
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 000-02642

COGO GROUP, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

52-0466460
(I.R.S. Employer
Identification No.)

**Room 1001, Tower C, Skyworth Building
High-Tech Industrial Park
Nanshan, Shenzhen, PRC**
(Address of principal executive offices)

518057
(Zip Code)

Registrant's telephone number, including area code: (86)-755-267-43210

Securities registered pursuant to Section 12(b) of the Act: \$0.01 par value Common Stock

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every

Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the Registrant was USD182,728,635 based on the reported last sale price of common stock on the Nasdaq Global Market on March 14, 2011.

The number of shares outstanding of the registrant's common stock at USD0.01 par value as of March 14, 2011 was 35,848,764.

DOCUMENTS INCORPORATED BY REFERENCE

None.

COGO GROUP, INC.

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FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. We have attempted to identify forward-looking statements by terminology including “anticipates,” “believes,” “expects,” “can,” “continue,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predict,” “should” or “will” or the negative of these terms or other comparable terminology. These statements are only predictions. Uncertainties and other factors, including the risks outlined under Risk Factors contained in Item 1A of this Form 10-K, may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels or activity, performance or achievements expressed or implied by these forward-looking statements.

A variety of factors, some of which are outside our control, may cause our operating results to fluctuate significantly. They include:

- the availability and cost of products from our suppliers incorporated into our customized module design solutions;
- changes in end-user demand for the products manufactured and sold by our customers;
- general and cyclical economic and business conditions, domestic or foreign, and, in particular, those in China’s mobile handset, telecommunications equipment and digital media industries;
- the rate of introduction of new products by our customers;
- the rate of introduction of enabling technologies by our suppliers;
- changes in our pricing policies or the pricing policies of our competitors or suppliers;
- our ability to compete effectively with our current and future competitors;
- our ability to manage our growth effectively, including possible growth through acquisitions;
- our ability to enter into and renew key corporate and strategic relationships with our customers and suppliers;
- our implementation of share-based compensation plans;
- changes in the favorable tax incentives enjoyed by our People’s Republic of China (“PRC”) operating companies;
- foreign currency exchange rates fluctuations;
- adverse changes in the securities markets; and
- legislative or regulatory changes in the PRC.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Our expectations are as of the date this Form 10-K is filed, and we do not intend to update any of the forward-looking statements after the filing date to conform these statements to actual results, unless required by law.

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy and information statements and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended. You may read and copy these materials at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding us and other companies that file materials with the SEC electronically. You may also obtain copies of reports filed with the SEC, free of charge, via a link included on our website at <http://www.cogo.com.cn>.

PART I

ITEM 1. BUSINESS

Company Overview

We provide customized module design solutions for a diverse set of applications and end markets, serving as a gateway for our technology component suppliers to access leading electronics manufacturers in the PRC. Our customized module design solutions allow our customers to take advantage of technology components from reputable suppliers in an efficient and cost-effective manner, effectively reducing their time-to-market and lowering their overall costs. Our close collaboration with our customers' product development teams provides us with a unique understanding of their needs, enabling us to customize our suppliers' technology components with module designs that meet our customers' needs. In addition, in 2006 we began offering technology and engineering services in the PRC and in 2007, we began offering software design services in the PRC.

We focus on the digital media, telecommunications equipment and industrial business end-markets in the PRC. In the digital media end-market, we provide mobile handset and module solutions for functionalities such as CMMB mobile TV, motion sensor, camera, power supply and bluetooth as well as solutions for high definition digital set-top box, GPS and solutions for Tablet. In the telecommunications equipment end-market, we provide solutions for public switched telephone network, or PSTN, switching, optical transmitters, electrical signal processing and optical signal amplification. In the industrial business end-market, which commenced since the beginning of 2008, we provide industrial solutions for the smart meter, smart grid, railway and auto-electronics sectors. Currently, we have approximately 1,600 customers, including many of the most established manufacturers in the digital media, telecommunications equipment and industrial business end-markets in the PRC such as ZTE, TCL and BYD. We work with original equipment manufacturers, or OEMs, as well as subsystem designers and contract manufacturers to provide solutions to support industry leaders like Huawei. In developing customized module design solutions for use in our customers' products, we collaborate closely with over 30 suppliers of technology components, including many large multinational companies such as Broadcom, Sandisk, Freescale Semiconductor and Atmel. Additionally, in October 2006 we became one of the first the PRC-based companies to license software technology and have access to selected source codes relating to digital media directly from Microsoft.

Based on the customer's specific requirements, we will propose a customized module reference design, which usually incorporates technology components from our suppliers. If the customer accepts our module reference design, it will generally agree to purchase specific components contained in our proposed design from us. However, our customers and their third-party contract manufacturers are responsible for the manufacture and assembly of the customized module based on our designs. Our business model is based on generating recurring revenue by reselling specific components required in our module reference designs. The difference between the purchase price we pay our suppliers for these components and our sales price to our customers for these components compensates us for our design, technical support and distribution services.

We continue to explore and identify new end-markets where we can leverage both our design and engineering expertise. For example, in January 2011, we acquired MDC Tech International Holdings Limited which provides us with a strong foothold in two fast growing industrial markets: health care and smart grid. In 2009, we acquired Mega Smart Group Limited which provides industrial solutions for the green energy and auto-electronics sectors.

From 2008 to 2010, our net revenue grew from RMB1,959.5 million to RMB2,589.5 million (USD392.4 million), representing a compound annual growth rate, or CAGR, of 15.0%, and our net income attributable to Cogo Group, Inc. increased from RMB95.9 million to RMB112.4 million (USD17.0 million) during the same period, representing a CAGR of 8.3%.

Competitive Strengths

We believe that our customized module design solutions allow our customers to more effectively utilize our suppliers' enabling technology components, which in turn allows them to better compete in their targeted end-markets. We believe our competitive strengths include:

Broad customer base and deep customer relationships. Our broad customer base includes many major domestic telecommunications equipment, industrial business and digital consumer electronics manufacturers in the PRC and many of their supporting subsystem suppliers. Being a customized module design solution provider to our customers requires a time-consuming and difficult procurement qualification process, which we believe serves as a significant barrier to entry for other participants. We believe that these close customer relationships, together with our continued qualified solution provider status, facilitate better understanding of our customers' time-to-market, technology and cost requirements. These relationships also present new business opportunities by enabling us to identify and capture additional revenue streams from our customers' new growth areas.

Differentiated business model. We facilitate our customers' use of technology components in their end-products, thus reducing both their time-to-market and overall costs. As we focus on providing solutions to meet our customers' specific requirements, we believe that we are less vulnerable to risks associated with the development and adoption of new and unproven technology. We do not directly charge a design fee for our customized module solutions. Instead, we are compensated by a markup on the components recommended in our design solution, which is determined principally by the extent of the design work we provide.

Accumulated design solutions expertise. Over the years, we have developed an extensive portfolio of design solutions we can leverage to accommodate the needs of new clients or existing clients with changed needs. As such, we are able to achieve significant design cost efficiencies by reducing the need to invest the time or resources associated with designing a new solution. In addition, our engineers have also accumulated a significant amount of design and engineering expertise from working with various clients from our extensive customer base.

Strong relationships with enabling technology components suppliers. We work closely with more than 30 technology components suppliers, including major global components suppliers such as Broadcom, Sandisk, Freescale Semiconductor and Atmel. In addition to facilitating the customization of their technology components, our suppliers often rely on us as a means of penetrating new PRC-based electronics manufacturers via our existing domestic relationships.

Strategy

We intend to strengthen our position as a technology solution provider for customers in PRC's digital media, telecommunications equipment and industrial business end-markets.

Leverage our strong customer relationships into new opportunities. In 2008, we began targeting the industrial business end-market to provide industrial solutions for the green energy and auto-electronics sectors. We have since then grown our revenues generated from this market from constituting 4.5% of our 2008 revenue to 17.4% of our 2010 revenue. We anticipate that sales related to the industrial business end-markets will generally have higher profit margins than our digital media and telecom equipment modules related sales, though such higher margins may decline over time as this industry matures. We will also look for opportunities to expand into new end markets that we believe represent significant growth opportunities.

Our success in the industrial business end-market will depend, in significant part, on our ability to leverage our existing customer base. We expect to continue to incur additional research and development expenses, through hiring additional engineering personnel to develop new solutions and expanding our intellectual property and technological capabilities, to meet the needs of our customers that have expanded into or are expected to expand into the industrial business end-market.

Strengthen our design and development capabilities. To meet the changing needs of our customers, which include increasingly shorter product life cycles, we intend to continue to improve and strengthen our in-depth and diversified solution development and design capabilities. We plan to continue investing resources to maintain the most experienced and skilled design team to preserve competitiveness within a frequently changing and challenging industry landscape. We expect to continue to incur additional research and development expenses, through hiring additional engineering personnel to develop new solutions and expanding our intellectual property and technological capabilities to meet the needs of our customers that have expanded into or are expected to expand into different end-markets, such as digital media and industrial business.

Enhance our competitiveness in new product areas through strategic alliances. We intend to broaden our product offerings by leveraging our existing design and engineering expertise as well as selectively entering into strategic alliances with third parties to complement our existing capabilities. For example, we entered into an arrangement with Microsoft whereby we will have the ability to license next generation software technology from Microsoft's IP Ventures program and use Microsoft's source codes to develop design solutions across a variety of digital media applications. We believe this arrangement will enhance our competitiveness in design solutions for digital media initiatives, targeting various end-markets including high definition digital set-top-box, GPS, game console, smartphone and portable media player markets. We intend to continue working with third parties in ways that will enhance our competitiveness.

