting thereof							11		11
Sub- total									414
31.3.2012		7,950	434	6,538	-321	-92	0	11,520	26,029

Group Cash Flow Statement for Fiscal Year 2011/2012

	Anhang	2011/2012	2010/2011
		TEUR	TEUR
1. Cashflow aus betrieblicher Tätigkeit			
Konzernjahresüberschuss		2,719	1,484
Abschreibungen auf Gegenstände des Anlagevermögens		940	1,130
Veränderung der latenten Steuern	(4)	-1,379	-451
Veränderung der Rückstellungen		917	-258
Ergebnisanteil aus at equity bilanzierten Anteilen	(3)	0	5
Gewinn/Verlust aus Anlagenabgängen	(16/18)	0	-3
Veränderung übriger Aktiva		-2,895	599
Veränderung übriger Passiva		-290	791
Cashflow aus betrieblicher Tätigkeit		12	3,297
2. Cash flow from investing activities			
Cash inflow from disposal of intangible assets and property, plant and equipment		0	26
Cash paid for investments in intangible assets and property, plant and equipment		-1,094	-691
Cash flow from investing activities		-1,094	-665
3. Cash flow from financing activities			
Distribution of dividends		-390	0
Cash received from the issue of loans		2,911	184
Cash repayments of loans		-192	-1,293
Cash flow from financing activities		2,329	-1,109
4. Cash and cash equivalents at the end of the period			
Change in cash and cash equivalents (subtotal of 1 to 3)			
Effect of exchange rate changes on cash and cash equivalents		1,247	1,523
Cash and cash equivalents at the beginning of the period		-46	-33
Cash and cash equivalents at the end of the period		10,911	9,421
Finanzmittelfonds (= Liquide Mittel) am Ende der Periode	(7)	12,112	10,911
Additional disclosures regarding the Cash flow from operating activities			
Interest received		97	70
Interest paid		381	723
Income tax received		0	293
Income tax paid		-1,385	0

Notes to the Consolidated Financial Statements for Business Year 2011/2012

General information

Management

Clayman Bruce Edwards (since April 2, 2012)
Manfred Stöhr (until April 2, 2012)
Stefan Althoff

Registered office:
Andreas-Koch-Str. 9
78647 Trossingen
Germany

Information on the entity

Matth. Hohner Aktiengesellschaft is a stock corporation headquartered in Trossingen, Germany, whose shares are traded on the regulated market of the stock exchange in Stuttgart.

Description of the nature of the entity's operations and its principal activities

The company's purpose is to produce and market musical instruments and related products, all kinds of trading associated with these products and their accessories as well as to produce and distribute sheet music, books, music magazines, and educational products including exploitation of publishing rights and copyrights. The entity is authorized to engage in all transactions and take all measures which appear necessary or useful for achieving this company purpose, in particular establishing branches, participating in other entities and founding entities of its own, both within and outside Germany.

General disclosures

Matth. Hohner Aktiengesellschaft has prepared its consolidated financial statements according to International Financial Reporting Standards (IFRS) as these apply in the EU in the reporting period, as well as the supplementary provisions of the Handelsgesetzbuch (HGB – German Commercial Code) pursuant to § 315a Section 1 HGB and the Aktiengesetz (AktG – German Stock Corporation Act). All of the International Financial Reporting Standards (IFRS) applicable in the business year 2011/2012, the remaining applicable International Accounting Standards (IAS), the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and of the former Standing Interpretations Committee (SIC) were observed.

The consolidated financial statements satisfy all requirements of the International Financial Reporting Standards (IFRS) and their interpretations to the extent that they apply in the EU and are presumed to result in financial statements that achieve a fair presentation of financial position, financial performance and cash flows.

On June 29, 2012, the Management Board of Matth. Hohner Aktiengesellschaft submitted the consolidated financial statements as of March 31, 2012, to the Supervisory Board for approval. After approval by the Supervisory Board, the consolidated financial statements 2011/2012 of Matth. Hohner Aktiengesellschaft will be submitted to the operator of the Electronic Federal Gazette for Publication. The consolidated financial statements will then be available for download from the homepage of the company (www.hohner.eu).

The consolidated financial statements have been prepared in Euro. Unless indicated otherwise, all amounts are stated in thousands of Euro (TEUR).

The following standards or changes to standards, issued by the IASB, were to be applied for the first time in financial year 2011/2012:

Obligatory standards applicable as of March 31, 2012

Amendments to standards		Obligatory applicable for business years starting on or after the mentioned date	Status of the EU-endorsement (as of March 31, 2012)
IFRS1	IFRS 7 Limited exemptions from comparative IFRS 7 disclosures	01.07.2010	Endorsed
	Three amendments to IFRS 1- amendments of the accounting and valuation principles, exemption of the assumed acquisition and production costs of event-driven determination of fair value and assumed acquisition and production costs at companies which are subject to price regulations	01.01.2011	Endorsed
IFRS 3	Amendments to IFRS 3 (2008)	01.07.2010	Endorsed
IFRS 7	Amendments to IFRS 7	01.01.2011	Endorsed
IAS 1	Amendments to IAS 1	01.01.2011	Endorsed
IAS 24	Related party and persons disclosures	01.01.2011	Endorsed
IAS 27 (2008)	Amendments to IAS 27 (2008)	01.07.2010	Endorsed
IAS 32	Classification of purchase rights	01.02.2010	Endorsed
IAS 34	Amendments to IAS 34	01.01.2011	Endorsed

New interpretations		Obligatory applicable for business years starting on or after the mentioned date	Status of the EU-endorsement (as of March 31, 2012)
IFRIC 19	Extinguishing of financial liabilities with Equity instruments	01.07.2010	Endorsed

Amended interpretations		Obligatory applicable for business years starting on or after the mentioned date	Status of the EU-endorsement (as of March 31, 2012)
IFRIC 13	Amendments to IFRIC 13	01.01.2011	Endorsed
IFRIC 14	Contributions regarding minimum funding requirements paid voluntarily in advance	01.01.2011	Endorsed

These standards or changes to standards did not have significant impacts on the consolidated financial statements.

The following standards or changes to standards, voluntarily applicable on March 31, 2012, have not yet been applied:

Voluntarily applicable standards and interpretations prior to maturity on March 31, 2012

New and amended standards		Obligatory applicable for business years starting on or after the mentioned date	Status of the EU-endorsement (as of March 31, 2012)
IFRS 1	Removal of fixed dates for first-time adopters of IFRS	01.07.2011	Endorsed
	Severe hyperinflation	01.07.2011	Endorsed
IFRS 7	Improvement of disclosure regarding transfer of financial assets	01.07.2011	Endorsed
IFRS 9	Financial instruments: classification and valuation (financial assets)	01.01.2015	Not yet endorsed
IAS 24	Related Party Disclosure	01.01.2011	Endorsed
IFRS 10 IFRS 11 IFRS 12 IAS 27 (2011) IAS 28 (2011)	Consolidated financial statements Joint arrangements Disclosure of interest in other entities Separate financial statements Investments in associates and joint ventures	01.01.2013 01.01.2013 01.01.2013 01.01.2013 01.01.2013	Übernahme noch nicht erfolgt
IFRS 13	Determination of fair value measurement	01.01.2013	Not yet endorsed
IAS 1 (2011)	Amendments to IAS 1	01.07.2012	Endorsed
IAS 12	Amendments to IAS 12	01.01.2012	Not yet endorsed
IAS 19	Amendments to IAS 19	01.01.2013	Endorsed

New interpretations		Obligatory applicable for business years starting on or after the mentioned date	Status of the EU-endorsement (as of March 31, 2012)
IFRIC 20	Stripping costs in the production phase of a surface mine	01.01.2013	Not yet endorsed

No significant impacts on the consolidated financial statements are expected of these new or changed standards or interpretations.

Consolidated entities

In addition to Matth. Hohner Aktiengesellschaft, which is registered in the Stuttgart commercial register under HRB 460029, all significant entities are included in the consolidated financial statements for which Matth. Hohner Aktiengesellschaft has the possibility to directly or indirectly determine the financial or business policy so that the Group entities benefit from the activity of these entities (subsidiaries).

The consolidated Group as of March 31, 2012 is as follows:

Matth. Hohner Aktiengesellschaft, Trossingen, (parent company) holds direct interests in:

	Interest in %
Hohner Grundstücksgesellschaft mbH & Co. KG, Trossingen	100
SONOR GmbH & Co. KG, Bad Berleburg	100
SONOR Verwaltungs-GmbH, Bad Berleburg	100
Hohner S.A., Semur-en-Auxois/France	100
Hohner Inc., Glen Allen, Virginia/USA	100
Hohner Verwaltungs- und Beteiligungs-GmbH, Trossingen	100
Hohner Musikinstrumente GmbH & Co. KG, Trossingen	100
Hohner Musikinstrumente Verwaltungs-GmbH, Trossingen	100

SONOR GmbH & Co. KG, Bad Berleburg, holds an interest in:

Hohner- Sonor AG, Bolligen-Dorf/Schweiz	100

Hohner-St. Petersburg/Russia (wholly owned) is idle and has therefore not been consolidated due to its immateriality. Hohner-Konservatorium Trossingen GmbH, Trossingen (33 1/3 %) was not included in the consolidated Group due to the minority interest and its immateriality. The carrying amounts of these entities were included in the consolidated financial statements at amortized costs.

In addition, Hohner Inc., Glen Allen, Virginia/USA holds an interest of 25 % in Shanghai Lansheng-Hohner Musical Instruments Co., Ltd., Shanghai/China. These shares are included in the consolidated financial statements according to the equity-method.

At the preparation date of the consolidated financial statements the following shareholders hold an interest of 5 % or more in Matth. Hohner AG:

	Interest in %
H.S. Investment Group, Tortola/British Virgin Islands	75.02
Gotthold Meyer GmbH & Co. KG, Marburg-Lahn/Germany	11.17

Accounting and valuation policies

Consolidation principles

The consolidated financial statements include the financial statement of Matth. Hohner Aktien-gesellschaft and its subsidiaries as of March 31 of each business year. The financial statements of the subsidiaries and the associate companies are generally prepared on the same balance sheet date as of the parent company and based on consistent accounting policies; Shanghai Lansheng-Hohner Musical Instruments Co., Ltd., Shanghai/China, is an exception which is included at equity with a balance sheet date of December 31 because it is not possible to prepare interim financial statements with
appropriate effort.

Subsidiaries are totally consolidated starting from the acquisition date, which means from the moment in which the Group gains control. The inclusion in the consolidated financial statements ends, as soon as the control by the parent company does no longer exist.

The actual value method takes place by offsetting the acquisition costs with the Groups' interest of the fair value of the identifiable assets, debts and contingent liabilities of the subsidiary at the acquisition date (purchase method). The consideration for an acquisition is defined by the sum of the offered assets at the acquisition date´s current fair value and the received or assumed liabilities in replacement of the control of the acquired company. If applicable, the consideration for an acquisition includes any assets and debts resulting from a contingent consideration arrangement. The contingent consideration is valued by fair value at the acquisition date. Subsequent changes of these fair values will be adjusted against the acquisition costs, as long as it deals with the correction within the assessment period. All other changes of the fair value of contingent consideration as asset or as debt classed will be accounted according to the respective IFRS.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group retrospectively adjusts the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. The measurement period is the period from the acquisition date till the date in which the Group obtained full information about facts and conditions of the acquisition date, however the measurement period shall not exceed one year from the acquisition date. The goodwill which occurs at a merger is recognized at the date of control. It complies the surplus of the sum of the transferred consideration, the value of all non-controlling interest in the acquiree and the prior buyer's fair value of the equity in the acquiree (if given) and the net of the existing amounts of the acquired identifiable asset values. If the acquisition costs exceed the fair values of the acquired identifiable assets, debts and contingent liabilities, the goodwill will be accounted among the intangible assets. The goodwill will be subjected to an annual impairment test (Impairment-only-Approach). If acquisition costs are lower than fair values of the acquired identifiable assets, debts and contingent liabilities, the net will be promptly be accounted yield effectively. All intercompany balances, transactions, incomes, expenses, profits and losses from intercompany transactions which are contained in the book value of assets and liabilities are fully eliminated.

Estimates and assessments by management

For the preparation of the consolidated financial statements, estimates and assumptions had to be made, which have an effect on recognition and measurement in the balance sheet and the profit and loss statement or the statement of comprehensive income. In spite of careful estimation, the actual realized amounts could differ from the made assumptions. Estimations are especially required in:

- the impairment tests of intangible and tangible fixed assets, inventories,
- the determination of the expected useful economic life of capital assets,
- the estimation of the necessity and assessment of an impairment on loans and receivables,
- the measurement of the feasibility of differed tax assets,
- the recognition and the measurement of the accruals for pensions and other accruals.

