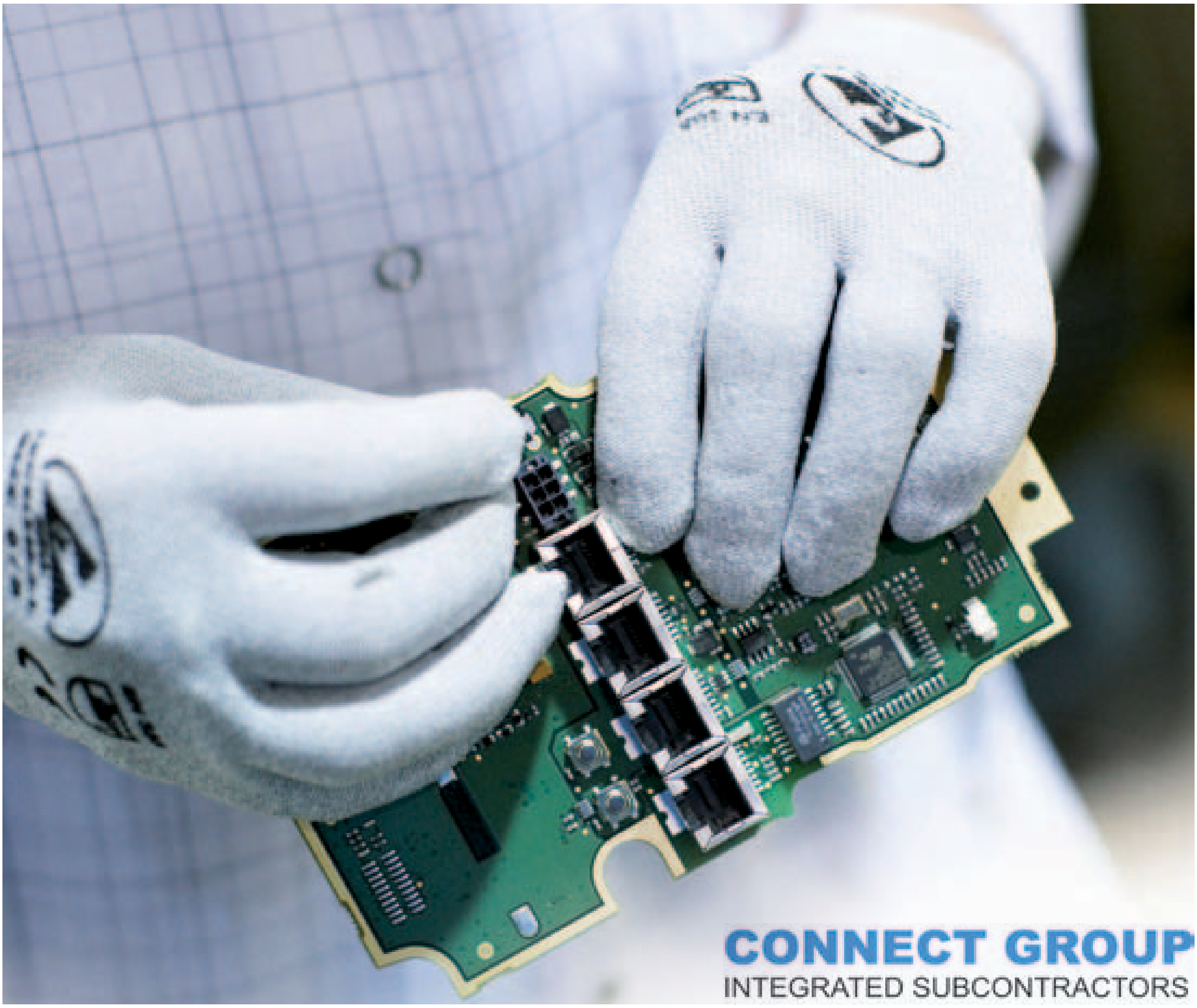
Annual report 2010



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Investor relations

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Luc Switten, CEO, Connect Group NV
Hugo Ciroux, CFO, Connect Group NV

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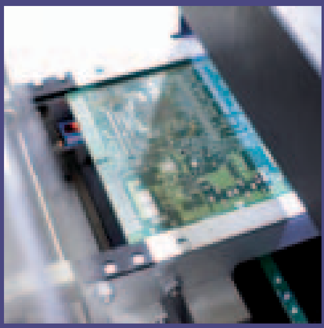

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Business profile

With over 20 years of experience, Connect Group has grown into one of Europe's leading providers of cable, PCB and module assembly services.

Connect Group NV has its operational headquarters in Kampenhout, Belgium.

Connect Group has production facilities in Belgium, the Netherlands, Germany, the Czech Republic and Romania, and serves its customers from sales offices in Belgium, the Netherlands, France, Germany, the Czech Republic and Romania.

The company was founded in 1992 and its shares have been traded on Euronext Brussels since 2000.

Activities

Connect Group provides total Electronic Manufacturing Services (EMS) solutions for the professional industry. Its activities divide into four main pillars – engineering, cable assembly, PCB assembly, module building – with interaction between the pillars offering a unique range of possibilities.

Connect Group customers come from different professional markets, ranging from telecom to green energy to medical electronics.

Added value

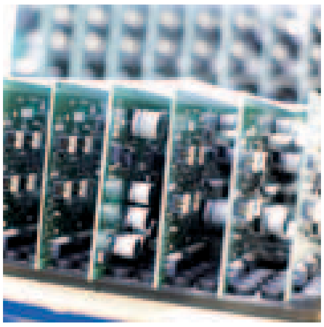
Connect Group accompanies customers through the entire product lifecycle, from co-development to production to logistics support. Delivery of added value is central to this process. Our companies in the Western European countries serve as knowledge centers, closely linked to customers, both product-wise and geographically. Our production volume is mainly allocated to the Czech Republic and Romanian plants.

This geographical spread gives customers confidence in the proximity of front offices, giving support during the start-up phase in which engineering support and prototype development feature large, and the back-offices at the production phase, offering advantageous pricing and sufficient capacity to guarantee continuity.

Key figures

ANNUAL RESULTS CONNECT GROUP FOR THE 12 MONTH PERIOD ENDING 31 DECEMBER (IN 000 EUR)

	2010	%	2009	%	2008	%
Sales	133,464	100	121,255	100	165,898	100.0
Cost of sales	(118,184)	(88.6)	(109,056)	(90.0)	(140,650)	(84.8)
Gross profit	15,280	11.4	12,199	10.0	25,248	15.2
Research and development, general and administrative, selling and other expenses	(15,447)	(11.6)	(14,146)	(11.6)	(17,140)	(10.3)
Profit / (loss) from operations	(167)	(0.1)	(1,947)	(1.6)	8,108	4.9
Financial income / charges	(2,435)	(1.8)	(1,597)	(1.3)	(3,324)	(2.0)
Taxes	(24)	(0.1)	(21)	0.0	25	0.0
Profit / (loss) for the year from continuing operations	(2,626)	(2.0)	(3,565)	(2.9)	4,809	2.9
Profit / (loss) from discontinued operations	1,495	1.2	(22,540)	(18.6)	(4,368)	(2.7)
Profit / (loss) for the year	(1,131)	(0.8)	(26,105)	(21.5)	441	0.2
Atrributable to:						
Equity holders of the parent	(1,131)		(26,438)		274	
Non-controlling interest	0		333		167	
Earnings per share (number of shares: 6,934,424)						
Basic earnings / (loss) per share continuing operations	(0.38)		(0.51)		0.69	
Basic earnings / (loss) per share from continuing plus discontinued operations	(0.16)		(3.76)		0.06	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BALANCE SHEET CONNECT GROUP AT 31 DECEMBER 2010 (IN EUR 000)

	2010	2009	2008
Assets			
Current assets:			
Cash and cash equivalents	79	128	1,808
Trade receivables	27,744	20,195	46,038
Other receivables	606	359	1,399
Inventories	38,045	29,540	45,179
Current income taxes receivable	-	17	1,864
Other current assets	153	191	345
Assets classified as held for sale	-	26,919	-
Total current assets	66,627	77,349	96,633
Non-current assets:			
Other receivables	1,900	-	2
Deferred tax assets	1,500	1,500	1,562
Property, plant and equipment	11,250	16,039	21,161
Intangible assets	2,156	816	1,296
Goodwill	4,649	4,649	8,935
Total non-current assets	21,455	23,004	32,956
Total assets	88,082	100,353	129,589

	2010	2009	2008
Liabilities and equity			
Current liabilities:			
Bank loans and overdrafts	21,459	25,024	31,029
Current portion of long-term debt	3,784	1,109	1,537
Trade payables	26,471	22,323	31,325
Accrued expenses, payroll and related taxes and deferred income	7,417	5,891	9,914
Provisions	479	638	3,712
Current income taxes payable	304	257	796
Other current liabilities	1	7	3,679
Liabilities directly associated with assets classified as held for sale	-	27,036	-
Total current liabilities	59,915	82,285	81,992
Non-current liabilities:			
Long-term debt less current portion	13,201	2,379	4,867
Valuation derivative	645	-	-
Deferred tax liability	-	-	62
Total non-current liabilities	13,846	2,379	4,929
Equity:			
Equity attributable to equity holders of the parent	14,321	15,689	42,111
Non-controlling interest	-	-	557
Total equity	14,321	15,689	42,668
Total liabilities and equity	88,082	100,353	129,589

Interview with Luc Switten

Steaming ahead with a strategy that responds to market trends

A challenging year

2010 was the first year in which, after divesting the automation activity, Connect Group focused fully on subcontracting. After the reorganization in 2009, a good order intake in the first months of 2010 resulting in a well filled orderbook appeared to promise a strong start to the year 2010. Unfortunately, it quickly became clear that the global components market had been caught off-guard by the explosive acceleration of economic growth in 2010. This prevented Connect Group from fully exploiting their available potential.

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The lack of components also brought a sharp rise in component prices that we could not immediately pass on to our customers. Interruptions in the supply of components, with the ensuing stop-and-go working, brought internal production inefficiencies.

During this difficult period our primary and constant concern was to fulfil customer demand as far as possible, at the price of putting our cost structure out of balance.

The higher component purchase costs that we could not immediately pass on and the production inefficiencies led to a sharp drop in earnings. By responding promptly to the situation we managed, however, to turn round this negative trend in the second half and return to operating profit.

For the future our goals are therefore to:

- Further optimize our cost structure
- Strenghten the organization in its technology knowhow
- Increase our financial stability
- Focus on key accounts and markets

Further optimizing our cost structure

In 2010 we further expanded our activities in Eastern Europe. In addition to production, indirect support activities were also relocated to our Eastern European facilities. Order processing, production, engineering and a part of administration have been moved. Following this relocation process, already two thirds of our workforce is in Eastern Europe. This shift is set to continue in the coming years. It lightens our cost structure and improves profitability. The Western European factories will continue to operate as knowledge and competences centres for the group. Next to that, they will operate as module production plants.

Strengthening the organization in its technology knowhow

Our entire cable know-how has been concentrated at the Kampenhout site and all EMS know-how at our Poperinge plant. The factories in Rijen (Netherlands) and Frickenhausen (Germany) have been converted to assembly centers with specific knowhow to deliver complete end products, with specific know-how close to the customer. This concentration of know-how will definitely give us greater muscle in the future.

In addition, we started with a technology centre. This will enable us to follow market developments even closer and to offer our customers an industrialization process in which we work with them to arrive at the optimal way of manufacturing a particular product. This industrialization process is strongly supported by means of, project and account management, New Product Introduction (NPI) engineers, co-design and layout engineers and process engineering specialists.

These changes will have a positive impact on the final product quality.

Increasing our financial stability

Based on the philosophy that every disadvantage also has its advantage, we used the difficult situation in the first half to strengthen the balance sheet and to guarantee the company's financial stability in the long term. A group of investors has declared itself ready

to provide Connect Group with long-term support by subscribing a subordinated convertible note.
The positive relationship with the banking consortium that has committed funding to Connect Group also provides vital financial stability. All this gives the company sufficient financial strength to grow in 2011.

Focusing on key accounts and markets

In the past Connect Group served a broad spectrum of industries and customers. For a number of years now, the trend has been towards a stronger focus on specific markets and customers. We have reinforced this by designating a number of key markets and, within these key markets, a number of key customers whom we are now actively prospecting.

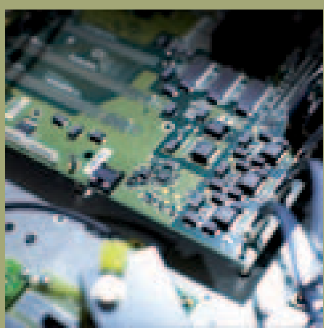
One example is the railway industry. We have designated this as a key market in which we actively wish to invest. For this we are working on obtaining IRIS certification for our Czech factory. This IRIS standard is based on the ISO 9001:2008 standard but includes the specific requirements that apply to the railway industry. This certification is intended to support the significant growth that we want to achieve with a number of customers who are among the world's leading railway industry suppliers.

This approach also illustrates a second important pillar of our strategy: more than before we are targeting key accounts. Key accounts are strong, solvent clients with proven track records in the markets we target. They are looking for reliable partners with a clear strategy in terms of Technology (knowledge and skills), Cost Structure (Western and Eastern Europe) and Influence (customer influence on the supplier). Our footprint and our combination of carefully-weighed costs, high degree of flexibility, strong technology and stable financial position make us therefore an ideal partner for these key accounts.

In short:

The far-reaching trend towards outsourcing, market demand for technological support with a sophisticated cost structure, and further flexibility promise an attractive future for the Connect Group.

We observe that our clients are seeing Connect Group more and more as a valuable supplement to their primary processes of development and marketing. Subcontracting the production to us is for them an addition to their objective.



Connect Group in Europe

European and local

Working on your success

Connect Group is a European supplier of quality Electronic Manufacturing Services to the professional industry. Our goal is to create added in the production process of our customers' innovative products.

European and local – being where our clients need us

Connect Group has production facilities in Belgium, the Netherlands, Germany, Romania and the Czech Republic. The group serves customers across the European continent from dedicated sales offices in Belgium, the Netherlands, France, Germany, the Czech Republic and Romania.

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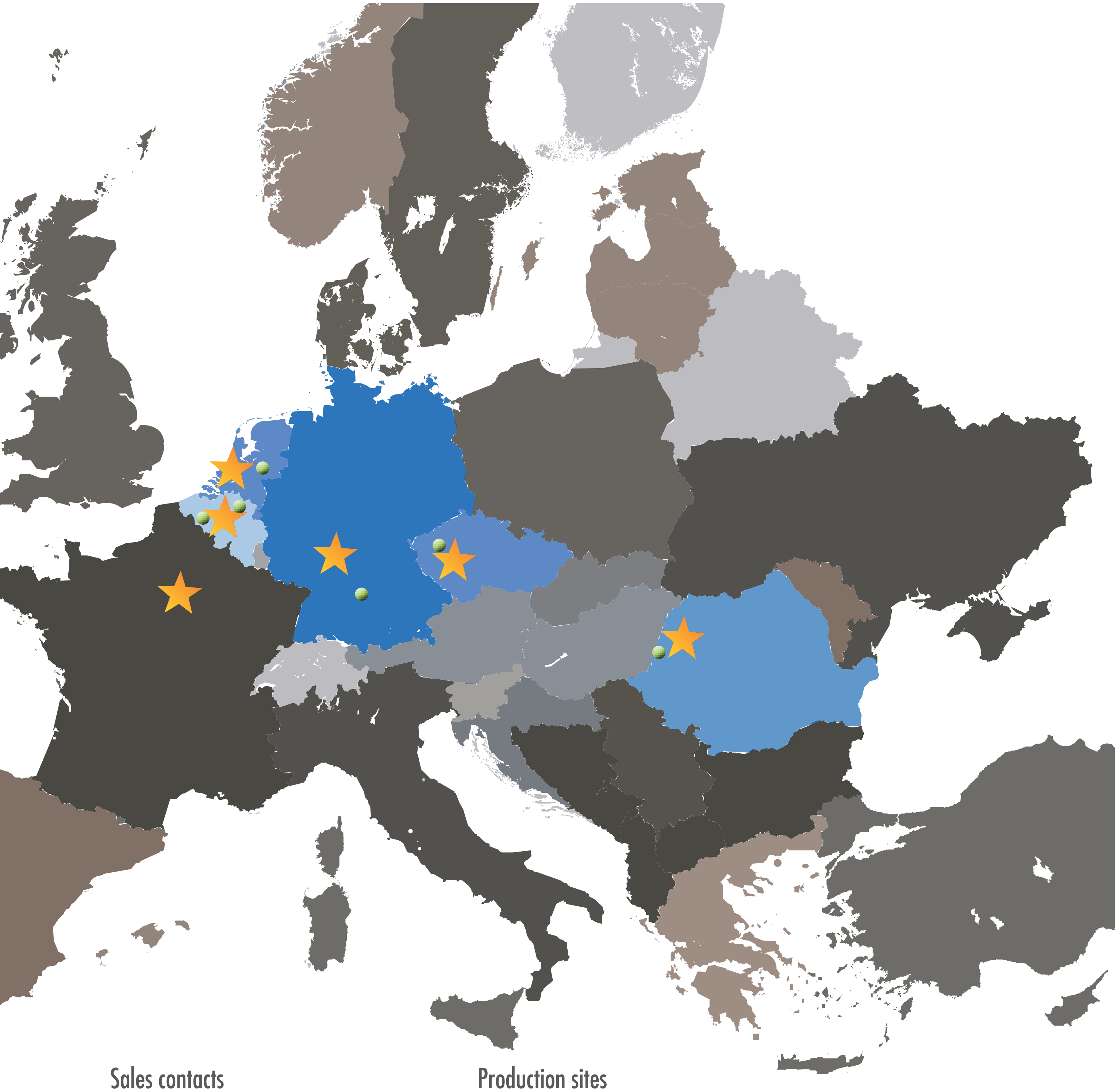

Sales contacts

- Belgium
- The Netherlands
- France
- Germany
- Czech Republic
- Romania

Production sites

- Kampenhout, Belgium
- Poperinge, Belgium
- Rijen, the Netherlands
- Frickenhausen, Germany
- Kladno, Czech Republic
- Oradea, Romania

success

Connect Group

Integrated Subcontractors

Our mission

'To continuously improve the success of our customers in the high-end and professional markets throughout Europe, by supplying the best design & manufacturing services over the entire product lifecycle.'

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Strategy

The cornerstones of Connect Group's strategy are a practical business culture and a customer-focused organization.

Quality

We strive to deliver flawless products that exceed customer expectations.

Logistics

An integrated package, backed by our various production units

- Advantageous purchasing agreements
- A wide range of logistic concepts
- Components selected for optimum correlation between purchase and production

Technology

We are constantly looking for innovations to implement every aspect of the latest technologies.

Costs

We seek the best cost of ownership for your products through co-development, engineering, high productivity and centralized purchasing.

Flexibility

- Volume flexibility via a network of production units
- Technology mix
- Multifunctional employees
- Optimal logistic concepts

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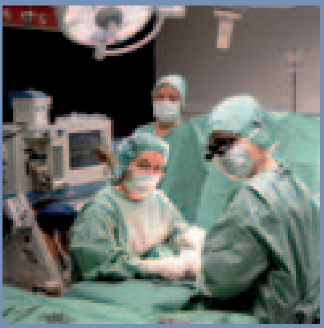
Our markets


Telecommunications

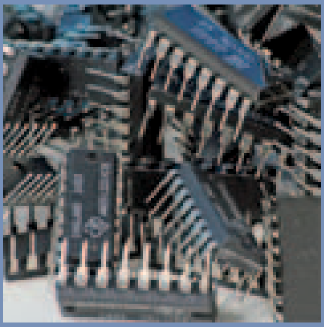

Professional


Medical

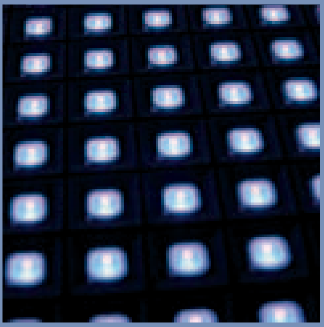

Automotive


Agriculture


Aerospace


Semi-conductors


Military


Visualization


Energy


Transport

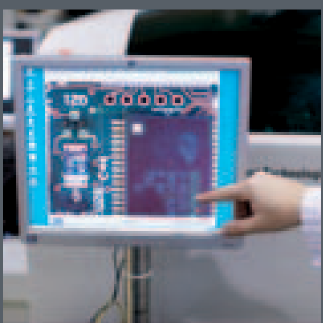

Green technologies

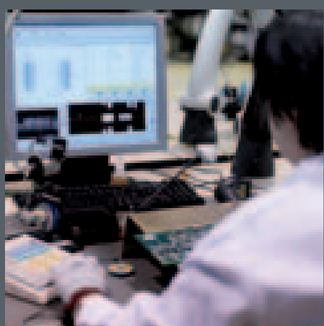
Engineering

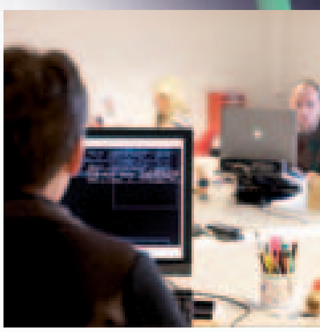
Top-quality products start with good design. Connect Group offers its customers added value with industrialisation and engineering services, plus advice on materials and component selection and layout for the assembly of cables, printed circuit boards and modules.

With the extensive expertise our engineers have developed over the past twenty years, Connect Group is fully qualified to offer customers the specific technical support they are looking for. The sooner we are involved in the development of your project, the higher the added value of our engineering team will be.
With our broad knowledge of technical and manufacturing possibilities, we can accompany your product development process from the concept stage onwards, to give optimal production, price and quality. Connect Group's engineering activities function here as an extension of its customers' own design teams, with open communication, sharing of knowledge and proactively seeking solutions to support our customers' success.

In whatever product group or market your company operates, Connect Group engineers can provide development, industrialisation and production support. Very fast prototyping, drawing and specifications writing allows us to move quickly into (volume) production and considerably narrow lead times from drawing board to market.







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Our engineering services include:

- Co-development
- Co-engineering (DFM, test engineering)
- Design-in for cable assembly
- PBA layout
- Mechanical design
- Component choice and engineering
- First stage prototyping
- FMEA
- Control design rules

success

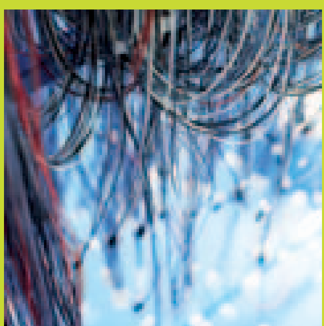
Cable assembly

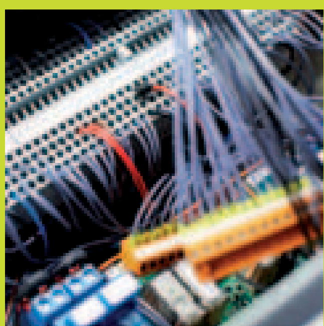
Connect Group is one of the leading European contract manufacturers for cable harnesses. Our production activities provide a unique combination of manual and automated cable assembly solutions for various markets, from complex prototypes in cleanroom conditions to large series production.

Our cabling services, using copper, coaxial and fibre technologies, provide a comprehensive answer to the interconnection needs of OEM's and equipment installers. Our qualified employees are fully conversant with all frequently occurring signal, power and coaxial cables, including the most complex structures.

Connect Group offers a wide range of production technologies, from manual wire wrap, soldering and crimping, to semi-automated processes like ultrasonic welding, insulation displacement for discrete wire and cable sets and moulding, to fully automated machinery for dual end applications.

