



DRAGON GROUP INTERNATIONAL LIMITED

A member of ASTI

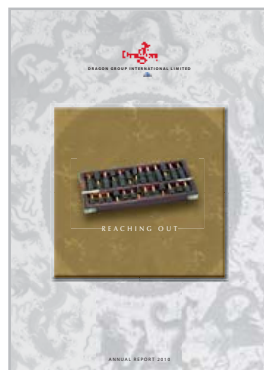


REACHING OUT

ANNUAL REPORT 2010

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Cover Rationale

The abacus appeared circa 1200 AD in China. It is equivalent to the modern day calculator and widely used by traders. The abacus associates well with Dragon Group International Limited – our components distributor with a network of more than 7 offices across China, a total of 24 offices globally, and still growing. In ancient times, the abacus – equivalent to the modern day calculator - would have been an essential instrument for us in all our trading activities. Today, the abacus is extremely meaningful to Dragon Group, symbolizing our roots and our aim to reach out to the large market in China.

ABOUT DGI



The Dragon Group International Limited ("Dragon Group" or "DGI"), previously known as Flextech Holdings Limited, was founded in 1990. The Dragon Group provides Distribution & Services. It collaborates with a number of best-in-class suppliers to provide in-depth products and solutions expertise to its customers in key regional markets.

The shares of the Dragon Group are quoted on the mainboard of the Singapore Exchange. In June 2006, the Dragon Group became a subsidiary of mainboard listed ASTI Holdings Limited ("ASTI"), an integrated group of companies manufacturing equipment and providing services to the semiconductor and healthcare industries. The ASTI group provides an integrated range of services comprising Backend Equipment Solutions & Technologies ("BEST") and Distribution & Services.

Headquartered in Singapore, the Dragon Group is the Distribution & Services arm of the ASTI group of companies. It has subsidiaries and representative offices across Hong Kong, China, India, Indonesia, Korea, Malaysia, Philippines and Thailand.

For more information please visit our website at www.dragongp.com



A LETTER TO **SHAREHOLDERS**



2010 saw us continuing through our restructuring exercises, streamlining our businesses and improving our operating efficiencies. We continued our focus on the communication infrastructure and 3C convergence markets and reinforced our core strength in China.

Dear Shareholders,

2010 was a watershed year - on top of an economic recovery from the Great Recession, total traffic crossing the Internet in 2010 was greater than in all previous years combined. Additionally, mobile data traffic exceeded mobile voice traffic for the first time in history, ushering in a decade of new opportunities, which were thought to have been lost in the decade after the dotcom bubble burst.

2010 saw us continuing through our restructuring exercises, streamlining our businesses and improving our operating efficiencies. We continued our focus on the communication infrastructure and 3C convergence markets and reinforced our core strength in China.

We rode the recovery from the Global Financial Crisis, reversed from prior years of losses, and turned in improved performance. We ended the year profitably on a stronger note culminating in a Rights Issue to strengthen our cash flow and balance sheet. Net proceeds of \$13.6 million from the Rights Issue were used to fund working capital and repay the loan from our holding company, closing the financial year with cash and cash equivalents of \$21.1 million.

OPERATIONS AND FINANCIAL REVIEW

The year started with the completion of the disposal of our Taiwan operations, leading to lower revenue and costs for the year. At the close of FY2010, revenue was 6.4% lower, decreasing

from \$231.1 million in FY2009 to \$216.4 million. FY2010 revenue excluded contribution from Taiwan subsidiaries disposed at the beginning of the year.

By business segments, revenue from the Electronics Distribution business came in 5.8% lower at \$215.0 million in 2010 due to the absence of contributions from Taiwan. The Semiconductor Test & Consumables business also reported a 53% decline in revenue to \$1.3 million in 2010 compared to the previous year due to the Group's intention to scale down and exit from this business.

With the lower revenue, gross profit decreased from \$25.1 million to \$19.7 million.

The Group's operating expenses including foreign exchange for the full year ended 31 December 2010 decreased by 23.1% to \$17.8 million. The foreign exchange loss amounted to \$0.1 million in 2010 compared to \$0.7 million in 2009. The reductions were a result of the Group's continuing efforts to focus on cost management, which include the streamlining of operations and the cessation of non-core businesses.

Other expenses including financing costs were also lower. Lower utilization of trade financing facilities during the year resulted in a 23.7% decrease in

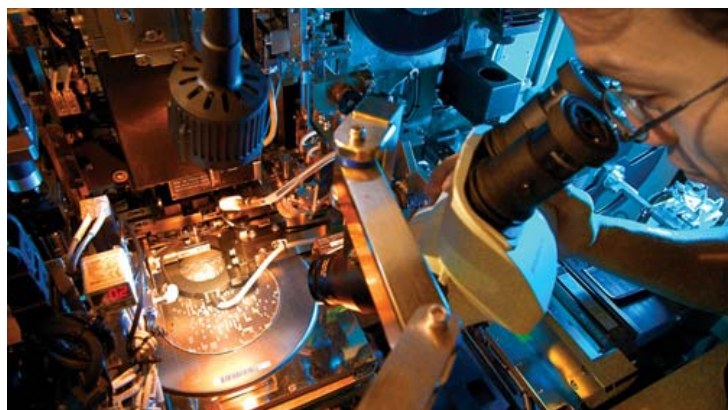
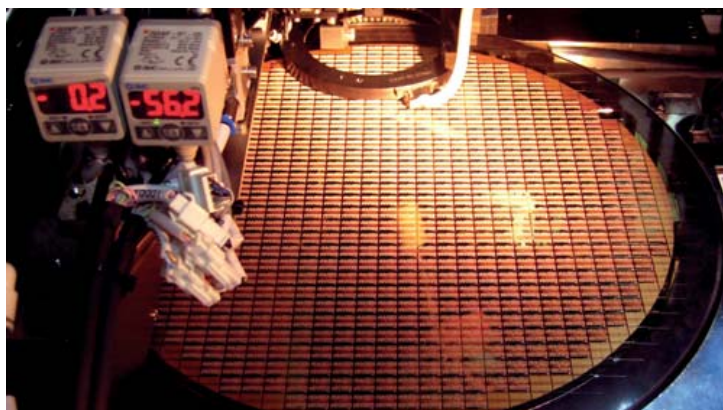
financing costs, which declined from \$2.8 million in 2009 to \$2.2 million in 2010.

For the full year ended 31 December 2010, the Group reported a profit of \$0.7 million compared to a loss of \$7.0 million in the previous year due to lower operating expenses, financing costs and exceptional items.

The recovery of the electronics market this year gave rise to an increase in inventory by \$3.4 million to \$20.8 million as at 31 December 2010. This is mainly due to the need to cater to demand from customers in the telecommunication infrastructure projects in China.

Corresponding to the higher business activities in China, trade debtors increased by \$9.0 million to \$59.2 million as at 31 December 2010. This is attributable to the increase in revenue generated from the China market, which traditionally have a longer credit period compared to other markets.

The higher working capital needs in the China market resulted in an increase in trade creditors and bank borrowings. In total, these two items increased by \$2.5 million to \$76.8 million as at 31 December 2010.



A LETTER TO **SHAREHOLDERS**

The Group has announced on 10 December 2010 that an aggregate of 896,325,824 Rights Shares and 896,325,824 Warrants (before effects of the Share Consolidation) were allotted and issued. In conjunction with and immediately after the completion of the Rights Issue, the Company performed a consolidation of every four (4) Post-Rights Issue Shares held by Shareholders on 13 December 2010. Repaying the loan from the holding company using the proceeds from the issuance of Rights shares, the amount due to the holding company was reduced by \$5.2 million to \$0.4 million as at 31 December 2010.

THE PROSPECTS AHEAD

Generally the outlook for the Electronics industry is positive, but visibility remains short. After strengthening our financial position with the recent Rights Issue and completing a significant portion of our restructuring, we remain cautious but optimistic about our performance in 2011.

It is important to note that DGI's business is prone to economic uncertainties and the cyclical nature of the semiconductor industry. Unforeseeable

factors include but are not limited to foreign exchange fluctuations, intellectual property litigations, product and technology obsolescence, and inventory adjustments. In view of these factors, we will remain prudent and cautious in the management of our business.

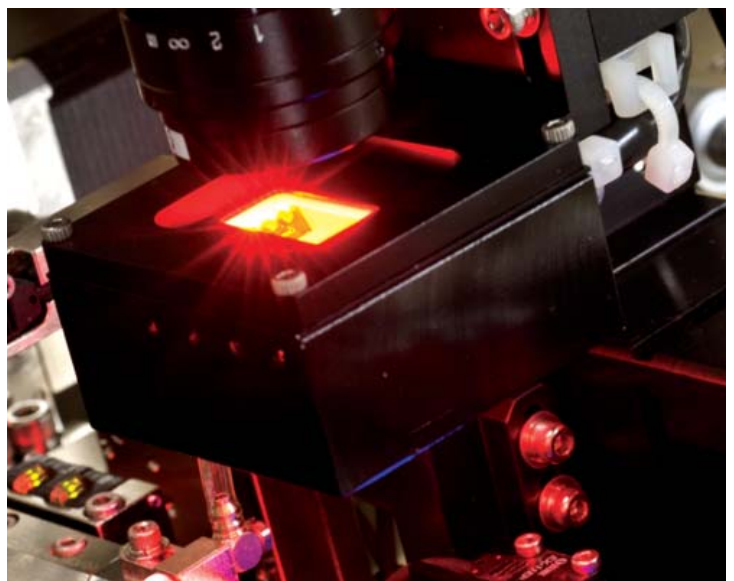
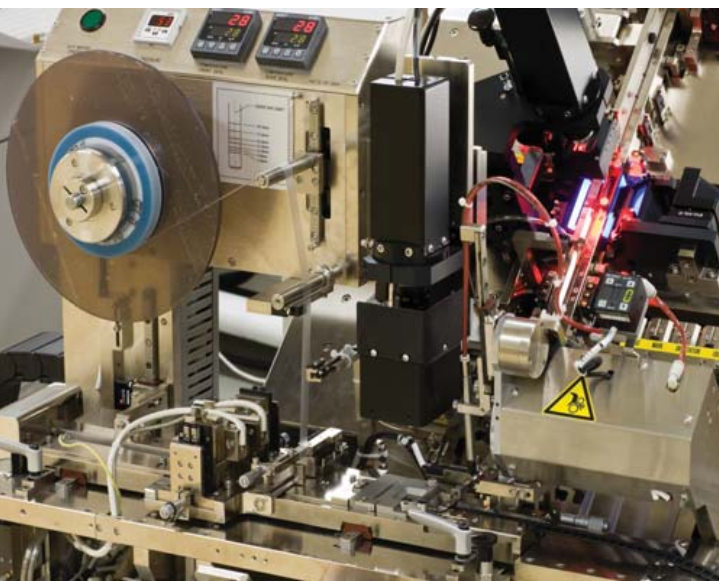
IN APPRECIATION

In closing, I would like to thank all of our customers, shareholders, business associates and bankers for their confidence and trust in us, and I look forward to your support in the new financial year. To all of our employees, I appreciate your perseverance, dedication and commitment, as we continue to improve our cost management and operating efficiency at DGI. I am confident that in time, we will emerge a leaner and more efficient entity with strong capabilities to compete in the communication infrastructure and 3C convergence markets that drive the Internet economy.

Yours sincerely,

DATO' MICHAEL LOH

Executive Chairman & Chief Executive Officer



BOARD OF DIRECTORS



Dato' Michael Loh Soon Gnee, 55
Executive Chairman & Chief Executive Officer

*Bachelor of Science
Double Major in Business Economics & Chemical Engineering
State University of New York, Buffalo, USA*

Dato' Loh has a distinguished career in the semiconductor industry. He brings with him more than 31 years of knowledge and experience from the wafer fabrication, research and development and assembly, testing and distribution of semiconductor products. Having spent 20 years in Silicon Valley, USA, Dato' Loh has abundant practical business experiences and a vast network of contacts in the semiconductor industry.

Dato' Loh is the Executive Chairman of the SGX-Mainboard-listed ASTI Holdings Limited and SGX-Catalist-listed Advanced Systems Automation Limited.



Mr Derek Loh Eu-Tse, 44
Lead Independent & Non-Executive Director
Audit Committee Chairman

*MA with Honours
Cambridge University*

An Advocate & Solicitor for the past 18 years, Mr Loh currently practices law at TSMP Law Corporation, where he is an Executive Director. He presently holds directorships in several listed companies, including Freight Links Express Holdings Ltd where he chairs the Remuneration Committee.



Mr Mohd Sopiyan B. Mohd Rashdi, 49
Independent & Non-Executive Director

*Chartered Accountant
Malaysian Institute of Accountants, Malaysia (MIA:7391)*

*Degree in Accountancy
Institut Teknologi MARA, Malaysia*

Mr Sopiyan brings with him a wealth of experience from his previous employment with Maybank Finance Bhd, Bank Negara Malaysia, Edaran Digital System Bhd Group of Companies and Financial Advisory Services where he was responsible for the accounting, financial, corporate finance, budgeting, treasury management and tax matters.

During his tenure with Bank Negara, he was attached to the Bank's regulatory department which oversees and monitors financial institutions. He was subsequently seconded to TPU Sdn Bhd, a company formed by Bank Negara to restructure and rehabilitate companies facing financial problems during the recession in the 1980s.

Currently, Mr Sopiyan is the Chief Executive Officer of PT Dragon Terra Venture, a company involved in capital market activities including corporate finance and fund raising exercises in Indonesia.



BOARD OF DIRECTORS



Dato' Shaarani B. Ibrahim, 61
Independent & Non-Executive Director
Remuneration Committee Chairman

*BA (Hons) International Relations
Universiti Malaya*

Dato' Shaarani brings with him more than 35 years of experience in government service and international relations having worked with the Ministry of Foreign Affairs, Malaysia and assumed various positions as the Ambassador of Malaysia to Thailand, Spain and Uzbekistan as well as the Under Secretary of South and East Asia Division at the Ministry. Dato' Shaarani currently also serves as the Independent Director & Member of Audit, Nomination & Remuneration Committees of CIMB Thailand as well as the Chairman of CIMB Cambodia, including the Chairman of its Risk Committee and member of the Audit Committee.



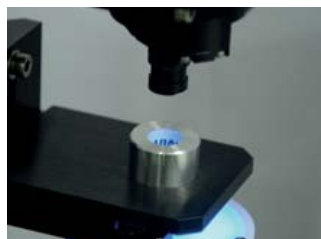
Mr Teh Kim Seng, 42
Independent & Non-Executive Director
Nomination Committee Chairman
Investment Committee Chairman

*LLB (Leeds University, England)
LLM (Cambridge University, England)*

Mr Teh is the Chairman of Netrove Ventures Corp, a boutique venture capital and business advisory firm that he founded in 1999. Headquartered in Hong Kong, Netrove has offices in Kuala Lumpur, Hani and Guangzhou.

With more than 20 years experience in the areas of law, mergers and acquisitions, corporate finance, venture capital and financial services, Mr Teh started his career as an attorney in London and subsequently in Hong Kong where he resides. Prior to establishing Netrove, he was the Chief Operating Officer of a Hong Kong headquartered regional investment and advisory firm.

Currently, Mr Teh also sits on the boards of various public and privately-owned enterprises across Asia.





Mr Timothy Lim Boon Liat, 46
Executive Director

Diploma in Sales and Marketing
CIMUK

Mr Lim brings with him over 23 years of experience from the regional semiconductor industry. He held various positions during his career including sales and management. He is also the Business Development Director for the Company.



Dr Yu Kenneth Keung Yum, 63
Non-Executive Director

PhD Electrical Engineering and Applied Physics
Stanford University

Dr Yu brings with him 30 years of experience from the areas of technology, product design and management. He spent the last 16 years with Lattice Semiconductor Corp during which he started and managed a subsidiary company in Shanghai, China.

An expert in all facets of semiconductor equipment and technologies, Dr Yu has done memory and ASIC designs and is familiar with applications ranging from PLDs, processors, telephony ICs to CCD imagers. He is the co-author of 25 technical articles and owner of 6 patents.



KEY MANAGEMENT

Mr B S Chakravarthy

Managing Director of Dragon Technology Distribution (India)

Mr Chakravarthy joined the Group in 1998, bringing with him more than 20 years of experience from the electronics industry. After graduating with a Diploma in Electronics in 1988, Mr Chakravarthy worked for a private company for two-and-a-half year. In 1990, he founded his own electronic components trading business in India. This was followed by the establishment of Decibels Electronics Pvt Ltd in 1995, which was subsequently integrated into FE-Decibels Electronics Pte Ltd, a joint-venture company that is 70% owned by Dragon Technology Distribution Pte Ltd (Formerly known as FE Global Electronics Pte Ltd).

Mr Choi Young Ju

Representative Director of FE Global Electronics Korea

Mr Choi has over 20 years of experience in the electronics industry. Prior to joining the Dragon Group in 1998, he was in charge of the sales department in Woo Young Tech Ltd. Mr Choi holds a BS degree in Electronic Engineering from the University of Incheon.

Mr Jia Tiejia

Director & Deputy General Manager of Nanjing DTB

Mr Jia joined the Group in 2001 as General Manager for Dragon Technology Distribution Co., Ltd. in Hong Kong and China. He has many years of experience in Chinese government and telecommunication industry. Prior to joining the Dragon Group, he was the diplomat for the Chinese embassy in Africa, the division head for Ministry of Foreign Trade in Beijing and the managing director for Lucent Technology Microelectronics Group in Greater China. Mr Jia holds an MBA degree from Thunderbird, USA. Joining the Dragon Group in 2006, he is responsible for the management of its Zhenghe Treasure Boat Project in Nanjing.

Mr Joe Yau

President of Dragon Technology Distribution (HK)

Mr Yau joined the Dragon Group in 1999. He brings with him 10 years of experience from component distribution. He is a graduate from the University of California, Irvine with B.A. in Business Administration.

Mr Lenus Kho

General Manager of Dragon Technology Distribution (ASEAN)

Mr Lenus Kho joined the Group in 1997 and has over 20 years of experience from the regional semiconductor industry. He has a Diploma in Electronics Engineering from Ngee Ann Polytechnic and a Diploma in Sales and Marketing from the Marketing Institute of Singapore.

Mr Mandie Chong Man Sui

Marketing Director of Dragon Technology Distribution (HK)

Mr Chong is a veteran with more than 26 years of experience in the semiconductor industry. He holds a Bachelor of Science in Engineering from the National Taiwan University and is knowledgeable and familiar with the Hong Kong and China markets.

Ms Michelle Ong Poh Leng

Group Financial Controller of DGI

Miss Ong oversees and is responsible for the accounting, financial and taxation matters of the Dragon Group. She joined the Dragon Group in 2010 and brings with her more than 10 years of experience in finance and accounting. Prior to her appointment at DGI, she served in finance managerial positions in WBL Corporation Limited and various SGX-Mainboard-listed companies. Her past experience included the handling of statutory and management reporting for a group of entities in the Asia Pacific region. Miss Ong is a Fellow of the Association of Chartered Certified Accountants.

Mr Zhao Zhigang

Director of Nanjing DTB

Mr Zhao joined DTB since it was established four years ago as a shareholder representative for the Nanjing Gulou District Government. Mr Zhao has more than 18 years of experience in various government posts and 20 years in business management. He has a BA degree and a title of Senior Economist. Currently, he is the Standing Member of Political Consultative Conference in Gulou District.

He has also held several key positions as Chairman and GM for Zhenghe Shipyard Relics Culture Management Company, Co-chair for Jiangsu Province Zhenghe Study Society and Deputy Director for Jiangsu Zhenghe Navigation Culture Fund. Mr Zhao is one of the founders for reconstruction of Zhenghe Treasure Boat in Nanjing.



