annual report
2010
年報

SCHRAMM HOLDING AG
星亮控股股份公司*

(A joint stock company incorporated under the laws of Germany)
（根據德國法例註冊成立的股份公司）

Stock Code股份代號: 955

* For identification purpose only 僅供識別

IMPORTANT NOTICE:

THIS ANNUAL REPORT HAS BEEN PREPARED IN ACCORDANCE WITH THE REQUIREMENTS OF THE STOCK EXCHANGE OF HONG KONG LIMITED, WHICH CONTAINS INFORMATION RELATING TO THE COMPANY REQUIRED BY THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED.

IN ADDITION TO THIS ANNUAL REPORT, SHAREHOLDERS OF THE COMPANY ARE ENTITLED TO FURTHER DOCUMENTS, INFORMATION AND REPORTS OF THE COMPANY PURSUANT TO GERMAN STATUTORY LAWS AND REGULATORY REQUIREMENTS, INCLUDING WITHOUT LIMITATION THE FINANCIAL STATEMENTS IN ACCORDANCE WITH THE PROVISIONS OF THE GERMAN COMMERCIAL CODE, THE CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO THE REQUIREMENTS OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") AS APPLICABLE IN THE EUROPEAN UNION ("EU") AND THE GROUP MANAGEMENT REPORT, WHICH ARE NOT CONTAINED IN THIS ANNUAL REPORT. THOSE DOCUMENTS, TOGETHER WITH THE COMPLETE MATERIALS TO WHICH A SHAREHOLDER IS ENTITLED PURSUANT TO GERMAN LAWS, WILL BE AVAILABLE ON THE COMPANY'S OFFICIAL WEBSITE: **www.schramm-holding.com/en-generalmeeting2011.html** AND AT THE REGISTERED OFFICES OF THE COMPANY, KETTELERSTRAßE 100, 63075 OFFENBACH/MAIN, FROM THE DATE ON WHICH THE FORTHCOMING ANNUAL GENERAL MEETING WILL BE CONVENED.

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Corporate Information

MEMBERS OF THE MANAGEMENT BOARD

Mr. Peter BRENNER
Mr. Kyung Seok CHAE
Mr. Sung Yoon KIM (released on 17 March 2010)
Mr. Kyung Hwan YEO (appointed on 17 March 2010 and released on 11 June 2010)
Dr. Sung Su HAN (appointed on 1 September 2010)

MEMBERS OF THE SUPERVISORY BOARD

Mr. Jung Hyun OH (Chairman of the Supervisory Board)
Mr. Suk Whan CHANG (Vice Chairman of the Supervisory Board until his resignation on 11 June 2010)
Mr. Jeong Ghi KOO (Vice Chairman of the Supervisory Board since 11 June 2010)
Mr. Min Koo SOHN (appointed on 11 June 2010)
Mr. Kun Hwa PARK* (resigned on 11 June 2010)
Mr. Choong Min LEE*
Mr. Kiyoung SHIN*
Mr. Bang Seon KO* (appointed on 11 June 2010)

COMPANY SECRETARY

Mr. Kenny Yuen Fai CHAN, CPA, FCCA

AUTHORIZED REPRESENTATIVES

Mr. Kyung Seok CHAE
Mr. Kenny Yuen Fai CHAN

AUDITORS

For the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited: Deloitte Touche Tohmatsu

For Germany statutory requirements:
Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft

PRINCIPAL BANKERS

Bayerische Hypo-und Vereinsbank AG
Commerzbank AG
Industrial and Commercial Bank of China (Asia) Limited

LEGAL ADVISERS

Norton Rose LLP
Norton Rose Hong Kong

COMPLIANCE ADVISER

SBI E2-Capital (HK) Limited

REGISTERED OFFICE/HEAD OFFICE

Kettelerstraße 100,
D-63075 Offenbach/Main,
Germany

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 07, 25/F, Lippo Centre, Tower 1,
89 Queensway, Admiralty,
Hong Kong

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
17M Floor,
Hopewell Centre,
183 Queen's Road East,
Wanchai,
Hong Kong

WEBSITE

www.schramm-holding.com

SHARE LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODE

955

* *Independent Supervisors*

Chief Executive Officer's Statement

Schramm Holding AG's headquarter in Offenbach, Germany

CHIEF EXECUTIVE OFFICER'S STATEMENT

The year 2010 marked the 200th anniversary of Schramm's founding and we celebrated this monumental milestone with much pride and gratitude to all who helped Schramm reach this point. Our 200th year was representative of Schramm's long term history of success and perseverance as Schramm recorded historical highs in sales and profit in a year where continued global market volatility risked the much awaited economic recovery along with internal restructuring and expansionary investments that placed much burden on the cost structure of Schramm which had not been present in the year 2009. As such, it is my pleasure to inform you of Schramm's 2010 results and business performance.

Although many are still skeptical as to whether the global economic recovery in 2010 is genuine and sustainable, it is clear that all of our key market segments including automotives and mobile handsets enjoyed a remarkable rebound since 2009. As a result, Schramm's sales recorded €115.3 million in 2010, an increase of 17% year on year. All of our business segments enjoyed strong growth resulting in a record year in sales.

Developed markets, such as Germany and Korea where Schramm has a leading market presence, were more damaged during the 2009 downturn versus developing markets, such as China where Schramm sees much of its future growth, were less damaged and continued to grow throughout the economic crisis. As the global markets recovered in 2010, we witnessed stronger growth in our operations located in developed markets versus our operations located in developing markets.

Schramm's sales growth was highlighted by two key trends. First, the automotive industry, one of the hardest hit industries during the downturn, flourished in 2010. The majority of Schramm's sales are automotive related and this industrial trend, in addition to additional projects won by Schramm, paved the way for Schramm's record year in sales. Second, our waterborne sales in China grew by 90% which is in line with our strategy and view that China's demand for environmentally friendly coatings will continue to increase.

The year 2010 was also a year where Schramm underwent certain internal restructuring along with expansionary investments for the future. Without much contribution in sales, these costs were an added burden for Schramm in 2010 which had not been present in 2009. We believe that the restructuring was a one time event and are confident that such changes do not materially affect our long term day to day operations.

Excluding the above added costs, 2010 also marked a record year in profits. Recurring net income reached €6.1 million, representing a 36% increase over the previous year's figure. This was mainly due to Schramm's decision not to release any of our key R&D employees during the downturn of 2009 which in turn strategically placed Schramm in a strong position to capture new projects during the 2010 recovery.

Maybe the biggest success which is not recognizable in our numbers is our global organization and personnel. Post Schramm's acquisitions of our Asian subsidiaries in 2008 and 2009, our organization is stronger than ever. Although much work still needs to be done, we are confident that our organization is ready to handle and execute the strategies and future growth that have been defined. With our 791 employees, we step forward into 2011 confident as ever to maximize the company's potential which will in return maximize shareholders' value.

Schramm has set ambitious goals and targets for 2011. By the end of the first half of 2011, Schramm will start manufacturing and servicing to clients in Vietnam, a country dubbed as many as the next China, and will start operating our central R&D centre in Tianjin, whose R&D capabilities are expected to assist and increase our China market positioning long term towards levels that Schramm enjoys in Europe.

CHIEF EXECUTIVE OFFICER'S STATEMENT

While a strong global and automotive recovery, especially in our developed markets, drove Schramm's growth in 2010, we expect that growth rates from our operations in developed markets will come down to reasonable levels and that continued double digit growth rates from operations in developing markets, mainly China, will be the key growth driver for 2011.

Although no one can accurately predict the future, especially now with volatile commodity markets, inflation, political unrest, and an unstable global recovery, Schramm will grow successfully and persevere as it has for the last 200 years as this is embedded into our corporate culture.

Finally, please allow me to express my great appreciation to all of Schramm's 790 plus employees, whose contribution have been invaluable in the results that we now announce to you, our shareholders. Every one of them has built a part of Schramm's solid foundation which enables Schramm to paint a brighter future for our shareholders. Thank you.

Peter BRENNER

Offenbach, Germany, 17 March 2011

Note:

Schramm underwent certain internal restructuring and incurred expansionary investments. In the opinion of the management, these costs were an added burden for Schramm in 2010 not present in the previous year. The following is an analysis on the consolidated income statement differentiating the costs associated with restructuring and expansionary investments from Schramm's recurring operation.

	2010			2009
	Audited €'000	Recurring €'000	Non-recurring €'000	Audited €'000
Revenue	115,304	115,304	—	98,526
Other operating income	643	643	—	591
Change in inventories of finished goods and work-in-progress	3,361	3,361	—	(823)
Costs of materials	(67,964)	(67,964)	—	(53,061)
Employee benefit expenses	(21,940)	(21,607)	(333)	(19,965)
Depreciation and amortization	(3,363)	(3,363)	—	(3,337)
Other operating expenses	(17,165)	(16,916)	(249)	(14,627)
Other gains, net	1,040	1,040	—	253
Core operating profit	9,916	10,498	(582)	7,557
Non-core operating expenses	(950)	—	(950)	—
Earnings/(losses) before interest and taxes	8,966	10,498	(1,532)	7,557
Finance income	53	53	—	30
Finance costs	(1,521)	(1,521)	—	(1,587)
Profit before income tax	7,498	9,030	(1,532)	6,000
Income tax expense	(2,712)	(2,950)	238	(1,537)
Net profits/(losses)	4,786	6,080	(1,294)	4,463

Management Discussion and Analysis

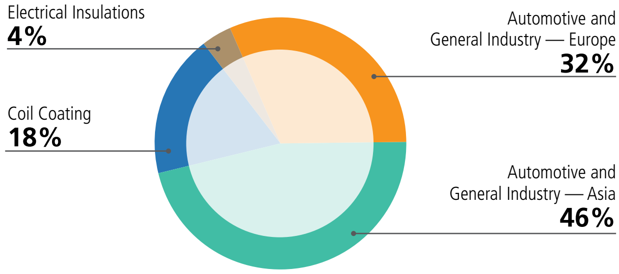
SCHRAMM is a formulator and manufacturer of customized paints and coatings for plastic and metal surfaces in the automotive, mobile phone, and consumer electronics sectors. SCHRAMM has developed deep technical know-how in eco-friendly coatings that are water based replacing older solvent based solutions. In most instances, the coatings are critical elements for the appearance of the product (automotive interior, mobile phones, surfaces of white goods and consumer electronics) and need to meet specific performance criteria for scratch resistance among others. SCHRAMM operates in Europe (Germany, Spain), Asia (PRC, Korea, Thailand, Vietnam), and the USA.

RESULTS REVIEW:

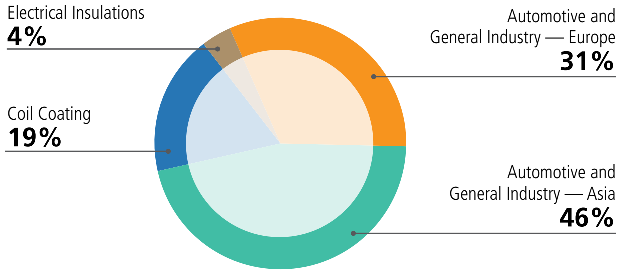
Revenue:

Revenue for 2010 reached €115.3 million (2009: €98.5 million), which represents an increase of 17% versus 2009. All operating segments from both our European and Asian operations contributed to the increase in revenue. Revenue by our European operation improved by 17.6% to €62.8 million (2009: €53.3 million) and revenue by our Asian operation increased by 16.3% to €52.5 million (2009: €45.2 million).

For the year ended 31 December 2010



For the year ended 31 December 2009



Review of segment results:

(a) *Automotive and general industry*

Our coatings are used in a lot of products, for example, automotives, mobile phones, notebooks, and consumer electronic products which provide decorative, protective and functional value to the end products.

Europe:

The automotive and general industry segment for our European operation mainly consists of coatings for the automotive industry in Europe.

Revenue of the automotive and general industry segment from our European operation grew to €36.4 million (2009: €30.4 million), a 19.6% increase year on year.

This high growth rate was mainly due to the recovery of the global economy, especially of the European automotive industry, which was one of the hardest hit during the 2008 and 2009 downturn. Germany, where our main operation is located, has led Europe in the strong recovery and, as such, our European revenue recorded growth rates well above historical levels. In addition, we did not release any key R&D employees during the downturn which in turn strategically placed Schramm in a strong position to capture new projects during the 2010 recovery.

Asia:

The automotive and general industry segment for our Asian operation mainly consists of coatings for the mobile phone, notebook, consumer electronic, and automotive industries in China, Korea, and Southeast Asia.

Revenue of the automotive and general industry segment from our Asian operation grew to €52.5 million (2009: €45.2 million), a 16.3% increase year on year.

The growth in Asia was highlighted by a strong performance of 88.7% growth in our Korean operation and an increase of 90% in revenue of our waterborne products in China. Relative to the recovery in the global automotive industry, we witnessed a stronger growth in demand and production of Korean automotives. As a result, our Korean operations flourished in the year 2010. In China, demand for waterborne coatings continued to grow and our China automotive business benefited from this increase in demand.

(b) *Coil coating*

Our coil coating business is predominantly in Europe where we supply coatings for large steel and aluminum coil manufacturers. Our customers use our coatings to produce "pre-coated" metals which can be coated with several layers to increase product performance through high surface conductivity, corrosion protection and wear resistance. Our coil coating products are mainly found in pre-coated metals, which are mainly used in the construction sector such as road signs, roofs, elevators/lifts and buildings.

Revenue from the coil coatings segment increased by 14.7% to €21.2 million (2009: €18.5 million). The improvement came from both additional projects won and the recovery of the general economy.

(c) *Electrical Insulations*

Revenue from the electrical insulations segment increased by 16.7% to €5.1 million (2009: €4.4 million). This increase was mainly due to the general recovery of the economy.

Total Material Costs

	2010 €'000	2009 €'000
Changes in inventories of finished goods and work-in-progress	**(3,361)**	823
Costs of materials	**67,964**	53,061
Total material costs	**64,603**	53,884
As a percentage of revenue	**56.0%**	54.7%

Total material costs increased by 19.9%, compared to the 17.0% increase in revenue. The increase was largely in line with the revenue growth after taking into account the higher material costs due to the change in regional sales mix outweighing the lower material costs due to the change in product sales mix. In 2010, the automotive and general industry segment, which is generally associated with lower material costs, grew more than the other segments in revenue lowering Schramm's overall material costs. However, Schramm's revenue in Korea has higher material costs compared to our other regional operations as our Korean operation is a sales and distribution business with outsourced production. The relatively higher revenue contribution from our Korean operation resulted in a slight increase in the Schramm's total material costs as a percentage of revenue.

Employee Benefit Expenses

	2010 €'000	2009 €'000
Employee benefit expenses	**21,940**	19,965
As a percentage of revenue	**19.0%**	20.3%

Employee benefit expenses increased by 9.9% in 2010 versus 2009, predominately due to increased sales and production; additional hirings for the compliance, finance and controlling departments; and personnel were hired in preparation for Schramm's expansion into Vietnam, China R&D centre, and expansion into other geographical locations.

Employee benefit expenses did not increase as much as revenue; these expenses as a percentage of revenue decreased by 1.3% due to increased productivity outweighing the costs from additional hiring.

Depreciation and amortization

Depreciation and amortization in 2010 remained fairly stable, €3.4 million in 2010 compared to €3.3 million in 2009. There was no significant change in the depreciable assets of the Schramm in 2010.

Other Operating Expenses

	2010	2009
	€'000	€'000
Other operating expenses	**17,165**	14,627
As a percentage of revenue	**14.9%**	14.8%

Other operating expenses increased by 17.4%, approximately the same as the 17.0% increase in revenue. The increase was mainly due to increased revenue and production; Schramm's additional costs of strengthening its compliance, finance and controlling departments; and cost related to the preparation for Schramm's expansion into Vietnam, China R & D centre, and expansion into other geographical locations.

Non-core operating expenses

In 2010, Schramm underwent certain internal restructuring. These costs were mainly the result of compensation payments made to a former director and the legal costs in relation to the advice provided to the Supervisory Board on this matter.

Other than the restructuring related costs, we incurred for an extraordinary meeting to approve the revised cap on the connected transactions with our major shareholder, SSCP.

These costs are not part of the core operation and are non-recurring costs.

Finance costs

	2010	2009
	€'000	€'000
Finance costs	**1,521**	1,587
Earnings before interests and taxes	**8,966**	7,557
Interest coverage (i.e. Earnings before interests and taxes/finance costs)	**5.89x**	4.76x

The finance costs in 2010 decreased slightly compared to 2009. This was due to the net impact on (i) the reduction in bank borrowings and (ii) a higher average interest rate from converting a majority of our short-term borrowings to long term.

The management evaluates the health of its debt financing by the interest coverage ratio. The interest coverage ratio increased by 1.13 times to 5.89 times. It is considered that the existing interest coverage ratio is at healthy level and will be monitored continuously.

Tax expenses

Tax expenses increased by 76.4% to €2.7 million (2009: €1.5 million) due to a higher taxable income and significant additional costs in relations to non-core operating expenses and expansionary investments without tax benefits.

Financial Position and Liquidity

Schramm continued to be in a strong financial position as at 31 December 2010. Net asset value of the Group as at 31 December 2010 was €54.3 million, compared to €48.0 million as at 31 December 2009.

(a) Gearing ratio

	2010 €'000	2009 €'000
Total bank borrowings	**20,091**	26,739
Less: cash and cash equivalents	**(4,782)**	(14,226)
Net borrowings	**15,309**	12,513
Total equity	**54,329**	48,006
Total capital employed	**69,638**	60,519
Gearing ratio (i.e. net borrowings/total capital employed)	**22.0%**	20.7%

Gearing ratio is being maintained at a low level, at 22.0% as at 31 December 2010, compared to that as at 31 December 2009, at 20.7%. The slight increase in the gearing ratio was due to the additional investments made in the 2010, which reduced the cash and cash equivalents thus increasing the net borrowings.

Production Factory used since 1958 in Offenbach, Germany *(b) Current ratio and quick ratio*

In managing the Group's liquidity, we generally evaluate the current ratio and the quick ratio.

	2010	2009
	€'000	€'000
Current assets	**58,456**	63,821
Current liabilities	**15,049**	25,464
Current ratio (i.e. current assets/current liabilities)	**3.88x**	2.51x

In addition to repaying a net amount of €6.6 million short term bank borrowings in 2010, we changed most of the short-term bank borrowings to long term in order to provide financial stability. As a result, the current ratio improved from 2.51 times to 3.88 times.

In addition, the Group's liquidity is being managed by monitoring the quick ratio, which is calculated as follows:

	2010	2009
	€'000	€'000
Current assets excluding inventories	**38,525**	48,132
Current liabilities	**15,049**	25,464
Quick ratio (i.e. current assets excluding inventories/current liabilities)	**2.56x**	1.89x

The quick ratio improved from 1.89 times in 2009 to 2.56 times in 2010. Both the current ratio and the quick ratio are at healthy levels and again, the improvement in quick ratio was mainly due to the majority of short-term bank borrowings having been converted into long term or repaid.

Profitability:

The core operating profit margin, earnings before interests and taxes margin and net profit margin:

	2010	2009
	€'000	€'000
Core operating profit margin	**8.6%**	7.7%
Earnings before interests and taxes margin	**7.8%**	7.7%
Net profit margin	**4.2%**	4.5%

The core operating profit margin improved in 2010 mainly due to the improvement in revenue and higher utilization of our fixed costs. However, the non-core operating expenses distorted the earnings before interests and taxes margin and net profit margin resulting in 2010 margin rates similar to the ones in 2009.

Foreign Exchange Risk Management

Schramm reports its results based on its presentation currency — the Euro. Our European operation has minimal exposure to foreign exchange risk as most transactions are settled in Euro currency. Schramm's exposure on foreign exchange risk is mainly in our Asian operation where multiple currencies are handled such as the RMB, Korean Won, US Dollar, and Thai Baht.

Within our Asian operations, most transactions are independent of our European operations and have minimal transactions settled in the Euro. Thus, fluctuations in the Euro do not have significant direct impact in the regional operations. With the foreign currency exposure that they do have, part of the foreign exchange risk is minimized through "natural hedge".

Other than those being naturally hedged, Schramm has a dedicated team to monitor the open exposure. When necessary, Schramm will enter into straight currency forward contracts to hedge the open positions.

As at 31 December 2010, Schramm did not enter into any financial derivatives and it is Schramm's policies not to enter into financial derivatives for speculation.

Commitments and contingent liabilities

As at 31 December 2010, the Group had capital commitments amounting to €2.2 million (2009: nil), of which €307,000 was contracted but not provided for and €1.9 million was authorized but not contracted for.

In addition, Schramm also has entered into certain operating lease contracts for which the future aggregate minimum lease payments equaled to €2.0 million and can be analyzed as follows:

	2010 **€'000**	2009 €'000
Within one year	**581**	618
In the second to fifth year inclusive	**840**	167
Over five years	**588**	—
	2,009	785

Saved as disclosed above, there are no material obligations not disclosed in the consolidated statement of financial position.

Pledge of assets

As at 31 December 2010, the Group pledged certain property, plant and equipments amounting to approximately €409,000 (2009: €409,000), inventories and receivables of approximately €20.7 million (2009: nil) have been assigned as collaterial for the bank borrowings.

Human resources

As at 31 December 2010, the Group had approximately 791 (2009: 819) employees. Schramm continues to offer market comparable remuneration packages and provide continuous training to its employees aiming to attract and retain top quality talent to ensure smooth operation and facilitate Schramm's constant expansion.

Business outlook

Schramm has set ambitious goals and targets for 2011. By the end of the first half of 2011, Schramm will start manufacturing and servicing to clients in Vietnam, a country dubbed as many as the next China, and will start operating our central R&D centre in Tianjin, whose R&D capabilities are expected to assist and increase our China market positioning long term towards levels that Schramm enjoys in Europe.

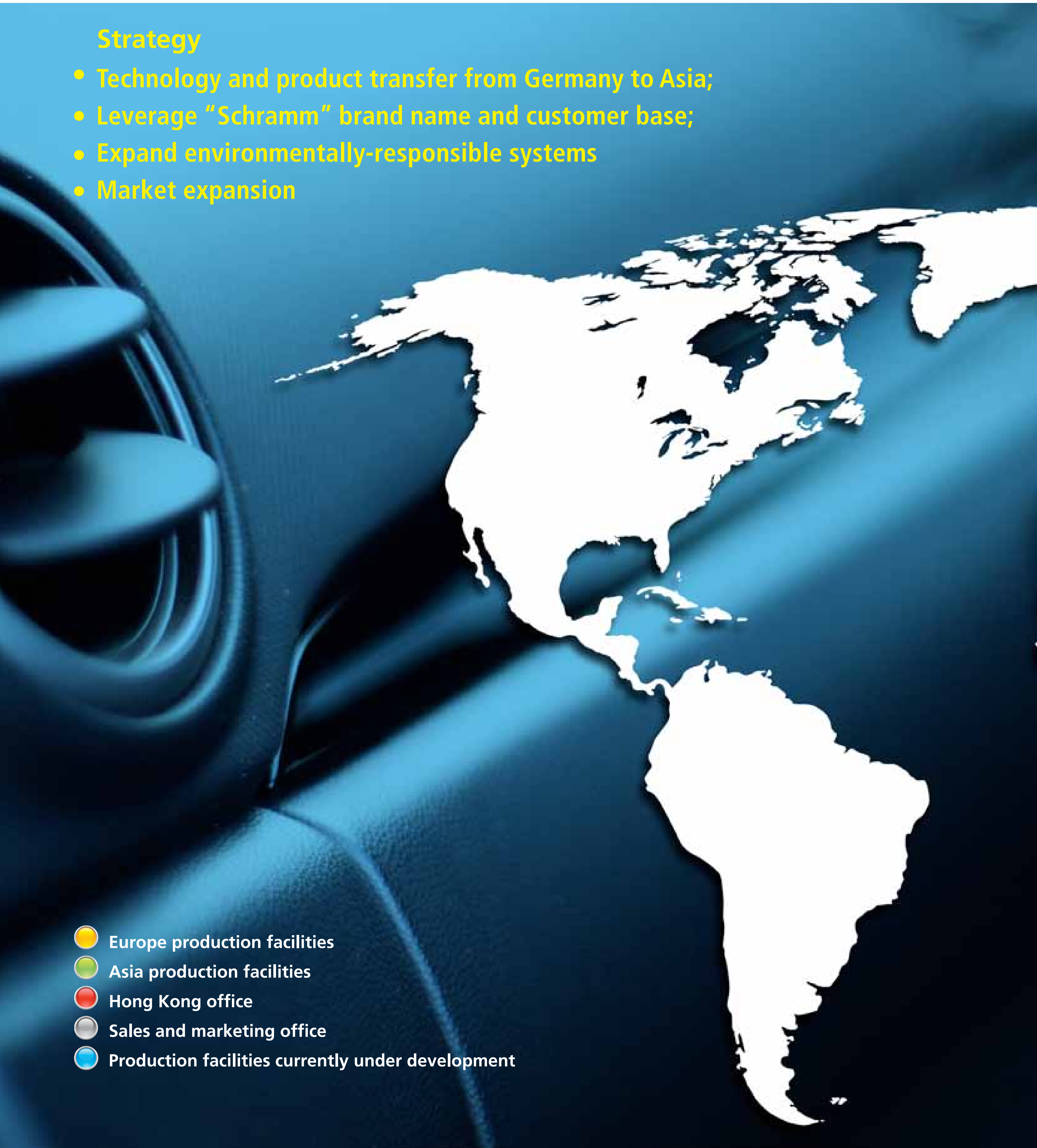
While strong global and automotive recovery, especially in our developed markets, drove Schramm's growth in 2010, we expect that growth rates from our operations in developed markets will come down to reasonable levels and that continued double digit growth rates from operations in developing markets, mainly China, will be the key growth driver for 2011.