The estimates were made on the basis of experiences and other relevant factors under consideration of the going concern principle. All estimates, assessments and assumptions were made with best knowledge and are constantly reviewed in order to minimize false estimations regarding the financial and profit situation of the Group.

The examination of the goodwill, the cash-generating units and other assets requires basically the estimation of future cash flows as well as their discounting. The estimations are forecasts based on the financial planning of the management. Other significant premises are discount factors as well as tax rates. A change of these factors may lead to impairments. Asset depreciation ranges are determined consistently across the Group based on intercompany table of the asset depreciation range. In case of well-founded deviating estimations it will be deflected from the asset depreciation range. All asset depreciation ranges are annually examined and may be modified if necessary. The actual useful economic life can differ from the forecasted.

Deferred taxes of loss carry forwards are estimated on the basis of the prospective feasibility of tax benefits that means if sufficient taxable income or lower burden is expected. The real fiscal profit situation in prospective periods and the real usability of loss carry forwards can be differing from the estimation at the date of activation of deferred taxes.

The measurement of accruals is depending on the actual business case. Also it can be partly complex and considerable involved with estimations. Management's assumptions concerning the occurrence as well as the possible level of the real availment are based among other things on experiences, estimates and discount factors. The real availment can differ from the recognition of the accruals insofar.

Foreign currency translation

Receivables and liabilities in foreign currency are converted with the exchange rate of the day of origin. Profits and losses happened of exchange rate movements are accounted among other operating income or other operating expenses.

The functional currency concept is applied to translate the financial statements in foreign currency by the subsidiaries included in the consolidated Group. The functional currency is the local currency for all entities, since all foreign entities operate independently. As of the balance sheet date, the assets and liabilities of the foreign subsidiaries are translated into the presentation currency of Matth. Hohner Aktiengesellschaft (Euro) using the closing rate. Income and expenses are translated at the weighted average exchange rate of the business year. The resulting translation differences are recognized separately in equity.

The following exchange rates were utilized for currency translation in the Group:

	Closing rate		Average rate	
	March 31, 2012	March 31, 2011	2011/2012	2010/2011
USD	1.3356	1.4207	1.3777	1.3225
CHF	1.2045	1.3005	1.2142	1.3381
CNY ((as of December 31, 2011)	8.1588	8.8220	8.9960	8.9712

Intangible assets

By initial recognition, intangible assets which were separately bought are measured at acquisition or manufacturing costs.

The subsequent measurement of intangible assets is dependent on the estimations if the economic lifetime is limited or unlimited. After initial recognition, intangible assets with limited economic lifetime are carried at cost less any accumulated amortization and any accumulated impairment losses. The period and the method of amortization will be examined for an intangible asset with a limited economic lifetime at least by the end of each business year. If the expected economic lifetime of the intangible asset or the expected asset's amortization of the intangible asset has been changed, another amortization period or another amortization method will be chosen. Such changes will be handled as changes of an estimation. The ordinary useful life of the intangible assets that can only be used for a limited period of time is between 3 and 20 years.

Assets are subject to an impairment test, if there is evidence that the intangible assets could be impaired.

Goodwill and assets with unlimited lifetime are not ordinarily amortized; however an impairment test is conducted once a year.

Profits and losses of the asset sales are recorded to other operating income or other operating expenses.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated straight line depreciation and accumulated impairment losses. The carrying amount of property, plant and equipment is tested for impairment whenever there is any indication that the carrying amount of an asset may exceed its recoverable amount.

Buildings are depreciated over a maximum period of 50 years. The ordinary useful life of technical equipment and machinery is between 5 and 15 years. Other equipment, furniture and fixtures are depreciated over 3 and 15 years. The expected useful life, residual values and depreciation methods are reviewed on each reporting date and necessary changes of estimations will be considered prospectively.

Profits and losses of the disposal of property, plant and equipment are recorded to other operating income or other operating expenses.

Impairment of assets

The Group measures on each reporting date whether there is any indication that an asset may be impaired. If there is such an indication or an annual review of an asset requires an impairment loss to be recognized, the Group estimates the recoverable amount. The recoverable amount of an asset is the higher amount of its fair value less costs to sell and its value in use. Recoverable amount is determined for every individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In this case, the recoverable amount of the cash generating unit, to which the asset belongs, has to be determined. As cash generating unit for the assignment of goodwill the respective subsidiary of Matth. Hohner Aktiengesellschaft is defined to conduct an impairment test.

If the carrying amount of an asset respectively a cash generating unit especially exceeds its recoverable amount, the asset is considered to be impaired and is depreciated to its recoverable amount. The determination of the value in use is based on the present value of future payments which is expected due to the ongoing use of the asset and cash generating unit respectively. The forecast of the figures is relied on the current planning for a five-year period. The series of cash flows is based on commercially available discount factors. Growth rates are based on empirical values occurred in the past.

An entity should assess at each balance sheet date whether there is any indication that an impairment loss recognized for an asset – except goodwill - in prior years may no longer exist or may have decreased. If such indications exist, the recoverable amount is estimated. An impairment loss from prior years should be reversed if, and only if, there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recorded. If this is the case, the carrying amount of the asset should be increased to its recoverable amount. This increased carrying amount should not exceed the carrying amount that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized for the asset in prior years. The amount of the reversal has to be recognized immediately in the net profit or loss for the period. After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset should be adjusted in future periods to allocate the asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Investments accounted for At-Equity

Hohner Inc. as a part of HOHNER Group holds an interest in a joint venture, Shanghai Lansheng–Hohner Musical Instruments Co., Ltd., Shanghai, China, which is a jointly controlled entity. The Group accounts for its shares in the joint venture using the equity method. Therefore the carrying amount of the share changes according to the share of the group on the profit or loss of the joint venture. Received distributions will lower the carrying amount.

Inventories

Inventories and trading goods are accounted to average acquisition costs. Unfinished and finished goods are accounted to production costs considering lower net realizable values. Production costs contain direct material and labor costs as well as variable and fixed production expenses.

As far as necessary, depreciations will be conducted to the net realizable value. The net realizable value is the estimated sales revenue made in the usual business less estimated remaining costs to completion and less required distribution costs. Write-downs (for finished goods and merchandise but not for raw materials or semi-finished goods) and the principle of valuation at net realizable value are taken into account. Raw materials and supplies, which are intended for the production of inventories, and unfinished goods will not be depreciated to a value which is below its acquisition or production costs, if the finished goods, in which they are adopted, can be sold at production costs or above.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition or production of a qualifying asset are part of the acquisition or production costs of that asset and, therefore, will be capitalized. Other borrowing costs are recognized as expense in the period in which they incurred.

Cash and cash equivalents

Cash and cash equivalents include cash, bank balances, and short-term investments with original terms to maturity of less than three months. For cash flow statement purposes, this item contains the cash funds and short-term investments defined above as they are available and can be turned into cash at short notice.

Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the sale of the asset or disposal group must be highly probable and the asset (or disposal group) must be available for sale in its present condition. For the sale to be highly probable the appropriate level of management must be committed to a plan to sell the asset. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (or disposal group) classified as held for sale are measured at the lower of its carrying amount and fair value less costs to sell. A non-current asset is not depreciated (or amortized) as long as it is classified as held for sale, but only impairment losses are recognized.

Financial instruments and hedges

Financial instruments according to IAS 39 are classified as financial assets at fair value through profit or loss, as loans and receivables, as held-to-maturity investments or as available-for-sale financial assets. Financial assets are carried at their fair values when recognized for the first time. In the case of financial investments which are not measured at fair value through profit or loss, any transaction costs that are directly attributable to the acquisition of the financial asset are also included. A retirement is only conducted, if the contractual right of an asset is running out or the asset value will be assigned, taking the detailed derecognition criteria of IAS 19 into account.

Financial liabilities ordinary constitute a claim on return in currency or another financial asset. The financial liability is initially recognized at its fair value, if applicable considering directly attributable transaction costs. Subsequent financial liabilities shall be measured at amortized cost using the effective interest method. The retirement of a financial liability will be only executed, if it is repaid, i.e. the obligations mentioned in the contract are fulfilled or repealed or run out.

Regular way purchases and sales of financial assets are recognized as of the trading date, i.e., the date on which the Group entered into the obligation to purchase or sell the asset. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market place concerned.

The Group decides on the classification of its financial assets upon initial recognition and reviews allocation at the end of each business year if permissible and appropriate.

For purposes of the IFRS 7’s instructions, financial assets will be classified in the following categories:

Financial assets Available for Sale (AfS): Financial assets available for sale are mainly financial investments, thus shares in non-consolidated subsidiaries and investments. These financial assets are carried at fair value, derived from a stock-market price or a fair-market value, in case a realistic appraisal can be derived in an active market. Unrealized gains or losses which are resulting in neither profit nor loss are recorded in an “available-for-sale-reserve“ in equity. In the case of the disposal of financial assets, any accumulated gains or losses from subsequent measurement, recorded in equity, are recognized at fair value in profit or loss.

If a fair value could neither be derived from comparable transactions or due the fact that there is no active market, the financial assets were carried at amortized cost as best estimate for their fair value. In case of objective information, stating a permanent or significant impairment of a financial asset, the impairment is recognized directly in profit or loss.

Loans and Receivables (LaR): After initial recognition, loans and receivables are carried solely at amortized cost under consideration of the effective interest method. Within the group loans and receivables predominantly are of short maturity. Thus the book value of loans and receivables is an adequate approximation of their fair value. Gains and losses from the disposal or impairment of loans and receivables are recognized directly in the consolidated profit and loss statement.

Cash on hand and bank balances (Cash): Cash on hand and bank balances have a maturity of up to three months. As defined their book value equals their fair value. Their value is equal to cash and cash equivalents of the Group's cash flow statement.

Financial Assets that qualify as Held for Trading (FAHfT) only exist in the form of derivative financial instruments which were not designed as hedging instruments. Gains or losses from financial assets held for trading are recognized in profit or loss.

The Group uses derivative financial instruments such as forward exchange contracts and interest swaps in order to hedge against interest and currency risks. These derivative financial instruments are initially recognized at fair value at the time the corresponding contract is signed and subsequently measured at fair value. Derivative financial instruments are recognized as assets if their fair value is positive and as liabilities if their fair value is negative. There are no derivative financial instruments, held or issued for speculative purposes.

Regarding derivative financial instruments that do not satisfy the criteria for hedge accounting, any gains or losses from changes in their fair value are immediately recognized in profit or loss. In contrast, for derivative financial instruments that do satisfy the criteria for hedge accounting, any gains or losses from changes in fair value are either recognized in profit or loss (fair value hedge) or directly in equity (cash flow hedge).

The fair value of forward exchange contracts is calculated with reference to the current forward exchange rates for contracts with similar maturity structures. The fair value of interest swap transactions is determined with reference to the market values of contracts with similar characteristics.

To hedge against currency risks the Group made use of derivative financial instruments for US Dollar and Japanese Yen as of March 31, 2012.

Hohner Group did not make use of the option to designate financial assets at fair value through profit or loss at initial recognition.

There are no held-to-maturity financial investments.

For purposes of the IFRS 7's instructions, financial liabilities will be classified in the following categories:

Financial Liabilities measured at amortized cost (FLAC): Financial liabilities measured at their book value are carried at amortized cost observing the effective interest method after initial recognition. In the Group these are especially liabilities to affiliated companies, financial institutions and trade payables. They predominantly are of short maturity. Thus their book value is an adequate approximation of their fair value. Gains and losses are directly recognized in the consolidated profit and loss statement of the Group.

Financial liabilities held for trading (FLHfT): This category contains derivative financial instruments which are not part of an effective hedge strategy according to IAS 39 and for which the fair market value in subsequent measurement resulted in a negative fair value. Changes in fair market value in subsequent measurement are recognized in profit or loss with exception of hedges with effective hedge relationship. The financial instruments are measured at stock market-/fair market value.

Hohner Group did not make use of the option to designate financial assets at fair value through profit or loss at initial recognition. The Group uses derivative financial instruments such as forward exchange contracts and interest swaps in order to hedge against interest and foreign exchange risks, especially those from operating activities. Herby mainly swaps and forward exchange contracts are used. There are no derivative financial instruments, held or issued for speculative purposes. Derivative financial instruments are initially recognized at fair value at the time the corresponding contract is signed and subsequently measured at fair value. The fair value corresponds to the positive or negative market value.