We are continuously searching for innovations and possibilities to boost customers' success. Genuine involvement in projects, customer-specific logistics concepts and volume flexibility thanks to our European network of production sites are just some of the ways we seek to offer optimal support to our customers.





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Our cable assembly services include:

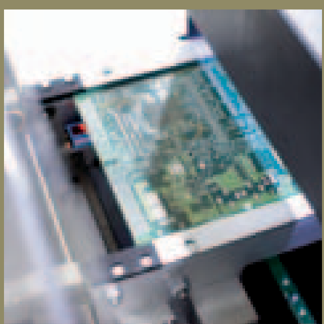
- Automatic cutting, stripping, crimping
- Semi-automatic IDC-crimping
- Labelling, inkjet, hot stamp
- Ultrasonic welding
- Moulding and potting
- Braiding
- 100% test: continuity, connectivity, functional
- Cleanroom ISO class 8
- Documentation management

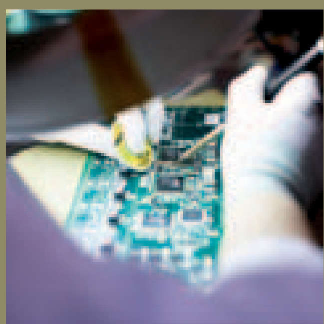
PCB assembly

With four different production sites across Europe, Connect Group offers fast, cost-effective electronic manufacturing services (EMS) for state-of-the-art electronic products. Combining high level technology with a stringent quality programme and customer-specific logistics, our factories offer innovative solutions tailored to individual requirements. Our unique combination of Eastern and Western European manufacturing sites ensures a high level of customer support and allows us to offer competitively priced PCB mounting from proto runs via our industrialization process into mid and large volume production.

Our clients can count on us for full lifecycle electronic manufacturing services, including technology, purchasing, industrialization process, manufacturing, testing and after sales service. Our production facilities offer here an extensive technology mix, including PCB surface mounting (01005 SMD, µBGA, press fit and die & wire bonding) and through-hole assembly processes. These are further supported by tropicalisation, potting, programming, etc.

For testing, Connect Group again stands at the top of the supply chain. Besides standard tests (AOI, flying probe, in-circuit testing, final testing including boundary scan test, stress testing, etc.), our test engineering services offer design services and support for developing fixtures and product-specific test systems, allowing complex functional tests to be carried out before integrating PCBs into larger systems.





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Our PCB assembly services include:

- SMD placement
- Manual mounting
- Die & wire bonding
- THT
- Selective soldering
- Press Fit
- BGA & μBGA
- High precision coating
- Cleanroom ISO class 7
- FMEA
- Testing & test development
- 100% traceability (at component level)

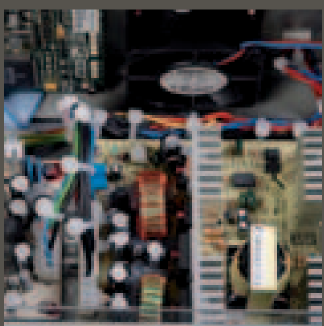
Module building

The module building activity pools the best of Connect Group's cabling, electronic and mechanical expertise to offer customers production possibilities ranging from subassemblies to fully-tested finished products. For complex modules, fully wired racks and cabinets, Connect Group has versatile, modular production facilities that handle customer projects right through from co-development to after sales service.

Our flexible structure enables us to handle very varying customer requirements and respond rapidly to volume and product changes. Kanban, safety stock and many other logistical concepts can also be introduced to ensure product continuity.

Flex-Ops

The Flex-Ops team takes care of all customer-oriented end-to-end services that are undertaken on a project basis. Flex-Ops stands for proactive cooperation between Connect Group and the customer, to whom we offer our full range of competences in cabling, printed circuit boards and module assembly, both at our own production facilities and on-site.



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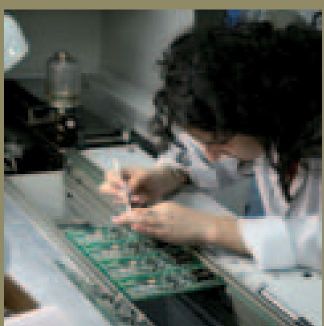
Our module building services include:

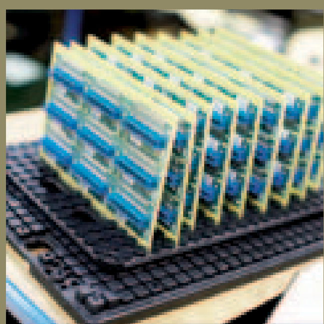
- Mechanical construction
- Electro-mechanical assembly
- Parts and end product testing
- Total project management
- On-site installation
- Field repairs
- After-sales service
- Mechatronics

Life cycle management

Connect Group supports customers throughout the entire lifecycle of their products. Using our total development-to-aftersales package, customers can reduce costs and focus on their core business. This close collaboration with our customers provides a strong, fast and flexible supply chain, with guaranteed continuity.

- Repair
- Test and replace
- Customer specific logistic concepts
- After sales service
- Supply chain management





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7. After Sales Service
1. Design & Engineering
2. New Product Introduction
3. Purchasing & Planning
4. Factory & Test Automation
SPEED
FLEXIBILITY
COST
QUALITY
SUPPLY CHAIN MANAGEMENT

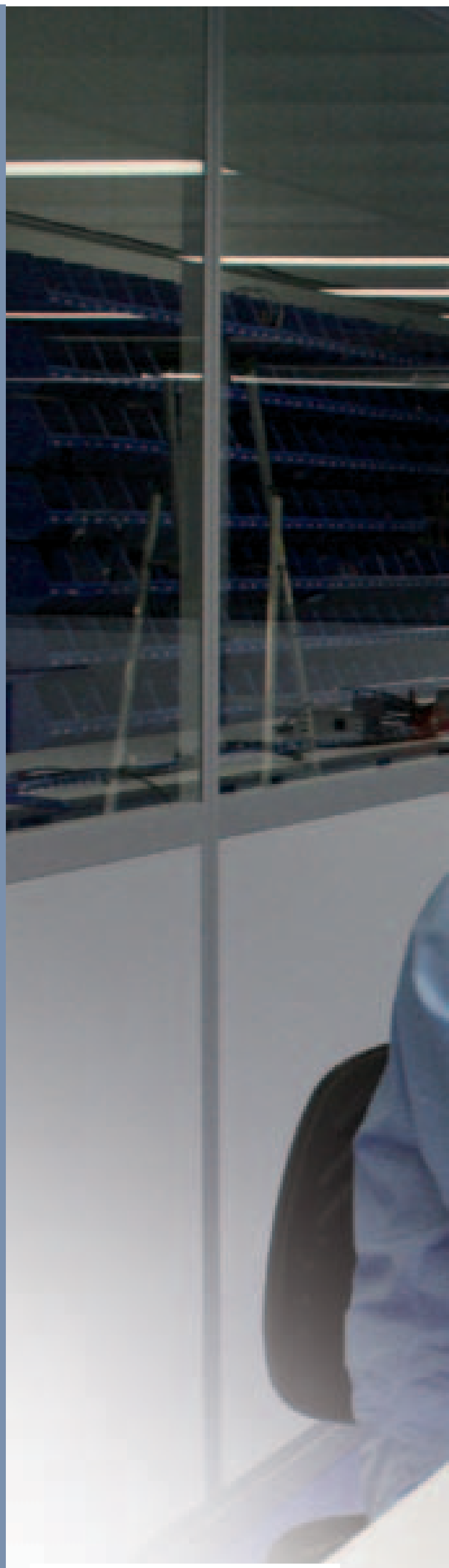
Quality

Our services are backed by a comprehensive quality program. We strive to deliver flawless products that exceed our customers' expectations. The latest test systems, strong relationships with our suppliers and professionalism based on more than twenty years experience are our guarantee.

Within Connect Group we make sure that every employee has the necessary tools and know-how to offer customers a first class job every day. An internal training program keeps employee skill levels high and permits continuous improvement.

Together with our customers we make a preliminary assessment of the required test procedures and quality analysis. We can even develop customer-specific testing where appropriate.

Our centralized approach to testing and quality is based on open communication with our customers, regular customer satisfaction studies, external audits and investments in the latest test systems. All this results in a continuous process of improvement.



ISO 9001 CERTIFIED VINÇOTTE

ISO 14001 CERTIFIED VINÇOTTE

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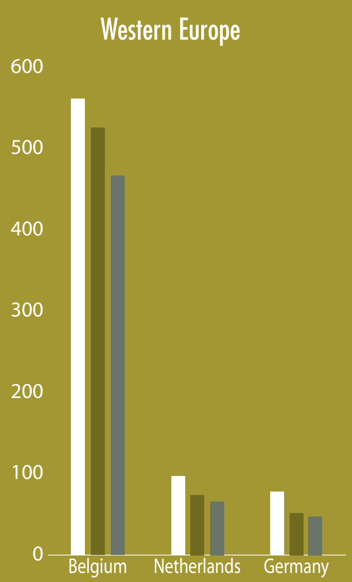
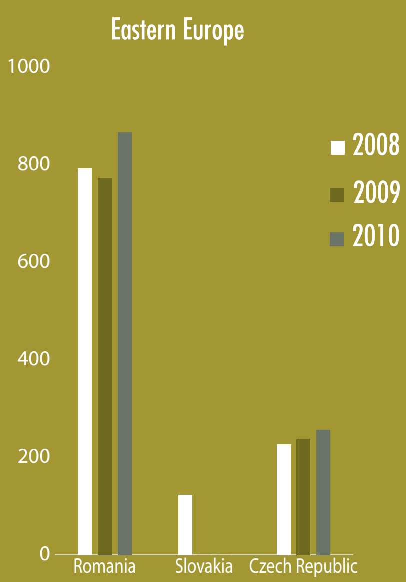
The Connect Group quality programme:

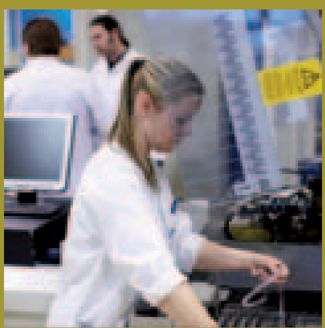
- ISO 9001:2008
- ISO 14001
- UL
- RoHS
- CSA
- Complete ESD control
- IPC 610A classes II and III
- IPC / WHMA - A620 klasse II
- Cleanroom cable and module assembly ISO class 8
- Cleanroom PCB and module assembly ISO class 7
- 100% traceability (at component level)

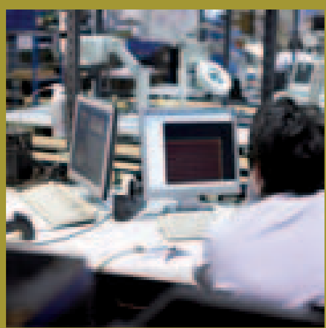
People in partnership

As an EMS (Electronic Manufacturing Services) provider Connect Group is totally dependent on the quality and performance of its employees. From buying to selling; whether production, test engineering or administration - each individual is indispensable for implementing our customers' projects.









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HR Connect Group
(Headcount on 31/12)

	2008	2009	2010
Belgium	562	526	467
Netherlands	78	74	66
Germany	97	52	48
France	0	1	1
Romania	793	773	867
Slovakia	123	0	0
Czech Republic	227	238	256
Total	1880	1664	1705

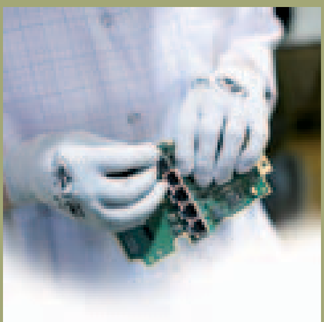
Report of the Board of Directors

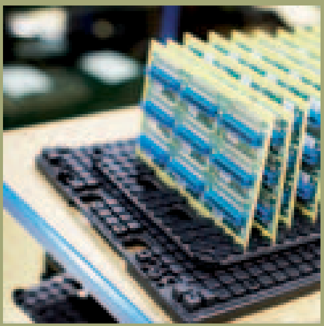
1. Report on the consolidated financial statements

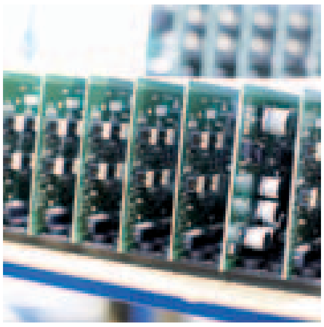
2010 was a pivotal year in many respects.

Following the decision at the end of 2009 finally to sell the automation activity, the name IPTE was replaced by Connect Group, and the subcontracting activity became the focus activity within the group. An important era had come to an end.

Following the sale of the automation business, quasi-equity was strengthened with a EUR 5 million convertible subordinated loan. This strengthening of equity can in the future potentially dilute existing shareholders, if and when the loan is converted into shares. The dilution percentage is not known at the present time, given that conversion will take place at a price of EUR 2.00 if the share price is higher than EUR 2.86, or at a discount of 30 percent on the share price if this is below EUR 2.86.







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After the significant decline in revenue in the subcontracting activity in 2009, due to the economic crisis, most parameters were again positive by the start of 2010. The order book was once again rising and overall confidence seemed to have returned.

Being able to meet the growing demand in the market, proved initially, however, to be the biggest obstacle to success. During the 2009 crisis, several component suppliers had scaled back production capacity, so that the rapidly growing demand in early 2010 led to component shortages and consequently an inability to produce. The full extent of this problem became clear in 2010.

Although, based on the order book and direct customer demand, the potential existed already from early 2010 to grow sales back to more than EUR 35 million a quarter (in 2009, average quarterly sales had declined to EUR 30 million, from EUR 40 million still in 2008), sales trailed behind (EUR 32 million and 31 million in the 1st and 2nd quarters of 2010) due to shortages of components.

This situation brought with it cost inefficiencies in the first half of 2010, as a result of which the group continued, contrary to expectations after the weak year of 2009, in a loss situation.

Fortunately, the group was able, after taking cost-saving measures and actions to reduce the component problem, to get sales moving back upwards (EUR 34 million in the third quarter and EUR 37 million in the fourth quarter), and at the same time keeping costs under control. In this way the company returned to profitability in the second half. After reporting in the third quarter of 2010 the first positive results following seven quarters of losses, Connect Group posted in the fourth quarter an operating net profit of 4 percent.

It was not only Connect Group that was hit by the crisis in recent years. Two customers have also run into difficulties and are currently unable to meet their financial obligations to Connect Group. The good operating results from second half are offset by the need to record a provision for possible losses on these customers.
These customers are currently being delivered on a cash basis. It is clear that there is payment uncertainty for those customers but that right now the receivables should not yet be considered as lost, as these customers continue to receive binding orders from customers, purchase goods at Connect Group on a cash basis and are negotiating with financial institutions and investors to strengthen their capital structure. In this context, Connect Group has opted to record a general provision covering 50 % of the outstanding receivables on these customers. This provision amounts to EUR 1,625,000 (based on the outstanding position of these customers in 2011) and is charged in full to the income statement. If these customers ultimately would not pay, the group will need to write off an additional EUR 1,625,000. If full payment will be obtained, the provision of EUR 1,625,000 will have to be reversed.

Annual sales rose nearly 10 percent from EUR 121 million in 2009 to EUR 133 million in 2010. Cost of sales decreased from 90 % in 2009 to 89 % on average in 2010 but was in the 4th quarter down to 87 %. This improvement in cost of sales is due to the efficiencies that have been introduced and to a number of price increases implemented in the 4th quarter of 2010. We are delighted to announce that this positive trend has continued into the start of 2011.

Research and development costs, amounting to about 1 percent of turnover, remained stable. As a subcontractor, Connect Group is not involved in the development of new products that are offered directly to a target market. Connect Group's development activities consist of supporting the development of its customers' products (getting them ready for production) and of developing an efficient production apparatus.

General and administrative expenses declined further from EUR 7.9 million (4.8 % of sales) in 2008 to EUR 6.4 million (5.3 % of sales) in 2009 to EUR 6.1 million (4.6 % of sales) in 2010.

Selling expenses rose slightly in absolute terms from EUR 6.6 million in 2009 to EUR 6.7 million in 2010. In percentage terms, however, they fell from 5.4 to 5.0 % of sales.

Net financial charges were EUR 2.5 million compared with EUR 1.6 million in 2009. This increase reflects higher financial charges due to the issue of the EUR 5 million subordinated loan and net foreign exchange losses in 2010 of EUR 0.5 million. As the company purchases in dollars and yen, and has operations in Romania (RON) and the Czech Republic (crowns) it is subject to fluctuations in these currencies on the foreign exchange market. Given the unpredictability, the company hedges foreign currency only in specific situations which may never be speculative in nature.

The equity attributable to the equity holders of the parent fell from EUR 15.7 million to 14.3 million, owing to the net loss for the year and certain translation effects.

Discontinued operations

On selling the automation business, the Group recorded a provision of EUR 950,000 on an automation customer receivable of which the collection risk remained with Connect Group. Full payment of this receivable was obtained in 2010.

At the end of 2009, on selling the automation activity, the company recorded a gross receivable of EUR 2 million against the buyer of this business. When initially booking this receivable at the end of 2009, the Board decided to record the receivable at its estimated market value based on the underlying value of the Connect Group shares (700,000 shares with a market value at that time of € 1,500,000) obtained as security, taking into account the buyer's financial structure and its other outstanding obligations towards Connect Group. In 2010, the buyer of the automation activities met all its financial obligations towards Connect Group and has informed Connect Group that its business is profitable. Based on this new information, the Board has decided to record the receivable at its nominal value reduced by the interest charge for one year, given the fact that the loan is still interest-free in 2011 and becomes interest-bearing from 2012. The gain resulting from this valuation is recognized as income from the discontinued activity.

Above elements have a positive impact of EUR 1.5 million on the result.

2. Report on the individual financial statements

In accordance with article 95 and 96 of the Company Law, we are pleased to report to you on the activities of our company during the past financial year and on the individual financial statements, closed on 31 December 2010.

The individual financial statements have been drawn up pursuant to the stipulations of the Royal Decree of 30 January 2001 implementing the Companies' Code, in particular book II, section I on the annual accounts of enterprises, and in accordance with the particular legal and regulatory provisions that apply to the company.

1. Capital and ownership of the shares

The issued capital amounted to EUR 429,934.29, represented by 6,934,424 shares without nominal value. All shares are fully paid-in.

2. Activities

Connect Group NV is a European supplier of cost-effective, high quality Electronic Manufacturing Services to the professional industry. The activities include the production of cable and cable trees, PCB assembly and testing, production of semi-manufactures and final product assembly.

3. Commentary on the individual annual accounts

Financial situation on 31 December 2010

Connect Group NV closed the year with sales of EUR 78.6 million compared with EUR 100.3 million in 2009. Given the major changes that Connect Group NV underwent during 2010 with both the sale of the automation activity and the merger with Connectronics NV, the 22% decline in sales should be interpreted as follows:

(in EUR million)	2010	2009
Automation	1.0 *	35.0
Print board assembly	52.5	65.3
Merger Connectronics NV	25.6	0**
Total	79.1	100.3

** 2 months' activity during 2010*

*** Sales of Connectronics NV amounted in 2009 to EUR 23.1 million.*

The 2010 financial year 2010 ended with a loss of EUR 1.78 million versus a loss of EUR 14.72 million in 2009.

Equity (after appropriation) is EUR 28,146,323. This is EUR 1,823,718 less than at end-2009, owing largely to the loss for the year.

The board of directors reviewed the realisation value of the participations and the realisability of the receivables on the intercompanies and is of the opinion that due to the integrated operational structure with these participations and the current business outlook of the group as a whole, no permanent less value has to be accounted for.

All amounts in Eur	31/12/2009	Capital increase	Capital grants	Profit/ (loss) carried forward	31/12/2010
Capital	429,934	0	0	0	429,934
Share premium account	38,052,642	0	0	0	38,052,642
Legal reserve	42,993	0	0	0	42,993
Profit /(loss) carried forward	(8,595,467)	0	0	(1,783,779)	(10,379,246)
Capital grants	39,939	0	(39,939) (*)	0	0
Total shareholders' equity	29,970,041	0	(39,939)	(1,783,779)	28,146,323

** Transfer of the automation activity business unit*

Appropriation of the result

The Board proposes that the loss for the year (EUR -1,783,779) be added to the loss brought forward from the previous year (EUR - 8,595,467) and appropriated as follows (in EUR):

Loss carried forward	(10,379,246)

After the appropriation of the result the shareholders' equity per December 31st 2010 is composed as follows (in EUR):

Capital	429,934
Share premium account	38,052,642
Legal reserve	42,993
Loss carried forward	(10,379,246)
Total shareholders' equity	28,146,323

3. Going concern

The Board of Directors has evaluated the preparation of the consolidated and individual annual accounts in accordance with the principle of going concern:

- With the sale of the automation activities at the end of 2009, the cash drain of those activities was stopped permanently. As of 2010 the company concentrates on its contract manufacturing activities, which have always been profitable in the past;
- On 27 April 2010 a subordinated convertible loan of EUR 5 million was issued in order to strengthen the weakened equity position. The terms of that subordinated loan are: suspension of general preferential rights, a minimum investment of EUR 50,000, a term of 6 years, an interest rate of 6 percent payable semi-annually and a twice-yearly conversion option (following the announcement of annual and half-yearly figures). The obligations may be converted at the lowest of the following two amounts: (i) 70% of the average highest independent bid price for a share of Connect Group, in the central order book of Euronext over the 30 trading days prior to the day on which the conversion right was exercised and (ii) EUR 2;
- The budget for 2011, prepared in 2010, shows a profit and a positive cash flow for the continuing activities;
- As part of optimizing the financing of the group it was decided to make use of factoring of accounts receivable. Factoring is used solely as a financing instrument, with all related operational activities (customer follow-up and administration) carried out in full by Connect Group. This financing method allows the group to adapt its credit lines dynamically to expected needs. In consultation with the group's bankers, EUR 14 million of credit lines were replaced by funding through the factoring company. The potential funding room obtained by transferring receivables to the factoring company amounted at the end of the year to EUR 15.2 million, thereby creating additional financial resources for the group. Following these changes, the group has discussed all its contractual arrangements with its bankers. These have clearly indicated that, based on all currently known data, they see no need for further changes in the financing structure. Given the new factoring agreement and the arrangements with the banks, the group believes that its medium-term funding needs are covered. The company has received from its bankers all necessary waivers given the failure to comply with bank covenants at the end of the year;
- The outbreak of the financial crisis in 2008 followed by the economic crisis clearly had a greater than average impact on the electronics sector of which Connect Group is part. During 2010 several measures were taken to safeguard long-term profitability. Structural decisions were taken with a view to simplifying the group structure and reducing costs. Restructuring also took place in various areas. This will definitely have a positive impact on the result in 2011;

- The market outlook for 2011 is very positive compared to 2008, 2009 and 2010. The order book has been on the rise for several quarters and general demand is growing.

In view of those circumstances, the Board of Directors believes that preparing the consolidated and individual annual accounts in accordance with the principle of going concern is justified.

4. Important events after the closing of the financial year

It was not only Connect Group that was hit by the crisis in recent years. Two customers have also run into difficulties and are currently unable to meet their financial obligations to Connect Group.
These customers are currently being delivered on a cash basis. It is clear that there is payment uncertainty for those customers but that right now the receivables should not yet be considered as lost, as these customers continue to receive binding orders from customers, purchase goods at Connect Group on a cash basis and are negotiating with financial institutions and investors to strengthen their capital structure. In this context, Connect Group has opted to record a general provision covering 50 percent of the outstanding receivables on these customers. This provision amounts to EUR 1,625,000 (based on the outstanding position of these customers in 2011) and is charged in full to the income statement. If these customers ultimately would not pay, the group will need to write off an additional EUR 1,625,000. If full payment will be obtained, the provision of EUR 1,625,000 will have to be reversed.