FINANCIAL HIGHLIGHTS

RESULT OF OPERATIONS	2006 US\$'000	2007 US\$'000	2008 US\$'000	2009 US\$'000 (restated)	2010 US\$'000
STATEMENT OF THE GROUP RESULTS					
Revenue	352,309	320,466	300,840	231,126	216,350
EBITA	7,140	5,837	102	(1,080)	3,333
Profit/(loss) before income tax	(7,650)	2,547	(5,894)	(6,913)	341
Income Tax	(653)	(761)	(1,068)	(1,047)	288
Profit/(loss) for the year	(8,303)	1,786	(6,962)	(7,960)	629
Attributable to:					
Equity holders of the Company	(8,542)	2,180	(6,810)	(7,010)	663
Non-controlling interests	239	(394)	(152)	(950)	(34)
	(8,303)	1,786	(6,962)	(7,960)	629
Earning/ (loss) per share (cents)	(5.9)	1.4	(3.0)	(10.5)	0.9
FINANCIAL POSITION OF THE GROUP					
Intangible assets	1,290	8,172	7,731	6,604	5,957
Property, plant and equipment	8,836	10,361	9,188	4,691	5,171
Available-for-sale financial assets	1,144	1,595	2,048	987	750
Other financial assets	-	-	1,664	-	-
Deferred tax assets	-	-	-	-	281
Current assets	110,470	118,831	107,556	98,817	105,724
Total Assets	121,740	138,959	128,187	111,099	117,883
Equity attributable to equity holders of the Company	33,215	31,291	23,545	16,952	31,415
Non-controlling interests	1,646	5,477	5,103	4,156	4,151
	34,861	36,768	28,648	21,108	35,566
Other long term & deferred liabilities	4,561	4,875	1,348	1,098	846
Current liabilities	82,318	97,316	98,191	88,893	81,471
Total Equity and Liabilities	121,740	138,959	128,187	111,099	117,883
NAV per share (cents)	14.82	13.96	10.51	7.57	11.22
Number of shares as at end of year	224,081,456	224,081,456	224,081,456	224,081,456	280,101,783
TURNOVER AND PROFITABILITY					
Analysis by Activities					
Turnover					
Electronics Distribution & Manufacturing	344,702	313,155	294,808	228,303	215,023
Semiconductor Test & Consumables	7,269	7,184	6,032	2,823	1,327
Technology Investments & Others	338	127	-	-	-
	352,309	320,466	300,840	231,126	216,350
Group profit/(loss) before tax					
Electronics Distribution & Manufacturing	(6,681)	2,780	3,372	2,205	3,764
Semiconductor Test & Consumables	504	(347)	(453)	(3,813)	249
Technology Investments & Others	(2,672)	114	(8,813)	(5,305)	(3,672)
Semiconductor Equipment & Services	1,199	-	-	-	-
	(7,650)	2,547	(5,894)	(6,913)	341



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive:

Dato' Michael Loh Soon Gnee
*Executive Chairman &
Chief Executive Officer*

Timothy Lim Boon Liat
Executive Director

Non-Executive:

Derek Loh Eu-Tse
Lead Independent

Mohd Sopiyan B. Mohd Rashdi
Independent

Dato' Shaarani B. Ibrahim
Independent

Teh Kim Seng
Independent

Dr Yu Kenneth Keung Yum
Non-Executive Director

AUDIT COMMITTEE

Derek Loh Eu-Tse
Chairman

Dato' Shaarani B. Ibrahim

Teh Kim Seng

NOMINATING COMMITTEE

Teh Kim Seng
Chairman

Derek Loh Eu-Tse

Dato' Shaarani B. Ibrahim

REMUNERATION COMMITTEE

Dato' Shaarani B. Ibrahim
Chairman

Derek Loh Eu-Tse

Teh Kim Seng

COMPANY SECRETARY

Yip Ming Fai

EXECUTIVE OFFICERS

B S Chakravarthy
*Managing Director of Dragon Technology
Distribution (India)*

Choi Young Ju
*Representative Director of
FE Global Electronics Korea*

Jia Tiejia
*Director & Deputy General Manager of
Nanjing DTB*

Joe Yau
*President of Dragon Technology
Distribution (HK)*

Lenus Kho
*General Manager of Dragon Technology
Distribution (ASEAN)*

Mandie Chong Man Sui
*Marketing Director of Dragon Technology
Distribution (HK)*

Michelle Ong Poh Leng
Group Financial Controller of DGI

Zhao Zhigang
*Deputy Chairman & Executive Director of
Nanjing DTB*

REGISTERED OFFICE

50 Raffles Place, #32-01,
Singapore Land Tower,
Singapore 048623
Tel: (65) 6536 5355
Fax: (65) 6536 1360

BUSINESS OFFICE

Blk 25, Kallang Avenue, #03-06,
Kallang Basin Industrial Estate,
Singapore 339416
Tel: (65) 6212 9629
Fax: (65) 6212 9630

SHARE REGISTRAR

**Boardroom Corporate & Advisory
Services Pte. Ltd**
50 Raffles Place, #32-01,
Singapore Land Tower,
Singapore 048623
Tel: (65) 6536 5355
Fax: (65) 6536 1360

INDEPENDENT AUDITOR

Ernst & Young LLP
Certified Public Accountants
One Raffles Quay
North Tower, Level 18
Singapore 048583

Audit Partner-in-charge:
Christopher Wong
(Effective the financial year ended 31
December 2010)

PRINCIPAL BANKERS

Hang Seng Bank Limited
Malayan Banking Berhad
**Oversea-Chinese Banking
Corporation Limited**
United Overseas Bank Limited
**Industrial and Commercial Bank of
China (Asia) Limited**





APPENDIX 1

DRAGON GROUP INTERNATIONAL LIMITED | ANNUAL REPORT 2010

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REPORT

Year ended 31st December 2010

The Board of Directors (the “**Board**”) of Dragon Group International Limited (the “**Company**”) is committed to maintaining high standards of corporate governance and transparency within the Company and its subsidiaries (collectively, the “**Group**” or “**Dragon Group**”). The Board believes that good corporate governance inculcates an ethical environment and enhances the interests of all shareholders.

This report describes the corporate governance practices of the Group with specific references to the principles and guidelines set out in the Code of Corporate Governance 2005 (“**CCG**” or the “**Code**”).

BOARD MATTERS

Principle 1: The Board’s Conduct of its Affairs

Dragon Group has an effective Board to lead and control the Company. The Board is primarily responsible for the protection and enhancement of long-term value and returns for the shareholders. The Board works with management to achieve this and the management is accountable to the Board.

The Board endeavours to provide shareholders with balanced and understandable assessments of the Company’s performance, financial position and prospects on a quarterly basis. This responsibility extends to the provision of interim and other price sensitive public reports including those to regulators (if and whenever required).

The principal functions of the Board are to:

- provide entrepreneurial leadership, set strategic aims and ensure that the necessary financial and human resources are in place for the Company to meet its objectives;
- review Management’s performance and set the Company’s values and standards to ensure that obligations to shareholders and others are understood and met;
- oversee the processes for risk management, financial reporting and compliance and evaluate the adequacy of internal controls;
- approve the nominations of Board Directors as recommended by Nominating Committee and appointments to the various Board committees;
- approve annual budgets, major funding proposals, investment and divestment proposals of the Company;
- review and endorse the framework of remuneration for the Board and key executives as may be recommended by the Remuneration Committee; and
- provide oversight in the proper conduct of the Company’s business and assume responsibility for corporate governance.

Every director is expected to act in good faith and in the interest of the Company.

The Company has adopted internal guidelines setting forth matters that require Board approval. The types of material transactions that require Board approval under such guidelines are listed below:

- quarterly financial results announcements and audited financial statements;
- annual budget;
- issue of shares after obtaining the authority from shareholders;
- declaration of interim dividends and proposed final dividends;
- convening of shareholders’ meetings;
- approval of interested persons transactions (including, *inter alia*, conflict of interest issues relating to substantial shareholders of Dragon Group and/or Directors);
- corporate or financial restructuring;
- major transactions proposal which include funding, merger, acquisition and disposal transactions.

Typically, any transactions that are significantly relative to the financial position of the Group would require Board approval.

To assist in the execution of its responsibilities, the Board has established a number of Board committees which includes a Nominating Committee (the “**NC**”), a Remuneration Committee (the “**RC**”), an Investment Committee (the “**IC**”) and an Audit Committee (the “**AC**”), each of which functions within clearly defined terms of reference and operating procedures which are reviewed on a regular basis. The number of meetings and attendance by the respective members are set out in the table on page 3 of this report.

CORPORATE GOVERNANCE REPORT

Whenever a new Director is appointed on the Board, the Company ensures that the new Director receives a thorough orientation programme to update them with all information necessary or desirable for the Directors to understand the Company's businesses and governance practices. Depending on the need, new Directors may be put through house sessions to acquaint them on Directors' duties and compliance with the relevant bodies of law in the performance of their duties. On an on-going basis, the Company will provide further information and updates on the Group and its business to the Board members, including any changes in legislation or regulations that may impact the Company's conduct of its business or affect the Directors in discharging their duties to the Company. Additional training will be provided, as and when necessary, to the Directors.

Principle 2: Board Composition and Guidance

There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from the management. The Board presently comprises seven Directors, two of whom are Executive Directors. There is a strong independent element on the Board as more than one-third of the Board comprises Independent Directors.

Dragon Group takes great pride in the composition of its Board of Directors, which as a group, provides core competencies including that of legal, accounting, finance, business accounting, finance, business development and management, relevant industry knowledge, strategic planning and customer-based experience and knowledge. The profiles of each of our Directors are set out on pages 5 to 7 of the annual report. The Board is therefore well placed to lead providing entrepreneurial and strategic leadership, and ensuring that the necessary financial and human resources are in place for the Group to meet its objectives.

Non-Executive Directors are encouraged to constructively challenge and help to develop business proposals tabled by Management. They also monitor and review the performance of Management in meeting agreed goals and objectives. To facilitate a more effective check on Management, Non-Executive Directors are encouraged to meet regularly without the presence of management executives.

The Board is of the view that its current size and composition are appropriate, after taking into account the nature and scope of the Company's operations and its near-term business plans.

Principle 3: Chairman and Chief Executive Officer ("CEO")

The Chairman has assumed additional responsibilities as CEO of the Company in 2008. This is in anticipation of the growing market opportunities in China and to reinforce the Company's presence in China. The Board is of the opinion that given the Chairman's vast experience in China, adopting a single leadership structure will ensure a more efficient decision-making process to expedite the Group's thrust into this market.

The Chairman provides input on broad strategic directions for the Company and manages the daily running of the business. He also bears responsibility for the workings of the Board, ensuring its effectiveness in all aspects of its role.

All major decisions made by the Chairman are reviewed by the Board and AC. His performance and appointment to the Board is reviewed periodically by the NC and his remuneration is reviewed periodically by the RC. Both the NC and RC comprise all independent directors of the Company. As such, the Board is of the opinion that there are adequate safeguards in place against concentration of power and authority in a single individual.

The Board has a Lead Independent Director, Mr Derek Loh Eu-Tse, in accordance with recommendations under the Code, to provide a channel for shareholders to raise any issue of concern for which communication through the Chairman and CEO may not be appropriate in some circumstances. Mr Derek Loh Eu-Tse who is retiring at the forthcoming Annual General Meeting ("AGM") will not be seeking re-election and Mr Mohd Sopiyan B. Mohd Rashdi will replace him as the Lead Independent Director.

Principle 4: Board Membership

Nominating Committee

The appointment of new Directors to the Board is recommended by the NC. All of the members of the NC are independent. The NC Chairman is not a substantial shareholder nor is he directly associated with any substantial shareholder of the Company. Mr Teh Kim Seng who is retiring at the forthcoming AGM will not be seeking re-election and Mr Mohd Sopiyan B. Mohd Rashdi will be replacing him as the NC Chairman. The nature of the Directors' appointments on the Board and details of their membership on the Board Committees are set out below:

CORPORATE GOVERNANCE REPORT

Board and Committee Membership

The Directors and Board Committee members at the date of this annual report are:

Directors	Board Membership	Committee Membership			
		Audit	Investment [^]	Remuneration	Nominating
Dato' Michael Loh Soon Gnee	Executive	N.A.	Member	N.A.	N.A.
Timothy Lim Boon Liat	Executive	N.A.	Member	N.A.	N.A.
Dr Yu Kenneth Keung Yum	Non-Executive	N.A.	N.A.	N.A.	N.A.
Derek Loh Eu-Tse	Lead Independent	Chairman	N.A.	Member	Member
Teh Kim Seng	Independent	Member	Chairman	Member	Chairman
Dato' Shaarani B. Ibrahim	Independent	Member	N.A.	Chairman	Member
Mohd Sopiyan B. Mohd Rashdi	Independent	N.A.	N.A.	N.A.	N.A.

[^] The Investment Committee was dissolved on 22 February 2011.

The Board meets at least 4 times each year and as and when warranted by particular circumstances, as deemed appropriate by the Board. The Company's Articles of Association provide for telephonic and videoconference meetings. As a general rule, materials for Board meetings are sent to the Directors in advance in order for the Directors to be adequately prepared for the meetings.

The frequency of the meetings of the Board and its various Committees and the attendance by the Directors for FY 2010 are set out below:

Attendance at Board and Committee Meetings

Meetings	Board	Audit Committee	Investment Committee	Remuneration Committee	Nominating Committee
No. of Meetings	4	4	4	1	4
Directors					
Dato' Michael Loh Soon Gnee*	4	N.A.	2	N.A.	N.A.
Timothy Lim Boon Liat	4	1 [#]	4	N.A.	N.A.
Derek Loh Eu-Tse	4	4	N.A.	1	4
Teh Kim Seng	4	4	4	1	4
Steven Shen Hing**	0	N.A.	0	N.A.	N.A.
Haji Zubir B. Haji Harun***	3	3	N.A.	1	3
Dr Yu Kenneth Keung Yum****	3 and 1 [#]	1 [#]	1 [#]	N.A.	2 [#]
Dato' Shaarani B. Ibrahim*****	1	1	N.A.	N.A.	1

[#] By Invitation

* Dato' Michael Loh replaced Mr Steven Shen as a member of the IC on 12 August 2010.

** Mr Steven Shen Hing retired as Director of the Company on 29 April 2010.

*** Haji Zubir B. Haji Harun resigned as Director of the Company on 8 September 2010.

**** Dr Yu Kenneth Keung Yum was appointed as Director of the Company on 1 March 2010.

***** Dato' Shaarani B. Ibrahim was appointed as Director of the Company on 8 September 2010.

Retirement and Re-election of Directors

As a principle of good corporate governance, the Company's Articles of Association provides that at least one-third of the Directors for the time being retire from office by rotation and submit themselves for re-election by the shareholders at each AGM. Directors to retire shall be those who have been longest in office since their last election or appointment or have been in office for the last three years since their last election. In Dragon Group, even the CEO retires by rotation and submits himself for re-election on a regular basis. In addition, any director appointed to fill a casual vacancy or as an additional Director shall hold office until the next AGM. He shall then be eligible for re-election at the AGM.

CORPORATE GOVERNANCE REPORT

The functions of the NC include making recommendations to the Board on all Board appointments and the re-nomination of retiring Directors. In recommending to the Board any re-nomination and re-election of existing Directors, the NC takes into consideration the Directors' contribution and performance at Board and Committee meetings, including their attendance, commitment of time, preparedness, participation and candour at the meeting.

The shareholding of each Director is set out in the Directors' Report under the Section "Directors' interests in shares and debentures" on pages 1 and 2 of the Directors' Report in Appendix 2 of this annual report.

The dates of initial appointments and last re-election of the persons who are Directors as at the date of this annual report are set out below:

Directors	Designation	Date of Initial Appointment	Date of Last Re-election
Dato' Michael Loh Soon Gnee	Executive Chairman & CEO	23 October 2003	24 April 2008
Timothy Lim Boon Liat	Executive Director	12 August 2009	29 April 2010
Dr Yu Kenneth Keung Yum	Non-Executive Director	1 March 2010	29 April 2010
Derek Loh Eu-Tse	Lead Independent Director	15 January 2004	30 April 2009
Teh Kim Seng	Independent Director	15 January 2004	30 April 2009
Dato' Shaarani B. Ibrahim	Independent Director	8 September 2010	Not Applicable
Mohd Sopiyan B. Mohd Rashdi	Independent Director	16 February 2011	Not Applicable

Having considered the effectiveness and contributions of each Director, the NC nominates and recommends the following Directors to be re-elected at the forthcoming AGM of the Company:

Dato' Michael Loh Soon Gnee	Executive Chairman & CEO
Dato' Shaarani B. Ibrahim	Independent Director
Mohd Sopiyan B. Mohd Rashdi	Independent Director

Confirmation of Independence of Directors

The NC is also responsible for determining the independence of Directors annually. In its annual review for FY 2010, the NC, having considered the guidelines set out in the Code, has confirmed the status of the following Non-Executive Directors:

Derek Loh Eu-Tse	Lead Independent
Teh Kim Seng	Independent
Dato' Shaarani B. Ibrahim	Independent
Mohd Sopiyan B. Mohd Rashdi	Independent

Although some of the Directors have multiple Board representation, the NC is satisfied that each Director is able to and has been adequately carrying out his duties as a Director of the Company.

If ever required, the search and nomination process for new Directors will be through search companies, contacts and recommendations that go through the normal selection process, to cast the net as wide as possible for the right candidate.

Each member of the NC abstains from making any recommendations and/or participating in any deliberation of the NC and from voting on any resolution, in respect of the assessment of his performance or re-nomination as Director.

Principle 5: Board Performance

The NC uses objective performance criteria to assess the effectiveness of the Board as a whole. Benchmarks on the effectiveness of the Board include financial indicators such as return on assets, return on equity, return on investment, economic value added, operating margins, the Company's share price, and the Company's general performance *vis-à-vis* its competitors and industry peers.

These performance criteria which allow for comparison with industry peers are approved by the Board and addresses how the Board has enhanced long term shareholders' value. These performance criteria will be reviewed as and when required.

CORPORATE GOVERNANCE REPORT

Principle 6: Access to Information

The Board oversees the management of the business affairs and operations of the Group and establishes from time to time, strategies and financial initiatives implemented by Management. In order to fulfil their responsibilities, Board members were provided with complete, adequate and timely information prior to board meetings and on an on-going basis. Such information includes background or explanatory information relating to matters brought before the Board, copies of disclosure documents, budgets, forecasts and internal financial statements. The Board also duly monitors Management's performance.

The appointment of Company Secretary and any change thereof is a matter for the Board's decision. The Directors have separate and independent access to the Company Secretary. Duties of the Company Secretary include ensuring that Board procedures are followed and complied with applicable rules and regulations including the Companies Act, Cap. 50 and the SGX-ST Listing Manual. The Company Secretary under the direction of the Chairman also ensures good information flows within the Board and its Committees and between senior management and non-executive Directors. The Company Secretary attends all Board and AC meetings.

In carrying out their obligations as Directors of the Company, access to independent professional advice is, if necessary, available to all Directors, either individually or as a group, at the expense of the Company.

REMUNERATION

Principle 7: Procedures for Developing Remuneration Policies

Remuneration Committee

The Board has set up a RC comprising three members, all of whom are Independent and Non-Executive Directors (See Board Membership on page 2 of this annual report). No Director is involved in deciding his own remuneration.

The RC's principal responsibilities are to:

- recommend to the Board, the base salary levels, benefits and incentive programs, and identify components of salary which can best be used to attract management staff in achieving corporate objectives;
- approve the structure of the compensation programme (including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits in kind) for Directors and senior management to ensure that the programme is competitive and sufficient to attract, retain and motivate senior management of the required quality to run the Company successfully;
- review, on an annual basis, the specific compensation packages of the Company's Directors, CEO and senior management personnel and determine the appropriate adjustments; and
- administer the Company's Share Option Scheme ("ESOS") and responsible for approving and administering the ESOS according to its Rules.