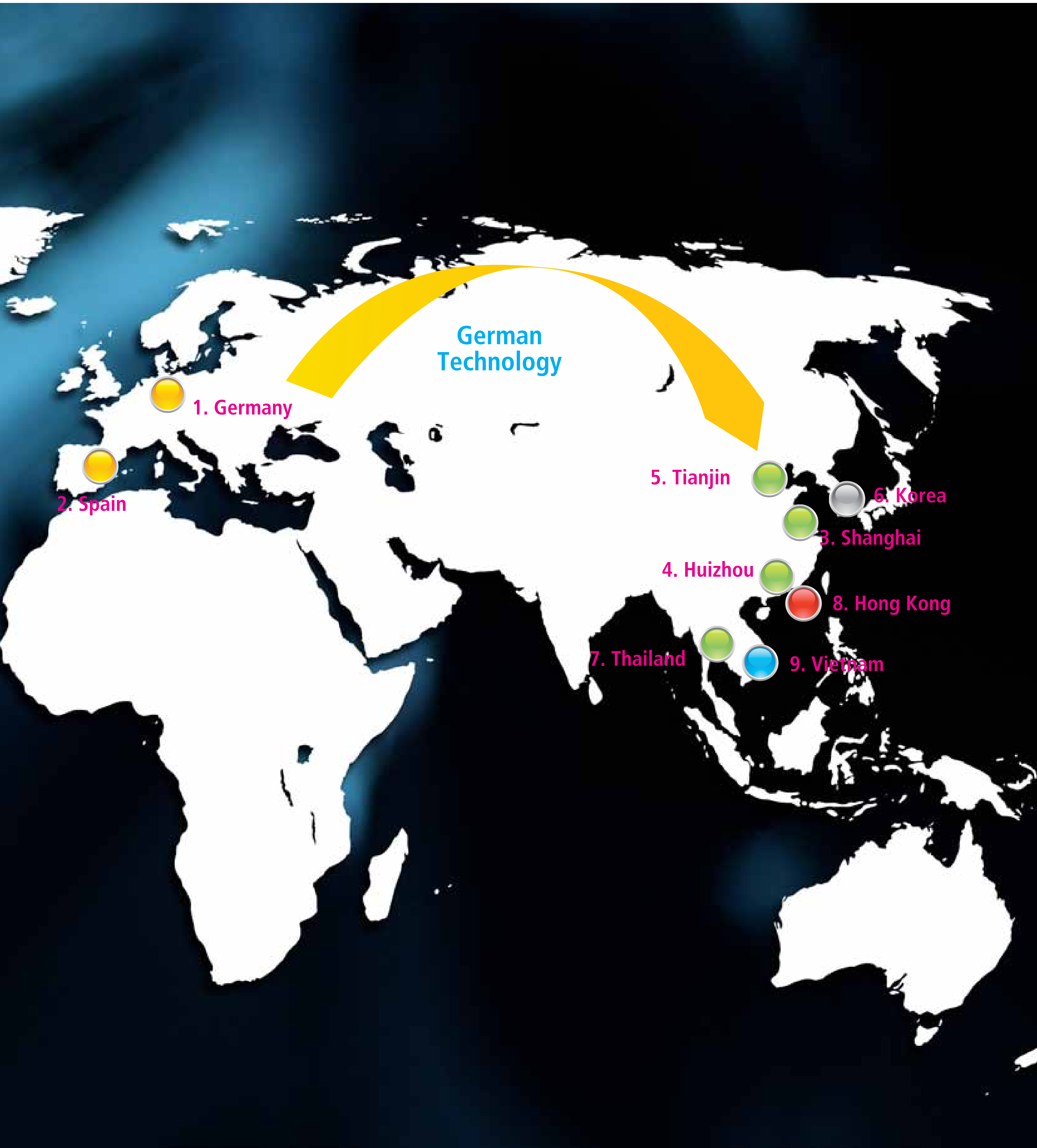
Although no one can accurately predict the future, especially now with volatile commodity markets, inflation, political unrest, and an unstable global recovery, Schramm will grow successfully and persevere as it has for the last 200 years as this is embedded into our corporate culture.

MANAGEMENT DISCUSSION AND ANALYSIS

Strategy

- Technology and product transfer from Germany to Asia;
- Leverage "Schramm" brand name and customer base;
- Expand environmentally-responsible systems
- Market expansion




German
Technology
1. Germany
2. Spain
3. Shanghai
4. Huizhou
5. Tianjin
6. Korea
7. Thailand
8. Hong Kong
9. Vietnam

Corporate Governance Report

RELEVANT INFORMATION REGARDING THE CORPORATE GOVERNANCE PRACTICE

Since the listing of the ordinary shares with nominal value of €1.00 each in the capital of the Company (the "Shares") on the HKSE on 29 December 2009 (the "Listing Date") to 31 December 2010, the Company has complied with the applicable legal and regulatory requirements, including HKCG Code as set out in Appendix 14 to the Listing Rules, the provisions contained in the Articles and in principle complies also with the recommendations of the DCGK (Regierungskommission Deutscher Corporate Governance Kodex; dated 26 May 2010).

Adoption of the "Internal Control Integrated Framework"

The Management Board has overall responsibility for maintaining the soundness and effectiveness of the internal control and risk management system of the Company. Such systems are designed to meet the Group's particular needs and minimize the risk to which it is exposed. The Company has adopted the "Internal Control Integrated Framework" formulated by the Reporting Committee of Sponsoring Organisations of the Treadway Committee, which is a recommended framework under the Corporate Governance Guidelines issued by the HKICPA. Procedures have been set up for safeguarding the Group's assets against any unauthorized use or disposal and ensuring an appropriate maintenance of accounting records and the availability of reliable financial information for internal or external use.

Compliance Guidelines of the Company

The Company has adopted the Compliance Guidelines, which is a key component of our compliance system. Interests of the Company can only be effectively guaranteed through responsible dealings and adherence to ethical principles. These principles are clearly formulated in the Compliance Guidelines. These apply to all employees of the Group and include fundamental rules for counteraction in case of corruption, bribery, bid rigging, illegal employment and money-laundering. Furthermore, they contain guidelines for business behavior on non-discrimination, protection of assets, information and data, insider information, the avoidance of conflict of interest, collaboration with customers and suppliers, attitude towards competitors, and the dealing with confidential information and gifts.

Each operating unit is subject to the Compliance Guidelines. Each of the Management Board and/or the Supervisory Board has an unrestricted right to conduct or instruct audits, unless laws and regulations or works agreements otherwise require. All employees have the right and are required to report any suspected or observed violations of the law or these Guidelines, or if they are asked to do something that might violate the same.

Anonymous individual reports may be made or sent to supervisor, representative of the respective department, compliance office or the Management Board, upon discretion of the sender.

The control systems of the Company were implemented to ensure compliance with the Compliance Guidelines which include both routine and extraordinary audits from the internal auditing. The Compliance Guidelines forms an important part of the employee training programme.

The Company closely monitors non-compliance through own investigations, and will notify the relevant authorities and cooperate with them to fully address the issues. Any misconduct, if found, will result in personal liability and corporate actions as required. Information collected from reporting, comparison with other systems and evaluations by external specialists all lead to ongoing development and improvement of the Company's compliance system.

Independent non-executive directors

Further, since German stock corporation law does not provide for the appointment of INEDs, the Company has appointed three additional Supervisory Board members who meet the independence requirements of the Listing Rules, the Independent Supervisors, and assume the duties and responsibilities of INEDs as set out under the Listing Rules. The Independent Supervisors have assumed, in addition to their general duties and obligations as Supervisory Board members under statutory law and the Articles, the following principal duties and obligations specific to INEDs as set out in the Listing Rules:

- Rule 3.21 — establishment of audit committee comprising majority of INEDs
- Rule 8.10(3) — in case where the controlling shareholder with an interest in a business apart from the Company's business which competes or is likely to compete with the Company's business, the HKSE may require the appointment of sufficient number of INEDs to ensure that the interests of the general shareholders will be adequately represented
- Rules 13.39(6) and (7) — establishment of an independent board committee which shall consist only of INEDs to advise shareholders as to whether the terms of the relevant transaction or arrangement are in the interest of the issuer and its shareholders as a whole
- Rule 13.68 — establishment of remuneration committee or independent board committee, which is required to form a view in respect of service contracts falling under Rule 13.68
- Rule 14A.37 — annual review and confirmation of the continuing connected transactions by INEDs
- Rule 14A.55 — INEDs to provide their views on connected transactions not falling under Rule 14A.31 or Rule 14A.33
- Rule 14A.57 — INEDs to provide their opinion on the profit guarantees given by a connected person
- Rule 17.04(1) — grant of options to a director, chief executive or substantial shareholder of a listed issuer or their associates that must be approved by INEDs
- B.1.1 of Appendix 14 — establishment of remuneration committee comprising majority of INEDs
- A.4.4 of Appendix 14 — establishment of nomination committee comprising majority of INEDs

PROCEDURES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD AS WELL AS THE COMPOSITION AND PROCEDURES OF THEIR COMMITTEES

Duties and activities of the Management Board

The Company is run by its Management Board on its own responsibility with the goal of increasing the Company's enterprise value and achieving defined corporate objectives. The Management Board performs its tasks according to statutory law, the Articles, the Management Board's internal rules and their service contracts, and works with the Company's other governance bodies on a mutual trust basis.

The Management Board defines the long-term goals and the strategies for the Company and sets forth the principles and directives for the resulting corporate policies. It coordinates and monitors the most important activities, defines the portfolio, develops and deploys managerial staff, allocates resources and decides on the Group's financial steering and reporting.

The members of the Management Board have joint responsibility for running the business as a whole. However, the individual members manage the areas assigned to them on their own responsibility within the framework of the decisions made by the entire Management Board. The entire Management Board makes decisions on all matters of fundamental importance and in cases where a decision of the entire Management Board is required by law or otherwise mandatory.

Meetings of the Management Board are held regularly. They are convened by the CEO. However, any member of the Management Board may demand that a meeting to be held. The Management Board makes decisions by a simple majority of votes cast, except where unanimous vote is required by law.

Each member of the Management Board is assigned with particular responsibility, including strategy, human resources and finance.

No committee of the Management Board has been set up in view of the small number of members and its role in the Company.

The Management Board currently has the following members:

Mr. Peter BRENNER *(Chief Executive Officer)*
Mr. Kyung Seok CHAE *(Chief Strategic Officer)*
Dr. Sung Su HAN (*Chief Operation Officer*, appointed on 1 September 2010)

Changes in the Management Board:

Mr. Sung Yoon KIM was appointed as a member of the Management Board on 28 August 2008 and acted as the Company's Chief Financial Officer. During the Supervisory Board meeting held on 17 March 2010, Mr. Sung Yoon KIM was released from his positions effective from 17 March 2010, and had subsequently agreed to terminate his service contract with the Company on 5 July 2010 upon the receipt of a compensation of €343,200.

Mr. Kyung Hwan YEO was appointed as a member of the Management Board on 17 March 2010 and acted as the Company's Chief Financial Officer. The appointment of Mr. Kyung Hwan YEO was not approved at the Company's AGM held on 11 June 2010 and he was released from his positions as a member of the Management Board and the Company's Chief Financial Officer in the Supervisory Board meeting held immediately after the AGM.

At the EGM held on 31 August 2010, the resolution in respect of the anticipated approval of the potential appointment of Dr. Sung Su HAN as a member of the Management Board was passed. During the Supervisory Board meeting held immediately after the EGM, Dr. Sung Su HAN was appointed as a member of the Management Board effective from 1 September 2010 and acted as the Company's Chief Operation Officer.

Meetings held during the period and the respective attendance record:

	Dates of meetings				
	16 Mar 10	19 Apr 10	21 Jul 10	10 Aug 10	17 Mar 11
Mr. Peter BRENNER	√	√	√	√	√
Mr. Kyung Seok CHAE	√	√	√	√	√
Mr. Sung Yoon KIM (released on 17 Mar 2010)	√	N/A	N/A	N/A	N/A
Mr. Kyung Hwan YEO (appointed on 17 Mar 2010 and released on 11 June 2010)	N/A	√	N/A	N/A	N/A
Dr. Sung Su HAN	N/A	N/A	N/A	N/A	√

√: Attended x: Absent N/A: Not Applicable

Supervisory Board: members, oversight and control functions

The Supervisory Board currently has the following members:

— Mr. Jung Hyun OH *(Chairman)*

— Mr. Jeong Ghi KOO *(Vice-chairman)*

— Mr. Min Koo SOHN

— Mr. Choong Min LEE

— Mr. Kiyoung SHIN

— Mr. Bang Seon KO

The role of the Supervisory Board is to oversee, control and advise the Management Board. The Supervisory Board appoints the Directors. The Supervisory Board executes its tasks in accordance with legal requirements, the Articles, its internal rules and its resolutions. Members of the Supervisory Board all have the same rights and obligations and are not bound by instructions or orders. The resolutions of the Supervisory Board are made primarily at Supervisory Board meetings, but also through written procedures or by other methods of communication. The Supervisory Board is directly involved in decisions on matters of fundamental importance to the Company, advising the Management Board and regularly discussing with the Management Board on the Company's strategic alignment and the implementation status of the business strategy.

The chairman of the Supervisory Board coordinates its work and presides over the meetings. Through regular discussions with the Management Board, the Supervisory Board is kept constantly informed of business policy, corporate planning and strategy. The Supervisory Board approves the annual budget and financial framework. It also approves the financial statements of the Company and the consolidated financial statements of the Group, taking into account the reports by the auditors.

Changes in the Supervisory Board

Mr. Kun Hwa PARK was appointed as one of the Company's Independent Supervisor on 2 December 2009 and resigned from his position effective from 11 June 2010 aiming to delegate more of his time on his other business engagements.

Following Mr. Kun Hwa PARK's resignation, Mr. Bang Seon KO was appointed as one of the Company's Independent Supervisor on 11 June 2010 to fill the vacancy.

Mr. Suk Whan CHANG was appointed as a member and the vice chairman of the Supervisory Board on 27 August 2008. He resigned from his positions effective from 11 June 2010 upon the request of the controlling shareholder in order to allow the Company to appoint a new Supervisory Board member who may be able to contribute and devote more time and attention to the supervision of the Company.

Following Mr. Suk Whan CHANG's resignation, Mr. Min Koo SOHN was appointed as a member of the Supervisory Board on 11 June 2010 to fill the vacancy, and Mr. Jeong Ghi KOO was appointed as the vice chairman of the Supervisory Board on the same day.

Independence of Independent Supervisors

The Company currently has three Independent Supervisors, namely Mr. Choong Min LEE, Mr. Kiyoung SHIN and Mr. Bang Seon KO, who are in compliance with the independence requirements under Rule 3.13 of the Listing Rules and take place of INEDs under Rule 3.10 of the Listing Rules. The Company has received annual confirmation of independence from the three Independent Supervisors confirming that they are in compliance with Rules 3.13 of the Listing Rules. The Supervisory Board has assessed their independence and considered that all the Independent Supervisors complied with the independence requirements under Rule 3.13 of the Listing Rules.

Supervisory Board Chairman and chief executive officer

The roles of the chairman of the Supervisory Board and the chief executive officer of the Company are separate to reinforce their respective independence and accountability. The duties and responsibilities of the CEO and the chairman of the Supervisory Board are set out on pages 18 to 19 of this report. No member of the Management Board was appointed as chairman of the Management Board.

Committees of the Supervisory Board

The Supervisory Board currently has the following committees:

Audit Committee

The audit committee was established on 4 December 2009 in compliance with Rule 3.21 of the Listing Rules and the HKCG Code. Members of the audit committee comprise:

Mr. Choong Min LEE *(Chairman)*
Mr. Kiyoung SHIN
Mr. Kun Hwa PARK (resigned on 11 June 2010)
Mr. Bang Seon KO (appointed on 11 June 2010)

The primary duties of the audit committee are handling of accounting, risk management and compliance issues, making recommendation on appointment of auditors to be elected at the general meeting, monitoring the internal control system and providing advice and comments to the Management Board. The audit committee also makes a preliminary examination of the financial statements. The audit committee is also empowered to review and report to the Management Board on the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget.

Mr. Choong Min LEE and Mr. Bang Seon KO are members of the Korean Institute of Certified Public Accountants and possess the appropriate professional qualifications and accounting expertise required under Rule 3.10(2) of the Listing Rules.

The audit committee has reviewed the internal control, connected transactions and annual results of the Company for the year ended 31 December 2010 and the accounting principles and practices adopted by the Group. External auditors and senior management attended the meeting to answer questions raised by the audit committee.

Remuneration committee

The remuneration committee was established on 4 December 2009 in compliance with the HKCG Code. Members of the remuneration committee comprise:

Mr. Jung Hyun OH *(Chairman)*
Mr. Choong Min LEE
Mr. Kiyoung SHIN
Mr. Kun Hwa PARK (resigned on 11 June 2010)
Mr. Bang Seon KO (appointed on 11 June 2010)

The primary duties of the remuneration committee include the preparation of decisions regarding the appointment and dismissal of members of the Management Board, which have to be ultimately resolved at by the plenum of the Supervisory Board, as well as reviewing the terms of the remuneration packages and other benefits offered by the Company to the Directors, Supervisors and senior management of the Company.

For the period between the date of establishment of the remuneration committee and 31 December 2010, there was no change in the policy and structure of the remuneration for Directors and senior management of the Company.

Meetings of the committees held during the period and respective attendance records:

	Audit Committee			**Remuneration Committee**		
	17 Mar 2010	**10 Aug 2010**	**17 Mar 2011**	**21 Jul 2010**	**23 Feb 2011**	**17 Mar 2011**
Mr. Jung Hyun OH	N/A	N/A	N/A	√	√	√
Mr. Choong Min LEE	√	√	√	√	√	√
Mr. Kiyoung SHIN	√	√	√	√	√	√
Mr. Kun Hwa PARK (resigned on 11 June 2010)	√	N/A	N/A	N/A	N/A	N/A
Mr. Bang Seon KO (appointed on 11 June 1010)	N/A	√	√	√	√	√

√: Attended x: Absent N/A: Not Applicable

Supervisory Board meetings held during the period and the respective attendance

According to the internal rules of the Supervisory Board, the Supervisory Board shall meet at least twice every six months. During the year, six Supervisory Board meetings were held and up to the date of this report, there were eight Supervisory Board meetings held. The following table summarizes the meetings and the respective attendance record:

	Date of meetings							
	17 Mar 10	19 Apr 10	11 Jun 10	21 Jul 10	10 Aug 10	31 Aug 10	23 Feb 11	17 Mar 11
Supervisory Board members								
Mr. Jung Hyun OH	√	√	√	√	√	√	√	√
Mr. Suk Whan CHANG (resigned on 11 June 2010)	√	√	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Jeong Ghi KOO	√	√	√	√	√	√	√	√
Mr. Min Koo SOHN (appointed on 11 June 2010)	N/A	N/A	√	√	√	√	√	√
Independent Supervisors								
Mr. Choong Min LEE	√	√	√	√	√	√	√	√
Mr. Kiyoung SHIN	√	√	√	√	√	√	√	√
Mr. Kun Hwa PARK (resigned on 11 June 2010)	√	√	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Bang Seon KO (appointed on 11 June 2010)	N/A	N/A	√	√	√	√	√	√

√: Attended x: Absent N/A: Not Applicable

Biographical details of managing Directors and Supervisors

The brief biographical details of the Directors and Supervisors are set out in "Biographical information of Directors, Supervisors and Senior Management" section on pages 37 and 40 of this annual report.

Retirement of directors

Pursuant to the Articles, each of the managing directors may be subject to re-election for a period not exceeding three years. In 2011, no Director is subject to re-election.

Investor relations

The Company believes that effective communications with the investors are pivotal in enhancing their understanding of the Company's business and development. To achieve this and to enhance transparency, the Company maintains a proactive approach in promoting investor relations and communications. These include arranging road shows and setting up meetings with investors. Therefore, investors are able to obtain sufficient information on a timely basis to facilitate them to make investment decisions.

Compensation report

The Supervisory Board resolved that the Management Board's compensation system shall be referred to the forthcoming annual general meeting for approval. The chairman of the Supervisory Board will read the general features of the compensation system and its proposed changes, if any, at the annual general meeting.

Compensation system for the Management Board of Schramm Holding AG.

When considering the appropriateness of the Management Board's compensation, responsibilities of individual members of the Management Board, personal performance, the financial position and the Company's success and future prospects are taken into account.

Moreover, the Management Board's compensation system is compared to remuneration structures within the Group and to those of other comparable companies.

Settlement and severance payments apply in case of an early termination without good cause. The CEO of the Company, Mr. BRENNER is entitled to payments in case of early termination of his contract due to a change of control. Except for the payment of several insurance contributions for a member of the Management Board, the contracts of the members of the Management Board do not provide for additional remuneration elements such as payments from third parties and/or affiliated companies, starting bonuses, pension claims etc.

The Management Board contracts provide for a share option agreement to be concluded with the members of the Management Board under a share option scheme; such scheme has been planned but yet implemented. Therefore, there are currently no share options.

The Management Board contracts of Mr. Peter BRENNER and Mr. Kyung Seok CHAE further provide that in circumstances where parts of the business or Company, or the entire business or the entire Company are/is sold or transferred to another company, the Members of the Management Board shall receive a one-off payment of 5 % of the selling price each as compensation for actual and potential lost variable bonuses. This sum is payable at the end of the month in which the legal transfer is effected. It will be calculated with due regard to the requirements of the statutory tax law in force at the time.

In the meeting dated 23 February 2011 the Supervisory Board unanimously passed the resolution on the prolongation of the contract of Mr. Kyung Seok CHAE until 31 December 2013. Further, Mr. Jung Hyun OH as chairman of the Supervisory Board is authorized to sign an addendum to the employment contract of Mr. Kyung Seok CHAE on behalf of the Supervisory Board. At the time of the completion of this report the parties are in the process of discussion and negotiation of this addendum as to the variable performance-related bonuses in the employment contract.

The compensation system comprises a non-performance-related (fixed earnings, additional benefits) element and a performance-related one-off payment to be paid under certain circumstances. The CEO of the Company shall additionally receive a performance-related variable bonus started from 1 January 2010. There are no further performance-related variable compensation elements. The non-performance-related element of the compensation system consists of monthly fixed earnings and additional bonuses in the form of benefits in cash and in kind. The additional bonuses consist of insurance premia, grants for insurance contributions, other subsidies and, partially, private use of company cars. The respective member of the Management Board shall pay tax on these additional bonuses, which are part of their compensation. The fixed earnings will be increased by 4% at the beginning of each calendar year; at least, however, it will be adjusted by the amount of the inflation rate of the respective previous year.

The Company will pay Mr. BRENNER's contribution to a direct insurance as well as the contributions to relief funds and other insurance contributions.

In the event of early termination of the service contract of the CEO, Mr. BRENNER, he shall receive a settlement in the sum of the total fixed earnings, performance-related variable bonuses as well as other agreed benefits and share options for the remaining period of the contract, unless the contract will be terminated by the Company for a serious cause for which Mr. BRENNER is to be held accountable.

The service contract with Mr. BRENNER provides that the Company may become obligated to pay to Mr. BRENNER additionally a severance payment of €5 million (the "Severance Payment"), gross, in the event that his employment is early terminated by the Company (unless such early termination is for a serious cause for which Mr. BRENNER is to be held accountable), or where his employment is terminated as a result of a consensual agreement initiated by new majority shareholders of the Company. In the event of a change of control, where SSCP ceases to have control in the Company, or where Mr. Jung Hyun OH ceases to be the largest or controlling shareholder in SSCP, Mr. BRENNER is entitled to terminate the service contract with a notice of 4 weeks as to the 15th day or the last day of the calendar month within two months from the time when he is notified in writing of the relevant change in the Company. In the event that Mr. BRENNER chooses to exercise his special termination right and if the service contract terminates as a result, or where his service contract is terminated by the Company or it ends as a result of a consensual agreement initiated by new majority shareholders in the Company, then he is entitled to the Severance Payment. The Severance Payment becomes due at the time of legal termination of the service contract. In case of revocation of his appointment, withdrawal or other termination of office, the Company shall be entitled to release Mr. BRENNER from any further work while paying the pro rata annual fixed earnings applicable at the date of the release. Any existing or possible holiday entitlement shall be set off. The performance-related variable bonus as well as the performance-related one-off payment shall be paid in the amount, which is relevant at the time of the release. Any rights arising from any existing share option scheme shall remain unaffected.

In the event of early termination of the service contract of Mr. CHAE, he shall receive a settlement in the sum of the total fixed earnings, performance-related variable bonuses as well as other agreed benefits and share options for the remaining period of the contract, unless the contract will be terminated by the Company for a serious cause for which Mr. CHAE is to be held accountable. In case of revocation of his appointment, withdrawal or other termination of office, the Company shall be entitled to release Mr. CHAE from any further work while paying the pro rata annual fixed earnings applicable at the date of the release. Any existing or possible holiday entitlement shall be set off. The performance-related one-off payment shall be payable in the amount agreed at the time of the release. Any rights arising from any existing share option scheme shall remain unaffected.

The service contract with Mr. KIM provided that in the event of early termination of the service contract, Mr. KIM would receive a severance payment in the sum of the total fixed earnings, performance-related variable bonuses as well as other agreed benefits and share options for the remainder of the period of the contract, unless the contract was terminated by the Company for a serious cause for which Mr. KIM was held to be accountable. In case of revocation of his appointment, withdrawal or other termination of office, the Company would be entitled to release Mr. KIM from any further work while paying the pro rata annual fixed earnings applicable at the date of the release. Any existing or possible holiday entitlement would be set off. The performance-related one-off payment would be payable in the amount agreed at the time of the release. Any rights arising from any existing share option scheme would remain unaffected. Mr. KIM's positions as a director and the chief financial officer of the Company were released with effect from 17 March 2010. On 7 July 2010, the Company reached an agreement on the compensation payment with Mr. KIM. The compensation payment was agreed at an amount of €343,200, which represents full settlement of all outstanding amounts and compensation payable to Mr. KIM.

Mr. YEO was appointed as a member of the Management Board on 17 March 2010 and his remuneration packages included an annual emolument of €200,000 and an appropriate housing allowance for his relocation to Hong Kong. The service contract with Mr. YEO neither provided for a performance related one-off payment, nor for an increase of the fixed earnings at the beginning of each calendar year nor for a settlement or severance payment. Mr. YEO's appointment was subject to the approval in the AGM held on 11 June 2010 but such approval was not obtained. During the Supervisory Board meeting held immediately after the AGM, Mr. YEO was released from his position as a member of the Management Board and the Company's chief financial officer.

Dr. HAN was appointed as a member of the Management Board effective from 1 September 2010 and his remuneration packages include an annual emolument of US$320,000 (equivalent to approximately €241,200) and an appropriate housing allowance if he chose to relocate to Hong Kong and other allowances in a reasonable amount including reimbursement of medical insurance costs for family members living in the United States, moving expenses of his family to Hong Kong, costs of international schools for the children in Hong Kong, travel costs for family members (unless they live in Hong Kong), provision of a vehicle if Dr. HAN works for over 40% of his working time outside Hong Kong. Dr. HAN is also entitled to a discretionary bonus and a fixed retirement benefit payment. The bonus is based on the Company's performance and the amount of bonus shall be at the sole discretion of the Company and the retirement benefit equal to an annual amount of US$40,000 (equivalent to approximately €30,200) payable in lump sum when Dr. HAN's service contract terminates. In case of an early termination of Dr. HAN's service contract by the Company, except a termination with cause, Dr. HAN shall receive a severance payment in the amount of the fixed salary due for the remaining duration of Dr. HAN's service contract. Dr. HAN shall also receive the retirement benefit accrued until the effective date of the termination.