In March 2011, Japan was hit by an earthquake followed by a tsunami. This natural disaster has disrupted the operations of many companies in the region. Although Connect Group does not directly sell to or buy from any company in this region, this can in the future have an impact on operations because several electronics components are produced in factories located in this region.

5. Most significant risks for the group

The most significant risks for the company are:

1. The production is completeley dependent on the availability of all components at the moment that production starts up. If component availability slows down, sales too will be delayed.
2. Currency risk:
   - The group buys a portion of its components in dollars/yen, the exchange rate risk on which is only partially covered in the selling price.
   - Production takes place partly in Romania and the Czech Republic: large fluctuations of these currencies against the Euro can impact costs.
   - Since foreign currency needs cannot be accurately timed, the group does not cover its foreign currency positions.
3. The group has a credit agreement with its bankers that includes a minimum solvency ratio covenant, equity and cash flow. Before year-end, the group obtained a waiver for not meeting the established solvency ratio from its bankers.
4. Customer insolvency can have a major impact on the results.

6. Announcements

Branches

The company has its registered office at Industriestraat 4, B-1910 Kampenhout (headquarters) and a operational site at Frankrijklaan 18-22, B-8970 Poperinge (PCB assembly).

Financial risk management

Fluctuations in market prices, exchange rate differences on sales and purchases and inter-company loans are risks inherent to the company's activity. The company is seeking constantly to minimize the financial risks inherent in its activities. The group does not enter into or trades financial instruments for speculative purposes. At the end of the accounting year the company did not have any hedging contracts outstanding. All outstanding receivables and payables are recorded at the year end rate in the accounts.

Research and development

As a subcontractor, Connect Group is not involved in the development of new products that are offered directly to a target market. Connect Group's development activities consist of supporting the development of its customer's products (getting them ready for production) and of developing an efficient production apparatus.

Consolidation

The group uses a consolidation system whereby all financial data of each company included in the consolidation scope are introduced on a monthly basis.

All monthly data are analysed by management, compared with the budget data and discussed with local management. The consolidated annual accounts are derived directly from the management consolidation system.

7. Attest and non-attest fees charged by the Statutory Auditor

In accordance with the law of 20 July 2006, article 101, please find below a summary of the attest fees and non attest fees of the statutory auditor Deloitte Bedrijfsrevisoren and its network of professional service firms.

In EUR	Individual	Consolidated
Attest fees	73,600	140,000
Other legal missions	4,120	4,120
Other non attest fees	39,732	42,018
Tax advice	88,925	91,287

On consolidated level the non attest fees do not exceed the attest fees.

8. Announcement pursuant to articles 95 (and 119) of the Companies Code

1. With respect to the capital structure we refer to the first item of this report.
2. There are no legal or statutory limitations on the transfer of securities.
3. There are no holders of securities to which special rights of control are attached.
4. There are no share plans for employees where the rights of control are not exercised directly by employees.
5. There are no legal or statutory limitations to the exercise of voting rights.
6. There are no shareholder agreements which could limit the exercise of voting rights.
7. The company is governed by a Board of Directors composed of at least 5 directors, who may or may not be shareholders. They are appointed by the General Meeting of Shareholders. The mandates of departing directors who are not reelected end immediately after the annual meeting of the year in which their mandate ends. Directors may be dismissed at any time by the General Meeting. Departing directors may be reelected. Any Board member may resign by written notification to the Board of Directors. At least 2 directors must be independent directors.

A person is viewed as an independent director when he:

- is not a member of the executive management of the Company, nor of the control bodies or of the executive management of the other companies of the group;
- has no family ties with the other directors that could influence his independent judgement;
- is not part of the executive management or board of directors of one of the dominating shareholders, nor has been elected upon the proposal of one of the dominating shareholders, nor has business, financial or other relationships with these persons that are such as could influence his opinion;
- maintains no other relationship with the Company which, in the opinion of the Board of Directors, is such as could potentially influence his judgement; such influence is not deemed to lie in the remuneration that this director receives, nor in his limited personal ownership of shares in the Company.

Only the extraordinary general meeting is authorized to make amendments to the articles of association and, in particular, to decide on the accelerated dissolution of the company, on any increase or decrease of company capital, any merger with one or more companies, changes in the company purpose and the conversion of the company into a company having another legal form.

8. The Board of Directors is authorized to acquire the shares of the company by purchase or exchange, directly or via a person acting in his own name but for the company's account, in order to avoid imminent and serious detriment to the company, without the prior decision of the General Meeting by way of application of the provisions of the Companies Code. The Board of Directors is authorized to sell treasury shares without the prior decision of the General Meeting on the stock market or as the consequence of an offer for sale directed at all shareholders at the same conditions, in order to avoid imminent and serious detriment to the company, without the prior decision of the General Meeting by way of application of the provisions of the Companies Code. On 27 April 2010 the General Meeting moreover renewed the authorization of the Board of Directors to acquire own shares, by purchase or exchange, directly or via a person acting in his own name but for the company's account, and more specifically:
   - this acquisition can cover up to 1,386,884 shares;
   - the buying in shall take place at a price not lower than EUR 1 and not higher than EUR 6 per share.

   This authorization shall be valid for a period of no more than 5 years.
9. There are no significant agreements to which the issuer is a party and which come into effect, undergo changes or expire in the event of a change in control of the issuer after a public takeover bid, or the consequences of the same, except if they are of such that publication of the same would seriously damage the issuer; this derogatory regulation not being applicable in those cases where the issuer is specifically obliged to publish such information under other legal requirements.
10. There are no agreements concluded between the issuer and its directors or employees which provide for remuneration in the event that, as the result of a public takeover bid, directors resign or are required to take redundancy without valid reason or the employment of employees is terminated.
11. At least one member of the Audit Committee is independent and is an expert in audit and accounting.

9. Corporate Governance Statement

Connect Group complies in principle with the Belgian Corporate Governance Code, published on 12 March 2009 and explains in the Connect Group Corporate Governance Charter and in this Corporate Governance Statement why it departs from a few of its provisions.

Composition of the Board of Directors

The Board of Directors consists of 7 members, 3 of whom are nominated by the principal shareholders. The Chairman and the Chief Executive Officer are never the same individual. The Chief Executive Officer is the only Board member with an executive function. All other members are non-executive Directors.
Three of the Directors are independent in accordance with the criteria of Article 526ter of the Companies Code and provision 2.3 of the Belgian Corporate Governance Code.

Operation of the Board of Directors

In 2010 the Board of Directors met on 15/02, 03/03, 29/03, 10/05, 21/06, 09/08, 27/09, 08/11 and 13/12.
In addition to its statutory powers and powers under the Articles of Association and the Connect Group Corporate Governance Charter, the Board of Directors considered the following matters, among others in 2010:

- the financial crisis, its impact on Connect Group, and the company's actions in the face of the changed economic and financial conditions;
- the debt position of the Group;
- the 2011 budget;
- the follow-up of the long term-strategy of the Group and its major components;
- the revision of the Connect Group Corporate Governance Charter.



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In 2010, the Board of Directors was made up by the following members:

Name	Appointed	Expiration	Principal occupation	Number of regular meetings attended
Independent Director, Chairman of the Board				
EDJ NV, permanently represented by Erik Dejonghe	2009	2015	Director of companies	9
Independent Directors				
Dominique Moorkens	2006	2012	Director of companies	7
Becap BVBA, permanently represented by Pierre Serrure	2007	2013	Director of companies	9
Chief Executive Officer				
Luc Switten BVBA, permanently represented by Luc Switten	2010	2014	Connect Group NV	9
Directors nominated by the principal shareholders				
Huub Baren BVBA *, permanently represented by Huub Baren	2010	2014	Director of companies	9
Stokklinx BVBA**, permanently represented by Guy van Dievoet	2010	2014	Director of companies	9
Immocom NV **, permanently represented by Freddy Daniëls	2008	2014	Investment manager of LRM	8

* dominant shareholder, holding 31,24 % of the shares

** representing LRM NV

Committees formed by the Board of Directors

The Board of Directors has established two advisory Committees.

Audit Committee

All of its three members are non-executive Directors and one member, Mr. Erik Dejonghe is independent. Another member, Mr. Freddy Daniëls has competence in accounting and auditing. This is demonstrated by his position as investment manager of LRM, a public investment company. The Audit Committee is chaired by Mr. Guy van Dievoet.

The Chief Executive Officer and the Chief Financial Officer are not members of the Committee, but are invited to attend its meetings. This arrangement guarantees the essential interaction between the Board of Directors and executive management.

Name	Expiration	Number of meetings attended
Guy van Dievoet	2014	2
Erik Dejonghe	2015	2
Freddy Daniëls	2014	2

The committee met twice in 2010. In addition to its statutory powers and its powers under the Connect Group Corporate Governance Charter, the Audit Committee discussed the following main subjects:

- Connect Group's financial actions as a result of the financial crisis;
- the treasury evolution of the Group;
- potential conflicts of interest of Board members.

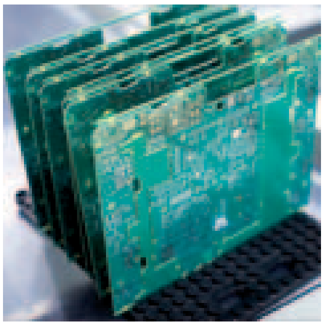
Remuneration and Nomination Committee

The Remuneration and Nomination Committee is made up of four members, all of whom are non-executive directors. The Remuneration and Nomination Committee is chaired by Mr. Dominique Moorkens.

Name	Expiration	Number of meetings attended
Dominique Moorkens	2012	2
Huub Baren	2014	2
Erik Dejonghe	2015	2
Piet Serrure	2013	2

The Remuneration and Nomination Committee met twice in 2010. In addition to its powers under the Articles of Association and its powers under the Connect Group Corporate Governance Charter, the Committee discussed the following subjects:

- remuneration of the Chairman of the Board and board members for 2010;
- remuneration of the management for 2010;
- there were no new nominations in 2010.



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Evaluation

The main features of the process for evaluating the Board of Directors, its Committees and the individual Directors are described in chapter 3,4 & 5 of the Connect Group Corporate Governance Charter.

On 24 January 2010, the Board of Directors reviewed its own composition and modus operandi, and the composition and the modus operandi of the committees created by it. The Board members were invited to express their various points based on a questionnaire. The questions include:

- the degree to which timely and complete information is made available to directors, and the way any questions and comments are answered by management;
- the discussion and decision-making processes in the Board of Directors, and in particular whether all viewpoints can be formulated and taken into consideration;
- the participation of individual directors in the discussions and the sufficient contribution by the director of his specific expertise during discussions;
- the way meetings are led by the Chairman of the Board of Directors, with particular attention to the complete exercise of everyone's right to speak, and the conformity of the Board of resolutions with the discussions and the consensus of the directors.

Executive Management

Mr. Luc Switten has been appointed Chief Executive Officer in charge of daily management. He is supported by the Chief Financial Officer, Mr Hugo Ciraux. Together they are the Executive Management*. The Executive Management meets monthly and is responsible for finance and administration, operations, the preparation of the meetings of the Board of Directors and the supervision of daily management.

Connect Group has no Executive Management according Article 524bis of the Companies Code.

Name	Position
Luc Switten	Chief Executive Officer
Hugo Ciroux	Chief Financial Officer

* in their own names or via management companies

Remuneration Report

Policy

Remuneration policy for non-executive Directors

The remuneration policy for non-executive Directors is described in paragraph 3.4 of the Connect Group Corporate Governance Charter.

Remuneration policy for Executive Management

The remuneration policy for Executive Management is described in paragraph 5.5 of the Connect Group Corporate Governance Charter.

Non executive directors receive from Connect Group NV a fixed annual remuneration and attendance fees:

- there is a set annual remuneration for the Board of Directors as well as for the chairpersons of (each of) the committees;
- participation in a board or committee meeting entitles the director to an attendance fee.

This remuneration structure is aimed at encouraging directors' active participation in both Board and committee meetings.

The objective, independent judgement of non-executive directors is further encouraged by the fact that they do not draw any other remuneration from the company than their fixed directors' remuneration and their attendance fees.

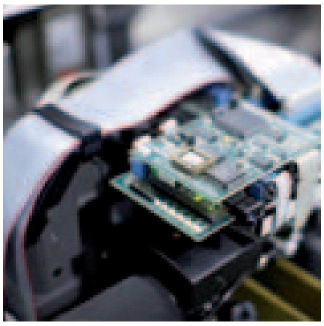
For the Executive Management and the CEO there are no specific provisions entitling the company to recover variable remuneration granted on the basis of incorrect financial data.

Remuneration of the Board of Directors

The remuneration of the Board of Directors of 2010 is reflected in the table below (in EUR).

Name	Fixed remuneration	Variable Board attendance	Variable Committee attendance	Other remuneration	- 25 %	Total Gross 2010
Chairman						
EDJ NV, permanently represented by Erik Dejonghe	24,000	11,250	12,000	1,500	0	48,750
Directors						
Huub Baren BVBA, permanently represented by Huub Baren	12,000	11,250	6,000	0	(7,312)	21,938
Stokklinx BVBA, permanently represented by Guy van Dievoet	12,000	11,250	6,000	0	(7,312)	21,938
Dominique Moorkens	12,000	8,750	6,000	0	(6,687)	20,063
Immocom NV, permanently represented by Freddy Daniëls	12,000	10,000	6,000	0	(7,000)	21,000
Becap BVBA, permanently represented by Pierre Serrure	12,000	11,250	6,000	0	(7,312)	21,938
Total	84,000	63,750	42,000	1,500	(35,623)	155,627

In view of the difficult economic situation of the market in 2010, it was decided by the Board of Directors to impose to all the Board members, except the Chairman of the Board, a reduction of 25 percent on all the different remunerations.



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Remuneration of the Chief Executive Officer

In 2010, Connect Group paid a remuneration of 268,000 EUR in respect of the CEO, Luc Switten. The remuneration, paid to his management company, includes:

- a fixed remuneration of 268.000 EUR;
- no variable remuneration;
- no retirement allowance;
- no other remunerations.

Remuneration of the Executive Management

The Executive Management consists of the CEO and the CFO. In 2010, Connect Group paid a total joint remuneration of 468,000 EUR to the Executive Management. This includes:

- a total joint remuneration of 468,000 EUR;
- no variable remuneration;
- no retirement allowance;
- no other remuneration.

Evaluation criteria for the remuneration of the Executive Management based on performances

Remuneration of bonuses to the Executive Management is based on both EBIT (50 %) and on the operational free cash flow (50 %), set per manager on group level (consolidated basis).

Longterm-cash bonus plans on more than one year

There are no longterm-cash bonus plans on more than one year granted to the Executive Management.

Shares and stock options

In the past, no shares, stock options or other rights were granted to the Members of the Board and the Executive Management.

In 2010, no shares, stock options or other rights were granted to the Members of the Board and the Executive Management.

Exit bonus

There is no exit bonus plan for the Executive Management.

Shares and shareholders

Share identification

The Connect Group share is listed on NYSE Euronext Brussels as ISIN BE0003786036 (CONN) and was first listed in May 2000.

The Connect Group share in 2010

Shares	
Highest price	2.89 EUR
Lowest price	1.05 EUR
Average price (accounting average)	1.85 EUR
Price at 31/12/2010	1.95 EUR
Number of shares	6,934,424
Average volume traded per day	10,934
Stock market capitalisation at 31/12/2010	13,522,127

Connect Group closing prices and volumes traded in 2010

The average daily trading volume was 10,934 shares in 2010. This is the double of 2009. The volumes peaked in the period of 11 to 15 October 2010.

Issued capital and reserves

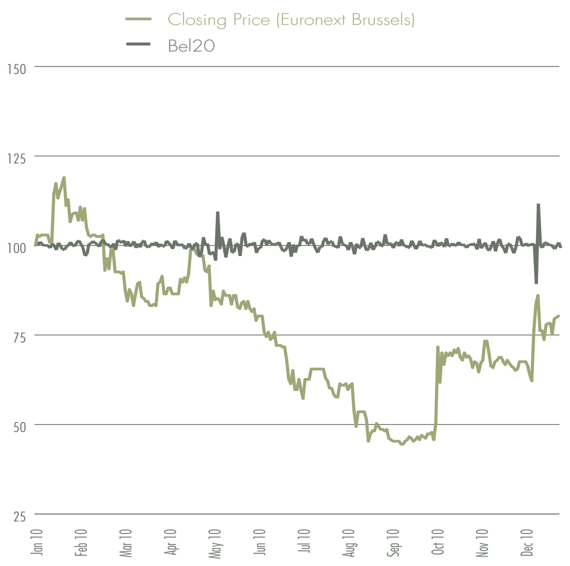
Shareholders' Equity (at 31/12/2010)			
Origin Name	Number Issued	Declared total	%
Equity	6,934,424	4,349,303	62.72 %
Warrants	-	-	-
Total	6,934,424	4,349,303	62.72%

Shareholder Name	Number Declared (*)	%
Huub Baren BVBA (**)	2,166,155	31.24 %
LRM	1,250,000	18.02 %
Het Beste Brood Holding SA	242,512	3.50 %
Gaston Moonen	244,582	3.53 %
Luc Switten	258,589	3.73 %
Wolodimir Dobosch	187,465	2.70 %
Total	4,349,303	62.72 %

(*) Shareholders holding 3% or more need to declare their interests
(**) + companies controlled by Huub Baren

Dividend policy

The company does not pursue any strictly defined dividend policy. The Connect Group wants to use all its generated cash to reduce its financial debts in the coming years.



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General Meetings of Shareholders

The Annual General Meeting was held on 27 April 2010. An Extraordinary General Meeting was held on 2 March 2010 and 9 August 2010. The resolutions of these 3 meetings are available at www.connectgroup.com.

Risk management and internal control

Connect Group's Board of Directors is responsible for assessing risks inherent to the company and the effectiveness of internal control.

Belgian regulations have not set up a strict legal framework for listed companies. However, a European regulation of 29 April 2004 and the Belgian Corporate Governance Code 2009 recommend to highlight risk factors and the measures they have taken to keep them at an acceptable level.
Connect Group has set up an internal control system adapted to its functioning and to the environment in which it operates, based on the COSO(*) model.
The COSO methodology is based on five areas: the control environment, risk analysis, control activities, information and communication, and supervision and monitoring.

Control environment

- Organization of internal control
  Connect Group has set up an Audit Committee in charge, among other things, of checking the effectiveness of the Company's internal control and risk management systems. The Chairman of the Audit Committee may not be the Chairman of the Board of Directors.

- Professional ethics
  Connect Group has adopted a Corporate Governance Charter with a view to ensuring honest, ethical and law-abiding conduct respectful of good governance principles and a Trading Regulations Code to avoid illegal use of privileged information by the group's Directors, shareholders, senior management and key employees in the exercise of their duties.

Risk analysis

Connect Group has carried out a risk analysis for its activities. This analysis identified the following risks:

- Market risk
  The Connect Group operates in a European market where price competitiveness is very high.

- Production technology risk
  New production technologies play a major role to win future projects.

- Financial risk
  The Connect Group capital structure makes the group largely dependent on external financing.

- Customer bankruptcy risk
  Bankruptcy or failure of a larger customer has an impact not only on outstanding receivables but also on the inventory and the purchase commitments specifically related to that customer.

- Planning / budgeting risk
  Budgets and projections are important for decision-making and management control. Their reliability and relevance can influence the company's performance.

- Risk related to human resources
  This relates to the company's capacity to find and retain the human capital required to ensure that it operates effectively and achieves its objectives.

- Risk related to the financial statements **(management information, registration of transactions in accounts, consolidation)**
  The production of complete, reliable and relevant information is an essential element of management and governance.

Control activities

Control activities include all the measures taken by Connect Group to ensure that the principal risks it has identified are appropriately controlled.

- Market risk
  The group has since many years invested in production facilities in Eastern Europe to counter price pressure.

- Production technology risk
  Management permanently evaluates existing production facilities to ensure that production capacities and technologies remain in line with market expectations.

- Financial risk
  The introduction of factoring significantly improves management of working capital. Working capital requirements are monitored on a daily basis.

- Customer bankruptcy risk
  Specific procedures are set in place to follow up the individual total customer risks.

- Risks related to the financial statements
  Connect Group publishes consolidated financial statements on a quarterly basis. These are approved, with the related press release, by the board. The board analyses significant transactions and key events under the period in review, and examines the latest budget and performance projections. Financing, cash management and access to liquidities are generally central to these discussions. Complex accounting subjects, in particular the application of IFRS requirements, are also identified and discussed by the Board.
  The Statutory Auditor (Deloitte) reports to the Audit Committee with its audit conclusions and any comments on the audit process.

Information and communication

In order to transmit reliable financial information to shareholders without delay, a standardized information flow process must be defined. Connect Group has applied IFRS since 2000. Its valuation rules are published every year in its report. Uniform reporting of accounts is used both upstream and downstream in order to ensure the consistency of data and to detect potential anomalies. A financial calendar for this reporting is established every year.
Computerized data backup operations are organized on a daily basis and a monthly storage process prevents a total loss of financial data. Restricted access to software (accounts, consolidation, payment and remuneration) is also applied.

Supervision and monitoring

The supervision activity is exercised by the Board through the Audit Committee's activities. Given the size of Connect Group's activities, there is no internal auditor's post.

The Statutory Auditor (Deloitte) also reviews on an annual basis the internal control procedure for risks related to Connect Group's financial statements. This review of internal control forms part of the assignment of certifying Connect Group's statutory and consolidated accounts in conformity with audit standards applicable in Belgium.

More specifically, the Statutory Auditor tests on the basis of an triennial rotation plan the operational effectiveness of internal control of risks deemed critical in relation to the financial statements. Its work consists of discussions with members of the organization and tests on a limited number of transactions.

The conclusion of this work, presented in a report submitted to the Board of Connect Group, did not reveal any major weaknesses in internal control.

Conduct policy

Statutory conflicts of interests in the Board of Directors

In accordance with Article 523 of the Companies Code, a member of the Board of Directors should give the other members prior notice of any agenda items in respect of which he has a direct or indirect conflict of interests of a financial nature with the company, and should refrain from participating in the discussion of and voting on those items. A conflict of interests arose in 2010:

At the 15 February 2010 meeting and the 3 March 2010 meeting, the following was recorded in the minutes of the meeting:

"*The Chairman further noted that before the meeting Huub Baren BVBA, represented by Mr Huub Baren, and Vladimir Dobosch BVBA, represented by Mr Wolodimir Dobosch had reported to the Board that they could be in potential conflict of interest situations under the provisions of Article 523 of the Companies' Act. The Company's banks have made their approval of the transfer of the Factory Automation division subject to the requirement for the Company to obtain at least two million euros in the market. In other words, the transfer of the division can proceed only if the convertible subordinated notes are subscribed in an amount of a least EUR 2,000,000. Thus a potential conflict of interest for both the above-mentioned persons results from a combination of the following different capacities:*

- *that of director and direct or indirect shareholder of the Company, acting as a seller of the Factory Automation division and the issuer of the convertible subordinated notes;*
- *director and indirect shareholder of IPTE Factory Automation NV, acting as buyer of the Factory Automation division of the Company* "

and

"*Luc Switten BVBA, represented by Mr. Luc Switten, and Stokklinx BVBA, represented by Mr. Guy Dievoet, have announced to the Board that they intend to subscribe to the convertible subordinated loan, referred to below. Luc Switten BVBA and Stokklinx BVBA consider that the subscription and certain related transactions could constitute a potential conflict of interest under the provisions of Article 523 of the Companies' Act. This intent to subscribe to the convertible subordinated loan could lead to the view that in approving and signing the documents relating to the issuance of the convertible subordinated notes, conflicting interests exist between the Company on the one hand and the above-named directors on the other.*"

On both occasions the provisions of Article 523 were complied with.