The RC reviews subsequent awards of share options under the ESOS to all Executive Directors. There are appropriate and meaningful measures in place for the purpose of assessing the performance of Executive Directors and senior management personnel.

Principle 8: Level and Mix of Remuneration

The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performances.

In this regard, the RC:

- takes into account the pay and employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of individual Directors;
- considers whether the Directors should be eligible for benefits under long-term incentive schemes (including weighing the use of share schemes against other types of long-term incentive schemes);
- reviews the terms, conditions and remuneration of Executive Directors, and ensures that their total remuneration package have a significant portion of performance-related elements.

Non-Executive Directors have no service contracts with the Company and their terms are specified in the Articles of Association. Non-Executive Directors are paid a basic fee and an additional fee for serving on any of the committees. The fee takes into account factors such as effort and time spent, and responsibilities undertaken and their contributions to the Board. The fees

CORPORATE GOVERNANCE REPORT

paid to the Company's Non-Executive Directors are also benchmarked against Non-Executive Directors' fees paid by companies in the same industry and with similar scale of operation. The RC is of the view that the Company's Non-Executive Directors are not over-compensated to the extent that their independence may be compromised. Such fees are subject to the approval of the shareholders at the AGM.

Executive Directors (except those who are also substantial shareholders) are eligible to participate in the ESOS. The RC will review and approve the quantity of share options to be granted based on pre-determined performance criteria. The options are exercisable up to a ten-year period including a vesting period of least 1 year. Executive Directors are encouraged to hold their shares beyond the vesting period, subject to the individual's need to finance the costs of acquisition and associated tax liability.

The remuneration policy for staff adopted by the Company, where appropriate, comprises a fixed component and a variable component. The fixed component is in the form of a base salary.

The ESOS, administered by the RC, may when appropriate, form another element in the variable component of the pay packages of all employees. Subject to such adjustment as may be made pursuant to the ESOS, the total number of shares in respect of which the Company may grant options shall not exceed fifteen per cent (15%) of the total issued share capital of the Company for the time being. The amount of share options, which may be granted to each employee, depends on the grade of the employee. This is subject to the approval of the RC.

Typically, the subscription price payable upon the exercise of a share option shall be equal to the average of the last transacted prices of the shares for the three consecutive market days on which dealings in the shares took place on the SGX-ST immediately preceding the date of grant. The Company's policy is to account for the fair value of share options for financial reporting purposes. However in deserving cases, the Company may grant the share option at a discount to Directors or executives or staff of the Company who had made significant contributions based on a predetermined performance criteria approved by the RC.

The RC and the Board have collectively endorsed the Company's remuneration policy.

Principle 9: Disclosure on Remuneration

Remuneration of Directors for the year ended 31 December 2010

Directors	Fees (%)	Salary (%)	Bonus (%)	Other Benefits (%)	Contribution From Employer (%)	Total (%)
Above \$500,000						
Dato' Michael Loh Soon Gnee	3%	50%	30%	17%	0%	100%
Below \$250,000						
Lim Boon Liat Timothy	9%	69%	6%	11%	4%	100%
Dr Yu Kenneth Keung Yum	13%	85%	0%	1%	1%	100%
Derek Loh Eu-Tse	100%	0%	0%	0%	0%	100%
Teh Kim Seng	100%	0%	0%	0%	0%	100%
Haji Zubir B. Haji Harun	100%	0%	0%	0%	0%	100%
Dato' Shaarani B. Ibrahim	100%	0%	0%	0%	0%	100%

Remuneration of Directors for the year ended 31 December 2010

The breakdown of the remuneration of the top 5 key executives (who are not Directors) of the Group are not disclosed in this annual report to avoid possible poaching of the Group's executives.

There are no employees who are immediate family members of a Director or the CEO, and whose remuneration exceeds S\$150,000 during the financial year ended 31 December 2010.

Directors' fees are approved by shareholders at every Annual General Meeting of the Company. The remuneration of the Executive Directors are approved by the Remuneration Committee and endorsed by the Board.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

Principle 10: Accountability

The Board presents to shareholders a balanced and clear assessment of the Company's performance, position and prospects. The Board has embraced openness and transparency in the conduct of the Company's affairs whilst preserving the interests of the Company.

Financial reports and other price sensitive information, all news releases and analyst presentations are disseminated to shareholders through SGXNET and posted on the Company's website at www.dragongp.com.

The Annual Report is disseminated to all shareholders and is available on the Company's website.

Principle 11: Audit Committee

Audit Committee

The AC comprises three members, namely Derek Loh Eu-Tse (Chairman), Teh Kim Seng and Dato' Shaarani B. Ibrahim. All members of the AC are Non-Executive and Independent Directors.

The members of the AC have experience in managerial positions across the legal, sale, banking, audit and finance industries. (See Directors' profile on pages 5 to 7 of the annual report). The Board is of the view that the members of the AC have sufficient financial management expertise and experience to discharge the AC's functions.

The AC has the express power to conduct or authorise investigations into any matters within its terms of reference and has full access to and co-operation by Management. It has full discretion and prerogative to invite any Director or executive officer to attend its meetings. All resources that would enable the AC to discharge its duties effectively and expeditiously are made available to the AC.

The AC performs the following functions in accordance with Section 201B(5) of the Companies Act, Cap. 50:

1. reviews with the external auditors, their audit plan, evaluation of the accounting controls, audit reports and any matters which the external auditors wish to discuss;
2. reviews with the internal auditors at least annually, the adequacy of the internal audit procedures and their evaluation of the effectiveness of the overall internal control systems, including financial, operational and compliance controls and risk management;
3. reviews the internal audit function to ensure that it is adequately resourced and has appropriate standing within the Group;
4. reviews significant financial reporting issues and judgements to ensure the integrity of financial statements of the Company and that of any formal announcements made quarterly or annually relating to the Company's financial performance, including announcements to shareholders and the SGX-ST prior to the submission to the Board;
5. reviews any significant findings of internal investigations;
6. makes recommendations to the Board on the appointment of external auditors, the audit fee and any questions on their resignation or dismissal;
7. reviews and approves the appointment, replacement, re-assignment or the dismissal of the internal auditor;
8. reviews the assistance given by the Company's officers to the external auditors and internal auditors;
9. reviews and monitors interested person transactions, if any, arising and to ensure that internal control procedures approved by shareholders are adhered to in relation to such transactions;
10. reports actions and minutes of the AC meetings to the Board of Directors with such recommendations as the AC considers appropriate;
11. conducts an annual review of the independence and objectivity of the Company's external auditors, including the volume of non-audit services supplied by the external auditors, to satisfy itself that the nature and extent of such services have not prejudiced the independence and objectivity of the external auditors before confirming their re-nomination; and
12. nominate external auditors.

The AC held 4 meetings during the year, attendance of which is detailed on page 3 of this annual report.

CORPORATE GOVERNANCE REPORT

The AC has met with the Company's external auditors, Ernst & Young LLP ("E&Y") without the presence of Management. Reports of the findings and recommendations by external auditors are done independently to ensure an effective environment of control and regulation within the Group.

Each member of the AC abstains from voting on any resolution and making any recommendations and/or participating in any deliberations in respect of matters in which he is interested in.

E&Y carried out, in the course of their statutory audit, a review of the effectiveness of the Company's material internal controls focusing primarily on financial controls, to the extent set out in their audit plan. Material non-compliance and internal control weaknesses noted during their audit, and the external auditors' recommendations to address such non-compliance and weaknesses, are reported to the AC. Management, with the assistance of the internal auditor, follows up on E&Y's recommendations as part of its role in the review of the Company's internal control systems. The Board is satisfied that the Company's internal controls are at present adequate.

The AC has reviewed the independence of E&Y, taking into account the volume of non-audit services supplied by them and is satisfied that the provision of such services did not affect their position as independent external auditor.

The Company has since May 2008 implemented a whistle blowing policy that is needed to provide well-defined and accessible channels through which any employee may raise any concerns they may have about improper conduct or malpractices within the Group. Any concerns may be raised, either anonymously or otherwise, directly to any member of the AC and the identity of the person raising the concern is strictly protected to the extent practicable in law. All members of the AC have direct oversight in the administering of the policy with the assistance of the General Counsel of the Group.

There were no complaints received up to the date of this annual report.

Principle 12: Internal Controls

The Company has put in place internal controls systems to manage its significant business risks, so as to safeguard shareholders' investments and the Company's assets.

A crucial function served by the AC is the regulation of risks undertaken or faced by the Group. The AC may examine whichever aspects it deems appropriate of the Group's financial affairs, audits and its exposure to risks of a regulatory or legal nature.

The AC keeps under review the efficacy of the Group's system of accounting and internal financial controls. The AC also kept under constant review the Company's system of ensuring compliance with legal, operational and regulatory matters, including risk management, amongst others.

The AC, with the assistance of the internal auditors and external auditors, have reviewed, and the Board of Directors is satisfied with the adequacy of Dragon Group's material internal controls, including financial, operational and compliance controls, and risk management systems.

Risk Management and Interested Person Transactions

An assessment of the significant risks areas relevant to the Company's businesses and operations and compliance requirements have been carried out and are identified as follows:

Dependence on Key Personnel

The Group's success is attributable to the concerted contributions from the Directors and key executives as set out on pages 5 to 8 of the annual report.

These key personnel are expected to be the vital contributors for the Group's success in order to adhere to its moving forward strategy. Whilst competitive remuneration packages are offered to retain and motivate these key personnel, the Group's operations and performance may be disrupted if there is any loss of employment services with them.

Reliance on Principals for Electronic Components

The electronic components business has accounted for 99% of the Group's FY 2010 turnover. This business is arranged under distributorship and/or representative agreements with territorial rights. The Group will face adverse impact to the financial performance should the principal recall the agreements, customers relocated where territories are not given, and/or customers transact directly with the principals.

The Group manages the risk of loss of principals and customers through broadening our customer base by exploring into other geographical locations, offering more product lines and instil value-added activities such as design-in programme to the customers.

CORPORATE GOVERNANCE REPORT

Change in Technologies

The global electronics industry is faced with technological changes which may result in price erosion and stock obsolescence in which the Group distribute.

The Group manages the risk by encouraging its employees to stay abreast with the technological/market developments through regular informal meetings exchange and product training sessions.

In addition to the above, the financial risk management are disclosed on Note 38 (on page 59 of the Financial Statements in Appendix 2 of this annual report).

Foreign Exchange Risk

The Group is exposed to various common financial risks arising in the normal course of business. A significant portion of the Group's revenue is denominated in the United States dollar. Operating expenses and wages are made mainly in local currency. Hence, exchange rate movements in the United States dollar and the Singapore dollar (the Company's reporting currency), amongst others, expose the Company to foreign currency risk.

Dealings in the Company's Securities

The Company has devised and adopted an internal compliance code (the "Internal Code") to provide guidance to its officers with regards to dealings in the Company's securities including reminders that the law on insider trading is applicable at all times. The Internal Code complies with, and the Board confirms that for the financial year ended 31 December 2010, the Company has complied with, Rule 1207(18) of the SGX-ST Listing Manual.

Interested Person Transactions ("IPT")

The risks associated with IPT relates not only to compliance issues but also the prevention of transactions being carried out on terms that are less than favourable and not at arms length.

Except as provided below, there are no IPTs between an interested person and the Company, its subsidiaries or associated companies for the financial year ended 31 December 2010: .

Name of Interested Person	Aggregate value of all IPTs for FY 2010 under review (excluding transactions less than S\$100,000) US\$'000
Flexcomm Limited ⁽¹⁾	433
ASTI ⁽²⁾	508

(1) The IPT refers to the technical services fee, sales of goods and commission paid to Flexcomm Limited, a company controlled by a controlling shareholder of the Company.

(2) The IPT refers to the management fee charged by ASTI Holdings Limited, holding company of the Group.

The AC will continue to review and monitor any IPT that may arise and ensures that the Company seeks appropriate approvals, makes appropriate announcements or disclosures on these IPT in accordance with Chapter 9 of the SGX-ST Listing Manual.

Principle 13: Internal Audit

The internal audit function was outsourced to Baker Tilly Consultancy (Singapore) Pte Ltd (the "Internal Auditor") in FY 2004. The Internal Auditor (the "IA") is independent of the activities it audits.

The IA reports directly on internal audit matters to the Chairman of the AC. The IA assists the AC in monitoring and assessing the effectiveness of the Group's material internal controls. The IA also assists Management in identifying operational and business risks and provides recommendations to address those risks.

The AC ensures that the internal audit function is adequately resourced and has the capabilities to adequately perform its functions. In this regard, the AC reviews on a quarterly basis the effectiveness of the IA by examining the scope of the IA's work, quality of its reports, reporting structure within the Company, qualifications and training, relationship with the external auditor, and its independence of the areas reviewed. The AC is of the view that the IA is adequately resourced and has appropriate standing within the Group.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

Principle 14: Regular, Effective and Fair Communication with Shareholders

On a regular and timely basis, the Company disseminates material information simultaneously through news and press releases via SGXNET and electronic mail to securities analysts, shareholders, and the media. The Company also posts these press releases on its public website, <http://www.dragongp.com> to ensure that all shareholders and the public gain fair access to information, updates and the archives of the Company. The website also provides a channel for shareholders to raise any concerns or issues, if any.

Information is always communicated to shareholders on a timely and fair basis. Where inadvertent disclosure has been made to a selected group, the Company ensures that the same disclosure is made publicly to all others as soon as practicable.

Principle 15: Shareholders' Participation at AGMs

Shareholders are informed of shareholders' meetings through timely and formal notices published in the newspapers. All relevant reports and/or circulars are sent to all shareholders early so that they can familiarise themselves with the issues that will be raised at general meetings. Shareholders are also given opportunities to raise questions, and to communicate their views on issues which affect the Company, at general meetings and to vote in absentia. Every shareholder is entitled to appoint two proxies to attend general meetings and vote in his/her stead.

The Articles of Association of the Company do not impose a limit on the number of proxies a nominee company can appoint. Shareholders who hold shares through nominees can attend general meetings as proxies if they so desire; provided the member name is certified by the Depository (Nominee Company) to the Company as appearing on the Depository Register not later than 48 hours before the general meeting as a Depositor on whose behalf the Depository holds shares in the Company.

The Company's external auditors, chairpersons of the AC, the NC and the RC are present at all General Meetings to assist the Board of Directors and Management to address any questions shareholders may have.

At general meetings, each substantially separate issue is dealt with in separate resolutions. The Company avoids bundling of resolutions unless the resolutions are interdependent and linked so as to form one significant proposal.



APPENDIX 2

DRAGON GROUP INTERNATIONAL LIMITED | ANNUAL REPORT 2010

DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS

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Comprehensive Income
- 9 Statements of Financial Position
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DIRECTORS' REPORT

The Directors are pleased to present their report to the members together with the audited consolidated financial statements of Dragon Group International Limited (the "Company") and its subsidiary companies (collectively, the "Group" or "Dragon Group") and the statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2010.

Directors of the Company

The Directors of the Company in office at the date of this report are:

Dato' Michael Loh Soon Gnee
 Dr Yu Kenneth Keung Yum (Appointed on 1 March 2010)
 Loh Eu-Tse Derek
 Mohd Sopiyan B. Mohd Rashdi (Appointed on 16 February 2011)
 Dato' Shaarani B. Ibrahim (Appointed on 8 September 2010)
 Teh Kim Seng
 Timothy Lim Boon Liat

Arrangements to enable Directors to acquire shares and debentures

Except as disclosed herein, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects, is to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' interests in shares and debentures

The following Directors, who held office at the end of the financial year, had, according to the register of the Directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Cap. 50, an interest in shares and share options of the Company and its related corporations as stated below:

Name of Director	At the beginning of the year or at date of appointment	At the end of the year	At 21 January 2011
<i>The holding company – ASTI Holdings Limited ("ASTI")</i>			
Ordinary shares			
Dato' Michael Loh Soon Gnee			
- held in name of Director	51,508,000	51,508,000	51,508,000
- held by nominee	57,000,000	57,000,000	57,000,000
Teh Kim Seng			
- held by nominee	100,000	100,000	100,000
Timothy Lim Boon Liat			
- held in name of Spouse	99,000	99,000	99,000
<i>The Company</i>			
Ordinary shares			
Dato' Michael Loh Soon Gnee			
- deemed interest	168,063,442	172,579,302	172,579,302
Warrants			
Dato' Michael Loh Soon Gnee			
- deemed interest	-	138,063,442	138,063,442

DIRECTORS' REPORT

Directors' interests in shares and debentures (cont'd)

Dato' Michael Loh Soon Gnee is deemed to be interested in the ordinary shares of the holding company and all the subsidiary companies by virtue of Section 7 of the Act because he holds more than 20% equity interest in the holding company.

Except as disclosed in this report, no Director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company or of related corporations, either at the beginning of the financial year, or at the end of the financial year.

Directors' contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no Director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the Director, or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Share options

(a) *The Company*

- (i) Dragon Group Executives' Share Option Scheme (the "ESOS") was approved by the shareholders at the Extraordinary General Meeting held on 7 June 1996. At the Extraordinary General Meeting held on 16 July 2001, the shareholders approved certain modifications to the ESOS to bring the rules of the ESOS approved on 7 June 1996 in line with the amendments introduced by the Companies (Amendment) Act 1998 ("CAA") and the amendments to the Listing Manual issued by the Singapore Exchange Securities Trading Limited ("SGX-ST") on 6 April 1999.

The ESOS, as modified, caters to a larger pool of participants, namely, selected full-time executive employees, Executive Directors and Non-Executive Directors of the Group and its associated companies. Grantees or participants of the ESOS will not be restricted from participating in any other share option or share incentive scheme, whether or not implemented by any of the other companies within the Group or any other company.

The options granted to executive employees and Executive Directors of the Group will have a life span of ten (10) years from the relevant date of grant whilst options granted to Non-Executive Directors of the Group, executive employees and Directors of associated companies will have a life span of five (5) years from the relevant date of grant. However, existing options granted prior to 18 November 1998 (being the date that the CAA became operational) shall only have a maximum life span of five years.

The exercise or subscription price of the options will be the average of the closing prices of the Company's ordinary shares on the SGX-ST for the three market days immediately preceding the date of grant (the "Market Price") or at a price set at a discount not exceeding 20% of the Market Price.

The options granted at the Market Price may only be exercised one (1) year after the relevant date of grant whilst options granted at a discount to the Market Price may only be exercised two (2) years after the relevant date of grant.

The Modified Scheme was intended to last for ten years. Effectively the ESOS will expire on 15 July 2011.

- (ii) At the date of this report, the ESOS is administered by the Remuneration Committee (the "RC") comprising the following Directors:
 - Dato' Shaarani B. Ibrahim (Chairman)
 - Teh Kim Seng
 - Loh Eu-Tse Derek
- (iii) From the commencement of the ESOS to 31 December 2010, no options have been granted under the ESOS to any controlling shareholder of the Company and/or its associates.
- (iv) The options granted by the Company do not entitle the holders of the options, by virtue of such holdings, to any right to participate in any share issue of any other company.
- (v) During the financial year, no ESOS was exercised.
- (vi) During the financial year, no options were granted under the ESOS.

DIRECTORS' REPORT

Share options (cont'd)

(a) *The Company (cont'd)*

- (vii) There were no outstanding options to subscribe for ordinary shares of the Company pursuant to the ESOS as at 31 December 2010.
- (viii) During the financial year, no Directors were granted options under the ESOS.
- (ix) There was no participant who received 5% or more of the total number of options available under the ESOS during the financial year.
- (x) No option was granted at a discount to the Market Price.