Make strategic investments and acquisitions. We intend to grow and expand our business by making strategic investments in and acquiring businesses complementary to ours that will enable us to expand the solutions we offer to our existing target customer base, and that will provide opportunities to expand into new markets. In particular, we plan to pursue opportunities where we expect to generate additional near-term revenue or expand our long-term growth opportunities by expanding our customer base or target end-markets. For example, in January 2011, we acquired MDC Tech International Holdings Limited which provides us with a strong foothold in two fast growing industrial markets: health care and smart grid. In 2009, we acquired 100% of Mega Smart Group Limited and its subsidiary, which engage in the development of industrial applications components in the PRC.

Products and Technology

We provide customization of our suppliers' technology components with module designs to suit each of our customers' specific needs. Our customized module design solutions include:

Digital Media Modules	Telecommunications Equipment Modules	Industrial Business Solutions
CMMB mobile TV	Fixed line telecommunications network	Smart Meter
Motion Sensor	Data communications	Smart Grid
Persistent storage	Optical transmission	Railways
Input / output	Wireless base-station	Auto-electronics
Sound system		Health Care
Power supplies		
Bluetooth		
Multimedia		
High definition digital set-top box		
GPS		
Multimedia module in portable media player		
Multimedia module in home entertainment		
Tablets functionality		

The following table sets forth the revenue contribution from our digital media, telecommunications equipment, industrial business and other services end-markets during 2008, 2009 and 2010.

Market	2010	2009	2008
Digital media	57.0%	60.4%	65.3%
Telecommunications equipment	24.3%	25.0%	28.8%
Industrial business	17.4%	13.2%	4.5%
Services revenue	1.3%	1.4%	1.4%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

During the year, we and the selling shareholders of Long Rise Holdings Limited (“Long Rise”) signed a supplementary agreement to the original share purchase agreement in which the selling shareholders of Long Rise discharged our obligation to pay the outstanding payable for the acquisition of Long Rise and transferred the remaining 30% equity interest in Long Rise to us for no consideration and we agreed to release the selling shareholders of Long Rise from the non-compete agreements. Although there was a reduction in revenue generated from the Long Rise business as a result of such supplementary agreement, we consider Long Rise mainly engaged in the traditional CDMA handsets market and the impact would not be significant to the business as a whole.

Our research and development (“R&D”) unit has always been a driving component in our business and remains crucial in providing the best design solutions for our customers. We have a team of approximately 280 highly qualified design and application engineering specialists and other technical employees engaged in R&D related activities to develop new customized module solutions targeted at the wireless handset, telecommunications equipment, industrial business and digital media industries. For 2010, we invested RMB77.9 million (USD11.8 million) for R&D purposes and will continue to devote significant resources to supporting and enhancing the depth and capabilities of our R&D unit.

Customers

Our broad customer base includes many of the major domestic digital media, telecommunications equipment and industrial business manufacturers in the PRC. In addition, our customers include industry participants supporting these OEMs, such as subsystem designers and contract manufacturers in the PRC, as well as international manufacturers who have begun to manufacture end-products in the PRC for the domestic and international markets. Our three largest customers in the digital media market in terms of 2010 net revenue were ZTE, both a large domestic mobile handset manufacturer and one of the largest telecommunications equipment manufacturers in the PRC, Skyworth Digital, one of the leading digital set-top box manufacturers in the PRC and T&W Electronics, a major broadband terminal equipment and digital consumer electronic provider in the PRC. Our two largest customers from the telecommunications equipment industry in terms of 2010 net revenue were ZTE and Wuhan Research Institute of Post & Telecommunications, a major telecommunications equipment manufacturer in the PRC. Our customers in the industrial business end-market are mainly small and medium enterprises. During 2010, ZTE, Skyworth Digital, T&W Electronics, Wuhan Research Institute of Post & Telecommunications and Yulong, accounted for 26.0%, 7.0%, 5.1%, 4.7% and 2.9% of our net revenue, respectively.

As of December 31, 2010, our major customers by end-market were as follows:

- Digital Media—TCL, Skyworth Digital, Yulong, Starnet Digital Technology and ZTE.
- Telecommunications Equipment—ZTE, T&W Electronics and Wuhan Research Institute of Post & Telecommunications
- Industrial Business—BYD and small and medium enterprises

In 2008, 2009 and 2010, our top 10 customers to whom we sold directly, including several contract manufacturers used by some of our major end-market customers, were as follows:

Customer Name	2010		2009		2008	
	Net Revenue	% of Net Revenue(%)	Net Revenue	% of Net Revenue(%)	Net Revenue	% of Net Revenue(%)
ZTE	RMB 672.6	26.0%	RMB 458.3	21.9%	RMB227.7	11.6%
Skyworth Digital	181.0	7.0	51.5	2.5	*	*
T&W Electronics	132.2	5.1	218.4	10.4	198.8	10.2
Wuhan Research Institute of Post & Telecommunications	121.6	4.7	73.6	3.5	103.2	5.3
Yulong	74.4	2.9	45.1	2.2	*	*
BYD	51.9	2.0	*	*	*	*
TCL	51.0	2.0	57.8	2.8	63.1	3.2
COSHIP	49.1	1.9	50.0	2.4	48.0	2.5
Starnet Digital Technology	40.9	1.6	76.5	3.7	*	*
Shanghai Xiangnei Auto	29.7	1.1	*	*	*	*
Allied Teleris	*	*	36.0	1.7	*	*
Longcheer Communications	*	*	27.4	1.3	*	*
Beijing Tianyu Communication Equipment	*	*	*	*	69.4	3.5
Young Poong Electronics	*	*	*	*	50.4	2.6
Accelink Technologies	*	*	*	*	33.7	1.7
Malata Group	*	*	*	*	30.1	1.5
Wuhan Fiberhome International Technologies	*	*	*	*	28.4	1.5
Total	RMB1,404.4	54.3%	RMB1,094.6	52.4%	RMB852.8	43.6%

* Not a top 10 customer in the respective year.

The value of our technology solutions can be illustrated by specific examples of how we have worked closely with our customers and suppliers in leveraging our competitive position and unique business model to solidify and extend our existing business, as well as identify and capture new opportunities:

Applying our customized module design capabilities to new end-markets. We have leveraged our customized module design capabilities and our deep, multi-level customer relationships to follow our customers into new end-markets. Since 1995, we have been a provider of customized module design solutions for telecommunications equipment to ZTE, one of the largest telecommunications equipment manufacturers in the PRC. ZTE first sought to enter the mobile handset market in the PRC in 2000. Based on our working history with ZTE on telecommunications equipment solutions and on our proven design capabilities, ZTE selected us as a provider of customized module design solutions for their mobile handsets in 2000. Our total net revenue from ZTE was RMB672.6 million (USD101.9 million) in 2010.

Suppliers

We develop our customized module design solutions based on technology components provided by key technology and other suppliers in our target end-markets. We work with a select list of more than 30 key suppliers, including:

Supplier Name	Product
Broadcom	Various products including integrated circuit and Bluetooth
Matsushita	Switches, connectors, relay
Sandisk	Flash memory
Atmel	Microcontrollers
Freescale Semiconductor	Microcontrollers
Xilinx	Microcontrollers

In 2008, 2009 and 2010, based on cost, our major suppliers from whom we purchase components sold to our customers were as follows:

Supplier Name	2010	2009	2008
	% of Cost of sales (%)	% of Cost of sales (%)	% of Cost of sales (%)
Broadcom	37.7	36.3	31.7
Matsushita	9.3	10.1	7.5
Sandisk	8.2	9.7	*
Atmel	7.1	4.1	*
Freescale Semiconductor	6.3	9.4	*
Foxconn	*	*	12.6
JDS Uniphase	*	*	5.1

* Not a significant supplier in the respective year.

We have established long-standing relationships with our key suppliers. For example, we have worked with Matsushita since our inception in 1995. While we depend on our key suppliers, we believe that we can find alternative suppliers within a reasonable amount of time without significantly altering our proposed solutions. For further information concerning our reliance on Broadcom, Matsushita and other key suppliers, see “Risk factors—Reliance on our suppliers, with whom we often do not have long-term supply agreements, makes us vulnerable to the loss of one or more key suppliers or the delivery capabilities of our suppliers.”

Development of collaborative relationships with key component suppliers. We have expanded our business by collaborating with our key component suppliers and incorporating our suppliers’ technology components into our module reference designs to provide customized solutions for different OEM customers. For example, demand for flash memory integrated circuits has increased as the need for high volume storage has grown rapidly due to the more advanced data services offered over wireless networks onto mobile handsets. We developed a storage module by incorporating our supplier’s flash memory products, customizable for each customer according to their varying design criteria. Through this approach, we were able to customize each module to provide optimal functionality to a variety of OEM customers. Our ability to bring this solution to each of these OEM customers:

- allow our customers to optimize their mobile handsets by incorporating flash memory technology in a fast and cost-efficient fashion;
- allow this supplier to penetrate the PRC market and specific OEM customers, without having to design and manufacture separate flash memory products; and
- reinforce and broaden our relationship with this key component supplier.

