



Technology is a Service

CONNECT GROUP
INTEGRATED SUBCONTRACTORS

Annual Report
2012

www.connectgroup.com



Technology is a Service

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Investor relations

Connect Group NV - Industriestraat 4
1910 Kampenhout - Belgium
Tel: + 32 (0)16 61 89 20 - Fax: +32 (0)16 61 78 82
www.connectgroup.com
e-mail: ir@connectgroup.com

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



**Being
where our
clients need us**

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.

Connect Group customers come from different professional markets, ranging from automotive, green energy to healthcare.

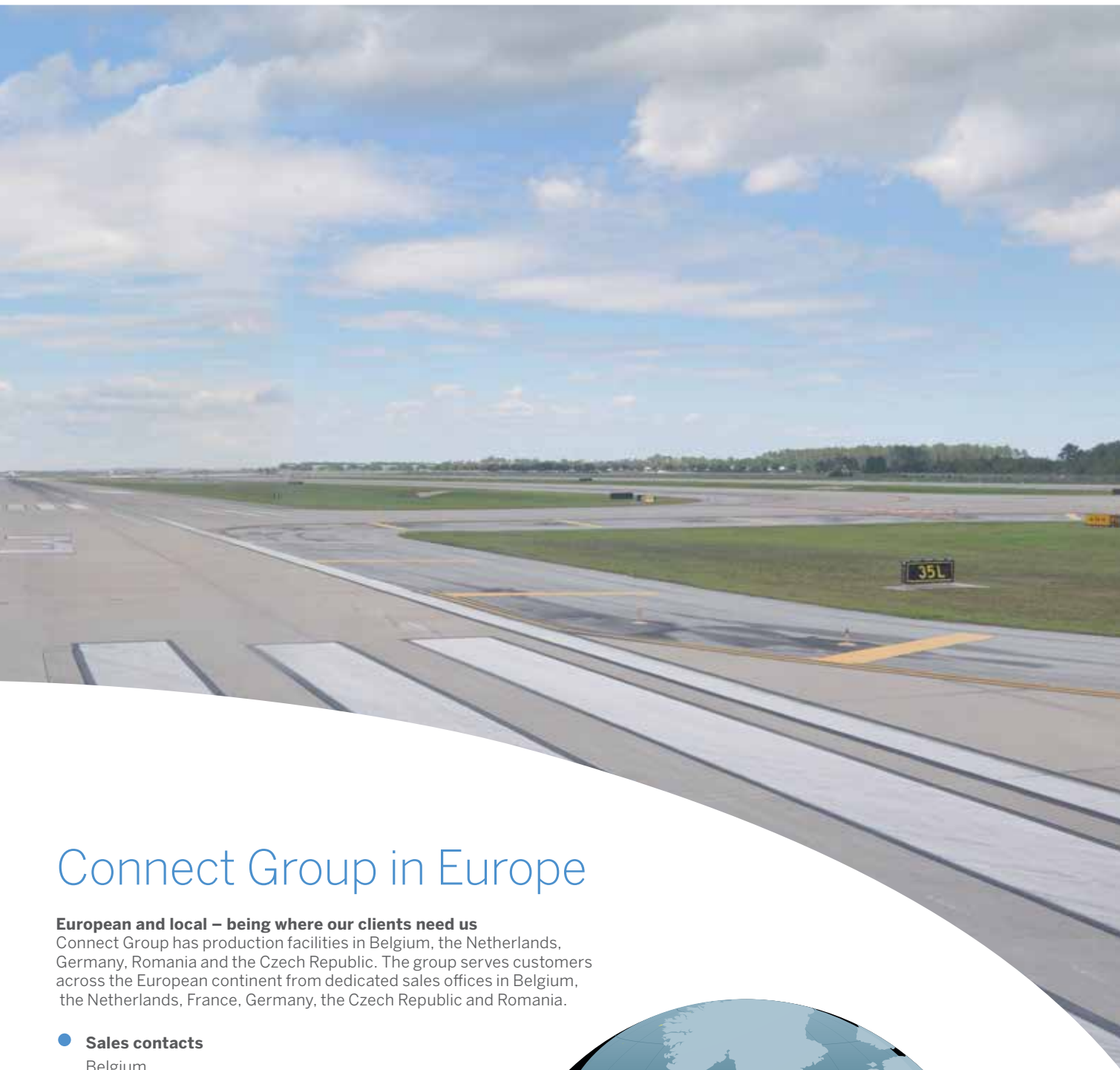
Added value

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 competence centers, closely linked to customers, both product-wise and geographically. Our production volume is mainly allocated to the Czech Republic and Romanian plants.

Activities

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

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



Connect Group in Europe

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.

● Sales contacts

Belgium
The Netherlands
France
Germany
Czech Republic
Romania

● Production sites

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



Key figures

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

	2012	%	2011	%	2010	%
Sales	141,638	100	148,231	100	133,464	100
Cost of sales	(125,421)	(88.5)	(127,689)	(86.1)	(118,184)	(88.6)
Gross profit	16,217	11.5	20,542	13.9	15,280	11.4
Research and development, general and administrative, selling and other expenses	(14,759)	(10.4)	(15,512)	(10.5)	(15,447)	(11.6)
Profit / (loss) from continuing operations before goodwill impairment	1,458	1.1	5,030	3.4	(167)	(0.1)
Goodwill impairment	(1,633)	(1.2)	-	-	-	-
Operating profit / (loss) from continuing operations	(175)	(0.1)	5,030	3.4	(167)	(0.1)
Financial income / (charges)	(1,291)	0	(1,600)	(1.1)	(2,435)	(1.8)
Taxes	-	-	305	0.2	(24)	(0.1)
Profit / (loss) for the year from continuing operations	(1,466)	(1.0)	3,735	2.5	(2,626)	(2.0)
Profit / (loss) from discontinued operations	4,500	3.2	-	-	1,495	1.2
Profit / (loss) for the year	3,034	2.1	3,735	2.5	(1,131)	(0.8)
Attributable to:						
Equity holders of the parent	3,034	2.1	3,735	2.5	(1,131)	(0.8)
Minority interest	-	-	-	-	-	-
Earnings per share						
Basic earnings / (loss) per share continuing operations	(0.14)	-	0.41	-	(0.38)	
Basic earnings / (loss) per share from continuing plus discontinued operations	0.29	-	0.41	-	(0.16)	

BALANCE SHEET CONNECT GROUP AT 31 DECEMBER (IN 000 EUR)

	2012	2011	2010
Assets			
Current assets:			
Cash and cash equivalents	1,089	743	79
Trade receivables	18,785	25,710	27,744
Other receivables	906	737	606
Inventories	33,525	34,390	34,390
Other current assets	100	109	153
Total current assets	54,405	61,689	66,627
Non-current assets:			
Other receivables	-	2,000	1,900
Deferred tax assets	1,500	1,500	1,500
Property, plant and equipment	9,868	9,614	11,250
Intangible assets	909	1,528	2,156
Goodwill	4,549	4,649	4,649
Total non-current assets	16,826	19,291	21,455
Total assets	71,231	80,980	88,082

	2012	2011	2010
Liabilities and equity			
Non-current assets:			
Bank loans and overdrafts	13,201	22,958	21,459
Current portion of long-term debt	2,264	2,439	3,784
Trade payables	16,210	19,868	26,471
Accrued expenses, payroll and related taxes and deferred income	6,634	5,886	7,417
Provisions	327	185	479
Current income taxes payable	-	-	304
Other current liabilities	904	195	1
Total current liabilities	39,540	51,531	59,915
Non-current liabilities:			
Long-term debt less current portion	5,478	6,250	13,201
Valuation derivative	-	-	645
Total non-current liabilities	5,478	6,250	13,846
Equity:			
Equity attributable to equity holders of the parent	26,213	23,199	14,321
Total equity	26,213	23,199	14,321
Total liabilities and equity	71,231	80,980	88,082

‘Connect Group stands stronger than one year ago. We therefore look to the long-term future with confidence’.

Message from the CEO, Luc Switten

2012 was the year in which we implemented the objectives we set in 2011.

In 2011 Connect Group defined a strategic plan for its future, which sets a number of objectives. Particular focus was placed on specific target markets like Railway and Healthcare. In addition to this, the TiaS (Technology is a Service) program was introduced and presented to customers. Both Railway and Healthcare have already posted attractive successes. Customers like Alstom and Faiveley clearly expressed their confidence by entrusting us with major long-term products. In Healthcare we undertook projects for customers like I-Optics and Defiteq.

During 2012, the TiaS-program was presented in detail to our customers. This appears to have been positively received, judging from the various TiaS projects we have already initiated.

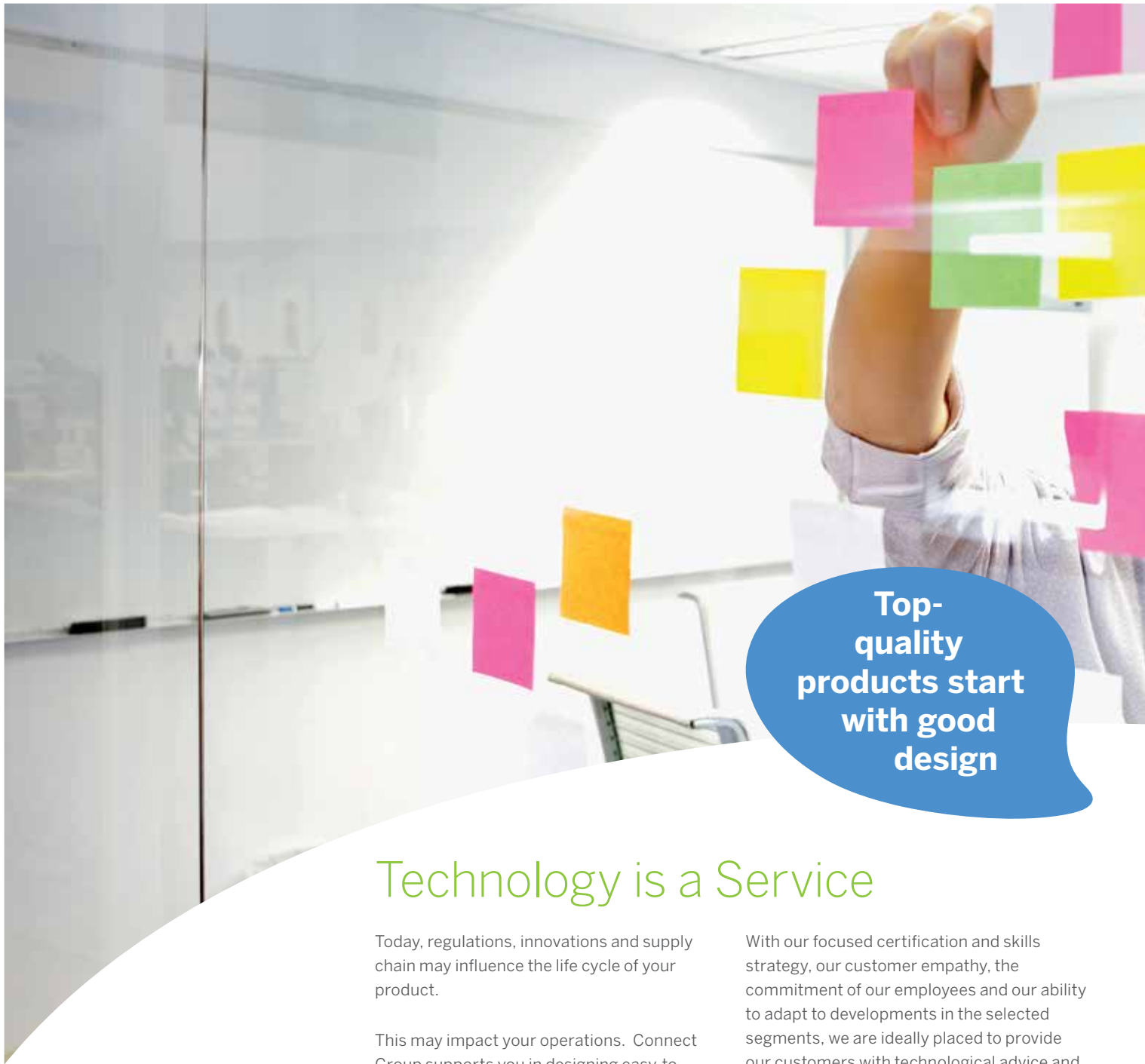
Despite these lower year-end figures as a result of the general economic downturn, we look to 2013 with confidence for several reasons:

- In 2012, we gained several new clients and the order book at end-2012 stood at over EUR 77 million, leading us to assume that 2013 will be up to the mark.
- The production facilities in Romania and the Czech Republic were further optimized to improve efficiency.
- The integration in the Netherlands is now behind us. In less than 1 year we have succeeded in integrating all our facilities in the Netherlands, with 1 facility per location and with the workforce adapted to market demand. This will definitely deliver add value starting in 2013.
- The balance sheet of the group improved significantly. Inventories and receivables were under control and total financial debt decreased from more than EUR 31 million to EUR 20 million.



- Our focus on specific target markets like Railway and Healthcare is bringing clear results. We have successfully concluded long-term agreements with a number of customers in these sectors, already securing revenue streams out beyond 2013. This is new for our company. In the past we had at best annual contracts and orders. Today we have contracts running over several years. For the sake of clarity, the order book figure contains only the portion of the contracts to be delivered within the year.
- Customers have given a very positive welcome to our newly introduced TiaS-program. Customers are asking to obtain more technology from us. We see a strong demand for this service and have already logged a number of successes with certain customers which strengthens customer loyalty. We are also seeing that new customers view this service as an additional argument to order from us.

In summary, we believe that, despite the poorer 2012 year-end figures, Connect Group stands stronger than one year ago. We therefore look to the long-term future of Connect Group with confidence.



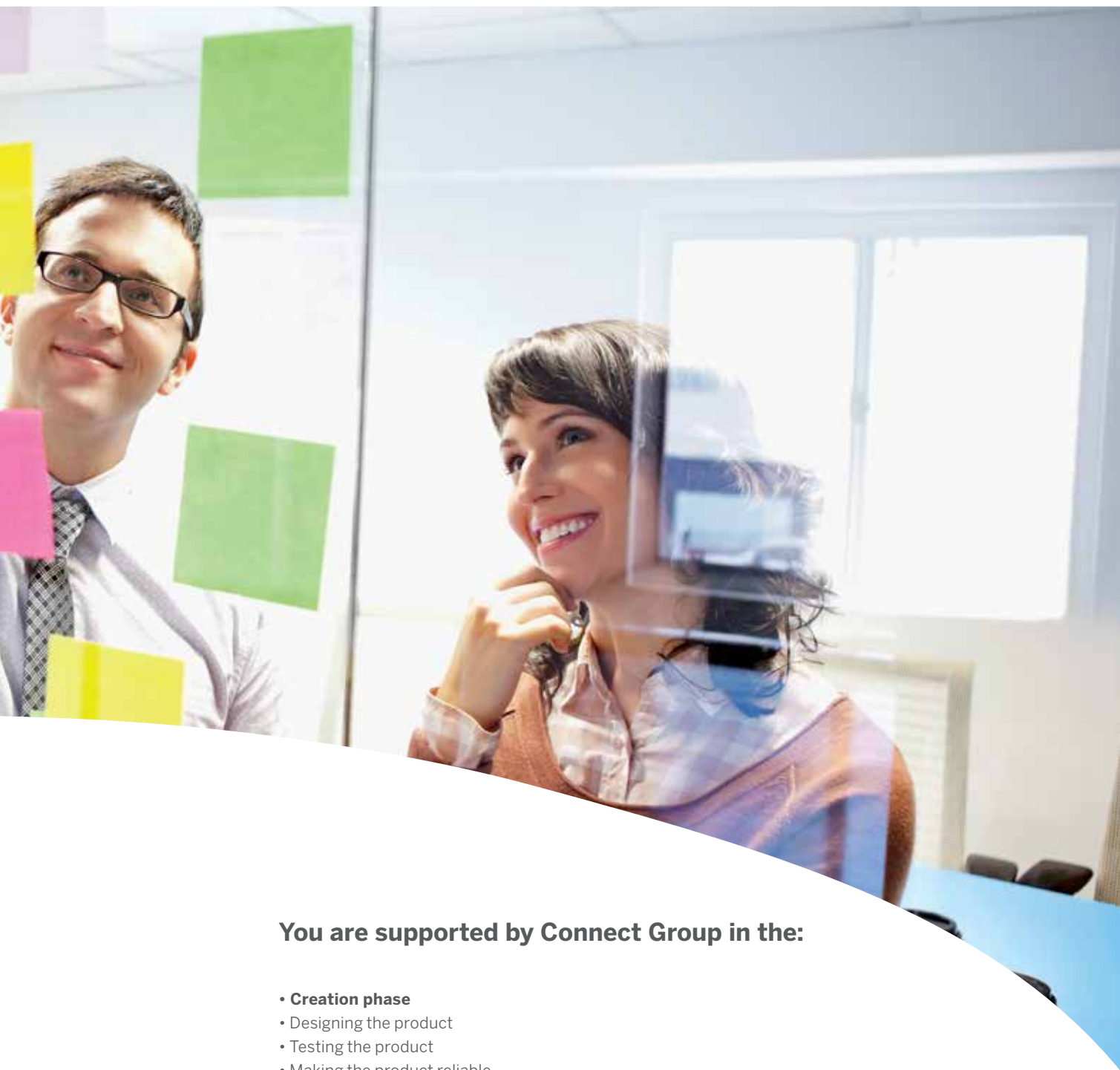
Top-quality products start with good design

Technology is a Service

Today, regulations, innovations and supply chain may influence the life cycle of your product.