(b) *Subsidiary companies*

SCM Share Option Scheme (the "SCM ESOS") of SCM Solutions Pte Ltd ("SCM") as approved by its shareholders on 3 April 2000 was to be in force at the discretion of the RC, subject to a maximum period of ten years. Effectively the SCM ESOS expired as at 2 April 2010.

DIRECTORS' REPORT

Audit Committee

The Audit Committee ("AC") carried out its functions in accordance with Section 201B (5) of the Singapore Companies Act, Cap. 50, including the following:

1. Reviewed the audit plans of the internal and external auditors of the Company and reviewed the internal auditors' evaluation of the adequacy of the Company's system of internal accounting controls and the assistance given by the Company's management to the external and internal auditors;
2. Reviewed the quarterly and annual financial statements and the auditors' report on the annual financial statements of the Company and the Group before their submission to the Board of Directors;
3. Reviewed effectiveness of the Company's material internal controls, including financial, operational and compliance controls and risk management via reviews carried out by the internal auditors;
4. Met with the external auditors, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC;
5. Reviewed legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators;
6. Reviewed the cost effectiveness and the independence and objectivity of the external auditors;
7. Reviewed the nature and extent of non-audit services provided by the external auditors;
8. Recommended to the Board of Directors the external auditors to be nominated, approved the compensation of the external auditors, and reviewed the scope and results of the audit;
9. Reported actions and minutes of the AC to the Board of Directors with such recommendations as the AC considers appropriate; and
10. Reviewed interested person transactions in accordance with the requirements of the Singapore Exchange Securities Trading Limited ("SGX-ST")'s Listing Manual.

The AC, having reviewed all non-audit services provided by the external auditors to the Group, is satisfied that the nature and extent of such services would not affect the independence of the external auditors. The AC has also conducted a review of interested person transactions.

Further details regarding the AC are disclosed in the Report on Corporate Governance.

Auditors

Ernst & Young LLP have expressed their willingness to accept reappointment as auditors.

On behalf of the Board of Directors,

Dato' Michael Loh Soon Gnee
Director

Timothy Lim Boon Liat
Director

Singapore
4 April 2011

STATEMENT BY THE DIRECTORS

We, Dato' Michael Loh Soon Gnee and Timothy Lim Boon Liat, being two of the Directors of Dragon Group International Limited, do hereby state that, in the opinion of the Directors,

- (i) the accompanying statements of financial position, consolidated income statement, consolidated statement of comprehensive income, statements of changes in equity and consolidated cash flow statement together with the notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2010 and the results of the business, changes in equity and cash flow of the Group and changes in equity of the Company for the year then ended, and
- (ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors,

Dato' Michael Loh Soon Gnee
Director

Timothy Lim Boon Liat
Director

Singapore
4 April 2011

INDEPENDENT AUDITORS' REPORT

For the year ended 31 December 2010

To the members of Dragon Group International Limited

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Dragon Group International Limited (the "Company") and its subsidiary companies (collectively, the "Group" or "Dragon Group"), which comprise the statements of financial position of the Group and the Company as at 31 December 2010, the statements of changes in equity of the Group and the Company, and the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Cap. (the Act) and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Singapore 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 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 entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2010 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary companies incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

ERNST & YOUNG LLP

Public Accountants and
Certified Public Accountants
Singapore

4 April 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Note	Group	
		2010 US\$'000	2009 US\$'000
Revenue	5	216,350	231,126
Cost of sales		(196,646)	(206,023)
Gross profit		19,704	25,103
Other income	6	814	953
Selling and marketing costs		(9,163)	(11,754)
General and administrative costs		(8,605)	(11,348)
Finance costs	7	(2,169)	(2,842)
Exceptional items	8	(228)	(6,974)
Share of results of associated companies		(12)	(51)
Profit/(Loss) before taxation	9	341	(6,913)
Taxation	10	288	(1,047)
Profit/(Loss) for the year		629	(7,960)
Attributable to:			
Equity holders of the Company		663	(7,010)
Non-controlling interests		(34)	(950)
		629	(7,960)
Basic earnings/(loss) per share (cents) (restated)	11	0.88	(10.51)
Diluted earnings/(loss) per share (cents) (restated)	11	0.88	(10.51)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	Group 2010 US\$'000	Group 2009 US\$'000
Profit/(loss) for the year		629	(7,960)
Other comprehensive income:			
Foreign currency translation		409	420
Realisation of reserve of disposal group classified as held for sale in prior year		439	-
Other comprehensive income for the year, net of tax		848	420
Total comprehensive income for the year		1,477	(7,540)
Total comprehensive income attributable to:			
Equity holders of the Company		1,379	(6,593)
Non-controlling interests		98	(947)
		1,477	(7,540)

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2010

	Note	Group		Company	
		2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
ASSETS					
Non-current assets					
Intangible assets	12	5,957	6,604	102	102
Property, plant and equipment	13	5,171	4,691	48	2
Investments in subsidiary companies	14	–	–	33,122	33,122
Investments in associated companies	15	–	9	–	–
Available-for-sale financial assets	16	750	978	706	934
Other financial assets	17	–	–	–	–
Amounts due from subsidiary companies	18	–	–	5,970	5,970
Deferred tax assets	19	281	–	–	–
		12,159	12,282	39,948	40,130
Current assets					
Stocks	20	20,773	17,412	–	–
Prepayments		467	512	31	62
Amounts due from subsidiary companies	18	–	–	1,632	1,638
Trade debtors	21	59,218	50,252	–	–
Other debtors	22	1,323	2,461	92	85
Tax recoverable		–	11	–	–
Cash and bank balances	23	23,943	18,771	3,840	154
		105,724	89,419	5,595	1,939
Assets of disposal group classified as held for sale	4(c)	–	9,398	–	–
		105,724	98,817	5,595	1,939
TOTAL ASSETS		117,883	111,099	45,543	42,069
EQUITY AND LIABILITIES					
Current liabilities					
Amounts due to bankers	24	26,485	24,222	–	1,613
Bills payable to banks	25	18,472	15,361	–	–
Trade creditors and accruals	26	31,885	34,742	344	229
Other creditors	27	3,991	4,364	453	209
Amount due to holding company	28	412	5,582	412	732
Amounts due to subsidiary companies	29	–	–	15,699	10,344
Convertible loans	30	–	554	–	554
Provision for taxation		226	842	20	18
		81,471	85,667	16,928	13,699
Liabilities directly associated with disposal group classified as held for sale	4(c)	–	3,226	–	–
		81,471	88,893	16,928	13,699
NET CURRENT ASSETS/(LIABILITIES)		24,253	9,924	(11,333)	(11,760)
Non-current liabilities					
Amounts due to subsidiary companies	29	–	–	–	8,867
Deferred tax liabilities	19	477	654	–	–
Lease creditors	31	–	68	–	–
Long-term payables		369	376	–	–
		846	1,098	–	8,867
TOTAL LIABILITIES		82,317	89,991	16,928	22,566
NET ASSETS		35,566	21,108	28,615	19,503

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2010

	Note	Group		Company	
		2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Equity attributable to equity holders of the Company					
Share capital	32	54,928	41,844	54,928	41,844
Capital reserve	33	2,140	2,140	–	–
Foreign currency translation reserve	34	(5,969)	(6,246)	–	–
Accumulated losses		(19,684)	(20,347)	(26,313)	(22,341)
Reserve of disposal group classified as held for sale	4(d)	–	(439)	–	–
		31,415	16,952	28,615	19,503
Non-controlling interests		4,151	4,156	–	–
TOTAL EQUITY		35,566	21,108	28,615	19,503
TOTAL EQUITY AND LIABILITIES		117,883	111,099	45,543	42,069

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to equity holders of the Company						Non-controlling interests	Total equity
	Share capital (Note 32)	Capital reserve (Note 33)	Foreign currency translation reserve (Note 34)	Accumulated losses	Reserve of disposal group classified as held for sale (Note 4(c))	Equity attributable to equity holders of the Company, total		
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	
2010								
Group								
At 1 January 2010	41,844	2,140	(6,246)	(20,347)	(439)	16,952	21,108	
Profit/(loss) for the year	–	–	–	663	–	663	629	
<u>Other comprehensive income</u>								
Foreign currency translation	–	–	277	–	–	277	132	
Realisation of reserve of disposal group classified as held for sale in prior year	–	–	–	–	439	439	–	
Other comprehensive income for the year, net of tax	–	–	277	–	439	716	132	
Total comprehensive income for the year	–	–	277	663	439	1,379	98	
<u>Contributions by and distributions to equity holders</u>								
Issuance of shares pursuant to Rights Issue	13,622	–	–	–	–	13,622	–	
Share issuance expenses	(538)	–	–	–	–	(538)	–	
Dividend paid to non-controlling interests	–	–	–	–	–	–	(103)	
Total transactions with equity holders in their capacity as equity holders	13,084	–	–	–	–	13,084	(103)	
At 31 December 2010	54,928	2,140	(5,969)	(19,684)	–	31,415	35,566	

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to equity holders of the Company						Non-controlling interests US\$'000	Total equity US\$'000
	Share capital (Note 32) US\$'000	Capital reserve (Note 33) US\$'000	Foreign currency translation reserve (Note 34) US\$'000	Accumulated losses US\$'000	Reserve of disposal group classified as held for sale (Note 4(c)) US\$'000	Equity attributable to equity holders of the Company, total US\$'000		
2009								
Group								
At 1 January 2009	41,844	2,140	(7,102)	(13,337)	–	23,545	5,103	28,648
Profit/(loss) for the year	–	–	–	(7,010)	–	(7,010)	(950)	(7,960)
<u>Other comprehensive income</u>								
Foreign currency translation	–	–	417	–	–	417	3	420
Other comprehensive income for the year, net of tax	–	–	417	–	–	417	3	420
Total comprehensive income for the year	–	–	856	(7,010)	(439)	(6,593)	(947)	(7,540)
<u>Contributions by and distributions to equity holders</u>								
Reserve of disposal group classified as held for sale	–	–	439	–	(439)	–	–	–
Total transactions with equity holders in their capacity as equity holders	–	–	439	–	(439)	–	–	–
At 31 December 2009	41,844	2,140	(6,246)	(20,347)	(439)	16,952	4,156	21,108

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2010

		Attributable to equity holders of the Company	
	Share capital (Note 32) US\$'000	Accumulated losses US\$'000	Total equity US\$'000
2010			
Company			
At 1 January 2010	41,844	(22,341)	19,503
Loss for the year	–	(3,972)	(3,972)
Other comprehensive income for the year, net of tax	–	–	–
Total comprehensive income for the year	–	(3,972)	(3,972)
<u>Contributions by and distributions to equity holders</u>			
Issuance of shares pursuant to Rights Issue	13,622	–	13,622
Share issuance expenses	(538)	–	(538)
Total transactions with equity holders in their capacity as equity holders	13,084	–	13,084
At 31 December 2010	54,928	(26,313)	28,615
2009			
Company			
At 1 January 2009	41,844	(12,641)	29,203
Loss for the year	–	(9,700)	(9,700)
Other comprehensive income for the year, net of tax	–	–	–
Total comprehensive income for the year	–	(9,700)	(9,700)
At 31 December 2009	41,844	(22,341)	19,503

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010

	2010 US\$'000	2009 US\$'000
Cash flow from operating activities		
Operating profit/(loss) before taxation	341	(6,913)
Adjustments for:		
Amortisation of intangible assets	673	579
Depreciation of property, plant and equipment	622	2,171
Gain on disposal of property, plant and equipment	(471)	(10)
Property, plant and equipment written off	26	57
Impairment of goodwill	1	652
Interest income	(85)	(135)
Interest expense	1,697	2,133
Loss on disposal of an associated company	–	26
Share of results of associated companies	12	51
Impairment losses on other financial assets	–	1,755
Impairment losses on available-for-sale financial assets	228	960
Impairment losses on property, plant and equipment	–	2,343
Provision for loss on disposal group classified as held for sale	–	439
Loss on disposal of business	–	74
Gain on disposal of subsidiaries	(66)	–
Operating cash flow before reinvestment in working capital	2,978	4,182
(Increase)/decrease in stocks	(3,360)	4,050
(Increase)/decrease in debtors	(8,327)	506
(Decrease)/increase in creditors	(2,438)	2,494
Effects of exchange rates changes	120	379
Cash (used in)/generated from operations	(11,027)	11,611
Interest paid	(1,697)	(2,133)
Interest received	85	135
Tax paid	(768)	(1,433)
Net cash (used in)/generated from operating activities	(13,407)	8,180
Cash flow from investing activities		
Proceeds from disposal of property, plant and equipment	476	350
Purchase of property, plant and equipment	(1,006)	(841)
Loan to external party	–	(91)
Investment in an associated company	(3)	–
Proceeds from disposal of an associated company	–	20
Project development expenditure	(27)	(104)
Deposits received from the disposal of group classified as held for sale (Note 4c)	–	789
Proceeds from disposal of business, net of cash and cash equivalents disposed (Note 4d)	540	61
Proceeds from disposal of subsidiaries, net of cash and cash equivalents disposed (Note 4c)	3,924	–
Net cash generated from investing activities	3,904	184

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010

	2010	2009
	US\$'000	US\$'000
Cash flow from financing activities		
(Decrease)/increase in amount due to holding company	(5,169)	3,624
Repayment of lease creditors	(100)	(52)
Increase/(decrease) in amounts due to bankers	5,374	(16,072)
(Repayment of)/proceeds from issue of convertible loans	(554)	554
Increase in fixed deposits pledged	(1,401)	(1,401)
Dividend paid to non-controlling interest	(103)	–
Proceeds from issuance of shares pursuant to Rights Issue	13,622	–
Share issuance expenses	(538)	–
Net cash generated from/(used in) financing activities	11,131	(13,347)
Net increase/(decrease) in cash and cash equivalents	1,628	(4,983)
Cash and cash equivalents at beginning of year	19,334	24,225
Effects of exchange rate changes on cash and cash equivalents	179	92
Cash and cash equivalents at end of year (Note 23)	21,141	19,334

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

1. Corporate information

Dragon Group International Limited (the “Company”) is a limited liability company which is domiciled and incorporated in Singapore and publicly traded on the Singapore Exchange Securities Trading Limited (“SGX-ST”). The immediate and ultimate holding company is ASTI Holdings Limited (“ASTI”), also incorporated in Singapore.

The registered office of the Company is located at 50 Raffles Place, #32-01, Singapore Land Tower, Singapore 048623.

The principal place of business is located at Block 25, Kallang Avenue, #03-06, Kallang Basin Industrial Estate, Singapore 339416.

The principal activities of the Company are those of investment holding and acting as corporate manager and advisor in relation to the administration and organisation of the businesses of its subsidiary companies.

The Group is primarily engaged in the following activities:

- (a) Electronics Distribution
 - (i) Trading and distribution and acting as commission agents in electronic components and products.
 - (ii) Provision of freight and warehousing facilities, material and inventory management, delivery and invoicing using web-based solutions.
 - (iii) Provision of semiconductor application in consumer electronics, computer peripheral and communication solutions.
- (b) Semiconductor Test and Consumables
 - (i) Import/export, retailing and trading in electronic components and consumables used in testing of electronic components.
- (c) Technology Investments and Others
 - (i) Investment holding and acting as corporate manager and advisor in relation to the administration and organisation of the businesses of its subsidiary companies.

Details of the significant subsidiary companies and their principal activities are included in Note 4.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (“FRS”).

The financial statements have been prepared on the historical cost basis, except as disclosed in the accounting policies below.

The financial statements are presented in United States Dollars (“USD” or “US\$”), which is the functional currency of the Company. All values are rounded to the nearest thousand (“US\$’000”) except when otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2. Summary of significant accounting policies (cont'd)

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards and Interpretations of FRS (INT FRS) that are effective for annual periods beginning on or after 1 January 2010. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group and the Company except as disclosed below:

FRS 103 Business Combinations (revised) and FRS 27 Consolidated and Separate Financial Statements (revised)

The revised FRS 103 Business Combinations and FRS 27 Consolidated and Separate Financial Statements are applicable for annual periods beginning on or after 1 July 2009. As of 1 January 2010, the Group adopted both revised standards at the same time in accordance with their transitional provisions.

FRS 103 Business Combinations (revised)

The revised FRS 103 introduces a number of changes to the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Changes in significant accounting policies resulting from the adoption of the revised FRS 103 include:

- Transaction costs would no longer be capitalised as part of the cost of acquisition but will be expensed immediately;
- Consideration contingent on future events are recognised at fair value on the acquisition date and any changes in the amount of consideration to be paid will no longer be adjusted against goodwill but recognised in profit or loss;
- The Group elects for each acquisition of a business, to measure non-controlling interest at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, and this impacts the amount of goodwill recognised; and
- When a business is acquired in stages, the previously held equity interests in the acquiree is remeasured to fair value at the acquisition date with any corresponding gain or loss recognised in profit or loss, and this impacts the amount of goodwill recognised.

According to its transitional provisions, the revised FRS 103 has been applied prospectively. Assets and liabilities that arose from business combinations whose acquisition dates are before 1 January 2010 are not adjusted.

FRS 27 Consolidated and Separate Financial Statements (revised)

Changes in significant accounting policies resulting from the adoption of the revised FRS 27 include:

- A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss recognised in profit or loss;
- Losses incurred by a subsidiary are allocated to the non-controlling interest even if the losses exceed the non-controlling interest in the subsidiary's equity; and
- When control over a subsidiary is lost, any interest retained is measured at fair value with the corresponding gain or loss recognised in profit or loss.

According to its transitional provisions, the revised FRS 27 has been applied prospectively, and does not impact the Group's consolidated financial statements in respect of transactions with non-controlling interests, attribution of losses to non-controlling interests and disposal of subsidiaries before 1 January 2010. The changes will affect future transactions with non-controlling interests.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2. Summary of significant accounting policies (cont'd)

2.2 Changes in accounting policies (cont'd)

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

<i>Description</i>	<i>Effective for annual periods beginning on or after</i>
Amendments to FRS32 <i>Financial Instruments: Presentation-Classification of Rights Issues</i>	1 February 2010
INT FRS 119 <i>Extinguishing Financial Liabilities with Equity Instruments</i>	1 July 2010
Revised FRS 24 <i>Related Party Disclosures</i>	1 January 2011
Amendments to INT FRS 114 <i>Prepayments of a Minimum Funding Requirement</i>	1 January 2011
INT FRS 115 <i>Agreements for the Construction of Real Estate</i>	1 January 2011
Improvements to FRSs issued in 2010:	
- Amendments to FRS 1 <i>Presentation of Financial Statements</i>	1 January 2011
- Transition requirements for amendments arising as a result of FRS 27 <i>Consolidated and Separate Financial Statements</i>	1 July 2011
- Amendments to FRS 34 <i>Interim Financial Reporting</i>	1 January 2011
- Amendments to FRS 101 <i>First-time Adoption of Financial Reporting Standards</i>	1 January 2011
- Amendments to FRS 103 <i>Business Combinations</i>	1 July 2010
- Amendments to FRS 107 <i>Financial Instruments: Disclosures</i>	1 January 2011
- Amendments to INT FRS 113 <i>Customer Loyalty Programmes</i>	1 January 2011

Except for the revised FRS 24, the Directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the revised FRS 24 is described below.

Revised FRS 24 Related Party Disclosures

The revised FRS 24 clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised FRS 24 expands the definition of a related party and would treat two entities as related to each other whenever a person (or a close member of that person's family) or a third party has control or joint control over the entity, or has significant influence over the entity. The revised standard also introduces a partial exemption of disclosure requirements for government-related entities. The Group is currently determining the impact of the changes to the definition of a related party has on the disclosure of related party transaction. As this is a disclosure standard, it will have no impact on the financial position or financial performance of the Group when implemented in 2011.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2. Summary of significant accounting policies (cont'd)

2.3 Significant accounting judgments and estimates

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

(a) Judgments made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements.