Other transactions with Directors and Executive Management

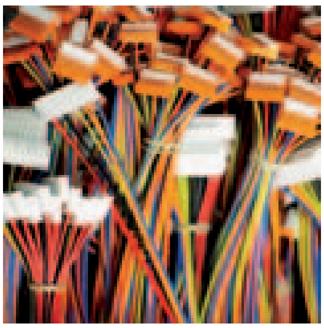
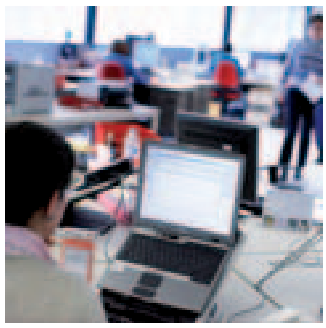
The Connect Group Corporate Governance Charter contains conduct guidelines with respect to direct and indirect conflicts of interests of those members of the Board of Directors and the Connect Group Executive Management that fall outside the scope of Article 523 of the Companies Code. These persons are deemed to be related parties to Connect Group, and have to report, on an annual basis, their direct or indirect transactions with Connect Group or its subsidiaries.

In 2010, Connect Group sold € 547,233 of goods to the Electronic Network group. Huub Baren, a director and shareholder of Connect Group, is also the principal shareholder of the Electronic Network group. These are sales in the normal course of operations. The Board of Directors has analysed the nature and character of these sales and concluded that they can be viewed as normal business transactions undertaken at market conditions.

On 27 April 2010 the company issued a subordinated convertible bond . Subscription of this bond had been made available to public subject to meeting the subscription conditions. Members of the Board of Directors and management subscribed to this bond (a list of subscribers is published on the website: www.connectsystems.com). In this transaction, all conditions of company law were respected.

Protocol to prevent abuse of advance information and insider trading

During its meeting on 15 November 2000 the Board of Directors of the Connect Group drew up a protocol to avoid the illegal use of privileged information – or creating the impression of its illegal use – by directors,

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shareholders, senior managers and key employees (insiders). The protocol consists of a number of prohibitions, intended primarily to protect the market.

The practice of insiders dealing in company shares whilst in possession of insider information affects the market. If insiders are seen to make (or are suspected of making) financial benefit from insider knowledge, investors will turn their back on the market. This could reduce the liquidity of the listed shares and limit access to new cash resources.
The protocol also includes a number of preventive measures to assure compliance with the legal stipulations and to protect the company's reputation.

The stringent procedures of the protocol require that the persons involved:

- do not deal in Connect Group shares during the two months prior to publication of annual results;
- do not deal in Connect Group shares during the 21 days prior to publication of quarterly results;
- do not sell shares within six months of purchase;
- inform the CFO of all intended operations before undertaking them.

Declaration regarding the information given in this annual report 2010

The undersigned declare that :

- the annual accounts, which are in line with the standards applicable for annual accounts, give a true and fair view of the capital, the financial situation and the results of the issuer and the consolidated companies;
- the annual report gives a true and fair view of the development and the results of the company and the position of the issuer and the consolidated companies, as well as a description of the main risks and uncertainties they are faced with.

Luc Switten, CEO
Hugo Ciroux, CFO

Glossary

PCB:
Printed Circuit Board

EMS:
Electronic Manufacturing Services, the assembly of electronic parts and devices for third parties

DFM:
Designed for Manufacturing, optimizing design for easier production

PBA:
Print Board Assembly, components mounted and soldered on a PCB

PBA surface mounting:
Mounting of electronic components on the surface of a PCB

FMEA:
Failure Mode and Effect Analysis, a method used for systematic risk analysis and for improving processes and products in various stages of development.

IDC crimping:
Insulation-displacement connection technology (cable technology)

Braiding:
A woven protection around a set of cables

µBGA:
Micro Ball Grid Array, electrical connections are at the bottom of the component

Press fit:
Electrical connector pressed into the PCB

Die & wire bonding:
Circuit connections made with very small wires directly onto the PCB

Tropicalisation:
Coating of PCB to protect against hazardous conditions

AOI:
Automatic Optical Inspection

Flying probe:
Electronic testing of PCB's with XY-moving test needles

UL / CSA:
Safety standard, products and their components are tested to UL's rigorous safety standards with the result that consumers live in a safer environment.

RoHS:
EU directive restricting the use of hazardous substances in electrical and electronic components

Kanban:
Effective system to control the production process and the supply chain, it detects when an item should be ordered

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Contents

1. Consolidated financial statements

1.1 Independent Auditor's Report

To the shareholders

As required by law and the company's articles of association, we are pleased to report to you on the audit assignment which you have entrusted to us. This report includes our opinion on the consolidated financial statements together with the required additional comments.

Unqualified audit opinion on the consolidated financial statements with explanatory paragraphs

We have audited the accompanying consolidated financial statements of Connect Group NV ("the company") and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium. Those consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated statement of financial position shows total assets of 88,082 (000) EUR and the consolidated income statement shows a consolidated loss (group share) for the year then ended of 1,131 (000) EUR.

The financial statements of one significant entity included in the scope of consolidation which represents total assets of 5,435 (000) EUR and a total loss of 196 (000) EUR has been audited by another auditor. Our opinion on the accompanying consolidated financial statements, insofar as it relates to the amounts contributed by this entity, is based upon the reports of this other auditor.

The board of directors of the company is responsible for the preparation of the consolidated financial statements. This responsibility includes among other things: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with legal requirements and auditing standards applicable in Belgium, as issued by the "Institut des Réviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren". Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

In accordance with these standards, we have performed procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. We have assessed the basis of the accounting policies used, the reasonableness of accounting estimates made by the company and the presentation of the consolidated financial statements, taken as a whole. Finally, the board of directors and responsible officers of the company have replied to all our requests for explanations and information. We believe that the audit evidence we have obtained, together with the report of the other auditor on which we have relied, provides a reasonable basis for our opinion.

In our opinion, and based upon the report of the other auditor, the consolidated financial statements give a true and fair view of the group's financial position as of 31 December 2010, and of its results and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU and with the legal and regulatory requirements applicable in Belgium.

As disclosed in the notes to the financial statements, the realisation of the trade receivables (3,916 (000) EUR per 31 December 2010) and inventory balances (2,948 (000) EUR per 31 December 2010) on two customers of the group are doubtful considering that such customers are in financial difficulties. The directors have considered the adequacy of the bad debt and inventory obsolescence provisions (see notes 1.3.7.b and d.) in these financial statements to cover these risks and decided to increase the bad debt provision in the current year with 1,625 (000) EUR. The ultimate outcome of this uncertainty is unknown and may significantly differ from the accruals recorded.

Although the group incurred a consolidated loss (group share) for the year ended per 31 December 2010 of 1,131 (000) EUR, the financial statements have been drafted using the going concern principle. This assumption is only justified to the extent that the group will have access to sufficient credit lines and will be able to realize its business plans. Without modifying the above unqualified opinion, we draw your attention to the directors' report and to note 1.3.5 and 1.3.7.j. to the financial statements, in which the board of directors, in accordance with Belgian legal requirements justifies the application of the going concern principle. No adjustments have been recorded with respect to the valuation or the classification of certain balance sheet items, which would be required, should the group no longer be able to continue its operations.

Additional comments and information

The preparation and the assessment of the information that should be included in the directors' report on the consolidated financial statements are the responsibility of the board of directors.

Our responsibility is to include in our report the following additional comments which do not change the scope of our audit opinion on the consolidated financial statements:

- The directors' report on the consolidated financial statements includes the information required by law and is in agreement with the consolidated financial statements. However, we are unable to express an opinion on the description of the principal risks and uncertainties confronting the group, or on the status, future evolution, or significant influence of certain factors on its future development. We can, nevertheless, confirm that the information given is not in obvious contradiction with any information obtained in the context of our appointment.
- We draw your attention to note 1.3.5 critical accounting judgements and key sources of estimation uncertainty of the consolidated financial statements, which also describes the impairment analysis on intangible assets, tangible assets and goodwill, and the sensitivities and the assumptions that are relevant therein.

Diegem, 22 March 2011

The statutory auditor

DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises

BV o.v.v.e. CVBA / SC s.f.d. SCRL

Represented by Gert Vanhees

1.2 Detailed Consolidated Financial Statements (in EUR)

Consolidated statement of financial position as of 31 December

CONNECT GROUP NV	**2010**	**2009**	**2008**
Assets			
Current assets:			
Cash and cash equivalents (notes 1.3.7.a)	79,379	128,246	1,807,341
Trade receivables (notes 1.3.7.b)	27,743,967	20,195,275	46,038,121
Other receivables (notes 1.3.7.c)	605,829	358,929	1,399,104
Inventories (notes 1.3.7.d)	38,045,400	29,540,419	45,179,020
Current income taxes receivable	-	16,998	1,863,885
Other current assets	152,280	190,577	345,098
Assets classified as held for sale (notes 1.3.7.aa)	-	26,919,222	-
Total current assets	66,626,855	77,349,666	96,632,569
Non-current assets:			
Other receivables (see note 1.3.7.e)	1,900,000	-	2,338
Deferred tax assets (notes 1.3.7.p)	1,500,000	1,500,000	1,562,000
Property, plant and equipment (notes 1.3.7.f)	11,249,619	16,038,510	21,161,124
Intangible assets (notes 1.3.7.g)	2,156,630	816,069	1,295,507
Goodwill (notes 1.3.7.h)	4,648,712	4,648,712	8,935,345
Total non-current assets	21,454,961	23,003,291	32,956,314
Total assets	88,081,816	100,352,957	129,588,883

	2010	2009	2008
Liabilities and equity			
Current liabilities:			
Bank loans and overdrafts (notes 1.3.7.j)	21,459,241	25,023,631	31,028,991
Current portion of long-term debt (notes 1.3.7.k)	3,784,073	1,108,718	1,536,664
Trade payables	26,470,532	22,322,741	31,324,831
Accrued expenses, payroll and related taxes and deferred income (notes 1.3.7.i)	7,417,032	5,891,338	9,914,311
Provisions (notes 1.3.7.m)	479,244	637,986	3,711,804
Current income taxes payable	304,230	256,698	796,214
Other current liabilities (notes 1.3.7.n)	1,000	7,301	3,678,862
Liabilities directly associated with assets classified as held for sale (notes 1.3.7.aa)		27,036,465	-
Total current liabilities	59,915,352	82,284,878	81,991,677
Non-current liabilities:			
Long-term debt less current portion (notes 1.3.7.k)	13,200,515	2,379,404	4,866,832
Valuation derivative (notes 1.3.7.l)	644,798		
Deferred tax liability (notes 1.3.7.p)	-	-	62,000
Total non-current liabilities	13,845,313	2,379,404	4,928,832
Equity (notes 1.3.7.o)			
Shareholders' capital	429,934	429,934	429,934
Legal reserve	42,993	42,993	42,993
Share premium	37,214,276	37,214,276	37,214,276
Retained earnings	(23,396,339)	(22,265,539)	4,172,308
Cumulative translation adjustment	30,287	267,011	251,450
Equity attributable to equity holders of the parent	14,321,151	15,688,675	42,110,961
Non-controlling interest	-	-	557,413
Total equity	14,321,151	15,688,675	42,668,374
Total liabilities and equity	88,081,816	100,352,957	129,588,883

The accompanying notes to these statements of financial position form an integral part of these consolidated financial statements.

The figures of 2009 have been adjusted as compared to the figures presented in the annual report of 2009. In the annual report of 2009, certain expenses with respect to the planned sale of the Automation division had been recognised as a provision of the continued operations. In accordance with IFRS 5, these expenses had to be adjusted against assets and liabilities of the disposal group.

Consolidated Income Statement for the 12 month period ending 31 December (in EUR)

CONNECT GROUP NV	2010	2009	2008
Continuing operations			
Sales	133,463,526	121,254,759	165,897,641
Cost of sales (notes 1.3.7.q)	(118,184,147)	(109,056,329)	(140,649,712)
Gross Profit	15,279,379	12,198,430	25,247,929
Research and development expenses (notes 1.3.7.r)	(1,292,222)	(1,233,896)	(1,406,991)
General and administrative expenses (notes 1.3.7.s)	(6,153,734)	(6,401,544)	(7,958,328)
Selling expenses (notes 1.3.7.t)	(6,687,881)	(6,577,414)	(8,022,392)
Other operating expense (notes 1.3.7.u)	(1,701,068)	(41,017)	(171,652)
Other operating income (notes 1.3.7.u)	388,069	108,120	419,484
Operating profit/(loss)	(167,457)	(1,947,321)	8,108,050
Financial income (notes 1.3.7.x)	94,916	870,645	2,525,148
Financial charges (notes 1.3.7.x)	(2,530,293)	(2,467,318)	(5,848,858)
Profit/(loss) before taxes	(2,602,834)	(3,543,994)	4,784,340
Income taxes (notes 1.3.7.y)	(23,702)	(21,046)	25,074
Profit/(loss) for the year from continuing operations	(2,626,536)	(3,565,040)	4,809,414
Discontinued operations			
Profit/(loss) for the year from discontinued operations (notes 1.3.7.aa)	1,495,736	(22,539,661)	(4,368,368)
Profit/(loss) for the year	(1,130,800)	(26,104,701)	441,046
Profit/(loss) attributable to:			
Equity holders of the parent	(1,130,800)	(26,437,847)	274,197
Non-controlling interest (notes 1.3.7.o)	-	333,146	166,849
Earnings per share			
Basic earnings per share continuing operations (note 1.3.7.z)	-0.38	-0.51	0.69
Diluted earnings per share continuing operations (note 1.3.7.z)	-0.38	-0.51	0.69
Basic earnings per share continuing plus discontinued operations (notes 1.3.7.z)	-0.16	-3.76	0.06
Diluted earnings per share continuing plus discontinued operations (notes 1.3.7.z)	-0.16	-3.76	0.06

Consolidated Statement of Comprehensive Income (in EUR)

	2010	2009	2008
Profit/(loss) of the year	(1,130,800)	(26,104,701)	441,046
Other comprehensive income Exchange differences on translating foreign operations	(236,724)	15,561	181,286
Total comprehensive income for the year	(1,367,524)	(26,089,140)	622,332
Total comprehensive income attributable to:			
Equity holders of the parent	(1,367,524)	(26,422,286)	455,483
Non-controlling interest (notes 1.3.7.o)	-	333,146	166,849

The accompanying notes to these income statements form an integral part of these consolidated financial statements.

The figures of 2009 have been adjusted as compared to the figures presented in the annual report of 2009. In the annual report of 2009, the result of the non-controlling interest related to 20 % of the shares of Platzgummer that is part of the liabilities directly associated with assets classified as held for sale, was included in the loss for the year from discontinued operations and not shown separately as a result attributable to the non-controlling interest.

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Consolidated statement of changes in equity (in EUR)

Date	Number of shares outstanding	Capital	Legal reserve	Share premium	Profit/loss carried forward	Cumulative translation adjustment	Attributable to equity holders of the parent	Non- controlling interests	Total
31/12/2007	6,934,424	429,934	42,993	37,214,276	3,898,111	70,164	41,655,478	-	41,655,478
Net result of the year					274,197		274,197	166,849	441,046
Other comprehensive income						181,286	181,286		181,286
Total comprehensive income					274,197	181,286	455,483	166,849	622,332
Minority share of acquired Platzgummer								390,564	390,564
31/12/2008	6,934,424	429,934	42,993	37,214,276	4,172,308	251,450	42,110,961	557,413	42,668,374
Net result of the year					(26,437,847)		(26,437,847)	333,146	(26,104,701)
Other comprehensive income						15,561	15,561		15,561
Total comprehensive income					(26,437,847)	15,561	(26,422,286)	333,146	(26,089,140)
Non –controlling interest related to discontinued operations (*)								(890,559)	(890,559)
31/12/2009	6,934,424	429,934	42,993	37,214,276	(22,265,539)	267,011	15,688,675	-	15,688,675
Net result of the year					(1,130,800)		(1,130,800)		(1,130,800)
Other comprehensive income						(236,724)	(236,724)		(236,724)
Total comprehensive income					(1,130,800)	(236,724)	(1,367,524)		(1,367,524)
Minorities related to discontinued operations									-
31/12/2010	6,934,424	429,934	42,993	37,214,276	(23,396,339)	30,287	14,321,151	-	14,321,151

(*) The non-controlling interest relates to 20 % of the shares of Platzgummer that is part of the liabilities directly associated with assets classified as held for sale (see disclosure 1.3.7.aa).

Consolidated Cash Flow Statement for the 12 month period ending 31 December (in EUR)

CONNECT GROUP NV	2010	2009	2008
Operating profit / (loss)	(167,457)	(1,947,321)	8,108,050
Adjustments for:			
Gain/(loss) on sale of property, plant and equipment	(313,000)	-	-
Allowance for doubtful receivables and obsolete stock	1,311,789	1,021,111	300,000
Depreciation and amortization	4,024,303	4,009,560	4,181,647
Provisions	(158,742)	2,299,911	181,983
Operating profit before changes in working capital continued operations	4,696,893	5,383,261	12,771,680
Inventories	(8,448,268)	3,705,451	4,384,466
Trade receivables	(8,917,193)	6,907,735	4,538,119
Trade payables	4,877,590	(364,457)	(9,440,046)
Accrued expenses, payroll and related taxes and deferred income	1,573,226	(511,003)	(520,302)
Other receivables	644	23,459	(2,225,170)
Other current assets	(709,249)	(645)	(149,261)
Other payables	61,750	(244,592)	(597,816)
Cash flow from operating activities continued operations	(6,864,607)	14,899,825	8,761,670
Taxes	(23,701)	(21,046)	25,074
Exchange differences	(528,165)	(4,718)	(805,727)
Interests / Financial charges	(1,951,452)	(1,600,793)	(2,518,765)
Other	(237,210)	(54,666)	-
Net cash from/(used in) operating activities continued operations	(9,605,135)	13,217,986	5,462,252
Net cash from/(used in) operating activities discontinued operations (1.3.7.aa)	(4,264)	(5,019,878)	920,726
Cash flows from investing activities continued business			
Investments in intangible assets	(221,188)	(90,943)	(1,115,907)
Purchases of property, plant and equipment	(1,360,394)	(3,530,427)	(7,048,582)
Proceeds from the sale of property, plant and equipment	521,000	44,674	-
Interests received	44,240	8,836	782
Cash flows used in investing activities continued operations	(1,016,342)	(3,567,860)	(8,163,707)
Cash flows from (used in) investing activities discontinued operations	-	(285,300)	(5,514,146)
Cash flows from financing activities			
Proceeds/(repayments) from long-term debts	11,465,909	(2,487,428)	236,577
Proceeds/(repayments) from current portion of long term debt	2,675,355	(427,945)	72,011
Proceeds/(repayments) from bank loans and overdrafts	(3,564,390)	(6,005,359)	5,379,436
Proceeds from discontinued operation	-	2,896,689	-
Net cash provided by financing activities	10,576,874	(6,024,043)	5,688,024
Monetary (loss)/gain on cash and cash equivalents			
Increase/(decrease) in cash and cash equivalents	(48,867)	(1,679,095)	(1,606,851)
Cash and cash equivalents at the beginning of the period	128,246	1,807,341	3,414,192
Cash and cash equivalents at the end of the period	79,379	128,246	1,807,341

The accompanying notes to these cash flow statements form an integral part of the consolidated financial statements.

1.3 Notes to the Consolidated Financial Statements of Connect Group

1.3.1 General

Connect Group NV is a limited liability company incorporated under Belgian law, with subsidiaries in Belgium (ConnectSystems NV, ConnectSystems International NV and Connect Systems Holding NV), the Netherlands (Connect Systems Nederland BV), Germany (Connectronics GmbH), Romania (Connectronics Romania SRL) and the Czech Republic (Connectronics sro). The company is a subcontractor for the electronics industry (contract manufacturing business).

With the sale of the automation activity in December 2009, going forward the company's business will be contract manufacturing, with its subsidiaries mentioned above. The change of name from IPTE NV to Connect Group NV was formally approved at the Extraordinary General Shareholders Meeting of 2 March 2010.

The number of employees of contract manufacturing (continuing operations) at year end 2010 amounted to 1,705 compared to 1,664 in 2009 and 1,880 in 2008.

The registered office address of the Group is located at Industriestraat 4, 1910 Kampenhout, Belgium. The financial statements were authorized for issue by the Board of Directors subsequent to their meeting held on 21 March 2011 in Kampenhout.

1.3.2 Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

These consolidated statements have been prepared under the historical cost convention except for certain accounts for which IFRS requires another convention. Such deviation from historical cost is disclosed in the notes.

1.3.3 Adoption of new and revised International Financial Reporting Standards

<u>Standards and interpretations applicable for the annual period beginning on 1 January 2010</u>

- IFRS 3 *Business Combinations* (applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). This Standard replaces IFRS 3 *Business Combinations* as issued in 2004.

- Improvements to IFRS (2008-2009) (normally applicable for annual periods beginning on or after 1 January 2010)

- Amendment to IFRS 1 *First Time Adoption of International Financial Reporting Standards – Additional exemptions* (applicable for annual periods beginning on or after 1 January 2010)

- Amendment to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* (applicable for annual periods beginning on or after 1 January 2010)

- Amendment to IAS 27 *Consolidated and Separate Financial Statements* (applicable for annual periods beginning on or after 1 July 2009). This Standard amends IAS 27 *Consolidated and Separate Financial Statements* (revised 2003)

- Amendments to IAS 39 Financial Instruments: *Recognition and Measurement – Eligible Hedged Items* (applicable for annual periods beginning on or after 1 July 2009)

- IFRIC 12 *Service Concession Arrangements* (applicable for annual periods beginning on or after 1 April 2009)

- IFRIC 15 *Agreements for the construction of real estate* (applicable for annual periods beginning on or after 1 January 2010)

- IFRIC 16 *Hedges of a net investment in a foreign operation* (applicable for accounting years beginning on or after 1 July 2009)

- IFRIC 17 *Distributions of Non-cash Assets to Owners* (applicable for annual periods beginning on or after 1 November 2009)

- IFRIC 18 *Transfers of Assets from Customers* (applicable for annual periods beginning on or after 1 November 2009)

Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2010

- IFRS 9 *Financial Instruments* (applicable for annual periods beginning on or after 1 January 2013)
- Improvements to IFRS (2009-2010) (normally applicable for annual periods beginning on or after 1 January 2011)
- Amendment to IFRS 1 *First Time Adoption of International Financial Reporting Standards – IFRS 7 exemptions* (applicable for annual periods beginning on or after 1 July 2010)
- Amendment to IFRS 1 *First Time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (applicable for annual periods beginning on or after 1 July 2011)
- Amendment to IFRS 7 *Financial Instruments: Disclosures – Derecognition* (applicable for annual periods beginning on or after 1 July 2011)
- Amendment to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying* Assets (applicable for annual periods beginning on or after 1 January 2012)
- Amendment to IAS 24 *Related Party Disclosures* (applicable for annual periods beginning on or after 1 January 2011). This Standard supersedes IAS 24 Related Party Disclosures as issued in 2003
- Amendments to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (applicable for annual periods beginning on or after 1 February 2010)
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (applicable for annual periods beginning on or after 1 July 2010)
- Amendment to IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Prepayments of a Minimum Funding Requirement* (applicable for annual periods beginning on or after 1 January 2011)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group in the period of initial application.