This may impact your operations. Connect Group supports you in designing easy-to-produce devices and ensures that they remain easy to produce. This influences the relation between EMS and vendor and asks for increasingly integrated systems. Including added value considerations in product life cycle management requires specialized knowledge and skills.

With our focused certification and skills strategy, our customer empathy, the commitment of our employees and our ability to adapt to developments in the selected segments, we are ideally placed to provide our customers with technological advice and support. Technology is no longer something static, but is instead something subject to permanent and rapid change, often out of sync with the previously charted life cycle of products and solutions. Reconciling these circumstances to enable customers to always have the right technology to keep their products relevant and attractive in the market is a competence we have honed and cultivated over the years. We offer technology as a service.



You are supported by Connect Group in the:

- **Creation phase**

- Designing the product
- Testing the product
- Making the product reliable

- **Industrialization phase**

- Cost down programs
- Appropriate testing
- Stabilizing the product

- **Maintaining phase**

- Life cycle management
- Change management
- Stretching the life cycle

Our mission

‘To continuously improve the success of our customers in the high-end markets throughout Europe by supplying the best Technology Services over the entire lifecycle of their products’.

Company values

- A customer-oriented organization
- State-of-the-art technology, used as a medium to support our customers' search for the best solution
- Aiming for the best price through TiaS-program, high productivity and centralized purchasing
- Aiming for results in every aspect beyond our customers' expectations
- Delivering products and services contributing to a better, healthier and safer world



**Contributing
to a better,
healthier and
safer world**

Sustainability

Connect Group is committed to act fairly and with integrity towards its stakeholders and is expected to comply with all applicable rules and regulations as to:

- Health & Safety
- Forced Labor - Child Labor
- Right to organize - Discrimination
- Environment
- Ethics



**A focused
market
approach**

Market strategy

Focus on high-end markets

Customer approach through TiaS-program

- Technology services
- Manufacturing services

Purchasing

- Strategic
- Project-oriented
- Procurement

Technology competence centres near the customer, throughout Europe

Production locations centralised in Eastern Europe

A focused market segmentation approach



Healthcare



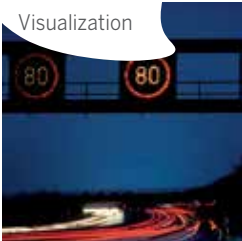
Railway



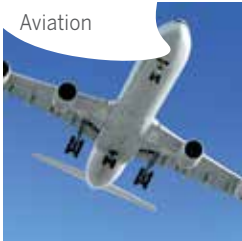
Energy



Visualization



Aviation



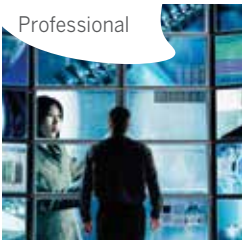
Automotive



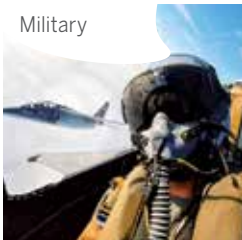
Semicon



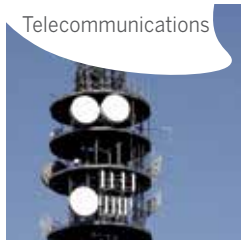
Professional



Military



Telecommunications



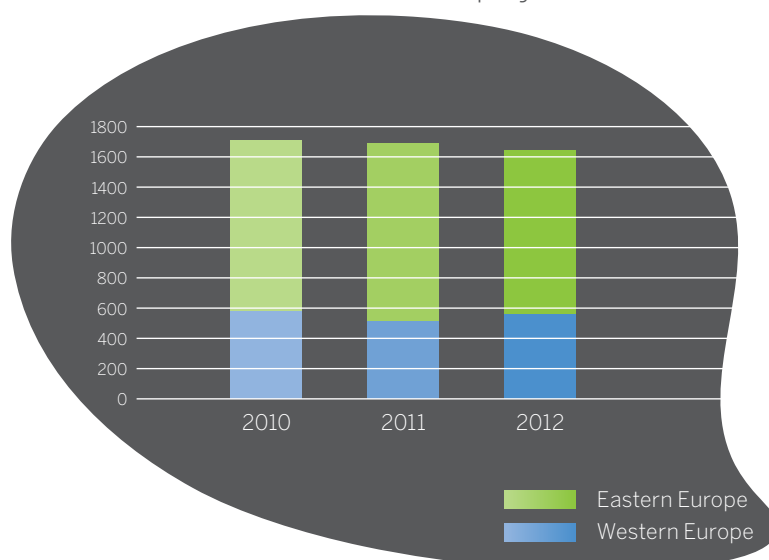
**Being
where our
clients need us**

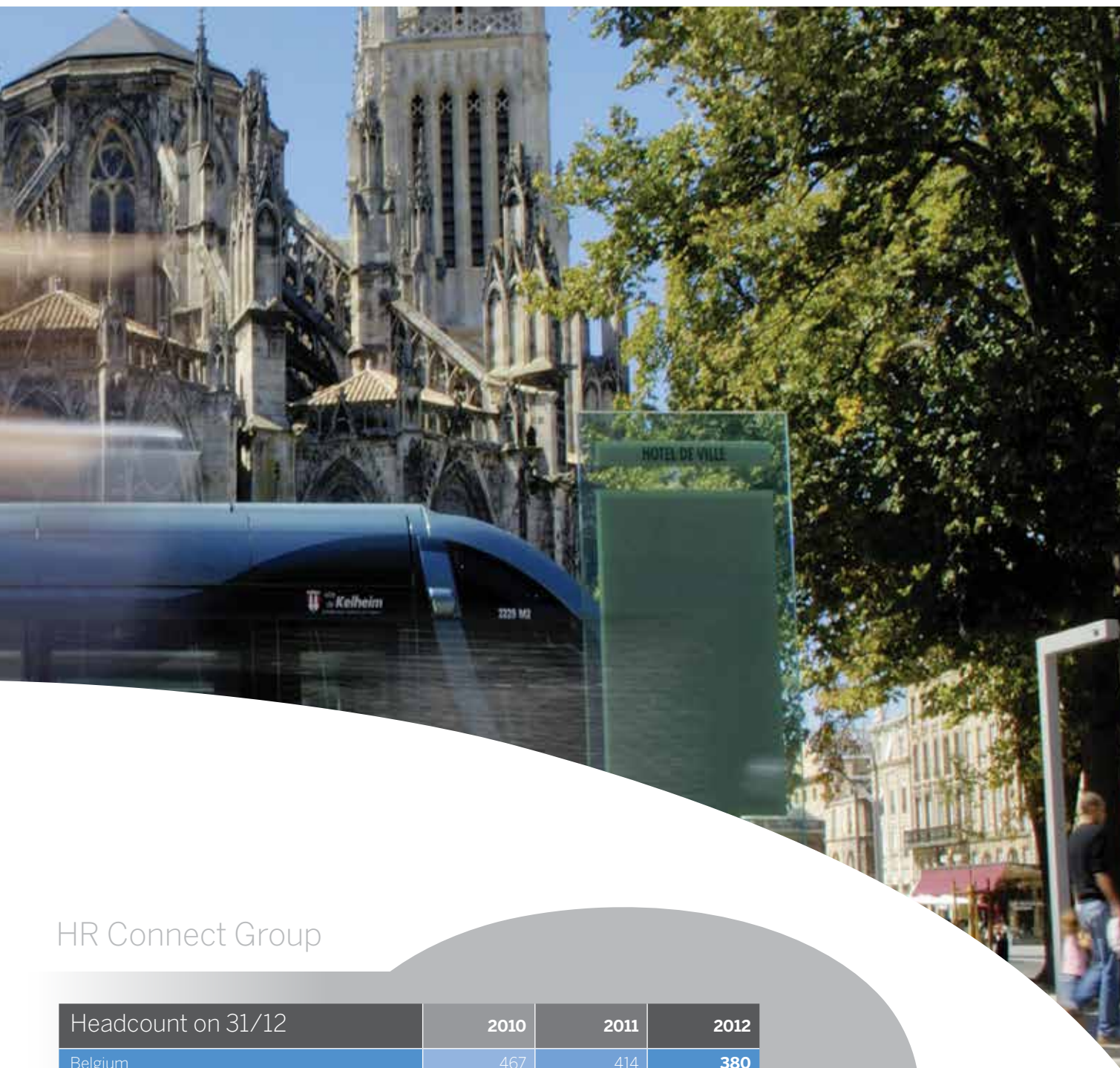
People in partnership

As an EMS (Electronic Manufacturing Services) provider Connect Group is totally dependent on the quality and the performance of its employees.

From buying to selling; whether production, test engineering or administration – each individual is indispensable for implementing our customers' projects.

Staff – Number of Employees





HR Connect Group

Headcount on 31/12	2010	2011	2012
Belgium	467	414	380
The Netherlands	66	48	126
Germany	48	42	39
France	1	1	1
Romania	867	928	912
Czech Republic	256	259	192
Total	1705	1692	1650



**Added
value**

Technology

Connect Group offers its customers added value with industrialization and engineering services, plus advice on materials and component selection and layout for the assembly of cables, printed circuit boards and modules.

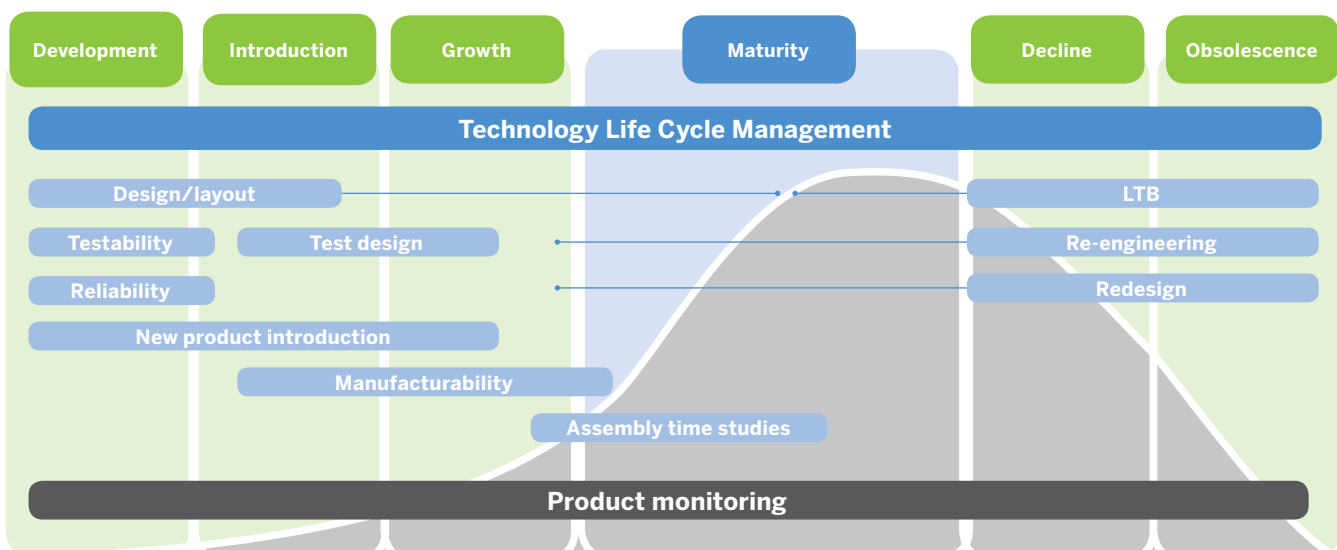
With the extensive expertise our engineers have developed over the past twenty years, Connect Group is fully qualified to offer its customers the specific technical support they are looking for. The sooner we are involved in the development of your project, the higher the added value of our engineering 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 proactive search for solutions to support our customers' success.

In whatever product group or market your company operates, Connect Group engineers can provide development, industrialization 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.

Human design





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 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.



On-site support

Our module building services include:

- Project management
- On-site support by Flex-Ops
- Versatile and modular production locations
- Mechanical purchase support
- Supply chain management
- Technical product documentation
- Electronic & mechanical assembly
- Rack & cabinet assembly
- Functional test
- Safety test
- After sales service



**100%
traceability**


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 program 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

an extensive technology mix, including PCB surface mounting (01005 SMD, μ BGA, press fit and die & wire bonding) and through-hole assembly processes. These are further supported by tropicalization, 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.



IPC 610A Class II and Class III

Our PCB assembly services include:

- 100% traceability (at component level)
- IPC 610A Class II and III
- NPI-process
- Dedicated logistics
- SMD placement
- Manual and automated THT
- Die & wire bonding
- THT
- Selective soldering
- Press fit
- High precision coating
- Cleanroom ISO class 7
- Testing: AOI, ICT, functional test, boundary scan
HASS and HALT



**Dedicated
logistics**

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 our 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.



Our cable assembly services include:

- Dedicated logistics
- Cutting
- Stripping
- Crimping
- Printing
- Resistor and ultrasonic welding
- Moulding and potting
- Braiding
- Cable harnesses
- High level of automation
- Cleanroom ISO class 8
- 100% test
- Flex-Ops



**Service
beyond
customer
expectations**

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.



The Connect Group quality program:

- ISO 9001:2008
- ISO 14001
- ISO 13485
- IRIS
- UL
- RoHS
- CSA
- Complete ESD control
- IPC 610A classes II and III
- IPC/WHMA - A620 class II
- Cleanroom cable and module assembly ISO class 8
- Cleanroom PCB and module assembly ISO class 7
- 100% traceability (at component level)



REPORT OF THE BOARD OF DIRECTORS

1. Report on the consolidated financial statements

After a good 2011, 2012 looked set to be a relatively good year. The order book at end-2011 stood at over EUR 70 million, and the acquisition of Halin Group at the end of 2011 gave us a clear road map for the Dutch market. The general economic situation was somewhat more hesitant but seemed under control. The first six months of 2012 were as expected. During early summer, however, it became clear that the general fear of economic downturn was bearing increasingly heavily on the economy and on customer behaviour. On the one hand orders were still being placed, on the other hand we were being frequently asked to postpone deliveries. These two conflicting movements are highly detrimental to our operational management. Production capacities are initially planned on the basis of an order book delivery prognosis. Thus a postponement of the effectively demanded delivery leads to unused production capacity and replanning, both negatively affecting results. Deliveries in the last three months of 2012 plummeted, with a very negative impact on the figures for the 2nd half and undoing the positive results of the first half. In 2012, we gained several new clients and the order book at end-2012 stood at over EUR 77 million, leading us to assume that 2013 will be up to the mark.

Integration Halin

On 16 December 2011, the shareholders of Halin Group in Veldhoven (the Netherlands) and Connect Group announced that they had reached agreement for Connect Group to acquire 100 percent of the Halin Group shares. The transfer of the shares and closing took place on 6 January 2012. The acquisition price was set at kEUR 1,100. Halin Group consists of 4 companies: Halin Group BV, Halin Electronics BV, Halin Industrial Solutions BV and Halin Communication Technology BV. Halin Communication Technology BV is not included in the takeover. Just like Connect Group, Halin Group is an electronics - mechatronics subcontractor, operating primarily on the Dutch market. The Halin Group employs around 120 people at Veldhoven, Netherlands, and has an annual turnover of around EUR 15 million. Major references for Halin include customers as Philips and Axon Digital Design. As of January 2012, the Dutch group Halin became fully integrated into Connect Group data. Immediately following the takeover, Connect Group embarked on the integration of Halin. The names of Halin companies were changed into Connect Group and, following a study, it was decided to centralize all Dutch-based Connect Group activities at the Veldhoven premises. The merger process was fully completed in 2012. At first the merger led to certain additional costs and efficiency losses but as from 2013 onwards, integration should result in a stronger commercial and operational entity in the Netherlands, in a position to leverage the Connect Group production plants in Romania and the Czech Republic to keep production costs down.