Sales and Marketing

We generate sales of our customized module design solutions through our direct sales force, consisting of approximately 177 sales directors, account managers and sales support staff as of December 31, 2010. Our sales directors are responsible for establishing sales strategy and setting objectives for specific customer accounts. Each account manager is dedicated to a specific customer account and is responsible for the day-to-day management of that customer relationship. Account managers work closely with customers and, in many cases, provide on-site support. Account managers often attend our customers’ internal meetings related to production, engineering design and quality assurance to ensure that our customers’ expectations are appropriately interpreted and communicated to our operations group, and ultimately met or exceeded throughout the design process. Account managers also work with our customers to identify and meet their cost and design-to-delivery cycle time objectives.

Our new business development account managers initiate and maintain long-term, multi-level relationships with customer accounts and work closely with customers on new business opportunities throughout the design-to-delivery cycle.

Competition

We believe that the principal competitive factors affecting the markets for our customized module design solutions and engineering services include:

- understanding our customers' time-to-market, technology and cost requirements;
- access to technology providers;
- pricing and efficiency;
- design capabilities;
- customer relationships; and
- technical support.

We believe that we compare favorably with respect to each of these criteria. In addition, while we do not believe that there are any direct competitors of any meaningful size that operate using the same business model as ours, we face indirect competition from the following:

Other technology component suppliers. For each project, we work with suppliers to compete against other technology component suppliers. Consequently, we indirectly compete against our suppliers' competitors. For example, by working with JDS Uniphase, we compete indirectly against companies such as Avanex and Bookham in supplying optical transmission module designs.

Component manufacturers and distributors. We compete indirectly with component manufacturers such as Epcos, and component distributors such as Arrow Electronics, Inc. and Avnet, Inc., which may seek to expand their product/service offerings to include customized module design solutions. We believe that these large component manufacturers and distributors have not historically engaged in customized module design, and therefore we believe that it is not one of their core competencies.

We may also face indirect competition from customers and suppliers. Currently many of our customers and suppliers do not focus on customized module design. If our customers or suppliers decide to devote more time and resources to in-house module design, the demand for our solutions may decline. In addition, our customers may change their procurement strategy or decide to rely on us primarily for component delivery and not for integration or design work. Similarly, component suppliers may also seek to offer their component products or modules incorporating key components from our solutions directly to our customers.

Intellectual Property

We currently have five issued utility patents relating to our lightning surge protection for network products and a ceramic-to-steel adhesive application and a patent on algorithm for quality of services, or QoS, relating to our digital media application. Historically, we have derived a small percentage of our net revenue from our proprietary products.

Employees

As of December 31, 2010, we had approximately 560 employees, 280 in research and development, 177 in sales and marketing and 103 in administrative positions.

We make contributions for all of our employees in the PRC to retirement benefits based on their salaries and length of service upon retirement in accordance with a PRC government-managed retirement plan. The mandatory insurance schemes in Shenzhen, PRC includes a pension scheme, medical insurance, work-related insurance and unemployment insurance. The PRC government is directly responsible for the payments of benefits to these retired employees. We are required to make contributions to the government-managed retirement plan at specified rates of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time.

We operate a Mandatory Provident Fund Scheme (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The assets of the MPF scheme are held by independent trustees and are separated from those of our assets. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HKD20,000. Contributions to the plan by the employee vest immediately.

Our future success will depend, in part, on our ability to continue to attract, retain and motivate highly qualified technical, marketing and management personnel, for whom competition is intense. Our employees are not covered by any collective bargaining agreement and we have never experienced a work stoppage. We believe we enjoy good relations with our employees.

ITEM 1A. RISK FACTORS

In addition to the other information in this Form 10-K, readers should carefully consider the following important factors. These factors, among others, in some cases have affected, and in the future could affect, our financial condition and results of operations and could cause our future results to differ materially from those expressed or implied in any forward-looking statements that appear in this Form 10-K or that we have made or will make elsewhere.

Risks Related to Our Business

Our operating results fluctuate from quarter to quarter.

Our quarterly revenue, income and other operating results have fluctuated in the past and may fluctuate significantly in the future due to a number of factors, including the following:

- the ability of our suppliers to meet our supply requirements;
- the cancellation of large orders;
- competitive pressures;
- the time required for research and development;
- changing design requirements resulting from rapid technology shifts; and
- industry trends impacting the overall market for our customers’ end-products.

As a result of these and other factors, our results of operations may vary on a quarterly basis and net revenue may be adversely affected from period to period. Our results of operations for a particular quarter may not be indicative of our future performance. If our operating results in a quarter fall below our expectations or the expectations of market analysts or investors, the price of our common stock is likely to decrease.

Our operating results are substantially dependent on development of new customized module design solutions.

We may be unable to develop new customized module design solutions in a timely or cost-efficient manner, and these new solutions may fail to meet the requirements of our customers' end-markets. If we fail to develop new solutions that help our customers respond to competitive pressures, achieve shorter time-to-market or broaden and improve their product offerings, we will lose business and our results of operations will be materially and adversely affected.

If our customers do not accept our proposed customized module design solutions or do not purchase from us the specified components contained in the proposed module reference design, our net revenue will be adversely affected.

While many of our proposed customized module design solutions are accepted by our customers, there is no obligation for customers to accept our proposed solutions. We dedicate personnel, management and financial resources to research and development and technical support in developing new customized module design solutions for our customers. The time frames for most research and development projects typically range from two to eighteen months. For our product sales segment, because we do not charge a design fee, but rather generate revenue through the resale of specified components contained in our proposed reference designs, if our customers do not accept our proposed designs, we will fail to capitalize on the invested resources, time and effort that we expended on a project. Furthermore, our customers typically make purchases on a purchase order basis. Prior to submission of a purchase order, our customers are not obligated to purchase from us any quantity of specific components that we propose to sell in our proposed module reference design. Our customers may cancel or defer their purchase orders on short notice without significant penalty. Even if a customer accepts our proposed module reference design, the customer could bypass us and contract with our competitors or possibly our suppliers directly for the purchase of the specific components we otherwise had proposed to sell. The failure to accept our proposed module reference design, the loss of ongoing business from our customers or the transition away from us in favor of direct purchases from our competitors or suppliers could each result in our failure to realize potentially significant net revenue.

Reliance on our suppliers, with whom we often do not have long-term supply agreements, makes us vulnerable to the loss of one or more key suppliers or the delivery capabilities of our suppliers.

We typically rely on a limited number of key suppliers, and many customized module design solutions that we develop are designed around technology components provided by our suppliers. We typically do not have long-term supply agreements or other forms of exclusive arrangements with our suppliers. In 2010, for example, Broadcom, Matsushita, Sandisk and Atmel, accounted for approximately 37.7%, 9.3%, 8.2% and 7.1%, respectively, of our cost of sales. If we lose a key supplier or a supplier reduces the quantity of products it sells to us, does not maintain a sufficient inventory level of products required by us or is otherwise unable to meet our demand for its components, we may have to expend significant time, effort and other resources to locate a suitable alternative supplier and secure replacement components. For example, on one prior occasion, one of our key suppliers experienced an interruption in its production capacity due to a relocation of its production facilities, which resulted in its inability to meet our quarterly supply requirements. If suitable replacement components are unavailable, we may be forced to redevelop certain of our solutions, which ultimately may not be accepted by our customers.

Also, if our suppliers fail to introduce new products that keep up with new technologies, they may be surpassed by other suppliers entering the market with whom we may not have existing relationships. The costs and delays related to finding new suppliers or redeveloping solutions could significantly harm our business.

If we fail to attract and retain key personnel, particularly our chief executive officer, our business will be materially impaired and our financial condition and results of operations will suffer.

Our business greatly relies on the continued services of Jeffrey Kang, our principal shareholder and chief executive officer. Many relationships with our key suppliers and key customers have been developed by and continue to be maintained by Mr. Kang. Our future success will depend to a significant degree upon the performance and contribution of Mr. Kang and other members of our senior management team in areas including sales, research and development, information technology and finance. Therefore, our business and results of operations may be materially and adversely affected if Mr. Kang or another member of our senior management team leaves us, which they may do at any time. In addition, we will incur additional expenses to recruit and develop senior management members if one or more of our key employees are unwilling or unable to continue his or her employment with us. We do not maintain any life insurance covering our senior management or any of our key employees.

Our future success also depends on our ability to identify, attract, hire, train, retain and motivate highly-skilled personnel. If we cannot attract and retain the personnel we require at a reasonable cost, our cost of goods sold will increase and the profitability of our business could be negatively affected. Our business is especially dependent on sales, marketing, research and development, and services personnel. Competition in the PRC for executive-level and skilled technical and sales and marketing personnel is strong, and recruiting, training, and retaining qualified key personnel are important factors affecting our ability to meet our growth objectives. Should key employees leave our company, we may lose both an important internal asset and net revenue from customer projects in which those employees were involved.

Loss of key customers may adversely impact our net revenue.

We generate the majority of our net revenue from a small number of key customers, and we anticipate that a relatively small number of key customers will continue to account for a significant portion of our net revenue in the foreseeable future, particularly in the telecommunications equipment market. In 2010, our sales to ZTE, Skyworth Digital and T&W Electronics accounted for approximately 26.0%, 7.0%, and 5.1% respectively, of our net revenue. Sales to our top 10 customers represented approximately 54.3% of our net revenue in 2010. Should we lose, receive reduced orders from, or experience any adverse change in our relationship with any of our key customers, or should they decide to use solutions provided by other companies, we will suffer a substantial loss in net revenue.

The end-markets in which we operate are highly competitive and fragmented. Competition may intensify in the future, and if we fail to compete effectively, our business will be harmed.