1.3.4 Summary of principal accounting policies

a. Basis of consolidation

From 1 January 2010 onwards

The consolidated financial statements include all the subsidiaries that are controlled by the Group. Control exists when the company has the power to govern the financial and operating policies and obtains the benefits from the entity's activities. Control is presumed to exist when the company owns, directly or indirectly, more than 50 % of an entity's voting rights of the share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Prior to 1 January 2010
Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 have not been restated.

b. Business combinations and goodwill

Business combinations from 1 January 2010 onwards
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010
In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill. When the Group acquired a business, embedded derivatives separated from the host contract by the acquire were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

List of subsidiaries consolidated as of 31 December

Entity	2010	2009	2008
Connect Group NV			
Continued operations			
Connect Systems Holding NV	100	100	100
ConnectSystems NV	100	100	100
Connectronics NV(*)	-	100	100
Connect Systems Nederland BV	100	100	100
ConnectSystems International NV	100	100	100
Connectronics Romania SRL	100	100	100
Connectronics GmbH	100	100	100
Connectronics sro	100	100	100
Discontinued operations			
Integrated Production and Test Engineering (UK) LTD	-	100	100
Integrated Production and Test Engineering GmbH	-	100	100
Integrated Production and Test Engineering Asia Pacific PTE LTD	-	100	100
Integrated Production and Test Engineering Nordic AB	-	100	100
Integrated Test Engineering Enterprises Inc.	-	100	100
Integrated Production and Test Engineering America LLC	-	100	100
IPTE RF SA	-	100	100
And-Elec SAS	-	100	100
Antets SARL	-	100	100
IPTE ASIA Holdings PTE LTD	-	100	100
IPTE Industrial Automation (Shanghai) Co. LTD	-	100	100
Prodel Automation SARL	-	100	100
Prodel Technologies SA	-	100	100
Prodel USA Inc.	-	100	100
IPTE Iberia – Automaçao Industrial LDA	-	100	100
IPTE Nordic Oy	-	100	100
Platzgummer GmbH	-	80	80
IPTE Automation Oü	-	100	100
IPTE Spain S.L.U.	-	100	100

(*) On 9 August 2010, Connectronics NV has merged into Connect Group NV. This merger took place with retroactive accounting treatment as of 1 January 2010.

c. Foreign currency translation

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Euro, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

Foreign currency transactions

Foreign currency transactions are recognized initially at exchange rates prevailing at the date of the transactions. Subsequently, at closing, monetary assets and liabilities denominated in foreign currencies are translated at the statement of financial position currency rate. Gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are included in the income statement as a financial result.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

Foreign entities

In consolidation, the assets and liabilities of the Group companies, using a different functional currency then the Euro, are expressed in Euro using exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified in other comprehensive income and transferred to the Group's equity reserve "Cumulative translation adjustment". Such translation differences are recycled as income or as expenses in the period in which the entity is sold, disposed or liquidated. Exchange rates mentioned below have been used to consolidate foreign subsidiaries.

The year-end exchange rates (used to translate assets and liabilities in the financial statements) are as follows:

Date	GBP/EUR	SGD/EUR	SEK/EUR	USD/EUR	CNY/EUR	RON/EUR	SKK/EUR	CHF/EUR	CZK/EUR	JPY/EUR	NOK/EUR
31/12//2010	1.162	0.584	N/A	0.748	N/A	0.235	N/A	0.800	0.040	0.009	0.128
31/12/2009	1.126	0.495	0.098	0.694	0.101	0.236	N/A	N/A	N/A	N/A	N/A
31/12/2008	1.049	0.499	0.092	0.719	0.105	0.249	0.033	N/A	N/A	N/A	N/A

The weighted average rates (used to translate revenues and expenses in the financial statements) are as follows:

Year	GBP/EUR	SGD/EUR	SEK/EUR	USD/EUR	CNY/EUR	RON/EUR	SKK/EUR	CHF/EUR	CZK/EUR	JPY/EUR	NOK/EUR
2010	1.167	0.549	N/A	0.751	N/A	0.237	N/A	0,719	0.039	0.009	0.124
2009	1.118	0.498	0.093	0.727	0.107	0.236	N/A	N/A	N/A	N/A	N/A
2008	1.256	0.480	0.104	0.680	0.097	0.272	0.032	N/A	N/A	N/A	N/A

d. Intangible Assets

Acquired intangible assets
Licences, patents, trademarks, similar rights and software are measured initially at cost.
Intangible assets obtained in a business combination are initially measured at fair value. After initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment losses. They are amortised on a straight-line basis over their estimated useful life which is not considered to exceed 5 years. At the end of each annual reporting period the amortisation method and period are reviewed.

Internally-generated intangible assets - research and development expenditure
Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge, is recognised in the income statement as an expense as incurred.

Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the asset can be clearly identified, when the development costs can be measured reliably and to the extent that it is probable that the asset created will generate future economic benefits. Other development expenditures are recognised as an expense as incurred. Development cost previously recognised as an expense is not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit which normally does not exceed five years.

The Group does not have intangible assets with an indefinite useful life.

e. Property, plant and equipment

Land is carried at cost less accumulated impairment. All other property, plant and equipment are carried at cost less accumulated depreciation and impairment losses except for property, plant and equipment under construction which is carried at cost less accumulated impairment losses. Cost includes all directly attributable costs of bringing the asset to working condition for its intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method to their estimated residual value. The depreciation is computed from the date the asset is ready to be used.
The residual value and the useful life of an asset is reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) is/are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

The following useful lives are applicable to the main property, plant and equipment categories:

Buildings	10-20 years
Machinery and equipment	4-5 years
Furniture and office equipment	5 years
Computer equipment	3 years
Vehicles	3-5 years

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

f. Leasing

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The company as lessee

Finance leases
Assets held under finance leases are recognised as assets of the Group at the lower of their fair value and the present value of the minimum lease payments less cumulative depreciation and impairment losses. The corresponding liability to the lessor is included in the statement of financial position as obligations under finance leases.
Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise the asset is depreciated over the shorter of the lease term and its useful life.

Operating lease
Lease payments under an operating lease are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

g. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

h. Impairment of property, plant and equipment and intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

i. Inventories

Inventories are stated at the lower of cost and net realizable value.

Raw materials, consumables and goods purchased for resale are valued at the lower of their cost or their net realizable value. Cost is determined using the moving weighted average cost method. The cost of work in process and finished goods comprise all the costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The conversion costs include the cost of production and the related fixed and variable production overhead costs. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

j. Financial instruments

Receivables
Receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Amounts

deemed uncollectible are written off against the allowance account for receivables at each reporting date. This analysis is based on an individual assessment. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities
Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. The accounting policies adopted for specific financial liabilities are set out below.

Bank borrowings
Bank borrowings, are initially measured at fair value, net of transaction costs.
They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Trade payables
Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Derivative financial instruments
The Group uses sometimes derivative financial instruments to manage its exposure to the USD. The Group does not engage in pure speculative transactions nor does it issue or hold financial instruments for trading purposes.

Derivatives are initially recorded at fair value and re-measured at the subsequent reporting dates.

Derivatives that do not qualify for hedge accounting
The changes in the fair value of derivatives which do not qualify for hedge accounting under the specific rules in IAS 39 are recognised immediately in the income statement.

Financial risk factors

Fluctuations in foreign currency exchange rates on foreign currency payables and receivables including intercompany loans are inherent risks in the performance of the business. The Group entities seek to minimize potential adverse effects on the financial performance from their local business.

- Foreign exchange risks:

Due to the international character of the Group, the Group is exposed to different foreign exchange risks arising from various currency exposures primarily with respect to USD, GBP and SGD. The Group uses sometimes derivatives to manage part of its exposure to the USD (see note 1.3.7. ae).

- Credit risks:

The Group has policies in place to monitor the credit risks on customers. One customer represents 24.77 % of revenue realized in 2010 (34 % in 2009 and 23 % in 2008). 10 customers represent in 2010 57 % of the business (63 % in 2009 and 45 % in 2008). Customers are closely monitored (see note 1.3.7. ae and note 1.3.7. b).

- Liquidity risk:

Liquidity risk is linked to the evolution of our working capital. The Group monitors the change in working capital through focused actions. Further information can be found in note 1.3.7.j.

- Interest rate risk:

The Group does not use derivative financial instruments to manage its exposure to fluctuation in interest rates on their short-term loans. All loans are at commercial Belgian banks and are concluded based on Euribor + bankers margin. Bankers margin is based on financial debt / EBITDA (*) ratio and fluctuates between 1 and 3 % interest.

(*) EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization = Operating result + amortization + provisions for liabilities and other risks + depreciation.

k. Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.
Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

l. Government grants

Government grants are recognised when there is a reasonable assurance that:
- the Group will comply with the conditions attached to them;
- the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs are recognised as income of the period in which it becomes receivable.

Government grants related to assets are presented as deferred income.
Government grants related to income are presented as a deduction to the related expense.

m. Provisions

Provisions are recognised in the statement of financial position when:

- there is a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

A restructuring provision is recognised when the Group has a detailed formal plan and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Warranty
The Group recognizes the estimated liability to repair or replace its products still under warranty at the reporting date. This provision is calculated based on the past history of the level of repairs and replacements.

Onerous contracts
The Group recognizes a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

n. Revenue recognition

Revenue is recognised when it is probable that future economic benefits associated with the transaction will flow to the entity and that these benefits can be measured reliably.

Turnover is reported net of sales taxes and rebates.

Sale of goods
Revenue from sales of goods is recognised when:
- The significant risks and rewards of the ownership of goods is transferred to the buyer;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;

- It is probable that the economic benefits associated with the transaction will flow to the entity;
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Provisions for rebates and discounts are recorded as a reduction of revenue at the time the related revenues are recorded or when the incentives are offered.

Revenue from projects (related to automation business)
Revenue from projects is recognised by reference to the stage of completion when the outcome of a transaction involving the project can be estimated reliably. When the outcome of the transaction involving the project cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable. The stage of completion is based on the hours incurred as compared to the total budgeted hours for the respective project. In the period in which it is expected that the benefits to be derived from the project are less than the unavoidable costs of meeting the obligations under the project, the entire amount of the estimated ultimate loss is charged against income.
Due to the sale of the automation activity, the above accounting policy is no longer applicable.

Interest
Interest is recognised on a time proportion basis that takes into account the effective yield on the asset.

Dividends
Dividends are recognised when the shareholder's right to receive the payment is established.

o. Income taxes

The income tax charge is based on the results for the year and includes current and deferred taxation. They are recorded in the income statement except when they relate to items directly recorded in equity, in which case they are directly recorded in equity.

Current tax is the amount of tax to pay based on the taxable profit of the period, as well as any adjustments relating to previous years. It is calculated using local tax rates adopted (or substantially enacted) at the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

p. Employee benefits

Pension obligations
The Group operates a number of defined contribution retirement benefit plans. Payments to defined contribution benefit plans are charged as an expense as they fall due.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

q. Segment reporting

For management purposes the Group has been organized in the past on a worldwide basis into 2 major operating businesses: the "Factory Automation" business and the "Contract Manufacturing" business. The divisions were the basis upon which the Group reported its primary segment information.

As the group disposed of the automation business end 2009 and reported the activity in 2009 as discontinued operation, only one segment remains. Financial information on operating segments is presented in 1.3.7.ab.

1.3.5. Critical accounting judgments and key sources of estimation uncertainty

a. Judgments

Going concern

The Board of Directors reviewed the preparation of the financial statements under the going concern principle given the fact that:

- The automation activity was sold in December 2009, which allowed the company to fully concentrate on its core (i.e. the continuing) business, contract manufacturing;
- A subordinated convertible bond of EUR 5 million was issued in March 2010 in order to strengthen the weakened equity position of the company;
- The group has agreed with its bankers sufficient credit lines to cover the 2011 budgeted financing needs; the bankers have expressed their intention to continue supporting the group;
- Although the first half year of 2010 was loss making due to the economic crisis and shortages of components, the company was again profitable in the 2nd half of 2010 as market conditions normalised;
- The orderbook as of 1 January 2011 improved till EUR 71 million, which is more than 6 months of sales;
- The budget 2011 that was prepared in 2010 shows a profit and a positive cash flow for the continuing operations.

Under these circumstances, the Board of Directors believes that the preparation of the financial statements under the going concern principle is justified.

b. Estimates and assumptions

Impairment of goodwill, intangible assets and property, plant and equipment

An impairment exists when the carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

Since the sale of the Factory Automation Business finalized early 2010, the Group has only one remaining CGU being the Contract Manufacturing business.

The recoverable amount of the contract manufacturing operations has been determined based on a value in use calculation which uses cash flow projections based on the financial budget approved by the directors covering a one-year period. Sales growth beyond the year budget, are extrapolated in ranges between 13 % and 14 % (idem 2009). The growth rate applied in determining the terminal value is set at 2 % (idem 2009) and does not exceed the long term average growth rate for this type of industry. The target EBITDA percentage on sales amounts to 7.7 % (idem 2009) which is at the high end of the historical range. Management determines these assumptions based on past performance and its expectations for the market development. The pre-tax discount rate applied to cash flow projections is determined on the weighted average cost of capital (WACC), amounting to 13.6 % (last year 11.68 %). The components for the determination of the WACC are based on sector specific parameters and take into account the current financial position of Connect Group.

The value in use exceeds the carrying amount of the cash generating unit (headroom) with EUR 18.1 million (2009 EUR 44.5 million).

Stresstest on impairment

Management applied a sensitivity test on the assumptions used in the impairment test in order to indicate risk limits. The impact on the significant variables for the CGU is shown below.

CGU contract manufacturing	Scenario 1	Scenario 2	Scenario 3
Sales growth	No sales growth beyond 2011		
EBITDA % on sales		-1 %	
WACC			+1 %
Headroom EUR 18.1 Mio (*)	-19,4 Mio	-13,7 Mio	-8,1 Mio

(*) The negative amounts give the impact of a change in the assumptions on the headroom.

The impairment test performed in 2010 did not result in any additional impairment losses.

The company cannot predict whether other events that trigger goodwill impairment will occur, when they will occur or how they will affect the asset values reported. Connect Group believes that all of its estimates are reasonable: they are consistent with the internal reporting, external market data and reflect management's best estimates. However, inherent uncertainties exist that management may not be able to control.
We refer to note 1.3.7.h for additional disclosures on goodwill.

Valuation embedded derivative component in the hybrid financial instrument

The convertible bond issued on 27 April 2010 in an amount of EUR 5,000,000 qualifies as a compound financial instrument under IAS 39. Given that the number of shares that will be issued on conversion is not fixed, the conversion option qualifies as an 'embedded derivative' under IAS 39, which needs to be separated out from the bond.
The fair value of this derivative must be calculated on the date of issuance of the debt and is shown separately from the debt in the balance sheet as a long-term derivative debt. The subordinated convertible bond is therefore split in the balance sheet into a debt of EUR 4,355,202 and a derivative of EUR 644,798 as calculated on the date of issue.
The fair value of the derivative is estimated at EUR 644,798 at the date of issue of the bond. In this way the 'debt at date of issue' component is established at EUR 4,355,202 (EUR 5,000,000 - 644,798). Given the value of the debt component on the date of issue and based on the effective interest rate method, the effective interest on the bond amounts to 11 percent.
This effective interest rate of 11 percent is recorded in the income statement on the bond, which is considerably higher than the interest payable of 6 % to the bondholders. The total interest expense in the financial statements for 2010 therefore amounts to EUR 288,805, of which EUR 225,000 is effectively paid as interest to bondholders.
At subsequent financial reporting dates the fair value of the derivative must be recalculated and any changes in fair value recorded as a financial result of the period.

The Board of Directors has established a valuation model to calculate the fair value of the derivative at issue date and at all following closing dates.

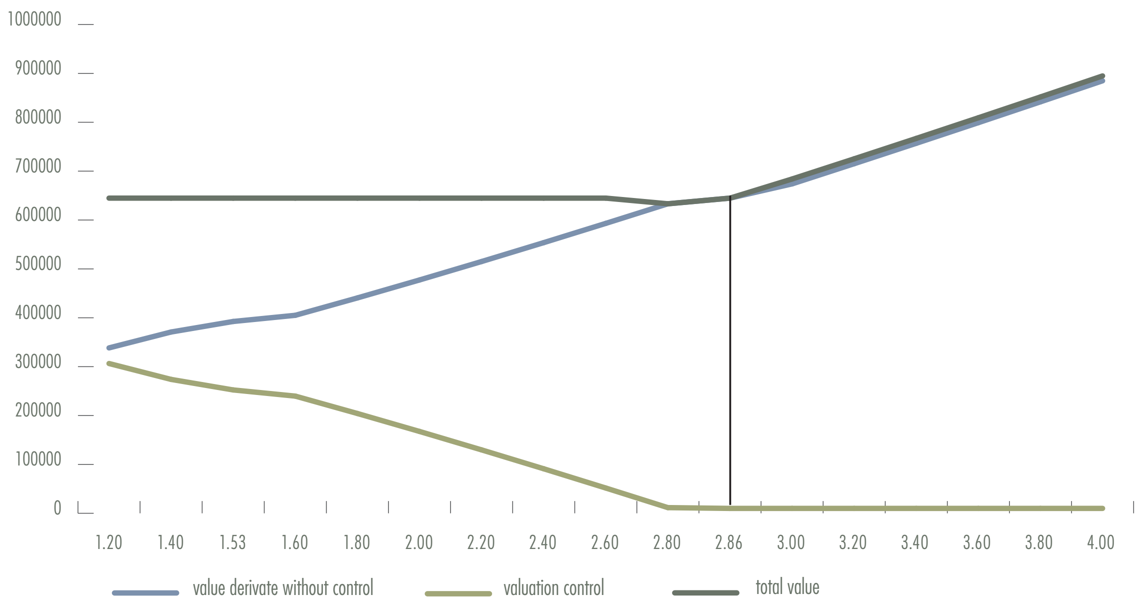
The value of the derivative is calculated based on a Black & Scholes option model with the following input parameters:

- spot price of a Connect share;
- issue price;
- risk-free interest rate;
- volatility of the Connect share.

The Board of Directors of Connect Group is of the opinion that the current trading prices of the Connect Group share do not offer a correct measure for the valuation of the derivative, given the very limited trading volumes (an average of 4,000 items a day over the past year), which are totally inadequate for putting a value on the new shares created upon conversion (at the present time, around 4.5 million shares upon complete conversion) and any capital gain related to the new shares. For this reason, in applying the Black & Scholes model they have corrected the spot price of the share for the cost of this illiquidity. The cost of this illiquidity is arrived at by means of a Value at Risk (VAR) calculation. This Value at Risk gives the maximum loss on the (share) position for a given time horizon and a given reliability level. The time horizon to be used is the minimum period necessary (currently calculated at 521 days based on the daily volumes of the Connect Group share) for selling down the position in the market without disturbing the functioning of the market. The certainty level of this maximum loss is set by senior management at 75 %.

In addition, the Board of Directors has also opted to split the value of this derivative into two possible scenarios, giving a relative weight to each scenario based on the assumed likelihood of each. The first scenario is a valuation of the derivative with the value on conversion obtained by selling on the market the new Connect Group shares created in this way. In this scenario the above-mentioned illiquidity factor is factored into the valuation of the derivative. The second scenario is the valuation of the derivative in the event of a merger, takeover or refinancing transaction (Liquidity Event), whereby the value created on conversion is created primarily by the immediate sale of the position to the counterparty during this event and/or possible acquisition of control over the Connect Group. In this scenario no illiquidity factor is applied in valuing the derivative. Right now a relative weighting of 90 % is attributed to the first scenario and of 10 % to the second. On each successive reporting date the Board of Directors will judge whether the relative weightings attributed to each of the two scenarios need to be revised in the light of new situations.

On the basis of all known information, the Board is of the opinion that, at a price of EUR 2.86 or lower the value of the derivative will remain unchanged at EUR 644,798, seeing as the lower value arising at a lower share price is almost entirely offset by an increase in value due to the possible increase in control upon conversion. Should the share price rise above EUR 2.86, the derivative will increase in value, and the company will be required to record this increase in value as an expense. On 31 December 2010, the share price was EUR 2.03. For this reason the value of the derivative was recorded at an unchanged EUR 644,798.



success

Sensitivity analysis at issue date
A certainty level of 80% (+5%) in the application of the VAR for the illiquidity correction results in an initial value of the derivative of EUR 644,798. A 10% change in the relative weight attributed to the two scenarios (80 %/20 % instead of 90 %/10 %) in the valuation of the derivative results in an initial value of the derivative of EUR 1,289,597. A 1 % variation in the risk-free interest rate results in an initial value of the derivative of EUR 651,981.

Sensitivity analysis at subsequent reporting dates at share prices higher than 2,86 (basis scenario 90 %/10 %)
Every procentual rise in the spot price of the share will produce a rise of the same percentage in the value of the derivative.

1.3.6. Changes in organization

Acquisitions and disposals 2009

The most important event of 2009 was the planned sale of the automation activity based on an offer the company accepted in December 2009 from Huub Baren, the company's founder, and Vladimir Dobosch, after negotiations with various interested parties. For more information, we refer to note 1.3.7.aa.

Acquisitions and disposals 2010

There were no acquisitions and disposals in 2010, except for the sale of the automation division which was completed on 2 March 2010 (see note 1.3.7.aa).

1.3.7. Notes

a. Cash and cash equivalents

	2010	2009	2008
Cash at bank and on hand	79,379	128,246	1,737,341
Cash equivalents	-	-	70,000
Total	79,379	128,246	1,807,341

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. Connect Group does not have such cash equivalents.

A part of the company's cash balance as of 31 December 2008 served as guarantee for straight loans and short-term commercial loans taken up with commercial banks.

The restricted cash balance amounted to approximately EUR 70,000 in 2008. This restricted cash balance was related to an entity within the Factory Automation business, which was sold in 2009, and as such is no longer applicable per end of December 2009 and 2010.

b. Trade receivables - net

	2010	2009	2008
Trade receivables	29,945,427	21,028,233	47,070,235
Allowance for doubtful accounts	(2,201,460)	(832,958)	(1,032,114)
Trade receivables (net)	27,743,967	20,195,275	46,038,121

The average credit period on sales is 73 days in 2010, 58 days in 2009 and 61 days for continued operations and 91 days for the discontinued operations in 2008. In the event of overdue payment, Connect Group shall have the right to levy interest at a rate of 1 % per month over the total amount overdue.

Credit risks arise from the possibility that customers may not be able to settle their obligations as agreed. To manage this risk, the Group periodically assesses the financial reliability of its customers. Allowances for bad debtors are recorded in case indications exist that recoverability is doubtful.

The company has receivables on two customers for EUR 3,251,000 in 2011 (EUR 3,9 million at the end of 2010) who informed the company that at present, they are not in a position to pay these debts and that they are in the process of increasing their financing. As these customers are still operating in continuity and at the same time a realisation risk exist, a reserve of 50 percent on these receivables was booked.

Aging of receivables:

2008	Receivables not impaired	Impaired receivables	Total gross receivables
Current (not past due)	39,787,647	-	39,787,647
1 - 30	3,563,872	-	3,563,872
31 - 60	1,437,567	-	1,437,567
61 - 90	509,572	-	509,572
91 - 180	667,217	752,278	1,419,495
>180	72,246	279,836	352,082
Total	46,038,121	1,032,114	47,070,235

2009	Receivables not impaired	Impaired receivables	Total gross receivables
Current (not past due)	18,285,421	-	18.285.421
1 - 30	1,153,676	174,125	1,327,801
31 - 60	27,275	-	27,275
61 - 90	224,333	73,345	297,678
91 - 180	504,570	546,825	1,051,395
>180	-	38,663	38,663
Total	20,195,275	832,958	21,028,233

2010	Receivables not impaired	Impaired receivables	Total gross receivables
Current (not past due)	23,085,663	1,604,417	24,690,080
1 - 30	1,205,639	169,214	1,374,853
31 - 60	535,379	204,050	739,429
61 - 90	279,319	-	279,319
91 - 180	348,021	1,938,060	2,286,081
>180	-	575,665	575,665
Total	25,454,021	4,491,406	29,945,427

The group does not have any other financial receivables which are past due.