Final settlement sale Automation division

Annual results 2012 improved by EUR 4.5 million as a result of the "earn-out" clause in the contract of sale concluded in late 2009 for the Automation division. Alongside the fixed selling price of EUR 2 million, this contract also provided for an additional variable portion of the purchase price equal to 50 percent of the division's adjusted accumulated profits for the period 2010 to 2012. The final settlement

and payment, which were due by the end of 2013, took place by 28 December 2012. All rights and obligations of both parties to this agreement are thus finally settled.

Introduction TiaS-program ('Technology is a Service')

End 2012 Connect Group introduced its new program 'Technology is a Service' or 'TiaS'. Under this banner, Connect Group will offer a full range of services to develop products and solutions, and to maintain products and solutions in line with customers' goals, in the most efficient ways possible. The services will be tailored to each customer's needs, and can include managing the manufacturing requirements during the entire lifecycle.

This approach guarantees that each customer always has the right technology required for its products, and can keep them attractive, competitive and relevant in the market.

Preparing to launch the new TiaS strategy involved a number of internal changes. The company has placed all its technological knowledge and skills into a new technology division, with a team of around 50 employees making every effort to put real power behind the TiaS-approach.

Analysis of the consolidated statements

Consolidated income statement

Connect Group NV reports annual sales of EUR 141.6 million compared with EUR 148.2 million in 2011 (down 4.5 percent). The drop in sales occurred mainly in the 2nd half and more specifically in November and December. While order intake (order book at end-2012 of 77 million vs. 70.7 million at end-2011) remained adequate, many customers decided to postpone delivery of already-ordered products to 2013. It is clear that the general economic situation is making many companies more prudent and is leading them to postpone orders as long as possible. All possible measures were immediately taken to adapt the cost structure to the deteriorating market. The payroll cost structure was modified and inventories ran as low as possible. These structural adjustments initially brought additional costs which weighed on 2012 results. In 2012 Connect Group paid kEUR 989 restructuring costs.

The gross margin on sales decreased from 13.9 percent to 11.5 percent, reflecting the product mix. The acquisition of the Halin group increased research and development costs as well as administration and selling expenses. These various departments were merged at the end of 2012, and the corresponding costs can be expected to decline in 2013.

Other operating expenses included in 2011 a kEUR 1,250 write-off on a customer receivable. In 2012 this customer made partial payments, allowing kEUR 550 of provisions recorded on this receivable to be reversed into 'Other operating income'.

If this customer continues to make partial payments in 2013, this will permit the further reversal of provisions of up to EUR 1.2 million. Given this customer's specific situation, the Board of Directors decided to reverse previously recorded provisions only when funds are actually received on account.

The operating result from continuing operations before goodwill

impairment reduced from a profit of kEUR 5,030 in 2011 to a profit of kEUR 1,458 in 2012.

The Board of Directors has performed an impairment analysis of the goodwill for the entire group and has decided, on the basis of various valuation models, to write off kEUR 1,633 of goodwill against cost. In 2011, no transactions were executed in respect of the Automation activity that was discontinued in 2009. In December 2012, a settlement was concluded with the purchasers of the Automation activity in connection with their contractual obligation to pay to Connect Group 50 percent of the adjusted profit of the acquired business for the period 2010-2012. As a result of this settlement, the buyer paid to Connect Group at 28 December 2012 the amount of EUR 4.5 million as final settlement for this contractual obligation and EUR 2 million as payment for the outstanding debt to Connect Group. The EUR 4.5 million was recorded as a result from the discontinued Automation activity.

As a result of lower interest rates and lower average outstanding financial debt, the net financial charges decreased from kEUR 1,600 in 2011 to kEUR 1,290 in 2012.

In 2011 the group won its case in a dispute with the tax administration, with the result that an earlier tax provision of kEUR 305 was no longer needed. This improved the 2011 performance by kEUR 305.

In this way the net group result from continuing operations (before goodwill impairment) for 2012 was kEUR 167 compared with kEUR 3,735 in 2011.

The group's profit fell from kEUR 3,735 to kEUR 3,034.

Balance sheet

Trade receivables decreased from EUR 25.7 million at end-2011 to EUR 18.8 million at end-2012. This decrease is attributable to the lower sales of the last 2 months of 2012 and a good credit collection at the end of the year.

During 2012 further initiatives were taken to reduce inventories on a structural basis. As a result inventories decreased from EUR 34.4 million at end-2011 to EUR 33.5 million at end-2012.

Given that at the start of 2012 another EUR 4 million of inventory entered the books as a result of the Halin Group acquisition, this is a fall of more than 10 percent.

In 2012, EUR 2.5 million of new investments (both replacement and technology investments) were undertaken. EUR 0.7 million of intangible assets were also acquired in the Halin acquisition. With annual depreciation of EUR 3.5 million, this produced a decrease in tangible and intangible fixed assets from EUR 11.1 million at end-2011 to EUR 10.7 million at end-2012.

The group's total bank financing capacity in 2012 remained unchanged. The group uses factoring for its receivables, a short-term EUR 12 million credit line and a long-term (5 years) EUR 10 million credit line, repayable in an amount of EUR 2 million per year (with EUR 5 million outstanding at the end of 2012) and a number of smaller straight loans in conjunction with the Halin acquisition. The total financial debt decreased from EUR 31.6 million at end-2011 to EUR 20.9 million at end-2012 with the final concluding of the sale of the Automation activity (impact: EUR 6.5 million) and the improved working capital situation.

Trade payables decreased from EUR 19.8 million to 16.2 million.

The group was in compliance with its bank covenants at the end of 2012.

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 2012.

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

End 2012, the issued capital amounted to EUR 637,981.49 represented by 10,290,024 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-manufactured products and final product assembly.

3. Commentary on the individual annual accounts

1. FINANCIAL SITUATION ON 31 DECEMBER 2012

The financial year ended with a profit of kEUR 770 versus a profit of kEUR 453 the year before. Key figures are as follows:

In k Euro	2012	2011
Balance sheet total	102,000	113,560
Sales	68,679	84,499
Result of the year	770	453

2. BALANCE SHEET

In k Euro	31/12/2012	31/12/2011
ASSETS		
Intangible assets	870	1,463
Tangible assets	1,243	1,566
Financial assets	61,894	66,393
Amounts receivable > 1 year	-	2,000
Stocks and contracts in progress	5,028	5,358
Amounts receivables < 1 year	28,273	36,667
Cash at bank and in hand	4,692	113
Total assets	102,000	113,560
LIABILITIES		
Capital and reserves	34,370	33,599
Provisions	299	185
Amounts payable > 1 year	43,225	43,400
Amounts payable < 1 year	24,106	36,376
Total liabilities	102,000	113,560

New investments amount to kEUR 638 and relate to replacement and technology investments in machinery of the EMS plant in Poperinge. As part of an impairment analysis made for the entire group, the company decided to write down its participations in its subsidiary with EUR 4.5 million to bring the value of the participation in line with the total value of group.

The decrease of the trade receivables is attributable to the lower sales of the last quarter and a better credit collection at the end of the year. Amounts payable after one year contain intercompany loans of kEUR

39,450, financial debts of kEUR 3,580 and leasing debt of kEUR 195. The decrease of the amounts payable within one year is the result of the lower trade payables and the lower outstanding credit line usage at the end of the accounting period.

Equity (after result appropriation) is EUR 34,369,606 compared to EUR 33,599,454 in 2011.

This increase of EUR 770,152 can be allocated to the positive result of the year.

3. INCOME STATEMENT

In k Eur	31/12/2012	31/12/2011
Operating income	70,845	87,064
Turnover	68,679	84,499
Other operating income	2,166	2,565
Operating charges	(68,438)	(84,102)
Raw materials, consumables and goods for resale	(52,573)	(63,367)
Services and other goods	(4,141)	(4,540)
Personnel costs	(11,196)	(12,678)
Depreciation	(1,200)	(1,269)
Other operating charges	672	(2,248)
Operating profit / (loss)	2,407	2,962
Financial income / (charges)	(1,716)	(2,547)
Profit / (loss) on ordinary act. before taxes	691	415
Extraordinary income	4,580	44
Extraordinary (charges)	(4,501)	7
Profit (loss) for the year before taxes	770	452
Income taxes	-	1
Profit / (loss) for the year available for appropriation	770	453

Connect Group NV closed the year with sales amounting to EUR 68.7 million compared with EUR 84.5 million in 2011. The drop in sales of 19 % is mainly related to one customer.

Total personnel costs decreased with 12%. Without taking into account the restructuring costs of kEUR 350, the drop in personnel costs amount to 14%. This is due to a decrease in average FTE's of 234 in 2011, compared to 210 in 2012 (-14%).

As of 31 December 2011, an impairment loss on one specific customer in the amount of kEUR 1,838 was recorded, on 31 December 2012

kEUR 1,238 for this customer was reversed.

Net financial charges decreased compared to last year, mainly due to the lower outstanding bank debts and a general decrease of the financing costs.

The company recorded a profit of EUR 4.5 mio as final settlement of the sale of the Automation business and recorded a loss of EUR 4.5 mio as impairment loss on the valuation of its participation.

The financial year 2012 ended with a profit of EUR 0.8 million versus a profit of EUR 0.5 million the year before.

4. APPROPRIATION OF THE RESULT

The Board of Directors proposes that the profit for the year (EUR 770,152) will be added to the loss carried forward from the previous year (EUR -9,925,959) as follows (in EUR):

In Eur	31/12/2011	Profit/(loss) carried forward	31/12/2012
Capital	637,981	-	637,981
Share premium account	42,844,439	-	42,844,439
Legal reserve	42,993	-	42,993
Profit/(loss) carried forward	(9,925,959)	770,152	(9,155,807)
Total shareholders' equity	33,599,454	770,152	34,369,606

3. Going concern

Pursuant to Article 96 §6 of the Belgian Companies Code, the Board of Directors has evaluated the preparation of the consolidated and individual annual accounts in accordance with the principle of going concern. Taking into account the financial resources and situation, the Board of Directors believes that the preparation of financial statements under the going concern principle is fully justified.

Although it is difficult to get a good view on the economic recovery, the Board of Directors believes, based on the approved budget, that the result for the year 2013 will be positive.

The current economic climate and the uncertainty of the financial markets in Europe play an important role in the demand for electronic components and systems. Customers postpone orders more frequently but also require to start up production faster. This requires a high flexibility of our employees and leads to a limited extent of inefficiencies in the organization. Based on the order book, Connect Group remains positive for the future. The capital increase in 2011 and the good results in 2011 and 2012 have significantly strengthened the financial position of the group. The group has sufficient credit lines through its factoring agreement to cope with working capital changes.

4. Important events after the closing of the financial year

Since 31 December 2012, there have been no major events that could have had a significant impact on the development of the company.

5. Most significant risks for the group

The most significant risks for the company are:

1. The production is completely 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:
 - a. The group buys a portion of its components in US dollars/Yen, the exchange rate risk is only partially covered in the selling price.
 - b. Production takes place partly in Romania and the Czech Republic: large fluctuations of these currencies against the Euro can impact costs.

- c. Since foreign currency needs cannot be accurately timed, the group does not hedge its foreign currency positions.
3. The group has a credit agreement with its bankers that includes a minimum solvency ratio covenant and a maximum consolidated leverage (total net financial debt/EBITDA). The group complied with all requirements end 2012. In case the group should not comply with any of these requirements, bankers could withdraw the creditlines.
 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 an operating plant at Frankrijklaan 18-22, B-8970 Poperinge (PCB assembly).

Financial risk management

Fluctuations in market prices, exchange rate differences on sales and purchases and intercompany loans are risks inherent to the company's activity. The company is seeking constantly to minimize the financial risks inherent to 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 process.

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 analyzed 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	75,800	140,285
Other legal missions	1,500	3,000
Other non attest fees	19,529	20,334
Tax advise	41,695	45,895

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.
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 3 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;
- is not more than 3 consecutive terms appointed as a non-executive director on the Board of Directors.

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 entirely with the Belgian Corporate Governance Code published on 12 March 2009.

The Connect Group Corporate Governance Charter can be consulted on the website of the company. The Belgian Corporate Governance Code can be consulted on www.corporategovernancecommittee.be.

Composition of the Board of Directors

The Board of Directors consists of 7 members as from 2013, 2 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 Belgian Companies Code and provision 2.3 of the Belgian Corporate Governance Code.

The Board of Directors has not taken any specific actions with regard to the composition requirement that at least one third of the members of the Board of Directors consists of the other gender than that of the other members.

In 2013 the Board of Directors will examine what actions can be taken to meet timely to this requirement.

In 2012, the Board of Directors was made up by the following members:

Name	Appointed	End of mandate	Principal occupation of director or permanent representative	Number of board meetings taken place	Number of board meetings attended
Chairman of the Board					
Dominique Moorkens	2012	2016	Director of companies	6	6
Independent Directors					
Becap BVBA, permanently represented by Piet Serrure	2007	2013	Director of companies	6	6
Mentofacturing bvba, permanently represented by Willy Hendrickx	2011	2015	Director of companies	6	6
Peter Watteeuw	2011	2015	Director of companies	6	5
Chief Executive Officer					
Luc Switten BVBA, permanently represented by Luc Switten	2010	2014	CEO Connect Group NV	6	6
Directors nominated by the principal shareholders					
Adprimum bvba*, permanently represented by Robert Van Hoofstat	2011	Sept 2012	Director of companies	4	2
At Infinium NV* (1), permanently represented by Dimitri Duffeleer	Nov 2012	2013	Director of companies	2	2
Stokklinx BVBA**, permanently represented by Guy van Dievoet	2010	2014	Director of companies	6	6
Immocom NV **, permanently represented by Freddy Daniëls	2008	April 2012	Investment Manager of LRM	2	1

* representing QuaeroQ cvba

** representing LRM NV

(1) appointed on 7 November 2012 as director co-opted till the General Meeting of Shareholders of 30 April 2013

Operation of the Board of Directors

In 2012 the Board of Directors met on 13/02, 26/03, 07/05, 06/08, 07/11 and 11/12. 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 2012:

- the debt position of the group;
- the 2013 budget;
- the follow-up of the long term-strategy of the group and its major components;
- final settlement Automation business;
- the acquisition policy;
- the composition and the functioning of the Board of Directors and committees.

Committees formed by the Board of Directors

The Board of Directors has established two advisory Committees.

Audit Committee

The Audit Committee is composed as required by Article 526bis §2 of the Companies Code. In 2012 all of its five members are non-executive Directors. Three members, Piet Serrure, Peter Watteeuw and Dominique Moorkens are independent directors.

Piet Serrure, Dimitri Duffeleer and Guy van Dievoet have a strong financial background based on their former and other functions. The Audit Committee is chaired by Piet Serrure.

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

The Audit Committee met four times in 2012.

Name director or permanent representative	End of mandate	Number of meetings attended
Piet Serrure	2013	4
Guy van Dievoet	2014	4
Peter Watteeuw	2015	4
Dominique Moorkens	2016	4
Robert van Hoofstat	Sept 2012	1
Dimitri Duffeleer	April 2013	1

The Audit Committee powers regulated by law are the following:

- Monitoring of financial reporting;
- Monitoring of the efficiency of the systems for internal control and risk management of the company;
- Monitoring of the statutory audit of annual accounts and consolidated accounts including responses to questions and recommendations formulated by the external auditor;
- Assessment and monitoring the independence of the external auditor with particular attention for the provision of additional services to the company.

On 7 November 2012, Dimitri Duffeleer has been appointed as director through cooptation by the Board of Directors untill the General Meeting of Shareholders of 30 April 2013. As from this date he is also member of the Audit Committee.

He replaces Robert van Hoofstat passed away on 27 September 2012. Robert van Hoofstat was appointed Board member in 2011 when the shareholder structure was extended with QuaeroQ as reference shareholder. His knowledge, commitment and passion were a real gain for the Board of Directors.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is composed as required by Article 526quarter §2 of the Belgian Companies Code. Its two members are both non-executive directors. The Remuneration and Nomination Committee is chaired by Willy Hendrickx.

The Remuneration and Nomination Committee met twice in 2012.

Name director or permanent representative	End of mandate	Number of meetings attended
Willy Hendrickx	2015	2
Piet Serrure	2013	2
Freddy Daniëls	April 2012	1

According its powers regulated by law, the Committee discussed the following subjects:

- remuneration of the Chairman of the Board and board members for 2012;
- remuneration of the management for 2012.