Pressures from current or future competitors could cause our solutions to lose market acceptance or require us to significantly reduce our sales prices to keep and attract customers. Our competitors often have longer operating histories, stronger customer and supplier relationships, larger technical staffs and sales forces, and/or greater financial, technical and marketing resources than we do. Although we believe that there are no direct competitors of any meaningful size who operate using the same business model as ours, we face indirect competition from:

- *Other technology component suppliers.* For each project, we work with one enabling technology component supplier to compete against other enabling technology component suppliers. Consequently, we indirectly compete against our suppliers' competitors. For example, by working with JDS Uniphase, we compete against companies such as Avanex Corp. and Bookham Inc. in supplying optical transmission module design solutions.
- *Component manufacturers and distributors.* We compete indirectly with component manufacturers such as Epcos AG, and component distributors such as Arrow Electronics, Inc. and Avnet Inc., which may seek to expand their product/service offerings to include customized module design solutions.

We may also face indirect competition from customers and suppliers. Currently many of our customers and suppliers do not focus on customized module design. If our customers or suppliers decide to devote more time and resources to in-house module design, the demand for our solutions may decline. In addition, our customers may change their procurement strategy or decide to rely on us primarily for component delivery and not for integration or design work. Similarly, component suppliers may also seek to offer their component products or modules incorporating key components from our solutions directly to our customers. The loss of customers for our customized module design solutions as a result of these competitive factors would have a material adverse effect on our business, financial condition and results of operations.

As we expand our business, we intend to develop new customized module design solutions and technological capabilities in end-markets where we do not currently have extensive experience or technological capability. Failure to develop or execute this growth strategy will have a material adverse effect on our net revenue.

Prior to 2005, we derived substantially all of our net revenue from our customized module design solutions provided to customers in the mobile handset and telecommunications equipment end-markets. In 2005, we began targeting the digital media end-market. In 2006 and 2007, we began our own business of providing engineering service and software design, respectively. In 2008, we also started targeting the industrial business end-market. Our success in the digital media end-market will depend, in significant part, on our ability to continue to develop the necessary technological capability and to leverage our existing customer base that has expanded into this end-market. If we are unable to quickly develop technological expertise, increase our research and development capabilities and leverage our customer base as anticipated, our return on our investment with respect to these efforts may be lower than anticipated and our operating results may suffer. Finally, our customer base may not respond to our efforts to expand our proprietary capabilities and may be unwilling to utilize these enhanced capabilities.

We may be unable to manage rapid growth and a changing operating environment, which could adversely affect our ability to serve our customers and harm our business.

We have experienced rapid growth over the last five years, with our net revenue increasing from RMB1,323.6 million in 2006 to RMB2,589.5 million (USD392.4 million) in 2010. Our number of employees has increased from approximately 30 in 2001 to 560 as at December 31, 2010. We have limited operational, administrative and financial resources, which may be inadequate to sustain our current growth rate. If we are unable to manage our growth effectively, the quality of our solutions could deteriorate and our business may suffer. As our customer base increases and we enter new end-markets, we will need to:

- increase our investments in personnel, research and development capabilities, facilities and other operational areas;
- continue training, motivating and retaining our existing employees, and attract and integrate new qualified employees;
- develop and improve our operational, financial, accounting and other internal systems and controls; and
- take enhanced measures to protect any proprietary technology or technological capability we develop.

Any failure to manage our growth successfully could distract management's attention and result in our failure to serve our customers and harm our business.

We face risks associated with future investments or acquisitions.

An important component of our growth strategy is to invest in or acquire businesses complementary to ours that will enable us to expand the solutions we offer to our existing target customer base, and that will provide opportunities to expand into new markets. We may be unable to identify suitable investment or acquisition candidates or to make these investments or acquisitions on a commercially reasonable basis, if at all. If we complete an investment or acquisition, we may not realize the anticipated benefits from the transaction.

Integrating an acquired company or technology is complex, distracting and time consuming, as well as a potentially expensive process. The successful integration of an acquisition would require us to:

- integrate and retain key management, sales, research and development, and other personnel;
- incorporate the acquired products or capabilities into our offerings both from an engineering and sales and marketing perspective;
- coordinate research and development efforts;

- integrate and support pre-existing supplier, distribution and customer relationships; and
- consolidate duplicate facilities and functions and combine back office accounting, order processing and support functions.

The geographic distance between the companies, the complexity of the technologies and operations being integrated and the disparate corporate cultures being combined may increase the difficulties of combining an acquired company or technology. Acquired businesses are likely to have different standards, controls, contracts, procedures and policies, making it more difficult to implement and harmonize company-wide financial, accounting, billing, information and other systems. Management's focus on integrating operations may distract attention from our day-to-day business and may disrupt key research and development, marketing or sales efforts.

Our acquisition strategy also depends on our ability to obtain necessary government approvals that may be required, as described under “—Risks Related to Doing Business in the PRC—Our acquisition strategy may be subject to SDRC approval under legislation enacted in 2004.”

Our competitive position could decline if we are unable to obtain additional financing to acquire businesses or technologies that are strategic for our success, or otherwise execute our business strategy.

We believe that our current cash will be sufficient to fund our working capital and capital expenditure requirements for at least the next twelve months. However, we may need to raise additional funds to support more rapid expansion, respond to competitive pressures, acquire complementary businesses or technologies or respond to unanticipated requirements. We cannot assure you that additional funding will be available to us in amounts or on terms acceptable to us. If sufficient funds are not available or are not available on acceptable terms, our ability to fund our expansion, take advantage of acquisition opportunities, develop or enhance our services or products, or otherwise respond to competitive pressures would be significantly limited.

If appropriate opportunities arise, we intend to acquire businesses, technologies, services or products that we believe are strategic for our success. Our competitive position could decline if we are unable to identify and acquire businesses or technologies that are strategic for our success in this market.

The unauthorized use of our module design solutions could have a material adverse impact on our net revenue.

Our in-house design engineering teams develop our customized module design solutions. We typically do not have patent or other intellectual property protection for our solutions, nor do we typically have non-disclosure or confidentiality agreements with most of our suppliers or customers to keep our design specifications confidential. Suppliers or other competitors may attempt to circumvent us by selling products or providing module design solutions directly to our customers. The unauthorized use by our suppliers or other competitors of our module design solution specifications or other intellectual property in the future would result in a substantial decrease in our net revenue. The validity, enforceability and scope of protection of intellectual property in the PRC is uncertain and still evolving, and PRC laws may not protect intellectual property rights to the same extent as the laws of some other jurisdictions, such as the United States. Moreover, litigation may be necessary in the future to enforce any intellectual property rights we may establish or acquire in the future, which could result in substantial costs and diversion of our resources, and have a material adverse effect on our business, financial condition and results of operations.

We became a public company through a share exchange with a non-operating public shell company, where we were the accounting acquirer and assumed all known and unknown potential liabilities of our predecessor entity.

Our July 2004 share exchange with Trident was accounted for as a reverse merger in which Cogo Cayman was deemed the accounting acquirer and Trident, which was originally incorporated in 1917, was the legal acquirer. We have retained all the known and unknown liabilities of Trident. There may be other potential liabilities about which we are not yet aware. For any potential liabilities arising from litigations, see “Item 3. Legal proceedings” for additional details.

We depend upon contractual agreements with the two shareholders of Shenzhen Comtech in conducting our business through Shenzhen Comtech and Shanghai E&T and receiving payments, which may not be as effective in providing operational control as direct ownership and may be difficult to enforce. Further, if the PRC government finds these contractual agreements violate or conflict with PRC governmental regulations, our business would be materially adversely affected.

At the time of its incorporation, foreign shareholding in a trading business such as Shenzhen Comtech could not exceed 65%. With subsequent PRC deregulation, foreign ownership of such a trading business can now reach 100%, and approval of foreign ownership of companies in the PRC engaged in commodity trading businesses—which includes agency trade, wholesale, retail and franchise operations is now delegated to local government agencies of the PRC Ministry of Commerce. In order to exercise control over Shenzhen Comtech (a PRC operating company legally permitted to engage in a commodity trading business), without direct shareholding by us (a U.S.-listed company and therefore a foreign-invested entity), Honghui Li, our vice president, and Huimo Chen, the mother of our principal shareholder and chief executive officer, Jeffrey Kang, hold 99% and 1%, respectively, of the equity interests of Shenzhen Comtech, and through contractual agreements with us hold such equity interests exclusively for the benefit of our 100% directly owned subsidiary, Comtech China. Shenzhen Comtech, in turn owns a 60% equity interest in another of our PRC operating companies, Shanghai E&T, with the other 40% being held by Comtech China through trust agreements. Under the trust agreements, Shenzhen Comtech owns a 35% equity interest in Shanghai E&T for the benefit of Comtech China and Honghui Li owns a 5% equity interest in Shanghai E&T for the benefit of Comtech China. While we do not have any equity interest in Shenzhen Comtech, through these contractual agreements, we enjoy voting control and are entitled to the economic interests associated with their equity interest in Shenzhen Comtech. For additional details regarding these contractual agreements, see “Item 13. Certain Relationships and Related Transactions, and Director Independence.” These contractual agreements may not be as effective in providing us with control over Shenzhen Comtech as direct ownership because we rely on the performance of Honghui Li and Huimo Chen under the agreements. If they fail to perform their respective obligations under the agreements, we may have to incur substantial costs and resources to enforce such agreements and may not be able to do so in any case. Further, the profits of Shenzhen Comtech may not be able to be remitted outside the PRC due to foreign exchange controls. Also, we must rely on legal remedies under applicable law, which may not be as effective as those in the United States. Because we rely on Shenzhen Comtech and Shanghai E&T in conducting our business operations in the PRC, the realization of any of these risks relating to our corporate structure could result in a material disruption of our business, diversion of our resources and the incurrence of substantial costs, any of which could materially and adversely affect our operating results and financial condition.