Allowance for doubtful accounts:

Balance at 31 December 2007	869,473
New impairment losses recognised on receivables	213,115
Amounts written off (used) during the year	(2,145)
Amounts reversed during the year	(48,329)
Balance at 31 December 2008	1,032,114
New impairment losses recognised on receivables	330,698
Amounts written off (used) during the year	(162,455)
Amounts reversed during the year	(29,057)
Allowance for doubtful accounts related to discontinued operations	(338,342)
Balance at 31 December 2009	832,958
New impairment losses recognised on receivables	1,646,003
Amounts written off (used) during the year	(68,909)
Amounts reversed during the year	(208,592)
Balance at 31 December 2010	2,201,460

Total impairments (new and amounts reversed) of the continuing operations recorded in the profit and loss statement amount to EUR 1,437,411.

As mentioned in note 1.3.7.j. the group has concluded a factoring agreement with one financial institution in the course of 2010. The carrying amount of the factored receivables amounts to EUR 21,026,418 per end of 2010.

c. Other receivables

	2010	2009	2008
VAT receivables	179,570	132,867	810,459
Personnel	303	-	32,986
Insurance	-	-	4,970
Deferrals and accruals	382,608	181,086	511,394
Other	43,348	44,976	39,295
Total	605,829	358,929	1,399,104

d. Inventories

	2010	2009	2008
Raw materials and supplies, at cost	37,533,065	28,141,344	38,164,015
Work in progress, at cost	2,815,543	4,694,718	8,594,516
Finished goods, at cost	2,455,602	1,519,880	6,350,215
Goods purchased for resale	-	-	36,325
Contracts in progress	-	-	3,643,903
Reserve for obsolete inventories	(4,758,810)	(4,815,523)	(11,609,954)
Net	38,045,400	29,540,419	45,179,020

In a contract manufacturing business model, inventories are purchased based upon firm customer orders or forecasts for specific customer products within a specific time frame. Consequently more than 80 % of the inventory is customer specific. In case customers cancel forecasts, the company has the right to get indemnification for all inventory items specifically purchased for the cancelled forecast.

The inventory balance per 31 December 2010 on the two customers referred to in note 1.3.7.b amounts to EUR 2,948,000. The Board of Directors has reviewed the adequacy of the obsolescence provision in this respect.

For further information on the cost of inventories recognized as an expense during the period in respect of continuing operations, we refer to note 1.3.7.q.

e. Long-term other receivables

	2010	2009	2008
Other receivables	1,900,000	-	2,338

The company has a gross receivable of EUR 2,000,000 on the purchaser of the automation activity. The receivable is payable in 2013 but starts only bearing interest as of Q4 2011. The receivable was discounted using an interest rate of 6.7 percent.

f. Property, plant and equipment

	Land and buildings	Machinery and equipment	Furniture and vehicles	Fixed asset under construction	Total
Year ended December 2010					
Cost:					
Beginning of the period	8,954,200	21,574,940	3,054,594	2,441,578	36,025,312
Additions of the year	42,126	1,043,998	274,269	-	1,360,393
Acquisitions through business combinations	-	-	-	-	-
Disposals	(520,752)	(1,281,042)	(198,689)	(229,433)	(2,229,916)
Transfers	-	454,804	-	(2,212,145)	(1,757,341)
Effect of exchange differences	4,793	255,999	5,525	-	266,317
End of the period	8,480,367	22,048,699	3,135,699	0	33,664,765
Accumulated depreciation and impairment:					
Beginning of the period	3,332,409	14,605,041	2,049,352	-	19,986,802
Depreciation expense	397,618	2,616,052	368,282	-	3,381,952
Impairment losses	-	-	-	-	-
Eliminated on disposals	(325,886)	(657,115)	(168,972)	-	(1,151,973)
Transfers	-	-		-	-
Effect of exchange differences	1,025	195,138	2,202	-	198,365
End of the period	3,405,166	16,759,116	2,250,864	-	22,415,146
Net book value at December 2010	5,075,201	5,289,583	884,835	-	11,249,619

	Land and buildings	Machinery and equipment	Furniture and vehicles	Fixed asset under construction	Total
Year ended December 2009					
Cost:					
Beginning of the period	16,488,225	25,281,867	6,920,577	375,916	49,066,585
Transfer to disposal group held for sale	(7,573,551)	(3,529,525)	(3,841,534)	-	(14,944,610)
Additions of the year	116,449	1,681,844	338,164	2,304,153	4,440,610
Acquisitions through business combinations	-	-	-	-	-
Disposals	(78,159)	(2,133,109)	(363,731)	(14,182)	(2,589,181)
Transfers	-	224,309	-	(224,309)	-
Effect of exchange differences	1,236	49,554	1,118	-	51,908
End of the period	8,954,200	21,574,940	3,054,594	2,441,578	36,025,312
Accumulated depreciation and impairment:					
Beginning of the period	7,597,856	15,167,533	5,140,072	-	27,905,461
Eliminated on transfer to disposal group held for sale	(4,661,786)	(2,163,586)	(3,212,560)	-	(10,037,932)
Depreciation expense	411,183	2,954,714	380,313	-	3,746,210
Impairment losses					
Eliminated on disposals	(15,027)	(1,433,804)	(259,114)	-	(1,707,945)
Transfers	-	-	-	-	-
Effect of exchange differences	183	80,184	641	-	81,008
End of the period	3,332,409	14,605,041	2,049,352	-	19,986,802
Net book value at December 2009	5,621,791	6,969,899	1,005,242	2,441,578	16,038,510

	Land and buildings	Machinery and equipment	Furniture and vehicles	Fixed asset under construction	Total
Year ended December 2008					
Acquisition value:					
Beginning of the period	12,924,116	21,401,003	6,780,749	388,349	41,494,217
Additions of the year	3,606,236	4,024,969	1,007,686	375,916	9,014,807
Acquisitions through business combinations	-	86,560	108,107	12,764	207,431
Disposals	(159,517)	(686,223)	(868,674)	-	(1,714,414)
Transfers	66,862	424,616	(97,640)	(393,838)	-
Effect of exchange differences	50,528	30,942	(9,651)	(7,275)	64,544
End of the period	16,488,225	25,281,867	6,920,577	375,916	49,066,585
Accumulated depreciation:					
Beginning of the period	7,128,656	11,940,630	5,322,987	-	24,392,273
Depreciation expense	645,932	3,786,027	659,949	-	5,091,908
Eliminated on disposals	(159,517)	(426,325)	(785,856)	-	(1,371,698)
Transfers	-	41,066	(41,066)	-	-
Effect of exchange differences	(17,215)	(173,865)	(15,942)	-	(207,022)
End of the period	7,597,856	15,167,533	5,140,072	-	27,905,461
Net book value at December 2008	8,890,369	10,114,334	1,780,505	375,916	21,161,124

The gross carrying amount of all items that are fully depreciated but still in active use is EUR 9,603,586 per 31 December 2010. Per year end 2009, the gross carrying amount of such items was EUR 11,230,962 and per year end 2008, the gross carrying amount of such items was EUR 15,823,340.

The company has financial leases for a total amount of EUR 527,359 mainly related to machinery and equipment per end of 2010. At year end 2009, the company had financial leases for a total amount of EUR 929,393 and at year end 2008, the company had financial leases for a total amount of EUR 1,689,260. We refer to note 1.3.7.k for additional disclosures regarding the financial leases.

There are mortgages (see note j) on the buildings of Connect Systems NV and Connectronics NV (merged into Connect Group NV during 2010. These buildings have a book value of EUR 3,556,959.

For an impairment analysis on property, plant and equipment, we refer to note 1.3.5. where an impairment analysis of goodwill, intangible assets and property, plant and equipment has been disclosed on the level of the cash generating units.

g. Intangible assets

	Development Costs	Licenses	Other	Total
Year ended December 2010				
Cost:				
Beginning of the period	-	1,322,679	-	1,322,679
Additions of the year	190,203	-	30,985	221,188
Acquisitions through business combinations	-	-	-	-
Transfers	1,757,341	-	-	1,757,341
Effect of exchange differences	-	-	6,845	6,845
End of the period	1,947,544	1,322,679	37,830	3,308,053
Accumulated amortization and impairment:				
Beginning of the period	-	506,610	-	506,610
Depreciation expense	370,249	264,536	7,566	642,351
Impairment losses	-	-	-	-
Transfers	-	-	-	-
Effect of exchange differences	-	-	2,462	2,462
End of the period	370,249	771,146	10,028	1,151,423
Net book value December 2010	1,577,295	551,533	27,802	2,156,630

	Development Costs	Licenses	Other	Total
Year ended December 2009				
Cost:				
Beginning of the period	884,010	2,705,473	289,060	3,878,543
Transfer to disposal group held for sale	(884,010)	(1,386,432)	(289,060)	(2,559,502)
Additions of the year	-	71,296	-	71,296
Acquisitions through business Combinations	-	-	-	-
Disposals	-	(67,978)	-	(67,978)
Transfers	-	-	-	-
Effect of exchange differences	-	320	-	320
End of the period	-	1,322,679	-	1,322,679
Accumulated amortization and impairment:				
Beginning of the period	874,660	1,475,432	232,944	2,583,036
Eliminated on transfer to disposal group held for sale	(874,660)	(1,144,866)	(232,944)	(2,252,470)
Depreciation expense	-	263,350	-	263,350
Impairment losses				
Eliminated on disposals		(67,971)		(67,971)
Transfers	-	-	-	-
Effect of exchange differences	-	(19,335)	-	(19,335)
End of the period	-	506,610	-	506,610
Net book value December 2009	-	816,069	-	816,069

	Development Costs	Licenses	Other	Total
Year ended December 2008				
Cost:				
Beginning of the period	866,493	1,331,239	327,507	2,525,239
Additions of the year	4,290	1,217,344	8,163	1,229,797
Acquisitions through business Combinations	10,014	60,183	-	70,197
Transfers	-	46,615	(46,615)	-
Effect of exchange differences	3,213	50,092	5	53,310
End of the period	884,010	2,705,473	289,060	3,878,543
Accumulated amortization:				
Beginning of the period	866,493	1,158,040	246,304	2,270,837
Depreciation expense	4,954	286,060	2,011	293,025
Transfers	-	15,374	(15,374)	-
Effect of exchange differences	3,213	15,958	3	19,174
End of the period	874,660	1,475,432	232,944	2,583,036
Net book value December 2008	9,350	1,230,041	56,116	1,295,507

For an impairment analysis on intangible assets, we refer to note 1.3.5. where an impairment analysis of goodwill, intangible assets and property, plant and equipment has been disclosed on the level of the cash-generating units.

The weighted average remaining useful life of the licenses is 5 years.

h. Goodwill

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. For further details on the results of the impairment analysis, we refer to note 1.3.5.

The book value of the total goodwill at 31 December 2010, 2009 and 2008 is as follows:

	Acquisition value	Accumulated impairment losses	Net carrying amount
Goodwill on 31 December 2007	11,298,111	(5,355,550)	5,942,561
Goodwill from new acquisitions	2,992,784		2,992,784
Goodwill on 31 December 2008	14,290,895	(5,355,550)	8,935,345
Goodwill related to discontinued operations	(4,937,945)	651,312	(4,286,633)
Goodwill on 31 December 2009	9,352,950	(4,704,238)	4,648,712
Goodwill on 31 December 2010	9,352,950	(4,704,238)	4,648,712

The net goodwill as of 31 December 2007 is for EUR 4,648,712 allocated to the Connect Systems business and for EUR 1,293,849 to the AndElec/Antest business, part of Factory Automation.

The goodwill from new acquisitions in 2008 amounts to EUR 2,992,784 in total. EUR 2,028,767 relates to the acquisition of Platzgummer GmbH and EUR 964,017 relates to the acquisition of TAF3 (i.e. IPTE Automation Oü).

Per 31 December 2010 and 2009 the total goodwill can be allocated to the single remaining operating segment Contract Manufacturing.

No intangible assets with indefinite useful lives were allocated to the cash-generating units.

For an impairment analysis on goodwill, we refer to note 1.3.5. where an impairment analysis of goodwill, intangible assets and property, plant and equipment has been disclosed on the level of the cash generating units.

i. Accrued expenses, payroll and related taxes and deferred income

	2010	2009	2008
Vacation pay accruals	2,061,565	2,120,796	3,510,601
Other social debt	3,159,846	2,370,626	4,138,401
VAT debt	337,699	345,322	522,513
Withholding taxes	662,616	-	2,747
Accrued interests	215,366	115,832	156,938
Deferred income	581,336	421,017	966,402
Accrued expenses on projects	-	114,345	5,971
Other	398,604	403,400	610,738
Total	7,417,032	5,891,338	9,914,311

Accrued interests relate to interests on current bank loans and overdrafts.

j. Current bank loans and overdrafts

	2010	2009	2008
Secured	21,459,241	25,023,631	31,028,991
Financial institutions	6,238,106	25,023,631	31,028,991
Factoring of receivables	15,221,135	-	-

The fair value of the financial loans and overdrafts amounts to EUR 21,459,241 in 2010, EUR 25,023,631 in 2009 and EUR 31,028,991 in 2008.

As of 31 December 2010 the company has credit lines for a total amount of EUR 10 million at different Belgian commercial banks and no credit lines at foreign banks. As of 31 December 2009 the company has credit lines for a total amount of EUR 38 million at different Belgian commercial banks and no credit lines at foreign banks. Per 31 December 2008 the company still had credit lines for a total of EUR 45 million at these Belgian commercial banks. In 2010, the group has no separate credit facility for bank guarantees whereas at the end of 2009, a credit facility for bank guarantees amounting to EUR 1,1 million was at its disposal and at the end of 2008 this amounted to EUR 3 million.

Per end of 2010 EUR 6,238,106, per end of 2009 EUR 25,023,631 and per end of 2008 EUR 31,028,991 of the credit lines at the Belgian commercial banks were used. Furthermore, the credit facility for bank guarantees were used to their full extent in 2009 and 2008.

All bank borrowings are in Euro. Average interest rate on credit lines is based on Euribor plus a bankers margin which is based on the ratio between EBITDA (*) and financial debt. This bankers margin amounted to 2 % end 2008, 3 % in 2009 and was 3.5 % in 2010.

(*) EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization = Operating result + amortization + provisions for liabilities and other risks + depreciation

With the sale of the automation activity closed on 2 March 2010, new credit letters were issued in March 2010 by all financial institutions. Based on these letters, following guarantees have been given by the company:

- Mortgage on the buildings of Connectronics NV (*) (Ieper) and Connect Systems NV (Kampenhout) each for EUR 785,860 at one financial institution, and EUR 550,000 at two other financial institutions;
- Mortgage on the buildings of Connectronics NV (*) (Ieper) and Connect Systems NV (Kampenhout) each for EUR 965,000 at one financial institution, EUR 1,375,000 at two other financial institutions;
- Pledge on the commercial funds of Connect Group NV, Connect Systems NV, Connect Systems International NV and Connectronics NV (*) for a total value of EUR 10,000,000 at one financial institution and EUR 5,500,000 at two other financial institutions;
- Pledge on the commercial funds of Connect Group NV, Connect Systems NV, Connect Systems International NV and Connectronics NV (*) for a total value of 8,000,000 at one financial institution, EUR 9,350,000 at two other financial institutions.

All financial institutions obtained following guarantees in parity with their credit lines:
- A 'Zessionsvertrag' on Connectronics GmbH;
- A pledge on the inventories of Connectronics GmbH;
- A pledge on the receivables and the inventories of Connect Systems Nederland BV.

(*) On 9 August 2010, Connectronics NV has merged into Connect Group NV. This merger took place with retroactive accounting treatment as of 1 January 2010.

According to these credit letters, the following 2011 bank covenants need to be respected on a consolidated level:
a) A solvency ratio (*) of minimum 20 % as of 31 December 2011.
b) The consolidated cash flow (**) over the last 4 quarters needs to be positive on average.

The financial institutions waived compliance with the 2010 bank covenants in December 2010 given the fact that the group returned to profitability in the 2nd half of 2010. Based on the budget for 2011, management expects to be able to comply with these covenants in the coming year or in case one of the covenants would not be met to obtain a waiver. As of 31 December 2011 and following years, the solvency ratio should at least be 20 % and the leverage ratio may not exceed 3.

Per 30 June 2009, the company met its 2009 bank covenants whereas this was no longer the case at the end of 2009 due to the loss realized on the sale of the automation activity. As a result of this sale, the financial institutions waived compliance with the 2009 bank covenants per 31 December 2009 given the significant loss on the transaction and the fact that the equity decreased to EUR 16 million.

Per 31 December 2008 the minimum solvency ratio of 25 % was reached whereas the minimum solvency ratio of 30 % requested by one financial institution was not met. For this covenant a waiver was obtained and credit facilities remained available upon the condition that the solvency ratio would remain at least 25 % and again 30 % as of 31 December 2009. The second covenant was met per 31 December 2008.

(*) Defined as tangible equity / modified total balance sheet (tangible equity = equity plus subordinated loan, less goodwill and intangible assets, modified total balance sheet = total balance sheet - goodwill and intangible assets, netting cash on bank with short term financial debt, netting deferred taxes)
(**) Defined as net income of the consolidation period + depreciation on fixed and intangible assets + amortization of goodwill

The group concluded a factoring agreement with a financial institution in 2010. The agreement is a pure financing agreement without risk transfer or administration at the factoring company. The financing is limited to 80 percent of all accepted receivables not older than 60 days overdue. The financing cost is based on Euribor plus a fixed margin. The carrying amount of the factored receivables amounts to EUR 21.026.418.

k. Long-term debt

	2010		2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Secured debt	12,543,913	12,543,913	3,488,122	3,488,122	6,403,496	6,403,496
Bank loans	11,420,311	11,420,311	1,592,627	1,592,627	3,672,380	3,672,380
Finance lease liabilities	1,123,602	1,123,602	1,895,495	1,895,495	2,731,116	2,731,116
Unsecured debt	4,440,675	4,440,675	-	-	-	-
Subordinated debt	4,440,675	4,440,675	-	-	-	-
Total long term debt	16,984,588	16,984,588	3,488,122	3,488,122	6,403,496	6,403,496
Less current maturities	(3,784,073)	(3,784,073)	(1,108,718)	(1,108,718)	(1,536,664)	(1,536,664)
Long term portion	13,200,515	13,200,515	2,379,404	2,379,404	4,866,832	4,866,832

The subordinated debt outstanding per 31 December 2010 for EUR 4,440,675 results from the fact that the company strengthened the balance sheet structure in 2010 by issuing a subordinated convertible bond in an amount of EUR 5 million. For further information, we refer to note 1.3.7.o.

Breakdown of maturities:

The following tables detail the Group's remaining contractual maturity for its financial liabilities (except for the subordinated debt). The tables have been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

2010	Bankloans Repayment	Bankloans Interest payments	Total
2012	2,263,719	113,185	2,376,904
2013	2,150,000	107,000	2,257,000
2014	2,150,000	107,000	2,257,000
2015	1,650,000	82,500	1,732,500
2016	150,000	7,500	157,500
Beyond 2016	150,000	7,500	157,500

	Finance lease payments	Finance lease Interest payments	Total
2012	246,121	3,941	250,062
Beyond 2012	-	-	-

2009	Bankloans Repayment	Bankloans Interest payments	Total
2011	290,161	19,558	309,719
2012	263,718	15,206	278,924
2013	150,000	11,250	161,250
2014	150,000	9,000	159,000
2015	150,000	6,750	156,750
Beyond 2015	300,000	4,500	304,500

	Finance lease payments	Finance lease Interest payments	Total
2011	805,783	41,501	847,284
2012	269,742	3,792	273,534
2013	-	-	-
2014	-	-	-
2015	-	-	-
Beyond 2015	-	-	-

2008	Bankloans Repayment	Bankloans Interest payments	Total
2010	632,352	158,333	790,685
2011	518,916	125,466	644,382
2012	470,461	97,043	567,504
2013	363,564	69,735	433,299
2014	363,562	47,306	410,868
Beyond 2014	575,912	106,294	682,206

	Finance lease payments	Finance lease Interest payments	Total
2010	807,277	91,491	898,768
2011	809,559	41,726	851,285
2012	325,229	3,792	329,021
2013	-	-	-
2014	-	-	-
Beyond 2014	-	-	-

Long-term debts are in Euro. Average interest rate on long-term bank loans is quarterly revised based on Euribor 3 month plus bankers margin between 0.5 % and 1.5 %. There is no difference between the book value and the fair value of the long-term debts.

The long term bank loans are secured with a mortgage on the buildings of Connectronics NV (Ieper, merged into Connect Group NV in 2010) and Connect Systems NV (Kampenhout). For further information, we refer to note 1.3.7.j.

l. Derivative

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31/12/2010	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	-	-	-	-
Non-derivative financial assets held for trading	-	-	-	-
Available-for-sale financial assets				
Redeemable notes	-	-	-	-
Unlisted shares	-	-	-	-
Total	-	-	-	-
Financial liabilities at FVTPL				
Derivative financial liabilities	-	-	644,798	644,798
Financial liabilities designated at fair value through profit or loss	-	-	-	-
Total	-	-	644,798	644,798

There were no transfers between level 1 and 2 in the period.

Reconciliation of level 3 fair value measurements of financial liabilities

31/12/2010	Fair value through profit or loss	Available-for-sale		Total
	Derivative liabilities	Unlisted shares	Other [describe]	
Opening balance	0	-	-	0
Total gains or losses:				
- in profit or loss	+0	-	-	0
- in other comprehensive income	-	-	-	-
Purchases	-	-	-	-
Issues	644,798	-	-	644,798
Disposals/settlements	-	-	-	-
Transfers into/out of level 3	-	-	-	-
Closing balance	644,798	-	-	644,798

The table above only includes financial liabilities. There are no financial assets subsequently measured at fair value on level 1, 2 or 3 fair value measurement. The only financial liability measured at fair value is included in level 3 fair value measurement and represents the conversion options contained in the convertible bond issued by Connect Group on 27 April 2010 for a total principal amount of EUR 5,000,000 (see note 1.3.5.b). As explained in note 1.3.5.b., these conversion options are treated under IFRS (in application of IAS 32 and IAS 39) as embedded derivatives over Connect Group's own shares that are not closely related to the host debt instrument (which is the convertible bond without the conversion options) and that have to be measured at fair value through profit or loss.