On 24 April 2012, Freddy Daniëls resigned as director of Connect Group.

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. 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 points of view 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.

Executive Management

Luc Switten has been appointed Chief Executive Officer in charge of daily management. He is supported by Hugo Ciroux, Chief Financial Officer, Flor Peersman, Chief Operations Officer and Herman Struiwigh, Chief Commercial Officer. Together these persons represent the Executive Management*. The Executive Management meets monthly and is responsible for finance and administration, operations and sales, the preparation of the meetings of the Board of Directors and the supervision of daily management. The Executive Management of Connect Group is not a management committee as described in Article 524bis of the Companies Code.

Name *	Position
Luc Switten	Chief Executive Officer
Hugo Ciroux	Chief Financial Officer
Flor Peersman	Chief Operations Officer
Herman Struiwigh	Chief Commercial Officer

* in their own names or via management companies

Remuneration Report

Procedure

The remuneration policy for directors and executive management is evaluated annually in the Remuneration and Nomination Committee. The Remuneration and Nomination Committee makes relevant proposals to the Board of Directors and on such matters that need to be submitted to the general shareholders meeting. The proposals formulated by the Remuneration and Nomination Committee are discussed by the Board of Directors. Any adjustment has to be submitted to the next General Shareholders Meeting.

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.

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

- there is a set annual remuneration for the members of the Board of Directors as well as for the members of the committees;
- participation in a board 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 and independent judgment 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. There is no performance-related remuneration provided for the non-executive directors.

The fees for 2013 were maintained at the level of 2012, namely an annual fixed fee of EUR 12,000, an attendance fee of EUR 1,250 per board meeting and an annual fixed fee of EUR 6,000 per committee (all fixed fees are paid pro rata). The fixed remuneration of the chairman of the Board of Directors is twice the remuneration amount of the members. The Chief Executive Officer does not receive a board attendance fee.

Remuneration of the Board of Directors

The remuneration of the Board of Directors of 2012 is reflected in the table below (in EUR).

Name	Fixed remuneration	Board attendance fee	Committee attendance fee	Other remuneration	Total gross 2012
Chairman					
Dominique Moorkens	24,000	7,500	6,000	0	37,500
Directors					
Stokklinx BVBA, permanently represented by Guy van Dievoet	12,000	7,500	6,000	0	25,500
Becap BVBA, permanently represented by Pierre Serrure	12,000	7,500	12,000	0	31,500
Mentofacturing bvba, permanently represented by Willy Hendrickx	12,000	7,500	6,000	0	25,500
Adprimum bvba, permanently represented by Robert Van Hoofstat	3,000	2,500	1,500	0	7,000
Peter Watteeuw	12,000	6,250	6,000	0	24,250
At Infinitum NV, permanently represented by Dimitri Duffeleer	2,000	2,500	1,000	0	5,500
Immomcom NV, permanently represented by Freddy Daniëls	3,000	1,250	1,500	0	5,750
Total	80,000	42,500	40,000	0	162,500

The remuneration policy of the Board is evaluated annually by the Remuneration and Nomination Committee. The level of remuneration is tested against the specific properties of the group. It shall in particular take into account the existing fees in companies of comparable size. Based on information from Guberna the fees were assessed in 2011

The remuneration policy for non-executive directors will in principle not substantially be modified in the next two years.

Remuneration policy for Executive Management

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

The remuneration policy of the executive management is reviewed annually by the Remuneration and Nomination Committee, after which it is submitted to the Board of Directors. The level of remuneration is tested against the specific properties of the group. In this context, the Board commissioned the Hay Group to make a comparison study with other companies in 2011.

Bonus targets for the executive management are set annually when preparing the budget for the coming year.

Payments of the bonuses of the executive management are based on both the company performances (achievement of EBIT budget) and the operating free cash flow (defined in budget), recorded per manager on group level (consolidated basis). These performance criteria are evaluated per calendar year (which is also the accounting period). The evaluation criteria all have a similar weight in determining the bonus. When not reaching 90% of the targets, no bonus is paid. Upon achieving 120% of the targets, 100% of the bonus is paid. For 2012 none of the objectives were achieved and as a result no bonus was granted.

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.

The remuneration policy for the executive management will in principle not substantially be modified in the next two years.

Remuneration of the Chief Executive Officer

In 2012, Connect Group paid a remuneration of 400,052 EUR in respect of the CEO, Luc Switten.

The remuneration, paid to his management company, includes:

- a fixed remuneration of 305,402 EUR;
- a variable remuneration of 94,650 EUR (in the form of a bonus paid relating to 2011);
- no retirement allowance;
- no other remuneration.

For 2012 no variable remuneration was granted.

Remuneration of the Executive Management

The Executive Management consists of the CEO, CFO, COO and CCO.

In 2012, Connect Group paid a total joint remuneration of 1,150,904 EUR to the Executive Management. This includes:

- a total joint remuneration of 937,029 EUR;
- a variable remuneration of 213,874 EUR (in the form of bonus paid relating to 2011) ;
- no retirement allowance;
- no other remuneration.

For 2012 no variable remuneration was granted.

Longterm-cash bonus plans on more than one year

There are no longterm-cash bonus plans on more than one year granted to the Members of the Board of Directors and the Executive Management.

Shares and stock options

Following the publication of the annual results for 2010 at the end of March 2011, all Connect Group bondholders who subscribed to the convertible subordinated loan of EUR 5 million in April 2010, decided to convert their bonds into shares. This conversion resulted in the issuance of 3,355,600 new shares with the same rights as existing shares, bringing the total number of issued shares to 10,290,024. This conversion was carried out on 5 May 2011. Following this conversion members of the Board and the Executive Management obtained additional shares during 2011.

Exit bonus

There is no exit bonus plan for the CEO and 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 2012

Highest price	2.45 EUR
Lowest price	1.51 EUR
Average price (accounting average)	2.01 EUR
Price at 31/12/2012	1.91 EUR
Number of shares	10,290,024
Average volume traded per day	2,632
Stock market capitalisation at 31/12/2012	19,653,946 EUR

Connect Group closing prices and volumes traded in 2012

The average daily traded volume was 2,632 shares in 2012. This is half of the daily traded volume of 2011.

ISSUED CAPITAL AND RESERVES

Shareholders' equity (at 31/12/2012)

Origin Name	Number issued	Declared total	%
Equity	10,290,024	7,088,573	68.89 %

Shareholder Name	Number declared (*) 2012	% 2012	Number declared (*) 2011	% 2011
QuaeroQ cvba	2,214,971	21.53 %	2,120,781	20.61%
Huub Baren (**)	2,166,155	21.05 %	2,166,155	21.05%
LRM NV	1,870,786	18.18 %	1,870,786	18.18%
Luc Switten	426,369	4.14 %	426,369	4.14 %
Het Beste Brood Holding SA (***)	410,292	3.99 %	410,292	3.99 %
Other below the reporting threshold	3,201,451	31.11 %	3,295,641	32.03%
Total	10,290,024	100 %	10,290,024	100%

(*) Shareholders holding 3% or more need to declare their interests

(**) + companies controlled by Huub Baren

(***) company controlled by Guy van Dievoet

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.

General Meetings of Shareholders

The Annual General Meeting was held on 24 April 2012. The resolution of this meeting is 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 can 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 a 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. No such conflict of interests arose in 2012.

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.

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 were both at the time of the sale directors of Connect Group. Vladimir Dobosch ceased being a director of Connect Group after the closing of the transaction. In this transaction, all conditions with respect to the Corporate Law were respected.

As a result of this transaction, the company still had per 31 December 2011 a gross receivable of EUR 2,000,000, payable end of 2013, against a company controlled by Huub Baren.

In December 2012, a settlement was concluded with the purchasers of the automation activity in connection with their contractual obligation to pay to Connect Group 50 percent of the adjusted profit of the acquired business for the period 2010-2012. As a result of this settlement, the buyer paid to Connect Group at 28 December 2012 the sum of EUR 4.5 million as final settlement for this contractual obligation and EUR 2 million as payment for the outstanding debt to Connect Group. The EUR 4.5 million was recorded as a result from the discontinued Automation activity.

Further there are no related party transactions in 2012.

Connect Group had sales of EUR 547,233 in 2010 and of EUR 207,337.88 in 2011 to the Electronic Network group. Huub Baren, a 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 analyzed

the nature and character of these sales and concluded that they can be regarded as normal business transactions at market conditions. On 12 December 2011, Huub Baren resigned from the Board of Directors and in this respect, the Board of Directors no longer considers any future transactions with EN or companies related to Huub Baren as related party transactions.

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

Name	Amount in EUR	Number
Luc Switten	250,000	20
LRM NV	925,000	74
Stokklinx BVBA	250,000	20
Hugo Ciroux	100,000	8
Flor Peersman	100,000	8
Herman Struiwigh	50,000	4
Marcel Teughels	250,000	20
Total	1,925,000	154

Following the publication of the annual results for 2010 at the end of March 2011, all Connect Group bondholders who subscribed to the convertible subordinated loan of EUR 5 million in April 2010, decided to convert their bonds into shares. This conversion resulted in the issuance of 3,355,600 new shares with the same rights as existing shares, bringing the total number of issued shares to 10,290,024. This conversion was carried out on 5 May 2011.

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, 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 company of all intended operations before undertaking them.

Declaration regarding the information given in this annual report 2012

In accordance with Article 12 § 2 of the Decree of 14 November 2007 on the obligations of issuers of financial instruments, admitted to trading on a Belgian regulated market, 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 net equity, 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 bvba, CEO

Hugo Ciroux bvba, CFO

1. CONSOLIDATED FINANCIAL STATEMENTS

1.1 Independent Auditor's Report

To the shareholders,

As required by law, we report to you on the statutory audit mandate which you have entrusted to us. This report includes our report on the consolidated financial statements as defined below together with our report on other legal and regulatory requirements.

Report on the consolidated financial statements – Unqualified opinion

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. These consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2012, 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 notes to the consolidated financial statements. The consolidated statement of financial position shows total assets of 71 million EUR and the consolidated income statement shows a consolidated profit (group share) for the year then ended of 3 million EUR.

Responsibility of the board of directors for the preparation of the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Statutory auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's 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, the auditor considers 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements. We have obtained from the company's officials and the board of directors the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unqualified opinion

In our opinion, the consolidated financial statements of Connect Group NV give a true and fair view of the group's net equity and financial position as of 31 December 2012, and of its results and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements.

In the framework of our mandate, our responsibility is to verify, for all significant aspects, the compliance with some legal and regulatory requirements. On this basis, we provide the following additional comment which does not modify 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, is, for all significant aspects, in agreement with the consolidated financial statements and is not in obvious contradiction with any information obtained in the context of our mandate.

Diegem, 27 March 2013

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 (IN EUR)

CONNECT GROUP NV	2012	2011	2010
Assets			
Current assets:			
Cash and cash equivalents (notes 1.3.7.a)	1,089,110	742,875	79,379
Trade receivables (notes 1.3.7.b)	18,785,359	25,709,805	27,743,967
Other receivables (notes 1.3.7.c)	905,461	737,121	605,829
Inventories (notes 1.3.7.d)	33,524,997	34,390,122	38,045,400
Other current assets	100,122	109,085	152,280
Total current assets	54,405,049	61,689,008	66,626,855
Non-current assets:			
Other receivables (see note 1.3.7.e)	-	2,000,000	1,900,000
Deferred tax assets (notes 1.3.7.p)	1,500,000	1,500,000	1,500,000
Property, plant and equipment (notes 1.3.7.f)	9,868,249	9,613,649	11,249,619
Intangible assets (notes 1.3.7.g)	909,039	1,528,447	2,156,630
Goodwill (notes 1.3.7.h)	4,548,712	4,648,712	4,648,712
Total non-current assets	16,826,000	19,290,808	21,454,961
Total assets	71,231,049	80,979,816	88,081,816
Liabilities and equity			
Current liabilities:			
Bank loans and overdrafts (notes 1.3.7.j)	13,201,277	22,958,191	21,459,241
Current portion of long-term debt (notes 1.3.7.k)	2,263,903	2,438,491	3,784,073
Trade payables	16,209,969	19,868,464	26,470,532
Accrued expenses, payroll and related taxes and deferred income (notes 1.3.7.i)	6,634,400	5,885,957	7,417,032
Provisions (notes 1.3.7.m)	327,370	185,041	479,244
Current income taxes payable	-	-	304,230
Other current liabilities (notes 1.3.7.n)	903,996	194,451	1,000
Total current liabilities	39,540,915	51,530,595	59,915,352
Non-current liabilities:			
Long-term debt less current portion (notes 1.3.7.k)	5,477,567	6,250,000	13,200,515
Valuation derivative (notes 1.3.7.l)	-	-	644,798
Deferred tax liability (notes 1.3.7.p)	-	-	-
Total non-current liabilities	5,477,567	6,250,000	13,845,313
Equity (notes 1.3.7.o)			
Shareholders' capital	637,981	637,981	429,934
Legal reserve	42,993	42,993	42,993
Share premium	42,091,544	42,091,544	37,214,276
Retained earnings	(16,626,822)	(19,661,277)	(23,396,339)
Cumulative translation adjustment	66,871	87,980	30,287
Equity attributable to equity holders of the parent	26,212,567	23,199,221	14,321,151
Total equity	26,212,567	23,199,221	14,321,151
Total liabilities and equity	71,231,049	80,979,816	88,081,816

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

CONSOLIDATED INCOME STATEMENT FOR THE 12 MONTH PERIOD ENDING 31 DECEMBER (IN EUR)

CONNECT GROUP NV	2012	2011	2010
Continuing operations			
Sales	141,638,435	148,231,824	133,463,526
Cost of sales (notes 1.3.7.q)	(125,421,130)	(127,689,381)	(118,184,147)
Gross Profit	16,217,305	20,542,443	15,279,379
Research and development expenses (notes 1.3.7.r)	(1,358,231)	(1,238,295)	(1,292,222)
General and administrative expenses (notes 1.3.7.s)	(6,821,673)	(6,386,750)	(6,153,734)
Selling expenses (notes 1.3.7.t)	(7,208,799)	(6,556,103)	(6,687,881)
Other operating expenses (notes 1.3.7.u)	(96,044)	(1,458,942)	(1,701,068)
Other operating income (notes 1.3.7.u)	725,428	127,395	388,069
Operating profit /(loss) continuing operations before goodwill impairment	1,457,985	5,029,749	(167,457)
Goodwill impairment	(1,633,359)	-	-
Operating profit /(loss) continuing operations	(175,374)	5,029,749	(167,457)
Financial income (notes 1.3.7.x)	235,239	418,656	94,916
Financial charges (notes 1.3.7.x)	(1,525,452)	(2,018,657)	(2,530,293)
Profit/(loss) before taxes	(1,465,587)	3,429,748	(2,602,834)
Income taxes (notes 1.3.7.y)	42	305,314	(23,702)
Profit/(loss) for the year from continuing operations	(1,465,545)	3,735,062	(2,626,536)
Profit/(loss) for the year from discontinued operations (notes 1.3.7.aa)	4,500,000	-	1,495,736
Profit / (loss) for the year	3,034,455	3,735,062	(1,130,800)
Profit / (loss) attributable to:			
Equity holders of the parent	3,034,455	3,735,062	(1,130,800)
Non-controlling interest (notes 1.3.7.o)	-	-	-
Earnings per share			
Basic earnings per share continuing operations (note 1.3.7.z)	(0.14)	0.41	(0.38)
Diluted earnings per share continuing operations (note 1.3.7.z)	(0.14)	0.41	(0.38)
Basic earnings per share continuing plus discontinued operations (notes 1.3.7.z)	0.29	0.41	(0.16)
Diluted earnings per share continuing plus discontinued operations (notes 1.3.7.z)	0.29	0.41	(0.16)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IN EUR)

	2012	2011	2010
Profit / (loss) of the year	3,034,455	3,735,062	(1,130,800)
Other comprehensive income			
Exchange differences on translating foreign operations	(21,109)	57,693	(236,724)
Total comprehensive income for the year	3,013,346	3,792,755	(1,367,524)
Total comprehensive income attributable to:			
Equity holders of the parent	3,013,346	3,792,755	(1,367,524)
Non-controlling interest (notes 1.3.7.o)	-	-	-