The compensation of the members of the Management Board for the financial year 2010 equals to €1,837,000 and is distributed as follows:

In €'000	Fixed earnings/gross	Performance-related bonus	Retirement provision	Benefit in kind/other benefits *	Total
Mr. Peter BRENNER	730	46	44	32	852
Mr. Kyung Seok CHAE	328	—	—	50	378
Mr. Sung Yoon KIM **	88	—	343	26	457
Mr. Kyung Hwan YEO ***	48	—	—	5	53
Dr. Sung Su HAN #	79	—	15	3	97
Total	1,273	46	402	116	1,837

The compensation of the members of the Management Board for the financial year 2009 amounted to a total of €974,000 as follows:

In €'000	Fixed earnings/gross	Performance-related bonus	Retirement provision	Benefit in kind/other benefits *	Total
Mr. Peter BRENNER	545	—	44	10	599
Mr. Kyung Seok CHAE	217	—	—	26	243
Mr. Sung Yoon KIM **	108	—	—	25	133
Total	870	—	44	61	975

* includes the use of company car, housing allowances, insurance contributions, other subsidies

** Mr. Sung Yoon KIM's positions as a Director and the chief financial officer of the Company were released on 17 March 2010. On 7 July 2010, the Company agreed with Mr. Sung Yoon KIM on the amount of compensation payment to be €343,200 for the compensation of the early termination of his service contract.

*** Mr. Kyung Hwan YEO was appointed as a Director and the chief financial officer of the Company on 17 March 2010, subject to the approval by the shareholders on the AGM held on 11 June 2010. The shareholder approval was not obtained and he was released from his position as a Director and the chief financial officer during the Supervisory Board meeting held immediately after the AGM.

\# Dr. Sung Su HAN was appointed as a Director and the chief operation officer effective from 1 September 2010.

Moreover, the members of the Management Board have taken out a D&O insurance, which complies with the statutory requirements under the Act on the Appropriateness of Management Board Compensation (VorstAG).

COMPENSATION OF THE SUPERVISORY BOARD

The compensation of the Supervisory Board has been determined by the general meeting and is subject to section 12 of the Articles. It is based on the responsibilities and the scope of work of the Supervisory Board members. Under this compensation scheme, the Supervisory Board members are entitled to fixed earnings in the amount of €10,000 (2009: €2,000), in addition to the reimbursement of their expenses. The chairman receives twice the amount of the fixed earnings and the deputy chairman receives one and a half times the amount of the fixed earnings. In the financial year 2009 and in the previous year, however, a lower amount of compensation was paid out. Having regard to the remuneration offered to the Supervisors and similar positions in comparable companies, on 17 March 2010 the remuneration committee of the Company resolved to increase the annual remuneration of the members of the Supervisory Board to €10,000 ("Fixed Compensation") with retrospective effect of 1 January 2010, and as such the remuneration for the chairman of the Supervisory Board will be €20,000 which equals to 2 times of the Fixed Compensation, and the remuneration for the vice chairman of the Supervisory Board will be €15,000 which equals to 1.5 times of the Fixed Compensation. Resolutions will be proposed at the annual general meeting to revise the remuneration for the members of the Supervisory Board. The payment of meeting attendance allowances is not part of the Supervisory Board's compensation. No advance payments or loans have been granted to any member of the Management Board or the Supervisor Board.

For the financial year 2010, a total compensation sum in the amount of €75,000 was paid out. This sum was distributed to the Supervisory Board members as follows:

In €'000	**Fixed earnings/ gross 2010**	**Fixed earnings/ gross 2009**
Mr. Jung Hyun OH *(Chairman)*	20	4
Mr. Jeong Ghi KOO *	13	2
Mr. Suk Whan CHANG **	8	3
Mr. Min Koo SOHN ****	5	—
Mr. Kun Hwa PARK ***	4	2
Mr. Choong Min LEE	10	2
Mr. Kiyoung SHIN	10	2
Mr. Bang Seon KO ****	5	—
	75	15

* Mr. Jeong Ghi KOO was appointed as Vice Chairman of the Supervisory Board on 11 June 2010.

** Mr. Suk Whan CHANG resigned from his position as Vice Chairman and member of the Supervisory Board on 11 June 2010.

*** Mr. Kun Hwa PARK resigned from his position as member of the Supervisory Board on 11 June 2010.

**** Mr. Min Koo SOHN and Mr. Bang Seon KO were appointed as members of the Supervisory Board on 11 June 2010.

Furthermore, the Supervisory Board members have not received any further compensation or benefits for personally performed services, in particular for advisory and arrangement services, in the year which this report relates to or in the previous year.

The Supervisory Board compensation shall be payable at each quarter's end.

EXTERNAL AUDITOR'S REMUNERATION

For the year ended 31 December 2010 total remuneration for audit and non-audit services provided by the external auditors are as follows:

	€' 000
Audit services – for the audit for the year ended 31 December 2010	256
Non-audit services – for the review of the Company's interim report for the six months ended 30 June 2010	24
	280

The re-appointment of Deloitte as auditor of the Company for the Listing Rules and for German statutory requirement has been recommended by the audit committee and endorsed by the Supervisory Board and is subject to the approval by the shareholders at the forthcoming AGM.

OWNERSHIP OF SHARES IN THE COMPANY

The Company will provide the reports on the shareholdering of the Management Board and the Supervisory Board members that are required by law and the Listing Rules. To this end, reference will also be made to the annual accounts. Further reports will not be made.

Communications between the Management Board and the Supervisory Board, and Supervisory Board meeting

Since its establishment, the Supervisory Board has monitored the conduct of the Management Board and the Company's business on a regular basis through detailed written and oral reports received from the Management Board, and also acted in an advisory capacity. In addition, the Chairman of the Supervisory Board and the Management Board maintained a regular exchange of information both verbally and in writing, on business developments and the state of the Company. In this way the Supervisory Board was kept continuously informed about the Company's intended business strategy, corporate planning, earning performance, the state of the business and of the Company and the Group as a whole. On the basis of this reporting in particular, the Supervisory Board monitors the legality, correctness and suitability of the Management Board's management and profitability of the business. The internal rules prepared by the Supervisory Board for the Management Board list out those transactions and activities for which the approval of the Supervisory Board is required. This applies, among other things, to decisions regarding corporate strategy, significant investment decisions which might affect the profit prospects of the Company, the one-year-planning of the Company, the acquisition and disposal of property (Grundbesitz) as well as the acquisition of enterprises or the taking up or granting of financial loans exceeding 1% of the equity of the Company.

According to the internal rules of the Supervisory Board, the Supervisory Board shall meet at least twice per calender half year, or, if the Listing Rules or the interests of the Company so require, more frequently.

Shareholders' rights

The shareholders' rights arise from applicable statutory law, the Listing Rules, the provisions contained in the Articles and the German Corporate Governance Code.

Each shareholder has, among others, the following general rights:

- in addition to special information rights which are only applicable under specific circumstances, the right to, upon request, be provided with information at the general meeting by the Management Board regarding the Company's affairs to the extent that such information is necessary to permit a proper evaluation of the relevant item on the agenda;
- the right to contest any resolution of the general meeting that does not comply with the law, the Articles or certain other principles;
- the right to receive dividends out of distributable profit (if any);
- the right to subscribe for new shares in the Company in the event of a capital increase;
- the right to receive liquidation proceeds (if any); and
- the right to vote at the general meeting where their shares confer voting rights.

The shareholders exercise their rights at the general meeting. The shareholders' rights at the general meeting include the right of participation and proxy, the voting rights and the information rights. Only those shareholders who are registered in the share register of the Company at the end of the third business day prior to the day of the general meeting are entitled to participate and exercise their voting right in the general meeting. Beginning with the third business day prior to the day of the general meeting until and including the date of the general meeting the share register is closed for new registration and any transfer of shares will not be registered on the share register during such period. A form of proxy must be deposited at the person or body specified in the invitation to the general meeting at least 48 hours before the date of the general meeting.

The annual general meeting is to be convened at least once each year within the first six months of the financial year. The annual general meeting shall take place at the registered office of the Company, but may also take place at another German stock exchange centre, which is also Munich, at which the shareholders may be present to participate in the annual general meeting.

The Management Board presents to the annual general meeting certain documents, including the individual and consolidated financial statements, the Group Management Board report, the Corporate Governance Report including the Compensation Report and the Report of the Supervisory Board for the Company. Those documents have been made available on the website of the Company prior to the annual general meeting. The annual general meeting decides, among other points, on the appropriation of profits and ratifying the actions of the Management Board and the Supervisory Board, elects the members of the Supervisory Board, and appoints the external auditors. In addition, it resolves upon amendments to the Articles and other matters as specified by applicable law or the Articles.

In addition to those areas with regard to which a resolution by the general meeting is mandatory, pursuant to section 119 para. 2 German Stock Corporation Act (AktG), the general meeting may decide upon measures or transactions if the Management Board requests a decision of the general meeting. The Management Board acts in its own discretion and will consider the nature of the transaction and the implications of such referral for the Company, including the requirements of the Listing Rules and the scope of discretion granted by German corporate laws in order to comply with to the greatest extent possible, the Listing Rules, the HKCG Code and German corporate governance. The Management Board is required to refer notifiable transactions pursuant to Chapter 14 of the Listing Rules, i.e. very substantial acquisitions, very substantial disposals and reverse takeovers, with any of the applicable percentage ratios exceeding 75% to the general meeting. The Management Board is permitted to refer all notifiable transactions subject to shareholders' approval pursuant to Chapter 14 of the Listing Rules with any of the applicable percentage ratios from 25% to 75% as well as all major transactions as defined under Chapter 14 of the Listing Rules with any of the applicable percentage ratios exceeding 25% to the general meeting.

The Management Board is permitted to refer all connected transactions with any of the applicable percentage ratios exceeding 5%, all continuing connected transactions with a transaction amount exceeding 5% calculating on an annual basis and all other connected transactions subject to shareholders' approval pursuant to Chapter 14A of the Listing Rules to the general meeting.

Respective responsibilities of Management Board, Supervisory Board and external auditors

The Management Board is responsible for the preparation of the financial statements, which give a true and fair view of the state of affairs, and cash flow of the Group in accordance with relevant law and disclosure requirements under the Listing Rules. The financial statements are subject to approval of the Supervisory Board.

The external auditors are responsible for forming an independent opinion, based on the audit, on the financial statements prepared by the Management Board and approved by the Supervisory Board.

Model Code for Securities

The Company has adopted the Model Code as set forth in Appendix 10 to the Listing Rules as its own code for dealing in securities by the Directors of the Company. Based on specific enquiry with the Directors and the Supervisors, they confirmed that they have complied with the required standards as set out in the Model Code throughout the period from 1 January 2010 to the date of this report.

Disclosure of securities transactions by members of the Supervisory Board and the Management Board

Pursuant to the SFO, members of the Supervisory Board and the Management Board, as well as their associates, are required to disclose their interests and short positions in the shares, underlying shares and debentures of the Company and its associate corporations (within the meaning of Part XV of the SFO) and notify the Company and the HKSE about the dealings with the Company's securities.

During the year, the following transactions have been reported to the Company and the HKSE:

Name of Director	No. of shares bought	Average price per share	No. of shares interested
Kyung Seok CHAE	4,000	HK$25.31	4,000
	2,000	HK$24.91	6,000
	2,000	HK$25.50	8,000
	960	HK$25.30	8,960
	1,520	HK$24.54	10,480
	800	HK$25.10	11,280

Compliance with the HKCG:

During the period, the Company had in principle complied with the recommendations of the DCGK dated 26 May 2010 with the exceptions set out below. In addition, the Management Board and the Supervisory Board have also considered all the additional requirements under the HKCG Code as set out in Appendix 14 to the Listing Rules and are of the opinion that the Company complied with all applicable requirements during the period, except for the following:

- Section E1.2 of the HKCG states that "The chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committee (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

The Management Board and the Independent Board (comprising the Independent Supervisors) of the Company have not appointed a Chairman to the Management Board and the Independent Board, respectively.

Mr. Jung Hyun OH, the Chairman of the Supervisory Board and the Chairman of the remuneration committee, attended the Company's 2010 AGM held on 11 June 2010, prepared to answer any questions raised by the shareholders. Mr. Choong Min LEE, the Chairman of the audit committee, did not attend the Company's 2010 AGM due to his other business commitments. However, the Management Board members, the senior management members, independent financial advisor (for the EGM held on 31 August 2010) and the Company's auditors (for the AGM held on 11 June 2010) attended the respective general meetings and prepared themselves to answer questions raised in the meetings. The Management considers the absence of the Chairman of the Management Board and the independent committee would not affect the shareholders' rights as all the necessary information had been set out in the circulars sent to the shareholders at least 37 days prior to the meetings and the other members of the Management Board were present in the meetings to answer shareholders' enquires.

COMPLIANCE STATEMENT PURSUANT TO SECTION 161 GERMAN STOCK CORPORATION ACT

The Management Board and the Supervisory Board of Schramm Holding AG declare pursuant to section 161 German Stock Corporation Act (Aktiengesetz; AktG) that since the first quotation of its shares on the HKSE on 29 December 2009, Schramm Holding AG has in principle complied with and will continue to comply with the recommendations of the "Government Commission German Corporate Governance Code" (Regierungskommission Deutscher Corporate Governance Kodex; DCGK, dated 26 May 2010) published in the official section of the German electronic Federal Gazette.

The following recommendations were or are to date not complied with or only complied with in parts:

- Clause 2.3.2 DCGK: "The company shall send notification of the convening of the General Meeting together with the convention documents to all domestic and foreign financial services providers, shareholders and shareholders' associations by electronic means if the approval requirements are fulfilled."

  The notification of the convening of a general meeting and the convention documents are published on the Company's website and notification is sent by post to registered addresses of the Shareholders. It is currently not intended to send the notification of the convening and the convention documents by e-mail.

- Clause 3.4 paragraph 3 sentence 1 DCGK: "The Supervisory Board shall specify the Management Board's information and reporting duties in more detail."

  Written "information rules" have not been determined by the Supervisory Board, since the reporting system of the Company satisfies the information and reporting requirements for the Management Board set out by law and the Listing Rules so that the Management Board does not require further specific written guidelines.

- Clause 4.1.5: "When filling managerial positions in the company the Management Board shall take diversity into consideration and, in particular, aim for an appropriate consideration of women."

  Currently, there is no woman represented in managerial positions of the Company. The company, however, chooses from the suitable candidates independently from their gender.

- Clause 4.2.1 sentence 2 DCGK: "By-Laws shall govern the work of the Management Board, in particular the allocation of the areas of responsibility among individual Management Board members, matters reserved for the Management Board as a whole, and the required majority for Management Board resolutions (unanimity or resolution by majority vote)."

  The required majority for Management Board resolutions is governed by section 5 (7) of the Company's Articles of Association; therefore, a separate provision in the Internal Rules for the Management Board was not necessary anymore.

Internal Rules for the Management Board exist but neither explicitly govern the allocation of responsibility among individual Management Board members nor matters reserved for the Management Board as a whole. Since the Company's Management Board consists of only three members, responsibilities are clearly allocated and any matters requiring the resolution of the Management Board as a whole or which should in general be based on such resolution are generally presented to the Management Board as a whole.

- Clause 4.2.2 paragraph 1 DCGK: "The full Supervisory Board shall resolve and regularly review the Management Board's compensation system."

  A Remuneration Committee of the Supervisory Board was established, the main tasks of which are the preparation of the decisions regarding the appointment and dismissal of members of the Management Board which will ultimately be made by the full Supervisory Board, as well as the review of remuneration packages and other benefits which the Company offers to the members of the Management Board, of the Supervisory Board and of the senior management.

  In our opinion, it makes sense for the Company to have a specialised remuneration committee with the relevant expertise which is among others concerned with the review of the compensation system.

- Clause 4.2.3 paragraph 2 sentences 2 and 3 DCGK: "The monetary compensation elements shall comprise fixed and variable elements. Both positive and negative developments shall be taken into account when determining variable compensation components."

- Clause 4.2.3 paragraph 3 sentences 2 and 4 DCGK: "The variable elements shall be related to demanding, relevant comparison parameters. Changing such performance targets or the comparison parameters retroactively shall be excluded."

  Currently only the compensation of the CEO comprises a variable element in addition to his fixed salary. The amount of variable element depends on the amount of profit (net income) of the Company. In the event that the Company has not achieved any profit, but only a loss, the fixed salary of the CEO will not be reduced.

  The introduction of a stock option plan for all Management Board members is planned but details are not yet determined.

  A retroactive change of the performance targets or the comparison parameters is not excluded with regard to the variable compensation in the service contract with the CEO; it is, however, not explicitly provided for either. Thus, an explicit exclusion does not seem necessary.

- Clause 4.2.3 paragraph 4 DCGK: "In concluding Management Board contracts, care shall be taken to ensure that payments made to a Management Board member on premature termination of his contract without serious cause including additional benefits do not exceed the value of two years' compensation (severance payment cap) and compensate no more than the remaining term of the contract. The severance payment cap shall be calculated on the basis of the total compensation for the past full financial year and if appropriate also the expected total compensation for the current financial year."

  The contract of Mr. BRENNER contains a fixed severance payment sum that also has to be paid in case of a change of control. Since a fixed severance payment sum has been determined, there is already a cap on severance payments. Currently, this amount exceeds the sum of the total compensation for the past full financial year and of the expected total compensation for the current financial year for Mr. BRENNER. In our opinion, however, such fixed severance payment sum is appropriate and gives legal certainty to all parties involved.

- Clause 4.3.4 sentence 1 DCGK: "Each member of the Management Board shall disclose conflicts of interest to the Supervisory Board without delay and inform the other members of the Management Board thereof."

Pursuant to section 5 (8) of the Articles each member of the Management Board shall generally disclose conflicts of interests to the Management Board without delay and shall not vote on any resolution approving any contract or arrangement or any other proposal in which he or any of his associates has a material interest. In our view this proceeding is a suitable means to prevent conclusion of inappropriate contracts due to conflicts of interests of any member of the Management Board.

- Clause 4.3.4 sentence 2 and 3 DCGK: "Important transactions between the Company on the one hand and the members of the Management Board as well as persons they are close to or companies they have a personal association with on the other hand shall require the approval of the Supervisory Board."

  The Management Board shall present all transactions that according to law require the Supervisory Board's approval to the Supervisory Board. Furthermore, the Management Board may in its own discretion voluntarily present further transactions between the Company on the one hand and the members of the Management Board as well as persons they are close to or companies they have a personal association with on the other hand to the general meeting for resolution. This will be considered by the Management Board in particular with regard to transactions between the members of the Management Board or, persons they are close to, and the Company that require the approval of the shareholders at the general meeting pursuant to Chapter 14A of the Listing Rules. In our opinion this ensures to a reasonable extent that no inappropriate transactions are entered into between such member of the Management Board or any of his associates and the Company.

- Clause 4.3.5 DCGK: "Members of the Management Board shall take on sideline activities, especially Supervisory Board mandates outside the enterprise, only with the approval of the Supervisory Board."

  Sideline activities of Management Board members require the Company's approval. The Supervisory Board generally represents the Company towards the members of the Management Board, so that a separate consent of the Supervisory Board does not seem necessary.

- Clause 5.1.2 paragraph 1 sentence 2 DCGK: "When appointing the Management Board, the Supervisory Board shall also respect diversity and, in particular, aim for an appropriate consideration of women."

  Currently, there is no woman represented in the Management Board of the Company. The Supervisory Board, however, chooses from the suitable candidates independently from their gender.

- Clause 5.1.2 paragraph 1 sentence 3 DCGK: "Together with the Management Board, the Supervisory Board shall ensure that there is a long-term succession planning."

  Although the Supervisory Board plans with the current Management Board members on a long-term basis, the Supervisory Board revoked the appointment of the member of the Management Board and Chief Financial Officer of the Company, Mr. Sung Yoon KIM on 17 March 2010 and appointed Mr. Kyung Hwan YEO with effect as of 17 March 2010, whose appointment was subsequently revoked on 11 June 2010. These measures were not agreed with Management Board on a long-term basis; the Management Board and the Supervisory Board, however, have by now reached an agreement on long-term strategy.

- Clause 5.1.2 paragraph 2 sentence 3 DCGK: "An age limit for members of the Management Board shall be specified."

  An age limit for members of the Management Board has not been specified. In our opinion, such age limit is not necessary because the Supervisory Board will not appoint somebody to the Management Board who is considered to be unable to properly exercise his duties at the time of appointment or within the foreseeable future due to his age or will only appoint him with an adequately shortened term of office.

- Clause 5.2 paragraph 2 sentence 1 DCGK: "The chairman of the Supervisory Board shall also chair the committees that handle contracts with members of the Management Board and prepare the Supervisory Board meetings."

The current chairman of the Company's Supervisory Board, Mr Jung Hyun OH, is concurrently the chairman of the Remuneration Committee. A committee that prepares Supervisory Board meetings is currently not provided for. The current size of the Supervisory Board does not require such committee.

- Clause 5.3.2 sentence 1 DCGK: "The Supervisory Board shall set up an Audit Committee which, in particular, handles issues of accounting, risk management and compliance, the necessary independence required of the auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points and the fee agreement."

  The Supervisory Board has set up an audit committee whose main tasks are handling of accounting, risk management and compliance issues, the preparation of a proposal to the general meeting for the appointment of auditors, monitoring the internal control system and providing advice and comments to the Management Board. The audit committee also carries out a preliminary review of the annual financial statements. Furthermore, the audit committee is authorized to review and report on the appropriateness of resources, the qualification and experience of the Company's personnel in the areas of accounting and financial reporting and the training programmes and budgets of such personnel.

  The audit committee has already carried out the relevant tasks requiring particular expertise regarding accounting, book-keeping, risk management and compliance. As far as the audit committee does not carry out the remaining tasks set out in clause 5.3.2 sentence 1 DCGK itself, the full Supervisory Board could carry out such tasks with the support of the audit committee.

- Clause 5.4.1 paragraph 2 and paragraph 3 DCGK: "The Supervisory Board shall specify concrete objectives regarding its composition with, whilst considering the specifics of the Company, take into account the international activities of the Company, potential conflicts of interest, an age limit to be specified for the members of the Supervisory Board and diversity. These concrete objectives shall, in particular, stipulate an appropriate degree of female representation.

  Recommendations by the Supervisory Board to the competent election bodies shall take these objectives into account. The concrete objectives of the Supervisory Board and the status of the implementation shall be published in the Corporate Governance Report."

  The Supervisory Board has not specified concrete objectives regarding its composition.

  In particular, an age limit for Supervisory Board members has not been specified. In our opinion, such age limit is not necessary because the Supervisory Board will not elect anyone to the Supervisory Board who is considered to be unable to properly exercise her or his duties at the time of appointment or within the foreseeable future due to her or his age of will only appoint her or him with an adequately shortened term of office.

  So far, no appropriate degree of female representation in the Supervisory Board is explicitly foreseen. The Supervisory Board, however, will recommend suitable for election as members of the Supervisory Board independently from their gender.

  Since the members of the Supervisory Board are currently resident in only one county (Korea), with one of them is currently based in Hong Kong, its composition does not reflect the internal business presence of the Company in several countries.

  On 11 June 2010, Mr. Min Koo SOHN was appointed as member of the Supervisory Board as successor of Mr. Suk Whan CHANG. Since 2000, Mr. SOHN works at SSCP Co., Ltd., which is the Company's largest shareholder holding approximately 40 percent of the shares and is active in the coatings industry. Mr. SOHN is currently a director and the head of the coating business of SSCP Co., Ltd which is active in the coating business. In addition, the Supervisory Board member Mr. Jeong Ghi KOO is the head of the electronic material division of SSCP Co., Ltd. Accordingly, both Mr. SOHN and Mr. KOO are directly or indirectly subject to the management of Mr. Jung Hyun OH, the chairman of the Supervisory Board of the Company, who is also the CEO and the major shareholder of SSCP Co., Ltd.

  SSCP Co., Ltd cannot be regarded as a typical competitor of the Company since, as a major shareholder of the Company, it has an interest in a positive development of the Company's business and is therefore not expected to improve its position to such extent to adversely affect the company. However, it cannot be entirely excluded that the Company may in future invest in the electronic industry, a business area which SSCP Co., Ltd is principally engaged in, and that new conflicts of interest may arise. In addition, SSCP Co., Ltd. supplies raw materials to the company so that both companies have to share the margins achieved with the sales of products in the production process the amounts of which have to be negotiated among the companies.

- Clause 5.4.1 paragraph 4, sentence 2: "The members of the Supervisory Board shall be supported by the company appropriately in taking on their own on the necessary training and further education measures required for their tasks in the Supervisory Board."

  At the time of their appointment the members of the Supervisory Board have received appropriate training from the Company's legal advisors with regard to their tasks and responsibilities as member of the Supervisory Board. This training is a requirement according to the Hong Kong Listing Rules. Currently no need for further training or education measures is regarded necessary, however, will be provided if needed.

- Clause 5.4.2 sentence 4 DCGK: "Supervisory Board members shall not exercise directorships or similar positions or advisory tasks for important competitors of the enterprise."

  Mr. Jung Hyun OH, the current Supervisory Board chairman is also a shareholder and CEO of SSCP Co. Ltd. ("SSCP"), which is the Company's largest shareholder holding approximately 40% shareholding and is active in the coatings industry. The Supervisory Board member Mr. Jeong Ghi KOO is head of the electronic material division of SSCP.

  The Supervisory board member Mr. SOHN is currently a director and the head of the coating business of SSCP Co., Ltd., which is active in coating business. In addition, the Supervisory Board member Mr. Jeong Ghi KOO is the head of the electronic material division of SSCP Co., Ltd. Accordingly, both Mr. SOHN and Mr. KOO are directly and indirectly subject to the management of Mr. Jung Hyun OH, the chairman of the Supervisory Board of the Company, who is also the CEO and a shareholder of SSCP Co., Ltd.

  SSCP is not regarded as a typical competitor because, as a majority shareholder of the company, it has an interest in a positive development of the Company's business and is therefore not expected to improve its position to such extent to adversely affect the Company. However, it cannot be entirely excluded that the company may in future invest in the electronic industry, a business area which SSCP Co., Ltd is principally engaged in, and that therefore new conflicts of interest may arise. In addition, SSCP Co., Ltd supplies raw materials to the company so both companies have to share the margins achieved with the sales of products in the production process the amounts of which have to be negotiated among the companies.

- Clause 5.4.6 paragraph 1 sentence 3 DCGK: "Also to be considered with regard to the specification of the Supervisory Board members' compensation shall be the exercising of the Chair and Deputy Chair positions in the Supervisory Board as well as the chair and membership in committees."

  Section 12 (1) of the Articles provides that the exercising of the chair and deputy chair position in the Supervisory Board but not the chair and membership in committees is considered with regard to the Supervisory Board members' compensation. Since a large part of the tasks and responsibilities remains with the full Supervisory Board, we consider that it is justified to determine the Supervisory Board members' compensation regardless of their membership in committees.

- Clause 5.4.6 paragraph 2 sentence 1 DCGK: "Members of the Supervisory Board shall receive fixed as well as performance-related compensation."

  Section 12 (1) of the Articles only provides for a fixed compensation for the Supervisory Board members. The relevant legal provisions and the Listing Rules already ensure that the members of the Supervisory Board carry out their tasks responsibly, so a performance-based compensation does not seem necessary.