As the conversion options are not traded on an active market, their fair value is determined using a valuation model with the following inputs: the risk-free interest rate; the quoted price of the underlying Connect Group shares, a liquidity adjustment to the market price of the Connect Group shares based on historical volatility and traded volumes of the underlying shares, using a confidence interval of 75 %, and assumptions about the relative probability of different scenarios and taking into account the impact of a control premium. Changing the assumptions used in determining the liquidity adjustment to reasonably possible alternative assumptions would change the fair value obtained significantly. For further information we refer to note 1.3.5.b.

m. provisions

	Warranty	Restructuring	Other	Total
Balance at 31 December 2007	386,551	-	1,629,833	2,016,384
Acquired from third parties	50,000	-	822,196	872,196
New provisions recorded in 2008	376,663	8,263	2,834,949	3,219,875
Provisions used in 2008	(290,721)	-	(1,753,945)	(2,044,666)
Provisions reversed in 2008	(95,829)	-	(256,156)	(351,985)
Balance at 31 December 2008	426,664	8,263	3,276,877	3,711,804
Acquired from third parties	-	-	-	-
New provisions recorded in 2009	-	-	398,258	398,258
Provisions used in 2009	-	-	-	-
Provisions reversed in 2009	-	-	(215,590)	(215,590)
Provisions related to discontinued operations	(426,664)	(8,263)	(2,821,559)	(3,256,486)
Balance at 31 December 2009	-	-	637,986	637,986
Acquired from third parties	-	-	-	-
New provisions recorded in 2010	-	275,000	64,724	339,724
Provisions used in 2010	-	-	(477,833)	(477,833)
Provisions reversed in 2010	-	-	(20,633)	(20,633)
Provisions related to discontinued operations	-	-	-	-
Balance at 31 December 2010	-	275,000	204,244	479,244

Provisions have been presented as current liabilities as of 31 December 2010, 2009 and 2008 as the costs are expected to be incurred in the next accounting year.

Warranty provisions

Until 2008, the company and its affiliated companies within factory automation grant a warranty of 1 year on products and projects sold. For expected warranty claims the company had set up a total reserve of EUR 426,664 as of 31 December 2008. This estimate was based on historical warranty costs and based on the assumption that warranty costs would remain at the same level. Over the last years the company did not incur any significant warranty claims. With the sale of the automation activity, no warranty provision is included anymore per year end 2009 and 2010.

Other provisions

Other provisions should cover risks and contractual commitments existing at balance sheet date, amongst others relating to completed projects (i.e. related to discontinued operations). This estimate is based on a project analysis basis. With the sale of the automation activity in December 2009, provisions related to completed projects are no longer applicable going forward. Other provisions in 2010, mainly relate to pension obligations.

n. Other current liabilities

	2010	2009	2008
Advances received on contracts in progress	-	-	3,585,729
Fair value of financial instruments	-	-	-
Other	1,000	7,301	93,133
Net	1,000	7,301	3,678,862

With the sale of the automation activity, the other liabilities decreased significantly compared to 2008 as a major part of these other liabilities as of December 2008 related to advances received on contracts in progress within the factory automation business.

o. Shareholders' equity and rights attached to the shares

As of 31 December 2010 the common stock consisted of 6,934,424 issued and outstanding ordinary shares without face value.

Each holder of shares is entitled to one vote per share, without prejudice to specific restrictions on the shareholders' voting rights in the company's Articles of Association and Belgian Company Laws, including restrictions for non-voting shares and the suspension or cancellation of voting rights for shares which have not been fully paid up at the request of the Board of Directors.

Under Belgian Company Laws, the shareholders decide on the distribution of profits at the annual shareholders' meeting, based on the latest audited accounts of the company. Dividends may be paid in cash or in kind.

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to provide the capital allowing to continue the growth strategy of the group;
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Group monitors capital on the basis of financial debt-to-adjusted capital ratio. This ratio is calculated as net financial debt – adjusted capital. Net financial debt is calculated as total financial debt, less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, minority interest, retained earnings and revaluation reserve) other than amounts accumulated in equity relating to cash flow hedges, and includes some forms of subordinate debt.

The Group's strategy is to maintain the debt-to-adjusted capital ratio, in order to secure access to financing at a reasonable cost.

The debt-to-adjusted-capital ratios at 31 December 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Total financial debt	34,088,627	28,511,753	37,432,487
Less cash and cash equivalents	(79,379)	(128,246)	(1,807,341)
Net financial debt	34,009,248	28,383,507	35,625,146
Total equity	14,321,151	15,688,675	42,668,374
Add subordinated loan	5,000,000	-	-
Adjusted capital	19,321,151	15,688,675	42,668,374
Net financial debt to adjusted capital ratio	1.76	1.81	0.83

The company strengthened the balance sheet structure in 2010 by issuing a subordinated convertible bond in an amount of EUR 5 million (see also note 1.3.7.k). The following conditions will apply: suspension of general preferential rights, a minimum investment of EUR 50,000; a term of 6 years, an interest rate of 6 % payable semi annually, and a twice yearly conversion option (following publication of annual and half yearly figures). The bonds will be convertible at the lower of (i) 70 % of the average highest independent bid price for a share, in the central order book of Euronext, over the last 30 trading days preceding the date of exercise and (ii) EUR 2.

p. Deferred taxes

Deferred tax balances are presented in the statement of financial positions as follows:

	2010	2009	2008
Deferred tax assets	1,500,000	1,500,000	1,562,000
Non-current assets held for sale	-	-	-
Deferred tax liabilities	-	-	(62,000)
Liabilities directly associated with assets classified as held for sale	-	-	-

Components of deferred tax balances are as follows:

2010	Opening balance	Recognised in profit or loss	Closing balance
Deferred tax assets	1,790,0000	-	1,785,900
Intangible assets	-	-	-
Property, plant and equipment	1,000	(1,000)	-
Inventories	-	-	-
Other provisions	-	-	-
Tax losses of consolidated companies carried forward	1,065,000	(3,100)	1,061,900
Notional interest deduction carried forward	724,000	-	724,000
Deferred tax liabilities	(290,000)	-	(285,900)
Property, plant and equipment	(161,000)	4,100	(156,900)
Inventories	(129,000)	-	(129,000)
Other	-	-	-
Net deferred tax assets	1,500,000	-	1,500,000
Net deferred tax liabilities	-	-	-

Deferred taxes arise in the following circumstances:
- Intangible assets: accelerated tax depreciations lead to tax bases lower than the carrying amounts;
- Property, plant and equipment: accelerated tax depreciations lead to tax bases lower than the carrying amounts;
- Inventories may have carrying amounts higher than the fiscal accepted value resulting from the completed contract method in the fiscal books;
- Provisions recorded in the financial statements which are disallowed for fiscal reasons in local books;
- Companies reporting losses: deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized.

The Group has minimal unrecognized tax losses of EUR 45,000,000, EUR 37,000,000 and EUR 25,017,000 respectively at 31 December 2010, 2009 and 2008 with no expiry date resulting in unrecognized deferred tax assets for EUR 13,800,000, EUR 11,100,000 and EUR 7,505,000 as at 31 December 2010, 2009 and 2008.

Temporary differences on investments in subsidiaries (undistributed earnings) were approximately EUR 29,187,000, EUR 29,679,000 and EUR 48,669,000 at respectively 31 December 2010, 2009 and 2008. Since it is the intention of the company to indefinitely reinvest these earnings, no deferred tax liability has been provided.

q. Cost of sales

	2010	2009	2008
Purchases of material	86,625,160	76,831,704	103,888,293
Personnel expenses	24,863,038	24,075,759	28,265,600
Depreciation/amortization	3,782,843	3,768,273	3,930,227
Repair and maintenance	538,756	714,840	984,505
Other	2,374,350	3,665,753	3,581,087
Total	118,184,147	109,056,329	140,649,712

r. Research and development expenses

	2010	2009	2008
Personnel expenses	1,056,646	989,415	1,161,600
Depreciation/amortization	80,486	80,176	83,622
Other	155,090	164,305	161,769
Total	1,292,222	1,233,896	1,406,991

s. General and administrative expenses

	2010	2009	2008
Personnel expenses	4,236,581	3,613,498	4,588,461
Depreciation/amortization	80,486	80,935	84,174
Professional and Directors fees	782,710	1,568,493	2,109,160
Other	1,053,957	1,138,618	1,176,533
Total	6,153,734	6,401,544	7,958,328

Other general and administrative expenses mainly include various office supplies, IT and communication services and supplies as well as general taxes such as real estate taxes and community taxes.

t. Selling expenses

	2010	2009	2008
Personnel expenses	4,931,014	4,617,268	5,420,800
Representation and travel expenses	416,950	577,070	569,612
Publicity	49,031	92,662	439,464
Depreciation/amortization	80,486	80,176	83,622
Transportation costs	590,834	477,797	723,682
Fairs, exhibitions and other	619,566	732,441	785,212
Total	6,687,881	6,577,414	8,022,392

u. Other operating income and other operating expenses

	2010	2009	2008
Gain on disposal of fixed assets	388,069	80,620	174,214
Other	-	27,500	245,270
Other operating income	388,069	108,120	419,484
Loss on disposal of fixed assets	74,779	37,485	164,626
Other	1,626,289	3,532	7,026
Other operating charges	1,701,068	41,017	171,652

Within the other operating charges a significant increase is noted in 2010 compared to last year due to the provision accounted for on two customers for a total amount of EUR 1,625,000 (see also note 1.3.7.b).

v. Personnel expenses and average number of employees

	2010	2009	2008
Wages and salaries	32,790,473	30,855,164	36,359,900
Insurance	507,609	585,639	618,462
Other	1,789,197	1,855,137	2,458,099
Total	35,087,279	33,295,940	39,436,461

The average number of employees of contract manufacturing (continuing operations) in 2010 amounted to 1,714 compared to 1,670 in 2009 and 1,976 in 2008. The decrease in the average number of employees in 2009 as compared to 2008 can be attributed to restructuring measures taken by the group in order to compensate the effects of the economic downturn. The increase in the average number of employees in 2010 compared to 2009 can be attributed to the increased turnover in 2010.

Defined contribution plans

The company provides defined contribution plans for some employees. The plan provides for contributions ranging from 2 % to 8 % of the salary. These contributions, partly paid by the employer and partly paid by the employee, are calculated by an insurance company and the costs are charged to income statement in the year to which they relate. Defined contribution costs were EUR 399,499, EUR 414,861 and EUR 431,746 respectively at 31 December 2010, 2009 and 2008.

w. Depreciation charges, amortization charges and impairment losses

	2010	2009	2008
Property, plant and equipment	3,370,771	3,746,210	4,011,309
Cost of sales	3,129,313	3,504,923	3,759,891
General and administration costs	80,486	80,935	84,174
Selling expenses	80,486	80,176	83,622
Research and development costs	80,486	80,176	83,622
Intangible fixed assets	653,530	263,350	170,336
Cost of sales	653,530	263,350	170,336
Total depreciation charges and amortization charges	4,024,301	4,009,560	4,181,645

No impairment losses were recognized in respectively 2010, 2009 and 2008.

x. Financial results

	2010	2009	2008
Interest income	3,884	8,838	782
Exchange differences	50,676	826,291	2,501,145
Other	40,356	35,516	23,221
Total financial income	94,916	870,645	2,525,148
Interest charges	1,675,798	1,566,167	2,256,043
Bank charges	275,654	70,142	91,852
Exchange differences	578,841	831,009	3,306,872
Change in fair value derivatives financial instruments	-	-	194,091
Total financial charges	2,530,293	2,467,318	5,848,858
Net financial results	(2,435,377)	(1,596,673)	(3,323,710)

In 2007 the Group accounted for the change in fair value of its US Dollar hedge option contract based on the market to market valuation of these contracts as of year end. A loss amounting to EUR 194,091 has been realized in 2008 on the contracts agreed upon in 2007.

y. Income taxes

Income taxes are calculated on the basis of the taxable profit of the individual companies included in the consolidation. The company recognizes deferred taxes according to IAS 12.

Income taxes recognized in the income statement:

	2010	2009	2008
Income taxes of the current year	(2,425)	-	-
Income taxes of the prior year	(21,277)	(21,046)	25,074
Deferred tax expense/(income)	-	-	-
Total	(23,702)	(21,046)	25,074

In 2008, 2009 and 2010 no income taxes were recognized in other comprehensive income.

The reconciliation of the effective tax rate to the statutory tax rate is as follows:

	2010	2009	2008
Profit/(loss) before taxes	(2,602,834)	(26,416,801)	249,123
Effect of companies reporting losses	4,071,779	28,115,529	4,269,000
Income tax expense calculated at 33,99 %			
Effect of revenue that is exempt from taxation			
Non deductible expenses	(359,232)	(19,526)	(1,572,981)
Notional interest deduction	(1,102,784)	(1,679,202)	(1,837,642)
Effect of unused tax losses and tax offsets not recognized as deferred tax assets			(1,107,500)
Effect of previously unrecognized and unused tax losses and tax offsets now recognized as deferred tax assets			
Effect of different tax rates of subsidiaries operating in other jurisdictions			
Income taxes	2,425	0	0
In %	35%	0%	0%

The deferred taxes recognized in the statement of financial position are the result of temporary differences in the recognition of income and expenses in the annual report on the one hand and the fiscal books on the other hand.

z. Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

	2010	2009	2008
Profit/(loss) for the year from continuing operations	(2,626,536)	(3,565,040)	4,809,414
Profit for the year	(1,130,800)	(26,104,701)	441,046
Weighted average number of shares – basic	6,934,424	6,934,424	6,934,424
Earnings per share – basic/net profit available for distribution continuing operations	-0.38	-0.51	0.69
Earnings per share – basic/net profit available for distribution continuing plus discontinued operations	-0.16	-3.76	0.06
Weighted average number of shares – diluted	6,934,424	6,934,424	6,934,424
Earnings per share - diluted/net profit available for distribution continuing operations	-0.38	-0.51	0.69
Earnings per share - diluted/net profit available for distribution continuing plus discontinued operations	-0.16	-3.76	0.06

The potential ordinary shares related to the convertible debt being issued in 2010 are antidilutive because their conversion to ordinary shares would decrease the loss per share from continuing operations.

aa. Discontinued operations

The board of directors analyzed the group structure and strategy in 2009 and noticed that given the economic crises and the large investments that were done in Estonia, Spain and Mexico the automation business suffers large losses. Moreover there is a negative cash flow for this division. Also the turnover of the other division, contract manufacturing, decreased due to the economic downturn with about 27%. Seen this situation the board of directors concluded that the investment strategy needed to be revised and that restructuring measures needed to be taken. Various scenarios for the automation business were developed and feasibility of each was reviewed. Finally, as all business plans to continue the automation business required to much unavailable cash, the decision was taken to sell the business.

After negotiations with various interested parties, the company accepted an offer in December 2009 from Huub Baren, the company's founder, and Vladimir Dobosch, to acquire the entire automation business. As from that date, the automation division was classified as held for sale.

The automation division is being sold for a fixed amount of EUR 2 million and a variable amount equal to 50% of the accumulated profits of the division until 31 December 2012 (earn-out). In case the business will be sold by the purchaser to a third party before 31 December 2010, no earn-out needs to be paid. Payment of the lump sum may be deferred until 31 December 2013 at the latest. As of 1 October 2011, an interest equal to the Euribor (3 months) increased with 1% is payable on the remaining part of the lump sum.

It was agreed that the sale of this business had economic effect on 1 October 2009. This implies that all effects (including the results and the cash movements) as of this date shall be for the account of the purchaser. Settlement will be done through a price correction at closing date (2 March 2010).

The contract also contains a clause whereby the company will participate in any possible capital gain (sales price higher than lump sum) realized by the purchaser of the automation activity, should it sell the activity with a profit to a third party within the next 2 years (50 % in year 1, 25 % in year 2).

Given the fact that the purchaser has a thorough knowledge about the discontinued operations, no warranty is given by the seller related to the sale of this business.

Included in the deal are the intellectual property rights, the land and buildings, the shares, the agreements and receivables and debts, the personnel and the permits related to the automation business. These are integrally transferred to the purchaser.

To guarantee the payment obligations the company is taking a pledge on 700,000 Connect Group NV shares held by the purchasers. The company is also given a call option on these shares at an exercise price of (i) EUR 2.86 per share in the event that the highest independent bid price for the share in the central order book of Euronext Brussels is higher or equal to EUR 2.86 or (ii) equal to the highest independent bid for the share in the central order book of Euronext Brussels in the event that this is less than EUR 2.86.

The contract for the sale of the automation business was signed on 24 December 2009 and completed per 2 March 2010. Income and expenses of the automation business where included in the consolidated financial statements until 31 December 2009.
The results of the automation business for the year are presented in the table below.
For the period from 1 January 2010 till 2 March 2010 no financial data of the automation business was available and all transactions during that period were for account of the buyer.

	2009 (*)	2008
Revenue	56,200,209	66,147,078
Other income	1,043,574	1,194,564
Expenses	(63,806,447)	(71,414,979)
Loss before tax	(6,562,664)	(4,073,337)
Attributable income tax expense	23,003	(295,031)
Gain/(loss) on remeasurement to fair value less cost to sell	-	-
Gain/(loss) on disposal of operation	(16,000,000)	-
Attributable income tax expense	-	-
Profit/(loss) of the year from discontinued operations	(22,539,661)	(4,368,368)
Equity holder of the parent	(22,872,807)	(4,535,217)
Minority interest	333,146	166,849

(*) This table has been adjusted as compared to the table presented in the annual report of 2009. In the annual report of 2009, certain expenses with respect to the planned sale of the Automation division had been recognised as a provision of the continued operations. In accordance with IFRS 5, these expenses had to be adjusted against assets and liabilities of the disposal group.

Disposal group classified as held for sale

The major classes of assets and liabilities of the discontinued operation per 31/12/2009 are as follows:

Discontinued operations	2009 (*)
Assets	
Intangible assets	-
Goodwill	-
Material fixed assets	-
Other current assets	134,815
Inventories	7,535,539
Trade receivables	16,359,598
Deferrals and accruals	838,301
Cash and bank balances	2,050,969
Assets classified as held for sale	26,919,222
Liabilities	
Non-controlling interests	890,539
Provisions	1,777,513
Long-term debt	1,089,308
Current portion long term debt	285,349
Bank loans and overdrafts	3,573,000
Trade payables	7,222,863
Other amounts payable	3,576,249
Liabilities directly associated with assets classified as held for sale	18,414,821
Additional liabilities recognized with respect to write down of the business to fair value less costs to sell	8,621,644
Total liabilities related to disposal group held for sale	27,036,465
Net assets of discontinued business classified as held for sale	(117,243)

(*) This table has been adjusted as compared to the table presented in the annual report of 2009. In the annual report of 2009, certain expenses with respect to the planned sale of the Automation division had been recognised as a provision of the continued operations. In accordance with IFRS 5, these expenses had to be adjusted against assets and liabilities of the disposal group.

Adjustment of disposal group held for sale to fair value less cost to sell

IFRS 5 requires a disposal group held for sale to be measured at the lower of its carrying amount or its fair value less cost to sell. Any adjustment to be made in applying this principle shall be allocated to the non-current assets of the disposal group that are within the scope of the measurement requirements of this Standard and first to reduce the carrying amount of goodwill and then, to the other assets of the disposal group pro rata on the basis of the carrying amount of each asset in the disposal group. However, this Standard does not discuss the possibility that the carrying amount of scoped-in non-current assets may be less than the amount by which a disposal group's carrying amount exceeds its fair value less cost to sell.

This issue was raised already to IFRIC and forwarded by them to the IASB in July 2009. In its December 2009 meeting, the IASB decided not to add a project to its current agenda to address this issue.
In the absence of any guidance from IFRIC and the IASB on this issue, management decided to respect the overall

principle of IFRS 5 that a disposal group held for sale shall be measured at the lower of its carrying amount or fair value less cost to sell, but to present the adjustment to fair value less cost sell of the disposal group in excess of the carrying amount of scoped-in non-current assets, as a separate liability.

AB. Segment reporting

A. Operating segments

The activities of the Group have been organized in the past on a worldwide basis into 2 major operating segments: the "Factory Automation" and the "Contract Manufacturing".
With the sale of the automation activity in December 2009 only one segment, Contract Manufacturing, remains. As such, there are no operating segments to be disclosed.

B. Geographical information
The Group operates in three principal geographical areas: Belgium (country of domicile), The Netherlands and Germany. The geographical spread of revenues by major country is as follows:

	2010		2009		2008	
	In EUR	In %	In EUR	In %	In EUR	In %
Belgium	69,597,150	52	81,836,449	68	127,713,301	77
The Netherlands	31,656,187	24	18,210,430	15	19,455,756	12
Germany	15,440,776	12	11,187,556	9	14,385,998	9
Other Europe	16,769,413	12	10,020,324	8	4,342,586	2
Total	133,463,526	100	121,254,759	100	165,897,641	100

C. Information about major customers
The company has one customer counting for 24.77 % of its sales in 2010, 34 % in 2009 and 23 % in 2008. 10 customers account for approximately 56.74 %, 63 % and 45 % respectively of the Group net sales of the continued operations in 2010, 2009 and 2008. Beside these 10 largest customers, no other customer accounts for 2 % or more of the Group's total net sales. The 10 highest amounts of trade receivables for a single customer account for approximately 64.4 % of the Group's trade accounts receivable at 31 December 2010 whereas this was 60 % at 31 December 2009 and 43 % at 31 December 2008.

AC. Contingent liabilities

Neither the company, nor its subsidiaries are subject to any legal proceeding that can have or may have a significant negative impact on the consolidated financial position of the company.

AD. Issued capital and reserves

Shareholders' Equity (at 31/12/2010)			
Origin Name	Number Issued	Declared total	%
Equity	6,934,424	4,349,303	62.72 %
Warrants	-	-	-
Total	6,934,424	4,349,303	62.72%

Shareholder Name	Number Declared (*)	%
Huub Baren BVBA (**)	2,166,155	31.24 %
LRM	1,250,000	18.02 %
Het Beste Brood Holding SA	242,512	3.50 %
Gaston Moonen	244,582	3.53 %
Luc Switten	258,589	3.73 %
Wolodimir Dobosch	187,465	2.70 %
Total	4,349,303	62.72 %

(*) Shareholders holding 3% or more need to declare their interests.
(**) + companies controlled by Huub Baren

During 2010, 2009 and 2008, there have been no changes in the authorized shares, ordinary shares issued and fully paid, share premium or treasury shares.

AE. FINANCIAL INSTRUMENTS

(i) Categories of financial instrument

	2010	2009	2008
Financial assets at amortized cost			
Cash and cash equivalents	79,379	128,246	1,807,341
Trade receivables	27,743,967	20,195,275	46,038,121
TOTAL Financial assets at amortized cost	27,823,346	20,323,521	47,845,462
Financial liabilities			
Financial liablities at amortized cost			
Bank loans and overdrafts	21,459,241	25,023,631	31,028,991
Long term debt (incl. ST)	16,984,588	3,488,122	6,403,496
Accrued interest	215,366	115,832	156,938
Trade payables	26,470,532	22,322,741	31,324,831
TOTAL Financial liabilities at amortized cost	65,129,727	50,950,326	68,914,256
Financial liabilities at fair value through profit or loss			
Derivative financial instruments	644,798	-	-
TOTAL financial liabilities at fair value through profit or loss	644,798	-	-

(ii) Financial risk management objectives

The Group's Corporate Treasury function coordinates access to domestic and international financial markets and monitors and manages the financial risks relating to the operations of the Group. These risks include market risk (including currency risk, interest rate risk), credit risk and liquidity risk.

The Group sometimes seeks to minimise the effects of its USD exchange risks by using derivative financial instruments to manage these risk exposures.

The Group does not enter into or trades financial instruments, including derivative financial instruments, for speculative purposes.

(iii) Market risk management

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see note A below) and interest rates (see note B below). The Group sometimes enters into derivative financial instruments to manage its exposure to foreign currency risk on the US Dollar using foreign currency option contracts. Foreign currency risks that do not influence the Group's cash flows (the risks resulting from the translation of assets and liabilities of foreign operations in to the Group's reporting currency) are not hedged.