System of Allowance for Loans and Receivables (LaR)

The default risk is taken into account by sufficient allowances. Doubtful financial assets whereby a cash receipt is most likely not expected will be completely depreciated on the reporting date. If there are any doubts of the collectability, the default risk will be accounted for a respective allowance. In addition, an allowance derived from historical values is made on portfolio basis. The decision, if a default risk is recorded as impairment by the usage of a separate allowance account or directly as an allowance to the receivable is depending o the reliability of the risk situation. This also applies for reversals of the allowances. If there is a high level of reliability, a direct depreciation will be conducted. If there is a lower level of reliability, the default risk will be accounted on separate allowance accounts. If the reasons for an allowance may no longer exist, the allowance will be reversed. The reversal of the allowance will not exceed the primary acquisition costs. The following criteria will be used to identify any indication of impairment:

- Considerable financial difficulties of the issuer or debtor
- Breach of contract
- Concessions to the debtor in cases of financial difficulties
- Bankruptcy or recapitalization of the debtor has occurred or will probably occur
- Past experiences with customers

Equity

Matth. Hohner AG has no legal requirements for regulatory equity with the exception of § 7 German Stock Corporation Act (AktG). The equity management is subject to the whole Group’s capital containing Subscribed capital, Capital reserves and Revenue reserves. The Management Board of Matth. Hohner AG pays attention to an adequate equity ratio to ensure going concern. Furthermore, the equity management tends to maximize the value of the invested capital and earnings of participations by optimization of the equity- and debt-ratio. The policy of profit distribution, inter alia, serves as adjustment of equity. The capital is also monitored by the ratio of equity to total assets.

Provisions

Provisions are formed if the Group has a current (de facto or constructive) obligation as a result of a past event, the outflow of resources with an economic benefit to fulfill the commitment is probable and it is possible to estimate the amount of the commitment reliably. A provision will only be recognized when the Group has a present obligation with a highly probable outflow of resources and the amount of the obligation can be reliably estimated. Considering sufficient risk prevention, provisions will be accounted for in an appropriate amount. They are corresponding to the best estimations of the probable outflow which would be necessary to settle the current obligations on the reporting date. Long-term provisions will be discounted with a discount rate that reflects the current market assessments of the time value of money and the specific risks.

Pensions and other post-employment benefits

The Group has a defined contribution pension plan as well as a defined benefit pension plan.

The contributions of the current period are recorded directly in personnel expenses for the defined contribution plan. The debt of the defined benefit plan is recognized as accrual.

These benefits are not financed by funds. The expenses for the benefits granted under the defined benefit plans are determined separately for each plan using the projected unit credit method. This method considers not only the pensions and future claims known on the balance sheet date, but also future anticipated increases in salaries for salary-based benefit obligations and also future increases in pensions. Actuarial gains/losses are disclosed outside the income statement less the effect of deferred taxes, i.e., these are recorded in equity directly.

Hohner Musikinstrumente GmbH & Co. KG has benefit obligations on the basis of individual commitments and a company pension plan. The pension plan has been closed for new hires since January 1, 1987. For SONOR GmbH & Co. KG and Hohner Inc. only individual commitments exist.

Individual commitments:

Hohner Musikinstrumente GmbH & Co. KG, SONOR GmbH & Co. KG and Hohner Inc. grant current lifetime pension payments to former Board Members, Managing Directors and authorized signatories and their bereaved respectively, if agreed on an individual contract basis. There are no contractual pension obligations for current management Board Members, Managing Directors or authorized signatories.

Company pension plan:

For the benefit to be paid, the employees have reached the age of 65 and, when the first pension is paid, have been in qualifying employment with the company for 18 years. Qualifying employment is the period which the employee spent without interruption at the service of the company between the last entry in the company and the first time the pension is paid. An employee receives retirement pension after the date of leaving the company after reaching the age of 65 or after taking early retirement from the statutory pension insurance before reaching the age of 65 or disability benefits upon leaving the company due to the occurrence of a long-term disability as defined by the statutory pension insurance. Payment of retirement pension or disability benefits is graduated. The spouse of a deceased employee or former employee receives a survivor's pension equivalent to 50 % of the retirement pension or disability benefit which the deceased received or would have received at the time of his/her death if he/she had been unable to work due to a long-term disability at this point in time. If no retirement pension or disability benefits are due, the survivor's pension amounts to at least EUR 19.43 per month. The survivor's pension is not paid until the surviving spouse has reached the age of 60 and is not in gainful employment himself/herself.

Leases

Whether an arrangement is or contains a lease is determined on the basis of the substance of the arrangement and requires an estimate of whether performance of the contractual agreement is dependent on the use of certain assets and whether a right to use the asset is granted under the agreement.

Finance leases, under which all the risks and rewards incidental to the ownership of the transferred asset are substantially transferred to the Group are recognized at the lower of the fair value of the leased asset or the present value of the minimum lease payments at the inception of the lease. Lease payments are divided into the components finance costs and repayment of the lease liability in such a way that the residual carrying amount of the lease liability is subject to a constant interest rate. Finance costs are recognized immediately in income.

If there is not sufficient certainty that the ownership will be transferred to the Group by the end of the term, the capitalized asset is depreciated in full over the shorter of the lease time or its useful life.

In the case of operating leases, the payable lease installments are depreciated on a straight-line basis as expenses during the term.

Recognition of Income/Expenses

Revenue is recognized if it is probable that the economic benefit will accrue to the Group and the amount of the income can be reliably determined.

As a rule, revenues are only recognized when the service has been performed or the goods or products have been delivered, i.e. risk has been transferred to the customer. Net sales are recognized after all sales allowances.

Operating Expenses are recognized as soon as a service is rendered or such liability is incurred at the time. Costs of materials contain production costs of sold goods as well as the purchase costs of merchandise. Beside material and manufacturing costs which can be allocated directly the costs also include fixed and variable production overheads and indirect costs of production, such as depreciation on production related assets and intangible assets and maintenance.

Grants from the Federal Employment Agency ("Bundesagentur für Arbeit") reduce the personal expenses according to the employment-retirement-law in the benefit's year.

Interest income and interest expenses are recorded according to the effective interest method as income when it is probable that the economic benefits will accrue to the Group and the amount of the income can be reliably determined. Income from investment will be recognized when a dividend distribution resolution is on hand.

Taxes

Current tax assets and liabilities

Current tax assets and liabilities for the current and prior periods are measured at the amount to be expected to be recovered from or paid to the tax authorities. The tax rates and laws used to compute the amount are those that are enacted at the time the liability or receivable is accounted for.

Income tax expense contains current tax and deferred tax.

Deferred taxes

Deferred taxes are recognized using the asset and liability method according for all temporary differences between the carrying amounts of assets or liabilities in the balance sheet and the amounts used for income tax purposes as of the balance sheet date. Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets are recognized for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax loss and unused tax credits can be utilized. The following exceptions apply:

- No deferred tax assets may be recognized from deductible temporary differences arising on initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit or loss.

- Deferred tax assets may only be recognized for taxable temporary differences related to investments in subsidiaries, associates and interests in joint ventures to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient tax profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reviewed at each balance sheet date and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. A planning period of five years is used as a basis for the calculation.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability matures based on the tax rates (and tax laws) that have been enacted or substantively enacted on the balance sheet date.

Income taxes relating to items posted directly to equity are recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to offset current tax assets and current tax liabilities and these relate to income taxes levied by the same tax authority on the same taxable entity.

Value added tax

Revenue, expenses and assets are recognized net of value added taxes. The following exceptions apply:

- Where VAT incurred on the purchase of goods or services cannot be claimed by from the tax authorities, the VAT amount is recognized as part of the cost of the asset or as part of the expenses;

- Receivables and liabilities are recognized at amounts including any VAT.

The amount of value added tax refunded by or transferred to the tax authorities is recognized under current other receivables or other trade payables in the balance sheet.

I. Notes to the balance sheet

1. Intangible assets

The amount disclosed predominantly includes licenses for software and the goodwill of Hohner S.A. of TEUR 102. The capitalized goodwill is tested annually for impairment and in the event of impairment is written down against profit and loss. The recoverable amount of the cash generating unit was determined by a calculation of the value in use based on a five-year-forecast of cash flows of the financial budget which was allowed by the general management and a discount rate of 8.87 % p.a. (prior year: 6 %). In the interests of clarity and transparency, further disclosures are not made.

Research and development costs recorded in the income statement in the reporting year amount to TEUR 943 (prior year: TEUR 975). No development costs were capitalized in the reporting period.

The separate presentation of the development of intangible assets is attached as exhibit to the notes.

2. Property, plant and equipment

The separate presentation of the development of tangible assets is attached as exhibit to the notes.

The extraordinary depreciation amounted to TEUR 0 in the business year (prior year: TEUR 200).

The prospective minimum lease rates of irredeemable operating lease are presented in the table below:

	2012/2013	2013/2014–2016/2017	from 2017/2018	Total
March 31, 2012	TEUR	TEUR	TEUR	TEUR
Lease installments	52	57	0	109

	2011/2012	2012/2013–2015/2016	from 2016/2017	Total
March 31, 2011	TEUR	TEUR	TEUR	TEUR
Lease installments	37	39	0	76

The payments which are recorded as expenditure of the operating leases amounted to TEUR 50 (prior year: TEUR 36) in the business year 2011/2012. All lease contracts relate to cars and operating and business equipment and have no prolongation or purchase options.

On the balance sheet day March 31, 2012, land and buildings (factory premises of Hohner Grundstücksgesellschaft mbH & Co. KG, Trossingen, of SONOR GmbH & Co. KG, Bad Berleburg-Aue, and of Hohner Inc., Glen Allen, USA) amounted to TEUR 6,161 (prior year: TEUR 5,987) as well as TEUR 300 (prior year: TEUR 267) of operating and business equipment were used to ensure liabilities to banks.

3. Investments accounted for At-Equity and other financial assets

Hohner Inc., USA, holds a 25 % interest in Shanghai Lansheng-Hohner Musical Instruments Co., Ltd., Shanghai, China. Shanghai Lansheng-Hohner Musical Instruments Co., Ltd. is a joint venture in China which produces harmonicas. The balance sheet date is December 31. The carrying amount determined using the equity method is TEUR 203 (prior year: TEUR 184). The increase in the amount of this investment accounted by the use of the equity method is due to the development of the EUR/USD exchange rate. The following table provides financial information for this joint venture as of December 31, 2011 and December 31, 2010:

Shanghai Lansheng-Hohner Musical Instruments Co., Ltd.	December 31, 2011	December 31, 2010
	TEUR	TEUR
Current assets	872	803
Non-current assets	104	114
	977	917
Current liabilities	162	137
Non-current liabilities	0	0
	162	137
Revenues	1,124	930
Cost of sales	-1,013	-833
Administrative expenses	-110	-102
Earnings before income taxes	1	-5
Income tax expense (prior year: Income tax income)	0	0
Earnings after taxes	1	-5

The other financial assets refer to the shares in Hohner-Konservatorium Trossingen GmbH, Trossingen, held by Matth. Hohner Aktiengesellschaft. Due to the fact, that no quoted market price can reliably be measured, this financial asset is recognized at cost. The equity instrument is not defined for sale and a sale is also not intended.

The following table provides financial information for this associated company as of August 31, 2011 and August 31, 2010:

Hohner-Konservatorium Trossingen GmbH	August 31, 2011	August 31, 2010
	TEUR	TEUR
Current assets	352	134
Non-current assets	799	825
	1,151	959
Current liabilities	38	44
Non-current liabilities	218	223
	256	267

	2010/2011	2009/2010
	TEUR	TEUR
Revenues	382	483
Personnel expenses	-297	-311
Administrative expenses	-76	-94
Depreciation and amortization	-13	-27
Financial income	0	2
Financial expenses	-9	-7
Total income before income taxes	-13	46

4. Deferred tax assets and deferred tax liabilities

Deferred taxes were as follows on the balance sheet date:

	March 31, 2012	March 31, 2011
	TEUR	TEUR
Deferred tax liabilities		
Depreciation differences on non-current assets	361	330
Differences provisions	15	14
Other	67	28
	443	372
Deferred tax assets		
Bad debt allowances	75	51
Depreciation differences on non-current assets	44	239
Write-down differences on inventories	1,621	1,143
Differences pension provisions	85	137
Differences provisions	503	39
Unused tax losses	1,119	418
Other	200	170
	3,647	2,197

In business year 2011/2012, tax loss carry forwards totaling TEUR 1,119 (prior year: TEUR 418) were carried as deferred taxes in the consolidated financial statements. The anticipated tax savings of TEUR 7,568 (prior year TEUR 2,637) as a result of unused tax losses based on the five year forecast and the expected likelihood of realization of the planned results were capitalized.

At Matth. Hohner Aktiengesellschaft, there were unused tax loss carry forwards for which no deferred tax assets were recognized in the balance sheet as of March 31, 2012 in the amount of TEUR 82,136 (prior year: TEUR 89,293) (corporate income tax). These are temporally available unlimitedly to the Group in line with German tax rules for offsetting with future taxable earnings. In addition, there are unused tax losses (trade tax) in the amount of TEUR 100,868 (prior year: TEUR 99,626) at Matth. Hohner Aktiengesellschaft.