- Clause 5.5.3 sentence 2 DCGK: "Conflicts of interest which are material and not merely temporary in respect of the person of a Supervisory Board member shall result in the termination of his mandate."

The chairman of the Supervisory Board currently does not see a conflict of interests in respect of his person. However, if there is a material and not only temporary conflict of interests in respect of a member of the Supervisory Board, the termination of his mandate will be sought for.

- Clause 5.6 DCGK: "The Supervisory Board shall examine the efficiency of its activities on a regular basis."

  So far, a regular examination of the efficiency of the activities of the Supervisory Board has not taken place since it was not regarded necessary. It is, however, intended that the Supervisory Board carries out a regular examination of its efficiency in future.

- Clause 6.3 sentence 2 DCGK: "All new facts made known to financial analysts and similar addressees shall also be disclosed to the shareholders by the company without delay."

  The Company will inform its shareholders in accordance with the requirements of the Listing Rules. This is sufficient because the requirements of the Listing Rules are very strict and investor protection is one of the HKSE's top priorities.

- Clause 6.5 DCGK: "Any information which the company discloses abroad in line with corresponding capital market law provisions shall also be disclosed domestically without delay."

  As set out above, the Company will inform its shareholders of new facts and price sensitive information in accordance with the requirements of the Listing Rules. An immediate local publication is also not necessary due to the shareholder structure because European investors are not among the investor addressed directly.

- Clause 6.6 DCGK: "Beyond the statutory obligation to report and disclose dealings in shares of the company without delay, the ownership of shares in the company or related financial instruments by Management Board and Supervisory Board members shall be reported if these directly or indirectly exceed 1% of the shares issued by the company. If the entire holdings of all members of the Management Board and Supervisory Board exceed 1% of the shares issued by the company, these shall be reported separately by Management Board and Supervisory Board. The aforesaid disclosures shall be included in the Corporate Governance Report."

  The Company does not and will not fully comply with these requirements, but will only provide the reports on the shareholdings of Management Board and Supervisory Board members that are required by law and the Listing Rules. To this end, reference will also be made to the annual accounts. Further publication of the Management Board's and the Supervisory Board's shareholdings will not be made; the publication requirements set out in current legislation and the Listing Rules are enough, in our opinion, to sufficiently inform the capital market and the Company's shareholders.

- Clause 6.7 DCGK: "As part of regular public information policy, the dates of essential recurring publications (including the annual report, interim financial reports) and the date of the General Meeting shall be published sufficiently in advance in a "financial calendar"."

  The Company will in any case make the relevant publications in accordance with statutory requirements and the provisions of the Listing Rules. A "financial calendar" is currently not planned and is deemed not necessary because publications will always be made within the periods provided for by law and the Listing Rules, i.e. within the customary periods which are foreseeable by the investors.

- Clause 7.1.2 sentence 4 first half-sentence DCGK: "The Consolidated Financial Statements shall be publicly accessible within 90 days of the end of the financial year."

  The Consolidated Financial Statements for the year ended 31 December 2010 prepared under German law were not publicly accessible within 90 days of the end of the financial year. However, the company has complied with the time frames established by the Listing Rules. This will also apply to future consolidated financial statements.

Under the German Law the company is not required to prepare interim reports; but it is a requirement under the Listing Rules. The 2010 interim report was not publicly accessible until the 24 days period was passed, however, the company has complied with the time frames established by the Listing Rules. This will also apply to future interim reports.

- Clauses 7.2.1 to 7.2.3 DCGK: "7.2.1 Prior to submitting a proposal for election, the Supervisory Board or, respectively, the Audit Committee shall obtain a statement from the proposed auditor stating whether, and where applicable, which business, financial, personal and other relationships exist between the auditor and its executive bodies and head auditors on the one hand, and the enterprise and the members of its executive bodies on the other hand, that could call its independence into question. This statement shall include the extent to which other services were performed for the enterprise in the past year, especially in the field of consultancy, or which are contracted for the following year.

  The Supervisory Board shall agree with the auditors that the Chairman of the Supervisory Board or, respectively, the Audit Committee will be informed immediately of any grounds for disqualification or partiality occurring during the audit, unless such grounds are eliminated immediately.

  7.2.2 The Supervisory Board commissions the auditor to carry out the audit and concludes an agreement on the latter's fee.

  7.2.3 The Supervisory Board shall arrange for the auditors to report without delay on all facts and events of importance for the tasks of the Supervisory Board which arise during the performance of the audit."

  The Supervisory Board shall arrange for the auditors to inform it and/or note in the Auditor's Report if, during the performance of the audit, the auditor comes across facts which show a misstatement by the Management Board and Supervisory Board on the CGK. In the past, the Company has not complied with these provisions since the audit assignment for the past financial year did not include the activities set out above because at that time, the German Corporate Governance Code and the obligation to issue a declaration pursuant to section 161 German Stock Corporation Act (Aktiengesetz; AktG) did not apply to the Company. In future, however, the Company intends to comply with these provisions.

For and on behalf of the Supervisory Board
Mr. Jung Hyun OH
Chairman
17 March 2011

For and on behalf of the Management Board
Mr. Peter BRENNER
Chief Executive Officer
17 March 2011

Biographical Information of Directors, Supervisors and Senior Management

DIRECTORS

Mr. Peter BRENNER, age 39, was appointed as a member of the Management Board on 28 August 2008 and acts as the Chief Executive Officer of the Company. He is responsible for managing the international business development of Schramm worldwide. Mr. BRENNER has approximately 15 years of experience in the industry. Mr. BRENNER first joined Schramm in Germany in 1989 to 1992 where his first role was as an apprentice and a sales manager. He rejoined Schramm in 1998 after his graduation from university where he served initially as a key account manager for the European general industry division and then as a sales manager for the European automotive division. He was appointed as an executive director and general manager of the Company (the Schramm Coatings GmbH) in 2002, assuming primary responsibility for the international business of Schramm, and was subsequently promoted to be the managing director in December 2007. Accordingly Mr. BRENNER has been working at the Company for a total of approximately 15 years. Mr. BRENNER has been involved with Schramm business globally from 2002 and has been actively involved in the management of Schramm business. Mr. BRENNER graduated from the University of Applied Sciences, Fulda, Germany in 1998 with a diploma ("diploma"), at the time the highest degree attainable in business administration, specializing in marketing and international management.

Mr. Kyung Seok CHAE, age 34, was appointed as a member of the Management Board on 28 August 2008 and acts as the chief strategic officer of the Company, with responsibilities for devising the business development and strategies of Schramm including responsibilities for planning, human resources, information technology, risk management, and strategic corporate developments of Schramm. Mr. CHAE joined the Company's controlling shareholder, SSCP, in January 2006 and was appointed as the chief executive officer of SSCP's PRC operation in managing Samsung Bestview (Huizhou) Company Limited, Shanghai Hansheng Chemical Paint Company Limited and Schramm SSCP (Tianjin) Limited ("PRC Subsidiaries") and Samsung Chemical Paint (Thailand) Co. Ltd. ("Thailand subsidiary") (which were then part of he SSCP Group) in April 2006 where he was responsible for the overall operations and management of theses subsidiaries. In April 2008, he joined the Group as chief executive officer of Schramm Korea and was subsequently appointed as the Chief Strategic Officer of our Company in September 2008. Prior to joining the SSCP Group, Mr. CHAE served approximately one year as a managing director of a Korean company, approximately one year as a project manager for a multinational software company and five years in corporate finance and business development of a Korean-listed company. Including his time as chief executive officer of the PRC Subsidiaries and Thailand subsidiary, Mr. CHAE has worked at the Group for approximately 5 years. Mr. CHAE graduated from Cornell University in 1999 with a bachelor degree in economics.

Dr. Sung Su HAN, age 48, joined the Group in July 2010 and was appointed as a member of the Management Board on 1 September 2010 and act as the chief operation officer of the Company. Dr. HAN obtained a bachelor degree in material science and engineering and nuclear engineering, a master degree in nuclear engineering and a doctoral degree in nuclear engineering from the University of California, Berkeley in 1985, 1989 and 1993, respectively. Dr. HAN has over 14 years of experience in leading and managing research and development and business development functions in diverse technology areas including healthcare, photovoltaics, microelectromechanical systems, optoelectronics, environmental engineering and biochemical.

Before joining the Company, Dr. HAN was a Vice President and Director of Electronic Material and Device System Research and Development Laboratory in LG Electronics of LG Corporation in Korea, a company listed on the Korea Stock Exchange which is principally engaged in the manufacturing, marketing and distribution of high technology electronic products including televisions, audio and video products, home appliances, air conditioners and telecommunications devices. From March 2007 to September 2007, he was a director of the Advanced Detection Systems, Radiation Monitoring Division of Thermo Fisher Scientific in the United States, a company listed on the New York Stock Exchange which is principally engaged in the provision of laboratory equipment, chemicals, supplies and services used in healthcare, scientific research, safety and education. From August 2005 to March 2007, he was a vice president and the chief technology officer in Samsung Corning Company Ltd, a Korea based manufacturer of glass panels and funnels for cathode ray tube television and display monitors. From November 1996 to August 2005, Dr. HAN was with General Electric Company, a company listed on the New York Stock Exchange which is principally engaged in provision of infrastructure, media and financial services, in the United States.

Mr. Sung Yoon KIM, age 56, was appointed as a member of the Management Board on 28 August 2008 and acted as the Chief Financial Officer of the Company. Mr. KIM has been a director of Schramm Korea since April 2008. Previously, Mr. KIM joined the SSCP Group in 2006 as the chief financial officer and a board director until his resignation on 24 June 2009 and has approximately 30 years of experience in the finance industry. Prior to joining Schramm, Mr. KIM was a manager of a number of branches of Chohung Bank from 1992 to 1994 and was appointed as a senior manager of the bank in 1994 with responsibilities for managing project finance, enterprise finance and lease finance teams of the bank. In 2001 he was appointed as the head of the international sales division responsible for managing the worldwide sales of the bank. He was subsequently appointed as the general manager of the planning division of Chohung Bank in 2003 to manage the planning division and to oversee the business development of the bank. From 2004 to 2005, Mr. KIM was appointed as the deputy president of Chohung Bank where he was responsible for making executive decisions on the overall business strategies of the bank. Mr. KIM graduated from Seoul National University with a bachelor degree in English in 1978 and graduated from New York University with a Master of Business Administration degree in 1986. Mr. KIM's position as a Director and the chief financial officer of the Company was released with effect from 17 March 2010.

Mr. Kyung Hwan YEO, age 41, was appointed as a member of the Management Board on 17 March 2010 and acts as the chief financial officer of the Company. Mr. YEO has over ten years' finance experience. Before joining the Company, he had been a general manager of Seoul Media Group, a media company engaged in internet, mobile and publication business, from 2005 to February 2010 to manage its finance and planning team which was responsible for financial auditing, preparing financial budgeting and feasibility study on new investments. From 2003 to 2005, he has been a vice president of Triz Corporation, a company engaged in development and production of ADSL modem and ISDN modem for Korean Telecom Corporation, and was responsible for overseeing its finance and planning team in preparing financial auditing, accounts, and feasibility study on information technology investments. From 1999 to 2002, Mr. YEO served as a manager in international finance team and steel trade team of Halla Group, a multi-business company in Korea which businesses include construction and manufacturing of auto-parts for automotives. Mr. YEO obtained a bachelor's degree in International Business from Korea University in 1996. Mr. YEO's position as a Director and the Chief Financial Officer of the Company was released with effect from 11 June 2010.

SUPERVISORY BOARD

Mr. Jung Hyun OH, age 39, is the chairman of the Supervisory Board of which he has been a member since 27 August 2008. Mr. OH joined the chemical paint production department of the Company's controlling shareholder, SSCP, in 1996 and has approximately 13 years of experience in the industry. Mr. OH was appointed as the head of the research and development division of SSCP in 1998. In 2002, he was appointed as the chief executive officer of SSCP, a position he has held since then. Mr. OH graduated from Cornell University with a bachelor degree and a master degree in material science in 1995 and 1996, respectively. Mr. OH is a director and a major shareholder of SSCP, the Controlling Shareholder of the Company.

Mr. Suk Whan CHANG, age 53, is the vice chairman of the Supervisory Board, of which he has been a member since 27 August 2008. Between 1987 to 1990, Mr. CHANG has over a decade of experience working in the corporate finance, mergers and acquisitions, securities brokerage, investment advisory, strategy and planning sectors in New York, London and Korea, including at management level. From 2000 to 2005, Mr. CHANG founded Hanasset Corporation where he managed the operations of its private equity investment and consulting departments. From 2005 to early 2009, Mr. CHANG was the chief executive officer of Qunno Metal Technology, a major supplier of the Group, where he was responsible for making executive decisions in relation to the overall business strategies of the company. Mr. CHANG then returned to Hanasset Corporation in 2009, where he is currently its chief financial officer. Mr. CHANG graduated from Massachusetts Institute of Technology with a bachelor degree in architecture in 1980 and a master degree in finance management in 1987 from Sloan School of Management. Mr. CHANG resigned from his position on 11 June 2010.

Mr. Jeong Ghi KOO, age 56, has been a member of the Supervisory Board since 27 August 2008. Mr. KOO joined SSCP as the vice president of its research and development division in 2005 and has approximately 20 years of experience in the industry. Mr. KOO has been the head of the electronic material business unit of SSCP since 2007 where he is responsible for overseeing the operations and development of its electronic material business unit. Prior to joining SSCP, Mr. KOO was a member of the research and development centre of Kolon Co., Ltd. from 1979 to 1981. From 1988 to 2005, he worked as a research manager at Cheil Industries Inc. before being promoted to be the head vice president of its chemicals research and development centre. Mr. KOO graduated from Seoul National University with a bachelor, master and doctoral degree in textile polymer engineering in 1977, 1984 and 1988, respectively. Mr. KOO was appointed as a director of The Polymer Society of Korea in 2004 and subsequently became its vice president in 2008. Following Mr. CHANG's resignation on 11 June 2010, Mr. KOO has become the vice chairman of the Supervisory Board with effect from 11 June 2010.

Mr. Min Koo SOHN, age 43, has been a member of the Supervisory Board since 11 June 2010. Mr. SOHN obtained a Bachelor's degree in Commerce & Trade from University of Cheon-Nam, Korea in 1993. Mr. SOHN has over 17 years' experience in sales, planning, and business and customer support. Mr. SOHN joined SSCP, the controlling shareholder of the Company, in 2000 and has acted as a deputy manager of SSCP's customer support team, sales planning team and business support team respectively since has employment. Mr. SOHN is currently a director and chief of coating business unit of SSCP. Before joining SSCP, he had been an assistant manager of distribution sales in special business unit of Dong-Won Industries Co., Ltd., a corporation engaged in manufacturing of food and beverage products from 1993 to 2000.

Independent Supervisors

Mr. Kun Hwa PARK, age 55, an Independent Supervisor, has been a member of the Supervisory Board since 2 December 2009. Mr. PARK joined Samsung Fire & Marine Insurance Company Ltd. In 1982 as a junior staff of the marine claim department, where he was responsible for handling marine claim settlement and recovery against third parties in respect of cargo, hull and machinery. He was then relocated to the underwriting team of the same department from 1987 to 1989. He was promoted in 1994 as a manager of the underwriting and claim department focusing on the commercial lines and long-term insurance. From 1996 to 2001, Mr. PARK was a managing director of Samsung Insurance Company of Europe Limited, a subsidiary of Samsung Fire & Marine Insurance Company Ltd.'s where he was in charge managing the retail business of Korean clients in the United Kingdom and Europe. From 2001 to 2002, he was relocated back to the head office of Samsung Fire & Marine Insurance Company Ltd. In Korea as the general manager of the marine claim department where he was in charge of marketing, underwriting and claims of the marine business. In the following years, he was assigned to reinsurance team and underwriting team as the general manager. In 2006, Mr. PARK resigned from Samsung Fire & Marine Insurance Company Ltd. and has been the vice president of the Korea division of Kiln Asia Limited since 2006. Mr. PARK graduated from Chung-Ang University with a bachelor degree in business administration in 1982. Mr. PARK resigned from his position as a member of the Supervisory Board with effect from 11 June 2010.

Mr. Choong Min LEE, age 34, an Independent Supervisor, has been a member of the Supervisory Board since 2 December 2009. Mr. LEE joined Comtec System Co. Ltd. In 1999 as a project manager, where he performed the ERP Implementation Project Planning to a variety of clients across a number of industries, such as the services, manufacturing, pharmacy and distribution industries. From 2003 to 2005, he worked as an auditor at the auditing and advisory department of Deloitte Korea Accounting firm where he actively participated in financial auditing and financial due diligence review of acquisition process from potential buyers. Since 2005 till December 2009, Mr. LEE was a manager in the tax department of Samil PricewaterhouseCoopers, where he was responsible for performing both financial and tax consulting services to a variety of foreign investors as well as tax due diligence consulting services of a number of merger and acquisition deal structures for potential buyers. Mr. LEE graduated from Seoul National University with a bachelor degree in science in 2000. Mr. LEE has been a member of Korean Institute of Certified Public Accountant since 1999. Mr. LEE possesses the appropriate professional qualifications and accounting expertise required under Rule 3.10(2) of the Listing Rules.

Mr. Kiyoung SHIN, age 39, an Independent Supervisor, has been a member of the Supervisory Board since 2 December 2009. Mr. SHIN joined Arthur Anderson LLP in Seoul, Korea in 1998 as an auditor where he performed internal control system reviews and auditing for a number of clients in a wide range of industries. From 2000 to 2001, Mr. SHIN was a technology analyst at ING Barings Securities Co. From 2001 to 2002 and 2003 to 2005, Mr. SHIN was a senior technology analyst at Hyundai Securities Co. and Goodmorning Shinhan Securities Co. in Seoul Korea, respectively, where he conducted financial and strategic analysis of technology companies. From 2005 to 2007, Mr. SHIN joined Kingdon Capital Korea LLC as the head of Korea office in the Asia Team, where he managed research and investment projects in Hong Kong, the PRC and Singapore and handled long-short equity investment initiatives in Korea resulting in sizable absolute gains during the course of employment. Since 2008, Mr. SHIN has been the chief investment officer of Gen2 KS Partners Limited in Hong Kong where he is responsible for portfolio management and research for Pan Asia, which focuses on Korea, Hong Kong, the PRC, Taiwan and Japan. He graduated from Cornell University with a bachelor degree in science, majoring in business management and marketing, in 1995. Mr. SHIN has obtained license from SFC in Hong Kong for Pan Asia investment strategy and is registered as a responsible officer with SFC.

Mr. Bang Seon KO, age 41, an Independent Supervisor, has been a member of the Supervisor Board since 11 June 2010. Mr. KO obtained a Bachelor's degree in Business Administration from Korea University in 1999. Mr. KO has over 11 years' accounting and finance experience. He is currently the chief executive officer of GAUL Accouting Corp., an accounting firm where he actively involved in finance auditing, financial due diligence review and provision of merger and acquisition advisory services. From 1999 to 2007, he has been a manager in the audit department of KPMG Samjong Accounting Corp, a company engaged in the provision of audit, audit related advisory services, due diligence, and risk advisory services, where Mr. KO was responsible for performing and providing auditing, financial due diligence and financial advisory services to a number of listed and unlisted companies. Mr. KO has been a member of Korean Institute of Certified Public Accountants. Mr. KO possess the appropriate professional qualifications and accounting expertise required under Rule 3.10(2) of the Listing Rule.

SENIOR MANAGEMENT

Mr. Se-Ook LEE, age 49 is a director of the finance department where he is responsible for the finance, treasury, accounts and insurance of Schramm. Mr. LEE is one of the authorised representatives (Prokura) of the Company. Mr. LEE joined the finance department of Schramm in 2007 and has approximately 3 years of experience in the chemical industry and approximately 17 years of experience in the finance industry. Prior to joining Schramm, Mr. LEE was a director for Shinhan Bank Europe GmbH, Frankfurt am Main from 1997 to 2002 and from 2005 to 2007, where he was responsible for its credit, treasury, trade finance, business planning and risk management. Mr. LEE graduated from Korea University with a bachelor degree in German Language and Literature in 1984 as well as a master degree in Modern German Literature in 1986 and went through Korea Accounting & Information School with a bachelor degree in accounting in 2005. Mr. LEE passed through a course in German accounting at the Volkshochschule, Frankfurt am Main with the certificates in 2008. Mr. LEE completed a course in International Finance in 1993 and another course in Risk management in 2002 with the respective certificates at the Korea Banking Institute.

Mr. Hans-Peter RÖHRICHT, age 52, is a director of the controlling department where he is responsible for the budget planning and budget control of Schramm. Mr. RÖHRICHT is one of the authorised representatives of the Company. Mr. RÖHRICHT joined Schramm in 1989 and has been in charge of the controlling department of Schramm since 1997. Mr. RÖHRICHT has approximately 20 years of experience in the chemical industry.

COMPANY SECRETARY

Mr. Kenny Yuen Fai CHAN, CPA, FCCA, age 33 is the company secretary and a director of the finance department. He is also responsible for Schramm's external financial reporting. Mr. CHAN joined Schramm in October 2009 and has approximately 11 years of experience in accounting and auditing profession. Prior to joining Schramm, Mr. CHAN was a senior audit manager at PricewaterhouseCoopers in Hong Kong in which he was responsible for managing audit engagements from planning to completion for a number of major private and listed companies in Hong Kong. Mr. CHAN is a Fellow Member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants, graduated from Hong Kong University of Science and Technology in 1999 with a bachelor degree of business administration in accounting.

Report of the Supervisory Board

Dear Shareholders,

During 2010 the Supervisory Board monitored the conduct of the Company's business on a regular basis with the aid of written and oral reports received from the Management Board, and also acted in an advisory capacity. In addition, the Chairman of the Supervisory Board and members of the Management Board maintained a constant exchange of information. In this way the Supervisory Board was kept continuously informed about the Company's intended business strategy, corporate planning (including financial, investment and human resource planning), earnings performance, the state of the business and of the Company and the Group as a whole.

The documents relating to the Management Board decisions or actions, whether by law or under the Articles or the rules of procedure, requiring the approval of the Supervisory Board were inspected by the Supervisory Board at its plenary meetings, sometimes after preparatory work of the committees. In certain cases the Supervisory Board gave its approval on the basis of documents circulated to its members. The Supervisory Board was involved in decisions of material importance to the Company.

CHANGES IN THE SUPERVISORY BOARD MEMBERS:

During the year, there were certain changes to the composition of the Supervisory Board. Mr. Kun Hwa PARK tendered his resignation effective from the Company's AGM held on 11 June 2010. In order to fill the vacancy resulting from Mr. PARK's resignation, Mr. Bang Seon KO was appointed as the Company's Independent Supervisor.

In addition, Mr. Suk Whan CHANG decided to resign from his position also with effect from the Company's AGM on 11 June 2010. Mr. Min Koo SOHN was appointed as the Company's member of the Supervisory Board.

The background of Mr. Bang Seon KO and Mr. Min Koo SOHN is set out in the "Biographical Information of Directors, Supervisors and Senior Management" section on pages 37 to 40 of this annual report.

PRINCIPAL TOPICS DISCUSSED BY THE SUPERVISORY BOARD:

The Supervisory Board focused on questions relating to the strategies and business activities of Schramm as a whole. During the year, the Supervisory Board discussed topics related to the development of the Company, including the restructuring of the Management Board. In order to improve the communication between the Supervisory Board and the Management Board, the Supervisory Board introduced certain changes to the Management Board. For the details of changes to the Management Board, please refer to page 47 for details.

6 Meetings were held during 2010 and the following lists outline the key topics discussed during the meetings:

- Approve the financial statements of Schramm for the year ended 31 December 2009;
- Recommend the appointment of the auditors;
- Approve the new authorized share capital and the repurchases mandate;
- Approve to put forward certain revisions in the Company's articles to general meetings for further shareholders' approval;
- Approve to put forward the resolutions of appointment of Dr. HAN and the extension of Mr. CHAE's service contract for further shareholders' approval; and
- Approve the interim report of Schramm for the six months ended 30 June 2010.

All of the Supervisory Board members attended the Supervisory Board meeting held during the year and the respective attendance record is set out in page 22 of this report.

CONFLICTS OF INTERESTS BETWEEN MEMBERS OF THE SUPERVISORY BOARD AND THE COMPANY:

During the year, Schramm entered into certain connected transactions, details of which are set out on pages 52 to 54 of the annual report. Certain Supervisory Board members, including Mr. Jung Hyun OH, Mr. Suk Whan CHANG, Mr. Min Koo SOHN and Mr. Jeong Ghi KOO, had direct or indirect interests in these transactions. In order to avoid conflicts of interests, as Mr. OH, Mr. KOO and Mr. SOHN have interests in the transactions involving SSCP, and Mr. OH and Mr. CHANG have interests in the transactions involving Qunno, they abstained from physically attending meetings or voting on any such board resolution approving the relevant transactions.

COMMITTEES OF THE SUPERVISORY BOARD:

The Supervisory Board has established an audit committee and a remuneration committee. The audit committee was established on 4 December 2009 in compliance with Rule 3.21 of the Listing Rules and the HKCG Code. Members of the audit committee comprise:

Mr. Choong Min LEE *(Chairman)*
Mr. Kiyoung SHIN
Mr. Kun Hwa PARK (resigned on 11 June 2010)
Mr. Bang Seon KO (appointed on 11 June 2010)

The primary duties of the audit committee are handling of accounting, risk management, compliance issues, making recommendation on appointment of auditors to be elected at the general meeting, monitoring the internal control system and providing advice and comments to the Management Board. The audit committee also makes a preliminary examination of the financial statements. The audit committee is also empowered to review and report to the Management Board on the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget.

Mr. Choong Min LEE and Mr. Bang Seon KO are members of the Korean Institute of Certified Public Accountant and possess the appropriate professional qualifications and accounting expertise required under Rule 3.10(2) of the Listing Rules.

The audit committee has reviewed the internal control, connected transactions and annual results of the Company for the year ended 31 December 2010 and the accounting principles and practices adopted by Schramm on the audit committee meeting held on 17 March 2011. External auditors and senior management attended the meeting to answer questions raised by the audit committee.

The remuneration committee was established on 4 December 2009 in compliance with the HKCG Code. Members of the remuneration committee comprise:

Mr. Jung Hyun OH *(Chairman)*
Mr. Choong Min LEE
Mr. Kiyoung SHIN
Mr. Kun Hwa PARK (resigned on 11 June 2010)
Mr. Bang Seon KO (appointed on 11 June 2010)

The primary duties of the remuneration committee include the preparation of decisions regarding the appointment and dismissal of members of the Management Board, which have to be ultimately resolved by the Supervisory Board, as well as reviewing the terms of the remuneration packages and other benefits offered by the Company to the Directors, Supervisors and senior management of the Company.