In the opinion of our PRC counsel, the ownership structure of Shenzhen Comtech and the contractual agreements among Comtech China, Honghui Li and Huimo Chen do not violate existing PRC laws, rules and regulations. There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations, including but not limited to the laws and regulations governing the validity and enforcement of these contractual agreements. Accordingly, we cannot assure you that PRC regulatory authorities will not determine that these contractual agreements violate or conflict with PRC laws or regulations.

If we or our PRC operating company, Shenzhen Comtech, are found to violate any existing or future PRC laws or regulations, the relevant regulatory authorities will have broad discretion in dealing with such violation, which would cause significant disruptions to our business operations or render us unable to conduct our business operations and may materially adversely affect our business, financial condition and results of operations.

Risks Related to Our Industry

Our inability to respond quickly and effectively to rapid technological advances and market demands would adversely impact our competitive position and our results of operations.

Historically, we have focused on the digital media and telecommunications equipment end-markets in the PRC. The digital media and telecommunications equipment end-markets are characterized by rapid technological advances, intense competition, frequent introduction of new products and services and consumer demand for greater functionality, lower costs, smaller products and better performance. We must constantly seek out new products and develop new solutions to maintain in our portfolio. We have experienced and will continue to experience some solution design obsolescence. We expect our customers’ demands for improvements in product performance to increase, which means that we must continue to improve our design solutions and develop new solutions to remain competitive and grow our business. Our failure to compete successfully for customers will result in price reductions, reduced margins or loss of market share, any of which would harm our business, results of operations and financial condition.

A large portion of our net revenue currently comes from sales to manufacturers in the cyclical digital media and telecommunications equipment end-markets and cyclical downturns could harm our operating results.

The digital media and telecommunications equipment end-markets in particular are highly cyclical and have experienced severe and prolonged downturns, often in connection with maturing product cycles and declines in general economic conditions. These downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. The impact of slowing end-customer demand may be compounded by higher than normal levels of equipment and inventories among our customers and our customers' adjustments in their order levels, resulting in increased pricing pressure.

In addition, our recent and significant growth in net revenue resulted, in large part, from the high growth in sales of industrial applications products in the PRC. These domestic manufacturers may not continue to grow their sales at historical levels, if at all. The stagnation or reduction in overall demand for industrial applications products would materially affect our results of operations and financial condition.

The digital media end-market is characterized by a short product lifecycle, making time-to-market and sensitivity to customer needs critical to our success and our failure to respond will harm our business.

Mobile handsets in the digital media end-market typically have a lifecycle of approximately six to twelve months before the technology becomes obsolete. Time-to-market, both with respect to our customers' ability to supply consumers with timely and marketable products and our ability to provide our customers with a wide array of latest generation customized module design solutions, is critical to our success. As design cycles in the industry shorten, we face logistical challenges in providing our solutions in an increasingly shorter timeframe. If we are unable to respond to the shortened lifecycles and time-to-market, our business will suffer.

The global financial crisis could harm our product demands and adversely affect our results of operations.

Due to difficult market conditions, the level of consumer and information technology spending has declined and the demand for our mobile handsets business since the third quarter of 2008 has decreased. Furthermore, we may need to strategically lower our pricing in order to grow our business in a slowing economic environment.

Risks Related to Doing Business in the PRC

There are substantial risks associated with doing business in the PRC, including those set forth in the following risk factors.

Our operations may be adversely affected by the PRC's economic, political and social conditions.

Substantially all of our operations and assets are located in the PRC and substantially all of our net revenue are derived from our operations in the PRC. Accordingly, our results of operations and future prospects are subject to economic, political and social developments in the PRC. In particular, our results of operations may be adversely affected by:

- changes in the PRC's political, economic and social conditions;
- changes in policies of the government or changes in laws and regulations, or the interpretation of laws and regulations;
- changes in foreign exchange regulations;

- measures that may be introduced to control inflation, such as interest rate increases; and
- changes in the rate or method of taxation.

The PRC economy has historically been a planned economy. The majority of productive assets in the PRC are still owned by various levels of the PRC government. In recent years the government has implemented economic reform measures emphasizing decentralization, utilization of market forces in the development of the economy and a high level of management autonomy. Such economic reform measures may be inconsistent or ineffectual, and we may not benefit from all such reforms. Furthermore, these measures may be adjusted or modified, possibly resulting in such economic liberalization measures being applied inconsistently from industry to industry, or across different regions of the country.

In the past twenty years, the PRC has been one of the world's fastest growing economies in terms of gross domestic product, or GDP. This growth may not be sustainable. Moreover, a slowdown in the economies of the United States, the European Union and certain Asian countries may adversely affect economic growth in the PRC which depends on exports to those countries. Our financial condition and results of operations, as well as our future prospects, would be materially and adversely affected by an economic downturn in the PRC.

Our financial results benefit from tax concessions granted by the PRC government, the change to or expiration of which would materially change our results of operations.

Our results of operation may be adversely affected by changes to or expiration of tax holiday and preferential tax concessions that some of our PRC operating companies currently enjoy or expect to enjoy in the future. As a result of tax holiday and preferential tax rate incentives, our operations have been subject to relatively low tax liabilities. Tax that would otherwise have been payable without preferential tax treatment amounted to approximately RMB28.6 million (USD4.3 million) in 2010. For additional details regarding these tax incentives, please see "Item 7. Management's discussion and analysis of financial condition and results of operations—Income Tax."

Tax laws in the PRC are subject to interpretations by relevant tax authorities. The preferential tax treatment may not remain in effect or may change, in which case we may be required to pay the higher income tax rate generally applicable to Chinese companies, or such other rate as is required by the laws of the PRC.

On March 16, 2007, the National People's Congress passed the Corporate Income Tax law (the "CIT law"), which revised the PRC statutory income tax rate to 25%. The CIT law was effective on January 1, 2008. Accordingly, our PRC subsidiaries are subject to income tax at 25% effective from January 1, 2008 unless otherwise specified. The CIT law and its relevant regulations provide a five-year transition period from January 1, 2008 for those companies which were established before March 16, 2007 and were entitled to preferential lower tax rates under the then effective tax regulations, as well as grandfathering certain tax holidays. The transitional tax rates are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively. For our subsidiaries located in Shenzhen Special Economic Zone, the PRC that were each entitled to a tax holiday of two-year tax exemption followed by three-year 50% tax reduction starting from the first profit making year from the PRC tax perspective, they are entitled to enjoy the transitional rates and continue their tax holidays until they expire. For the entities which had not commenced their respective tax holidays as of December 31, 2007, the CIT law and its relevant regulations require their tax holidays to begin on January 1, 2008.

The telecommunications equipment market is extensively regulated in the PRC.

The telecommunications equipment end-market accounted for 24.3% of our net revenue in 2010. PRC's telecommunications industry is heavily regulated. Changes in regulations affecting sales of these customers could negatively affect the telecommunications equipment end-market for our solutions, which will materially harm our business.

PRC government control of currency conversion may affect our ability to meet foreign currency obligations.

Because the majority of our net revenue are denominated in Renminbi, any restrictions on currency exchange may limit our ability to use revenue generated in Renminbi to meet our foreign currency obligations, such as settling the purchase of materials which may be denominated in U.S. dollars. The principal regulation governing foreign currency exchange in the PRC is the Foreign Currency Administration Rules (1996), or the Rules, as amended. Under the Rules, once certain procedural requirements are met, Renminbi is convertible for current account transactions, including trade and service-related foreign exchange transactions and dividend payments, but not for capital account transactions, including direct investment, loans or investments in securities outside the PRC, without prior approval of the PRC State Administration of Foreign Exchange (“SAFE”), or its local counter-parts. Since a significant amount of our future revenues will continue to be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to utilize revenue generated in the PRC to fund our business activities outside of the PRC, if any, or expenditures denominated in foreign currencies, or our ability to meet our foreign currency obligations, which could have a material adverse effect on our business, financial condition and results of operations. We cannot be certain that the PRC regulatory authorities will not impose more stringent restrictions on the convertibility of Renminbi with respect to foreign exchange transactions.

PRC regulations relating to offshore investment activities by PRC residents may increase the administrative burden we face and create regulatory uncertainties that could restrict our overseas and cross-border investment activity, and a failure by our shareholders who are PRC residents to make any required applications and filings pursuant to such regulations may prevent us from being able to distribute profits and could expose us and our PRC resident shareholders to liability under PRC law.

In October 2005, SAFE promulgated regulations that require PRC residents and PRC corporate entities to register with and obtain approvals from relevant PRC government authorities in connection with their direct or indirect offshore investment activities. These regulations apply to our shareholders who are PRC residents in connection with our prior and any future offshore acquisitions.

The SAFE regulation required registration by March 31, 2006 of direct or indirect investments previously made by PRC residents in offshore companies prior to the implementation of the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies on November 1, 2005. If a PRC shareholder with a direct or indirect stake in an offshore parent company fails to make the required SAFE registration, the PRC subsidiaries of such offshore parent company may be prohibited from making distributions of profit to the offshore parent and from paying the offshore parent proceeds from any reduction in capital, share transfer or liquidation in respect of the PRC subsidiaries, and may be prohibited from receiving capital contributions, shareholder loan or other payments from our offshore parent company, and may be further prohibited from making payments to or receiving payments from other overseas entities. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for foreign exchange evasion.