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

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	Total attributable to equity holders of the parent
31/12/2009	6,934,424	429,934	42,993	37,214,276	(22,265,539)	267,011	15,688,675
Net result of the year					(1,130,800)		(1,130,800)
Other comprehensive income						(236,724)	(236,724)
Total comprehensive income					(1,130,800)	(236,724)	(1,367,524)
31/12/2010	6,934,424	429,934	42,993	37,214,276	(23,396,339)	30,287	14,321,151
Net result of the year					3,735,062		3,735,062
Other comprehensive income						57,693	57,693
Total comprehensive income					3,735,062	57,693	3,792,755
Capital increase	3,355,600	208,047		4,791,797			4,999,844
Impact conversion subordina- ted loan				85,471			85,471
31/12/2011	10,290,024	637,981	42,993	42,091,544	(19,661,277)	87,980	23,199,221
Net result of the year					3,034,455		3,034,455
Other comprehensive income						(21,109)	(21,109)
Total comprehensive income					3,034,455	(21,109)	3,013,346
31/12/2012	10,290,024	637,981	42,993	42,091,544	(16,626,822)	66,871	26,212,567

CONSOLIDATED CASH FLOW STATEMENT FOR THE 12 MONTH PERIOD ENDING 31 DECEMBER (IN EUR)

CONNECT GROUP NV	2012	2011	2010
Operating profit / (loss)	(175,374)	5,029,749	(167,457)
Adjustments for:			
Gain/(loss) on sale of property, plant and equipment	(38,410)	(103,031)	(313,000)
Recognition of an impairment loss on goodwill	1,633,359	-	-
Allowance for doubtful receivables and obsolete stock	(13,211)	1,988,813	1,311,789
Depreciation and amortization	3,526,554	3,567,276	4,024,303
Provisions	116,895	3,352	(158,742)
Operating profit before changes in working capital continued operations	5,049,813	10,486,158	4,696,893
Inventories	3,773,199	3,080,340	(8,448,268)
Trade receivables	10,394,285	620,286	(8,917,193)
Trade payables	(6,090,359)	(6,296,752)	4,877,590
Accrued expenses, payroll and related taxes and deferred income	(237,178)	(1,835,306)	1,573,226
Other receivables	-	-	644
Other current assets	(61,623)	(188,097)	(709,249)
Other payables	118,163	296,482	61,750
Cash flow from operating activities continued operations	12,946,300	6,163,111	(6,864,607)
Taxes	42	-	(23,701)
Exchange differences	(176,891)	(117,049)	(528,165)
Interests paid	(899,944)	(1,363,559)	(1,675,798)
Financial charges	(284,335)	(305,444)	(275,654)
Other	(21,107)	(154,391)	(237,210)
Net cash from/(used in) operating activities continued operations	11,564,065	4,222,668	(9,605,135)
Net cash from/(used in) operating activities discontinued operations (1.3.7.aa)	6,500,000	-	(4,264)
Cash flows from investing activities continued business			
Investments in intangible assets	(19,543)	(28,770)	(221,188)
Purchases of property, plant and equipment	(2,471,306)	(1,274,352)	(1,360,394)
Proceeds from the sale of property, plant and equipment	-	-	521,000
Net cash outflow on acquisitions of subsidiaries	(373,168)	-	-
Interests received	70,957	186,051	44,240
Cash flows used in investing activities continued operations	(2,793,060)	(1,117,071)	(1,016,342)
Cash flows from financing activities			
Proceeds/(repayments) from long-term debts	(1,792,226)	(2,595,469)	11,465,909
Proceeds/(repayments) from current portion of long term debt	(288,235)	(1,345,582)	2,675,355
Proceeds/(repayments) from bank loans and overdrafts	(12,844,309)	1,498,950	(3,564,390)
Net cash provided by financing activities	(14,924,770)	(2,442,101)	10,576,874
Increase/(decrease) in cash and cash equivalents	346,235	663,496	(48,867)
Cash and cash equivalents at the beginning of the period	742,875	79,379	128,246
Cash and cash equivalents at the end of the period	1,089,110	742,875	79,379

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 Group Nederland BV), Germany (Connect Group GmbH), Romania (Connectronics Romania SRL) and the Czech Republic (Connectronics sro). The company is a subcontractor for the electronics industry (contract manufacturing business).

The number of employees of contract manufacturing (continuing operations) at year end 2012 amounted to 1,650 compared to 1,692 in 2011 and 1,705 in 2010.

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 26 March 2013 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

Standards and interpretations applicable for the annual period beginning on 1 January 2012

Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* (applicable for annual periods beginning on or after 1 July 2011)

Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2012

- IFRS 9 *Financial Instruments* and subsequent amendments (normally applicable for annual periods beginning on or after 1 January 2015)
- IFRS 10 *Consolidated Financial Statements* (applicable for annual periods beginning on or after 1 January 2014)
- IFRS 11 *Joint Arrangements* (applicable for annual periods beginning on or after 1 January 2014)

- IFRS 12 *Disclosures of Interests in Other Entities* (applicable for annual periods beginning on or after 1 January 2014)
- IFRS 13 *Fair Value Measurement* (applicable for annual periods beginning on or after 1 January 2013)
- IAS 27 *Separate Financial Statements* (applicable for annual periods beginning on or after 1 January 2014)
- IAS 28 *Investments in Associates and Joint Ventures* (applicable for annual periods beginning on or after 1 January 2014)
- Improvements to IFRS (2009-2011) (normally applicable for annual periods beginning on or after 1 January 2013)
- Amendments 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 January 2013)
- Amendments to IFRS 1 *First Time Adoption of International Financial Reporting Standards – Government Loans* (normally applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (applicable for annual periods beginning on or after 1 January 2014)
- Amendments to IFRS 10, IFRS 12 and IAS 27 – *Consolidated Financial Statements and Disclosure of Interests in Other Entities: Investment Entities* (applicable for annual periods beginning on or after 1 January 2014)
- Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* (applicable for annual periods beginning on or after 1 July 2012)
- Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IAS 19 *Employee Benefits* (applicable for annual periods beginning on or after 1 January 2013)
- Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (applicable for annual periods beginning on or after 1 January 2014)
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (applicable for annual periods beginning on or after 1 January 2013)

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

The following accounting policies have been applied as of January 1, 2010.

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.

b. Business combinations and goodwill

As of January 1, 2010, the following accounting policies were applied for business combinations and goodwill.

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 re-measured 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.

Cash-generating units to which goodwill has been allocated are tested annually for impairment, or more frequently when there are indications that the carrying amount of the unit exceeds the recoverable amount. If the recoverable amount of a cash generating unit is less than its carrying value, the impairment is first deducted from the carrying amount of the goodwill allocated to the cash-generating unit. Then, the impairment is assigned to the other fixed assets belonging to the unit, and this in proportion to their book value. Once an impairment loss has been recognized for goodwill, this will not be reversed in a later period.

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.

LIST OF SUBSIDIARIES CONSOLIDATED AS OF 31 DECEMBER

Entity	2012	2011	2010
Connect Group NV (% owned)			
Connect Systems Holding NV	100	100	100
Connectsystems NV	100	100	100
Connect Group Nederland BV	100	100	100
Connectsystems International NV	100	100	100
Connectronics Romania SRL	100	100	100
Connect Group GmbH	100	100	100
Connectronics sro	100	100	100

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

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	USD/EUR	RON/EUR	CHF/EUR	CZK/EUR	JPY/EUR
31/12/2012	1.225	0.621	0.758	0.225	0.828	0.040	0.009
31/12/2011	1.168	0.579	0.745	0.230	0.815	0.039	0.010
31/12/2010	1.162	0.584	0.748	0.235	0.800	0.040	0.009

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

Year	GBP/EUR	SGD/EUR	USD/EUR	RON/EUR	CHF/EUR	CZK/EUR	JPY/EUR
2012	1.229	0.620	0.775	0.225	0.830	0.040	0.010
2011	1.145	0.569	0.713	0.236	0.810	0.041	0.009
2010	1.167	0.549	0.751	0.237	0.719	0.039	0.009

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 minimise 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 the USD. 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 15.14 % of revenue realized in 2012 (22.4 % in 2011 and 24.77 % in 2010). 10 customers represent in 2012 52.8 % of the business (63.5 % in 2011 and 57 % in 2010). 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:

Historically, 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 + amortisation + 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.

Onerous contracts

The group recognises 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.

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

The group has not defined separate segments within its activities as the group provides one type of service to its customers, being contract manufacturing within the electronics industry. Consequently, there are no business segments to report.

1.3.5. Critical accounting judgments and key sources of estimation uncertainty

a. Judgments

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. The company has a strong balance sheet position, the year 2012 was positively concluded and the outlook for 2013 looks positive.

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 and segment 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 Board of Directors covering a three-year period. The sales growth rate applied for the cumulative future periods is 5%. The growth rate applied in determining the terminal value is set at 2 % (idem 2011) and does not exceed the long term average growth rate for this type of industry (subcontractors in the electronics industry). The target EBITDA percentage on sales amounts to 6 % (1.1 % lower than 2011). The normalised EBITDA percentage on sales amounts to 4.4 % per 2012 (6.9% in 2011). 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 % (last year 10.2 %). The components for the determination of the WACC are based on sector specific parameters.

The value in use was lower than the carrying amount of the cash generating unit with EUR 1.6 million (2011 headroom of 15.2 million).

In view of these results the Board of Directors decided to write off the goodwill with EUR 1.6 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 (impact on all future projected cash flows)	-1%		
EBITDA % on sales		-1%	
WACC			+1%
Headroom (*)	-4.1 Mio	-12.7 Mio	- 4.3 Mio

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

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

In 2010 a convertible bond was issued for an amount of EUR 5,000,000 in order to strengthen the company's balance sheet structure. In 2011 the convertible loan was entirely converted into capital.

The convertible bond issued on 27 April 2010 in an amount of EUR 5,000,000 qualified as a compound financial instrument under IAS 39. Given that the number of shares that would 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 per 31 December 2010 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.

An effective interest rate of 11 percent is recorded in the income statement on the debt part of the bond (EUR 4,355,202), which is higher than the interest payable of 6 % to the bondholders on the total bond of EUR 5,000,000. 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 established in 2010 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 Group share;
- issue price;
- risk-free interest rate;
- volatility of the Connect Group share.

The Board of Directors of Connect Group was of the opinion that the current trading prices of the Connect Group share did 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 that 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 (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 had 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 was 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 was 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. In 2010 a relative weighting of 90% was 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.

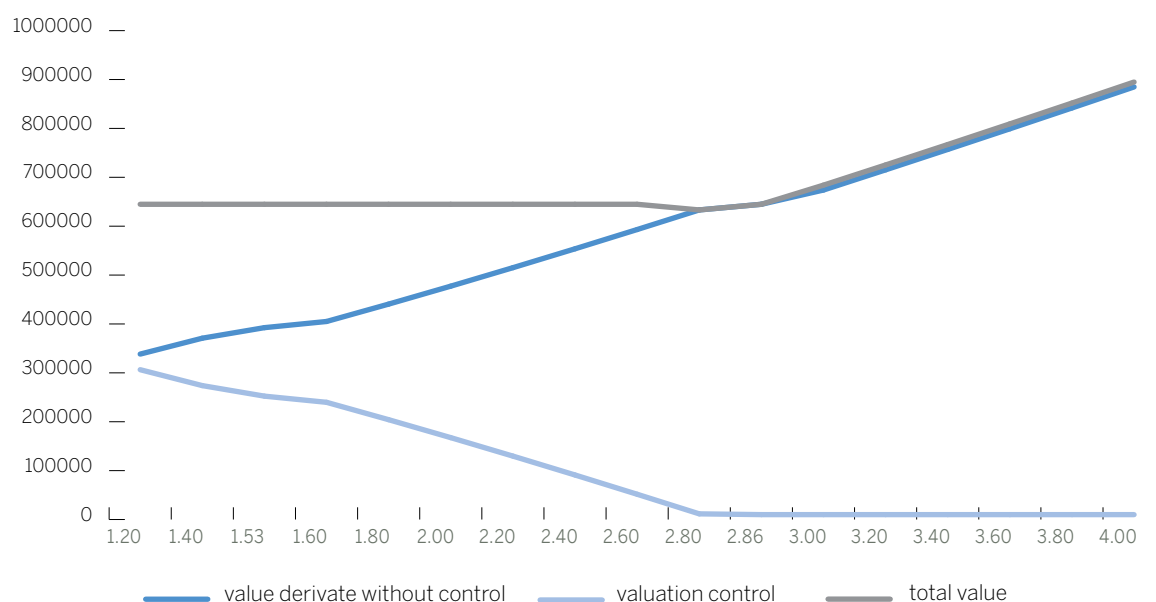
On the basis of all known information, the Board is of the opinion that, at a price of EUR 2.86 or lower the value of the derivative will remain unchanged at EUR 644,798, seeing as the lower value arising at a lower share price is almost entirely offset by an increase in value due to the possible increase 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.

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 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).

Acquisitions and disposals 2011

There were no acquisitions and disposals in 2011, except for the announcement in December 2011, of the shareholders of Halin Group at Veldhoven (Netherlands) and Connect Group that they have reached agreement for Connect Group to acquire 100 percent of the shares of Halin Group.

Acquisitions and disposals 2012

On 6 January 2012 the transfer of 100 % of the Halin Group shares to Connect Group took place.

The acquisition price was set at EUR 1,100,000. For further disclosure on this acquisition, we refer to note 1.3.7.aa.

1.3.7. Notes

a. Cash and cash equivalents

	2012	2011	2010
Cash at bank and on hand	1,089,110	742,875	79,379
Cash equivalents	-	-	-
Total	1,089,110	742,875	79,379

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.

b. Trade receivables - net

	2012	2011	2010
Trade receivables	20,888,388	28,581,607	29,945,427
Allowance for doubtful accounts	(2,103,029)	(2,871,802)	(2,201,460)
Trade receivables (net)	18,785,359	25,709,805	27,743,967

The decrease within the trade receivables per year end 2012 compared to 2011 entirely relates to the lower turnover of the last two months of 2012 and proper receivables collection at the end of the year.

The average credit period on sales is 51 days in 2012, 70 days in 2011 and 73 days in 2010. 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.

As of year-end 2011, the company has one major outstanding receivable of EUR 2.8 million on one customer who did not pay its invoices of 2009 and 2010. This receivable was fully reserved.

In 2012, the group made an agreement with this customer. EUR 594,251 of the receivable was reversed (credit notes made) and the remaining of EUR 2,175,000 was going to be paid over a period of 22 months (starting April 30, 2012 till January 31, 2014). At the end of 2012, the open receivable and provision for this customer amount to EUR 1,284,000. As payments from this customer always come too late and as the customer is financially unstable, the receivable on this customer at year-end is still fully reserved.

Aging of receivables:

2012	Receivables not impaired	Impaired receivables	Total gross receivables
Current (not past due)	13,931,824	-	13,931,824
1-30	3,291,665	106	3,291,771
31-60	515,306	(2,658)	512,648
61-90	616,645	16,122	632,768
91-180	182,656	41,679	224,335
>180	129,721	2,165,321	2,295,042
Total	18,667,817	2,220,571	20,888,388

2011	Receivables not impaired	Impaired receivables	Total gross receivables
Current (not past due)	19,073,984	-	19,073,984
1-30	4,646,305	-	4,646,305
31-60	500,491	-	500,491
61-90	150,233	15,606	165,839
91-180	548,119	38,080	586,199
>180	157,876	3,450,913	3,608,789
Total	25,077,008	3,504,599	28,581,607

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 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
New impairment losses recognised on receivables	1,425,556
Amounts written off (used) during the year	(743,534)
Amounts reversed during the year	(11,680)
Balance at 31 December 2011	2,871,802
Acquired from third parties	268,323
New impairment losses recognised on receivables	233,536
Amounts written off (used) during the year	(676,381)
Amounts reversed during the year	(594,251)
Balance at 31 December 2012	2,103,029

Total impairments (new and amounts reversed) of the continuing operations recorded in the profit and loss statement amount to EUR (360,715).

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 factored receivables amount to EUR 17,794,195 per end 2012, EUR 25,100,019 per end of 2011 and EUR 22,544,101 per end of 2010.

c. Other receivables

	2012	2011	2010
VAT receivables	367,340	390,430	179,570
Personnel related payroll cost	1,198	154,896	303
Insurance	10,581	-	-
Deferrals and accruals	388,813	108,383	382,608
Other	137,528	83,412	43,348
Total	905,460	737,121	605,829

d. Inventories

	2012	2011	2010
Raw materials and supplies, at cost	29,017,856	32,134,149	37,533,065
Work in progress, at cost	5,579,635	3,915,761	2,815,543
Finished goods, at cost	4,001,442	3,066,644	2,455,602
Goods purchased for resale	-	-	-
Contracts in progress	-	-	-
Reserve for obsolete inventories	(5,073,936)	(4,726,432)	(4,758,810)
Net	33,524,997	34,390,122	38,045,400

During 2011, Connect Group has undertaken the necessary structural measures to keep inventory levels as low as possible. These measures resulted in a decrease of the inventory per December 31, 2011 compared to December 31, 2010.