(i) Income taxes

The Group has exposure to income taxes in several jurisdictions. Significant judgment is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's provision for taxation, deferred tax assets and liabilities at 31 December 2010 was US\$226,000 (2009: US\$842,000), US\$281,000 (2009: US\$ Nil) and US\$477,000 (2009: US\$654,000) respectively.

(ii) Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiary companies. In determining the functional currencies of the entities in the Group, judgment is required to determine the currency that mainly influences selling prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining selling prices.

(iii) Development costs

Development costs are capitalised in accordance with the accounting policy in Note 2.9(b)(i). Initial capitalisation of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. The carrying amount of development costs capitalised at the date of statement of financial position was US\$228,000 (2009: US\$331,000).

(b) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flow from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flow. Further details of the key assumptions applied in the impairment assessment of goodwill are given in Note 12 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2. Summary of significant accounting policies (cont'd)

2.3 Significant accounting judgments and estimates (cont'd)

(b) Key sources of estimation uncertainty (cont'd)

(ii) Estimated useful life of customer relationship

The cost of customer relationship is amortised on a straight-line basis over its estimated useful life of 7.62 years. The carrying amount of the Group's customer relationship at 31 December 2010 is US\$2,134,000 (2009: US\$2,674,000). Changes in the expected economic benefits associated with customer relationship could impact the economic useful life and therefore future amortisation charges could be revised.

(iii) Impairment of loans and receivables

The Group assesses at each date of statement of financial position whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. The carrying amount of the Group's and the Company's loans and receivables at the date of statement of financial position is disclosed in Note 39 to the financial statements.

(iv) Impairment of available-for-sale financial assets

The Group classifies certain investments in equity shares as available-for-sale financial assets. The investments in unquoted shares are measured at cost less impairment loss. If there is objective evidence that an impairment loss on these investments has been incurred, the amount of loss is measured as the difference between the assets' carrying amount and the estimated discounted future cash flow. Further details of the key assumptions applied in the impairment assessment of available-for-sale financial assets are disclosed in Note 16 to the financial statements.

2.4 Foreign currency

(a) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiary companies and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Foreign currency monetary assets and liabilities are measured using the exchange rates ruling at the date of statement of financial position. Non-monetary assets and liabilities are measured using the exchange rates ruling at the transaction dates or, in the case of items carried at fair value, the exchange rates that existed when the values were determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the date of statement of financial position are recognised in the income statement except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to the consolidated income statement on disposal of the foreign operation. In the Company's separate financial statements, such exchange differences are recognised in the income statement.

(b) Foreign currency translation

The assets and liabilities of foreign operations are translated into USD at the rate of exchange ruling at the date of statement of financial position and their statement of comprehensive income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the income statement.

In the case of a partial disposal without loss of control of a subsidiary company that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For partial disposals of associates or jointly controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

The Group has elected to recycle the accumulated exchange differences in the separate component of other comprehensive income that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2. Summary of significant accounting policies (cont'd)

2.5 Basis of consolidation

Business combinations from 1 January 2010

The consolidated financial statements comprise the financial statements of the Company and its subsidiary companies as at the end of the reporting period. The financial statements of the subsidiary companies used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Subsidiary companies are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

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.

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 FRS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in Note 2.9(a). In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Business combinations before 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

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

Business combinations achieved in stages were accounted for as separate steps. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in equity.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2. Summary of significant accounting policies (cont'd)

2.6 *Transactions with non-controlling interests*

Non-controlling interest represents the equity in subsidiary companies not attributable, directly or indirectly, to equity holders of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the Company.

Changes in the Company owners' ownership interest in a subsidiary company that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary company. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to equity holders of the Company.

2.7 *Subsidiary companies*

A subsidiary company is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's separate financial statements, investments in subsidiary companies are accounted for at cost less impairment losses.

2.8 *Associated companies*

An associated company is an entity, not being a subsidiary company or a joint venture, in which the Group has significant influence. An associated company is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associated company.

The Group's investments in associated companies are accounted for using the equity method. Under the equity method, investments in associated companies are carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associated companies. Goodwill relating to associated companies is included in the carrying amount of the investment and is neither amortised nor tested individually for impairment. Any excess of the Group's share of the net fair value of the associated companies' identifiable assets, liabilities and contingent liabilities over the cost of investment is deducted from the carrying amount of the investment and is recognised as income as part of the Group's share of the results of the associated companies in the period in which the investment is acquired.

The profit or loss reflects the share of the results of operations of the associated companies. Where there has been a change recognised in other comprehensive income by the associated companies, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associated company are eliminated to the extent of the interest in the associated companies.

The Group's share of the profit or loss of its associated companies is shown on the face of profit or loss after tax and non-controlling interests in the subsidiary companies of associated companies.

When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investments in its associated companies. The Group determines at each reporting period whether there is any objective evidence that the investment in the associated company is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associated company and its carrying value and recognises the amount in profit or loss.

The financial statements of the associated companies are prepared as of the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group. Upon loss of significant influence over the associated company, the Group measures any retained investment at its fair value. Any difference between the carrying amount of the associated company upon loss of significant influence and the fair value of the aggregate of the retained investment and proceeds from disposal is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2. Summary of significant accounting policies (cont'd)

2.9 Intangible assets

(a) Goodwill

Goodwill is initially measured at cost. Following 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 synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

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 fair value of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill and fair value adjustments arising on the acquisition of foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in Note 2.4 (b).

Goodwill and fair value adjustments which arose on acquisitions of foreign operations before 1 January 2005 are deemed to be assets and liabilities of the Company and are recorded in USD at the rates prevailing at the date of acquisition.

(b) Other intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Intangible assets are measured at cost less any accumulated amortisation and impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortised over the estimated useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(i) Project development expenditure

Project development expenditure relates to raw materials, salaries and other fixed costs used in specific development projects that are clearly defined and measurable, where the Directors believe that the Group has adequate resources to make these development projects both technically feasible and commercially viable. Research expenditure is written off in the period expenditure is incurred. Development expenditure incurred is carried forward when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during development. Project development expenditure is amortised on a straight line basis over the period of expected benefits (ranging from 2 to 5 years) to the income statement, and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2. Summary of significant accounting policies (cont'd)

2.9 Intangible assets (cont'd)

(b) Other intangible assets (cont'd)

(i) Project development expenditure (cont'd)

Project development expenditure for which amortisation has commenced has an average remaining amortisation period of 2 years (2009: 1 year).

(ii) Licence fee

Licence fee relates to fee incurred by a subsidiary company for an exclusive and royalty-bearing right and licence to use a certain technology within a specific territory. Licence fee is amortised on a straight line basis over useful life of 5 years.

(iii) Customer relationships

Customer relationships relate to long-running smooth cooperation for sustained support from customers.

Customer relationships acquired are capitalised and amortised on a straight line basis over their useful life of 7.62 years. Customer relationships have an average remaining amortisation period of 4.62 years (2009: 5.62 years).

(iv) Club memberships

Club memberships with finite useful lives of 30 years are amortised on a straight line basis, and have an average remaining amortisation period of 23 years (2009: 24 years).

Club memberships with indefinite useful lives are tested for impairment annually, and are not amortised. The useful life of club memberships with indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

2.10 Property, plant and equipment

All items of property, plant and equipment are initially recorded as cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, 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. Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any impairment loss. The carrying values of property, plant and equipment are reviewed for impairment when events or circumstances indicate that the carrying value may not be recoverable.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold land and buildings	-	20 years
Furniture and fittings	-	3 - 10 years
Plant and machinery	-	3 - 10 years
Office equipment	-	3 - 10 years
Motor vehicles	-	4 - 5 years

No depreciation is charged on construction-in-progress until the construction is completed and the plant and machinery is transferred to its appropriate category.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Fully depreciated assets are retained in the financial statements until they are no longer in use.

The residual value, useful life and depreciation method are reviewed annually, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the income statement in the year the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2. Summary of significant accounting policies (cont'd)

2.11 Financial assets

Initial recognition and measurement

Financial assets are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Currently the group does not designate any financial assets as held-to-maturity.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(a) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method. Gains or losses are recognised in the income statement when the loans and receivables are derecognised or impaired, and through the amortisation process.

(b) Available-for-sale financial assets

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

2.12 Stocks

Stocks are valued at the lower of cost and net realisable value. Cost of materials is determined on a first-in-first-out or weighted average basis according to the nature of the subsidiary companies' operations. Costs of work-in-progress and finished goods include cost of direct materials, direct labour and attributable overheads. Where necessary, allowance is provided for damaged, obsolete and slowing moving items to adjust the carrying value of stocks to the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2. Summary of significant accounting policies (cont'd)

2.14 Impairment of assets

(a) Impairment of financial assets

The Group assesses at each date of statement of financial position whether there is any objective evidence that a financial asset is impaired.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(ii) Financial assets carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(iii) Available-for-sale financial assets

In the case of equity investments classified as available-for-sale, objective evidence of impairment include (i) significant financial difficulty of the issuer or obligor, (ii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered; and (iii) a significant or prolonged decline in the fair value of the investment below its costs. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income and recognised in profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss; increase in their fair value after impairment are recognised directly in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2. Summary of significant accounting policies (cont'd)

2.14 Impairment of assets (cont'd)

(b) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

2.15 Financial liabilities

Financial liabilities are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. Financial liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised when the obligation under the liability is extinguished. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

2.16 Provisions

Provisions are recognised when the Group has 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 and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each date of statement of financial position and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2. Summary of significant accounting policies (cont'd)

2.17 Leases

(a) Finance leases

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement.

Capitalised leased assets are depreciated on the basis outlined in Note 2.10.

(b) Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership of the leased item are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight line basis.

2.18 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

(a) Sale of goods

Revenue is recognised upon the transfer of significant risks and rewards of ownership of the goods to the customer, which generally coincides with the delivery and acceptance of the goods sold. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) Rendering of services

Revenue from provision of services is recognised upon services rendered.

(c) Commission income

Commission income is recognised principally upon goods delivered and invoiced by the principals to customers on orders contracted by the Group on the principals' behalf.

(d) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

(e) Interest income

Interest income is recognised as interest accrues (using the effective interest method).

2.19 Income taxes

(a) Current taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2. Summary of significant accounting policies (cont'd)

2.19 Income taxes (cont'd)

(b) Deferred taxation

Deferred income tax is provided using the liability method on temporary differences at the date of statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiary companies, associated companies and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiary companies, associated companies and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each date of statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each date of statement of financial position and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the date of statement of financial position.

Deferred income tax relating to items recognised outside income statement is recognised outside income statement. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(c) Sales tax

Revenue, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2. Summary of significant accounting policies (cont'd)

2.20 Employee benefits

(a) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Singapore companies in the Group make contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Contributions to national pension schemes are recognised as an expense in the period in which the related services are performed.

(b) Employee leave entitlement

Employee entitlements to annual leave and long service leave are recognised as a liability when they accrue to the employees. An accrual is made for the estimated liability for leave as a result of services rendered by employees up to the date of statement of financial position.

(c) Equity-related compensation benefits

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which the share options are granted. In valuing the share options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in the employee share option reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market condition, which are treated as vested irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled options are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled option is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the options is recognised immediately. The resultant share option reserve is then transferred to accumulated profits and loss. However, if a new option is substituted for the cancelled option, and designated as a replacement option on the date that it is granted, the cancelled and new option are treated as if they were a modification of the original option, as described in the previous paragraph.

2.21 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.22 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 3, including the factors used to identify the reportable segments and the measurement basis of segment information.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2. Summary of significant accounting policies (cont'd)

2.23 Financial guarantee

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantees are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, financial guarantees are recognised as income in the income statement over the period of the guarantee. If it is probable that the liability will be higher than the amount initially recognised less amortisation, the liability is recorded at the higher amount with the differences charged to the income statement.

2.24 Contingencies

A contingent liability is:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the statement of financial position of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

2.25 Share capital and share issuance expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2.26 Disposal group classified as held for sale

A component of the Group is deemed to be held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Upon classification as held for sale, non-current assets and disposal groups are not depreciated and are measured at the lower of carrying amount and fair value less costs to sell. Any differences are recognised in the income statement.

2.27 Related parties

A party is considered to be related to the Group if:

- (a) The party, directly or indirectly through one or more intermediaries,
 - (i) controls, is controlled by, or is under common control with the Group;
 - (ii) has an interest in the Group that gives it significant influence over the Group; or
 - (iii) has joint control over the Group;
- (b) The party is an associate;
- (c) The party is a jointly-controlled entity;
- (d) The party is a member of the key management personnel of the Group or its parent;
- (e) The party is a close member of the family of any individual referred to in (a) or (d); or

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

2. Summary of significant accounting policies (cont'd)

2.27 *Related parties (Cont'd)*

- (f) The party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) The party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

3. Segment information

For management purpose, the Group has three main business segments that are organised and managed separately according to their respective business activities. The three business segments are Electronics Distribution, Semiconductor Test and Consumables and Technology Investments and Others. The activities of these business segments are described in Note 1 of the financial statements herein. Segment accounting policies are the same as the policies described in Note 2.

Management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Group income taxes are managed on a group basis and are not allocated to the operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. Financial information about business segments is presented as follows:

	Electronics Distribution		Semiconductor Test and Consumables		Technology Investments and Others		Adjustments and eliminations		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenue										
Sale to external customers	215,023	228,303	1,327	2,823	-	-	-	-	216,350	231,126
Segment Results										
Interest expense	6,661	7,766	270	(470)	(1,987)	(3,604)	(1,387)	1,062	3,557	4,754
Depreciation	(1,612)	(2,072)	(21)	(16)	(648)	(198)	584	153	(1,697)	(2,133)
Amortisation	(616)	(1,184)	-	(984)	(6)	(3)	-	-	(622)	(2,171)
Impairment of goodwill	(673)	(579)	-	-	-	-	-	-	(673)	(579)
Write back off/(allowance for) doubtful trade debts	(1)	(652)	-	-	-	-	-	-	(1)	(652)
Impairment losses on other financial assets	17	(584)	-	-	(1,103)	(3,211)	1,103	3,211	17	(584)
Impairment losses on available-for-sale financial assets	-	-	-	-	-	(1,755)	-	-	-	(1,755)
Impairment losses on property, plant and equipment	-	-	-	-	(228)	(960)	-	-	(228)	(960)
Provision for loss on disposal group classified as held for sale	-	-	-	(2,343)	-	-	-	-	-	(2,343)
Share of results of associated companies	-	(439)	-	-	-	-	-	-	-	(439)
	(12)	(51)	-	-	-	-	-	-	(12)	(51)
Profit/(Loss) before taxation	3,764	2,205	249	(3,813)	(3,972)	(9,731)	300	4,426	341	(6,913)
Taxation									288	(1,047)
Profit/(Loss) for the year									629	(7,960)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

3. Segment information (cont'd)

	Electronics Distribution		Semiconductor Test and Consumables		Technology Investments and Others		Adjustments and eliminations		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Assets and liabilities:										
Additions to non-current assets	981	943	-	1	52	1	-	-	1,033	945
Segment assets	163,561	174,676	1,295	2,217	45,544	42,069	(92,798)	(107,883)	117,602	111,079
Investments in associated companies	-	9	-	-	-	-	-	-	-	9
Unallocated assets									281	11
Total assets									117,883	111,099
Segment liabilities	110,035	120,520	289	1,033	16,910	22,548	(45,620)	(55,606)	81,614	88,495
Unallocated liabilities									703	1,496
Total liabilities									82,317	89,991

Additions to non-current assets comprise additions to intangible assets and plant and equipment.

Segment assets consist primarily of non-current and current assets and exclude investments in associated companies, deferred tax assets and tax recoverable. Segment liabilities comprise mainly operating liabilities and exclude taxation liabilities.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

3. Segment information (cont'd)

Geographical information

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

	Revenue		Non-current assets	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Singapore	33,328	27,802	801	840
Malaysia	12,423	18,722	55	52
Philippines	3,152	2,954	–	–
Thailand	3,011	3,723	–	–
India	10,076	9,534	–	–
China	138,531	140,528	4,386	3,794
Hong Kong	2,560	3,348	5,871	6,588
Taiwan	–	6,320	–	–
Korea	11,860	14,640	15	21
Others	1,409	3,555	–	–
	216,350	231,126	11,128	11,295

Non-current assets information presented above consist of intangible assets and property, plant and equipment as presented in the consolidated statement of financial position.

Information about a major customer

Revenue from one major customer amounted to US\$65,301,000 (2009: US\$66,623,000), arising from sale by the electronics distribution segment.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

4. Group companies

(a) The significant subsidiary companies as at 31 December 2010 are as follows:

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity held by the Group	
		2010 %	2009 %
<i>Held by the Company</i>			
*** DTB Limited (Hong Kong)	Investment holding (Hong Kong)	100	100
* Spire Technologies Pte Ltd (Singapore)	Designing, manufacturing and distribution of semiconductor testing devices and import/export, retailer and trader of all types of electronic components and test consumables (Singapore)	80	80
* Dragon Technology Distribution Pte Ltd (formerly known as: FE Global Electronics Pte Ltd) (Singapore)	Sale, distribution and acting as commission agent in electronic components (Singapore)	100	100
<i>Held by subsidiary companies:</i>			
<i>Held by DTB Limited</i>			
*** Nanjing DTB Development Co., Ltd (People's Republic of China)	Construction of antique wooden sea boat, communication of culture, exhibition and conference etc. (People's Republic of China)	60	60
<i>Held by Spire Technologies Pte Ltd</i>			
* Apogee Test Pte Ltd (Singapore)	Dormant (Singapore)	80	80
<i>Held by Dragon Technology Distribution Pte Ltd</i>			
* FE-Decibels Electronics Pte Ltd (Singapore)	Sale, distribution and acting as commission agent in electronic components (Singapore)	70	70
*** FE Global Electronics Korea Ltd (South Korea)	Trading in semiconductor components and electrical, electronic and electromechanical parts (South Korea)	100	100
** Dragon Technology Distribution Sdn Bhd (formerly known as FE Global Malaysia Sdn Bhd) (Malaysia)	Agent and dealer in electrical and electronic components and products (Malaysia)	100	100
** FE Global (North Asia) Limited (Hong Kong)	Investment holding and trading in electronic components (Hong Kong)	100	100

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

4. Group companies (cont'd)

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity held by the Group	
		2010 %	2009 %
<i>Held by subsidiary companies: (cont'd)</i>			
<i>Held by Dragon Technology Distribution Pte Ltd (cont'd)</i>			
*** FE Global Taiwan Co., Ltd (Taiwan)	Sale and distribution of electronic components used in laptops and handphones (Taiwan)	– ⁽¹⁾	100
* SCM Solutions Pte Ltd (Singapore)	Sale of electronic components and provision of freight and warehousing facilities, material and inventory management, delivery and invoicing using web-based solutions (Singapore)	100	100
* Sooner Technology Pte Ltd (Singapore)	Trading in electronic components, computer peripherals and acting as commission agent (Singapore)	100	100
<i>Held by FE-Decibels Electronics Pte Ltd</i>			
*** Dragon Technology Distribution Private Limited (formerly known as: FE-Global Electronics (India) Private Limited) (India)	Sale, distribution and acting as commission agent in electronic components (India)	70	70
<i>Held by FE Global (North Asia) Limited</i>			
# Advance Electronic Supply Co., Ltd (British Virgin Islands)	Sale and distribution of electronic components used in laptops and handphones (British Virgin Islands)	– ⁽¹⁾	100
** Dragon Technology Distribution (HK) Limited (Hong Kong)	Providing research and development services (Hong Kong)	100	100
** FE Global Hong Kong Limited (Hong Kong)	Sale, distribution and acting as commission agent in electronic components (Hong Kong)	100	100
** Flex-In Electronics Limited (Hong Kong)	Trading of electronics components (Hong Kong)	100	100
<i>Held by Dragon Technology Distribution (HK) Limited</i>			
*** Dragon Trading (Shanghai) Co., Ltd (People's Republic of China)	Import trading business and agency services (People's Republic of China)	100	100

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

4. Group companies (cont'd)

Name of company (Country of incorporation)	Principal activities (Place of business)	Percentage of equity held by the Group	
		2010 %	2009 %

(b) The associated companies as at 31 December 2010 are as follows:

Held by Dragon Technology Distribution Pte Ltd

*** FE Global (Thailand) Co., Ltd (Thailand)	Dormant (Thailand)	49	49
*** Dragon Technology Distribution (Thailand) Co., Ltd	Sale, distribution and acting as commission agent in electronic components (Thailand)	49	—

* Audited by Ernst & Young LLP, Singapore.