Some of our PRC resident shareholders may not have completed their registration with SAFE under the SAFE regulation, in part, due to confusion over the application of the SAFE regulation to our company. For example, in mid-2006, some of our PRC resident shareholders attempted to register with SAFE in Shenzhen under predecessor regulations to the SAFE regulation, but were informed by Shenzhen SAFE that the regulation did not apply to them. These PRC resident shareholders did not realize they might be required to register under the new SAFE regulations. Further, even if our PRC resident shareholders do apply for SAFE registration, they may not be able to obtain such registration at the discretion of SAFE due to various reasons including their failure to comply with the retroactive SAFE registration requirement prior to March 31, 2006, the statutorily prescribed deadline for compliance. The failure or inability of our PRC resident shareholders to obtain any required approvals or make any required registrations may subject us to fines and legal sanctions, prevent us from being able to make distributions or pay dividends or to receive capital contribution or shareholder loans, as a result of which our business operations and our ability to distribute profits to you or capitalize our operation in the PRC could be materially and adversely affected.

In December 2006, the People's Bank of China promulgated the Administrative Measures of Foreign Exchange Matters for Individuals, or the PBOC Regulation, setting forth the respective requirements for foreign exchange transactions by PRC individuals under either the current account or the capital account. In January 2007, SAFE issued implementing rules for the PBOC Regulation, which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen's participation in the employee stock ownership plans or stock option plans of an overseas publicly-listed company. On March 28, 2007, SAFE promulgated the Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan or Stock Option Plan of Overseas-Listed Company, or the Stock Option Rule. Under the Stock Option Rule, PRC citizens who are granted stock options by an overseas publicly-listed company are required, through a PRC agent or PRC subsidiary of such overseas publicly-listed company, to register with SAFE and complete certain other procedures. We and our PRC employees who have been granted stock options will be subject to the Stock Option Rule when our company becomes an overseas publicly-listed company. If we or our PRC optionees fail to comply with these regulations, we or our PRC optionees may be subject to fines and legal sanctions.

Our acquisition strategy may be subject to SDRC approval under legislation enacted in 2004.

State Development and Reform Commission, or SDRC, promulgated a regulation in 2004 that requires SDRC approval in connection with direct or indirect offshore investment activities by individuals who are PRC residents and PRC corporate entities. This regulation may apply to our future offshore or cross-border acquisitions, as well as to the equity interests in offshore companies held by our PRC shareholders who are considered PRC residents. We intend to make all required application and filings, and will require the shareholders of the offshore entities in our corporate group who are considered PRC residents to make the application and filings, as required under the regulation and under any implementing rules or approval practices that may be established under this regulation. However, because this regulation lacks implementing rules, approval precedents or reconciliation with other approval requirements, it remains uncertain how this regulation, and any future legislation concerning offshore or cross-border transactions, will be interpreted and implemented by the relevant government authorities. The approval criteria by SDRC agencies for outbound investment by PRC residents are not provided under this regulation or other SDRC regulations. Accordingly, we cannot provide any assurances that we will be able to comply with, qualify under or obtain any approval as required by this regulation or other related legislations. Our failure or the failure of our PRC resident shareholders to obtain SDRC approvals may restrict our ability to acquire a company outside of the PRC or use our entities outside of the PRC to acquire or establish companies inside of the PRC, which could negatively affect our business and future prospects.

PRC laws and our corporate structure may restrict our ability to receive dividends and payments from, and transfer funds to, our PRC operating companies, which may negatively affect our results of operations and restrict our ability to act in response to changing market conditions.

Substantially all of our operations are conducted through our PRC operating companies. The ability of our PRC operating companies to make dividends and other payments to us may be restricted by factors such as changes in applicable foreign exchange and other laws and regulations. For example, under the regulations discussed above, the foreign exchange activities of our present or prospective PRC subsidiaries are conditioned upon the compliance with the SAFE registration requirements by the shareholders of our offshore entities who are PRC residents. Failure to comply with these SAFE registration requirements may substantially restrict or prohibit the foreign exchange inflow to and outflow from our PRC subsidiaries, namely Comtech Communications and Comtech Software, including, remittance of dividends and foreign-currency-denominated borrowings by these PRC subsidiaries. In addition, our PRC operating companies are required, where applicable, to allocate a portion of their net profit to certain funds before distributing dividends, including at least 10% of their net profit to certain reserve funds until the balance of such fund has reached 50% of their registered capital. These reserves can only be used for specific purposes, including making-up cumulative losses of previous years, conversion to equity capital, and application to business expansion, and are not distributable as dividends. Our PRC operating companies are also required, where applicable, to allocate an additional 5% to 10% of their net profits to the common welfare fund. The net profit available for distribution from our PRC operating companies is determined in accordance with generally accepted accounting principles in the PRC, which may materially differ from a determination performed in accordance with Generally Accepted Accounting Principles (United States) ("U.S. GAAP"). As a result, we may not receive sufficient distributions or other payments from these entities to enable us to make dividend distributions to our shareholders in the future, even if our U.S. GAAP financial statements indicate that our operations have been profitable. For additional details regarding the taxation risk of dividend distributions from our PRC operating companies, please see "Risk factors – Our global income and your capital gain may be subject to PRC tax under the new PRC tax law, which may have an effect on our results of operations and your investments, respectively."

We do not directly own the equity interest in Shenzhen Comtech, which accounted for approximately 4.5% of our net revenue in 2010, or Shanghai E&T, which is owned 60% by Shenzhen Comtech and 40% by Comtech China through contractual agreements with Shenzhen Comtech and Honghui Li respectively, and which accounted for approximately 4.4% of our net revenue in 2010. Honghui Li and Huimo Chen, the shareholders of Shenzhen Comtech, have contractually agreed, among other things, to apply all dividends or other payments they receive from Shenzhen Comtech to payments to our 100% directly owned subsidiary, Comtech China, or its designated entities, for valid and valuable consideration and to the extent permitted by applicable PRC law, including PRC foreign exchange law. PRC law and regulatory requirements would currently restrict the ability of the shareholders of Shenzhen Comtech, based solely upon the contractual agreement, to directly apply the dividends or other payments they receive from Shenzhen Comtech in U.S. dollars to payments to Comtech China or in Renminbi to Comtech China's designated entities in the PRC. For example, the PRC foreign exchange authorities would have discretion to review the adequacy of the consideration given in exchange for the application of any dividends or payments from Shenzhen Comtech to Comtech China. If Honghui Li and Huimo Chen fail to apply such dividends or other payments received from Shenzhen Comtech, which might include profit distributions from Shanghai E&T to Shenzhen Comtech, to payments to Comtech China or its designated entities, our financial condition would be negatively affected. Apart from the dividend distribution from our PRC subsidiaries to us, the transfer of funds from our company to our PRC operating companies, either as a shareholder loan or as an increase in registered capital or otherwise, is subject to registration or approval with or by PRC governmental authorities, including the relevant administration of foreign exchange and/or other relevant examining and approval authorities. These limitations on the free flow of funds between us and our PRC operating companies may restrict our ability to act in response to changing market conditions.

Fluctuations in exchange rates could adversely affect our business.

Because a substantial majority of our earnings and cash assets are denominated in Renminbi, fluctuations in the exchange rate between the U.S. dollar and the Renminbi will affect the relative purchasing power of these proceeds and our balance sheet and earnings per share in U.S. dollars following this offering. In addition, appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value any dividend we may issue after this offering that will be exchanged into U.S. dollars and earnings from and the value of any U.S. dollar-denominated investments we make in the future. In addition, a depreciation of the Renminbi relative to the U.S. dollar would have the effect of reducing our U.S. dollar-translated net revenue and increasing the debt servicing requirements for our U.S. dollar-denominated debt. On the other hand, the appreciation of the Renminbi would make our customers' products more expensive to purchase outside of the PRC because many of our customers are involved in the export of goods, which could adversely affect their sales, thereby eroding our customer base and adversely affecting our results of operations.

Since July 2005, the Renminbi has no longer been pegged to the U.S. dollar. Although currently the Renminbi exchange rate versus the U.S. dollar is restricted to a rise or fall of no more than 0.3% per day and the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future, the PRC authorities may lift restrictions on fluctuations in the Renminbi exchange rate and lessen intervention in the foreign exchange market.

Very limited hedging transactions are available in the PRC to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currencies.

The legal system in the PRC has inherent uncertainties that may limit the legal protections available to you as an investor or to us in the event of any claims or disputes with third parties.

The legal system in the PRC is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the central government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. As PRC's foreign investment laws and regulations are relatively new and the legal system is still evolving, the interpretation of many laws, regulations and rules is not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit the remedies available to you as an investor and to us in the event of any claims or disputes with third parties. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention.

On August 8, 2006, six PRC regulatory agencies, including the Chinese Securities Regulatory Commission, or CSRC, promulgated the Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors, which became effective on September 8, 2006. This new regulation, among other things, requires offshore special purpose vehicles, or SPVs, formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. We believe, based on the advice of our PRC counsel, that this regulation does not apply to us or this offering and that CSRC approval is not required because such acquisition was completed long before September 8, 2006 when the new regulation became effective. On September 21, 2006, the CSRC published a notice specifying the documents and materials that are required to be submitted for obtaining CSRC approval. In the opinion of our PRC counsel, the new notice does not contradict its interpretation of the new regulation, nor does it add greater clarity to the applicability of the new regulation to us. Based on the advice we have received from our PRC counsel, we do not intend to seek CSRC approval in connection with this offering.