Taking into account the corporate income tax rate of 15 %, the municipal rate of 360 and the solidarity surcharge of 5.5 %, this results in a total tax rate for domestic companies of 28.425 % (prior year: 28.425 %). Foreign tax rates remain between 22 % and 38 % as in the prior year.

In accordance with IAS 12.39, no deferred tax liabilities are recognized for the temporary accounting differences between IFRS and tax balance sheet associated with investments in subsidiaries and at-equity investments in an amount of TEUR 6,910 (prior year: TEUR 5,859).

5. Inventories

The Group value of inventories increased during the business year 2011/2012 from TEUR 17,686 by TEUR 3,558 to TEUR 21,244. The total amount of all write-downs on inventories totals TEUR 4,801 (prior year: TEUR 4,444). As a result, net inventories increased by TEUR 3,201 from TEUR 13,242 to TEUR 16,443.

The change in write-downs for inventories that was recorded as expense (prior year: income) totals TEUR 357 (prior year: TEUR 526) and was posted to the cost of materials or change in inventories. The increase of write-downs resulted from the increase of inventories before write-downs.

On the balance sheet date, inventories in the amount of TEUR 6,985 (prior year: TEUR 4,675) were used to secure liabilities to banks. The increase mainly results from the utilisation of Hohner Inc.'s credit line.

6. Trade receivables and other receivables

Trade receivables and other receivables (current)

Trade receivables and other current receivables are interest-free and are generally due within 30–90 days. Bad debt allowances were recorded on the basis of past experience. In this amount income tax receivables have not been taken into account.

The following table states the extent of credit risks included in trade receivables:

in TEUR	Gross value March 31, 2012	Receivables with specific bad debt allowances	Receivables neither overdue nor with specific bad debt allowance	Overdue receivables without specific bed debt allowance	thereof: without specific bad debt allowance and overdue within the following time ranges:		
					less than 30 days	31 to 90 days	91 and more Days
Trade receivables	7,710	666	5,688	1,356	1,127	202	27

in TEUR	Gross value March 31, 2011	Receivables with specific bad debt allowances	Receivables neither overdue nor with specific bad debt allowance	Overdue receivables without specific bed debt allowance	thereof: without specific bad debt allowance and overdue within the following time ranges:		
					less than 30 days	31 to 90 days	91 and more Days
Trade receivables	7,289	705	5,830	754	473	189	92

The credit-worthiness of our customers is checked continuously and credit limits are adjusted accordingly, so that the identification and assessment of bulky risks is ensured at an early stage. For 10 (prior year: 11) debtors the account balance was more than TEUR 100 as at March 31, 2012. For these customers the Group considers the default risk not to be material. Due to the large customer base there are no additional bulky risks relating to single contractual partners in the Hohner Group.

In the process of the assessment of the recoverability of trade receivables, every change in credit-worthiness since the date of granting the term of payment until the balance sheet date is taken into account.

Material bad debt allowances, that need to be stated for IFRS 7-category "Loans and receivables" are made for trade receivables as well as other receivables within Hohner Group; apart from that allowances only play a minor role

The account for bad debt allowances as a whole developed as follows:

in TEUR	2011/2012	2010/2011
Bad debt allowance as at April 1	643	213
Exchange rate differences	8	-2
Change of specific bad debt allowance	-243	287
Change of general bad debt allowance	32	145
Bad debt allowance as at March 31	440	643

There was no bad debt allowance for trade receivables in the amount of TEUR 1,356 (prior year: TEUR 754), that were overdue as at balance sheet date, since no material changes in the creditworthiness of the debtors concerned was assessed and the repayment of the outstanding amounts is therefore expected.

For those receivables without bad debt allowance, that are not overdue, in the amount of TEUR 5,688 (prior year: TEUR 5,830), the creditworthiness of debtors is ensured and payment receipt for the outstanding receivables is expected.

On the balance sheet date, trade receivables in the amount of TEUR 3,261 (prior year: TEUR 2,557) were used to secure liabilities to banks – namely an overdraft credit with an interest rate of 3 % as of March 31, 2012. The credit line will be granted for now up to August 30, 2012.

Other receivables (non-current)

The other receivables (non-current) are at an amount of TEUR 321 (prior year: TEUR 383) at balance sheet date. There have not been any bad debt allowances for these receivables, since the creditworthiness of the debtors is ensured and payment receipt for the outstanding receivables is expected.

7. Cash and cash equivalents and short-term investments

Bank balances are subject to floating interest rates for short-term deposits. An amount of TEUR 104 (prior year: TEUR 206) was used to secure a revolving line of credit, and was therefore restricted in use for the Group.

8. Equity

Subscribed capital

The capital stock of Matth. Hohner Aktiengesellschaft amounts to EUR 7,950,000.00 as in the prior year and comprises 3,000,000 no-par value bearer shares with a computable value of capital stock of EUR 2.65 per share.

The Management Board is authorized by shareholders resolution dated November 16, 2010, to purchase shares of the corporation until November 15, 2015. The authorization is limited to the repurchase of shares up to a proportional amount of the equity capital of EUR 795,000.00. This is about 10 % of the existing equity capital of EUR 7,950,000.00. The time limit only applies for purchasing and not for holding the shares.

The share repurchase is made via the stock exchange or by a purchase offer publicly addressed to the shareholders of the corporation so that the equality principle (§ 53a Stock Corporation Act) is observed.

If the share repurchase is made via the stock exchange, the nominal value of each share paid by the corporation (without additional expenses of acquisition) may not exceed more than 15 % or undercut more than 15 % of the average closing price of the shares of the corporation in the Regulated Unofficial Market of the stock market in Stuttgart on the ten trading days preceding the purchase. If there is no closing price on a trading day, the bid price is used instead, if there is no bid price the appraisal price of this trading day is used.

If the share repurchase is made by a public purchase offer to all shareholders of the corporation, the bid or the marginal value of the bid price range for each share (without additional expenses of acquisition) may not exceed more than 15 % or undercut more than 15 % of the average closing price of the shares of the corporation in the Regulated Unofficial Market of the stock market in Stuttgart on the ten trading days preceding the publication of the offer. If there is no closing price on a trading day, the bid price is used instead, if there is no bid price the appraisal price of this trading day is used.

The Management Board is authorized to sell stocks via the stock exchange on behalf of the corporation, which have been purchased under the aforementioned authorization, so that the equality principle according to § 53a Stock Corporation Act is observed.

The Management Board is authorized to use the purchased shares as consideration in line with mergers, for the acquisition of companies or for the shareholding in a company, provided that the respective merger or purchase is on behalf of the company. In this case there will be no purchase right for the shareholders.

The Management Board is authorized to use acquired shares for servicing subscription rights which are granted within one or several share option programs as far as the shareholder meeting concludes such programs in the future. In this case the subscription right of the shareholders is excluded. Each share option program has to be based on the following framework data:

Option rights may exclusively be granted to members of the Management Board of Matth. Hohner AG as well as to members of the managements of affiliated companies.

The option rights become effective under the condition that the budgeted earning targets of the Group are fulfilled, as well as that the budgeted earning targets for managing directors of the subsidiaries are fulfilled for the respective company at the time when the subscription rights are granted.

The option rights can be granted in one or several parts until 2020. The option rights can be exercised for the first time after the expiration of the waiting period of four years after the granting of the options rights.

When exercising the option right the shares are issued at a maximum of five percent under the day's rate at the time of granting the option.

The Management Board is authorized to collect own shares without further shareholder meeting resolution. The collection can be limited to a part of the repurchased own shares. The authorization for the collection can be used once or several times. The Supervisory Board is authorized to change the version of the articles of association according to the extent of the collection.

The aforementioned authorizations can be used entirely or in several parts, once or several times, alternatively or cumulatively.

All three shareholders that had taken action for annulment against the decision of the shareholders' meeting in 2010, which on the one hand permits to buy own shares and on the other hand to use own shares excluding warrants, have withdrawn from their claims in the reporting year.

Revenue reserves

Legal reserve

An amount of TEUR 108 (prior year: TEUR 21) was added in accordance with § 150 section 2 of the German Stock Corporation Act (AktG).

Other revenue reserves

After deducting an amount of TEUR 108 which was transferred to the legal reserve, an amount of TEUR 1,019 of the net income 2011/2012 of Matth. Hohner Aktiengesellschaft (amounting to TEUR 2,146) was added to the other revenue reserves pursuant to § 58 section 2 German Stock Corporation Act (AktG) (prior year: retained earnings as of March 31, 2010 amounting to TEUR 244 were added to the revenue reserves).

Consolidated retained earnings

In the prior year, the retained earnings of Matth. Hohner AG amounted to TEUR 402, thereof TEUR 390 (corresponds to EUR 0.13 per share) were distributed as dividend to the shareholders and the remaining amount of TEUR 12 was added to the retained earnings according to the decision of the Shareholders' Meeting dated November 29, 2011.

Other reserves

Currency translation

The reserve for exchange rate differences serves to record the differences arising from the currency translation of the financial statements of foreign subsidiaries.

Actuarial gains/losses

This relates to two German and one American subsidiary which recorded the actuarial gains/losses that arose from the calculation of the pension provisions directly in equity (after netting with deferred taxes).

Capital risk management

The capital structure of the Group consists of equity attributable to the equity investors of the parent company, liabilities, including those liabilities mentioned in section 10 of these notes, as well as cash and cash equivalents. The equity comprises issued shares, revenue reserves as well as other reserves. Equity accounts for about 51 % (prior year: 53 %) of total capital.

9. Liabilities to affiliated companies and liabilities to banks

Current items

	Effective interest rate in %	Maturity	March 31, 2012	March 31, 2011
			TEUR	TEUR
Liabilities to affiliated companies				
	6.0 (prior year: 6.0)	TEUR 1,278 p.a. (annuity)	2,673	1,065
Liabilities to banks				
Interest-bearing, collateralized loan for TUSD 4,391 (prior year: TUSD 889)	3.0 (prior year: 3.0)		3,288	625
At 2.91% (prior year: 2.64%) interest-bearing, collateralized loan for TUSD 71 (prior year: TUSD 68)	1-month-LIBOR+1.85 (prior year:+1.85)		53	48
Loan for TEUR 1,278	4.90 (prior year: 4.90)	TEUR 128 p.a.	0	128
Loan for TEUR 1,725	4.95 (prior year: 4.95)	TEUR 15 per month (annuity)	171	164
Other loan			8	0
			3,520	965

Loan bearing interest of 3.0 % for TUSD 4,391

The loan is collateralized with inventories, trade receivables as well as property, plant and equipment.

Loan for TEUR 1,278

The loan is collateralized with land charges and was paid back in 2011/2012.

Non-current items

	Effective interest rate in %	Maturity	March 31, 2012	March 31, 2011
			TEUR	TEUR
Liabilities to affiliated companies				
	6.0 (prior year: 6.0)	2016 TEUR 1,278 p.a. (annuity)	3,239	4,505
Liabilities to banks				
At 2.91% (prior year: 2.64%) interest-bearing, collateralized loan for TUSD 983 (prior year: TUSD 1,054)	1-month-LIBOR+1.85 (prior year: +1.85)	2013	736	742
Loan for TEUR 1,725	4.95 (prior year: 4.95)	2014 TEUR 15 per month (annuity)	243	414
			979	1,156

Loan bearing interest of 2.91 % for TUSD 983

The loan is collateralized with land charges and is to be repaid until April 2013.

Loan for TEUR 1,725

The loan is collateralized with land charges.

10. Non-current provisions

Provisions for pensions

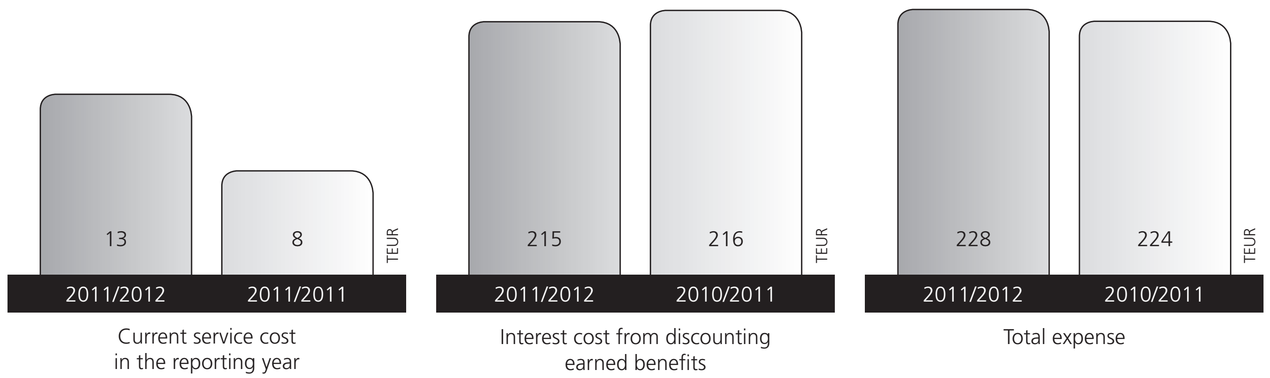
Within the Group there is a defined contribution plan for the employees of Hohner Inc., USA, and defined benefit plans for the employees of Hohner Musikinstrumente GmbH & Co. KG, SONOR GmbH & Co KG as well as Hohner Inc. Hohner Musikinstrumente GmbH & Co. KG has defined benefit obligations on the basis of individual commitments and a general company pension plan. At SONOR GmbH & Co. KG and Hohner Inc. there are individual commitments.