** Audited by member firms of Ernst & Young Global.

*** Audited by other Certified Public Accounting firms:

Company

FE Global Taiwan Co., Ltd
Dragon Technology Distribution Private Limited
FE Global (Thailand) Co., Ltd
Dragon Technology Distribution (Thailand) Co., Ltd
FE Global Electronics Korea Ltd
DTB Limited
Nanjing DTB Development Co., Ltd
Dragon Trading (Shanghai) Co., Ltd

Certified Public Accounting firm

Link Chain & Co., Taiwan
N. Madhu Sai Sankaram, India
Naravadee Vanichwattana, Thailand
Kmet Consultant, Thailand
The 106th Audit Team, Korea
Y.K Leung & Co., Hong Kong
Jiangsu Yonghe Certified Public Accountant Co., Ltd
Shanghai Hua Xia Certified Public Accountant Co., Ltd.

Unaudited because there is no statutory audit requirement in the country of incorporation.

(1) Disposed during the year

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

4. Group companies (cont'd)

(c) Disposal group classified as held for sale in prior year

On 3 November 2009, the Group entered into a Share Sale Agreement to dispose of two of its wholly-owned subsidiary companies, FE Global Taiwan Co., Ltd and Advance Electronics Supply Co., Ltd (collectively, the "disposal group"), which was previously reported in the electronics distribution segment. As at 31 December 2009, the assets, liabilities and reserve related to the disposal group were presented in the statement of financial position as "Assets of disposal group classified as held for sale", "Liabilities directly associated with disposal group classified as held for sale" and "Reserve of disposal group classified as held for sale". The sale of the disposal group was completed on 22 January 2010.

The values of assets and liabilities of the disposal group and the related foreign currency translation reserve at the date of disposal, and the cash flow effect of the disposal were:

	Group 2010 US\$'000
Assets	
Stocks	1,898
Prepayments	34
Trade debtors	5,300
Other debtors	159
Tax recoverable	43
Cash and bank balances	1,964
Total assets	<u>9,398</u>
Liabilities	
Amounts due to bankers	1,397
Trade creditors and accruals	1,776
Other creditors	53
Total liabilities	<u>3,226</u>
Carrying value of net assets disposed	6,172
Less: Sale consideration	<u>(6,677)</u>
	(505)
Realisation of reserve of disposal group classified as held for sale in prior year	<u>439</u>
Gain on disposal of subsidiaries	<u>(66)</u>
Total sale consideration	6,677
Less: Cash and cash equivalents of disposal group	(1,964)
Less: Deposit received	<u>(789)</u>
Net cash inflow	<u>3,924</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

4. Group companies (cont'd)

(d) Disposal of business

On 30 September 2009, the Company's subsidiary company, Spire Technologies Pte Ltd, disposed of its probe card manufacturing business and equity interest in a subsidiary company, Spire Technologies, Inc. The total sale consideration amounted to US\$783,000 which was to be settled in cash.

The values of assets and liabilities of the probe card manufacturing business and Spire Technologies, Inc at the date of divestment, and the cash flow effect of the disposal were:

	Group 2009 US\$'000
Property, plant and equipment	418
Stocks	222
Trade and other debtors	46
Cash and cash equivalents	29
Trade and other creditors	(1)
Carrying value of net assets disposed	714
Retrenchment costs incurred	188
	902
Less: Sale consideration	(783)
	119
Foreign currency translation reserve realised on disposal	(45)
Loss on disposal of business	74
	783
Total sale consideration	783
Less: Retrenchment costs paid	(153)
Less: Cash and cash equivalents of the probe card manufacturing business and Spire Technologies, Inc	(29)
Net cash inflow	601
Cash received in:	
Financial year 2009	61
Financial year 2010	540
	601

Consideration of US\$540,000 which was recorded in "other debtors" as at 31 December 2009 was received during the year.

5. Revenue

	Group	
	2010 US\$'000	2009 US\$'000
Revenue is analysed as follows:		
Sale of goods	212,594	225,964
Provision of services	236	1,377
Commission income	3,520	3,785
	216,350	231,126

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

6. Other income

	Group	
	2010 US\$'000	2009 US\$'000
The following items have been included in arriving at other income:		
Interest income		
- Fixed deposits and current accounts	85	135
Grant income from jobs credit scheme	102	247
Trade payables written off	51	165
Gain on disposal of property, plant and equipment	471	10

During the financial year ended 31 December 2009, the Singapore Finance Minister announced the introduction of a Jobs Credit Scheme ("Scheme"). Under this Scheme, the Group received a 12% cash grant on the first US\$1,837 (S\$2,500) of each month's wages for each eligible employee on their Central Provident Fund payroll. The Scheme is for one quarter in 2010 and four quarters in 2009. The Group received its grant income of US\$102,000 in 2010 and US\$247,000 in 2009.

7. Finance costs

	Group	
	2010 US\$'000	2009 US\$'000
Finance costs are analysed as follows:		
Interest expense in respect of:		
Bank term loans	876	1,221
Trade finance	662	819
Amount due to holding company	143	83
Lease creditors	16	10
	1,697	2,133
Bank charges	472	706
Others	-	3
	2,169	2,842

8. Exceptional items

	Group	
	2010 US\$'000	2009 US\$'000
Exceptional items are analysed as follows:		
Severance payments	-	751
Impairment of goodwill	-	652
Impairment losses on other financial assets	-	1,755
Impairment losses on available-for-sale financial assets	228	960
Impairment losses on property, plant and equipment	-	2,343
Provision for loss on disposal group classified as held for sale	-	439
Loss on disposal of business	-	74
	228	6,974

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

9. Profit/(loss) before taxation

	Group	
	2010 US\$'000	2009 US\$'000
The following items have been included in arriving at profit/(loss) before taxation:		
Amortisation of intangible assets	673	579
Depreciation of property, plant and equipment	622	2,171
Foreign exchange loss	96	673
Property, plant and equipment written off	26	57
Staff costs		
- Contributions to national pension schemes	567	1,031
- Salaries, wages, bonuses and other costs	9,297	11,624
Trade debts written off	95	66
(Write back of)/allowance for doubtful trade debts	(17)	584
Stocks written down	34	42
Rental expenses	1,241	1,724
Legal and professional fees	767	1,421
Management fees	621	573

10. Taxation

	Group	
	2010 US\$'000	2009 US\$'000
The major components of income tax (credit)/expense for the years ended 31 December 2010 and 2009 are:		
Current taxation		
- Singapore	111	91
- Other countries	443	935
Deferred taxation		
- Singapore	(281)	1
- Other countries	(105)	(99)
	168	928
(Over)/under provision in respect of prior years		
- Current taxation	(384)	218
- Deferred taxation	(72)	(99)
	(456)	119
	(288)	1,047

A reconciliation of the domestic statutory tax rate to the effective tax rate applicable to profit/(loss) before taxation for the financial years ended 31 December is as follows:

	Group	
	2010 %	2009 %
Domestic statutory tax rate	17.0	(17.0)
Tax effect of:		
Income not subject to taxation	(92.1)	(3.7)
Expenses not deductible for tax purposes	302.1	29.0
Effect of tax exemption	(27.1)	(5.0)
(Over)/under provision of taxation in respect of prior years	(133.7)	1.7
Utilisation of losses brought forward	(105.5)	-
Different tax rates of other countries	(12.0)	(0.7)
Deferred tax assets not recognised	55.6	10.5
Deferred tax assets previously not recognised	(82.4)	-
Others	(6.4)	0.3
Effective tax rate	(84.5)	15.1

NOTES TO THE FINANCIAL STATEMENTS

31 December 2010

10. Taxation (cont'd)

The Group has unutilised tax losses and unabsorbed capital allowances amounting to approximately US\$5,643,000 (2009: US\$4,926,000) and US\$332,000 (2009: US\$253,000) respectively that are available for offset against future taxable profits of the companies in which the losses arose, for which no deferred tax asset has been recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

In addition, a subsidiary company was granted an Investment Allowance Certificate under The Economic Expansion Incentives (Relief from Income Tax) Act, Chapter 86. This subsidiary company has unutilised investment allowances of approximately US\$4,089,000 (2009: US\$3,587,000), subject to agreement with the tax authority, that are available for offset against future taxable profits of the subsidiary company for which no deferred tax asset is recognised due to uncertainty of its recoverability.

The amount of the benefit arising from a previously unrecognised tax losses of prior years that were used to reduce current year tax expenses amounted to US\$290,000 (2009: US\$ Nil).

11. Earnings/(loss) per share

Basic earnings/(loss) per share amounts are calculated by dividing the net earnings/(loss) for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings/(loss) per share amounts are calculated by dividing the net earnings/(loss) for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table reflects the net earnings/(loss) and share data used in the computation of basic and diluted earnings/(loss) per share for the financial years ended 31 December:

	Group	
	2010 US\$'000	2009 US\$'000 (restated)
Net profit/(loss) attributable to ordinary equity holders of the Company used in the computation of basic and diluted earnings/(loss) per share	663	(7,010)
Weighted average number of ordinary shares in issue applicable to basic and diluted earnings/(loss) per share ⁽¹⁾	75,461	66,691

⁽¹⁾ The weighted average number of shares takes into account the weighted average effect of the Rights Issue and Share Consolidation (see Note 32) during the year.

224,081,000 (2009: Nil) warrants that were issued in the Rights Issue and Share Consolidation exercise have not been included in the calculation of diluted earnings/(loss) per share because they are anti-dilutive.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

12. Intangible assets

Group	Project development expenditure (a) US\$'000	Licence fee (b) US\$'000	Goodwill (c) US\$'000	Customer relationships (d) US\$'000	Club memberships (d) US\$'000	Total US\$'000
Cost						
At 1 January 2009	687	372	4,607	4,115	262	10,043
Additions	104	–	–	–	–	104
Write off	–	(372)	–	–	–	(372)
Currency realignment	12	–	–	–	–	12
At 31 December 2009 and 1 January 2010	803	–	4,607	4,115	262	9,787
Additions	27	–	–	–	–	27
Write off	(473)	–	(1)	–	–	(474)
Currency realignment	37	–	–	–	–	37
At 31 December 2010	394	–	4,606	4,115	262	9,377
Accumulated amortisation and impairment						
At 1 January 2009	425	372	558	900	57	2,312
Amortisation	35	–	–	541	3	579
Write off	–	(372)	652	–	–	280
Currency realignment	12	–	–	–	–	12
At 31 December 2009 and 1 January 2010	472	–	1,210	1,441	60	3,183
Amortisation	130	–	–	540	3	673
Write off	(473)	–	–	–	–	(473)
Currency realignment	37	–	–	–	–	37
At 31 December 2010	166	–	1,210	1,981	63	3,420
Net carrying amount						
At 31 December 2010	228	–	3,396	2,134	199	5,957
At 31 December 2009	331	–	3,397	2,674	202	6,604

NOTES TO FINANCIAL STATEMENTS

31 December 2010

12. Intangible assets (cont'd)

- (a) Project development expenditure relates to material cost incurred in the chipset development projects and will be amortised on a straight line basis over the period of expected benefits. Amortisation of project development expenditure is included in the “General and administrative costs” in the consolidated income statement.
- (b) The licence fee was written off in the prior year as a result of the expiry of the licence.
- (c) Impairment review of goodwill was done by comparing the recoverable amounts, determined based on value in use calculations with the carrying value of the cash-generating units (“CGU”). Based on management’s assessment, no impairment loss is required to be recognised on the remaining goodwill.

Given the cyclical nature of the electronics industry, the Group conducts periodic review of the growth trends, demand and supply forecast for the electronics industry and accordingly, the forecast and projection may require periodic revision to reflect the developments in the global electronics market.

The calculations of value in use for the CGUs are most sensitive to the following assumptions:

- Forecast growth rates of the CGUs of between 5% and 10%.
- Terminal growth rates of the CGUs of 3%.
- Pre-tax discount rates applied to the cashflow projections of the CGUs.

The recoverable amount for goodwill was determined based on a value in use calculation using cash flow projections based on the financial budgets covering a five-year period. The pre-tax discount rates applied to the cash flow projections of 12.6% (2009: 12.6%) per annum, being the weighted average cost of capital of the respective cash generating units in which the goodwill relates to.

The carrying amount of goodwill is allocated to the electronics distribution segment.

- (d) Amortisation of customer relationships and club memberships are included in the “Selling and marketing costs” and “General and administrative costs” respectively in the consolidated income statement.

	Company	
	2010 US\$'000	2009 US\$'000
Club memberships	102	102

NOTES TO FINANCIAL STATEMENTS

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13. Property, plant and equipment

Group	Leasehold							Total US\$'000
	land and buildings US\$'000	Furniture and fittings US\$'000	Plant and machinery US\$'000	Office equipment US\$'000	Construction- in-progress US\$'000	Motor vehicles US\$'000		
Cost								
At 1 January 2009	2,249	2,387	14,416	5,804	922	595	26,373	
Additions	–	61	9	127	644	–	841	
Disposals/write offs	(322)	(833)	(1,483)	(524)	–	(252)	(3,414)	
Transfer	–	356	–	(356)	–	–	–	
Transfer to assets of disposal group classified as held for sale	–	(87)	(3)	(92)	–	–	(182)	
Currency realignment	4	24	340	24	2	5	399	
At 31 December 2009 and 1 January 2010	1,931	1,908	13,279	4,983	1,568	348	24,017	
Additions	–	10	–	153	749	94	1,006	
Disposals/write offs	–	(526)	(2,835)	(199)	–	(189)	(3,749)	
Currency realignment	59	67	963	83	50	15	1,237	
At 31 December 2010	1,990	1,459	11,407	5,020	2,367	268	22,511	
Accumulated depreciation and impairment								
At 1 January 2009	170	1,813	10,770	4,079	–	353	17,185	
Charge for the year	96	359	885	771	–	60	2,171	
Disposals/write offs	(71)	(667)	(1,182)	(501)	–	(178)	(2,599)	
Impairment losses	–	237	2,272	(195)	–	29	2,343	
Transfer to assets of disposal group classified as held for sale	–	(87)	(3)	(80)	–	–	(170)	
Currency realignment	–	18	350	23	–	5	396	
At 31 December 2009 and 1 January 2010	195	1,673	13,092	4,097	–	269	19,326	
Charge for the year	93	84	23	390	–	32	622	
Disposals/write offs	–	(501)	(2,835)	(193)	–	(189)	(3,718)	
Currency realignment	8	61	956	74	–	11	1,110	
At 31 December 2010	296	1,317	11,236	4,368	–	123	17,340	
Net carrying amount								
At 31 December 2010	1,694	142	171	652	2,367	145	5,171	
At 31 December 2009	1,736	235	187	886	1,568	79	4,691	

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13. Property, plant and equipment (cont'd)

Company	Office equipment US\$'000	Motor vehicle US\$'000	Total US\$'000
Cost			
At 1 January 2009	43	–	43
Additions	1	–	1
At 31 December 2009 and 1 January 2010	44	–	44
Additions	5	47	52
At 31 December 2010	49	47	96
Accumulated depreciation and impairment			
At 1 January 2009	39	–	39
Charge for the year	3	–	3
At 31 December 2009 and 1 January 2010	42	–	42
Charge for the year	3	3	6
At 31 December 2010	45	3	48
Net carrying amount			
At 31 December 2010	4	44	48
At 31 December 2009	2	–	2

(a) Construction-in-progress

Construction-in-progress relates to the construction of a vessel in the People's Republic of China. The Group has performed an impairment assessment using cash flow projections based on the financial budgets covering a three-year period with 2013 being the terminal year. The completion of the vessel is targeted to be in January 2013 and revenue generating activities will start in the same month. The forecast revenue included revenue estimated based on budgeted entrance fees and number of visitors and other sources of revenue such as advertising. As the project is still in progress and expected to be profit making, there are no impairment indicators at this juncture.

14. Investments in subsidiary companies

	Company	
	2010 US\$'000	2009 US\$'000
Unquoted shares, at cost	35,652	35,884
Allowance for impairment	(2,530)	(2,762)
Carrying amount of investments	33,122	33,122
Movement in allowance account:		
At 1 January	2,762	1,547
(Write off)/Charge for the year	(232)	1,215
At 31 December	2,530	2,762

During the financial year, the Company wrote off allowance of US\$232,000 made on the investment in Rockford Technology Pte Ltd, as the subsidiary company was deregistered during the year.

Details of the significant subsidiary companies are set out in Note 4(a).

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15. Investments in associated companies

	Group	
	2010 US\$'000	2009 US\$'000
Unquoted shares, at cost	78	75
Share of post-acquisition losses	(78)	(66)
	<u>–</u>	<u>9</u>

Details of the associated companies are set out in Note 4(b).

The summarised financial information of the associated companies, not adjusted for the proportion of ownership interest held by the Group, is as follows:

	Group	
	2010 US\$'000	2009 US\$'000
Assets and liabilities:		
Current assets	698	317
Non-current assets	107	32
Total assets	<u>805</u>	<u>349</u>
Current liabilities	526	330
Non-current liabilities	317	–
Total liabilities	<u>843</u>	<u>330</u>
Results:		
Revenue	137	377
Loss for the year	<u>(74)</u>	<u>(107)</u>

The Group's share of associated companies' losses for the financial year 2010 amounted to US\$36,000 (2009: US\$51,000), of which only US\$12,000 was recognised by the Group. The remaining losses of US\$24,000 were not recognised as they exceeded the Group's interest in the associated companies. The Group has no obligation in respect of the losses not recognised.

16. Available-for-sale financial assets

	Group		Company	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Unquoted equity shares, at cost	12,636	12,592	6,746	6,746
Allowance for impairment	(11,931)	(11,659)	(6,040)	(5,812)
	<u>705</u>	<u>933</u>	<u>706</u>	<u>934</u>
Quoted equity shares in corporations, at fair value	45	45	–	–
	<u>750</u>	<u>978</u>	<u>706</u>	<u>934</u>
Movement in allowance account:				
At 1 January	11,659	10,685	5,812	4,852
Charge for the year	228	960	228	960
Exchange differences	44	14	–	–
At 31 December	<u>11,931</u>	<u>11,659</u>	<u>6,040</u>	<u>5,812</u>

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16. Available-for-sale financial assets (cont'd)

During the financial year, the Group and the Company recognised an impairment loss of US\$228,000 (2009: US\$960,000) pertaining to an unquoted equity instrument carried at cost, reflecting the write down in the carrying value of this private equity investment as a result of the deteriorating financial results and financial position of the investee company.

The impairment loss is included in the “Exceptional items” in the consolidated income statement.