For the period from 1 January 2010 to the date of the report, the remuneration committee held three meetings, one on 21 July 2010, one on 23 February 2011 and one on 17 March 2011. During the meetings, the committee approved the terms in the service contracts for Dr. HAN and Mr. CHAE and also reviewed the remuneration system of the Group and the remuneration for senior management.

CORPORATE GOVERNANCE:

The Supervisory Board dealt with the ongoing development of the Company's corporate governance, taking into account the relevant provisions, codes and requirements under the DCGK and the HKCG Code as set out in Appendix 14 to the Listing Rules. Details of the Company's compliance are set out in the Corporate Governance Report on pages 16 to 36 of this annual report.

CONSOLIDATED FINANCIAL STATEMENTS CONTAINED IN THIS ANNUAL REPORT AND AUDIT OF THESE CONSOLIDATED FINANCIAL STATEMENTS:

The consolidated financial statements for the year ended 31 December 2010 of the Company were prepared according to the requirements of the IFRS and the disclosure requirements of the Hong Kong Companies Ordinances (Cap 32 of Laws of Hong Kong). The auditor, Deloitte, has audited the consolidated financial statements for the year ended 31 December 2010 of the Company and the conduct of the audit is explained in the auditor's report. The audit did not give rise to any objections, so that an unqualified opinion was issued. The consolidated financial statements for the year ended 31 December 2010 together with the draft auditor's report were submitted to all members of the Supervisory Board. The auditor submitted a report to the audit committee and was present during the discussion. We examined the consolidated financial statements for the year ended 31 December 2010 of the Company. We found no objections; thus, we concur with the result of the audit. We have approved the consolidated financial statements for the year ended 31 December 2010 of the Company prepared by the Management Board.

FINANCIAL STATEMENTS AND AUDITS PURSUANT TO GERMAN LAW:

(Please note that the financial statements in accordance with the provisions of the German Commercial Code, the consolidated financial statements according to the requirements of the IFRS as applicable in the EU and the group management report are not contained in this annual report, but from the day on which the forthcoming annual general meeting will be convened these financial statements will be available for inspection on the Company's website at www.schramm-holding.com/en_general meeting2011.html and at the registered office of Schramm Holding AG, Kettelerstraße 100, 63075 Offenbach/Main.)

The financial statements were drawn up by the Supervisory Board in accordance with the provisions of the German Commercial Code. The consolidated financial statements of the Company for the year ended 31 December 2010 were prepared according to the requirements of the IFRS as applicable in the EU. The auditor, Deloitte & Touche GmbH Wirtschaftsprufungsgesellschaft, has audited the financial statements, the consolidated financial statements and the group management report for the year ended 31 December 2010 of the Company and the conduct of the audit is explained in the auditor's report issued by Deloitte & Touche GmbH Wirtschaftsprufungsgesellschaft. The audit did not give rise to any objections, so that in each case an unqualified opinion was issued. The financial statements, the consolidated financial statements and the group management report for the year ended 31 December 2010 of the Company, together with the draft auditor's report issued by Deloitte & Touche GmbH Wirtschaftsprufungsgesellschaft, were submitted to all members of the Supervisory Board. The auditor submitted a report to the audit committee and was present during the discussion.

We examined the financial statements, the consolidated financial statements and the group management report for the year ended 31 December 2010 of the Company and the proposal of dividend. We found no objections, thus we concur with the result of the audit. We have approved the financial statements and the consolidated financial statements for the year ended 31 December 2010 of the Company prepared by the Management Board. The financial statements for the year ended 31 December 2010 of the Company are thus confirmed. Although the Management Board proposed a certain amount of dividends, after taking consideration the future development of Schramm and the funds needed to invest, we, the Supervisory Board, proposed not to declare dividend for the year ended 31 December 2010 to which the Management Board then agreed.

The report on the relations between the Company and its affiliated companies ("Dependency Report") drawn up by the Management Board in accordance with section 312 of the German Stock Corporation Act was audited by Deloitte & Touche GmbH Wirtschaftsprufungsgesellschaft, which issued the following unqualified opinion on 16 March 2011:

"As instructed we have audited the report of the Management Board pursuant to section 312 German Stock Corporation Act on the relations to affiliated companies in accordance with section 313 German Stock Corporation Act for the financial year 2010. As no objections are to be raised after the final result of our audit, we issue the following unqualified opinion pursuant to section 313 (3) sentence 1 of the German Stock Corporation Act:

Having conducted a proper audit and appraisal, we hereby confirm that:

1. the facts set out in the report are correct.

2. payments made by the Company in connection with legal transactions referred to in the report were not unduly high.

3. no circumstances give rise to an appraisal of the measures stated in the report that significantly differs from the Management Board's appraisal."

The draft of the Dependency Report was submitted to the members of the audit committee together with the other financial statements documentation and drafts of the audit reports in due time before the meeting of the audit committee. In this meeting, the audit committee thoroughly considered the draft of the Dependency Report and received the report from the auditor, who informed about the essential findings of its audit and was available for questions of the committee members. After thoroughly conducting its own review the audit committee did not raise any objections against the Dependency Report.

The Dependency Report was also submitted to the members of the Supervisory Board for review in due time. The auditor also took part in the consultations on the report in the context of the balance sheet meeting and reported on the essential findings of the audit. In addition, the chairman of the audit committee reported on the review of the Dependency Report by the audit committee. Taking into consideration the results of the auditor and the audit committee, the Supervisory Board conducted a thorough review of the Dependency Report with regard to its completeness and correctness. The review of the report on relations to affiliated companies by the Supervisory Board did not lead to any objections. The Supervisory Board assents to the findings of the audit by the auditor. After this and after the final result of its own review, the Supervisory Board does not raise any objections against the declaration of the Management Board at the end of the report on relations to affiliated companies.

The Supervisory Board would like to thank the Management Board and all employees for their dedication and hard work in 2010.

For and on behalf of the Supervisory Board
Mr. Jung Hyun OH
Chairman

Korea, 17 March 2011

Report of the Directors

The Company was incorporated in Germany as a limited partnership on 24 October 1985 and was converted to a limited company in 2000 and then further converted to a joint stock company on 21 November 2008. Shares of the Company have been listed on the Main Board of the HKSE since 29 December 2009 (the "Listing Date"). The Directors hereby present their report together with the financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Schramm is a formulator and manufacturer of customized paints and coatings for plastic and metal surfaces in the automotive, mobile phone, and consumer electronics sectors.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and the Group as at that date are set out in the consolidated financial statements on pages 59 to 109 of this annual report. The Company has not declared any interim dividend during the year.

Although we, the Management Board, proposed a certain amount of dividends originally, after taking consideration the future development of Schramm, the funds needed to invest, and the Supervisory Board's proposal for not to declare dividend for the year ended 31 December 2010, the Management Board then agreed with the Supervisory Board's decision.

WITHHOLDING TAX

According to section 43(1) sentence 1 No. 1 in conjunction with section 43a(1) sentence 1 No. 1 of the German Income Tax Act and section 1 in conjunction with section 3(1) No. 5 of the German Solidarity Surcharge Act, the Company must withhold and remit to the German tax authorities a withholding tax in the amount of 25% on dividends it distributes plus solidarity surcharge of 5.5% on the amount of the withholding tax (i.e. a total of 26.375% on dividends declared by the Company). The assessment basis for the withholding tax is the dividend resolved in the annual general meeting to be distributed to the shareholders. The capital gain withholding tax is withheld irrespective of whether and to what extent the dividend is tax exempt on the level of the shareholder and whether the shareholder a resident of Germany or abroad. For details of the German withholding tax and the possible dispensation with or reduction of the German withholding tax pursuant to the applicable legislation or double tax treaty, please refer to "Appendix VI — Taxation in Germany" to the "Prospectus"

RESERVES

Details of the movements in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity on page 62 and Note 24 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Under German law, only the retained earnings shown on the individual financial statements of the Company prepared in accordance with Handelsgesetzbuch (also known as "HGB" and commonly translated as "German generally accepted accounting principles" in English) are available for distribution. As at 31 December 2010, the Company's available distributable reserves were €4.0 million.

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Details of the movements in intangible assets and the property, plant and equipment of the Group during the year are set forth in Notes 15 and 16 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Article or the German law which would oblige the Company to offer new shares on a pro rata basis to the existing Shareholders.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2010 are set out in note 36 to the consolidated financial statements.

DIRECTORS AND SUPERVISORY BOARD MEMBERS

The Directors and Supervisors of the Company since the 1 January 2010 and up to the date of this annual report have been:

Directors

Mr. Peter BRENNER *(Chief Executive Officer)*
Mr. Kyung Seok CHAE
Mr. Sung Yoon KIM (released on 17 March 2010)
Mr. Kyung Hwan YEO (appointed on 17 March 2010 and released on 11 June 2010)
Dr. Sung Su HAN (appointed on 1 Sept 2010)

Supervisors

Mr. Jung Hyun OH *(Chairman)*
Mr. Suk Whan CHANG (resigned on 11 June 2010)
Mr. Jeong Ghi KOO *(Vice Chairman)*
Mr. Min Koo SOHN (appointed on 11 June 2010)

Independent Supervisors

Mr. Choong Min LEE
Mr. Kiyoung SHIN
Mr. Kun Hwa PARK (resigned on 11 June 2010)
Mr. Bang Seon KO (appointed on 11 June 2010)

CHANGES IN THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

(a) Changes in the Management Board

On 17 March 2010, the Management Board was informed by the Supervisory Board that Mr. Sung Yoon KIM was released from his position as a Director and the chief financial officer during a Supervisory Board meeting held on the day. On 7 July 2010, the Company agreed with Mr. Sung Yoon KIM on the amount of the compensation payment, amounting to €343,200.

On 17 March 2010, the Management Board was informed by the Supervisory Board that Mr. Kyung Hwan YEO had been appointed as a Director and the chief financial officer of the Company with effect from 17 March 2010. Mr. Kyung Hwan YEO's appointment was subject to the approval from the shareholders in the Company's AGM held on 11 June 2010. However, the resolution for Mr. Kyung Hwan YEO's appointment as a Director and the chief financial officer was not approved in the AGM. During the Supervisory Board meeting held immediately after the AGM, Mr. Kyung Hwan YEO was released from his position as a Director and the chief financial officer of the Company.

On the EGM held on 31 August 2010, the shareholders approved the appointment of Dr. Sung Su HAN as a Director and the chief operation officer of the Company effective from 1 September 2010.

Brief biographical information of Mr. Kyung Hwan YEO, Mr. Sung Yoon KIM and Dr. Sung Su HAN is set out in pages 37 to 38 of the annual report. The summarized terms of the service contracts the Company entered with Mr. Kyung Hwan YEO, Mr. Sung Yoon KIM and Dr. Sung Su HAN are set out in the compensation report in pages 23 to 25.

(b) Changes in the Supervisory Board

Mr. Kun Hwa PARK was appointed as the Company's Independent Supervisor on 2 December 2009 and resigned from his position effective from 11 June 2010 aiming to delegate more of his time to his other business engagements.

Following Mr. Kun Hwa PARK's resignation, Mr. Bang Seon KO was appointed as the Company's Independent Supervisor on 11 June 2010 to fill the vacancy.

Mr. Suk Whan CHANG was appointed as a member and the vice chairman of the Supervisory Board on 27 August 2008. He resigned from his positions effective from 11 June 2010 upon the request of the controlling shareholder in order to allow the Company to appoint a new Supervisory Board member who may be able to contribute and devote more time and attention to the supervision of the Company.

Following Mr. Suk Whan CHANG's resignation, Mr. Min Koo SOHN was appointed as a member of the Supervisory Board on 11 June 2010 to fill the vacancy, and Mr. Jeong Ghi KOO was appointed as the vice chairman of the Supervisory Board on the same day.

DIRECTORS' SERVICE CONTRACTS

None of the Directors and Supervisors proposed for re-election at the forthcoming annual general meeting has entered with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SUPERVISORS

Brief biographical information of the Directors and Supervisors is set out in the "Biographical Information of Directors, Supervisors and Senior Management" section on pages 37 to 40.

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

None of the Directors of the Company was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Mr. Jung Hyun OH, one of the Supervisors, holds approximately 15.45% interests in the shares of SSCP and is the CEO of SSCP, the Company's ultimate holding company. SSCP, among other businesses it engages in, is also engaged in the mobile handsets and consumer electronic coating manufacturing business in Korea ("SSCP Coatings Business"). SSCP Coatings Business, to certain extent, overlaps with Schramm's business of coating products for general industry in the markets outside of Korea. SSCP is considered to be in a competing business to Schramm despite the fact that Schramm's mobile handsets and consumer electronic businesses are not predominately based in Korea. As mentioned in the Prospectus, SSCP and Mr. OH, among the others, entered into a deed of non-competition in favor of the Company, pursuant to which each of them has undertaken to the Company (for itself and for the benefit of its subsidiaries) that (a) it shall not, and shall procure that its/his associates (other than Schramm) shall not, during the restricted period set out below, directly or indirectly, either on its/his own account or in conjunction with or on behalf of any business or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) business which is or may be in competition with the business ("Business") of any member or Schramm from time to time ("Restricted Activity") and (b) in the event that either SSCP or Mr. OH intends to transfer the whole or part of the SSCP Coating Business to any third parties, the Company has the right of first refusal to acquire the same on terms and conditions no less favorable than those offered to the third party, provided that there shall be no restriction on any of them holding or being interested in shares or other securities in any company which conducts or is engaged in any Restricted Activity (the "Subject Company") if:

(i) such shares or securities are listed on a stock exchange and the aggregate number of shares held by SSCP or/and Mr. OH and/or their associates does not exceed 5% of the issued share capital of the Subject Company and that is a holder (together where appropriate, with its associates) holding a larger shareholding in the Subject Company than the aggregate shareholding held by SSCP or/and Mr. OH or/and its/his associates at all times; and

(ii) they shall not appoint directly or indirectly any executive director in the Subject Company.

The deed of non-competition does not prohibit SSCP and its relevant subsidiaries from carrying on the SSCP Retained Business being carried by the respective member of SSCP Group as at the date of the deed of non-competition. Further details of the deed of non-competition is set out in the Prospectus.

DIRECTORS' INTEREST IN SECURITIES

As at 31 December 2010, the interests and short positions of the Directors, Supervisors and chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company under section 352 of the SFO or as notified to the Company and the HKSE pursuant to the Model Code for Securities Transaction by Directors of Listed Issues ("Model Code") were as below:

Name of Director/ Supervisor	Nature of interest	Number and class of securities (1)	Approximate percentage of interest in the Company
Mr. Jung Hyun OH	Interest in controlled corporation (2)	2,328,848 shares	11.70%
Mr. Kyung Seok CHAE	Beneficial Interest	11,280 shares	0.06%

Notes:

(1) All interests disclosed above represent long position in the respective Shares.

(2) Mr. OH, a Supervisor, was interested in exchangeable bonds through STM Corporation Co., Ltd., a company wholly-owned by Mr. OH, which upon exchange of the exchange rights in full, were exchangeable into approximately 2,328,848 Shares.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2010, the interests and short positions of every persons, other than Directors, Supervisors or chief executive of the Company, in the shares and underlying shares of the Company, which would require to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register maintained and kept by the Company under section 336 of the SFO were as below:

Name of Shareholder	Nature of interest	Number and class of securities(1)	Approximate percentage of interest in the Company
SSCP Co., Ltd.	Beneficial interest(2)	7,900,000 Shares (L)	39.69%
		1,091,568 Shares (S)	5.48%
	Interest in controlled corporation(3)	4,385,000 Shares (L)	22.03%
		4,385,000 Shares (S)	22.03%
	Interest in controlled corporation(4)	1,750,000 Shares (L)	8.79%
The Humble Humanity Ltd.	Beneficial interest(5)	4,385,000 Shares (L)	22.03%
		4,385,000 Shares (S)	22.03%
SSCP Holdings (Hong Kong) Limited	Beneficial interest	1,750,000 Shares (L)	8.79%
STM Corporation Co., Ltd.	Beneficial interest (6)	2,328,848 Shares (L)	11.70%

Notes:

(1) The letter "L" denotes the person's long position in such Shares and the letter "S" denotes the person's short position in such Shares.

(2) SSCP and its controlled corporations were deemed to be interested in a total of 14,035,000 Shares, representing approximately 70.51% of interest in the Company. Pursuant to the Exchangeable Bonds Subscription Agreements, in case The Humble Humanity Ltd. ("Humble Humanity") being the issuer of this exchangeable bonds, does not have sufficient number of Shares to be delivered to such exchangeable bondholders, Humble Humanity will, or will cause SSCP to, immediately deposit such number of additional Shares as may be required to be delivered to the exchangeable bondholders exercising the exchange right. Pursuant to the terms and conditions of the exchangeable bonds, SSCP will be required to deliver an aggregate of 1,091,568 Shares for the shortfall of the exchange Shares.

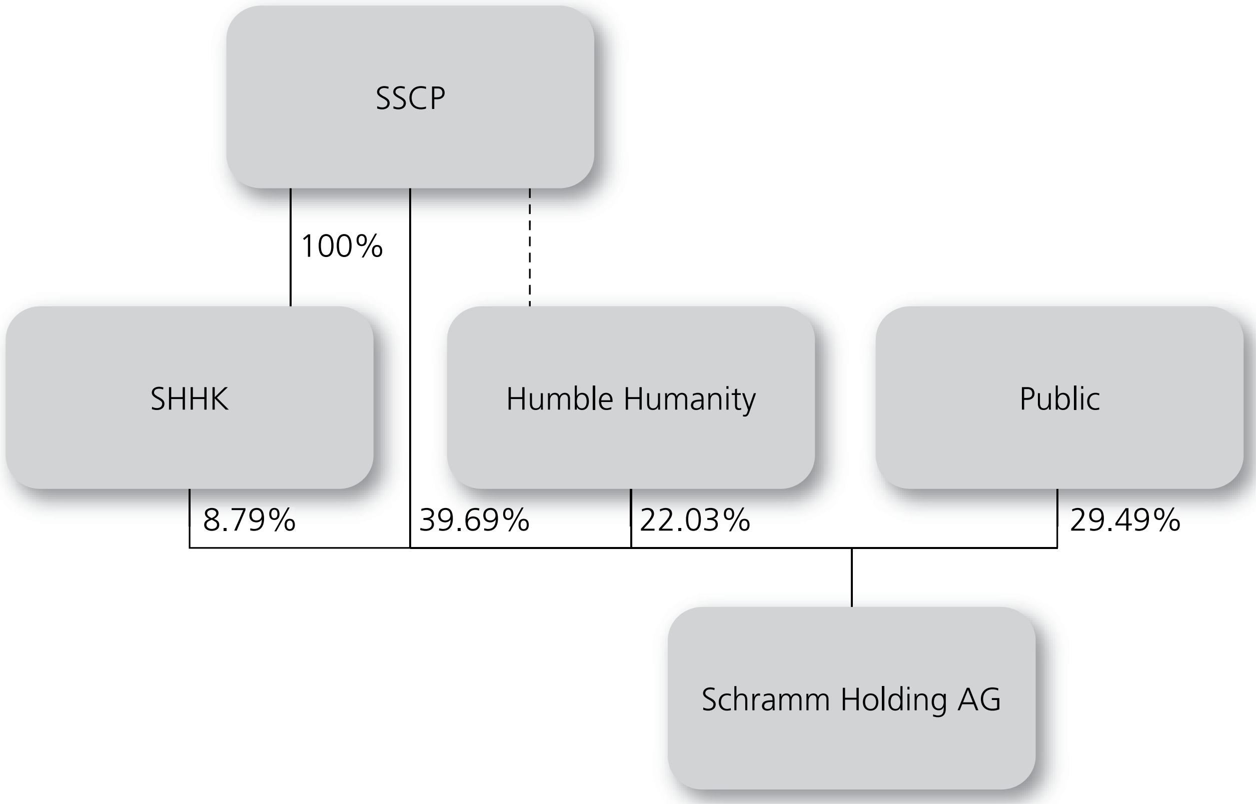
(3) These Shares were held by Humble Humanity, being the issuer of the exchangable bonds, which was indirectly controlled by SSCP.

(4) These Shares were held by SSCP Holdings (Hong Kong) Limited, a wholly-owned subsidiary of SSCP.

(5) Humble Humanity, as the issuer of the exchangeable bonds, was under an obligation to deliver the exchange Shares to the exchangeable bondholders. Pursuant to the terms and conditions of the exchangeable bonds, Humble Humanity will be required to deliver all of the Shares held by it in the event that the exchange rights are exercised in full (with the shortfall of the exchange Shares being delivered by SSCP).

(6) STM Corporation Co., Ltd. was interested in exchangeable bonds, which upon exercise of the exchange rights in full, are exchangeable into approximately 2,328,848 Shares.

The following chart sets out the shareholding structure of the Company as at 31 December 2010:



EXCHANGEABLE BONDS

On 1 December 2008, Humble Humanity, as the issuer, entered into four exchangeable bond subscription agreements (together with the amendment agreements dated 23 January 2009 and 10 April 2009, and bond conditions agreements dated 23 January 2009 and 10 April 2009, the "Exchangeable Bond Subscription Agreements") with E*Trade Korea Co., Ltd. and KDB Asia Limited collectively as joint lead arrangers (the "Arrangers"). Mr. OH act as the guarantors under the Exchangeable Bonds Subscription Agreements. Pursuant to the Exchangeable Bonds Subscription Agreements, Humble Humanity issued to the Arrangers zero coupon guaranteed exchangeable bonds due 2010 in an aggregate principal amount of US$16,939,200 and HK$26,460,000 (approximately HK$157,738,800 in aggregate). Upon exercise in full of the exchange rights attaching to the exchangeable bonds, the exchangeable bonds are exchangeable into approximately 5,476,568 Shares. Pursuant to the Exchangeable Bonds Subscription Agreements, in case Humble Humanity does not have sufficient number of Shares to be delivered to such exchangeable bondholders, Humble Humanity will, or will cause SSCP to, immediately deposit such number of additional Shares as may be required to be delivered to the exchangeable bondholders exercising the exchange right. Further details of the exchangeable bonds issued by Humble Humanity are set out in the Prospectus.

SHARE CAPITAL

Details of the movements of share capital of the Company during the year are set out in Note 23 to the consolidated financial statements.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than those disclosed above, at no time of the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, Supervisors or chief executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed in the announcement of the Company dated 21 June 2010 relating to Schramm's acquisition of certain interests in Inlustra from SSCP, a company in which Mr. OH, a Supervisor, is interested in its shares, there was no contract of significance in relation to Schramm's business, to which the Company's or any of its subsidiaries was a party, and in which a Director had, whether directly or indirectly, a material interest subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of Schramm was entered into or existed during the year.

CONNECTED TRANSACTIONS

During the year, Schramm entered into the following connected transactions:

A. Non-Exempt Continuing Connected Transactions

The following transactions were regarded as continuing connected transactions non-exempted from reporting, announcement and independent shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

1. *The Toll Manufacturing Agreement with SSCP*

The Company and SSCP entered into a Toll Manufacturing Agreement on 10 December 2009 for a term of three years commencing from the Listing Date. Under the Toll Manufacturing Agreement,

(i) Schramm supplies raw materials and intermediary goods to SSCP for the production of coatings products (including the license of certain know-how and technology rights by Schramm to SSCP Group at nil consideration for the manufacturing process); and

(ii) SSCP sells the coatings products manufactured under the Toll Manufacturing Agreement to Schramm for distribution and sales to Schramm's customers in Korea. The prices of the coatings products supplied by SSCP shall be determined on a cost-basis within the tax legal boundaries having regard to the total raw material costs, delivery costs, manufacturing costs (excluding depreciation and selling, general and administrative costs) incurred by SSCP in the manufacturing of the coatings products.

SSCP, the controlling shareholder and its associates are connected persons by virtue of Rule 14A.11(4) for the purpose of Chapter 14A of the Listing Rules. The annual cap for the supply of raw materials and intermediary goods by Schramm under the Toll Manufacturing Agreement is €800,000 (2009: €600,000) (the "Toll Sales Cap") and the annual cap for purchasing from SSCP under the Toll Manufacturing Agreement is €11,000,000 (2009: €6,500,000) (the "Toll Purchase Cap") for the year ended 31 December 2010.

During the year, Schramm sold raw materials and intermediary goods amounting to €630,000 (2009: €279,000) and purchased coatings products amounted to €10,981,000 (2009: €6,189,000) under the Toll Manufacturing Agreement.

2. *The Master Purchase Agreement with SSCP*

Schramm entered into an agreement with SSCP on 10 December 2009 (the "Master Purchase Agreement") to source certain raw materials, intermediate goods and commodities from SSCP Group as these raw materials, intermediary goods and commodities are available in Korea at lower prices compared with direct purchase from Europe, taking into account of the lower transportation cost of such materials from Korea to the PRC and Thailand as compared to purchase from Europe.

The prices of the raw materials, intermediary goods and commodities are determined on arm's length negotiation, at the lower of the prices offered by independent third parties and the SSCP Group's acquisition costs plus a maximum margin of 10% under the Master Purchase Agreement.

SSCP, the controlling shareholder and its associates are connected persons by virtue of Rule 14A.11(4) for the purpose of Chapter 14A of the Listing Rules. The annual capped purchase amount under the Master Purchase Agreement for the year ended 31 December 2010 is €7,500,000 (2009: €6,300,000). During the year, Schramm purchased raw materials, intermediary goods and commodities amounting to €4,961,000 (2009: €4,023,000).

3. The Master Sales Agreement with SSCP

Schramm supplies raw materials, intermediary goods and coatings products to SSCP Group, which are on-sold by SSCP Group to its own customers. Since SSCP is engaged in the coating industry, SSCP's customers may from time to time require certain raw materials or intermediary goods for their own production process. The Company and SSCP entered into an agreement on 10 December 2009 (the "Master Sales Agreement") for a term of three years commencing from the Listing Date. The prices of the raw materials, intermediary goods and coatings products Schramm sells under the Master Sales Agreement are determined based on arm's length negotiation based on market prices and having regard to the original purchase costs of raw materials and intermediary goods, and quantity, specifications and/or other conditions of coatings products to be offered.

SSCP, our controlling shareholder and its associates are connected persons by virtue of Rule 14A.11(4) for the purpose of Chapter 14A of the Listing Rules.

The annual capped sales amount under the Master Sales Agreement for the year ended 31 December 2010 amounted to €1,200,000 (2009: €630,000). During the year, Schramm sold raw materials, intermediary goods and coatings products amounting to €194,000 (2009: €283,000) under the Master Sale Agreement.

B. Continuing Connected Transactions Exempt from the Independent Shareholders' approval requirements

The following transactions were regarded as continuing connected transactions exempt from the independent shareholders' approval requirements, but subject to the reporting and announcement requirements under Rule 14A.34 of the Listing Rules.