An expense of TEUR 17 was recognized for the defined contribution plan of our subsidiary in the USA (prior year: TEUR 18). For the year to come an expense of TEUR 34 is expected.
In Germany employees of the Group receive public social insurance benefits, which are treated as defined contribution plans according to IAS 19.46 because after payment of the contribution there is no further obligation for the Group. Current payments of contribution were accounted for social expenditures. In the financial year personnel expenditures contain contributions to pension plans according to IAS 19.46 with an amount of TEUR 162 (prior year: TEUR 229), for the Managing Directors no contributions were paid. The reduction results from the decrease of the contribution to the social pension fund to 19.6 % as of January 1, 2012.

The provisions for the defined benefit plans are measured on the basis of the following parameters:

	March 31, 2012	March 31, 2011
	%	%
Interest rates	4.00	5.14
Estimated rate of salary increases	0.00	0.00
Estimated rate of pension increases	1.50	1.50

The following table presents the components of the post-employment benefits from the defined benefit plan recorded in the consolidated income statement and the amounts carried in the consolidated balance sheet for the respective plans:



Development of the defined benefit obligations:

	2010/2011 TEUR	2009/2010 TEUR
Present value of unfunded benefit obligations as of April 1 of prior year	4,481	4,630
Current service cost	13	8
Interest cost	215	216
Pension payments	-439	-457
Actuarial loss (+)/gain (-) during the reporting period	162	83
Exchange rate differences from foreign pension plans	12	-5
benefit obligations as of March 31	4,444	4,475
Less present value of unfunded benefit obligations as of March 31 (calculated using actuarial assumptions as of April 1 of prior year)s)	-3,961	-4,429
Actuarial loss (-)/gain (+) during the reporting period	-162	-64
Experience adjustments during the reporting period	321	-18

The present values of the defined benefit obligations are shown in the following table:

	March 31, 2012 TEUR	March 31, 2011 TEUR	March 31, 2010 TEUR	March 31, 2009 TEUR	March 31, 2008 TEUR
Present value of the defined benefit obligation	4,444	4,475	4,630	4,663	5,158
Accumulated actuarial losses (+)/gains (-)	124	-38	-121	-270	50
Experience adjustments	321	-18	150	246	-81

Accumulated actuarial gains and losses after deferred taxes with an amount of TEUR 92 (prior year: TEUR -50 gains) were directly taken into equity.

On the balance sheet date the long-term share of pension provisions amounts to TEUR 3,972 (prior year: TEUR 4,008).

Other non-current provisions

	As of April 1, 2011 TEUR	Used TEUR	Reversed TEUR	Increased TEUR	As of March 31, 2012 TEUR
Personnel-related	73	0	13	0	60
Other	305	0	287	0	18
	378	0	300	0	78

	As of April 1, 2010 TEUR	Used TEUR	Reversed TEUR	Increased TEUR	As of March 31, 2011 TEUR
Personnel-related	85	7	5	0	73
Other	23	0	0	282	305
	108	7	5	282	378

The majority of personnel provisions concern settlement payments. Other provisions take into account are provisions for costs of lawsuits and archiving.

11. Trade payables and accruals and other liabilities

Trade payables are interest-free and are generally due within 30 days. Other liabilities (current) are not subject to interest and comprise – among others – personnel obligations of TEUR 2,334 (prior year: TEUR 2,214), bonuses of TEUR 432 (prior year: TEUR 466), outstanding invoices of TEUR 613 (prior year: TEUR 389) as well as tax liabilities of TEUR 213 (prior year: TEUR 277) as of March 31, 2012.

The existing non-current other liabilities account for liabilities to the German “Pensionssicherungsverein”. The tax liabilities mainly consist of income and value added tax liabilities.

12. Current provisions

Current provisions for pensions

Under the current provisions in the consolidated balance sheet an amount of TEUR 472 (prior year: TEUR 467) falls upon provisions for retirement. We refer to our comments in section 10.

Other current provisions

	As of April 1, 2011	Used	Reversed	Increased	As of March 31, 2012
	TEUR	TEUR	TEUR	TEUR	TEUR
tax provision	0	0	0	4	4
Personnel-related provision	6	6	0	1,328	1,328
Other	341	155	0	78	264
	348	162	0	1,410	1,596

	As of April 1, 2010	Used	Reversed	Increased	As of March 31, 2011
	TEUR	TEUR	TEUR	TEUR	TEUR
tax provision	0	0	0	0	0
Personnel-related provision	428	171	250	0	7
Other	228	181	26	320	341
	656	352	276	320	348

The increase of personnel-related provisions in financial year 2011/2012 relate to restructuring measures initiated of the reporting for which provisions had to be accured. Other provisions mainly consist of warranty provisions of TEUR 191 (prior year: TEUR 262).

The warranty provisions were recorded for warranty obligations of products sold in the past two years. The provision is measured on the basis of past experience of repairs and returns. It is expected that the majority of these costs will be incurred in the next business year, and all will be incurred within two years from the balance sheet date. The assumptions underlying the calculations of the warranty provision are based on the current sales level and information currently available on goods returned within the two-year warranty period. No further payments are made.

13. EIncome Tax liabilities

	As of April 1, 2011	Used	Reversed	Increased	As of March 31, 2012
	TEUR	TEUR	TEUR	TEUR	TEUR
Income tax Liabilities	786	714	47	445	470

	As of April 1, 2010	Used	Reversed	Increased	As of March 31, 2011
	TEUR	TEUR	TEUR	TEUR	TEUR
Income Tax Liabilities	921	529	0	394	786

The income tax liabilities result from corporate and business tax minus advance payments of these taxes of the business years 2010/2011 and 2011/2012.

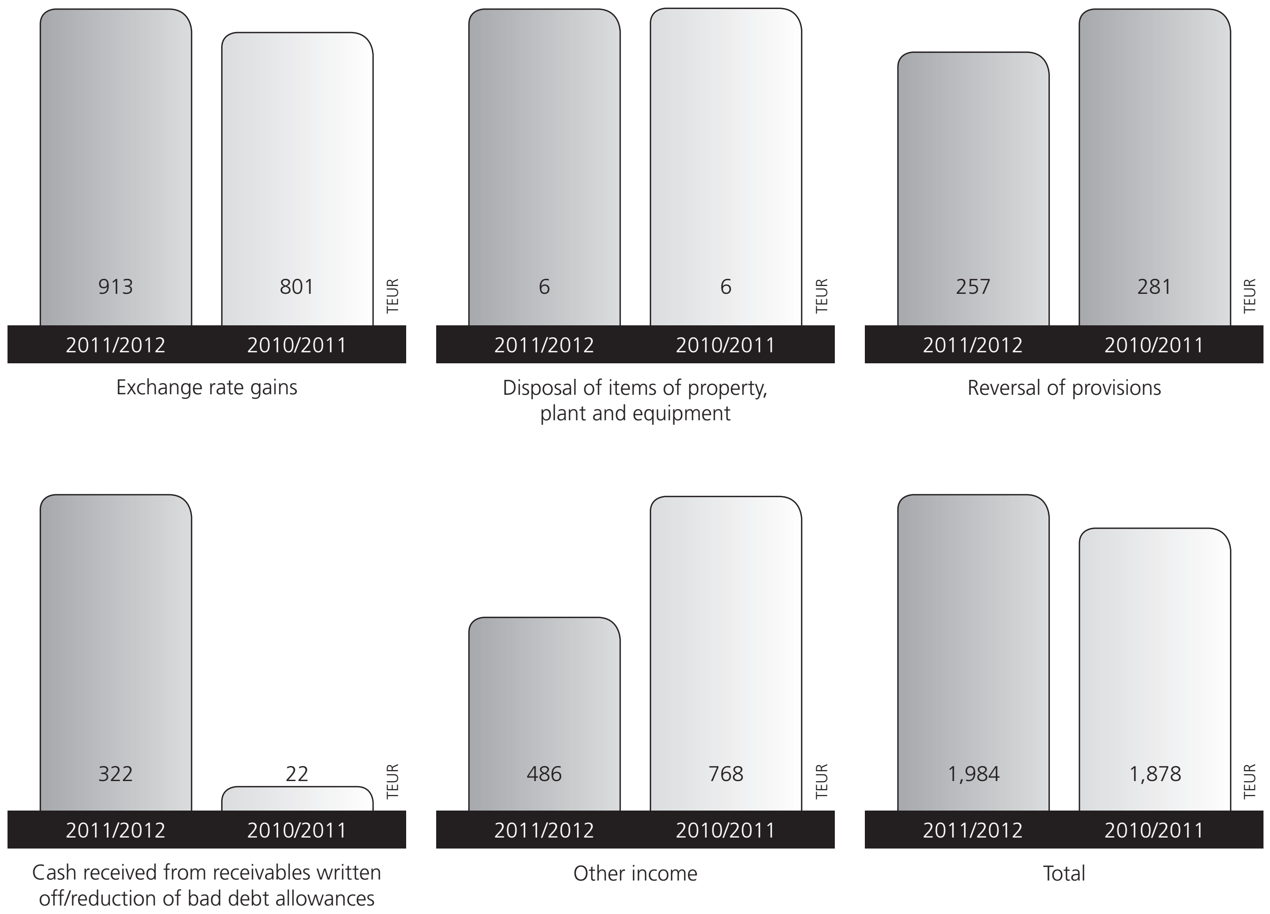
The income tax liabilities are accompanied by income tax receivables from corporate and business tax in the amount of TEUR 90 in the business year 2011/2012 (prior year: TEUR 282).

II. Notes to the income statement

14. Revenues

A breakdown of sales revenues can be found in the segment reporting (mostly from the sale of goods; see also section 22).

15. Other operating income



Other income is composed of fines, insurance benefits, trade allowances and rental income.

16. Personnel expenses

The increase of personnel expenses compared to prior year is mainly due to the formation of restructuring provisions (TEUR 1,328).

In the business year no payments of “Bundesagentur für Arbeit” according to the law of part-time work for older employees have decreased personnel expenses (prior year: TEUR 43).

17. Other operating expenses and depreciations

	2011/2012	2010/2011
	TEUR	TEUR
Advertising	2,038	1,539
Outgoing freight	1,260	1,238
Travel and entertainment	671	517
Consulting	471	459
Maintenance, repairs and servicing	596	392
Rent and lease	362	396
Exchange rate losses	690	714
Insurance	229	238
Commission	453	451
Telephone and postage	191	172
Bad debt allowances and bad debts	114	514
Disposal of items of property, plant and equipment	0	3
Other expenses	1,894	2,380
	8,969	9,013

Other expenses include among other things fringe costs, office supply and waste disposal.

The following table shows the fees for the auditor of consolidated accounts:

	2011/2012	2010/2011
	TEUR	TEUR
Annual audits	125	122
Other services	21	19
	146	141

The amount of depreciation for the business year is presented in the consolidated income statement as well as in the statement of changes in fixed assets.

18. Financial income and expenses

Income and expense from at-equity rated shares did not arise like in prior fiscal year.

Interest and similar expenses amounted to TEUR 723 (prior year: TEUR 724) in the business year 2011/2012. Thereof an amount of TEUR 342 (prior year: TEUR 379) related to affiliated entities.

Of the other interests of TEUR 97 (prior year: TEUR 70) which arose in the business year, TEUR 64 are allotted to interest of financial assets and TEUR 33 to discount of provisions.

19. Income taxes

The main components of the income tax expense for business years 2011/2012 and 2010/2011 are broken down as follows:

	2011/2012	2010/2011
	TEUR	TEUR
Current income taxes		
Current tax expense	1,208	938
Deferred income taxes		
Origin and reversal of temporary differences and tax loss carry forwards	-1,290	-420
Income tax expenses (+)/income (-) disclosed in the consolidated	-82	518

In addition deferred tax revenues of TEUR 3 (prior year: TEUR 10) on items that were directly recorded in equity were also accounted for directly in equity.