17. Other financial assets

	Group and Company	
	2010	2009
	US\$'000	US\$'000
Loan to external party – nominal amounts	1,755	1,755
Allowance for impairment	(1,755)	(1,755)
	—	—
Movement in allowance account:		
At 1 January	1,755	—
Charge for the year	—	1,755
At 31 December	1,755	1,755

In November 2008, the Company signed a loan agreement with Dragon Art Media Co., Ltd (“DAM”), a publishing company in Bangkok, Thailand, whereby the Company would provide a loan not exceeding Baht 60 million to DAM. This loan was extended after the Board deliberated on the various investment opportunities detailed in a report prepared by a firm of consultants in Thailand. The purpose of the loan is to enable the Group to get a further strategic foothold in the travel and leisure business sector which the Board of Directors believes would complement the Group’s investment in the Dragon Treasure Boat business.

The loan extended to DAM as at 31 December 2010 amounted to US\$1,755,000 (2009: US\$1,755,000). The loan is structured as follows:

- (a) unsecured;
- (b) interest bearing at the minimum loan rate as announced by the Bangkok Bank Public Company Limited from time to time applicable on the withdrawal date of the loan;
- (c) repayable after 2 years from date of draw down or upon request by the Company; and
- (d) convertible at a fixed rate in part or in full at the discretion of the Company, subject to the clearance of the required legislation in Thailand.

In the prior financial year, the Group and the Company recognised an impairment loss of US\$1,755,000 on the loan to DAM as a result of the deteriorating financial results and financial position of DAM. Management is of the opinion that DAM continues to be unable to repay the loan in the near future.

NOTES TO FINANCIAL STATEMENTS

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18. Amounts due from subsidiary companies

	Company	
	2010 US\$'000	2009 US\$'000
Amounts due from subsidiary companies	11,782	11,083
Allowance for impairment	(4,180)	(3,475)
	7,602	7,608
Disclosure in statement of financial position		
Non-current (quasi-equity)	5,970	5,970
Current	1,632	1,638
	7,602	7,608
Movement in allowance account:		
At 1 January	3,475	264
Charge for the year	705	3,211
At 31 December	4,180	3,475

The amounts due from subsidiary companies are non-trade in nature, unsecured and are to be settled in cash.

The current amounts due from subsidiary companies are non-interest bearing and repayable upon demand. The non-current amounts due from subsidiary companies are non-interest bearing and repayable only when the cash flow of these companies permit.

During the financial year, the Company recognised an impairment loss of US\$705,000 (2009: US\$3,211,000) on the amounts due from subsidiary companies as a result of the deteriorating financial results and financial positions of the subsidiary companies.

19. Deferred taxation

	Group	
	2010 US\$'000	2009 US\$'000
Deferred tax assets:		
Provisions	320	–
Differences in depreciation for tax purpose	(39)	–
	281	–
Deferred tax liabilities:		
Differences in depreciation for tax purpose	(19)	(97)
Amortisation of intangible assets	(458)	(557)
	(477)	(654)

NOTES TO FINANCIAL STATEMENTS

31 December 2010

20. Stocks

	Group	
	2010 US\$'000	2009 US\$'000
Statement of financial position		
Raw materials	575	363
Finished goods	20,198	17,049
	20,773	17,412
Income statement		
Stocks recognised as an expenses in cost of sales	195,263	202,276
Inclusive of the following (credit)/charge:		
- Stock written down	–	42
- Reversal of write-down of stocks	(1,124)	–
	(1,124)	–

The reversal of write-down of stocks was made when the related stocks were sold above their carrying amounts in 2010.

21. Trade debtors

Trade debtors are non-interest bearing and are generally on 60 to 120 day terms. They are recognised at their original invoiced amounts which represent their fair value on initial recognition.

At 31 December 2010, no trade debtors arising from export sales were arranged to be settled via letters of credit issued by reputable banks in countries where the customers are based (2009: US\$1,691,000).

(a) Trade debtors aging

	Group 2010			Group 2009		
	Gross US\$'000	Allowance US\$'000	Net US\$'000	Gross US\$'000	Allowance US\$'000	Net US\$'000
Not past due	47,963	–	47,963	39,294	–	39,294
Less than 30 days	8,928	–	8,928	8,162	–	8,162
30 to 60 days	649	–	649	979	–	979
61 to 90 days	349	–	349	343	–	343
More than 90 days	6,621	(5,292)	1,329	6,822	(5,348)	1,474
	64,510	(5,292)	59,218	55,600	(5,348)	50,252

(b) Analysis of allowance for doubtful trade debts

The movement of the allowance account used to record the impairment are as follows:

	Group	
	2010 US\$'000	2009 US\$'000
Movement in allowance account:		
At 1 January	5,348	5,320
(Write back)/charge for the year	(17)	584
Written off	(44)	(545)
Reclass to assets of disposal group classified as held for sale	–	(12)
Exchange differences	5	1
At 31 December	5,292	5,348

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21. Trade debtors (cont'd)

(c) Trade debtors that are impaired

Trade debtors that were individually determined to be impaired at 31 December 2010 were related to debtors that were in significant financial difficulties and have defaulted on payments.

Included in these trade debtors was US\$1,780,000 (2009: US\$1,780,000) before deducting allowance of US\$482,000 (2009: US\$539,000) which was not fully impaired as it was covered by an undertaking by a director to indemnify the Group for this debt by way of his shares in ASTI. During the financial years ended 31 December 2010 and 2008, the shares were sold to independent third parties for a total consideration of US\$1,298,000. This amount would be repayable to the director if the amount owing from this trade debtor is subsequently collected. Accordingly, it is recorded in "Sundry Creditors" (Note 27).

The remaining debtors are not secured by any collateral or credit enhancements.

(d) Currency denominations of trade debtors

Trade debtors are denominated in the functional currencies of the respective entities in the Group.

22. Other debtors

	Group		Company	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Deposits	362	437	11	11
Interest receivable	832	834	–	–
Staff loans	3	23	–	–
Due from an associated company	432	277	–	–
Due from a related party	–	67	–	–
Sale consideration receivable (Note 4c)	–	540	–	–
Sundry debtors	542	1,131	97	90
	2,171	3,309	108	101
Allowance for doubtful debts	(848)	(848)	(16)	(16)
	1,323	2,461	92	85

The interest receivable mainly relates to interest on outstanding trade receivables.

The amounts due from associated company, related party and staff loans are unsecured, non-interest bearing and repayable upon demand in cash.

Other debtors denominated in foreign currencies at 31 December are as follows:

	Group	
	2010 US\$'000	2009 US\$'000
- US dollars	121	208
- Renminbi	38	108
- Hong Kong dollars	–	18

NOTES TO FINANCIAL STATEMENTS

31 December 2010

23. Cash and bank balances

	Group		Company	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Cash at bank and on hand	17,838	14,570	2,440	154
Fixed deposits	6,105	4,201	1,400	–
	<u>23,943</u>	<u>18,771</u>	<u>3,840</u>	<u>154</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

During the financial year, fixed deposits of US\$2,802,000 (2009: US\$1,401,000) were pledged to secure banking facilities granted to a subsidiary company. Fixed deposits of the Group with financial institutions mature within 1 to 2 months (2009: 1 month) from the financial year end. Interest rate for the Group range from 0.1% to 0.94% (2009: 0.1%) per annum.

Cash and cash equivalents included in the consolidated cash flow statement comprise the following:

	2010 US\$'000	2009 US\$'000
Cash and bank balances	23,943	18,771
Cash and cash equivalents of disposal group classified as held for sale	–	1,964
	<u>23,943</u>	<u>20,735</u>
Less: Pledged fixed deposits	(2,802)	(1,401)
	<u>21,141</u>	<u>19,334</u>

Cash and bank balances denominated in foreign currencies at 31 December are as follows:

	Group	
	2010 US\$'000	2009 US\$'000
- US dollars	8,029	9,908
- Singapore dollars	7,040	453
- Japanese Yen	207	37

24. Amounts due to bankers

The IASB IFRS Interpretations Committee (the "Committee") carried out a review in 2010 on the classification of callable term loans. Such loans are distinguished by an overriding payment on demand clause which gives the lender the right to demand repayment at any time, at their sole discretion irrespective of whether a default event has occurred. It was concluded that callable term loans should be classified as current liabilities in their entirety, irrespective of the probability that the lender will exercise the demand clause. The Committee noted that paragraph 69(d) of IAS 1 Presentation of Financial Statements requires a liability to be classified as a current liability if the entity does not have the unconditional right at the reporting date to defer settlement for at least 12 months after the reporting period. As the Singapore FRS is adopted from the IFRS issued by the IASB, the above conclusion will also apply to companies in Singapore.

As at 31 December 2009, non-current amounts due to bankers amounting to US\$590,000 came under this definition of callable term loans. The amount was reclassified accordingly as a current liability in the statement of financial position for the year ended 31 December 2010. No reclassification was required for the statement of financial position as at 1 January 2009 as the term loan was taken up during the financial year 2009.

As at 31 December 2010, an amount of US\$436,000 that is contractually due for repayment more than 12 months after year end has been similarly classified as a current liability.

The amounts due to bankers bear interest at 2% to 4.54% (2009: 2.75% to 5.11%) per annum and are repayable on monthly and quarterly basis ending in 2011 (2009: 2010) except for US\$25,895,000 (2009: US\$21,635,000) repayable within 90 days and subject to renewal basis.

These facilities are secured by way of joint and several corporate guarantees from ASTI, the Company and certain subsidiary companies of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

25. Bills payable to banks

The bills payable to banks are covered by corporate guarantees from ASTI, the Company and certain subsidiary companies. The bills payable have maturity periods ranging from 1 month to 3 months (2009: 1 month to 3 months) and bear interest at 2.5% to 4.07% (2009: 2.26% to 4.23%) per annum, which approximate the effective interest rates.

26. Trade creditors and accruals

	Group		Company	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Trade creditors	29,796	31,787	–	–
Accruals	2,089	2,955	344	229
	<u>31,885</u>	<u>34,742</u>	<u>344</u>	<u>229</u>

Trade creditors are non interest bearing and are normally settled on 30 to 45 day terms.

Trade creditors denominated in foreign currencies at 31 December are as follows:

	Group	
	2010 US\$'000	2009 US\$'000
- US dollars	19,440	21,510
- Japanese Yen	677	60
- Singapore dollars	<u>357</u>	<u>371</u>

27. Other creditors

	Group		Company	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Lease creditors (Note 31)	–	24	–	–
Proposed Directors' fees	146	134	146	93
Deposits received	275	840	–	–
Due to Directors of subsidiary companies	–	60	–	–
Sundry creditors	3,191	2,970	307	116
Due to an associated company	–	(16)	–	–
Due to a related party	29	108	–	–
Prepayments by customers	350	244	–	–
	<u>3,991</u>	<u>4,364</u>	<u>453</u>	<u>209</u>

The amounts due to Directors of subsidiary companies, associated company, related party and sundry creditors are unsecured, interest free and repayable on demand in cash.

Included in sundry creditors is US\$1,298,000 (2009: US\$794,000) which relates to shares sold to independent third parties as indemnity for a trade debtor (Note 21).

Other creditors denominated in foreign currencies at 31 December are as follows:

	Group	
	2010 US\$'000	2009 US\$'000
- US dollars	1,631	1,007
- Singapore dollars	<u>816</u>	<u>745</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2010

28. Amount due to holding company

As at 31 December 2010, the amount due to holding company is interest free. In 2009, the amount was interest free except for US\$4,850,000 for which interest was charged at 3.5% per annum.

The amount is repayable on demand in cash.

29. Amounts due to subsidiary companies

The amounts due to subsidiary companies are non-trade in nature and unsecured. The current amounts are repayable on demand in cash and the non-current amounts are repayable only when the cash flow of the Company permits.

The amounts are interest-free, except for US\$11,267,000 (2009: US\$1,647,000) for which interest was charged at 4.5% (2009: 5%) per annum.

30. Convertible loans

On 9 September 2009, the Company entered into a convertible loan agreement with various investors, pursuant to which the investors have granted a US\$657,000 (S\$923,000) convertible loan to the Company. The amount drawn down as at 31 December 2009 was US\$554,000.

During the year, the convertible loan and the interest incurred was repaid in full. The conversion option was not exercised.

31. Lease creditors

Group	Minimum lease payments		Net present value of lease payments	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Future payments payable for finance leases				
Not later than one year	–	27	–	24
Later than one year but not later than five years	–	72	–	51
More than five years	–	23	–	17
	–	122	–	92
Finance charges allocated to future periods	–	(30)	–	–
	–	92	–	92
Current portion (Note 27)	–	24	–	24
Non-current portion	–	68	–	68
	–	92	–	92

Finance leases bore interest ranging from 2.2% to 6.4% (2009: 2.2% to 6.4%) per annum, which approximates the effective interest rates.

Leased assets were pledged as security for the related finance lease liabilities. The finance leases did not contain any escalation clauses and did not provide for contingent rents. Lease terms did not contain restrictions on the Group's activities concerning dividends, additional debts or entering into other leasing agreements.

The finance leases were fully repaid during the year.

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32. Share capital

	Group and Company	
	2010	2009
	US\$'000	US\$'000
Issued and fully paid		
At 1 January	41,844	41,844
Issuance of shares pursuant to Rights Issue	13,622	—
Share issuance expenses	(538)	—
At 31 December	54,928	41,844

	Group and Company	
	2010	2009
	No. of shares '000	No. of shares '000
Issued and fully paid		
At 1 January	224,081	224,081
Add: Rights Shares issued	896,326	—
Total number of issued shares after the Rights Issue	1,120,407	224,081
Total number of issued shares after the Rights Issue and Share Consolidation of (4) ordinary shares into (1) ordinary share	280,102	224,081
Less: Unsold fractional shares	— #	—
At 31 December	280,102	224,081

denotes amount less than 1,000

Rights Issue and Share Consolidation

On 10 December 2010, the Company allotted and issued 896,325,824 Rights Shares and 896,325,824 Warrants. On 13 December 2010, the Company consolidated every four (4) existing ordinary shares of the Company into one (1) share and every four (4) existing Warrants of the Company into one (1) Warrant.

As at 31 December 2010, the Company has utilised US\$6,716,000 (S\$8,711,000) and \$4,626,000 (S\$6,000,000) of the net proceeds from the Rights Issue to repay loan balances owing to the holding company and fund its subsidiary company for purposes of its general working capital respectively.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

33. Capital reserve

The capital reserve relates to capitalisation of bonus issued by a subsidiary company in 2001.

34. Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of:

- financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency; and
- monetary items which form part of net investments in subsidiary companies.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

35. Contingent liabilities

	Company	
	2010 US\$'000	2009 US\$'000
Contingent liabilities not provided for in the financial statements:		
- Corporate guarantees given to secure banking facilities for subsidiary companies	44,179	37,508
- Corporate guarantees given to secure supply of goods for subsidiary companies	2,306	3,883
	46,485	41,391

The Company has issued letters of financial support to certain subsidiary companies to enable these subsidiary companies to operate as going concerns and to meet their obligations for at least twelve months from the dates of the respective directors' report.

The contractual expiry by maturity of the Company's contingent liabilities is within 1 year (2009: 1 year), except for corporate guarantee of US\$436,000 (2009: US\$590,000) given to secure banking facilities of a subsidiary company for which the contractual expiry by maturity is between 1 to 4 years (2009: 1 to 5 years).

36. Operating lease commitments

The Group leases premises, machinery and equipment and internet lease lines under non-cancellable lease arrangements. Future minimum rentals under non-cancellable leases as at 31 December are as follows:

	Group	
	2010 US\$'000	2009 US\$'000
Not later than one year	723	882
Later than one year but not later than five years	466	1,048
	1,189	1,930

Rental expenses (principally for premises, machinery and equipment and internet lease lines) were US\$1,241,000 (2009: US\$1,724,000).

The above operating leases do not contain any escalation clauses and do not provide for contingent rents. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debts or entering into other leasing agreements.

Certain leases include renewal options for additional lease periods ranging from 1 to 3 years (2009: 1 to 3 years) and at rental rates based on negotiations and prevailing market rates.

NOTES TO FINANCIAL STATEMENTS

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37. Related party transactions

An entity or individual is considered a related party of the Group for the purposes of the financial statements if: (1) it possesses the ability (directly or indirectly) to control or exercise significant influence over the operating and financial decisions of the Group or vice versa; or (2) it is subject to common control or common significant influence.

Related companies refer to the ASTI group of companies.

(a) Sale and purchase of goods and services

In addition to related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place at terms agreed between the parties during the year:

	Group		Company	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Holding company				
Management fee expense	365	132	365	132
Interest expense	143	83	20	–
Related companies				
Sales	171	–	–	–
Purchases	62	201	–	–
Subsidiary companies				
Management fee income	–	–	–	75
Interest income	–	–	–	70
Interest expense	–	–	584	84
Associated companies				
Commission expense	90	263	–	–
Management fee income	–	48	–	–
Other related parties				
Technical services fee ⁽¹⁾	256	385	–	–
Commission expense ⁽²⁾	6	21	–	–
Sales ⁽³⁾	171	–	–	–

Other related parties

- (1) The technical services fee was paid to a director-related company for the provision of technical services to a subsidiary company.
- (2) The commission expense was paid to a director-related company for the provision of services to a subsidiary company.
- (3) Sales to a director-related company pertained to sales of goods.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

37. Related party transactions (cont'd)

(b) Compensation of key management personnel

	Group	
	2010 US\$'000	2009 US\$'000
Short-term employee benefits	1,477	1,291
Defined contribution benefits	21	21
Other short-term benefits	192	597
	1,690	1,909
Comprise amounts paid to:		
Directors of the Company	942	926
Other key management personnel	748	983
	1,690	1,909

At 1 January and 31 December 2010, none of the Company's Directors and Key Executive Officers held options to purchase ordinary shares of the Company under ESOS.

During the financial year ended 31 December 2010, no share options have been granted to the Company's Directors.

38. Financial risk management objectives and policies

The Group and the Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include interest rate risk, liquidity risk, credit risk and foreign currency risk. The Board of Directors reviews and agrees policies and procedures for the management of these risks, which are executed by the management. The Audit Committee provides independent oversight to the effectiveness of the risk management process. It is, and has been throughout the current and previous financial year, the Group's policy that no trading in derivatives shall be undertaken.

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Company's exposure to interest rate risk arises primarily from amounts due to bankers.

Sensitivity analysis for interest rate risk

At 31 December 2010, if USD interest rates had been 75 (2009: 75) basis points lower/higher with all other variables held constant, the Group's and the Company's profit net of tax would have been US\$281,000 (2009: US\$237,000) higher/lower, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings.

Other information on interest rate risk is disclosed in various notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

38. Financial risk management objectives and policies (cont'd)

(b) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group's and the Company's liquidity risk management policy is to maintain sufficient liquid financial assets and stand-by credit facilities with different banks.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's financial assets and liabilities at the date of statement of financial position based on contractual undiscounted payments.