1. The Qunno Purchase Agreement

Schramm purchases aluminum paste (a raw material used in Schramm's production process) of different specifications and quality from various suppliers and one of our aluminum paste supplier is Qunno. The Company and Qunno entered into an agreement on 10 December 2009 (the "Qunno Purchase Agreement") for a term of three years commencing from the Listing Date. The price of the aluminum paste should be determined on normal commercial terms based on arm's length negotiation based on market prices and having regard to the quantity, specifications and/or other conditions of the aluminum paste to be offered.

Qunno is indirectly owned as to approximately 57% by Mr. OH, a Supervisor. Pursuant to the Listing Rules, Mr. OH, being a Supervisor, is a connected person of the Company and accordingly, Qunno, as an associate of Mr. OH, is a connected person of the Company by virtue of Rule 14A.11(4) of the Listing Rules.

The annual capped purchase amount under the Qunno Purchase Agreement for the year ended 31 December 2010 is €300,000 (2009: €131,000). During the year, Schramm's total purchase amount under the Qunno Purchase Agreement was €256,000 (2009: €129,000).

2. *SAP License Agreement with SSCP*

Schramm's PRC subsidiaries and SSCP principally share an information technology system, including the SAP platform. The PRC subsidiaries of the Company have entered into sub-licensing agreements with SSCP for the user right to the SAP platform (the "SAP License Agreement"). Pursuant to the SAP License Agreement, SSCP sub-licenses the user right of the SAP platform to the PRC subsidiaries at a license fee determined according to the number of licenses having the right to use the SAP platform.

SSCP, the controlling shareholder and its associates are connected persons by virtue of Rule 14A.11(4) for the purpose of Chapter 14A of the Listing Rules.

The annual capped sub-licensing fee amount for the year ended 31 December 2010 is US$407,000 (approximately €307,000) (2009: US$330,000 (approximately €249,000)) and the aggregated sub-licensing fees paid by Schramm to SSCP during the year was US$14,000 (approximately €10,000) (2009: US$26,000 (approximately €17,000)).

WAVIER GRANTED BY THE HKSE

The connected transactions set out in above, as disclosed, are subject to either (a) reporting, announcement and independent shareholders' approval or (b) reporting and announcement requirements under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.42(3) of the Listing Rules, the Company has applied to the HKSE, and the HKSE has granted (i) a waiver from strict compliance with the announcement requirements and independent shareholders' approval requirements under Rules 14A.47 and 14A.48 of the Listing Rules in connection with the Toll Manufacturing Agreement, the Master Purchase Agreement and the Master Sales Agreement for a period of three years, on the condition that the annual transaction amounts under each of these agreements do not exceed the respective caps provided therein; and (ii) a waiver from strict compliance with the announcement requirements under Rule 14A.47 in connection with the Qunno Purchase Agreement and the SAP License Agreement for the period of three years, on the condition that the annual transaction amounts under each of these agreements do not exceed the respective caps provided therein.

The Supervisory Board (including the Independent Supervisors) and the Directors have reviewed and confirmed that the above-mentioned agreements have been entered into:

(i) in the ordinary and usual course of the business of Schramm;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreements governing them and on terms that are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

The Directors are further of the opinion that the caps for the above-mentioned transactions are arrived at after due and careful consideration and are fair and reasonable.

The auditors of the Company have performed certain agreed-upon-procedures and reported their findings as to whether the continuing connected transactions entered into by Schramm set out above for the year ended 31 December 2010:

(i) have received the approval of the Company's Supervisory Board;

(ii) were in accordance with the pricing policies of Schramm (in relation to the transactions involving provision of goods and services by Schramm);

(iii) have been entered into in accordance with the relevant terms of the agreements governing the transactions; and

(iv) have not exceeded the relevant cap amounts.

As Mr. OH and Mr. KOO have interests in the transactions involving SSCP, and Mr. OH and Mr. CHANG have interests in the transactions involving Qunno, they abstained from physically attending meetings or voting on any such board resolution approving the relevant transactions.

Saved as disclosed above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirement of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

BANK LOANS AND OTHER BORROWINGS

Details of Schramm's bank loans and other borrowings as at 31 December 2010 are set out in Note 27 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregates sales to the five largest customers of Schramm accounted for approximately 20.4% of Schramm's total revenue and sales to Schramm's largest customer accounted for approximately 7.6% of Schramm's total revenue for the year 2010. The aggregate purchases from the five largest suppliers of Schramm accounted for approximately 49.5% of Schramm's total purchases and purchases from Schramm largest supplier accounted for approximately 23.3% of Schramm's total purchases for the year 2010.

SSCP, the ultimate holding company of the Company, is Schramm's largest supplier.

Saved as disclosed above, none of the Directors, their associates, or any Shareholder which to the knowledge of the Directors own more than 5% of the Company's issued share capital has any interest in Schramm's five largest customers or Schramm's five largest suppliers.

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of Schramm are set out in Note 25 to the consolidated financial statements.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of this annual report, there was sufficient prescribed public float of the issued share of the Company under the Listing Rules.

AUDITORS

The 2009 financial statements were audited by PwC. A resolution to reappoint PwC as the Company's auditors was not passed in the AGM. At the AGM, a resolution was passed to appoint Messrs. Deloitte Touche Tohmatsu as the Company's auditors for the year ended 31 December 2010.

The financial statements for the requirements of the Listing Rules were audited by Deloitte Touche Tohmatsu and the financial statements for Germany statutory requirements will be audited by Deloitte & Touche GmbH Wirtschaftsprufungsgesellschaft. Deloitte Touche Tohmatsu will retire and, being eligible, offer themselves for re-appointment. Deloitte & Touche GmbH Wirtschaftsprufungsgesellschaft will offer themselves for re-appointment. A resolution for the re-appointment of Deloitte Touche Tohmatsu and Deloitte & Touche GmbH Wirtschaftsprufungsgesellschaft as auditors of the Company is to be proposed at the forthcoming annual general meeting.

For and on behalf of the Management Board

Peter BRENNER **Kyung Seok CHAE** **Sung Su HAN**

Hong Kong
17 March 2011

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF SCHRAMM HOLDING AG
星亮控股股份公司
(A joint stock company incorporated under laws of Germany)

We have audited the consolidated financial statements of Schramm Holding AG (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 59 to 109, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 the directors, 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 give a true and fair view of the state of affairs of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2009 were audited by another auditor who expressed an unmodified opinion on those statements on 17 March 2010.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

17 March 2011

Consolidated Income Statement

for the year ended 31 December 2010

	Notes	**2010 €'000**	2009 €'000
Revenue	32	**115,304**	98,526
Other operating income	5	**643**	591
Changes in inventories of finished goods and work-in-progress		**3,361**	(823)
Cost of materials	6	**(67,964)**	(53,061)
Employee benefit expenses	7	**(21,940)**	(19,965)
Depreciation and amortization	8	**(3,363)**	(3,337)
Other operating expenses	8	**(17,165)**	(14,627)
Other gains, net	9	**1,040**	253
Core operating profit		**9,916**	7,557
Non-core operating expenses	10	**(950)**	—
Earnings before interests and taxes		**8,966**	7,557
Finance income	11	**53**	30
Finance costs	11	**(1,521)**	(1,587)
Profit before income tax		**7,498**	6,000
Income tax expense	12	**(2,712)**	(1,537)
Profit for the year attributable to owners of the Company		**4,786**	4,463
Earnings per share			
— basic and diluted (€ per share)	13	**€0.24**	€0.33

The notes on pages 64 to 109 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	Note	**2010 €'000**	2009 €'000
Profit for the year attributable to owners of the Company		**4,786**	4,463
Exchange differences arising on the translation of the Company's foreign operations	24	**2,930**	(492)
Other comprehensive income for the year		**2,930**	(492)
Total comprehensive income attributable to owners of the Company		**7,716**	3,971

The notes on pages 64 to 109 are an integral part of these financial statements.

Consolidated Statement of Financial Position

as at 31 December 2010

	Notes	2010 €'000	2009 €'000
ASSETS			
Non-current assets			
Intangible assets	15	**4,039**	2,829
Property, plant and equipment	16	**24,598**	24,831
Land use rights	17	**1,079**	548
Other receivables and prepayments	19	**43**	343
Deferred tax assets	29	**1,827**	2,393
		31,586	30,944
Current assets			
Inventories	20	**19,931**	15,689
Trade and bills receivables	21	**30,532**	30,075
Other receivables and prepayments		**2,035**	3,694
Income tax recoverable		**—**	137
Cash and cash equivalents	22	**4,782**	14,226
		57,280	63,821
Asset held for sale	18	**1,176**	—
		58,456	63,821
Total assets		**90,042**	94,765
EQUITY			
Capital and reserves			
Issued capital	23	**19,905**	19,905
Additional paid-in capital	23	**24,921**	24,921
Other reserves	24	**(12,561)**	(15,491)
Retained earnings		**22,064**	18,671
		54,329	48,006
LIABILITIES			
Non-current liabilities			
Pensions and similar obligations	25	**1,110**	1,140
Provisions	26	**225**	721
Financial liabilities	27	**17,292**	17,406
Deferred tax liabilities	29	**2,037**	2,028
		20,664	21,295
Current liabilities			
Trade and other payables	28	**8,084**	13,109
Provisions	26	**2,331**	1,342
Financial liabilities	27	**3,746**	10,393
Income tax liabilities		**888**	620
		15,049	25,464
Total liabilities		**35,713**	46,759
Total equity and liabilities		**90,042**	94,765
Net current assets		**43,407**	38,357
Total assets less current liabilities		**74,993**	69,301

The notes on pages 64 to 109 are an integral part of these financial statements.

Director *Director* *Director*

Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

	Capital and reserves attributable to owners of the Company				
	Issued capital €'000	Additional paid-in capital €'000	Retained earnings €'000	Other reserves (Note 24) €'000	Total equity €'000
As at 1 January 2009	13,155	12,284	14,208	(7,694)	31,953
Profit for the year	—	—	4,463	—	4,463
Other comprehensive income for the year	—	—	—	(492)	(492)
Total comprehensive income for the year	—	—	4,463	(492)	3,971
Distribution to previous shareholders of subsidiaries (Note 24(c))	—	—	—	(7,305)	(7,305)
Issuance of shares for acquisition of a subsidiary (Note 23(b))	1,750	5,940	—	—	7,690
Issuance of shares for cash (Note 23(c))	5,000	11,450	—	—	16,450
Share issuance costs charged to equity	—	(4,753)	—	—	(4,753)
As at 31 December 2009	**19,905**	**24,921**	**18,671**	**(15,491)**	**48,006**
Profit for the year	**—**	**—**	**4,786**	**—**	**4,786**
Other comprehensive income for the year	**—**	**—**	**—**	**2,930**	**2,930**
Total comprehensive income for the year	**—**	**—**	**4,786**	**2,930**	**7,716**
Dividend paid	**—**	**—**	**(1,393)**	**—**	**(1,393)**
As at 31 December 2010	**19,905**	**24,921**	**22,064**	**(12,561)**	**54,329**

The notes on pages 64 to 109 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2010

	Note	2010 €'000	2009 €'000
Operating activities			
Cash generated from operations	31	**6,716**	10,638
Interest paid		**(1,413)**	(1,587)
Interest received		**53**	30
Income tax paid		**(1,692)**	(768)
Net cash generated from operating activities		**3,664**	8,313
Investing activities			
Proceeds from disposals of property, plant and equipment		**70**	153
Payments for intangible assets, property, plant and equipments and land use right		**(4,165)**	(2,407)
Purchase of interest In Inlustra		**(1,176)**	—
Net cash used in investing activities		**(5,271)**	(2,254)
Financing activities			
Proceeds from issuance of additional capital, net of share issuance costs		**—**	10,566
Distribution to previous shareholder of a subsidiary		**—**	(298)
Payments for finance lease		**(190)**	(192)
Proceeds from borrowings		**9,110**	24,900
Repayments of borrowings		**(15,758)**	(28,497)
Dividend paid		**(1,393)**	—
Net cash (used in)/generated from financing activities		**(8,231)**	6,479
(Decrease)/increase in cash and cash equivalents		**(9,838)**	12,538
Cash and cash equivalents at 1 January		**14,226**	2,045
Effect of exchange rate changes on the balance of cash held in foreign currencies		**394**	(357)
Cash and cash equivalents at 31 December		**4,782**	14,226

The notes on pages 64 to 109 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

Schramm Holding AG (the "Company") and its subsidiaries (together the "Group") is a formulator and manufacturer of customized paints and coatings for plastic and metal surfaces in automotive, mobile phone and customer electronics.

The Company was incorporated in Germany as a limited partnership (Kommanditgesellschaft) on 24 October 1985 under the name of "Grebe GmbH & Co. KG". On 26 June 2000, the Company was converted from a limited partnership to a limited company (GmbH) and changed its name to "Schramm Coatings GmbH" by way of "transformation" German legal process. On 21 November 2008, the Company was further converted to a joint stock company (AG) and changed its name to "Schramm Holding AG".

The Company has been registered in the commercial register of the Offenbach/Main Local Court (Amtsgericht Offenbach/Main) under HRB no. 43749. The address of its registered office is Offenbach, Kettelerstraße 100, Germany. On 29 December 2009, the Company completed its initial public offering and the shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE"). These consolidated financial statements have been approved for issue by the Management Board and the Supervisory Board on 17 March 2011.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). They have also been prepared in accordance with IFRS as adopted by the EU as all Standards and Interpretations that have been effective in 2010 have been endorsed by the EU and the Group has not early adopted any standards or interpretations that are not yet effective and have not yet been endorsed by the EU. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative instruments at fair value. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.2 Reorganization

As mentioned in the Prospectus and the annual financial statements for the year ended 31 December 2009, the Group had undergone certain reorganizations in preparation of the listing of the shares of the Company.

As part of these reorganizations, Schramm Hong Kong acquired Schramm Tianjin and Schramm Thailand from SBHK (as of the date of this report, SBHK has changed its name and is also known as "SHHK" in the other parts of this report) in August 2009. These acquisitions were considered as transactions under common control.

The same basis was used in the preparation of the annual financial statements for the year ended 31 December 2009. For further details on the reorganization, please refer to the Prospectus and the annual financial statements for the year ended 31 December 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those financial statements.

The following new standards and amendments are mandatory for the first time for the financial year beginning 1 January 2010. The adoptions of these standards do not have material impact on the results and financial position of the Group.

IFRSs (Amendments)	Amendment to IFRS 5 as part of Improvements to IFRSs issued in 2008
IFRSs (Amendments)	Amendments to IFRS 5, IAS 1 and IAS 7 as part of the Improvements to IFRSs issued in 2009
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 39 (Amendments)	Eligible Hedged Items
IFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (Revised)	Business Combinations
IFRIC 17	Distributions of Non-cash Assets to Owners

Amendments to IAS 17 "Leases"

As part of Improvements to IFRSs issued in 2009, IAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to IAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to IAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in IAS 17, that is, whether or not substantially all risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to IAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. The Group does not have any leasehold land that qualifies for finance lease classification.

The Group has not early applied the following new and revised Standards, Amendments to Standards and Interpretations that have been issued but are not yet effective.

IFRSs (Amendments)	Improvements to IFRSs issued in May 2010[1]
IAS 12 (Amendments)	Deferred tax: Recovery of Underlying Assets[6]
IAS 24 (Revised)	Related Party Disclosures[2]
IAS 32 (Amendments)	Classification of Rights Issues[3]
IFRS 7 (Amendments)	Disclosures — Transfer of Financial Assets[7]
IFRS 9	Financial Instruments[5]
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement[2]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[4]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate, not yet endorsed by EU
2 Effective for annual periods beginning on or after 1 January 2011
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010, not yet endorsed by EU
5 Effective for annual periods beginning on or after 1 January 2013, not yet endorsed by EU
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 July 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Accounting policies (Continued)

The impact on the adoptions of the above new standards, revisions and interpretations is being reviewed. The impact is anticipated to be immaterial on both the results and the financial position of the Group except for IFRS 9, for which the Company needs time to evaluate the potential impact.

2.4 Basis consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

2.5 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board that makes strategic decisions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Euros ("EURO" or "€"), which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement.

All foreign exchange gains and losses are presented in the consolidated income statement within "other gains, net".

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;

— income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations is taken to other comprehensive income.

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in the translation reserve.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Freehold land is not amortized. Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings and leasehold improvements	20 to 40 years
Technical equipment and machinery	4 to 10 years
Motor vehicles, furniture and other office equipment	3 to 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains, net" in the consolidated income statement.

2.8 Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "Intangible assets". Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units ("CGUs") or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(ii) Research and development costs

Costs associated with research activities are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable assets controlled by the Group are recognized as intangible assets when the following criteria are met:

(a) it is technically feasible to complete the product so that it will be available for use;

(b) management intends to complete the product and use or sell it;

(c) there is an ability to use or sell the product;

(d) it can be demonstrated how the product will generate probable future economic benefits;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Intangible assets (Continued)

(ii) Research and development costs (continued)

(e) adequate technical, financial and other resources to complete the development and to use or sell the product are available; and

(f) the expenditure attributable to the product during its development can be reliably measured.

Directly attributable costs that are recognized as part of the product include the product development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Product development costs recognized as assets are amortized over their estimated useful lives, which do not normally exceed four years.

(iii) Computer software

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of three to five years.

Costs associated with maintaining computer software programmes are recognized as an expense as incurred.

(iv) Club membership

Acquired club membership is shown as historical cost. Club membership that has a finite useful life is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of club membership over its estimated useful life.

Club membership that has an indefinite useful life is carried at cost less accumulated impairment losses.

2.9 Impairment of assets

Impairment losses on tangible and intangible assets other than goodwill

At the reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Impairment losses on goodwill

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. Loans and receivables (including trade and other receivables, cash and cash equivalents) are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any impairment.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable or is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

Impairment of financial assets (continued)

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

2.11 Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognized on an effective interest basis.

Financial liabilities

Financial liabilities including bank borrowings, trade and other payables, are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.12 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged.

Since the derivative instruments entered into by the Group do not qualify for hedge accounting, changes in the fair value of these derivative instruments are recognized immediately in the consolidated income statement within “other gains, net”.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Investment in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale (in which case it is accounted for under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*). Under the equity method, investments in associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

2.15 Assets held for sale

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

When the Group is committed to a sale plan involving loss of significant influence of an associate, all of the assets and liabilities of that associate are classified as held for sale when the criteria described above are met.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Employee benefits

(a) *Pension and similar obligations*

The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of value of plan assets or 10% of the present value of the defined benefit obligation are charged or credited to the consolidated income statement over the employees' expected average remaining working lives.

Past-service costs are recognized immediately in the consolidated income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

The employees of the Group located in the PRC are covered by the local municipal government-sponsored pension and medical benefit plans. The relevant government agencies are responsible for settling to the employees. The Group contributes to these pension and medical benefit plans on a monthly basis based on a percentage of the salaries of the employees. In respect of forfeited contributions paid by the Group on behalf of its employees who leave the pension plan prior to vesting fully in such contributions, such contributions may not be used by the Group to reduce the existing level of contributions. Under these plans, the Group has no legal or constructive obligation for the benefits beyond the contribution made. Contributions to these plans are expensed as incurred.

(b) *Employee leave entitlements*

Employee entitlements to annual leave are recognized when they accrued to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(c) *Termination benefits*

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Employee benefits (Continued)

(d) Profit-sharing and bonus plans

Provisions for profit sharing and bonus plans are recognized when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

2.21 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognized revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of goods

Sales of goods are recognized when a group entity has delivered products to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

(ii) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(iii) License fees income

Income from license fees is recognized on an accrual basis over time and in accordance with the substance of the relevant agreement.

2.23 Leases — as a lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made by the Group under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land use rights" in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis.

2.25 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Anti-dilutive potential ordinary shares are not considered in the calculation of the diluted earnings per share. Potential ordinary shares are anti-dilutive when the conversion in ordinary shares increases the earnings per share or decreases the net losses per share.

2.26 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.28 Core operating profit

Core operating profit is the recurring profit generating from the Group's core operating activities which excludes interests income, finance costs, taxes, material gain or loss which are of capital nature (such as revaluation gain or impairment losses on property plant and equipments, investment and goodwill) or non-recurring nature (such as restructuring costs).

3 FINANCIAL RISK MANAGEMENT

Categories of financial instruments

	2010 €'000	2009 €'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**37,349**	47,995
Financial liabilities		
Amortized cost	**28,175**	39,848

The Group operates mainly in Europe and Asia and its activities expose it to a variety of financial risks (including market risk, such as foreign exchange risk and interest rate risk; liquidity risk and credit risk) as part of its ordinary operating activities. The Group's overall risk management programme seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to mitigate certain risk exposures.

(i) Market risk

Market risk can be broken down into foreign exchange risk and interest rate risk.

(a) Foreign exchange risk

Exchange rate risk arises from future commercial transactions both on the purchase side from the purchase of raw materials as well as on the sales side from the sale of goods, recognized assets and liabilities in foreign operations.

Majority of the Group's subsidiaries conduct their transactions in their functional currencies. The Group's operations in Europe are located in the Euro zone and majority of the sales and purchases transactions are denominated in Euros. The Group's sales and purchases in Thailand are mainly denominated in Thailand Baht ("THB"). The Group's sales and purchases in the PRC are mainly denominated in Renminbi ("RMB") while certain purchases or sales are denominated in United States dollars ("USD") and Hong Kong dollars ("HK$").

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2010 €'000	2009 €'000	2010 €'000	2009 €'000
USD	**2,647**	4,672	**315**	4,650
HK$	**25**	2,211	**—**	—
Japanese Yen ("JPY")	**13**	—	**131**	100

At 31 December 2010, if USD had weakened/strengthened by 5% against Euros and with all other variables held constant, post tax profit for the year ended 31 December 2010 would have been lower/higher by €117,000 (2009: €1,000), mainly as a result of foreign exchange gains/losses on translation of USD-denominated bank balances and trade receivables.

From time to time, management manages the foreign currency exposures and uses foreign currency contracts to hedge the foreign currency risk when consider appropriate. As at 31 December 2010, there was no outstanding foreign currency contracts.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Market risk (Continued)

(b) Interest rate risk

As the Group has no significant interest-bearing assets except for cash at bank, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The details of the Group's borrowings are set out in Note 27.

Majority of the Group's short-term borrowings were taken out at variable interest rate. As at 31 December 2010, the Group's borrowings at variable interest rate amounted to €2,590,000 (2009: €8,546,000). Part of the risks are managed through the use of interest rate swap contracts to hedge against its exposures to cash flow interest rate risk for the year ended 31 December 2009. As at 31 December 2010, there was no outstanding interest rate swap contracts.

The management adjusted the sensitivity rate from 200 basis points to 100 basis points for assessing interest rate risk after considering the financial market conditions in 2010 is less volatile.

If interest rates had been 100 basis points (2009: 200 basis points) higher/lower with other variables held constant, post tax profit for the year ended 31 December 2010 would have been lower/higher by €26,000 (2009: €171,000), mainly as a result of higher/lower interest expenses on variable rate borrowings.

For the year ended 31 December 2009, the above sensitivity analysis did not take into consideration the effect of a higher/lower interest rate on the fair value of the derivatives designed to manage the cash flow interest risk by using floating-to-fixed interest rate swaps. The fair value of these derivatives at period end was not material.

(ii) Liquidity risk

Liquidity risk is managed on the basis of cash flow planning and forecast. As part of liquidity risk management, the Group monitors its liquidity requirements arising from operating activities, from investing activities and from financing activities. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of credit facilities. Due to the dynamic nature of the underlying business, the Group aims to maintain flexibility in funding by keeping credit lines available.

The table below analyzes the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2010					2009				
	Up to 1 year €'000	**1 to 5 years €'000**	**More than 5 years €'000**	**Total undiscounted cash flows €'000**	**Carrying amount at the reporting date €'000**	Up to 1 year €'000	1 to 5 years €'000	More than 5 years €'000	Total undiscounted cash flows €'000	Carrying amount at the reporting date €'000
Non-derivative instruments										
Bank borrowings	**4,489**	**17,318**	**23**	**21,830**	**20,091**	10,745	17,400	24	28,169	26,739
Finance leases liabilities	**175**	**581**	**531**	**1,287**	**947**	183	620	675	1,478	1,060
Trade and other payables	**8,084**	**—**	**—**	**8,084**	**8,084**	13,109	—	—	13,109	13,109
	12,748	**17,899**	**554**	**31,201**	**29,122**	24,037	18,020	699	42,756	40,908
Derivatives net settlement										
Interest rate swap	**—**	**—**	**—**	**—**	**—**	198	—	—	198	198

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at the reporting dates in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

Credit risk is managed by reviewing the credit worthiness of customers before entering into transactions. The Group makes references to credit ratings from external credit agencies, if available. Payment terms and conditions are modified appropriately in response to any deterioration of the credit ratings of the customers.

The Group has established different credit terms for customers. The average credit period granted to trade debtors was 30 to 90 days. Occasionally, certain debtors enjoy a longer credit period. The Group reviews the recoverable amount of each individual debt at each reporting date, taking into account its financial position, past experience and other factors to ensure that adequate impairment loss is made for irrecoverable amounts.

The credit risk on deposits with banks is limited because the Group mainly places the deposits in banks with high credit rating and management does not expect any losses from non-performance by banks. Cash transactions are also limited to financial institutions with high credit quality.

The Group does not have significant exposure to any individual debtors or counterparties.

Occasionally, customer will settle after the credit period given. Management will consider various ways to handle the situation including suspension of supplies until settlement is made, taking legal action or requesting security.

(iv) Fair value

The fair value of derivative instruments are based on quoted prices from independent financial instruments or calculated using discounted cash flow analysis based on applicable yield curve derived from quoted interest rates.

The directors consider that the carrying amounts financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

(v) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated by dividing the total net borrowings with total capital.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(v) Capital risk management (continued)

The gearing ratios as at 31 December 2010 and 2009 were as follows:

	2010 €'000	2009 €'000
Total borrowings	**20,091**	26,739
Less: cash and cash equivalents	**(4,782)**	(14,226)
Net borrowings	**15,309**	12,513
Total equity	**54,329**	48,006
Total capital employed	**69,638**	60,519
Gearing ratio (i.e net borrowings/total capital employed)	**22.0%**	20.7%

A different calculation method of gearing ratio was used in the 2009 annual report, which was calculated as "net borrowings over the total capital employed". Management is of a view that the current calculation method is a method better accepted by the market enabling readers to make benchmark comparison with other comparable companies.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Useful lives of property, plant and equipment and intangible assets

The Group's management determines the estimated useful lives and related depreciation and amortization charges for its property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. Management will increase the depreciation and amortization charges where useful lives are less than previously estimated lives. It will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable and amortization lives and therefore depreciation and amortization expense in future periods.

(b) Impairment of non-financial assets

The Group tests annually whether goodwill has suffered any impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on the higher of value-in-use calculations and fair value less costs to sell. These calculations require the use of judgments and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate.

Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated income statement.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(c) Estimated provision for inventories

Inventories are written down to net realizable value based on an assessment of the realisability of inventories. Write- downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realized. The identification of write-downs requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

(d) Estimated impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of the receivables. Provisions are applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of receivables requires the use of judgment and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of receivables and loss for the impairment of receivable is recognized in the year in which such estimates have been changed.

(e) Income taxes and deferred income tax

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognized liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be required. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such estimates have been changed.

(f) Research and development costs

Critical judgment by the Group's management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgments are based on the best information available at each reporting date. In addition, all internal activities related to the research and development of new products is continuously monitored by the Group's management.

5 OTHER OPERATING INCOME

Other operating income are analyzed as follows:

	2010 **€'000**	2009 €'000
Licence fee income	**74**	30
Others	**569**	561
	643	591

6 COST OF MATERIALS

	2010 €'000	2009 €'000
Purchase of raw materials, supplies and goods	**67,354**	52,475
Other services	**610**	586
	67,964	53,061

For the year ended 31 December 2010, the cost of materials included write-down of inventories to their net realisable values of €245,000 (2009: €976,000).

7 EMPLOYEE BENEFIT EXPENSES

(a) Employee benefit expenses are analyzed as follows:

	2010 €'000	2009 €'000
Wages and salaries	**19,880**	17,480
Social security contributions	**2,122**	2,229
Pension costs	**468**	316
Other employee benefit expenses	**685**	570
	23,155	20,595
Less: Employee benefit expenses capitalized as development costs	**(1,215)**	(630)
	21,940	19,965

During the year ended 31 December 2010, compensation payment to a former director as a result of his early release of €343,000 (2009: nil) is included in non-core operating expenses in Note 10.

7 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(b) Directors' and supervisors' emoluments

The remuneration of every director and supervisor of the Company paid/payable by the Group for the year ended 31 December 2010 and 2009 in respect of their services provided to the Group is set out below:

	Fees €'000	Basic salaries, allowances and benefits in kind €'000	Retirement benefits schemes contributions €'000	Total €'000
For the year ended 31 December 2010				
Mr. Peter BRENNER	—	**808**	**44**	**852**
Mr. Kyung Seok CHAE	—	**378**	—	**378**
Mr. Sung Yoon KIM (released on 17 March 2010)	—	**114**	—	**114**
Mr. Kyung Hwan YEO (appointed on 17 March 2010 and released on 11 June 2010)	—	**53**	—	**53**
Dr. Sung Su HAN (appointed on 31 August 2010)	—	**82**	**15**	**97**
Supervisors:				
Mr. Jung Hyun OH	**20**	—	—	**20**
Mr. Suk Whan CHANG (resigned on 11 June 2010)	**7**	—	—	**7**
Mr. Jeong Ghi KOO	**13**	—	—	**13**
Mr. Kun Hwa PARK (resigned on 11 June 2010)	**4**	—	—	**4**
Mr. Choong Min LEE	**10**	—	—	**10**
Mr. Kiyoung SHIN	**10**	—	—	**10**
Mr. Min Koo SOHN (appointed on 11 June 2010)	**6**	—	—	**6**
Mr. Bang Seon KO (appointed on 11 June 2010)	**6**	—	—	**6**
For the year ended 31 December 2009				
Mr. Peter BRENNER	—	555	44	599
Mr. Kyung Seok CHAE	—	243	—	243
Mr. Sung Yoon KIM	—	134	—	134
Supervisors:				
Mr. Jung Hyun OH	4	—	—	4
Mr. Suk Whan CHANG	3	—	—	3
Mr. Jeong Ghi KOO	2	—	—	2
Mr. Kun Hwa PARK	2	—	—	2
Mr. Choong Min LEE	2	—	—	2
Mr. Kiyoung SHIN	2	—	—	2

There were no arrangement under which a director or a supervisor has waived or agreed to waive any emoluments for the years ended 31 December 2010 and 2009. On 17 March 2010, Mr. Sung Yoon KIM was released from his position as a director and the chief financial officer. On 7 July 2010, the Supervisory Board agreed with Mr. KIM on the compensation payment, amounting to €343,200, for his early release. Saved as disclosed above, there were no payments made for the years ended 31 December 2010 and 2009 to Directors and Supervisors as an inducement to join the Group or as compensation for loss of office.

7 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2010 and 2009 include 2 directors, whose emoluments are reflected in the analysis presented above.

The emoluments payable to the remaining 3 individuals during the years ended 31 December 2010 and 2009 are as follows:

	2010 €'000	2009 €'000
Wages and salaries, allowances and benefits in kind	**611**	657
Pension costs	**12**	2
	623	659

The emoluments of the remaining individuals fell within the following bands:

	2010	2009
HK$1,500,001 to HK$2,000,000 (2010: equivalent to €144,001 to €192,000; 2009: equivalent to €139,001 to €186,000)	**2**	1
HK$2,000,001 to HK$2,500,000 (2010: equivalent to €192,001 to €240,000; 2009: equivalent to €186,001 to €232,000)	**—**	1
HK$3,000,001 to HK$3,500,000 (2010: equivalent to €288,001 to €336,000; 2009: equivalent to €279,001 to €325,000)	**1**	1

(d) Average number of employees

The average number of employees for the Group is as follows:

	2010	2009
White collar	**566**	538
Blue collar	**225**	267
Total	**791**	805

8 DEPRECIATION, AMORTIZATION AND OTHER OPERATING EXPENSES

	2010 €'000	2009 €'000
Auditors' remuneration	**256**	241
Depreciation and amortization	**3,363**	3,337
Freight charges	**3,389**	2,952
Legal and consulting expenses	**1,445**	972
Energy and water costs	**1,529**	1,561
Repair and maintenance costs	**1,780**	1,258
Travelling expenses	**1,628**	1,337
Operating lease rental in respect of buildings, equipment and motor vehicles	**1,125**	1,220
Others	**6,013**	5,086
Total depreciation, amortization and other operating expenses	**20,528**	17,964

9 OTHER GAINS, NET

	2010 €'000	2009 €'000
Net foreign exchange gain	**967**	350
Loss on disposal of property, plant and equipment	**(12)**	(88)
Fair value losses on derivatives (Note 33)	**—**	(100)
Others	**85**	91
	1,040	253

10. NON-CORE OPERATING EXPENSES

	2010 €'000	2009 €'000
Compensation payment to a former director as a result of his early release	**343**	—
Legal and professional fee in relation to the restructuring of management board	**474**	—
Costs associated with the arrangement of the Extra-ordinary general meeting	**133**	—
Non-core operating expenses	**950**	—

11 FINANCE INCOME AND COSTS

	2010 €'000	2009 €'000
Finance income:		
Interest income on short-term bank deposits	**53**	30
Finance costs:		
Interest expense on bank borrowings wholly repayable within five years	**(1,384)**	(1,454)
Interest expense on finance lease liabilities	**(77)**	(79)
Net interest expense on pensions and similar obligations	**(60)**	(54)
	(1,521)	(1,587)
Finance costs, net	**(1,468)**	(1,557)

12 INCOME TAX EXPENSE

The amount of income tax charged to the consolidated income statement represents:

	2010 €'000	2009 €'000
Current income tax	**2,079**	1,746
Deferred tax (Note 29)	**633**	(209)
	2,712	1,537

The Company and Schramm Coatings GmbH are subject to the German corporate income tax, the solidarity surcharge as well as trade tax. The applicable tax rate for the year ended 31 December 2010 is 31% (2009: 31%).

12 INCOME TAX EXPENSE (CONTINUED)

Subsidiaries established in the PRC are subject to enterprise income tax of 25% except for Schramm Huizhou, which entitles to a tax rate of 12.5% (2009: 12.5%).

Schramm Huizhou is entitled to foreign enterprise income tax holiday of "2-year exemption and 3-year 50% reduction" commencing from its first profit making year which was 2007. Schramm Huizhou was entitled to tax exemption for 2008. In 2009 and 2010, it enjoys a 50% reduction of the statutory tax rate of 25%, i.e. 12.5%.

Schramm Tianjin was also entitled to foreign enterprise income tax holiday of "2-year exemption and 3-year 50% reduction" commencing from its first profit making year which was 2005, and accordingly it enjoys 50% reduction tax rate of 25% (i.e. 12.5%) in 2008 and 2009. The applicable tax rate for Schramm Tianjin is 25% in 2010.

Schramm Thailand is subject to the Thailand corporate income tax. The applicable tax rate for the years ended 31 December 2009 and 2010 is 30%.

The tax on the Group's profit before income tax for the years ended 31 December 2010 and 2009 differ from the theoretical amount that would arise using the German tax rates as follows:

	2010 **€'000**	2009 €'000
Profit before income tax	**7,498**	6,000
Tax calculated at the German tax rates	**2,324**	1,860
Effect of different assessment base for German trade tax	**6**	9
Effect of different taxation rates in other countries	**(304)**	(428)
Recognition of previously unrecognized tax losses	**(29)**	(249)
Expenses not deductible for taxation purpose	**659**	309
Income not subject to taxation	**(87)**	(70)
Others	**143**	106
Income tax expense	**2,712**	1,537
The weighted average applicable tax rate in %	**36.2%**	25.6%

13 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2010	2009
Profit for the year attributable to owners of the Company (€'000)	**4,786**	4,463
Weighted average number of shares in issue (thousand of shares)	**19,905**	13,682
Basic earnings per share (€)	**0.24**	0.33

Diluted earnings per share equals to basic earnings per share as there was no outstanding share options or warranties on other instruments that would have a dilutive impact during both years.

14 DIVIDEND

	2010 €'000	2009 €'000
Proposed final cash dividend of nil (2009: €0.07) per share	—	1,393

The Management Board originally considered proposing a dividend of €0.7 per share for the year ended 31 December 2010. After due consideration and consultation with the Chairman of the Supervisory Board and having in mind the cash requirements for financing the further development of the Group, the members of the Supervisory Board and Management Board unanimously resolved to recommend at the upcoming Annual General Meeting to pay out no dividend for the year ended 31 December 2010.

15 INTANGIBLE ASSETS

Year ended 31 December 2009

	Goodwill €'000	Computer software €'000	Development costs €'000	Club membership €'000	Total €'000
Cost					
At 1 January 2009	936	1,957	977	59	3,929
Additions	—	31	774	214	1,019
Disposals	—	(1)	—	—	(1)
Exchange differences	—	—	—	(8)	(8)
At 31 December 2009	936	1,987	1,751	265	4,939
Accumulated amortization					
At 1 January 2009	—	1,631	92	3	1,726
Charge for the year	—	67	317	1	385
Disposals	—	(1)	—	—	(1)
At 31 December 2009	—	1,697	409	4	2,110
Net book value					
At 31 December 2009	936	290	1,342	261	2,829

Year ended 31 December 2010

	Goodwill €'000	**Computer software €'000**	**Development costs €'000**	**Club membership €'000**	**Total €'000**
Cost					
At 1 January 2010	**936**	**1,987**	**1,751**	**265**	**4,939**
Additions	**—**	**45**	**1,655**	**49**	**1,749**
Exchange differences	**—**	**—**	**23**	**31**	**54**
At 31 December 2010	**936**	**2,032**	**3,429**	**345**	**6,742**
Accumulated amortization					
At 1 January 2010	**—**	**1,697**	**409**	**4**	**2,110**
Charge for the year	**—**	**70**	**521**	**1**	**592**
Exchange differences	**—**	**—**	**—**	**1**	**1**
At 31 December 2010	**—**	**1,767**	**930**	**6**	**2,703**
Net book value					
At 31 December 2010	**936**	**265**	**2,499**	**339**	**4,039**

15 INTANGIBLE ASSETS (CONTINUED)

Development costs

For the year ended 31 December 2010, development costs for formulations of €1,655,000 (2009: €774,000) were recognized as intangible assets and are amortized over their estimated useful lines, normally not excess four years. Research and development expenses charged to the consolidated income statement during the year ended 31 December 2010 amounted to €3,795,000 (2009: €3,961,000).

Goodwill

Goodwill arose from the acquisition of Schramm Coatings Iberia S.A.U. ("Schramm Spain") in 2007. It is mainly attributable to the anticipated profitability of operations and the anticipated future operating synergies. Goodwill is allocated to the Group's CGUs identified according to its business segments. As at 31 December 2010, the Group's goodwill amounting to €936,000 (2009: €936,000) is wholly attributable to the Automotive and General Industry segment.

For the purpose of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below. The growth rate does not exceed the historical average growth rate of the Group's Automotive and General Industry segment.

Key assumptions used for value-in-use calculations are as follows:

Growth rate	1% (2009: 1%)
Discount rate	7.5% (2009: 7.5%)

Management estimates the pre-tax discount rate that reflects market assessments of the time value of money and specific risks relating to the industry. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

16 PROPERTY, PLANT AND EQUIPMENT

(a) Movements of property, plant and equipment:

Year ended 31 December 2009

	Freehold land, buildings and leasehold improvements €'000	Technical equipment and machinery €'000	Motor vehicles, furniture and other office equipment €'000	Assets under construction €'000	Total €'000
Cost					
At 1 January 2009	21,578	22,134	13,525	465	57,702
Additions	45	147	473	723	1,388
Disposals	—	(42)	(476)	—	(518)
Transfers	725	197	54	(976)	—
Exchange differences	(63)	(52)	(75)	(1)	(191)
At 31 December 2009	22,285	22,384	13,501	211	58,381
Accumulated depreciation					
At 1 January 2009	7,617	14,078	9,257	—	30,952
Charge for the year	658	1,297	986	—	2,941
Disposals	—	(21)	(256)	—	(277)
Exchange differences	(16)	(18)	(32)	—	(66)
At 31 December 2009	8,259	15,336	9,955	—	33,550
Net book value					
At 31 December 2009	14,026	7,048	3,546	211	24,831

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Movements of property, plant and equipment: (Continued)

Year ended 31 December 2010

	Freehold land, buildings and leasehold improvements €'000	Technical equipment and machinery €'000	Motor vehicles, furniture and other office equipment €'000	Assets under construction €'000	Total €'000
Cost					
At 1 January 2010	22,285	22,384	13,501	211	58,381
Additions	173	295	525	954	1,947
Disposals	—	(6)	(335)	—	(341)
Transfers	—	756	—	(756)	—
Exchange differences	311	313	389	11	1,024
At 31 December 2010	22,769	23,742	14,080	420	61,011
Accumulated depreciation					
At 1 January 2010	8,259	15,336	9,955	—	33,550
Charge for the year	606	1,180	969	—	2,755
Disposals	—	(4)	(255)	—	(259)
Exchange differences	80	110	177	—	367
At 31 December 2010	8,945	16,622	10,846	—	36,413
Net book value					
At 31 December 2010	13,824	7,120	3,234	420	24,598

(b) Technical equipment and machinery of the Group includes the following amounts where the Group is a lessee under a finance lease:

	2010 €'000	2009 €'000
Cost	**1,643**	1,643
Accumulated depreciation	**(707)**	(577)
Net book value	**936**	1,066

As at 31 December 2010 and 2009, property, plant and equipment of €409,000 of the Group were pledged as securities for certain bank borrowings. (Note 27).

17 LAND USE RIGHTS

Land use rights represent prepaid operating lease payments for three parcels of land located in Tianjin and Huizhou, the PRC, and Hanoi, Vietnam, on which the Group's factory premises are situated.

	2010 €'000	2009 €'000
At 1 January	548	573
Additions	471	—
Amortization	(16)	(11)
Exchange differences	76	(14)
At 31 December	1,079	548

The Group's interests in land use rights are held in the PRC and Vietnam under medium-term leases of 10 to 50 years.

The Group has not obtained the land use rights certificate for a parcel of land in Tianjin with carrying value of approximately €172,000 as at 31 December 2010 (2009: €172,000) because the Group has not commenced the planned construction on this parcel of land within the respective construction periods as stated under the Construction Works Commencement Permit granted by the relevant authority, which would result in a land idle fee to be levied and the withdrawal of the land use rights by the relevant authority without return of the paid land premium or compensation.

As at the report date of these Financial Statements, the relevant authority has not informed the Group whether the land use rights will be withdrawn. Based on the agreement signed between SSCP Co. Ltd, the ultimate holding company of the Company and the Company, SSCP will indemnify the Group's loss should the relevant authority decides to withdraw the land use rights.

And the Group is in the process of obtaining the land use rights certificate for a parcel of land in Vietnam.

18 ASSET HELD FOR SALE

On 21 June 2010, Schramm Hong Kong, a subsidiary of the Company, entered into Series B Preferred Stock Purchase Agreement acquiring 3,571,428 Series B Preferred Stock in Inlustra for US$1,500,000. Investment in Inlustra was expected to allow the Group to leverage its electrical insulation product-related client base to gain access and approvals to market Inlustra's product. Accordingly, investment in Inlustra was classified as an associate because the Group has significant influence in Inlustra. The management considered that the financial result of Inlustra was insignificant; therefore, the Group did not equity account for the result of Inlustra after the investment.

Thereafter, through discussions with the management of Inlustra post investment, the Company found that Inlustra development plans and schedule had changed and would require much more time and resources than originally expected. Thus, the Company subsequently identified an interested third party buyer who wants to acquire such investment from Schramm Hong Kong at a consideration of US$1,500,000. The sales of Inlustra is being processed up to the reporting date, and as a result, investment in Inlustra was reclassified as asset held for sale at 31 December 2010. No gain or loss is expected from such disposal.

19 OTHER RECEIVABLES AND PREPAYMENTS

As at 31 December 2010, the Group's non-current other receivables and prepayments mainly include rental deposits paid to landlord.

20 INVENTORIES

	2010 €'000	2009 €'000
Raw materials and consumables	**10,841**	8,567
Work-in-progress	**3,377**	2,450
Finished goods	**5,713**	4,672
	19,931	15,689

21 TRADE AND BILLS RECEIVABLES

	2010 €'000	2009 €'000
Trade receivables — related parties (Note 34(c))	**495**	5,117
Trade receivables — third parties	**28,728**	24,278
Trade receivables, gross	**29,223**	29,395
Bills receivables	**2,111**	1,213
Total trade and bills receivables, gross	**31,334**	30,608
Less: provision for impairment of receivables	**(802)**	(533)
	30,532	30,075

The carrying amounts of the Group's trade and bills receivables approximate their fair value at the reporting date. There is no concentration of credit risk with respect to trade and bills receivables, as the Group has a large number of customers dispersed internationally. The maximum exposure to credit risk at the reporting date is the fair value of receivables set out above.

The majority of the Group's customers are granted with credit terms of 30 to 90 days. Occasionally, certain customers enjoy a longer credit period. Ageing analysis of trade and bills receivables presented based on the invoice date at the reporting date is as follows:

	2010 €'000	2009 €'000
Within 3 months	**21,694**	19,278
3 to 6 months	**6,929**	10,313
6 to 9 months	**822**	445
9 to 12 months	**715**	16
Over 12 months	**1,174**	556
	31,334	30,608

The ageing analysis of trade receivables past due but not impaired by due date is as follows. These relate to a number of independent customers for whom there is no recent history of default. The Group does not hold any collateral over these balances.

	2010 €'000	2009 €'000
Within 3 months	**8,563**	9,865
3 to 6 months	**838**	3,359
6 to 9 months	**258**	79
9 to 12 months	**498**	90
Over 12 months	**449**	348
	10,606	13,741

21 TRADE AND BILL RECEIVABLES (CONTINUED)

The ageing analysis of trade receivables impaired and provided for is as follows. The individually impaired receivables mainly relate to customers, which are in unexpected difficult economic situations. The Group does not hold any collateral over these balances.

	2010 €'000	2009 €'000
Within 3 months	**—**	108
3 to 6 months	**—**	187
6 to 9 months	**—**	72
9 to 12 months	**—**	33
Over 12 months	**816**	362
	816	762
Less: provision for impairment	**(802)**	(533)
Net amount	**14**	229

The Group's movements for provision of impairment of trade receivables are as follows:

	2010 €'000	2009 €'000
At 1 January	**533**	704
Provision for impairment/(reversal of provision)	**229**	(122)
Utilized	**(7)**	—
Exchange differences	**47**	(49)
At 31 December	**802**	533

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2010 €'000	2009 €'000
EURO	**9,095**	7,201
USD	**1,489**	4,464
RMB	**16,656**	15,911
KRW	**1,169**	1,219
THB	**801**	600
JPY	**13**	—
	29,223	29,395

22 CASH AND CASH EQUIVALENTS

The Group’s cash and cash equivalents are analyzed as follows:

	2010 €’000	2009 €’000
Cash on hand	**40**	19
Cash at bank	**4,742**	14,207
	4,782	14,226

Cash and bank deposits of the Group were denominated in the following currencies:

	2010 €’000	2009 €’000
EURO	**445**	5,711
HK$	**98**	6,413
RMB	**2,224**	1,469
USD	**1,296**	208
KRW	**498**	310
THB	**214**	79
Other currencies	**7**	36
	4,782	14,226

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

RMB is not a freely convertible currency in the international market. The remittance of these RMB funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

23 ISSUED CAPITAL AND ADDITIONAL PAID-IN CAPITAL

	Number of quota/shares ‘000	Issued capital €’000	Additional paid-in capital €’000
Issue and fully paid:			
At 1 January 2009	13,155	13,155	12,284
Issuance of shares for acquisition of a subsidiary (Note b)	1,750	1,750	5,940
Issuance of shares for cash (Note c)	5,000	5,000	11,450
Share issuance costs charged to equity	—	—	(4,753)
At 31 December 2009 and 2010	19,905	19,905	24,921

23 ISSUED CAPITAL AND ADDITIONAL PAID-IN CAPITAL (CONTINUED)

Details of the changes in the Company's issued capital are as follows:

Notes:

(a) The par value of each share in €1.

(b) On a shareholder's meeting held on 11 June 2010, a general mandate was granted to the Management Board authorizing it to increase the share capital of the Company by an amount up to €3,981,000 by the issuance of new shares in cash or in kind, once or several times, before 30 June 2011 (the "Authorized Capital 2010/II").

On a shareholders' meeting held on 10 June 2009, a general mandate was granted to the Management Board authorizing it to increase the share capital of the Company by an amount up to €6,577,500 by the issuance of new shares in cash or in kind, once or several times, before 1 June 2014 (the "Authorized Capital 2009").

The general mandate under the Authorized Capital 2009 was exercised and the share capital of the Company was increased by €1,750,000 to €14,905,000 through the issue of 1,750,000 shares, at €4.394 each, to SBHK for the settlement of the purchase consideration for the acquisition of Schramm Tianjin. The capital increase was registered with the commercial register on 12 November 2009.

(c) The general mandate under Authorized Capital 2009 was exercised and the share capital of the Company was increased by €5,000,000 to €19,905,000 through the issue of 5,000,000 shares, to prepare for the public offering of the Company's shares. The capital increase was registered with the commercial register on 11 December 2009. On 29 December 2009, the Company's shares were listed on the Main Board of the HKSE and 5,000,000 shares were issued, at €3.287 per share, to public investors.

(d) In accordance with Section 20 (1) AktG, the fourth part of the shares is deemed to be the reportable threshold.

We received the following information as to whether the reportable thresholds have been reached, exceeded or fallen below in the financial year 2010 and currently up to the preparation of the annual financial statements.

- Information of SSCP Co. Ltd., 629 – 3, Sunggok, Ansan, Kyonggi, Republic of Korea, pursuant to Section 20 (1) and (3) AktG, that it has been directly holding more than one-fourth of the shares in the Company since 21 November 2008.

- Information of SSCP Co. Ltd., 629 – 3, Sunggok, Ansan, Kyonggi, Republic of Korea, pursuant to Section 20 (4) AktG, that it has a direct shareholding in the Company since 21 November 2008.

- Information of the Humble Humanity Ltd., Level 8 (B), Main Office Tower, Financial Park Labuan, Jalan Merdeka, Labuan, F.T., Malaysia, pursuant to Section 20 (1) and (3) AktG, that it has been directly holding more than one-fourth of the shares in the Company since 24 April 2009.

- Information of SSCP Co. Ltd., 629 – 3, Sunggok, Ansan, Kyonggi, Republic of Korea, pursuant to Section 20 (5) AktG, that it has no longer a majority shareholding in the Company since 11 December 2009.

- Information of SSCP Co. Ltd., 629 – 3, Sunggok, Ansan, Kyonggi, Republic of Korea, that it continues to directly hold more than one-fourth of the shares in the Company since 11 December 2009 (participation according to Section 20 (1) and (3) AktG).

- Information of the Humble Humanity Ltd., Level 8 (B), Main Office Tower, Financial Park Labuan, Jalan Merdeka, Labuan, F.T., Malaysia, pursuant to Section 20 (5) AktG, that it holds no longer more than one-fourth of the shares in the Company since 11 December 2009.

- Information of Samsung Securities (Asia) Limited, 26/F, Three Exchange Square, 8 Connaught Place, Central, Hong Kong, pursuant to Section 20 (1) and (3) AktG, that it has been directly holding more than one-fourth of the shares in the Company since 11 December 2009.

- Information of Samsung Securities (Asia) Limited, 26/F, Three Exchange Square, 8 Connaught Place, Central, Hong Kong, pursuant to Section 20 (5) AktG, that it has no longer a major sharing in the Company since 29 December 2009.

24 OTHER RESERVES

The movements in the Group's other reserves are as follows:

	Merger reserve (Note b) €'000	Exchange reserves €'000	Total €'000
At 1 January 2009	(8,817)	1,123	(7,694)
Exchange differences	—	(492)	(492)
Distribution to previous shareholders of subsidiaries (Note c)	(7,305)	—	(7,305)
At 31 December 2009	(16,122)	631	(15,491)
Exchange differences	—	2,930	2,930
At 31 December 2010	(16,122)	3,561	(12,561)

(a) Under German law, only the retained earnings of the individual financial statements of Schramm Holdings AG prepared in accordance with HGB, equals to €3,979,000 (2009: €2,759,000), are available for distribution.

(b) In preparation of the Company's Listing on 29 December 2009, the Group had undergone several restructurings involving the acquisitions of its subsidiaries. The acquisitions were considered as transactions under common control and hence, have been accounted for using merger accounting. The merger reserve of the Group represents the difference between the total of nominal value of shares on the capital of the subsidiaries that had been acquired and the pre-acquisition reserves of these subsidiaries and the investment consideration paid by the Company to effect the common control acquisition. For more details, please refer to the annual financial statements for the year ended 31 December 2009 and the Prospectus dated 15 December 2009.

(c) Amount represented the net investment consideration paid by the Company of €7,007,000 to the previous shareholders of Schramm Tianjin and Schramm Thailand and the dividend declared by a subsidiary to its previous shareholders out of its pre-acquisition retained earnings amounting to €298,000.

25 PENSIONS AND SIMILAR OBLIGATIONS

The provision for pensions and similar obligations covers the pension fund scheme of the Company and Schramm Coatings GmbH and two individual pension schemes with employees in Germany.

The pension fund scheme is a defined benefit scheme which covers commitments for retirement, disability and survivor benefits of employees of the Group. The amount of benefits depends on the length of service and the remuneration payable to the employees. The scheme is unfunded and is covered by funding through assets of the Group.