The table below shows the reconciliation between the income tax expense according to the consoli-dated income statement and the product of the net profit for the period and the applicable tax rate of the Group for the business years 2011/2012 and 2010/2011:

	2011/2012	2010/2011
	TEUR	TEUR
Result before income taxes	2,636	2,002
Expected income tax expense at the tax rate in Germany of 28.425% (prior year: 28.425%)	749	569
Adjustments of current income taxes incurred in prior years	-159	-289
Non-deductible expenses	8	23
Tax-free income, other deductibles and permanent differences	-30	-45
Deviation of the local tax rate on the deferred tax rate of the Group (including follow-on effect in consolidation)	110	53
Non-recognition or adjustment of unused tax losses	-761	191
Adjustment of tax rate	-10	0
Other	11	16
Income tax expenses (+)/income (-) disclosed in the consolidated income statement	-82	518

20. Earnings per share

When calculating earnings per share, the net income allocable to the shareholders of the parent entity of TEUR 2,719 (prior year: TEUR 1,484) is divided by the weighted average number of common shares outstanding (3,000,000) which did not change during the reporting period. The earnings per share for the business year 2011/2012 are EUR 0.91 (prior year: EUR 0.49). There are no dilutive effects.

21. Financial instruments – Risk management

Basic principles of risk management

The hedging strategies and risk factors of the financial instruments are determined by type of risk. Necessary hedging measures are arranged locally by the individual Group entities and monitored centrally.

The risk policy of Hohner Group is designed to responsibly and equitably balance the opportunities and risks of entrepreneurial when acting against each other. The risk management is an integral part of the planning and controlling process. Our overall goals are to secure the Group’s assets as well as increase of shareholder value. The strategies of the Group aim at the optimal use of opportunities given and limiting the risks associated with business activity to the greatest extent possible.

Risk management system of Hohner Group

An extensive risk management system continuously assesses and monitors the development of the company as well as current weaknesses, risks and chances.

The system of risk management comprises all business areas and includes reporting as a central element. This enables Group management to act fast and effectively. There are risk representatives and risk reporters for every part of the Group to ensure the implementation of the reporting process. The reporting process divides risks into categories, reports by these categories and then assesses the possibilities of occurrence and the possible outcomes measured in monetary units. The system is based on individual observations, supported by adequate management processes, and is integrated into the core activities. It starts with strategic planning and continues with procurement and sales including accounts receivable management. As extension to the planning process in the business units, the procurement and sales organization as well as the corporate functions, the system for risk management functions to identify and assess possible deviations from expected developments. In addition to the identification and assessment of material developments, which influence business activity, the system is designed to prioritize and implement activities. As a consequence there is a better way to make use of chances and to reduce risks. The business units provide risk reports on a regular basis. These risk reports are a core element of the risk management system. The reports are subject to the assessment of the Management Board and the persons in charge of the business units. The systematic further development of existing and new systems for early warnings significantly contributes to the further consolidation and to the projected development of the company-wide culture of risks.

The basic principles of the Group’s system for the identification and monitoring of risks, specific to the company’s business are described in a guideline to risk management, approved by the Management Board.

The explanations to the risks are realigned to IFRS 7, which divides risks into credit risks, liquidity risks and market risks. The explanations are complemented by further risks.

Credit Risks

Credit risks consist of the economic loss of a financial asset, the default of the contractual payment obligation of the contractual partner and the worsening of its creditworthiness, combined with the risk of a concentration on few contractual partners (bulky risk). Credit risks may occur in the IFRS 7-categories "Available for Sale (AfS)", "Loans and Receivables (LaR)", "Financial Assets Held for Trading (FAHfT)" and "Cash on hand and bank balances (Cash)". The creditworthiness of our customers is continuously checked and credit limits are adjusted accordingly. As a result of the sales structure implemented in Germany, there are bulky risks with respect to trade receivables. These risks are continuously identified and assessed.

Within the scope of its operative business Hohner Group is engaged in countries, in which economic risks can be found. At present those risks do not have any impact on the Group. In order to minimize these risks the corporate policy is to use certain terms of payment (e. g. cash in advance).

Available for Sale Financial Assets (AfS): This category mainly contains shares in investments, valued at-equity, as well as shares in a minority investment (other financial assets). The maximum credit risk of this category equals its book value. The Group does not consider this to be material.

Loans and Receivables (LaR): The risk within this class is taken into account by bad debt allowances. The maximum credit risk of this category equals its book value.

Cash on hand and bank deposits (Cash): This category mainly contains cash and bank deposits with short maturity. There are no credit risks.

Financial Assets Held for Trading (FAHfT): This category contains derivative financial instruments that are solely used for hedging in the Group. The contractual partners for these derivative financial instruments are especially international financial institutions. There are currently no overdue payments or allowances due to losses.

Liquidity risks

Liquidity risk describes the risk, that the Group cannot or only to a limited extent fulfill its financial obligations. Cash and cash equivalents and unused lines of credit ensure liquidity of Hohner Group. Besides bank loans, most Group financing is provided by the majority shareholder H.S. Investment Group Inc., whereby the financial planning of the Hohner Group takes all debt servicing into account.

Market risks

Economic trends of our core markets may influence our business by changes in consumer behavior. This may either positively or negatively influence sales and net income. The company´s largest and most important distribution partners all forecast growth for the coming year. The company remains mindful that any prognosis must reflect uncertainties due to the risks of procurement and further development of the financial crisis in Europe as well as the global economy. The company anticipates sales growth of 3 % to 6 % for the fiscal year 2012/2013 compared to previous fiscal year.

Foreign exchange and interest rate risk

Due to its international operations, Hohner Group is also exposed to currency and interest rate fluctuations. It is company policy to exclude or limit these risks as far as possible by entering into hedge transactions.

Foreign exchange risks exist in particular where sales and purchases of materials exist or will arise in the ordinary course of business in a currency other than the local currency of the entity. Forward exchange contracts are used to hedge these planned sales and purchases of materials and also where materials are purchased in a foreign currency, the related sales are also made in that currency so as to reduce the currency risk. Hedging mainly pertained to the US dollar and the Japanese yen.

Sensitivity analysis for foreign exchange risks:

In order to analyze foreign exchange risks, the Group performs a sensitivity analysis at least once per month. In this process the changes of +10% and -10% in foreign exchange rates are simulated and effects on material costs and net yield are investigated. The simulation is performed for USD, CHF and JPY. For the financial year 2011/2012 the analysis revealed the following risks affecting the annual result:

Currency	Average exchange rate 2011/2012	Changes in results due to an exchange rate of -10 % (TEUR)	Changes in results with an exchange rate of +10 % (TEUR)
USD	1.3777	-323	+262
JPY (exchange rate of 31.12.2011)	110.00	-245	+200
CHF	1.2142	-16	+13
Total		-584	+475

Currency	Average exchange rate 2010/2011	Changes in results due to an exchange rate of -10 % (TEUR)	Changes in results with an exchange rate of +10 % (TEUR)
USD	1.3225	-240	+196
JPY (exchange rate of 31.12.2010)	116.24	-232	+190
CHF	1.3881	-24	+20
Total		-496	+405

Correspondent to changes in consolidated net income, there are changes in equity.
To hedge against interest rate risks which result from changes in the level of interest rates for existing liabilities to banks, there are long-term interest rate arrangements for domestic bank loans eliminating the interest rate risk. Due to fixed rates of interest as well as interest rate swaps for bank loans with variable interest rates, there is currently no need to perform sensitivity analysis.

Fair value

The Group financial instruments which are not accounted for at fair value, primarily consist of cash equivalents, trade receivables, other receivables, trade payables, other liabilities, overdraft facilities and long-term loans.

The carrying amount of cash equivalents and the overdraft facilities approximates fair value. The carrying amount of receivables and payables based on historical cost and subject to normal trade credit terms also approximates fair value due to the short maturity of the instruments.

The fair value of non-current liabilities is based on the currently available interest rates for borrowing with the same maturity and credit-standing profile. At present the fair value of borrowing corresponds closely to the net carrying amount.

Depending on their fair value at the balance sheet date, derivative financial instruments are reported separately on the assets side (positive fair value) or on the liabilities side (negative fair value) of the balance sheet respectively. Effective cash flow hedges are recognized directly in equity; otherwise derivative financial instruments are posted to income.

Book values and fair values of financial instruments

The table below shows the reconciliation of the book values shown in the balance sheet and the IFRS 7-categories and IAS 39-valuation categories respectively, subdivided into recognition of financial instruments carried at amortized cost and financial instruments valued at their fair value. The fair value of a financial instrument is defined as the price a third party would be willing to pay for taking over the rights and duties connected with that financial instrument.

As at March 31, 2012 in TEUR	IAS 39-/ IFRS 7-category	Book value as at March 31, 2012	Subsequent measurement			No IFRS 7-category
			Carried at amortized cost	Fair value recognized directly in equity	Fair value through profit or loss	
Non-current assets						
Investments accounted for at equity	AfS	203	203			
Other financial assets	AfS	140	140			
Other receivables	LaR	321	321			
Current assets						
Trade receivables	LaR	7,270	7,270			
Other receivables	LaR	432	432			
Financial instruments	FAHfT	26	0		26	
Cash on hand and bank balances	Cash	12,112	12,112			
Non-current liabilities						
Liabilities to affiliated companies	FLAC	3,239	3,239			
Liabilities to banks	FLAC	979	979			
Lease liabilities	FLAC	0	0			
Other liabilities	FLAC	26	26			
Financial instruments	FAHfT	26	0	26		
Current liabilities						
Liabilities to affiliated companies	FLAC	2,673	2,673			
Liabilities to banks	FLAC	3,520	3,520			
Trade payables	FLAC	2,616	2,616			
Lease liabilities	FLAC	0	0			
Other liabilities	FLAC	4,576	4,576			
Financial instruments	FLHfT	0	0			
Aggregated by IAS 39-/IFRS 7-category						
Financial assets Available for Sale	AfS	343	343			
Loans and Receivables	LaR	8,023	8,023			
Financial Assets Held for Trading	FAHfT	26	0		26	
Cash on Hand and Bank Balances	Cash	12,112	12,112			
Financial Liabilities carried at Amortized Cost	FLAC	17,629	17,629			
Financial Liabilities Held for Trading	FAHfT	26	0	26		

As at March 31, 2011 in TEUR	IAS 39-/ IFRS 7-category	Book value as at March 31, 2011	Subsequent measurement			No IFRS 7-category
			Carried at amortized cost	Fair value recognized directly in equity	Fair value through profit or loss	
Non-current assets						
Investments accounted for at equity	AfS	184	184			
Other financial assets	AfS	140	140			
Other receivables	LaR	383	383			
Current assets						
Trade receivables	LaR	6,646	6,646			
Other receivables	LaR	487	487			
Financial instruments	FAHfT	23	0		23	
Cash on hand and bank balances	Cash	10,911	10,911			
Non-current liabilities						
Liabilities to affiliated companies	FLAC	4,506	4,506			
Liabilities to banks	FLAC	1,156	1,156			
Lease liabilities	FLAC	0	0			
Other liabilities	FLAC	35	35			
Financial instruments	FLHfT	41	0	41		
Current liabilities						
Liabilities to affiliated companies	FLAC	1,065	1,065			
Liabilities to banks	FLAC	950	950			
Trade payables	FLAC	2,567	2,567			
Lease liabilities	FLAC	0	0			
Other liabilities	FLAC	4,230	4,230			
Financial instruments	FLHfT	0	0			
Aggregated by IAS 39-/IFRS 7-category						
Financial assets Available for Sale	AfS	324	324			
Loans and Receivables	LaR	7,122	7,122			
Financial Assets Held for Trading	FAHfT	23	0		23	
Cash on Hand and Bank Balances	Cash	10,911	10,911			
Financial Liabilities carried at Amortized Cost	FLAC	14,509	14,509			
Financial Liabilities Held for Trading	FLHfT	41	0	41		

Net gains and net losses:

The table below shows the net gains or losses on financial instruments recognized in the profit and loss statement.