During 2012 further initiatives were taken to structurally reduce inventories. As a result inventories decreased from EUR 34.4 million at end-2011 to EUR 33.5 million at end-2012.

Given that at the start of 2012 another EUR 4 million of inventory entered the books as a result of the Halin Group acquisition, this is an inventory reduction of more than 10 percent.

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.

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. Impairment losses on inventory are recorded as cost of sales.

e. Long-term other receivables

	2012	2011	2010
Other receivables	-	2,000,000	1,900,000

The company had a gross receivable of EUR 2,000,000 on the purchaser of the automation activity. The receivable was payable in 2013 and started bearing interest as of Q4 2011. In 2010, the receivable was discounted using an interest rate of 6.7 %.

In December 2012, a settlement was concluded with the purchasers of the automation activity in connection with their contractual obligation to pay to Connect Group 50 percent of the adjusted profit of the acquired business for the period 2010-2012. As a result of this settlement, the buyer paid to Connect Group at 28 December 2012 the sum of EUR 4.5 million as final settlement for this contractual obligation and EUR 2 million as payment for the outstanding debt to Connect Group. The EUR 4.5 million was recorded as a result from the discontinued Automation activity.

f. Property, plant and equipment

	Land and buildings	Machinery and equipment	Furniture and vehicles	Fixed asset under construction	Total
Year ended December 2012					
Cost:					
Beginning of the period	8,596,101	20,541,965	3,289,253	-	32,427,319
Additions of the year	90,962	2,571,270	296,469	5,239	2,963,939
Acquired from third parties	144,492	4,703,320	-	-	4,847,812
Disposals	(98,823)	(5,913,522)	(674,504)	-	(6,686,849)
Transfers	3,843	(213,069)	158,248	-	(50,978)
Effect of exchange differences	(3,982)	-	(34,103)	-	(38,085)
End of the period	8,732,593	21,689,964	3,035,363	5,239	33,463,159
Accumulated depreciation and impairment:					
Beginning of the period	3,790,424	16,487,236	2,536,010	-	22,813,670
Depreciation expense	393,086	2,152,085	342,430	-	2,887,601
Acquired from third parties	53,165	3,930,916	-	-	3,984,081
Eliminated on disposals	(4,422)	(5,362,633)	(638,992)	-	(6,006,047)
Transfers	3,843	(213,524)	158,701	-	(50,980)
Effect of exchange differences	(969)	-	(32,446)	-	(33,415)
End of the period	4,235,127	16,994,080	2,365,703	-	23,594,910
Net book value at December 2012	4,497,466	4,695,883	669,661	5,239	9,868,249

	Land and buildings	Machinery and equipment	Furniture and vehicles	Fixed asset under construction	Total
Year ended December 2011					
Cost:					
Beginning of the period	8,480,367	22,048,699	3,135,699	-	33,664,765
Additions of the year	116,063	1,147,432	247,978	-	1,511,473
Disposals	-	(2,304,225)	(392,486)	-	(2,696,711)
Transfers	4,481	(138,168)	133,687	-	-
Effect of exchange differences	(4,810)	(211,773)	164,375	-	(52,208)
End of the period	8,596,101	20,541,965	3,289,253	-	32,427,319
Accumulated depreciation and impairment:					
Beginning of the period	3,405,166	16,759,116	2,250,864	-	22,415,146
Depreciation expense	387,192	2,189,595	342,029	-	2,918,816
Impairment losses	-	-	-	-	-
Eliminated on disposals	-	(2,158,830)	(343,515)	-	(2,502,345)
Transfers	-	(106,873)	106,873	-	-
Effect of exchange differences	(1,934)	(195,772)	179,759	-	(17,947)
End of the period	3,790,424	16,487,236	2,536,010	-	22,813,670
Net book value at December 2011	4,805,677	4,054,729	753,243	-	9,613,649

	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
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	-	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

The gross carrying amount of all items that are fully depreciated but still in active use is EUR 15,160,439 per 31 December 2012. Per year end 2011, the gross carrying amount of such items was EUR 12,852,268 and per year end 2010, the gross carrying amount of such items was EUR 9,603,586.

The company has financial leases for a total amount of EUR 547,397 mainly related to machinery and equipment per end of 2012. At year end 2011, the company had financial leases for a total amount of EUR 189,368 and at year end 2010, the company had financial leases for a total amount of EUR 527,359. 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 Connectsystems NV and Connect Group NV. These buildings have a net book value of EUR 2,938,121.

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 2012				
Cost:				
Beginning of the period	1,952,648	1,329,656	43,774	3,326,078
Additions of the year	-	14,801	1,244	16,045
Transfers	-	(50,980)	-	50,980
Effect of exchange differences	-	(1,768)	-	(1,768)
End of the period	1,952,648	1,393,669	45,018	3,391,335
Accumulated amortization and impairment:				
Beginning of the period	757,588	1,021,524	18,519	1,797,631
Depreciation expense	407,699	217,844	13,408	638,951
Impairment losses	-	-	-	-
Transfers	-	52,120	(1,140)	50,980
Effect of exchange differences	-	(5,266)	-	(5,266)
End of the period	1,165,287	1,286,222	30,787	2,482,296
Net book value December 2012	787,361	107,447	14,231	909,039

The development cost and licenses mainly consist of the SAP licences and implementation costs of 2009.

	Development Costs	Licenses	Other	Total
Year ended December 2011				
Cost:				
Beginning of the period	1,947,544	1,322,667	37,830	3,308,041
Additions of the year	5,104	6,989	11,530	23,623
Transfers	-	-	-	-
Effect of exchange differences	-	-	(5,586)	(5,586)
End of the period	1,952,648	1,329,656	43,774	3,326,078
Accumulated amortization and impairment:				
Beginning of the period	370,249	771,134	10,028	1,151,411
Depreciation expense	387,339	250,390	10,729	648,458
Impairment losses	-	-	-	-
Transfers	-	-	-	-
Effect of exchange differences	-	-	(2,238)	(2,238)
End of the period	757,588	1,021,524	18,519	1,797,631
Net book value December 2011	1,195,060	308,132	25,255	1,528,447

	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
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

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 2012, 2011 and 2010 is as follows:

	Acquisition value	Accumulated impairment losses	Net carrying amount
Goodwill on 31 December 2010	9,352,950	(4,704,238)	4,648,712
Goodwill on 31 December 2011	9,352,950	(4,704,238)	4,648,712
Goodwill resulting from Halin acquisition	1,533,359	-	1,533,359
Goodwill write down	-	(1,633,359)	(1,633,359)
Goodwill on 31 December 2012	10,886,309	(6,337,597)	4,548,712

Per 31 December 2011 and 2010 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.

As a result of the acquisition of Halin as of January 6, 2012 EUR 1,533,359 goodwill was recognized. Halin was during the year fully integrated in the Connect Group and can no longer be considered as a separate cash generating unit.

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 unit.

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

	2012	2011	2010
Vacation pay accruals	1,830,562	1,925,757	2,061,565
Other social debt	3,125,288	1,769,097	3,159,846
VAT debt	469,009	487,423	337,699
Withholding taxes	793,403	751,874	662,616
Accrued interests	74,305	44,822	215,366
Deferred income	40,573	600,136	581,336
Other	301,260	306,848	398,604
Total	6,634,400	5,885,957	7,417,032

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

j. Current bank loans and overdrafts

	2012	2011	2010
Secured	13,201,277	22,958,191	21,459,241
Financial institutions	-	4,760,782	6,238,106
Factoring of receivables	13,201,277	18,197,408	15,221,135

The fair value of the financial loans and overdrafts amounts to EUR 13,201,277 in 2012, EUR 22,958,191 in 2011 and EUR 21,459,241 in 2010.

As of 31 December 2012 the company has credit lines for a total amount of EUR 12 million at different Belgian commercial banks and no credit lines at foreign banks.

As of 31 December 2011 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 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.

Per end 2012 EUR 0, per end of 2011 EUR 4,760,782 and per end of 2010 EUR 6,238,106 of the credit lines at the Belgian commercial banks were used.

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. The average bankers margin amounted to 1,75% in 2012, 2.5 % in 2011 and 3.5 % in 2010.

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

With the acquisition of the Halin entities per 6 January 2012, new credit letters were issued in January and December 2012 by all financial institutions. Based on these letters, following guarantees have been given by the company:

- Mortgage on the buildings of Connect Group NV and Connectsystems 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 Connect Group NV and Connectsystems 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, Connectsystems NV and Connectsystems International 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, Connectsystems NV and Connectsystems International NV for a total value of 8,000,000 at one financial institution, EUR 9,350,000 at two other financial institutions.
- Mortgage on the buildings of Connect Group Nederland BV for a total value of EUR 480,000 at one financial institution and EUR 360,000 at two other financial institutions.

All financial institutions obtained following guarantees in parity with their credit lines:

- A 'Zessionsvertrag' and 'Raumsicherungsabereignungsvertrag' on Connect Group GmbH;
- A pledge on the inventories of Connect Group GmbH;

- A pledge on the receivables and the inventories of Connect Systems Nederland BV;
- A pledge on the agreement with Barco;
- A pledge on the factoring agreements with KBC Commercial Finance;
- A pledge on the shares of Connect Group NV in Connect Systems Holding NV;
- A pledge on the shares of Connect Systems Holding NV in Connectsystems NV;
- A pledge on the shares of Connectsystems NV in Connectsystems International NV.
- A pledge on the inventories of Halin Group BV, Halin Electronics BV and Halin Industrial Solutions BV.
- Subordination of the receivable on Connectronics Romania SRL of EUR 2 mio by Connect Group NV in advantage of the banks.

According to these credit letters, the following 2012 bank covenants need to be respected on a consolidated level:

- a) A solvency ratio (*) of minimum 20 % as of 31 December 2012;
- b) The consolidated cash flow (**) over the last 4 quarters needs to be positive on average;
- c) A maximum consolidated leverage (***) of 4;
- d) A consolidated tangible equity of EUR 14 mio.

The bank covenants were respected per December 2012.

As of 31 December 2013 and following years, the solvency ratio should at least be 25% and the leverage ratio may not exceed 3. Based on the budget for 2013 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.

(*) 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

(***) Defined as total net financial debt / EBITDA (total net financial debt = long and short term loans less cash and cash equivalents)

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 average financing throughout the year was limited to 85 % of all accepted receivables not older than 60 days overdue. The financing cost is based on Euribor plus a fixed margin. The factored receivables amount to EUR 17,794,195 per end 2012, EUR 25,100,019 per end of 2011 and EUR 22,544,101 per end of 2010.

k. Long-term debt

	2012		2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Secured debt	7,741,471	7,741,471	8,688,491	8,688,491	12,543,913	12,543,913
Bank loans	7,270,867	7,270,867	8,688,491	8,688,491	11,420,311	11,420,311
Finance lease liabilities	470,603	470,603	-	-	1,123,602	1,123,602
Unsecured debt	-	-	-	-	4,440,675	4,440,675
Subordinated debt	-	-	-	-	4,440,675	4,440,675
Total long term debt	7,741,471	7,741,471	8,688,491	8,688,491	16,984,588	16,984,588
Less current maturities	(2,263,903)	(2,263,903)	(2,438,491)	(2,438,491)	(3,784,073)	(3,784,073)
Long term portion	5,477,567	5,477,567	6,250,000	6,250,000	13,200,515	13,200,515

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. In 2011 the convertible loan was entirely converted into capital. 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.

2012	Bankloans Repayment	Bankloans Interest payments	Total
2014	2,405,343	112,098	2,517,442
2015	1,903,721	59,075	1,962,796
2016	401,984	15,710	417,658
2017	400,708	1,488	402,196
2018	-	-	-
Beyond 2018	-	-	-

	Finance lease payments	Finance lease Interest payments	Total
2014	149,968	23,251	173,220
2015	127,666	6,571	134,237
2016	71,780	1,907	73,687
2017	16,432	174	16,605
2018	-	-	-
Beyond 2018	-	-	-

2011	Bankloans Repayment	Bankloans Interest payments	Total
2013	2,150,000	64,500	2,214,500
2014	2,150,000	64,500	2,214,500
2015	1,650,000	49,500	1,699,500
2016	150,000	4,500	154,500
2017	150,000	4,500	154,500
Beyond 2017	-	-	-

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

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 1.75 %. 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 Connect Group NV and Connect Systems NV (Kamphenhout). For further information, we refer to note 1.3.7.j.

I. Derivative

With the conversion of the subordinated bond into capital no further disclosure on level 1, 2 or 3 is applicable per 31 December 2012 and 2011.

Fair value measurements recognised in the consolidated statement of financial position as of 31 December 2010.

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 2010.

Reconciliation of level 3 fair value measurements of financial liabilities

31/12/2011	Fair value through profit or loss Derivative liabilities	Available-for-sale		Total
		Unlisted shares	Other	
Opening balance	644,798	-	-	644,798
Total gains or losses:				
- in profit or loss	-	-	-	-
- in other comprehensive income	-	-	-	-
Purchases	-	-	-	-
Issues	-	-	-	-
Disposals/settlements	(644,798)	-	-	(644,798)
Transfers into/out of level 3	-	-	-	-
Closing balance	-	-	-	-

31/12/2010	Fair value through profit or loss	Available-for-sale		Total
	Derivative liabilities	Unlisted shares	Other	
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

	Restructuring	Pensions	Other	Total
Balance at 31 December 2009	-	156,009	481,977	637,986
Acquired from third parties	-	-	-	-
New provisions recorded in 2010	275,000	64,724	-	339,724
Provisions used in 2010	-	(16,489)	(461,344)	(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
Acquired from third parties	-	-	-	-
New provisions recorded in 2011	-	3,352	-	3,352
Provisions used in 2011	(275,000)	(22,555)	-	(297,555)
Provisions reversed in 2011	-	-	-	-
Provisions related to discontinued operations	-	-	-	-
Balance at 31 December 2011	-	185,041	-	185,041
Acquired from third parties	-	-	30,314	30,314
New provisions recorded in 2012	234,198	143,603	2,302	380,103
Provisions used in 2012	(222,248)	(29,641)	(16,199)	(268,088)
Provisions reversed in 2012	-	-	-	-
Provisions related to discontinued operations	-	-	-	-
Balance at 31 December 2012	11,950	299,003	16,417	327,370

Provisions have been presented as current liabilities as of 31 December 2012, 2011 and 2010 as the costs are expected to be incurred in the next accounting year.

n . Other current liabilities

	2012	2011	2010
Advances received on contracts in progress	273,015	193,015	-
Fair value of financial instruments	-	-	-
Acquisition price Halin group (remaining balance)	625,000	-	-
Other	5,981	1,436	1,000
Total	903,996	194,451	1,000

o. Shareholders' equity and rights attached to the shares

As of 31 December 2012 the common stock consisted of 10,290,024 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. Legally, there are no restrictions in place for paying out a dividend.

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 2012, 2011 and 2010 were as follows:

	2012	2011	2010
Total financial debt	20,942,747	31,646,682	34,088,627
Less cash and cash equivalents	(1,089,110)	(742,875)	(79,379)
Net financial debt	19,853,637	30,903,807	34,009,248
Total equity	26,212,567	23,199,221	14,321,151
Add subordinated loan	-	-	5,000,000
Adjusted capital	26,212,567	23,199,221	19,321,151
Net financial debt to adjusted capital ratio	0.76	1.33	1.76

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 applied: 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.

Following the publication of the annual results for 2010 at the end of March 2011, all Connect Group bondholders who subscribed to the convertible subordinated loan of EUR 5 million in April 2010, decided to convert their bonds into shares. Consequently, the Connect Group's equity increased by EUR 5 million and its financial debt decreased by EUR 5 million. This conversion resulted in the issuance of 3,355,600 new shares with the same rights as existing shares, bringing the total number of issued shares to 10,290,024. This conversion was carried out on 5 May 2011.

p. Deferred taxes

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

	2012	2011	2010
Deferred tax assets	1,500,000	1,500,000	1,500,000
Non-current assets held for sale	-	-	-
Deferred tax liabilities	-	-	-
Liabilities directly associated with assets classified as held for sale	-	-	-

Components of deferred tax balances are as follows:

2012	Opening balance	Recognised in profit or loss	Closing balance
Deferred tax assets	1,500,000	-	1,500,000
- Tax losses or notional interest deduction of consolidated companies carried forward	1,500,000	-	1,500,000

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.

At the end of 2012 there are no material differences for the items described above. So no deferred taxes for these items are recorded.