In addition to the pension fund scheme, there are two individual pension schemes. Both individual pension schemes are secured by pledged reinsurance policies. One of these individual schemes is refinanced by a single-premium endowment life insurance policy. The pensions obligation under the individual pension scheme and the present value of the pledged pension reinsurance policy recognized as plan assets are congruent with each other and are stated on a net basis in the financial statements to the extent that the reinsurance is pledged (so-called plan assets). The additional disability insurance policy of such scheme is not covered by a congruent pledge.

25 PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)

Actuarial methods and assumptions (pension fund agreement):

- Calculation basis: 2005 G actuarial tables of Dr. Klaus Heubeck
- Notional interest rate: 4.8% p.a. (2009: 5.1% p.a.)
- Pension and salary growth trend: 2.0% p.a. (2009: 2.0% p.a.)

Actuarial methods and assumptions (two individual commitments):

- Calculation basis: 2005 G actuarial tables of Dr. Klaus Heubeck
- Notional interest rate: 5.4% p.a. (2009: 5.8% p.a.)
- Pension and salary growth trend: 0% p.a. (2009: 0% p.a.)
- Return on plan assets: 4.0% (2009: 4.0%)
- Pledged congruent reinsurance policies from Alte Leipziger Leben (with the exception of one disability pension commitment)

The amounts recognized in the Group's consolidated statement of financial position are determined as follows.

	2010 €'000	2009 €'000
Present value of all defined benefit obligations	**1,227**	1,151
Present value of pension plan assets under reinsurance policy	**(231)**	(204)
	996	947
Unrecognized actuarial gains	**114**	193
Liability recognized in the consolidated statement of financial position	**1,110**	1,140

The movements in the defined benefit obligations during the year are as follows:

	2010 €'000	2009 €'000
At 1 January	**1,151**	1,042
Current service costs	**18**	6
Interest costs	**60**	54
Actuarial losses	**59**	96
Pension payments	**(61)**	(47)
At 31 December	**1,227**	1,151

25 PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the present value of the defined benefit obligation are recognized in the consolidated income statement over the employees' expected average remaining working lives of 5.1 years. The movements of unrecognized actuarial gains are as follows:

	2010 €'000	2009 €'000
Unrecognized actuarial gains brought forward	**(193)**	(310)
Recognized in the consolidated income statement	**20**	21
Current year changes	**59**	96
Unrecognized actuarial gains carried forward	**(114)**	(193)

For the year ended 31 December 2010, the actuarial gains/(losses) arose included an amount of €30,027 (2009: €67,000) for the result of changes in the notional interest rate.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 16 December 2010 and 12 January 2011 by Wolfgang Rittner Betriebliche Altersversorgung Wirtschaftsmathematisches Büro and ALTE LEIPZIGER Pensions management GmbH respectively. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

The amounts recognized in the consolidated income statement are as follows:

	2010 €'000	2009 €'000
Current service costs	**18**	6
Interest costs	**60**	54
Recognition of net gains	**(20)**	(21)
Total pension cost under defined benefit plans	**58**	39

Excepted contributions to post-employment benefit plans for the year ending 31 December 2011 are €65,300.

The interest costs shown above is reported as finance costs in the consolidated income statement. The remaining amounts are included in employee benefit expenses.

In addition, costs have been incurred for defined contribution plans operated by the governments where the Group operates. These expenses are reported under employee benefit expenses as social security contributions.

26 PROVISIONS

The movements in the Group's other provisions are analyzed as follows:

	Personnel provisions (Note i) €'000	**Other provisions (Note ii) €'000**	**Total €'000**
At 1 January 2009	1,095	1,109	2,204
Additional provisions charged to the consolidated income statement:	719	735	1,454
Used during the year	(739)	(858)	(1,597)
Exchange differences	2	—	2
At 31 December 2009	1,077	986	2,063
Additional provisions charged to the consolidated income statement:	815	1,848	2,663
Used during the year	(732)	(1,126)	(1,858)
Plan assets	(316)	—	(316)
Exchange differences	4	—	4
At 31 December 2010	848	1,708	2,556

Analysis of the Group's total provisions:

	2010 €'000	2009 €'000
Non-current	**225**	721
Current	**2,331**	1,342
	2,556	2,063

Notes:

(i) Personnel provisions mainly include provision for partial early retirement obligations which are mainly attributable to the Group's employees in Germany, and accruals for vacations, overtime and bonuses for the Group's employees. The provision for partial early retirement relates to the provision made by an employer where the employee first works full time (for less pay) and in return is eligible to an early retirement. The employer provides for the time the employee is in early retirement while the employee is still working.

Partial early retirement relates to a German local labor regulation of 1996 to "Provide for a smooth transition to retirement". The central feature of the law is the provision for the part-time employment of older employees who, in agreement with their employer, can reduce their working week by half when they reach a certain age ("Altersteilzeit" — partial early retirement). If the employer increases the employee's part-time remuneration by a certain percentage and pays contributions to the pension scheme on the basis of a certain percentage of full-time remuneration then, under certain circumstances, the employment office will reimburse the employer for this outlay. An important condition for reimbursement is that the vacancy created by partial early retirement is filled by the hiring of an unemployed person or the acceptance of a trainee.

(ii) Other provisions mainly comprises provision for warranty and product claims.

27 FINANCIAL LIABILITIES

(a) The Group's financial liabilities are analyzed as follows:

	2010 €'000	2009 €'000
Bank borrowings (Note 27(d))	**20,091**	26,739
Finance leases liabilities (Note 27(e))	**947**	1,060
	21,038	27,799
Less: current portion of bank borrowings	**(3,639)**	(10,286)
current portion of financial leases liabilities	**(107)**	(107)
current portion	**(3,746)**	(10,393)
Non-current portion	**17,292**	17,406

As at 31 December 2010 and 2009, certain of the Group's bank borrowings were secured by pledge of property, plant and equipment of the Group of approximately €409,000. As at 31 December 2010, inventories and receivables of approximately €20,689,000 have been assigned as collateral for the bank borrowings.

(b) **Denomination in currencies**

As at 31 December 2009 and 2010, the carrying amounts of the Group's financial liabilities approximate their fair values. Financial liabilities are denominated in the following currencies:

	2010 €'000	2009 €'000
EURO	**20,965**	24,296
USD	**73**	2,793
RMB	**—**	695
THB	**—**	15
	21,038	27,799

(c) **Effective interest rates**

As at 31 December 2010, the effective annual interest rates of the Group's borrowings are analyzed as follows:

	2010	2009
Bank borrowings	**5.23%**	5.4%
Finance leases liabilities	**7.7%**	7.7%

(d) As of 31 December 2010, the maturity of the Group's bank borrowings were as follows:

	2010 €'000	2009 €'000
Within 1 year	**3,639**	10,286
Between 1 and 2 years	**16,045**	1,045
Between 2 and 5 years	**385**	15,385
Over 5 years	**22**	23
	20,091	26,739

27 FINANCIAL LIABILITIES (CONTINUED)

(e) Finance lease liabilities

The Group's finance lease liabilities are analyzed as follows:

	2010 €'000	2009 €'000
No later than 1 year	**175**	183
Later than 1 year and no later than 5 years	**581**	620
Over 5 years	**531**	675
	1,287	1,478
Future finance charges on finance leases	**(340)**	(418)
Present value of finance lease liabilities	**947**	1,060

28 TRADE AND OTHER PAYABLES

The Group's trade and other payables are analyzed as follows:

	2010 €'000	2009 €'000
Trade payables — third parties	**5,760**	4,623
Trade payables — related parties (Note 34(c))	**219**	2,504
Total trade payables	**5,979**	7,127
Other payables	**2,105**	5,982
	8,084	13,109

The carrying amounts of trade and other payables approximate their fair value.

The credit terms granted by the suppliers of the Group are usually 30 days. Ageing analysis of the Group's trade payables presented based on the invoice date at the reporting date is as follows:

	2010 €'000	2009 €'000
Within 3 months	**5,058**	6,761
3 to 6 months	**760**	251
6 to 9 months	**1**	10
9 to 12 months	**21**	3
Over 12 months	**139**	102
	5,979	7,127

28 TRADE AND OTHER PAYABLES (CONTINUED)

The Group's trade payables were denominated in the following currencies:

	2010 €'000	2009 €'000
EURO	**1,988**	1,520
USD	**242**	1,857
RMB	**3,434**	2,924
KRW	**3**	789
THB	**182**	37
JPY	**130**	—
	5,979	7,127

29 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The Group's deferred income taxes shown in the consolidated statement of financial position, after appropriate offsetting, are as follows:

	2010 €'000	2009 €'000
Deferred tax assets	**1,827**	2,393
Deferred tax liabilities	**(2,037)**	(2,028)
	(210)	365

29 DEFERRED INCOME TAX (CONTINUED)

The Group's deferred income taxes are related to the items in the consolidated statement of financial position and transactions below:

	2010 €'000	2009 €'000
Deferred tax assets		
Finance lease liabilities	**296**	326
Pension obligations	**135**	135
Provision for impairment of trade receivables	**76**	68
Property, plant and equipment	**8**	8
Tax losses	**1,240**	1,621
Others	**72**	235
Total deferred tax assets	**1,827**	2,393
To be recovered after more than 12 months	**903**	783
To be recovered within 12 months	**924**	1,610
Deferred tax liabilities		
Finance lease liabilities	**(333)**	(333)
Property, plant and equipment	**(1,201)**	(1,195)
Inventories	**(6)**	(6)
Provision for impairment of trade receivables	**(56)**	(46)
Others	**(441)**	(448)
Total deferred tax liabilities	**(2,037)**	(2,028)
To be recovered after more than 12 months	**(2,036)**	(2,022)
To be recovered within 12 months	**(1)**	(6)

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable.

The Group has certain estimated unused tax losses, which mainly related to Schramm Spain and for the years from 2000 to 2007. The unrecognized tax losses have an expiration time of 15 years and the amounts as at the reporting date can be analyzed as follows.

	2010 €'000	2009 €'000
Expiring on:		
2 to 5 years	**650**	54
6 to 9 years	**579**	1,249
10 to 15 years	**241**	313
	1,470	1,616

As at 31 December 2010, deferred tax liabilities to the extent of €233,000 (2009: €312,000) have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain PRC subsidiaries because the directors consider that the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Such unremitted earnings totaled €4,656,000 as at 31 December 2010 (2009: €6,232,000).

30 GUARANTEES AND COMMITMENTS

(a) Operating lease commitments

As at 31 December 2010, the Group's future aggregate minimum lease payments under various non-cancellable operating lease agreements in respect of building, equipment and motor vehicles are analyzed as follows:

	2010 €'000	2009 €'000
Within one year	**581**	618
In the second to fifth year inclusive	**840**	167
Over 5 years	**588**	—
	2,009	785

(b) Capital commitments

Contracted for but not provided in the consolidated financial statements – captial expenditure	**307**	—
Authorised but not contracted for in the consolidated financial statements – capital expenditure	**1,906**	—

Saved as disclosed above, there are no material obligations not disclosed in the consolidated statement of financial position.

31 CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit before income tax to net cash generated from operations:

	2010 €'000	2009 €'000
Profit before income tax	**7,498**	6,000
Depreciation and amortization of intangible assets, property, plant and equipment and land use rights (Note 8)	**3,363**	3,337
Loss on disposal of property, plant and equipment (Note 9)	**12**	88
Finance income (Note 11)	**(53)**	(30)
Finance costs (Note 11)	**1,521**	1,587
Operating cash flow before working capital changes:	**12,341**	10,982
Inventories	**(3,553)**	8,456
Trade and bills receivables	**932**	(7,359)
Other receivables and prepayments	**2,156**	839
Trade and other payables	**(5,099)**	(2,236)
Other changes	**(61)**	(44)
Net cash generated from operations	**6,716**	10,638

32 SEGMENT REPORTING

The management considers the Group has three operating segments, including Automotive and General Industry, Coil Coating and Electrical Insulations, which are based on the internal organization and reporting structure.

The "Automotive and General Industry" segment is engaged in the development, manufacturing and sales of metal, plastic and powder coatings for corrosion protection and surface refinement for automotive industry and varnishes used as coatings for consumer electronics.

The "Coil Coating" segment is engaged in the development, manufacturing and sale of specialty varnishes and functional coatings, which include the construction industry, automotive and transport systems and coatings for white and brown goods.

The "Electrical Insulation" segment is engaged in the development, manufacturing and sale of insulating varnishes and filling compounds for ballasts and armature coils.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2.

	Year ended 31 December 2009			
	Automotive and General Industry €'000	Coil Coating €'000	Electrical Insulations €'000	Total €'000
SEGMENT REVENUE				
External sales	75,611	18,526	4,389	98,526
Inter-segment sales	2,553	—	—	2,553
	78,164	18,526	4,389	101,079
Elimination	(2,553)	—	—	(2,553)
Group's revenue	75,611	18,526	4,389	98,526
Segment result	6,558	949	(217)	7,290
Other unallocated expenses				(1,290)
Profit before income tax				6,000
Income tax expense				(1,537)
Profit for the year attributable to owners of the Company				4,463
Segment assets	55,120	6,902	2,005	64,027
Unallocated assets				30,738
Total assets				94,765
OTHER SEGMENT INFORMATION				
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to property, plant and equipment, land use rights and intangible assets	2,138	12	16	2,166
Depreciation and amortization	3,291	11	33	3,335
Finance income	21	7	2	30
Finance costs	(987)	(357)	(85)	(1,429)

32 SEGMENT REPORTING (CONTINUED)

	Year ended 31 December 2010			
	Automotive and General Industry €'000	Coil Coating €'000	Electrical Insulations €'000	Total €'000
SEGMENT REVENUE				
External sales	88,938	21,244	5,122	115,304
Inter-segment sales	4,821	—	—	4,821
	93,759	21,244	5,122	120,125
Elimination	(4,821)	—	—	(4,821)
Group's revenue	88,938	21,244	5,122	115,304
Segment result	11,219	456	(13)	11,662
Other unallocated expenses				(4,164)
Profit before income tax				7,498
Income tax expense				(2,712)
Profit for the year attributable to owners of the Company				4,786
Segment assets	57,626	6,098	1,816	65,540
Unallocated assets				24,502
Total assets				90,042
OTHER SEGMENT INFORMATION				
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to property, plant and equipment, land use rights and intangible assets	3,602	436	104	4,142
Depreciation and amortization	2,356	761	184	3,301
Finance income	50	—	—	50
Finance costs	(758)	(421)	(101)	(1,280)

The Company is domiciled in Germany. The Group's revenue from external customers and the total of non-current assets can be analyzed as follows:

Revenue by geographical area are analyzed as follows:

	2010 €'000	2009 €'000
Germany	41,505	33,376
European Union countries other than Germany	21,267	19,972
PRC	36,606	36,015
Korea	13,376	7,090
Other Asian countries	2,550	2,073
Revenue	115,304	98,526

No individual customer accounted for more than 10% of total sales volume.

32 SEGMENT REPORTING (CONTINUED)

Non-current assets by geographical area are analyzed as follows:

	2010 €'000	2009 €'000
Germany	**18,365**	19,381
European Union countries other than Germany	**2,413**	2,541
PRC	**7,838**	5,772
Korea	**62**	3
Other Asian countries	**1,038**	511
	29,716	28,208
Other receivables and prepayments	**43**	343
Deferred tax assets	**1,827**	2,393
Total non-current assets	**31,586**	30,944

33 DERIVATIVES

The Group did not have any outstanding derivatives as at 31 December 2010. As at 31 December 2009, the Group entered into interest rate swap contracts of notional amount of €10,000,000. These interest rate swap contracts did not qualify for hedge accounting since their maturity periods are longer than the underlying bank borrowings. As a consequence, these interest rate swap contracts were classified and accounted for as held for trading with changes in fair value recognized through the consolidated income statement. The fair value of the interest rate swap contracts was determined by valuation technique based on the present value of the estimated future cash flows. The details of the interest rate swap contracts that were outstanding as at 31 December 2009 are as follows:

Financial institutions	Notional amount €'000	Maturity period	Fixed rate of interest	Variable interest rate	Fair value loss for 2009 €'000	Financial liability as at 31 December 2009 €'000
Bayerische Hypo-und Vereinsbank AG	3,000	21.11.2008–24.11.2010	3.19	3-month-Euribor	(31)	(67)
Commerzbank AG	5,000	21.11.2008–21.11.2010	2.99	1-month-Euribor	(43)	(92)
Commerzbank AG	2,000	25.11.2008–25.11.2010	2.99	3-month-Euribor	(26)	(39)
					(100)	(198)

34 RELATED PARTY TRANSACTIONS

(a) List of related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or to exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The Group is controlled by SSCP, a company incorporated in Ansan, Kyonggi, Korea, which owns majority of the issued share capital of the Company. The directors regard SSCP, which Mr. Jung Hyun OH is the major shareholder with controlling interest, as being the Group's ultimate holding company.

The major related parties that had transactions with the Group were as follows:

Related party	**Relationship with the Group**
SSCP	Ultimate holding company
SHHK	Fellow subsidiary
Tianjin M&C Electronics Company Ltd	Fellow subsidiary
Samsung Chemical (Shanghai) Co. Ltd	Fellow subsidiary

(b) Transactions with related parties

Save as disclosed elsewhere in these consolidated financial statements, the following significant transactions were carried out with related parties:

	Note	**2010 €'000**	2009 €'000
Sales of coating raw materials, intermediary goods and finished goods:	(i)		
Fellow subsidiaries		**194**	—
Ultimate holding company		**630**	580
Sales of non-coating materials:			
A fellow subsidiary		**—**	1,862
Ultimate holding company		**—**	3,013
Purchase of raw materials, intermediary goods and commodities:	(ii)		
Fellow subsidiaries		**870**	341
Ultimate holding company		**15,072**	9,871
Other expenses:	(iii)		
Ultimate holding company		**10**	17
Purchase of interest in Inlustra			
Ultimate holding company		**1,176**	—

Notes:

(i) In 2010 and 2009, sales of coating raw materials, intermediary goods and coating products were carried out in accordance with the Toll Manufacturing Agreement and the Master Sales Agreement with the ultimate holding company.

(ii) In 2010 and 2009, purchases of raw materials, intermediary goods and commodities were carried out in accordance with the Master Purchase Agreement with the ultimate holding company.

(iii) The other expenses mainly represented management service fee expenses, which were charged in accordance with the terms of agreements made between the relevant parties.

34 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Balances with related parties

The Group had the following significant balances with its related parties as at 31 December 2010 and 2009:

	Note	2010 €'000	2009 €'000
Trade receivables from:	(i)		
Fellow subsidiaries		**27**	2,118
Ultimate holding company		**468**	2,999
Trade payables to:	(i)		
Fellow subsidiaries		**—**	(821)
Ultimate holding company		**(219)**	(1,683)

Note:

(i) The above balances due from and due to related parties were unsecured, non-interest bearing and are repayable under the relevant trade terms.

(d) Key management compensation can be analyzed as follows:

	2010 €'000	2009 €'000
Short-term benefits (wages and salaries)	**1,962**	1,943
Post-employment benefits	**62**	56
	2,024	1,999

35 EVENT AFTER THE REPORTING PERIOD

Subsequent to the year end, a subsidiary of the Company entered into agreement with a third party on 28 February 2011 to sell its interests in Inlustra for US$1.5 million (equivalent to approximately €1.2 million). No gain or loss is expected from the disposal of Inlustra.

36 LIST OF SUBSIDIARIES

As at 31 December 2010 and 2009, the Company held interests in the following subsidiaries:

Name	Place of incorporation	Share capital/ registered capital	Principal activities	Ownership interest %	
				2010	2009
Schramm Coatings GmbH#Ø	Germany	Registered capital of €30,000	Manufacturing and trading of various kinds of coatings and printing ink	**100%**	100%
Schramm Coatings Iberia S.A.U.##	Spain	Registered capital of €1,000,000	Manufacturing and trading of various kinds of coatings	**100%**	100%
Schramm Korea##	Korea	Registered capital of KRW 400,000,000	Trading of various kinds of coating and printing ink	**100%**	100%
Schramm Hong Kong##	Hong Kong	42,913,177 ordinary shares of HK$1 each	Investment holding	**100%**	100%
Schramm Shanghai##	The PRC	Registered capital of US$5,200,000	Manufacturing and trading of various kinds of coatings	**100%**	100%
Schramm Huizhou##	The PRC	Registered capital of US$4,400,000	Manufacturing and trading of various kinds of coatings and printing ink	**100%**	100%
Schramm Tianjin##	The PRC	Registered capital of US$8,000,000	Manufacturing and trading of various kinds of coatings and printing ink	**100%**	100%
Schramm Thailand##	Thailand	740,000 ordinary share of THB100 each	Manufacturing of coatings for home appliance	**99.96%**	99.96%
Ultra Million Limited##	Hong Kong	67,860,000 ordinary shares of HK$1 each	Investment holding	**100%**	100%
Uranus Limited##	Hong Kong	56,940,000 ordinary shares of HK$1 each	Investment holding	**100%**	100%
Schramm Vietnam##	Vietnam	Registered capital of US$3,000,000*	Manufacturing and trading of various kinds of coatings and printing ink	**100%**	—
Bravo Capital Group Limited##	BVI	Registered capital of US$210,000	Investment holding	**100%**	—
Lumii Tech##	US	Registered capital of US$1	Inactive	**100%**	—

directly held by the Company

indirectly held by the Company

Ø Schramm Coatings GmbH make use of the exemption in accordance with Article 264, Section 3 of the German Commercial Code (HGB). Therefore, no management report ("Lagebericht") has been prepared for Schramm Coatings GmbH.

* The registered capital is required to be contributed fully by 19 July 2011.

Five Years Summary

	Year ended 31 December				
	2006 €'000	2007 €'000	2008 €'000	2009 €'000	**2010 €'000**
Consolidated income statement					
Revenue	60,211	72,061	104,250	98,526	**115,304**
Earnings before interests and taxes	4,836	6,031	9,212	7,557	**8,966**
Profit before income tax	3,963	4,941	7,766	6,000	**7,498**
Profit for the year attributable to owners of the Company	2,967	3,299	5,539	4,463	**4,786**

	As at 31 December				
	2006 €'000	2007 €'000	2008 €'000	2009 €'000	**2010 €'000**
Consolidated statement of financial position					
Non-current assets	18,591	28,181	30,855	30,944	**31,586**
Current assets	19,849	44,958	52,115	63,821	**58,456**
Total assets	38,440	73,139	82,970	94,765	**90,042**
Equity	10,647	24,449	31,953	48,006	**54,329**
Non-current liabilities	18,410	5,897	5,485	21,295	**20,664**
Current liabilities	9,383	42,793	45,532	25,464	**15,049**
Total liabilities	27,793	48,690	51,017	46,759	**35,713**
Total equity and liabilities	38,440	73,139	82,970	94,765	**90,042**

Definitions

AGM	The Company's annual general meeting
Articles	The articles of association of the Company
CEO	Chief Executive Officer
the "Company"	Schramm Holding AG
Compliance Guidelines	Compliance Guidelines of the Company and all its subsidiaries
Controlling Shareholders	has the meaning ascribed to it under the Listing Rules, and in the context of this report means the Controlling Shareholders of the Company, SSCP, SHHK and Humble Humanity
DCGK	Government Commission German Corporate Code (Regierungskommission Deutscher Corporate Governance Kodex)
Directors	The members of the Management Board of the Company
EU	European Union
Euro(s) or "€"	the lawful currency of the member states of the EU that adopt the single currency in accordance with the Trusty establishing the European Community (as amended and supplemented from time to time)
Exchangeable Bonds Subscription Agreements	Exchangeable bonds subscription agreements dated 1 December 2008 (as amended) entered between Humble Humanity and certain exchangeable bonds investors
HGB	Handelsgesetzbuch German Commercial Code
HKCG Code	Code on Corporate Governance Practices
HKICPA	Hong Kong Institute of Certified Public Accountants
HKSE	The Stock Exchange of Hong Kong Limited
the "Group" or "Schramm"	Schramm Holding AG and its subsidiaries
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
Independent Supervisors	The members of the Supervisory Board who meet the independence requirements required under Rule 3.13 of the Listing Rules
INEDs	Independent Non-Executive Directors under the definition of the Listing Rules
Inlustra	Inlustra Technologies, Inc., a company incorporated under the State of California, the United States of America
Listing Rules	The Rules Governing the Listing of Securities on the HKSE
Management Board	The Management Board of the Company

DEFINITIONS

Model Code	Model Code for Securities Transactions by Directors of Listed Issuers
"PRC" or "China"	The People's Republic of China
Prospectus	The Company's prospectus dated 15 December 2009 for the purpose of the initial listing of the shares of the Company on the HKSE
PwC	PricewaterhouseCoopers
RMB	Renminbi, the lawful currency of the PRC
SBHK	Samsung Bestview (Hong Kong) Co., Limited, changed its name to SHHK in 2010 and is a wholly owned subsidiary of SSCP
Schramm Hong Kong	Schramm SSCP (Hong Kong) Limited, a company incorporated in Hong Kong and is a wholly-owned subsidiary of the Company
Schramm Huizhou	Schramm SSCP (Huizhou) Limited, a company incorporated in the PRC and is a wholly-owned subsidiary of the Company
Schramm Korea	Schramm SSCP Co., Ltd., a company incorporated in Korea and is a wholly-owned subsidiary of the Company
Schramm Shanghai	Schramm SSCP (Shanghai) Limited, a company incorporated in the PRC and is a wholly-owned subsidiary of the Company
Schramm Spain	Schramm Coatings Iberia S.A.U., a company incorporated in Barcelona, Spain and is wolly-owned subsidiary of the Company
Schramm Thailand	Schramm SSCP (Thailand) Co., Ltd., formerly known as "Samsung Chemical Paint (Thailand) Co. Ltd, a company incorporated in Thailand and is a subsidiary which is legally owned as 99.96% by the Company
Schramm Tianjin	Schramm SSCP (Tianjin) Limited, a company incorporated in the PRC and is a wholly-owned subsidiary of the Company
Schramm Vietnam	Schramm SSCP Hanoi Company Limited, a company incorporated in Vietnam and is a wholly-owned subsidiary of the Company
SFO	Securities and Future Ordinance
SHHK	SSCP Holdings (Hong Kong) Limited, formerly known as "Samsung Bestview (Hong Kong) Co., Limited, a wholly owned subsidiary of SSCP
SSCP	SSCP Co. Ltd, a company incorporated in Korea and listed on the Korean Securities Dealers Automated Quotations Market Division of the Korea Exchange
Supervisors	The members of the Supervisory Board of the Company
Supervisory Board	The Supervisory Board of the Company
Toll Manufacturing Agreement	The manufacturing and service agreement entered by the Company and SSCP on 10 December 2009 for a term of three years commencing from the Listing Date.
Qunno	Qunno Metal Technology Inc.

SCHRAMM HOLDING AG
星亮控股股份公司*