2011/2012										
in TEUR	Assets				Equity and Liabilities			Total	Reconciliation	
Category	FAHfT	AfS	LaR	Cash	FLHfT	FLAC	No category		No FI	Net financial income
1. Net gains or losses recognized in financial result										
Investments accounted for at equity										
Income from investments										
Expenses from investments										
Net income from investments										
Interest income				97				97		97
Interest income from fair value valuation										
Total interest income				97				97		97
Interest expenses						-507		-507		-507
Interest for provisions for pensions									-215	
Interest expenses for fair value valuation										
Interest expenses leasing										
Total interest expenses						-507		-507	-215	-507
Net income from interest				97		-507		-410	-215	-410
Total net gains or losses				97		-507		-410	-215	-410
Financial result										-625
2. Net gains or losses in operating result										
Exchange rate gains			336	177		233	167	913		
Exchange rate gains -										
Financial instruments								0		
Reduction of bad debt allowances and cash received from receivables written off			322					322		
Exchange rate losses			-148	-178		-364		-690		
Exchange rate losses -										
Financial instruments										
Bad debt allowances and bad debts			-114					-114		
Total net gains or losses			396	-1		-131	167	431		
3. Net gains or losses recognized directly in equity										
Currency translation							545	545		
Change in actuarial gains/losses							-142	-142		
Change of fair value of marked-to-market hedging instruments					11			11		
Total net gains or losses					11		403	414		

2010/2011										
in TEUR	Assets				Equity and Liabilities			Total	Reconciliation	
Category	FAHfT	AfS	LaR	Cash	FLHfT	FLAC	No category		No FI	Net financial income
1. Net gains or losses recognized in financial result										
Investments accounted for at equity										
Income from investments										
Expenses from investments										
Net income from investments										
Interest income				70				70		70
Interest income from fair value valuation										
Total interest income				70				70		70
Interest expenses						-507		-507		-507
Interest for provisions for pensions									-217	
Interest expenses for fair value valuation										
Interest expenses leasing										
Total interest expenses						-507		-507	-217	-507
Net income from interest				70		-507		-437	-217	-437
Total net gains or losses				70		-507		-437	-217	-437
Financial result										-654
2. Net gains or losses in operating result										
Exchange rate gains			119	330		347	5	801		
Exchange rate gains -										
Financial instruments								0		
Reduction of bad debt allowances and cash received from receivables written off			22					22		
Exchange rate losses			-143	-316		-238	-17	-714		
Exchange rate losses -										
Financial instruments										
Bad debt allowances and bad debts			-514					-514		
Total net gains or losses			-516	14		109	-12	-405		
3. Net gains or losses recognized directly in equity										
Currency translation							-306	-306		
Change in actuarial gains/losses							-57	-57		
Change of fair value of marked-to-market hedging instruments					31			31		
Total net gains or losses					31		-363	-332		

Maturity of financial liabilities

The table below shows the analysis of maturity of financial liabilities divided into IFRS 7-categories:

	March 31, 2012			
in TEUR	Maturity up to one year	Maturity between one and five years	Maturity of more than five years	Total
Financial Liabilities carried at Amortized Cost (FLAC)	13,743	4,632	14	18,389
Financial Liabilities Held for Trading (FLHfT)	0	26	0	26
	13,743	4,658	14	18,415

	March 31, 2011			
in TEUR	Maturity up to one year	Maturity between one and five years	Maturity of more than five years	Total
Financial Liabilities carried at Amortized Cost (FLAC)	9,235	6,455	14	15,704
Financial Liabilities Held for Trading (FLHfT)	0	41	0	41
	9,235	6,496	14	15,745

The following statement of maturities shows the distribution of the forecasted cash flows of the contractually agreed interest and amortization payments of financial instruments assigned to IFRS 7-category "Liabilities carried at Amortized Cost (FLAC)" as of March 31, 2012 and March 31, 2011.

in TEUR March 31, 2012	Total	until 9/2012	10/2012 – 03/2013	04/2013 – 03/2017	> 04/2017
Interest	760	78	293	388	1
Amortization	17,629	10,586	2,786	4,244	13
Total	18,389	10,664	3,079	4,632	14

in TEUR March 31, 2011	Total	until 9/2011	10/2011 – 03/2012	04/2012 – 03/2016	> 04/2016
Interest	1,180	46	362	771	1
Amortization	14,524	7,676	1,151	5,684	13
Total	15,704	7,722	1,513	6,455	14

Information about derivative financial instruments

In the reporting year gains of TEUR 11 from forward exchange rate transactions (prior year: TEUR 31) used as cash flow hedges were recorded directly in equity after netting out accrued deferred taxes.

The table below shows the maturities of the fair market values of derivative financial instruments:

in TEUR	Fair market values			
March 31, 2012	Total	Maturity up to one year	Maturity between one and five years	Maturity of more than five years
Assets				
Interest rate hedge	0	0	0	0
Foreign exchange rate hedge	26	26	0	0
	26	26	0	0
Equity and Liabilities				
Interest rate hedge	26	0	26	0
Foreign exchange rate hedge	0	0	0	0
	26	0	26	0

in TEUR	Fair market values			
March 31, 2011	Total	Maturity up to one year	Maturity between one and five years	Maturity of more than five years
Assets				
Interest rate hedge	0	0	0	0
Foreign exchange rate hedge	23	23	0	0
	23	23	0	0
Equity and Liabilities				
Interest rate hedge	41	0	41	0
Foreign exchange rate hedge	0	0	0	0
	41	0	41	0

The fair values of foreign exchange rate hedges are determined with reference to current forward exchange rates for contracts with similar maturities. The fair market value is the amount the Group would have to pay or would have received in case of offsetting the hedge before maturity. The fair value of interest rate swaps is determined with reference to fair market values of contracts with similar properties.

22. Segment reporting

The segment information is based on the same disclosure and measurement methods as the consolidated financial statement.

The criterion used to allocate products to the segments is the way in which they produce sound. The segmentation derived from the internal management reports is as follows:

1. Percussion instruments — Drums, glockenspiels, xylophones, timpani, cymbals etc.
2. Reed instruments — Harmonicas, accordions, recorders, melodicas
3. Stringed instruments — Acoustic guitars, electric-acoustic guitars, electric guitars, ukuleles, banjos and guitar accessories
4. Other — Pianos, digital pianos, keyboards, amplifiers, stands etc.

Matth. Hohner AG assesses the performance of the segments based on the progress of gross yield (= sales revenue +/- variance in inventories – cost of materials). 100 % of these expense and income items can be directly allocated to the segments.

Segment information

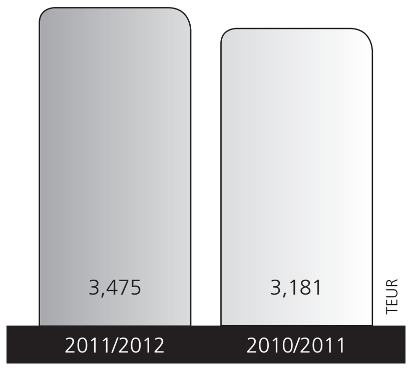
Geschäftsjahr 2011/2012 (in TEUR)	Schlag-instrumente	Luft-instrumente	Saiten-instrumente	Andere	Elimi-nierungen	Konzern
Total Sales	19,735	37,634	19,619	5,458	-15,290	67,156
Intergroup sales	2,997	6,274	6,005	14	-15,290	0
External Sales	16,738	31,360	13,614	5,444	0	67,156
Variance in inventories	244	643	0	0	512	1,399
Cost of materials	-9,624	-13,557	-9,991	-3,754	-512	-37,438
Gross Yield	7,358	18,446	3,623	1,690	0	31,117
Amortization and depreciation	-280	-543	-72	-27	-19	-941
Interest income	26	175	3	9	-116	97
Interest expenses	-156	-591	-82	-10	116	-723
Income taxes	118	-13	-267	91	153	82
Result from at equity valuation	0	0	0	0	0	0
Segmentassets	11,603	25,472	8,190	4,675	776	50,716
– of which carrying amount of the investments carried at equity	0	203	0	0	0	203
– of which carrying amount of inventories	4,771	7,341	2,758	1,573	0	16,443
Segment liabilities	5,840	14,156	3,562	1,129	0	24,687
Capital expenditure	188	813	69	24	0	1,094
Reconcilisation to consolidated net result for the year						
Gross Yield						31,117
Personnel expenses						-19,930
Depreciation and amortization						-940
Other operating expenses						-8,969
Other operating income						1,984
Interest income and expenses						-625
At-Equity valuation						0
Earnings before taxes						2,637
Income taxes						82
Net income for the year						2,719

Geschäftsjahr 2010/2011 (in TEUR)	Schlag-instrumente	Luft-instrumente	Saiten-instrumente	Andere	Elimi-nierungen	Konzern
Total Sales	20,178	36,513	15,843	6,065	-14,669	63,930
Intergroup sales	2,671	6,890	5,078	30	-14,669	0
External Sales	17,507	29,623	10,765	6,035	0	63,930
Variance in inventories	138	-798	0	0	61	-599
Cost of materials	-10,531	-11,901	-7,776	-4,264	-61	-34,533
Gross Yield	7,114	16,924	2,989	1,771	0	28,798
Amortization and depreciation	-279	-750	-53	-27	-21	-1,130
Interest income	6	170	3	6	-115	70
Interest expenses	-133	-662	-37	-7	115	-724
Income taxes	-55	-577	-65	151	28	-518
Result from at equity valuation	0	0	0	0	0	0
Segmentassets	10,488	23,265	5,464	4,377	624	44,218
– of which carrying amount of the investments carried at equity	0	184	0	0	0	184
– of which carrying amount of inventories	3,914	6,373	1,468	1,249	238	13,242
Segment liabilities	4,347	13,277	2,106	1,209	-7	20,932
Capital expenditure	176	364	34	35	0	609
Reconcilisation to consolidated net result for the year						
Gross Yield						28,798
Personnel expenses						-17,877
Depreciation and amortization						-1,130
Other operating expenses						-9,013
Other operating income						1,878
Interest income and expenses						-654
At-Equity valuation						0
Earnings before taxes						2,002
Income taxes						-518
Net income for the year						1,484

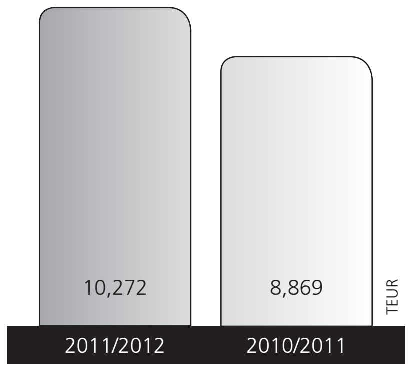
Sales development by countries (in TEUR)

	2011/2012		2010/2011		rate of change	
USA	23,017	34.3 %	20,920	32.7 %	2,097	10.0 %
Germany	10,327	15.4 %	10,103	15.8 %	224	2.2 %
France	7,390	11.0 %	8,679	13.6 %	-1,289	-14.9 %
Other countries	26,422	39.3 %	24,228	37.9 %	2,194	9.1 %
Total	**67,156**	**100.0 %**	**63,930**	**100.0 %**	**3,226**	**5.0 %**

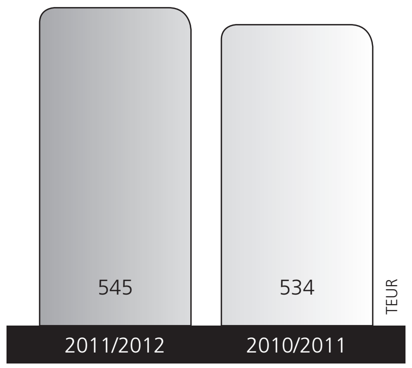
Non-current assets by countries (in TEUR)



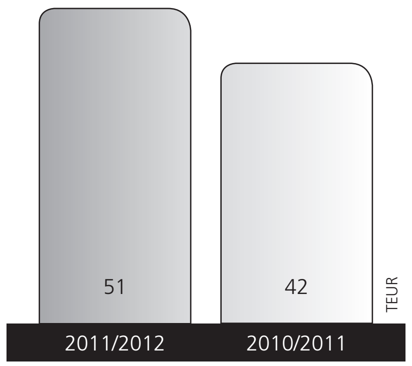
USA



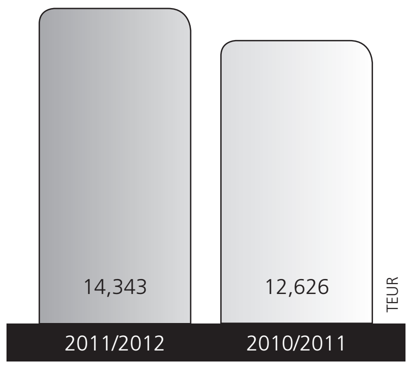
Germany



France



Other countries



Total

Information regarding main customers

No single customer did contribute 10% or more to Group turnover, neither in the business year 2011/2012 nor in the prior year 2010/2011.

23. Other financial obligations

The table below shows other financial obligations:

March 31, 2012	2012/2013	2013/2014 – 2016/2017	from 2017/2018	Total
	TEUR	TEUR	TEUR	TEUR
Rental agreements	164	48	0	212
Insurance policies	165	0	0	165
Maintenance agreements	20	20	0	40
Commitments	325	0	0	325
	674	**68**	**0**	**742**

March 31, 2011	2011/2012	2012/2013 – 2015/2016	from 2016/2017	Total
	TEUR	TEUR	TEUR	TEUR
Rental agreements	165	36	0	201
Insurance policies	163	0	0	163
Maintenance agreements	17	1	0	18
Commitments	247	0	0	247
	592	**37**	**0**	**629**

Payments from rental agreements recognized as expense in the business year 2011/2012 amounted to TEUR 362 (prior year: TEUR 396). We refer to our comments on leases in Note 2.