Since the new regulation has only recently been adopted, there may be some uncertainty as to how this regulation will be interpreted or implemented. If the CSRC or other PRC regulatory body subsequently determines that the CSRC's approval is required for this offering, we may face sanctions by the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operation privileges in the PRC, delay or restrict the repatriation of the proceeds from this offering into the PRC, restrict or prohibit payment or remittance of dividends by Comtech China, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our shares. The CSRC or other PRC regulatory agencies may also take actions requiring us, or making it advisable to us, to halt this offering before settlement and delivery of the shares being offered by us.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

Substantially all of our operations and assets are located in the PRC. In addition, most of our directors, executive officers and some of the experts named in this document reside within the PRC, and many of the assets of these persons are also located within the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside the PRC upon these directors or executive officers or some of the experts named in this document, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our PRC legal counsel has advised us that the PRC does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of court judgments. As a result, recognition and enforcement in the PRC of judgments of a court of the United States or any other jurisdiction, including judgments against us or our directors, executive officers, or the named experts, may be difficult or impossible.

Our global income and your dividend/capital gain may be subject to PRC tax under the new PRC tax law, which may have an effect on our results of operations and your investment, respectively.

Under the new PRC tax law, effective January 1, 2008, an enterprise established outside of the PRC with "de facto management bodies" within the PRC is considered a resident enterprise and will be subject to the corporate income tax at the rate of 25% on its global income. The new PRC tax law does not, however, clearly define the term "de facto management bodies." If the PRC tax authorities subsequently determine that we should be classified as a resident enterprise, then our global income may be subject to the corporate income tax at the rate of 25%.

Under the previous PRC tax law, dividend payments to foreign investors made by foreign-invested enterprises in the PRC are exempt from PRC withholding tax. We have been advised by our PRC counsel, Commerce & Finance Law Offices, that pursuant to the new PRC tax law which became effective on January 1, 2008, however, dividends payable for earnings accumulated beginning on January 1, 2008 by a PRC resident enterprise to its foreign corporate investors will be subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. According to the Agreement between the Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and its relevant regulations, dividends paid by a PRC resident enterprise to its direct holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the Hong Kong investor is the "beneficial owner" and owns directly at least 25% of the equity interest of the PRC resident enterprise). The new PRC tax law provides, however, dividends distributed between qualified resident enterprises will be exempted. Dividends distributed between qualified resident enterprises refer to the dividends derived by a PRC resident enterprise from its direct investment in another PRC resident enterprise. In addition, we have been advised by our PRC counsel, Commerce & Finance Law Offices, that under the new PRC tax law, foreign corporate investors may be subject to a 10% withholding tax upon any gain they realize from the transfer of our shares, if such income is regarded as income from "sources within the PRC." We have been advised by Commerce & Finance Law Offices that it is uncertain whether such income would be regarded as income from "sources within the PRC" because whether the Company would be regarded as a "PRC resident enterprise" is not clear. If we are required under the new PRC tax law to withhold PRC withholding tax on our dividends payable to our non-PRC corporate shareholders, or on any gains of the transfer of their shares, your investment in our ordinary shares may be affected.

Risks Related to Our Common Stock

Our principal shareholder and chief executive officer beneficially owns a substantial portion of our common stock. As a result, the trading price for our shares may be depressed due to market perception that our principal shareholder and chief executive officer will be able to take actions that may be adverse to your interests.

Jeffrey Kang, our principal shareholder and chief executive officer, directly and through entities he controls, currently beneficially owns approximately 29.2% of our issued and outstanding common stock. This significant concentration of share ownership may adversely affect the trading price of our common stock because investors, often perceive a disadvantage in owning shares in a company with only one or very few controlling shareholders. Furthermore, Mr. Kang has the ability to significantly influence the outcome of all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. This concentration of ownership may have the effect of delaying or preventing a change of control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if such a change of control would benefit you.

The trading prices of our shares have been and are likely to continue to be volatile, which could result in substantial losses to you.

The trading prices of our shares have been and are likely to continue to be volatile. Since January 1, 2006, the trading price of our shares on the Nasdaq Global Market has ranged from USD2.49 to USD22.15 per share, and the last reported sale price on March 14, 2011 was USD7.95 per share. The trading prices of our shares could fluctuate widely in response to factors beyond our control. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in the PRC that have listed their securities in the United States may affect the volatility in the price of and trading volumes for our shares. Recently, a number of PRC companies have listed their securities, or are in the process of preparing for listing their securities, on U.S. stock markets. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of these PRC companies' securities at the time of or after their offerings may affect the overall investor sentiment towards PRC companies listed in the United States and consequently may impact the trading performance of our shares. These broad market and industry factors may significantly affect the market price and volatility of our shares, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for our shares may be highly volatile for specific business reasons. In particular, factors such as variations in our revenues, earnings and cash flow, announcements of new investments, cooperation arrangements or acquisitions or sales of large blocks of our shares, could cause the market price for our shares to change substantially. Any of these factors may result in large and sudden changes in the volume and trading price of our shares. In the past, following periods of volatility in the market price of a company's securities, shareholders have often instituted securities class action litigation against that company. If we were involved in a class action suit, it could divert the attention of senior management, and, if adversely determined, could have a material adverse effect on our financial condition and results of operations.

Future sales of shares could have an adverse effect on the market price of our common stock.

A significant portion of our shares are held by a small number of shareholders. Historically, trading volume of our shares has been relatively low. Sales by our current shareholders of a substantial number of shares could significantly reduce the market price of our common stock. These sales could also impede our ability to raise future capital.

As of December 31, 2010, we had 35,848,764 shares of common stock outstanding, which shares will be able to be sold in the public market in the near future, subject to, with respect to shares of common stock held by affiliates and shares issued between 12 and 24 months ago, the volume restrictions and/or manner of sale requirements of Rule 144 under the Securities Act. These shares are freely tradable without restriction or further registration, subject to the related prospectus delivery requirements.

As of December 31, 2010, we had 2,098,156 stock options, equity share units, performance shares, warrants and shares issuable in relation to our acquisitions which may result in a significant number of shares entering the public market and the dilution of our common stock. In addition, in the event that any future financing should be in the form of securities convertible into, or exchangeable for, equity securities, investors may experience additional dilution upon the conversion or exchange of such securities.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We lease properties with a total area of approximately 141,000 square feet in 19 locations in the PRC including Shenzhen, Shanghai, Beijing, Hangzhou, Chengdu, Nanjing, Xi'an, Taiwan and Hong Kong. Approximately 22,000 square feet is for our corporate headquarters located in Shenzhen, approximately 50,000 square feet is for our research and development centers in Shenzhen and Shanghai, approximately 47,000 square feet is for our representative offices located in the other cities, and approximately 22,000 square feet is used for manufacturing of our proprietary lightning protection product for wireless base stations. These leases have remaining terms ranging from 3 to 29 months.

We believe that our existing facilities and equipment are well maintained and in good operating condition, and are sufficient to meet our needs for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

We are not currently involved in any material litigation. From time to time, we may be also involved in litigation arising in the normal course of our business.

ITEM 4. RESERVED

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Prices of Common Stock

Our common stock is quoted on the Nasdaq Global Select Market under the symbol "COGO." The following table sets forth the reported high and low sale prices for our common stock for the periods indicated.

Dollars Per Share	2010		2009	
	High	Low	High	Low
<i>Quarter:</i>				
First	7.63	6.35	7.47	4.73
Second	7.89	6.24	8.78	5.50
Third	7.07	6.01	6.85	5.02
Fourth	9.22	6.47	7.55	5.20

The closing price of our common stock on March 7, 2011 as reported by the Nasdaq Global Select Market was USD8.21.

Shareholders

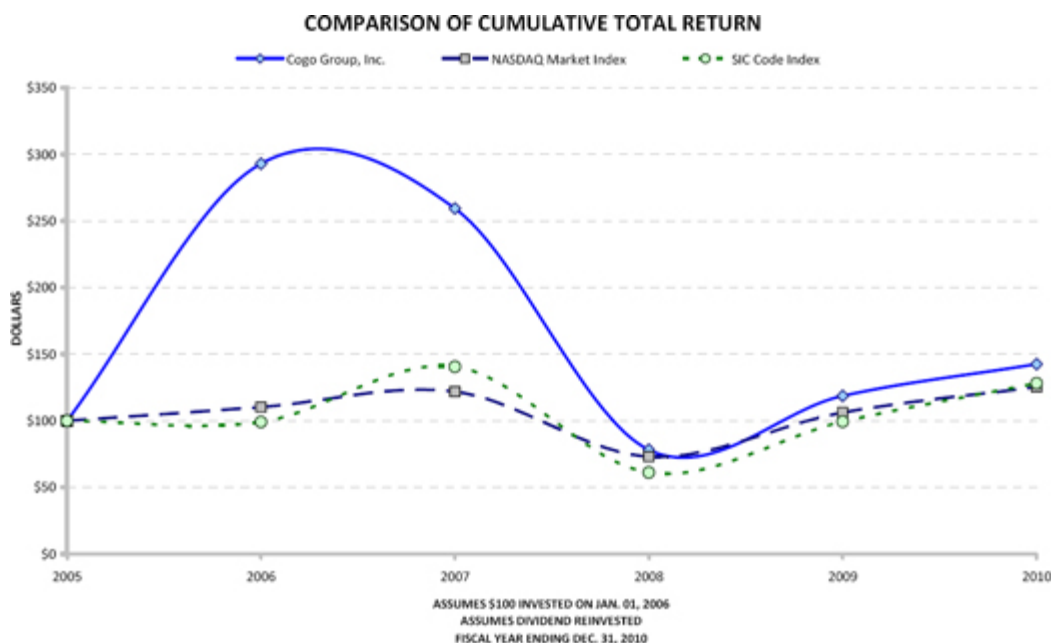
As of March 7, 2011, there were 35,848,764 shares of our common stock outstanding, and we had approximately 309 shareholders of record. The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.