The group has unrecognized tax losses of EUR 45,500,000, EUR 49,000,000 and EUR 45,000,000 respectively at 31 December 2012, 2011 and 2010 with no expiry date resulting in unrecognized deferred tax assets for EUR 12,300,000, EUR 14,670,000 and EUR 13,800,000 as at 31 December 2012, 2011 and 2010. Further the group has also minimal unrecognized tax losses of EUR 7,500,000 at 31 December 2012 with expiry date resulting in unrecognized deferred tax assets for EUR 1,400,000.

Temporary differences on investments in subsidiaries (undistributed earnings) were approximately EUR 35,389,000, EUR 34,780,000 and EUR 32,587,000 at respectively 31 December 2012, 2011 and 2010. Since it is the intention of the company to indefinitely reinvest these earnings, no deferred tax liability has been provided.

q. Cost of sales

	2012	2011	2010
Purchases of material	90,928,869	96,496,972	86,086,403
Personnel expenses	26,418,903	24,166,314	24,863,038
Depreciation/amortization	3,314,961	3,353,236	3,782,843
Repair and maintenance	789,075	519,209	538,756
Other	3,969,322	3,153,650	2,913,107
Total	125,421,130	127,689,381	118,184,147

r. Research and development expenses

	2012	2011	2010
Personnel expenses	1,116,292	1,016,887	1,056,646
Depreciation/amortization	70,531	71,346	80,486
Other	171,408	150,062	155,090
Total	1,358,231	1,238,295	1,292,222

s. General and administrative expenses

	2012	2011	2010
Personnel expenses	4,465,167	4,067,546	4,236,581
Depreciation/amortization	70,531	71,346	80,486
Professional and Directors fees	1,069,643	1,119,473	782,710
Other	1,216,332	1,128,385	1,053,957
Total	6,821,673	6,386,750	6,153,734

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

	2012	2011	2010
Personnel expenses	5,209,361	4,745,470	4,931,014
Representation and travel expenses	461,963	470,657	416,950
Publicity	41,875	43,242	49,031
Depreciation/amortization	70,531	71,346	80,486
Transportation costs	693,295	622,117	590,834
Fairs, exhibitions and other	731,774	603,271	619,566
Total	7,208,799	6,556,103	6,687,881

u. Other operating income and other operating expenses

	2012	2011	2010
Gain on disposal of fixed assets	134,454	127,395	388,069
Other	590,974	-	-
Other operating income	725,428	127,395	388,069
Loss on disposal of fixed assets	96,044	24,364	74,779
Other	-	1,434,578	1,626,289
Other operating expenses	96,044	1,458,942	1,701,068

Other operating expenses in 2011 and 2010 include mainly the write down on receivables.

v. Personnel expenses and average number of employees

	2012	2011	2010
Hire personnel	2,439,677	2,360,477	2,166,925
Wages and salaries	32,602,084	29,897,960	31,179,114
Insurance	823,090	419,428	507,609
Other	1,344,872	1,318,352	1,233,631
Total	37,209,723	33,996,217	35,087,279

The average number of employees of the group in 2012 amounted to 1,790 compared to 1,745 in 2011 and 1,714 in 2010.

Defined contribution plans

The company provides defined contribution plans for some employees. The plan provides for contributions ranging from 2 % to 11 % 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 770,799, EUR 375,612 and EUR 399,499 respectively at 31 December 2012, 2011 and 2010.

w. Depreciation charges, amortization charges

	2012	2011	2010
Property, plant and equipment	2,887,604	2,910,321	3,370,771
Cost of sales	2,676,011	2,696,283	3,129,313
General and administration costs	70,531	71,346	80,486
Selling expenses	70,531	71,346	80,486
Research and development costs	70,531	71,346	80,486
Intangible fixed assets	638,951	656,953	653,530
Cost of sales	638,951	656,953	653,530
Total depreciation charges and amortization charges	3,526,555	3,567,274	4,024,301

x. Financial results

	2012	2011	2010
Interest income	53,163	141,455	3,884
Exchange differences	164,282	232,605	50,676
Other	17,794	44,596	40,356
Total financial income	235,239	418,656	94,916
Interest charges	899,944	1,363,559	1,675,798
Bank charges	284,335	305,444	275,654
Exchange differences	341,173	349,654	578,841
Total financial charges	1,525,452	2,018,657	2,530,293
Net financial results	(1,290,213)	(1,600,001)	(2,435,377)

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:

	2012	2011	2010
Income taxes of the current year	(13)	(71)	(2,425)
Income taxes of the prior year	55	305,385	(21,277)
Deferred tax expense/(income)	-	-	-
Total	42	305,314	(23,702)

In 2012, 2011 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:

	2012	2011	2010
Profit/(loss) before taxes	3,034,413	3,429,748	(2,602,834)
Effect of companies reporting losses	3,126,875	1,322,533	4,071,779
Income tax expense calculated at 33.99%	2,094,222	1,615,300	499,294
Effect of revenue that is exempt from taxation	(1,709,697)	(689,997)	(552,338)
Non deductible expenses	536,284	277,360	657,897
Notional interest deduction	(410,196)	(132,735)	(119,832)
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	(510,571)	(1,069,857)	(482,596)
Total	42	71	2,425
Effective tax rate	0%	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.

	2012	2011	2010
Net profit/(loss) for the year from continuing operations	(1,465,545)	3,735,062	(2,626,536)
Net profit/(loss) for the year	3,034,455	3,735,062	(1,130,800)
Weighted average number of shares – basic	10,290,024	9,140,846	6,934,424
Earnings per share – basic/net profit available for distribution continuing operations	(0.14)	0.41	(0.38)
Earnings per share – basic/net profit available for distribution continuing plus discontinued operations	0.29	0.41	(0.16)
Weighted average number of shares – diluted	10,290,024	9,140,846	6,934,424
Earnings per share - diluted/net profit available for distribution continuing operations	(0.14)	0.41	(0.38)
Earnings per share - diluted/net profit available for distribution continuing plus discontinued operations	0.29	0.41	(0.16)

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

In 2012 there is no longer a convertible debt which can result in ordinary shares.

aa. Business combinations and discontinued operations

Business combinations

On 16 December 2011, the shareholders of Halin Group at Veldhoven (Netherlands) and Connect Group announced that they have reached agreement for Connect Group to acquire 100 percent of the shares of Halin Group. The transfer of the shares and the closing took place at 6 January 2012 (being the date of acquisition).

Subsidiaries acquired

Halin Group consists of 4 companies: Halin Group BV, Halin Electronics BV, Halin Industrial Solutions BV and Halin Communication Technology BV. Halin Communication Technology BV is not included in the takeover. Just like Connect Group, Halin Group is an electronics - mechatronics subcontractor, operating primarily on the Dutch market. The Halin Group employs around 120 people at Veldhoven, Netherlands, and has an annual turnover of around EUR 15 million. The strategic decision for the acquisition relates to the further development of the market in the Netherlands, revenue growth and expected synergies.

The subsidiaries acquired can be summarized as follows:

	Proportion of voting equity interests acquired (%)
Halin Group BV	100%
Halin Industrial Solutions BV	100%
Halin Electronics BV	100%

Consideration transferred

The acquisition price is set at EUR 1,100,000. Acquisition related costs amounting to EUR 50,000 have been excluded from the consideration transferred and are being recognized as incurred as an expense in 2012 within other expenses in the consolidated income statement.

Fair value of assets acquired and liabilities recognized at the date of acquisition

Assets	
Cash and cash equivalents	101,832
Trade receivables	3,112,543
Other receivables	94,335
Inventories	3,255,578
Total current assets	6,564,288
Property, plant and equipment	670,899
Total non-current assets	670,899
Total assets	7,235,187

Liabilities

Bank loans and overdrafts	3,087,395
Current portion of long-term debt	113,647
Trade payables	2,431,864
Accrued expenses, payroll and related taxes and deferred income	628,726
Provisions	25,434
Other current liabilities	361,688
Total current liabilities	6,648,754
Long-term debt less current portion	1,019,793
Total non-current liabilities	1,019,793
Total liabilities	7,668,547

Goodwill arising on the acquisition

Consideration transferred	1,100,000
Fair value of identifiable net assets acquired	(433,360)
Goodwill arising on acquisition	1,533,360

The consideration paid for the combination effectively includes amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow on acquisition of subsidiary per 31/12/2012

Consideration paid in cash	1,100,000
Less cash and cash equivalent balances acquired	101,832
Less outstanding amount to pay	625,000
= Net cash out-flow	373,168

Impact of acquisition on the result of the group

The impact of the Halin Group acquisition on the results of the group is unmeasurable as all Halin Group companies were fully integrated in Connect Group Nederland BV before the end of the year. If Halin Group remained independent, the result of the year would certainly have been negative.

Discontinued operations

The board of directors analyzed the group structure and strategy in 2009 and noticed that given the economic crisis and the large investments that were done in Estonia, Spain and Mexico the automation business suffered large losses. Moreover there was 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 was 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 would have been sold by the purchaser to a third party before 31 December 2010, no earn-out needed 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 implied that all effects (including the results and the cash movements) as of this date were for the account of the purchaser. Settlement was 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 had a thorough knowledge about the discontinued operations, no warranty was 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 were integrally transferred to the purchaser.

To guarantee the payment obligations the company has taken a pledge on 700,000 Connect Group NV shares held by the purchasers. The company was 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 were included in the consolidated financial statements until 31 December 2009. 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 the account of the buyer.

In 2010 a profit amounting to EUR 1,495 (000) is recorded related to the discontinued operations Automation. This profit related to the reversal of an allowance for a bad debtor (EUR 1,095 (000)) recorded before discontinuing the automation business and to the reversal of an impairment recorded on the receivable of the purchaser of the discontinued operations (EUR 400 (000)). In the course of 2011 no transactions took place related to the in 2009 discontinued operations.

In December 2012, a settlement was concluded with the purchasers of the Automation activity in connection with their contractual obligation to pay to Connect Group 50 percent of the adjusted profit of the acquired business for the period 2010-2012. As a result of this settlement, the buyer paid to Connect Group at 28 December 2012 the sum of EUR 4.5 million as final settlement for this contractual obligation and EUR 2 million as payment for the outstanding debt to Connect Group. The EUR 4.5 million was recorded as a result from the discontinued automation activity.

ab. Segment reporting

Operating segments

Following the divestiture of the automation activity the group now consists solely of the Contract Manufacturing activity, with no further segmentation.

Geographical information

The group operates in four principal geographical areas: Belgium (country of residence), The Netherlands Germany and France. The geographical spread of revenues by major country is as follows:

	2012		2011		2010	
	In EUR	In %	In EUR	In %	In EUR	In %
Belgium	59,445,719	42	71,151,276	48	69,597,150	52
The Netherlands	54,143,203	38	41,504,911	28	31,656,187	24
Germany	12,080,552	9	13,340,864	9	15,440,776	12
France	8,304,087	6	2,964,636	2	1,476,622	1
Other Europe	7,664,875	5	19,270,137	13	15,292,791	11
Total	141,638,435	100	148,231,824	100	133,463,526	100

The property, plant and equipment and intangible assets of the Connect Group by location are as follows:

	2012		2011		2010	
	In EUR	In %	In EUR	In %	In EUR	In %
Belgium	5,041,724	47	6,131,266	55	7,488,567	56
The Netherlands	1,760,679	16	869,645	8	1,005,371	8
Germany	275,383	3	343,444	3	422,636	3
Czech Republic	1,015,094	9	1,036,572	9	1,488,438	11
Romania	2,684,408	25	2,761,169	25	3,001,237	22
Total	10,777,288	100	11,142,096	100	13,406,249	100

Information about major customers

The company has one customer counting for 15.1 % of its sales in 2012, 22.4 % in 2011 and 24.77 % in 2010. 10 customers account for approximately 52.8 %, 63.5 % and 56.74 % respectively of the group's net sales of the continued operations in 2012, 2011 and 2010. Beside these 10 largest customers, no other customer accounts for 3 % or more of the group's total net sales. The 10 highest amounts of trade receivables for a single customer account for approximately 51.8 % of the group's trade accounts receivable at 31 December 2012 whereas this was 65.1 % at 31 December 2011 and 64.4 % at 31 December 2010.

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 31/12/2012)

Origin Name	Number Issued	Declared total	%
Equity	10,290,024	7,088,573	68.89 %

Shareholder name	Number declared (*)	%
QuaeroQ cvba	2,214,971	21.53 %
Huub Baren (**)	2,166,155	21.05 %
LRM NV	1,870,786	18.18 %
Luc Switten	426,369	4.14 %
Het Beste Brood Holding SA (***)	410,292	3.99 %
Other below the reporting threshold	3,201,451	31.11 %
Total	10,290,024	100 %

(*) Shareholders holding 3% or more of the shares need to declare their interests

(**) + companies controlled by Huub Baren

(***) company controlled by Guy van Dievoet

During 2012 there have been no changes in the authorized shares, ordinary shares issued and fully paid, share premium or treasury shares.

Following the conversion of the convertible subordinated loan of EUR 5 million in May 2011 (see also note 1.3.7.o), 3,355,600 new shares with the same rights as the existing shares were issued, bringing the total number of issued shares to 10,290,024.

ae. Financial instruments

(i) Categories of financial instrument

	2012	2011	2010
Financial assets at amortized cost			
Cash and cash equivalents	1,089,110	742,875	79,379
Trade receivables	18,785,359	25,709,805	27,743,967
TOTAL Financial assets at amortized cost	19,874,469	26,452,680	27,823,346
Financial liabilities			
Financial liabilities at amortized cost			
Bank loans and overdrafts	13,201,277	22,958,191	21,459,241
Long term debt (incl. ST)	7,741,470	8,688,491	16,984,588
Accrued interest	74,905	44,822	215,366
Trade payables	16,209,969	19,868,464	26,470,532
TOTAL Financial liabilities at amortized cost	37,227,621	51,559,968	65,129,727
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:

	2012	2011	2010
Assets			
JPY	-	-	190,000
RON	151,953	70,218	143,463
USD	32,456	156,667	357,834
CZK	84,290	55,566	134,537
Liabilities			
GBP	12,535	33,703	26,156
JPY	1,185,022	5,585,054	6,390,347
USD	1,873,322	4,122,516	5,925,795
CZK	5,147,117	6,507,968	8,583,928
RON	2,649,029	1,470,872	787,229
CHF	117,091	7,783	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 % an EUR sales business. Purchasing of material is partially US Dollar driven. In 2012, the company purchased materials for approximately 24.1 million US Dollar (13,2 % of sales). In 2011, the company purchased materials for approximately 23.6 million US Dollar (11.5 % of sales). In 2010, the company purchased materials for approximately 27.6 million US Dollar (16 % of sales). These purchases are mainly for electronic components. The impact on future financial statements of a 10 % 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.

Currency impact USD	2012	2011	2010
	EUR	EUR	EUR
Profit or loss	126,839	278,640	378,819

Foreign currency option contracts

Per 31 December 2012, 2011 and 2010 the group has no such outstanding derivative contracts.

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 210,000 based on the total outstanding financial debt of EUR 21 million at the end of 2012. For 2011 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 2011. For 2010 a 1% change in interest rate would have amounted to approximately EUR 300,000 based on a total outstanding amount of debt of EUR 30 million at the end of 2010. 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 counter party 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:

	2012	2011	2010
Financial assets at amortized cost			
Cash and cash equivalents	1,089,110	742,875	79,379
Loans and receivables	18,785,359	27,709,805	29,643,967
TOTAL Financial assets at amortized cost	19,874,469	28,452,680	29,723,346

The main focus for credit risk management relates to trade receivables (see note 1.3.7 b) for an amount of EUR 18,785,359, EUR 25,709,805 and EUR 27,743,967 as at 31 December 2012, 2011 and 2010 respectively.

The company has one customer counting for 15.14 % of its business. 10 customers count for 52.8 % 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 12 million (on average EUR 7.9 million of this credit line was used) and obtained factoring financing on its receivables (on average 85 % of accepted receivables factored is financed) for working capital needs (see note 1.3.7. j). 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:

2012	Financial liabilities at amortized cost
Current	32,112,886
2014	2,517,442
2015	1,962,796
2016	417,658
2017	402,196
2018	-
Beyond 2018	-

2011	Financial liabilities at amortized cost
Current	45,690,918
2013	2,214,500
2014	2,214,500
2015	1,699,500
2016	154,500
2017	154,500
Beyond 2017	-

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

(vi) 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 per end of 2010 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 have changed the fair value obtained significantly. For further information we refer to note 1.3.5.b. Per end 2011 this is no longer applicable due to the conversion of the subordinated loan.

af. Commitments

At the end of 2012, the company has for EUR 17,9 million purchase orders outstanding at suppliers (EUR 21 million in 2011; EUR 23 million in 2010). These purchases are 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

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 were both at the time of the sale directors of Connect Group. Vladimir Dobosch ceased being a director of Connect Group after the closing of the transaction. In this transaction, all conditions with respect to the Corporate Law were respected.