For other financial obligations we refer to our comments on Note 10.

24. Related Party Disclosures

In accordance with IAS 24 (“Related Party Disclosures“), persons or entities which are in control of or controlled by the Hohner Group must be disclosed unless they are already included as consolidated entities in the consolidated financial statements of Matth. Hohner Aktiengesellschaft.

The disclosure requirements under IAS 24 also extend to transactions with associates as well as transactions with persons who have significant influence on the Hohner Group’s financial and operating policies. Significant influence is deemed to be exerted by persons holding an interest in Matth. Hohner Aktiengesellschaft of 20 % or more, a seat in the Management Board or the Supervisory Board of Matth. Hohner Aktiengesellschaft or another key management position.

In business year 2011/2012 this only affects Matth. Hohner Aktiengesellschaft in terms of its relationship to the majority shareholder HS Investment Group. Inc., Tortola/British Virgin Islands, and to the members of the Management Board and Supervisory Board. As of the balance sheet date the Hohner Group had loan liabilities due to HS Investment Group Inc., Tortola/British Virgin Islands, in the amount of TEUR 5,913 (prior year: TEUR 5,571) including interest.

The transactions of Matth. Hohner Aktiengesellschaft with associates related to Hohner-Konservatorium Trossingen GmbH, Trossingen. Matth. Hohner Aktiengesellschaft granted Hohner-Konservatorium Trossingen GmbH a subsidy of TEUR 52 in the business year (prior year: TEUR 52).

Furthermore there were purchases from Shanghai Lansheng-Hohner Musical Instruments Co., Ltd., Shanghai/China that caused cost of materials for the Group of TEUR 1,868 (prior year: TEUR 1,550). On balance sheet date receivables amount to TEUR 149 (prior year: TEUR 172). In the current and in the prior year no liabilities were outstanding.

For the Hohner Group members of the management in key positions are only to be found in the Management and Supervisory Board. Concerning the periodical remuneration of members of the management, we refer to our comments on the remuneration of the members of the Management Board and the Supervisory Board.

Dr. Horst Bräuning is a shareholder. Until June 30, 2010 he was a member of the Management Board of Matth. Hohner Aktiengesellschaft. Otherwise, the entities belonging to the Hohner Group have not entered into any transactions with members of the Management or Supervisory Boards which were subject to mandatory reporting. This also applies for members of these persons’ close families.

25. Other notes

Total remuneration for members of the Supervisory Board was TEUR 132 (prior year: TEUR 132). The total remuneration for members of the Management Board was TEUR 281 (prior year: TEUR 402), thereof TEUR 267 (prior year: TEUR 284) relate to fixed remuneration and TEUR 14 (prior year: TEUR 118) relate to variable remuneration. The total remuneration of former members of the Management Board and their surviving dependants amounts to TEUR 116 (prior year: TEUR 120), pension provisions for former members of the Management Board amount to TEUR 788 (prior year: TEUR 1,195).

With resolution of the shareholders’ meeting on November 29, 2011, the shareholders’ meeting decided the non-disclosure of individualized remuneration for members of the Management Board of Matth. Hohner AG as stated in § 285 section 1 No. 9 a sentences 5 to 9 as well as § 314 section 1 No. 6 a, sentences 5 to 9 of German Commercial Code (HGB) for the financial year 2011/2012 and the successive four financial years in accordance with § 286 section 5 of German Commercial Code (HGB).

On average the Group had 339 employees during the year (prior year: 334 employees).

This is shown in the following table:

	2011/ 2012	2010/2011
Salaried employees	151	149
Wage earners	188	185
	339	334

26. Declaration pursuant to § 161 German Stock Corporation Act (AktG) on the German Corporate Governance Code

Management Board and Supervisory Board of Matth. Hohner Aktiengesellschaft have issued a declaration as required by § 161 German Stock Corporation Act (AktG) and made it permanently available to the shareholders on the website www.hohner.eu.

27. Significant events after the balance sheet date

The consolidated financial statement and the Group management report for the financial year 2011/2012 are presented by the Management Board to the Supervisory Board on June 29, 2012, for approval. Despite the following issues there were no significant events after the balance sheet date until June 29, 2012.

On April 2, 2012 Mr. Manfred Stöhr was dismissed as member of the Management Board of Matth. Hohner AG with immediate effect and subsequently as Managing Director of Hohner Musikinstrumente Verwaltungs-GmbH. As a consequence, Mr. Stöhr appealed to court. No decision has been issued at this stage.

On April 2, 2012, Clayman B. Edwards became a member of the Management Board of Matth. Hohner AG.

29. Usage of the dispensation of the duty's publication

The dispensation of the duty's publication of the financial statements according to § 264 b of German Commercial Code (HGB) is accessed for the following subsidies:

- Hohner Musikinstrumente GmbH & Co. KG
- Hohner Grundstücksgesellschaft mbH & Co. KG
- SONOR GmbH & Co. KG

Trossingen, June 29, 2012

Matth. Hohner Aktiengesellschaft

Management Board

Clayman Bruce Edwards

Stefan Althoff

Statement of changes in Fixed Assets 2011/2012

	Acquistition and production cost						Accumulated amortization, depreciation and write downs						Net book values	
	April 1, 2011 TEUR	Exchange rate differences TEUR	Additions TEUR	Reclassifications TEUR	Disposals TEUR	March 31, 2012 TEUR	April 1, 2011 TEUR	Exchange rate differences TEUR	Additions TEUR	Reclassifications TEUR	Disposals TEUR	March 31, 2012 TEUR	March 31, 2012 TEUR	March 31, 2011 TEUR
Intangible assets														
Franchises, industrial rights and similar rights and assets and licences in such rights and assets	1,083	3	99	1	46	1,140	863	2	95	0	46	914	226	220
Goodwill	102	0	0	0	0	102	0	0	0	0	0	0	102	102
Prepayments	0	0	19	0	0	19	0	0	0	0	0	0	19	0
	1,185	3	118	1	46	1,261	863	2	95	0	46	914	347	322
Property, plant and equipment														
Land, land rights and buildings including buildings on third-party land	16,036	168	98	0	0	16,302	8,568	31	273	0	0	8,872	7,430	7,468
Technical equipment and machines	5,761	0	238	52	141	5,910	5,033	0	143	0	141	5,035	875	728
Other equipment, furniture and fixtures	8,633	64	563	1	77	9,184	7,482	47	429	0	77	7,881	1,303	1,151
Prepayments and assets under construction	97	0	77	-53	44	77	44	0	0	0	44	0	77	53
	30,527	232	976	0	262	31,473	21,127	78	845	0	262	21,788	9,685	9,400
Financial assets														
Shares in affiliated entities	6	0	0	0	0	6	6	0	0	0	0	6	0	0
Investments accounted for at equity	184	19	0	0	0	203	0	0	0	0	0	0	203	184
Other financial assets	294	0	0	0	0	294	154	0	0	0	0	154	140	140
	484	19	0	0	0	503	160	0	0	0	0	160	343	324
	32,196	254	1,094	1	308	33,237	22,150	80	940	0	308	22,862	10,375	10,046

Statement of changes in Fixed Assets 2010/2011

	Acquistition and production cost						Accumulated amortization, depreciation and write downs						Net book values	
	April 1, 2010	Exchange rate differences	Additions	Reclassifications	Disposals	March 31, 2011	April 1, 2010	Exchange rate differences	Additions	Reclassifications	Disposals	March 31, 2011	March 31, 2011	March 31, 2010
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Intangible assets														
Franchises, industrial rights and similar rights and assets and licences in such rights and assets	990	2	82	81	72	1,083	776	1	80	77	71	863	220	214
Goodwill	102	0	0	0	0	102	0	0	0	0	0	0	102	102
	1,092	2	82	81	72	1,185	776	1	80	77	71	863	322	316
Property, plant and equipment														
Land, land rights and buildings including buildings on third-party land	16,106	-143	75	0	2	16,036	8,323	-28	275	0	2	8,568	7,468	7,783
Technical equipment and machines	8,620	0	124	0	2,983	5,761	7,737	0	279	0	2,983	5,033	728	883
Other equipment, furniture and fixtures	9,138	-33	357	-73	756	8,633	7,867	-27	452	-77	733	7,482	1,151	1,271
Prepayments and assets under construction	52	0	53	-8	0	97	0	0	44	0	0	44	53	52
	33,916	-176	609	-81	3,741	30,527	23,927	-55	1,050	-77	3,718	21,127	9,400	9,989
Financial assets														
Shares in affiliated entities	6	0	0	0	0	6	6	0	0	0	0	6	0	0
Investments accounted for at equity	189	-5	0	0	0	184	0	0	0	0	0	0	184	189
Other financial assets	294	0	0	0	0	294	154	0	0	0	0	154	140	140
	489	-5	0	0	0	484	160	0	0	0	0	160	324	329
	35,497	-179	691	0	3,813	32,196	24,863	-54	1,130	0	3,789	22,150	10,046	10,634

Bestätigungsvermerk des Abschlussprüfers

Wir haben den von der Matth. Hohner Aktiengesellschaft, Trossingen, aufgestellten Konzernabschluss – bestehend aus Bilanz, Gewinn- und Verlustrechnung und Gesamtergebnisrechnung, Eigenkapitalveränderungsrechnung, Kapitalflussrechnung und Anhang – sowie den Konzernlagebericht für das Geschäftsjahr vom 1. April 2011 bis 31. März 2012 geprüft. Die Aufstellung von Konzernabschluss und Konzernlagebericht nach den International Financial Reporting Standards (IFRS), wie sie in der EU anzuwenden sind, und den ergänzend nach § 315a Abs. 1 HGB anzuwendenden handelsrechtlichen Vorschriften sowie den ergänzenden Bestimmungen der Satzung liegt in der Verantwortung des Vorstands der Gesellschaft. Unsere Aufgabe ist es, auf der Grundlage der von uns durchgeführten Prüfung eine Beurteilung über den Konzernabschluss und über den Konzernlagebericht abzugeben.

Wir haben unsere Konzernabschlussprüfung gemäß § 317 HGB unter Beachtung der vom Institut der Wirtschaftsprüfer festgestellten deutschen Grundsätze ordnungsmäßiger Abschlussprüfung vorgenommen. Danach ist die Prüfung so zu planen und durchzuführen, dass Unrichtigkeiten und Verstöße, die sich auf die Darstellung des durch den Konzernabschluss unter Beachtung der anzuwendenden Rechnungslegungsvorschriften und durch den Konzernlagebericht vermittelten Bildes der Vermögens-, Finanz- und Ertragslage wesentlich auswirken, mit hinreichender Sicherheit erkannt werden. Bei der Festlegung der Prüfungshandlungen werden die Kenntnisse über die Geschäftstätigkeit und über das wirtschaftliche und rechtliche Umfeld des Konzerns sowie die Erwartungen über mögliche Fehler berücksichtigt. Im Rahmen der Prüfung werden die Wirksamkeit des rechnungslegungsbezogenen internen Kontrollsystems sowie Nachweise für die Angaben in Konzernabschluss und Konzernlagebericht überwiegend auf der Basis von Stichproben beurteilt. Die Prüfung umfasst die Beurteilung der Jahresabschlüsse der in den Konzernabschluss einbezogenen Unternehmen, der Abgrenzung des Konsolidierungskreises, der angewandten Bilanzierungs- und Konsolidierungsgrundsätze und der wesentlichen Einschätzungen des Vorstands sowie die Würdigung der Gesamtdarstellung des Konzernabschlusses und des Konzernlageberichts. Wir sind der Auffassung, dass unsere Prüfung eine hinreichend sichere Grundlage für unsere Beurteilung bildet.

Unsere Prüfung hat zu keinen Einwendungen geführt.

Nach unserer Beurteilung aufgrund der bei der Prüfung gewonnenen Erkenntnisse entspricht der Konzernabschluss der Matth. Hohner Aktiengesellschaft, Trossingen, den IFRS, wie sie in der EU anzuwenden sind, und den ergänzend nach § 315a Abs. 1 HGB anzuwendenden handelsrechtlichen Vorschriften sowie den ergänzenden Bestimmungen der Satzung und vermittelt unter Beachtung dieser Vorschriften ein den tatsächlichen Verhältnissen entsprechendes Bild der Vermögens-, Finanz- und Ertragslage des Konzerns. Der Konzernlagebericht steht in Einklang mit dem Konzernabschluss, vermittelt insgesamt ein zutreffendes Bild von der Lage des Konzerns und stellt die Chancen und Risiken der zukünftigen Entwicklung zutreffend dar.

München, den 7. September 2012

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Bäßler)	(Pinckernelle)
Wirtschaftsprüfer	Wirtschaftsprüfer

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