2010	1 year or less US\$'000	1 to 5 years US\$'000	Over 5 years US\$'000	Total US\$'000
Group				
Financial assets				
Available-for-sale financial assets	–	–	750	750
Trade debtors	59,218	–	–	59,218
Other debtors	1,323	–	–	1,323
Cash and bank balances	23,943	–	–	23,943
Total undiscounted financial assets	84,484	–	750	85,234
Financial liabilities				
Amounts due to bankers	26,157	458	–	26,615
Bills payable to banks	18,573	–	–	18,573
Trade creditors and accruals	31,885	–	–	31,885
Other creditors	3,991	–	–	3,991
Amount due to holding company	412	–	–	412
Total undiscounted financial liabilities	81,018	458	–	81,476
Total net undiscounted financial assets/(liabilities)	3,466	(458)	750	3,758
Company				
Financial assets				
Available-for-sale financial assets	–	–	706	706
Amounts due from subsidiary companies	1,632	–	5,970	7,602
Other debtors	92	–	–	92
Cash and bank balances	3,840	–	–	3,840
Total undiscounted financial assets	5,564	–	6,676	12,240
Financial liabilities				
Trade creditors and accruals	344	–	–	344
Other creditors	453	–	–	453
Amount due to holding company	412	–	–	412
Amounts due to subsidiary companies	15,699	–	–	15,699
Total undiscounted financial liabilities	16,908	–	–	16,908
Total net undiscounted financial liabilities	(11,344)	–	(6,676)	(4,668)

NOTES TO FINANCIAL STATEMENTS

31 December 2010

38. Financial risk management objectives and policies (cont'd)

(b) Liquidity risk (cont'd)

2009	1 year or less US\$'000	1 to 5 years US\$'000	Over 5 years US\$'000	Total US\$'000
Group				
Financial assets				
Available-for-sale financial assets	–	–	978	978
Trade debtors	50,252	–	–	50,252
Other debtors	2,461	–	–	2,461
Cash and bank balances	18,771	–	–	18,771
Total undiscounted financial assets	71,484	–	978	72,462
Financial liabilities				
Amounts due to bankers	24,206	704	–	24,910
Bills payable to banks	15,461	–	–	15,461
Trade creditors and accruals	34,742	–	–	34,742
Other creditors	4,340	–	–	4,340
Amount due to holding company	5,582	–	–	5,582
Convertible loans	554	–	–	554
Lease creditors	27	72	23	122
Total undiscounted financial liabilities	84,912	776	23	85,711
Total net undiscounted financial (liabilities)/assets	(13,428)	(776)	955	(13,249)
Company				
Financial assets				
Available-for-sale financial assets	–	–	934	934
Amounts due from subsidiary companies	1,638	–	5,970	7,608
Other debtors	85	–	–	85
Cash and bank balances	154	–	–	154
Total undiscounted financial assets	1,877	–	6,904	8,781
Financial liabilities				
Amounts due to bankers	1,668	–	–	1,668
Trade creditors and accruals	229	–	–	229
Other creditors	209	–	–	209
Amount due to holding company	732	–	–	732
Amounts due to subsidiary companies	10,344	–	8,867	19,211
Convertible loans	554	–	–	554
Total undiscounted financial liabilities	13,736	–	8,867	22,603
Total net undiscounted financial liabilities	(11,859)	–	(1,963)	(13,822)

The contractual expiry by maturity of the Company's contingent liabilities is disclosed in Note 35.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

38. Financial risk management objectives and policies (cont'd)

(c) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other debtors and amounts due from subsidiary companies. For other financial assets (including available-for-sale financial assets and cash and bank balances), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. Other information on credit enhancements is disclosed in Note 21.

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country profile of its trade debtors on an ongoing basis. The credit risk concentration profile of the Group's trade debtors at the date of statement of financial position is as follows:

By Country:	Group			
	2010		2009	
	US\$'000	% of total	US\$'000	% of total
People's Republic of China	46,772	79%	33,655	67%
Singapore	3,836	6%	5,468	11%
Malaysia	3,689	6%	4,742	9%
India	1,589	3%	1,239	2%
Thailand	1,102	2%	1,065	2%
Korea	965	2%	828	2%
Taiwan	224	–	2,000	4%
Others	1,041	2%	1,255	3%
	59,218	100%	50,252	100%

Exposure to credit risk

At the date of statement of financial position, the Group's and the Company's maximum exposure to credit risk is represented by:

- The carrying amount of each class of financial assets recognised in the statements of financial position; and
- The nominal amounts of corporate guarantees provided by the Company (Note 35).

At the date of statement of financial position, approximately 62% (2009: 58%) of the Group's trade debtors are due from 5 (2009: 5) major customers in the Group. Almost all of the Company's receivables were balances with related parties.

Financial assets that are neither past due nor impaired

Trade and other debtors that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents are placed with reputable financial institutions.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 21.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

38. Financial risk management objectives and policies (cont'd)

(d) Foreign currency risk

The Group has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of the companies within the Group. The companies within the Group customarily conduct their business in their respective functional currencies. The foreign currencies in which these transactions are denominated are mainly USD. No company in the Group has entered into any derivatives to manage foreign currency risk.

The Group is also exposed to currency translation risk arising from its net investments in foreign operations, including People's Republic of China, Malaysia and Korea. The Group's investments in these foreign operations are not hedged as currency positions in Renminbi ("RMB"), Malaysia Ringgit ("Ringgit") and Korean Won are considered to be long-term in nature.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's and Company's profit net of tax to a reasonably possible change in the USD and Ringgit exchange rates against the respective functional currencies of the Group entities, with all other variables held constant.

		Group Net Profit		Company Net Profit	
		2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
USD	Strengthened by 5% (2009: 3%)	-423	-172	-	-
	Weakened by 5% (2009: 3%)	+423	+172	-	-
Ringgit	Strengthened by 5% (2009: 3%)	+120	+58	+120	+58
	Weakened by 5% (2009: 3%)	-120	-58	-120	-58

39. Financial Instruments

(a) Categories of financial instruments

		Group		Company	
		2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
	Note				
Loans and receivables					
Amounts due from subsidiary companies	18	-	-	7,602	7,608
Trade debtors	21	59,218	50,252	-	-
Other debtors	22	1,323	2,461	92	85
Cash and bank balances	23	23,943	18,771	3,840	154
		84,484	71,484	11,534	7,847
Financial liabilities measured at amortised cost					
Amounts due to bankers	24	26,485	24,222	-	1,613
Bills payable to banks	25	18,472	15,361	-	-
Trade creditors and accruals	26	31,885	34,742	344	229
Other creditors	27	3,991	4,364	453	209
Amount due to holding company	28	412	5,582	412	732
Amounts due to subsidiary companies	29	-	-	15,699	19,211
Convertible loans	30	-	554	-	554
Lease creditors	31	-	68	-	-
		81,245	84,893	16,908	22,548
Available-for-sale financial assets	16	750	978	706	934

NOTES TO FINANCIAL STATEMENTS

31 December 2010

39. Financial Instruments (Cont'd)

(b) Fair values of financial instruments

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- (i) **Trade and other debtors, cash and bank balances, amounts due to bankers (current), bills payable to banks, trade creditors and accruals and other creditors, amounts due from/(to) subsidiary companies (current) and holding company and convertible loans**

The fair values of these financial instruments approximate their carrying amounts because of their short-term maturity.

- (ii) **Available-for-sale financial assets (unquoted)**

It is not practicable to estimate the fair values of the long-term unquoted investments because of the lack of quoted market prices. The Group does not intend to dispose of these investments in the foreseeable future.

- (iii) **Amounts due from/(to) subsidiary companies (non-current)**

It is not practicable to estimate the fair values of non-current amounts due from/(to) subsidiary companies (non-current) as there are no repayment terms and hence, the timing of cash flow cannot be estimated reliably.

- (iv) **Amounts due to bankers (non-current)**

The carrying amounts of amounts due to bankers (non-current) are reasonable approximation of fair values as they are floating rate instruments that are re-priced to market interest rates on or near 31 December 2010.

40. Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. During the financial year ended 31 December 2010, the Company allotted and issued rights shares and warrants. Further details are given in Note 32.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, amounts due to financial institutions and convertible loans, less cash and cash equivalents. Total capital includes equity attributable to equity holders of the Company. As at 31 December 2010, the gearing ratio of the Group is 43% (2009: 55%).

	Note	Group	
		2010 US\$'000	2009 US\$'000
Loans and borrowings			
Amounts due to bankers	24	26,485	24,222
Bills payable to banks	25	18,472	15,361
Convertible loans	30	–	554
Less: Cash and cash equivalents		(21,141)	(19,334)
Net debt		23,816	20,803
Equity attributable to equity holders of the Company		31,415	16,952
Capital and net debt		55,231	37,755
Gearing ratio		43%	55%

No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

NOTES TO FINANCIAL STATEMENTS

31 December 2010

41. Events occurring after date of statement of financial position

The Productivity and Innovation Credit (“PIC”) Scheme first introduced in the Singapore 2010 budget has been enhanced in the Singapore 2011 budget on 18 February 2011. Under the enhanced PIC Scheme, the tax benefits on the qualifying activities have been raised upwards from 250% on a cap of S\$300,000 to 400% on a cap of S\$400,000 of the qualifying expenditure effective from years of assessment 2011 to 2015.

In addition, a corporate income tax rebate will be granted for the year of assessment (“YA”) 2011. The rebate will be 20% of the corporate income tax payable, capped at \$10,000. For companies that pay very little taxes, a one-off cash grant will be provided. The grant will be based on 5% of the company’s revenue for YA2011, subject to a cap of \$5,000. The company must, however made CPF contributions in YA2011. The company will receive the higher of the corporate income tax rebate or the grant in the YA2011 corporate income tax returns.

In accordance with FRS12 *Income Taxes* and FRS10 *Events after the Balance Sheet Date*, this is a non-adjusting subsequent event and the financial effect of the change will be reflected in the financial year ending 31 December 2011. The Group has assessed the financial effect of the above change and is not expected to have any material impact on the financial position or performance of the Group.

42. Authorisation of financial statements

The financial statements for the financial year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Directors on 4 April 2011.



APPENDIX **3**

DRAGON GROUP INTERNATIONAL LIMITED | ANNUAL REPORT 2010

STATISTICS OF SHAREHOLDINGS

Statistics of Shareholdings

As at 18 March 2011

Number of equity securities	:	280,101,783
Number of treasury shares	:	Nil
Class of equity securities	:	Ordinary shares
Voting rights	:	One vote per share

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
1 - 999	1,714	46.75	655,813	0.23
1,000 - 10,000	1,316	35.90	3,996,583	1.43
10,001 - 1,000,000	616	16.80	48,643,686	17.37
1,000,001 and above	20	0.55	226,805,701	80.97
Total :	3,666	100.00	280,101,783	100.00

TWENTY LARGEST SHAREHOLDERS

NO	NAME OF SHAREHOLDERS	NUMBER OF SHARES	%
1	ASTI Holdings Limited	172,579,302	61.61
2	DB Nominees (S) Pte Ltd	8,753,900	3.13
3	Lim Chye Huat @ Bobby Lim Chye Huat	6,000,000	2.14
4	Kim Eng Securities Pte. Ltd.	5,964,000	2.13
5	Soh Pock Kheng	5,075,000	1.81
6	Phillip Securities Pte Ltd	4,406,844	1.57
7	Ramesh s/o Pritamdas Chandiramani	3,050,000	1.09
8	Tan Boon Keng Kennedy	3,000,000	1.07
9	Lim & Tan Securities Pte Ltd	2,523,333	0.90
10	Tang Lyn-Huei Fiona Mae	1,900,000	0.68
11	OCBC Securities Private Limited	1,722,500	0.61
12	Avtrade Trading Pte Ltd	1,500,000	0.54
13	Forte Capital Management Pte Ltd	1,500,000	0.54
14	Wong Yen Siang	1,467,000	0.52
15	Sunshine Bay Limited	1,417,500	0.51
16	CIMB Securities (Singapore) Pte Ltd	1,367,750	0.49
17	OCBC Nominees Singapore Pte Ltd	1,212,850	0.43
18	Tan Citi Time Pte Ltd	1,166,750	0.42
19	DBS Nominees Pte Ltd	1,130,972	0.40
20	Yeap Lam Wah	1,068,000	0.38
	Total :	226,805,701	80.97

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

	DIRECT INTEREST	%	DEEMED INTEREST	%
ASTI Holdings Limited	172,579,302	61.61	-	-
Dato' Michael Loh Soon Gnee ⁽¹⁾	-	-	172,579,302	61.61

Note: ⁽¹⁾ Dato' Michael Loh Soon Gnee is deemed to be interested in the 172,579,302 shares held by ASTI Holdings Limited by virtue of Section 7 of the Companies Act, Cap. 50.

PERCENTAGE SHAREHOLDING IN PUBLIC'S HAND (RULE 723)

38% of the Company's shares are held in the hands of the public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

Statistics of Warrantholdings

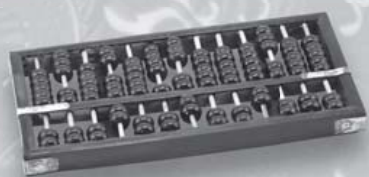
As at 18 March 2011

DISTRIBUTION OF WARRANTHOLDINGS

SIZE OF WARRANTHOLDINGS	NUMBER OF WARRANTHOLDERS	%	NUMBER OF WARRANTS	%
1 - 999	95	10.37	31,122	0.01
1,000 - 10,000	357	38.98	1,689,822	0.76
10,001 - 1,000,000	443	48.36	36,836,421	16.44
1,000,001 and above	21	2.29	185,524,047	82.79
Total :	916	100.00	224,081,412	100.00

TWENTY LARGEST WARRANTHOLDERS

NO	NAME OF WARRANTHOLDERS	NUMBER OF WARRANTS	%
1	ASTI Holdings Limited	138,063,442	61.61
2	DB Nominees (S) Pte Ltd	7,000,000	3.12
3	Phillip Securities Pte Ltd	5,185,107	2.31
4	Lim Chye Huat @ Bobby Lim Chye Huat	5,000,000	2.23
5	Soh Pock Kheng	3,780,000	1.69
6	Ramesh s/o Pritamdas Chandiramani	3,411,000	1.52
7	Tan Boon Keng Kennedy	2,400,000	1.07
8	Toh Tiong San	2,400,000	1.07
9	Kuek Tong Au	2,220,000	0.99
10	Lim & Tan Securities Pte Ltd	2,018,500	0.90
11	Kim Eng Securities Pte. Ltd.	1,870,000	0.83
12	OCBC Nominees Singapore Pte Ltd	1,399,248	0.62
13	OCBC Securities Private Limited	1,304,250	0.58
14	Wong Yen Siang	1,293,000	0.58
15	Yeap Lam Wah	1,293,000	0.58
16	Avtrade Trading Pte Ltd	1,250,000	0.56
17	Eng Koon Hock	1,250,000	0.56
18	Sunshine Bay Limited	1,134,000	0.51
19	CIMB Securities (Singapore) Pte Ltd	1,115,000	0.50
20	Lim Swee Pen	1,100,000	0.49
	Total :	184,486,547	82.32



APPENDIX 4

DRAGON GROUP INTERNATIONAL LIMITED | ANNUAL REPORT 2010

NOTICE OF ANNUAL GENERAL MEETING

NOTICE OF ANNUAL GENERAL MEETING

DRAGON GROUP INTERNATIONAL LIMITED

(Company Registration No. 199306761C)
(Incorporated in Singapore with limited liability)

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Dragon Group International Limited (the “**Company**”) will be held at Blk 25 Kallang Avenue, #06-01 Kallang Basin Industrial Estate, Singapore 339416 on Thursday, 28 April 2011 at 10.30 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors’ Report and the Audited Accounts of the Company for the year ended 31 December 2010 together with the Auditors’ Report thereon. **(Resolution 1)**
2. (i) To re-elect the following Directors of the Company retiring pursuant to Articles 103 and 107 of the Articles of Association of the Company:

Dato’ Michael Loh Soon Gnee	(Article 103)	(Resolution 2)
Dato’ Shaarani B. Ibrahim	(Article 107)	(Resolution 3)
Mr Mohd Sopiyan B. Mohd Rashdi	(Article 107)	(Resolution 4)

Dato’ Shaarani B. Ibrahim, upon re-election as a Director of the Company, remain as the Chairman of the Remuneration Committee and a member of the Audit and Nominating Committees and will be considered independent.
- (ii) To note that Mr Derek Loh Eu-Tse and Mr Teh Kim Seng who will be retiring pursuant to Article 103 of the Company’s Articles of Association, have notified the Company that they do not wish to seek re-election to the Board of Directors.
3. To approve the payment of Directors’ fees of S\$189,530 for the year ended 31 December 2010 (2009: S\$189,300). **(Resolution 5)**
4. To re-appoint Messrs Ernst & Young LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 6)**
5. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

6. Authority to issue shares

That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors of the Company be authorised and empowered to:

- (a) (i) issue shares in the Company (“**shares**”) whether by way of rights, bonus or otherwise; and/or
- (ii) make or grant offers, agreements or options (collectively, “**Instruments**”) that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and

- (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instruments made or granted by the Directors of the Company while this Resolution was in force,

provided that:

- (1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed fifty per centum

NOTICE OF ANNUAL GENERAL MEETING

(50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a *pro rata* basis to shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

- (2) (subject to such calculation as may be prescribed by the Singapore Exchange Securities Trading Limited) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the total number of issued shares (excluding treasury shares) shall be based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:
 - (a) new shares arising from the conversion or exercise of any convertible securities;
 - (b) new shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution; and
 - (c) any subsequent bonus issue, consolidation or subdivision of shares;
- (3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the Singapore Exchange Securities Trading Limited for the time being in force (unless such compliance has been waived by the Singapore Exchange Securities Trading Limited) and the Articles of Association of the Company; and
- (4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note]

(Resolution 7)

By Order of the Board

Yip Ming Fai
Secretary
Singapore, 12 April 2011

Explanatory Note:

The Ordinary Resolution 7 in item 6 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding, in total, 50% of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to 20% may be issued other than on a *pro-rata* basis to shareholders.

For determining the aggregate number of shares that may be issued, the total number of issued shares (excluding treasury shares) will be calculated based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting (the “**Meeting**”) is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.
2. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 not less than forty-eight (48) hours before the time appointed for holding the Meeting.



APPENDIX **5**

DRAGON GROUP INTERNATIONAL LIMITED | ANNUAL REPORT 2010

PROXY FORM

DRAGON GROUP INTERNATIONAL LIMITED

(Company Registration No. 199306761C)

(Incorporated in Singapore with limited liability)

PROXY FORM

(Please see notes overleaf before completing this Form)

IMPORTANT:

1. For investors who have used their CPF monies to buy **Dragon Group International Limited's** shares, this Report is forwarded to them at the request of the CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors who wish to attend the Meeting as an observer must submit their requests through their CPF Approved Nominees within the time frame specified. If they also wish to vote, they must submit their voting instructions to the CPF Approved Nominees within the time frame specified to enable them to vote on their behalf.

I/We, _____ (Name)

of _____ (Address)

being a member/members of **DRAGON GROUP INTERNATIONAL LIMITED** (the "Company"), hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	(%)
Address			

and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	(%)
Address			

or failing the person, or either or both of the persons, referred to above, the Chairman of the Meeting as my/our* proxy/proxies* to vote for me/us* on my/our* behalf at the Annual General Meeting (the "Meeting") of the Company to be held at 25 Kallang Avenue, #06-01 Kallang Basin Industrial Estate, Singapore 339416 on Thursday, 28 April 2011 at 10.30 a.m. and at any adjournment thereof. I/We* direct my/our* proxy/proxies* to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies* will vote or abstain from voting at his/her* discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

(*Delete where inapplicable)

(Please indicate your vote "For" or "Against" with a tick [✓] within the box provided.)

No.	Resolutions relating to:	For	Against
1	Directors' Report and Audited Accounts for the year ended 31 December 2010		
2	Re-election of Dato' Michael Loh Soon Gnee as a Director		
3	Re-election of Dato' Shaarani B. Ibrahim as a Director		
4	Re-election of Mr Mohd Sopiyan B. Mohd Rashdi as a Director		
5	Approval of Directors' fees amounting to S\$189,530		
6	Re-appointment of Messrs Ernst & Young LLP as Auditors		
7	Authority to issue new shares		

Dated this _____ day of _____ 2011

Signature of Shareholder(s)

or, Common Seal of Corporate Shareholder

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	



Notes:


1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the shares held by you.
2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
4. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.
5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 not less than forty-eight (48) hours before the time appointed for the Meeting.
6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at forty-eight (48) hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.



DRAGON GROUP INTERNATIONAL LIMITED

A member of  ASTI

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