As a result of this transaction, the company still had per 31 December 2011 a gross receivable of EUR 2,000,000 against a company controlled by Huub Baren.

In December 2012, a settlement was concluded with the purchasers of the Automation activity in connection with their contractual obligation to pay to Connect Group 50 percent of the adjusted profit of the acquired business for the period 2010-2012. As a result of this settlement, the buyer paid to Connect Group at 28 December 2012 the sum of EUR 4.5 million as final settlement for this contractual obligation and EUR 2 million as payment for the outstanding debt to Connect Group. The EUR 4.5 million was recorded as a result from the discontinued automation activity.

Further there are no related party transactions in 2012.

Connect Group had sales of EUR 547,233 in 2010 and of EUR 207,338 in 2011 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.
On 12 December 2011, Huub Baren resigned from the Board of Directors and in this respect, the Board of Directors no longer considers any future transactions with EN or companies related to Huub Baren as related party transactions.

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

Name	Amount in EUR	Number
Luc Switten	250,000	20
LRM NV	925,000	74
Stokklinx BVBA	250,000	20
Hugo Ciroux	100,000	8
Flor Peersman	100,000	8
Herman Struiwigh	50,000	4
Marcel Teughels	250,000	20
Total	1,925,000	154

Following the publication of the annual results for 2010 at the end of March 2011, all Connect Group bondholders who subscribed to the convertible subordinated loan of EUR 5 million in April 2010, decided to convert their bonds into shares. This conversion resulted in the issuance of 3,355,600 new shares with the same rights as existing shares, bringing the total number of issued shares to 10,290,024. This conversion was carried out on 5 May 2011.

Compensation of key management personnel

The total amount of emoluments to the members of the Board of Directors and management amount to EUR 1,313,012 in 2012, EUR 1,224,124 in 2011 and EUR 956,627 in 2010. The total amount of shares held by the members of the Board of Directors amounted to

3,051,632 in 2012, 4,828,228 in 2011 and 3,917,256 in 2010. There were no warrants held by members of the Board of Directors in 2012, 2011 and 2010.

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

	2012	2011	2010
Short-term benefits	1,313,012	1,224,124	956,627
Post-employment benefits	-	-	-
Other long-term benefits	-	-	-
Share-based payments	-	-	-
Total	1,313,012	1,224,124	956,627

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)	2012	2011	2010
Agreed fee	140,285	136,200	140,000
Non Attest fees (consolidated level)	2012	2011	2010
Tax advice	45,895	70,264	91,287
Other non-attest services	20,344	24,269	42,018
Legal missions	3,000	2,500	4,120
Acquisition Due diligence services (which are outside the scope of the 1 to 1 rule)	-	-	-
Total non attest fees	69,239	97,033	137,425

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	1/1/2011	271,859	10,365
Germany	Connect Group 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	-	653,796	15,400
Czech Republic	Connectronics sro, Billundska 2756, 272 01 Kladno	01/01/2007	01/01/2017	1/1/2012	254,760	5,284
The Netherlands	Connect Group Nederland BV De Run 4281, 5503 LM Veldhoven	01/03/2000	31/08/2020	06/08/2009	709,093	5,763

Payments recognized as an expense

	2012	2011	2010
Minimum lease payments	2,082,866	1,342,783	1,367,057
Contingent rentals	-	-	-
Sub-lease payments received	(75,154)	-	18,446
Total	2,007,712	1,342,783	1,385,503

Non-cancellable operating lease commitments

	2012	2011	2010
Not later than 1 year	2,085,765	1,355,687	1,360,138
Later than 1 year and not later than 5 years	7,152,071	4,959,140	4,372,021
Later than 5 years	5,813,691	4,392,864	5,020,416
Total	15,051,528	10,707,691	10,752,575

2. INDIVIDUAL FINANCIAL STATEMENTS

In accordance with article 105 of the Company Law, this annual report includes the directors' report (see pg 26), the statutory auditor's opinion 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 Statutory auditor's report for the year ended 31 December 2012

To the shareholders,

As required by law and the company's articles of association, we report to you on the performance of our mandate of statutory auditor. This report includes our report on the annual accounts as defined below together with our report on other legal and regulatory requirements.

Report on the annual accounts – Unqualified opinion

We have audited the annual accounts of Connect Group NV ("the company") for the year ended 31 December 2012, prepared in accordance with the financial reporting framework applicable in Belgium, which show total assets of 102.000 (000) EUR and a profit for the year of 770 (000) EUR.

Responsibility of the board of directors for the preparation of the annual accounts

The board of directors is responsible for the preparation and fair presentation of annual accounts in accordance with the financial reporting framework applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Statutory auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the annual accounts. We have obtained from the company's officials and the board of directors the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unqualified opinion

In our opinion, the annual accounts of Connect Group NV give a true and fair view of the company's net equity and financial position as of 31 December 2012 and of its financial performance for the year then ended, in accordance with the financial reporting framework applicable in Belgium.

Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the directors' report on the annual accounts, maintaining the company's accounting records in compliance with the legal and regulatory requirements applicable in Belgium and for the company's compliance with the Companies Code and the company's articles of association.

In the framework of our mandate, our responsibility is to verify, for all significant aspects, the compliance with some legal and regulatory requirements. On this basis, we provide the following additional comments which do not modify the scope of our opinion on the annual accounts:

- The directors' report includes the information required by law, is, for all significant aspects, in agreement with the annual accounts and is not in obvious contradiction with any information obtained in the performance of our mandate.
- Without prejudice to certain formal aspects of minor importance, the accounting records are maintained in accordance with the legal and regulatory requirements applicable in Belgium.
- The appropriation of the results proposed to the general meeting is in accordance with the requirements of the law and the company's articles of association.
- Except for late publishing the annual account and report of the Board of Directors for the year ended 31 December 2011 at the National Bank of Belgium in accordance with article 98 of the Companies Code, no transactions have been undertaken or decisions taken in violation of the company's articles of association or the Companies Code such as we would be obliged to report to you.

Diegem, 27 March 2013

The statutory auditor

DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises

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

Represented by Gert Vanhees

2.2 Condensed financial statements (in EUR)

1. BALANCE SHEET

	2012	2011
ASSETS		
FIXED ASSETS	64,006,672	69,422,940
I.FORMATION EXPENSES	-	-
II.INTANGIBLE ASSETS	870,118	1,463,332
III.TANGIBLE ASSETS	1,242,599	1,565,654
A. Land & buildings	286,268	342,222
B. Plant, machinery & equipment	389,327	906,666
C. Furniture and vehicles	114,256	116,523
D. Leasing and other similar rights	252,748	243
E. Other tangible assets	200,000	200,000
F. Assets under construction	-	-
IV.FINANCIAL ASSETS	61,893,955	66,393,954
A. Affiliated enterprises	61,856,000	66,356,000
1. Participating interests	61,856,000	66,356,000
2. Amounts receivable	-	-
B. Other enterprises linked by particip. interests	-	-
1. Participating interests	-	-
2. Amounts receivable	-	-
C. Other financial assets	37,955	37,954
1. Shares	-	-
2. Amounts receivable and cash guarantees	37,955	37,954
CURRENT ASSETS	37,993,292	44,136,961
V.AMOUNTS RECEIVABLE AFTER ONE YEAR	-	2,000,000
A.Trade debtors	-	-
B. Other amounts receivable	-	2,000,000
VI.STOCKS AND CONTRACTS IN PROGRESS	5,028,362	5,357,591
A.Stocks	5,028,362	5,357,591
1. Raw materials	2,887,422	3,198,409
2. Work in progress	727,063	928,478
3. Finished goods	1,413,877	1,230,704
4. Goods purchased for resale	-	-
5. Immovable property acquired or constructed for resale	-	-
6. Advance payments	-	-
B.Contracts in progress	-	-
VII.AMOUNTS RECEIVABLE WITHIN ONE YEAR	28,125,878	36,608,563
A. Trade debtors	16,121,477	24,450,593
B. Other amounts receivable	12,004,401	12,157,971
VIII.INVESTMENTS	-	-
A. Own shares	-	-
B. Other investments and deposits	-	-
IX.CASH AT BANK AND IN HAND	4,691,505	113,069
X.DEFERRED CHARGES AND ACCRUED INCOME	147,547	57,738
TOTAL ASSETS	101,999,964	113,559,901

	2012	2011
LIABILITIES		
CAPITAL AND RESERVES	34,369,606	33,599,454
I.CAPITAL	637,981	637,981
A. Issued capital	637,981	637,981
B. Uncalled capital	-	-
II.SHARE PREMIUM ACCOUNT	42,844,439	42,844,439
	-	-
III.REVALUATION SURPLUS	-	-
	-	-
IV.RESERVES	42,993	42,993
A. Legal reserves	42,993	42,993
B. Reserves not available for distribution	-	-
1. In respect of own shares hold	-	-
2. Other	-	-
C. Untaxed reserves	-	-
D. Reserves available for distribution	-	-
V.PROFIT/LOSS CARRIED FORWARD	(9,155,807)	(9,925,959)
VI.INVESTMENT GRANTS	-	-
PROVISIONS AND DEFERRED TAXATION	299,003	185,041
VII. A. PROVISION FOR LIABILITIES AND CHARGES	299,003	185,041
1. Pension and similar rights	299,003	185,041
2. Taxation	-	-
3. Major repair and maintenance	-	-
4. Other liabilities and charges	-	-
B. DEFERRED TAXATION	-	-
CREDITORS	67,331,355	79,775,406
VIII.AMOUNTS PAYABLE AFTER ONE YEAR	43,225,138	43,400,000
A. Financial debts	43,225,138	43,400,000
1. Subordinated loans	-	-
2. Unsubordinated debentures	-	-
3. Leasing and other similar obligations	195,138	-
4. Credit institutions	3,580,000	5,600,000
5. Other loans	39,450,000	37,800,000
B.Trade debts	-	-
1. Suppliers	-	-
2. Bills of exchange payable	-	-
C. Advances received on contracts in progress	-	-
D. Other amounts payable	-	-
IX.AMOUNTS PAYABLE WITHIN ONE YEAR	22,856,887	34,871,000
A. Current portion of amounts payable after one year	2,075,739	2,033,719
B. Financial debt	13,567,949	17,051,827
1. Credit institutions	7,317,949	10,951,827
2. Other loans	6,250,000	6,100,000
C. Trade debts	4,253,569	11,265,156
1. Suppliers	4,253,569	11,265,156
2. Bills of exchange payable	-	-
D. Advances received on contracts in progress	105,087	193,015
E. Taxes, remuneration and social security	2,854,543	4,327,284
1. Taxes	325,935	2,344,420
2. Remuneration and social security	2,528,608	1,982,863
F. Other amounts payable	-	-
X.ACCRUED CHARGES AND DEFERRED INCOME	1,249,330	1,504,405
TOTAL LIABILITIES	101,999,964	113,559,901

2. INCOME STATEMENT

	2012	2011
I.OPERATING INCOME	70,845,069	87,064,031
A. Turnover	68,678,937	84,498,791
B. Movement in stocks, finished goods, work and contracts in progress	(18,243)	542,122
C. Fixed assets own construction	-	-
D. Other operating income	2,184,375	2,023,118
II.OPERATING CHARGES	68,438,428	(84,101,742)
A. Raw materials, consumables and goods for resale	52,572,669	63,367,430
1. Purchases	52,440,442	53,776,854
2. Movements in stock	132,227	9,590,576
B. Services and other goods	4,140,592	4,540,326
C. Remuneration, social security and pensions	11,195,934	12,677,763
D. Depreciation, write-off formation expenses	1,199,538	1,269,049
E. Write-off of inventory, receivables	(848,635)	2,108,814
F. Increase/decrease in prov. for liabil. & charges	113,961	(19,203)
G. Other operating charges	64,369	157,564
H. Operating charges capitalised as reorganization costs	-	-
III.OPERATING PROFIT/(LOSS)	2,406,641	2,962,289
	-	-
IV.FINANCIAL INCOME	252,577	389,733
A. Income from financial fixed assets	52,685	10,873
B. Income from current assets	-	29,494
C. Other financial income	199,892	349,365
V.FINANCIAL CHARGES	1,968,673	(2,937,335)
A. Interests and other debt charges	1,566,678	2,312,749
B. Increase/decrease in amounts written off on current assets	-	-
C. Other financial charges	401,995	624,587
VI.PROFIT/(LOSS) ON ORDINARY ACT. BEFORE TAXES	690,545	414,687
VII.EXTRAORDINARY INCOME	4,580,355	44,612
A. Adjustments to depreciation of and to other amounts intang. & tangibl. assets	-	-
B. Adjustments to amounts written off financial fixed assets	-	-
C. Adjustments to provisions for extraordinary liabilities and charges	-	-
D. Gain on disposal of fixed assets	80,355	44,612
E. Other extraordinary income	4,500,000	-
VIII.EXTRAORDINARY CHARGES	4,500,786	(7,090)
A. Extraord. deprec. of & extraord. amounts written off form expenses, tang. and intang. assets	-	-
B. Amounts written off financial fixed assets	4,500,000	-
C. Provisions for extraord. liabilities and charges	-	-
D. Loss on disposal of fixed assets	-	6,167
E. Other extraordinary charges	786	924
F. Extraordinary costs capitalised as restructuring costs	-	-
	-	-
IX.PROFIT (LOSS) FOR THE YEAR BEFORE TAXES	770,114	452,209
A. Transfers from deferred taxes	-	-
B. Transfers to deferred taxes	-	-
X.INCOME TAXES	(38)	1,079
A. Income taxes	14	(75)
B. Adjustment of income taxes and write-back of tax provisions	52	1,154
XI.PROFIT (LOSS) FOR THE YEAR	770,152	453,287
XII.TRANSFER TO UNTAXED RESERVES	-	-
XIII.PROFIT (LOSS) FOR THE YEAR AVAIL. FOR APPROPRIATION	770,152	453,287

APPROPRIATION ACCOUNT

	2012	2011
A. PROFIT/(LOSS) TO BE APPROPRIATED	(9,155,807)	(9,925,959)
1. Profit/(loss) for the period available for appropriation	770,152	453,287
2. Profit/(loss) brought forward	(9,925,959)	(10,379,246)
B. TRANSFERS FROM CAPITAL AND RESERVES	-	-
1. From capital and share premium account	-	-
2. From reserves	-	-
C. TRANSFERS TO CAPITAL AND RESERVES	-	-
1. To capital and share premium account	-	-
2. To legal reserve	-	-
3. To other reserves	-	-
D. RESULT TO BE CARRIED FORWARD	-	-
1. Profit to be carried forward	(9,155,807)	(9,925,959)
2. Loss to be carried forward	-	-
E. SHAREHOLDERS' CONTRIBUTION IN RESPECT OF LOSSES	-	-
F. DISTRIBUTION OF PROFIT	-	-
1. Dividends	-	-
2. Directors' emoluments	-	-
3. Other allocations	-	-

2.3 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 direct costs). Obsolete or slow-moving inventories are written down if the book value exceeds the net realizable value.

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.

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 silicon 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.

CONNECT GROUP (HEADQUARTERS)

Industriestraat 4 Phone +32 (0)16 61 89 20
1910 Kampenhout Fax +32 (0)16 60 78 82
Belgium Email: info@connectgroup.com

GERMANY

Siemensstrasse 11 Phone +49 (0)7022 9446-0
72636 Frickenhausen Fax +49 (0)7022 9446-99
Germany Email: cgdf@connectgroup.com

BELGIUM

Industriestraat 4 Phone +32 (0)16 61 89 20
1910 Kampenhout Fax +32 (0)16 60 78 82
Belgium Email: cgbk@connectgroup.com

CZECH REPUBLIC

Billundská 2756 Phone +420 312 518 311
272 01 Kladno Fax +420 312 518 314
Czech Republic Email: cgck@connectgroup.com

Frankrijcklaan 22 Phone +32 (0)57 344 411
8970 Poperinge Fax +32 (0)57 344 510
Belgium Email: cgbp@connectgroup.com

ROMANIA

Sos. Borsului 40 Phone +40 (0) 259 457 681
410605 Oradea Fax +40 (0) 259 457 689
Romania Email: cgro@connectgroup.com

THE NETHERLANDS

De Run 4281 Phone +31 (0)40 84 44 999
5503 LM Veldhoven Fax +31 (0)40 84 44 990
The Netherlands Email: cgnv@connectgroup.com