A. Foreign currency risk management

The Group undertakes purchase transactions denominated in foreign currencies. Hence, exposure to exchange rate fluctuations arises. Exchange rate exposures are sometimes managed within approved policy parameters utilising foreign currency derivative contracts for US Dollars only. To this effect the group had purchased and written options to buy US Dollars and entered into forward contracts to buy US Dollars. The Group does not use derivative financial instruments to manage its exposure to other foreign currencies.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (versus the functional currencies of the reporting entity and including intercompany financial assets and liabilities) at the reporting date are as follows:

	2010	2009	2008
Assets			
JPY	190,000	-	-
RON	143,463	16,790	-
USD	357,834	4,246	5,093,235
CZK	134,537	22,053	-
Liabilities			
GBP	26,156	9,797	191,532
SGD	-	1,900	18,348
SEK	-	-	12,460
JPY	6,390,347	7,980,515	2,955,753
USD	5,925,795	5,080,048	2,684,331
CZK	8,583,928	11,794,103	-
RON	787,229	776,023	-
CHF	2,175	-	-
CAD	11,282	-	-

Foreign currency sensitivity analysis

The Group is mainly exposed to the USD.

The Group's business is more than 95 percent an EUR sales business. Purchasing of material is partially US Dollar driven. In 2010, the company purchased materials for approximately 27,6 million US Dollar (16 percent of sales). In 2009, the company purchased materials for approximately 19 million US Dollar (16 percent of sales). In 2008, they purchased materials for approximately 30 million US Dollar (13 percent of sales). These purchases are mainly for the subcontracting business (electronic components). The impact on future financial statements of a 10 percent increase or decrease of the US Dollar against the EUR is difficult to measure and unpredictable for the following reasons:

- Product price setting for customers is based on the US Dollar/EUR exchange rate at the moment the contract is negotiated. Prices are typically negotiated for a 1 year period.
- Customer contracts regularly include clauses allowing Euro price adaptation in case impact of the US Dollar content of the product changes with a certain percentage.
- During the lifespan of a product, price may change (including the impact of US Dollar/EUR effects) as a consequence of minor product changes / revisions.
- The company sells several thousands of different products which each have their own lifespan, starting date and revision of price history.

The combination of all these elements makes the impact of the US Dollar/EUR exchange rate exposure unpredictable. The impact will always be limited to the percent movement of the US Dollar/EUR exchange rate on the total US Dollar purchases in both directions. It can however have a material impact on the financial performance of the company.

The sensitivity analysis below represents the sensitivity of a 10% change in the foreign currency rates of the USD, including only the outstanding US Dollars at year end. This sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit where the EUR strengthens against the USD. For a 10% weakening of the EUR against the USD, there would be an equal and opposite impact on the profit and the balances below would be negative.

Currency impact USD	2010	2009	2008
	EUR	EUR	EUR
Profit or loss	378,819	320,309	105,119

The Group's sensitivity to the USD has increased over the last years due to the increased purchases in USD.

Foreign currency option contracts

Per 31 December 2010, 2009 and 2008 the group has no such outstanding derivative contracts. A loss amounting to EUR 194,091 has been realized in 2008 on the contracts agreed upon in 2007.

B. Interest rate risk management and sensitivity analysis

The group is exposed to interest rate risk as entities in the group borrow funds at floating interest rates (mostly Euribor plus bankers margin). The group has no outstanding interest swap or hedging contracts. The effect on the financial statements of a 1 % change in interest rate amounts to approximately EUR 300,000 based on the total outstanding financial debt of EUR 30 million at the end of 2010. For 2009 a 1 % change in interest rate would have

amounted to approximately EUR 290,000 based on a total outstanding amount of debt of EUR 29 million at the end of 2009. For 2008 a 1 % change in interest rate would have amounted to approximately EUR 370,000. An increase in interest rates would result in a decrease of the company's net result.
A sensitivity in interest rates would not impact equity.

(iv) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group uses publicly available financial information and its own trading records to rate its major customers. The Group's exposure is continuously monitored.

Maximum exposure to credit risk can be detailed as follows:

	2010	2009	2008
Financial assets at amortized cost			
Cash and cash equivalents	79,379	128,246	1,807,341
Loans and receivables	29,643,967	20,195,275	46,038,121
TOTAL Financial assets at amortized cost	29,723,346	20,323,521	47,845,462

The main focus for credit risk management relates to trade receivables (see note 1.3.7.b) for an amount of EUR 27,743,967, EUR 20,195,275 and EUR 46,038,121 as at 31 December 2010, 2009 and 2008 respectively.

The company has one customer counting for 24.77 % of its business. 10 customers count for 56.74 % of the business. We refer to note 1.3.7.b for an analysis of the aging of trade receivables and discussions on impairment.

The company closely follows up their customers to monitor their credit risk. Customers are on one side worldwide international electronic manufacturing firms of which financial data is available on a quarterly basis and credit ratings assigned by international credit rating agencies and on the other side, local electronic manufacturing firms for which no explicit credit rating exists. For these customers, the company closely monitors their customer's business to identify potential credit risk in advance. As manufacturing partner of these companies, adequate control exists to manage this credit risk. The company does not use credit risk insurance.

The group does not hold any collateral for any of its financial assets.

(v) Liquidity risk management

The company secured at its bankers credit lines of EUR 10 million and obtained factoring financing on its receivables (80 % of receivables factored is financed) for working capital needs (see note 1.3.7.j). In 2010, on average EUR 24 million of these lines were used (95 %) (on average EUR 28 million or 74 % in 2009 and on average EUR 30 million or 67 % in 2008). The credit lines at the bankers are in principal renewable every year. We refer to note 1.3.7.k. for a breakdown of the maturities of long term debt.

A breakdown of the cash flows of all financial liabilities at amortized cost is as follows:

2010		Financial liabilities at amortized cost
Current		52,307,862
	2012	2,626,966
	2013	2,257,000
	2014	2,257,000
	2015	1,732,500
	2016	157,500
Beyond 2016		157,500

2009		Financial liabilities at amortized cost
Current		48,962,907
	2011	1,157,003
	2012	552,458
	2013	161,250
	2014	159,000
	2015	156,750
Beyond 2015		304,500

2008		Financial liabilities at amortized cost
Current		65,503,697
	2010	1,689,453
	2011	1,495,667
	2012	896,525
	2013	433,299
	2014	410,868
Beyond 2014		682,206

(i) Fair value measurement

IFRS 7 requires an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There are no financial assets subsequently measured at fair value on level 1, 2 or 3 fair value measurement. The only financial liability measured at fair value is included in level 3 and represents the conversion options contained in the convertible bond issued by Connect Group on 27 April 2010 for a total principal amount of EUR 5,000,000 (see note 1.3.5.b). As explained in note 1.3.5.b, these conversion options are treated under IFRS (in application of IAS 32 and IAS 39) as embedded derivatives over Connect Group's own shares that are not closely related to the host debt instrument (which is the convertible bond without the conversion options) and that have to be measured at fair value through profit or loss.
As the conversion options are not traded on an active market, their fair value is determined using a valuation model with the following inputs: the risk-free interest rate; the quoted price of the underlying Connect Group shares, a liquidity adjustment to the market price of the Connect Group shares based on historical volatility and traded volumes of the underlying shares, using a confidence interval of 75 %, and assumptions about the relative probability of different scenarios and taking into account the impact of a control premium. Changing the assumptions used in determining the liquidity adjustment to reasonably possible alternative assumptions would change the fair value obtained significantly. For further information we refer to note 1.3.5.b.

af. Commitments

At the end of 2010, the company has for EUR 23 million purchase orders outstanding at suppliers. These purchases are all based on fixed sales orders or forecasts provided by the customers. As such the customers have the obligation to purchase the components.
The ultimate risk relating to the purchase orders is for the customers of Connect Group.

ag. Related party transactions

The company purchased EUR 2,175,057 in the course of 2008 from PMS 724 GmbH. The shares of PMS 724 GmbH are owned for 100 % by a shareholder of Connect Group NV who is also a member of the Board of Directors. The purchases mainly relate to parts for machinery. The Board of Directors discussed the nature and character of these purchases and concluded that they were contracted in the normal course of business and that they were contracted at arm's length conditions. PMS 724 GmbH no longer is a related party due to the sale of the automation business in 2009 as it is fully related to the discontinued operations.

On 2 March 2010 the automation activity was definitively sold to its former founders, Huub Baren and Vladimir Dobosch. Huub Baren and Vladimir Dobosch are shareholders of Connect Group and at the time of the sale were both directors of Connect Group. Mr Dobosch is no longer a director of Connect Group after the closing of the transaction. In this transaction, all requirements with respect to the Corporate Law were respected.

As a result of the sales transaction of the automation activity, the company has a gross receivable of EUR 2,000,000 on the purchaser of the automation activity.

In 2010 the Connect Group sold EUR 547,233 of goods to the Electronic Network group. Huub Baren, director and shareholder of Connect Group, is also the main shareholder in the Electronic Network group. These sales are sales in the normal course of operations. The Board of Directors has analysed the nature and character of these sales and concluded that they can be regarded as normal business transactions at market conditions.

During 2010, the group issued a subordinated convertible bond of EUR 5 million on which the following members of the Board of Directors and executive management have subscribed:

Name	Amount in EUR	Number
Luc Switten	250,000	20
LRM	925,000	74
Stokklinx BVBA	250,000	20
Hugo Ciroux	100,000	8
Total	1,525,000	122

Compensation of key management personnel

The total amount of emoluments to the members of the Board of Directors and management amount to EUR 623,000 (continuing operations) in 2010 and EUR 915,000 (continuing operations) in 2009 and EUR 1,443,000 (continuing and discontinued operations) in 2008. The total amount of shares held by the members of the Board of Directors amounted to 3,917,256 in 2010 and 4,104,721 in 2009 and 2008. The total amount of warrants held by members of the Board of Directors amounted to 0 in 2010, 2009 and 2008.

The remuneration of directors and management during the year was as follows:

	2010	2009	2008
Short-term benefits	623,627	915,000	1,443,000
Post-employment benefits	-	-	-
Other long-term benefits	-	-	-
Share-based payments	-	-	-
Total	623,627	915,000	1,443,000

AH. Disclosure attest and non attest fees charged by the Statutory Auditor

In accordance with the law of 20 July 2006, article 101, please find below a summary of the attest fees and non attest fees of the statutory auditor Deloitte Bedrijfsrevisoren and its network of professional service firms.

Attest fee (consolidated level)	2010	2009	2008
Agreed fee	140,000	173,405	170,000

Non Attest fees (consolidated level)	2010	2009	2008
Tax advice	91,287	104,156	112,216
Other non-attest services	42,018	32,195	44,375
Legal missions	4,120	-	-
Acquisition Due diligence services (which are outside the scope of the 1 to 1 rule)	-	-	90,252
Total non attest fees	137,425	136,351	246,843

AI. Operational lease commitments

		Lease Start Date	Lease End Date	Review Date	Annual Rent	Area (square meters)
Belgium	Connect Group NV, Frankrijklaan 18-22, 8970 Poperinge	01/01/2007	31/12/2015	-	273,705	10,527
Germany	Connectronics GmbH, Siemensstr. 11, 72636 Frickenhausen	01/11/2000	31/12/2015	-	191,748	4,320
Romania	Connectronics Romania SRL, Soseaua Borsului 40, 3700 Oradea	01/01/2008	31/12/2023	-	614,880	15,400
Czech Republic	Connectronics sro, Billundska 2756 272 01 Kladno	01/01/2007	Annually renewable	-	250,366	5,284

Payments recognized as an expense

	2010	2009	2008
Minimum lease payments	1,367,057	1,393,738	1,360,416
Contingent rentals	-	-	-
Sub-lease payments received	18,446	18,000	18,000
Total	1,385,503	1,411,738	1,378,416

Non-cancellable operating lease commitments

	2010	2009	2008
Not later than 1 year	1,360,138	1,325,648	1,333,937
Later than 1 year and not later than 5 years	4,372,021	3,423,384	3,498,236
Later than 5 years	5,020,416	5,774,886	6,453,244
Total	10,752,575	10,523,918	12,662,833

2. Individual financial statements

In accordance with article 105 of the Company Law, this annual report includes the directors' report and a condensed version of the individual statutory accounts of Connect Group NV.

The directors' report, the statutory auditor's opinion and the full annual accounts of Connect Group NV are available at the registered office of the company at no cost.

2.1 Condensed financial statements (in EUR)

1. BALANCE SHEET

	2010	2009
ASSETS		
FIXED ASSETS	70,570,668	73,739,789
I. FORMATION EXPENSES	0	0
II. INTANGIBLE ASSETS	2,052,940	699,765
III. TANGIBLE ASSETS	2,119,897	4,526,520
A. Land & buildings	406,989	1,108,833
B. Plant, machinery & equipment	1,376,064	1,395,890
C. Furniture and vehicles	121,245	207,917
D. Leasing and other similar rights	15,599	56,539
E. Other tangible assets	200,000	0
F. Assets under construction	0	1,757,341
IV.FINANCIAL ASSETS	66,397,832	68,513,504
A. Affiliated enterprises	66,356,000	68,463,637
1.Participating interests	66,356,000	67,315,006
2.Amounts receivable	0	1,148,631
B. Other enterprises linked by particip. interests	0	0
1.Participating interests	0	0
2.Amounts receivable	0	0
C. Other financial assets	41,832	49,867
1.Shares	0	0
2.Amounts receivable and cash guarantees	41,832	49,867
CURRENT ASSETS	**42,391,952**	**37,397,407**

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		2010	2009
V.	AMOUNTS RECEIVABLE AFTER ONE YEAR	2,000,000	0
	A.Trade debtors	0	0
	B. Other amounts receivable	2,000,000	0
VI.	STOCKS AND CONTRACTS IN PROGRESS	15,248,304	6,868,582
	A.Stocks	15,248,304	6,207,003
	1.Raw materials	13,631,244	4,324,113
	2.Work in progress	1,141,423	1,198,625
	3.Finished goods	475,638	684,265
	4.Goods purchased for resale	0	0
	5.Immovable property acquired or constructed for resale	0	0
	6.Advance payments	0	0
	B.Contracts in progress	0	661,579
VII.	AMOUNTS RECEIVABLE WITHIN ONE YEAR	24,868,562	30,310,903
	A. Trade debtors	9,936,458	21,671,871
	B. Other amounts receivable	14,932,104	8,639,032
VIII.	INVESTMENTS	0	0
	A. Own shares	0	0
	B. Other investments and deposits	0	0
IX.	CASH AT BANK AND IN HAND	231,568	81,427
X.	DEFERRED CHARGES AND ACCRUED INCOME	43,517	136,495
	TOTAL ASSETS	**112,962,619**	**111,137,197**

		2010	2009
LIABILITIES			
	CAPITAL AND RESERVES	**28,146,323**	**29,970,041**
I.	CAPITAL	429,934	429,934
	A. Issued capital	429,934	429,934
	B. Uncalled capital	0	0
II.	SHARE PREMIUM ACCOUNT	38,052,642	38,052,642
III.	REVALUATION SURPLUS	0	0
IV.	RESERVES	42,993	42,993
	A. Legal reserves	42,993	42,993
	B. Reserves not available for distribution	0	0
	1. In respect of own shares hold	0	0
	2. Other	0	0
	C. Untaxed reserves	0	0
	D. Reserves available for distribution	0	0
V.	PROFIT/LOSS CARRIED FORWARD	(10,379,246)	(8,595,467)
VI.	INVESTMENT GRANTS	0	39,939
	PROVISIONS AND DEFERRED TAXATION		
		204,244	1,630,040
VII.	A. PROVISION FOR LIABILITIES AND CHARGES	204,244	1,609,475
	1. Pension and similar rights	204,244	179,294
	2. Taxation	0	0
	3. Major repair and maintenance	0	0
	4. Other liabilities and charges	0	1,430,181
	B. DEFERRED TAXATION	0	20,565

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		2010	2009
	CREDITORS	**84,612,053**	**79,537,116**
VIII.	AMOUNTS PAYABLE AFTER ONE YEAR	46,533,719	36,372,940
	A. Financial debts	46,533,719	36,372,940
	1. Subordinated loans	5,000,000	0
	2. Unsubordinated debentures	0	0
	3. Leasing and other similar obligations	0	210,641
	4. Credit institutions	7,628,610	712,187
	5. Ohter loans	33,905,109	35,450,112
	B.Trade debts	0	0
	1. Suppliers	0	0
	2. Bills of exchange payable	0	0
	C. Advances received on contracts in progress	0	0
	D. Other amounts payable	0	0
IX.	AMOUNTS PAYABLE WITHIN ONE YEAR	34,548,132	41,663,624
	A. Current portion of amounts payable after one year	2,270,802	500,927
	B. Financial debt	16,993,927	21,418,702
	1. Credit institutions	10,393,927	18,883,692
	2. Other loans	6,600,000	2,535,010
	C. Trade debts	11,688,751	10,097,058
	1. Suppliers	11,688,751	10,097,058
	2. Bills of exchange payable	0	0
	D. Advances received on contracts in progress	0	6,582,912
	E. Taxes, remuneration and social security	3,579,233	3,028,185
	1. Taxes	461,852	618,188
	2. Remuneration and social security	3,117,381	2,409,997
	F. Other amounts payable	15,419	35,839
X.	ACCRUED CHARGES AND DEFERRED INCOME	3,530,202	1,500,552
	TOTAL LIABILITIES	**112,962,619**	**111,137,197**

2. INCOME STATEMENT

		2010	2009
I.	OPERATING INCOME	79,130,999	73,790,057
	A. Turnover	78,559,384	100,366,768
	B. Variations in inventory	(1,589,011)	(29,490,984)
	C. Fixed assets own construction	0	115,459
	D. Other operating income	2,160,626	2,798,814
II.	OPERATING CHARGES	(77,844,786)	(75,884,874)
	A. Raw materials, consumables and goods for resale	54,968,292	50,272,697
	1. Purchases	57,902,559	66,203,855
	2. Movements in stock	(2,935,272)	(15,931,158)
	B. Services and other goods	5,184,328	5,728,492
	C. Remuneration, social security and pensions	14,695,983	15,625,858
	D. Depreciation, write off formation expenses	1,543,178	1,327,787
	E. Write off of inventory, receivables	1,181,937	2,677,346
	F. Increase/decrease in provisions for liabilities and charges	32,099	187,119
	G. Other operating charges	239,975	65,574
	H. Operating charges capitalised as reorganization costs	0	0
III.	OPERATING PROFIT/(LOSS)	1,286,213	(2,094,817)
		0	
IV.	FINANCIAL INCOME	797,957	3,616,788
	A. Income from financial fixed assets	3,280	2,239,290
	B. Income from current assets	111,745	740,398
	C. Other financial income	656,682	637,100
V.	FINANCIAL CHARGES	(4,036,988)	(3,516,320)
	A. Interests and other debt charges	2,945,863	2,518,827
	B. Increase/decrease in amounts written off on current assets	0	0
	C. Other financial charges	1,064,875	997,493
VI.	PROFIT/(LOSS) ON ORDINARY ACT. BEFORE TAXES	(1,952,818)	(1,994,349)
VII.	EXTRAORDINARY INCOME	175,427	683,168
	A. Adjustments to depreciation of and to other amounts intangible & tangible assets	0	0
	B. Adjustments to amounts written off financial fixed assets	0	0
	C. Adjustments to provisions for extraordinary liabilities and charges	0	0
	D. Gain on disposal of fixed assets	2,066	18,181
	E. Other extraordinary income	173,361	664,987
VIII.	EXTRAORDINARY CHARGES	(6,336)	(13,412,673)
	A. Extraordinary depreciation of & extraordinary amounts written off form expenses, tangible and intangible assets	0	366,597
	B. Amounts written off financial fixed assets	0	13,043,000
	C. Provisions for extraordinary liabilities and charges	0	0
	D. Loss on disposal of fixed assets	6,336	3,076
	E. Other extraordinary charges	0	0
	F. Extraordinary costs capitalised as restructuring costs	0	0

		2010	2009
IX.	PROFIT (LOSS) FOR THE YEAR BEFORE TAXES	(1,783,727)	(14,723,854)
	A. Transfers from deferred taxes	0	2,852
	B. Transfers to deferred taxes	0	0
X.	INCOME TAXES	(52)	(964)
	A. Income taxes	52	964
	B. Adjustment of income taxes and write-back of tax provisions	0	0
XI.	PROFIT (LOSS) FOR THE YEAR	(1,783,779)	(14,721,965)
XII.	TRANSFER TO UNTAXED RESERVES	0	0
XIII.	PROFIT (LOSS) FOR THE YEAR AVAIL. FOR APPROPRIATION	(1,783,779)	(14,721,965)

APPROPRIATION ACCOUNT

		2010	2009
A.	PROFIT/(LOSS) TO BE APPROPRIATED	(10,379,246)	(8,595,467)
	1. Profit/(loss) for the period available for appropriation	(1,783,779)	(14,721,965)
	2. Profit/(loss) brought forward	(8,595,467)	6,126,498
B.	TRANSFERS FROM CAPITAL AND RESERVES	0	0
	1. From capital and share premium account	0	0
	2. From reserves	0	0
C.	TRANSFERS TO CAPITAL AND RESERVES	0	0
	1. To capital and share premium account	0	0
	2. To legal reserve	0	0
	3. To other reserves	0	0
D.	RESULT TO BE CARRIED FORWARD	0	
	1. Profit to be carried forward	(10,379,246)	(8,595,467)
	2. Loss to be carried forward	0	
E.	SHAREHOLDERS' CONTRIBUTION IN RESPECT OF LOSSES	0	0
F.	DISTRIBUTION OF PROFIT	0	0
	1. Dividends	0	0
	2. Directors' emoluments	0	0
	3. Other allocations	0	0

2.2 Summary of the valuation rules

1. ASSETS

I. Formation Expenses
Formation expenses are expensed as incurred.

II Intangible fixed assets
Intangible fixed assets are valued at acquisition cost. These assets are amortized over the contractual period, if any, or the estimated useful life, using the straight-line method:

Research and Development Costs:	20 %- 33 %
Goodwill:	20 %
Software:	20 %
Brands:	10 %

III. Tangible fixed assets
Tangible fixed assets are valued at acquisition cost or production cost in case of own construction. Tangible fixed assets are depreciated over their estimated useful economic lives using the following:

Annual depreciation rates are:

- Buildings:	5 % double-declining
- Plant, machinery and equipment:	20 % straight-line
- Furniture:	20 % straight-line
- Vehicles:	25 % straight-line
- Computer equipment:	33 % straight-line
- Second-hand equipment:	50-100 % straight-line

Fixed assets under construction:

- Formation expenses related to buildings:	20 % double declining
- Buildings:	5 % double-declining
- Furniture:	20 % straight-line

IV. Financial fixed assets
Financial fixed assets are valued at acquisition cost. The Board of Directors evaluates with sincerity, prudence and good faith whether impairment is permanent in nature and determines the corresponding write down.

V. Inventories and Work in progress
Raw materials and materials are valued at acquisition cost according to the weighted moving average pricing method. Work in progress and finished goods are valued at construction value (including directs costs). Obsolete or slow-moving inventories are written down if the book value exceeds the net realizable value. The results of work in progress for projects are recognized in accordance to the percentage of completion method (this rule is applicable for the discontinued operations). Losses on projects are recognized immediately. The production costs include the costs of raw materials and consumables; direct labour costs and other direct attributable production costs.

VI. Receivables
Receivables are recorded at their face value. They are written down in case their estimated realizable value at closing date is below their book value.
Receivables in foreign currencies are valued at the year-end exchange rates. Exchange gains or losses resulting from the conversion are included in the profit and loss statement.

VII. Cash and cash equivalents
Cash and cash equivalents are recorded at their face value.

2. LIABILITIES

I. Short-term and long-term debts
These debts are recorded at their face value.
Debts in foreign currencies are valued at the year-end exchange rates. Exchange gains or
losses resulting from the conversion are included in the profit and loss statement.

II. Provisions for liabilities and charges
At the end of the year, the Board of Directors determines with sincerity, prudence and good faith the provisions necessary to cover risks or potential losses arising from the current period or from the prior periods.

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