Dividends

Prior to the share exchange with Trident on July 22, 2004, we declared dividends of RMB41.4 million (USD5.0 million) on our common stock. In September 2004, we paid our shareholders of record prior to the share exchange such dividends. During the last six fiscal years we have not declared any other cash dividends on our common stock.

We currently intend to retain our future earnings, if any, to finance the further development and expansion of our business and do not intend to pay cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, current and anticipated cash needs, restrictions contained in current or future financing instruments, plans for expansion and such other factors as our board of directors deems relevant.

Our PRC operating companies are required, where applicable, to allocate a portion of their net profit to certain funds before distributing dividends, including at least 10% of their net profit to certain reserve funds until the balance of such fund has reached 50% of their registered capital. These reserves can only be used for specific purposes, including making-up cumulative losses of previous years, conversion to our equity capital, and application to business expansion, and are not distributable as dividends. Our PRC operating companies are also required, where applicable, to allocate an additional 5% to 10% of their net profits to a common welfare fund. For risks associated with the uncertainty in our receipt of the equivalent economic interest in connection with the equity interest in Shenzhen Comtech, see "Risk factors—PRC laws and our corporate structure may restrict our ability to receive dividends and payments from, and transfer funds to, our PRC operating companies, which may negatively affect our results of operations and restrict our ability to act in response to changing market condition.;" See "Risk factors – Our global income and your capital gain may be subject to PRC tax under the new PRC tax law, which may have an effect on our results of operations and your investment, respectively."



Recent Sales of Unregistered Securities

None.

Equity Compensation Plan Information

See “Item 11. Executive Compensation” for the aggregate information regarding our equity compensation plans in effect on December 31, 2010.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated statements of income data for each of the years in the five-year period ended December 31, 2010 and selected consolidated balance sheet data as of December 31, 2010, 2009, 2008, 2007, and 2006, presented below are derived from our audited consolidated financial statements. The audited consolidated financial statements have been prepared in accordance with U.S. GAAP and have been audited by KPMG, an independent registered public accounting firm, for the years ended December 31, 2010, 2009, 2008, 2007 and 2006 and as of December 31, 2010, 2009, 2008, 2007 and 2006. The selected consolidated statements of income data for the years ended December 31, 2007 and 2006 and the selected consolidated balance sheet data as of December 31, 2008, 2007 and 2006 were derived from our audited financial statements which are not included in this Form 10-K.

The selected consolidated financial statements are reported in Renminbi. Renminbi and U.S. dollar amounts are presented in thousands, except share and per share data. This data should be read in conjunction with our “Management’s discussion and analysis of financial condition and results of operations” and our audited consolidated financial statements and the related notes included elsewhere in this Form 10-K.

The selected consolidated financial statement data are expressed in Renminbi (“RMB”), the national currency of the PRC. Solely for the convenience of the reader, the December 31, 2010 audited consolidated financial statements have been translated into United States dollars (“USD”) at the closing rate in New York City on December 31, 2010 for cable transfers in RMB as certified for customers purposes by the Federal Reserve Bank of New York of USD1.0000 = RMB6.6000. No representation is made that the RMB could have been, or could be, converted into USD at that rate or at any other rate on December 31, 2010, or at any other date.

Selected Consolidated Statement of Income Data

	Year Ended December 31,					
	2010 USD	2010 RMB	2009 RMB	2008 RMB	2007 RMB	2006 RMB
	(in thousands, except share and per share amounts)					
Net revenue						
Product sales	387,120	2,554,991	2,066,815	1,931,845	1,597,818	1,269,176
Service revenue	5,231	34,527	29,401	27,695	68,690	54,387
	<u>392,351</u>	<u>2,589,518</u>	<u>2,096,216</u>	<u>1,959,540</u>	<u>1,666,508</u>	<u>1,323,563</u>
Cost of sales						
Cost of goods sold	(332,561)	(2,194,901)	(1,771,166)	(1,624,101)	(1,297,225)	(1,042,951)
Cost of services	(4,238)	(27,971)	(23,716)	(18,664)	(46,368)	(33,928)
	<u>(336,799)</u>	<u>(2,222,872)</u>	<u>(1,794,882)</u>	<u>(1,642,765)</u>	<u>(1,343,593)</u>	<u>(1,076,879)</u>
Gross profit	55,552	366,646	301,334	316,775	322,915	246,684
Selling, general and administrative expenses	(29,069)	(191,855)	(124,842)	(152,898)	(120,580)	(82,177)
Research and development expenses	(11,801)	(77,888)	(67,504)	(50,947)	(40,973)	(27,977)
Provision for doubtful accounts	—	(2)	(35,992)	(6,847)	(15,051)	(7,920)
Net gain on settlement relating to the acquisition of Long Rise before goodwill impairment	6,617	43,676	—	—	—	—
Impairment loss of goodwill and intangible assets	(3,246)	(21,422)	—	(33,759)	—	—
Other operating income, net	70	463	116	214	170	185
Income from operations	18,123	119,618	73,112	72,538	146,481	128,795
Gain on disposal of a subsidiary	—	—	—	—	—	6,673
Interest expense	(1,425)	(9,407)	(1,963)	(1,056)	(2,335)	(2,896)
Interest income	2,226	14,693	14,490	27,895	25,637	7,352
Earnings before income taxes and extraordinary item	18,924	124,904	85,639	99,377	169,783	139,924
Income tax expense ⁽¹⁾	(1,795)	(11,849)	(9,207)	(2,215)	(14,275)	(11,104)
Income before extraordinary item	17,129	113,055	76,432	97,162	155,508	128,820
Extraordinary item, net of nil tax	—	—	6,737	—	—	—
Net income	17,129	113,055	83,169	97,162	155,508	128,820
Less net income attributable to noncontrolling interest	(103)	(680)	(2,945)	(1,255)	(3,065)	(5,545)
Net income attributable to Cogo Group, Inc.	17,026	112,375	80,224	95,907	152,443	123,275
Earnings per share attributable to Cogo Group, Inc.						
Income before extraordinary item	0.46	3.01	2.01	2.49	4.12	3.83
Extraordinary item	—	—	0.19	—	—	—
Basic	<u>0.46</u>	<u>3.01</u>	<u>2.20</u>	<u>2.49</u>	<u>4.12</u>	<u>3.83</u>
Income before extraordinary item	0.45	2.94	1.95	2.42	3.98	3.64
Extraordinary item	—	—	0.18	—	—	—
Diluted	<u>0.45</u>	<u>2.94</u>	<u>2.13</u>	<u>2.42</u>	<u>3.98</u>	<u>3.64</u>
Weighted average number of common shares outstanding						
Basic		<u>37,275,427</u>	<u>36,541,037</u>	<u>38,488,861</u>	<u>36,974,100</u>	<u>32,200,044</u>
Diluted		<u>38,188,814</u>	<u>37,673,351</u>	<u>39,585,921</u>	<u>38,306,969</u>	<u>33,829,519</u>
Selected Consolidated Balance Sheet Data						
Cash	106,007	699,650	667,320	686,379	919,650	375,147
Accounts receivable, net	103,320	681,911	617,613	497,992	418,329	278,589
Property and equipment, net	2,214	14,613	14,406	17,993	17,848	12,395
Total assets	351,819	2,322,017	1,921,527	1,686,810	1,840,540	907,098
Total current liabilities	91,045	600,905	350,397	257,662	361,114	241,534
Total liabilities	93,131	614,682	369,505	277,355	386,672	241,534
Total equity	258,688	1,707,335	1,552,022	1,409,455	1,453,868	665,564

(1) Certain of our operating subsidiaries were entitled to tax holidays. The effect of the tax holiday increased our net income for 2010, 2009, 2008, 2007, and 2006 by RMB26.5 million (USD4.0 million), RMB29.5 million, RMB28.2 million, RMB29.4 million and RMB28.9 million, respectively (equivalent to basic earnings per share amount of RMB0.71 (USD0.11), RMB0.81, RMB0.73, RMB0.80 and RMB0.90 and a diluted earnings per share amount of RMB0.69 (USD0.11), RMB0.78, RMB0.71, RMB0.77 and RMB0.85 for the years ended December 31, 2010, 2009, 2008, 2007 and 2006, respectively).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and the notes to those financial statements appearing elsewhere in this Form 10-K. This discussion contains forward-looking statements that involve significant risks and uncertainties. As a result of many factors, such as those set forth under "Forward Looking Statements" and "Item 1A. Risk Factors" and elsewhere in this Form 10-K, our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

We provide customized module design solutions for a diverse set of applications and end markets, serving as a gateway for our technology component suppliers to access leading electronics manufacturers in the PRC. Our customized module design solutions allow our customers to take advantage of technology components from reputable suppliers in an efficient and cost-effective manner, effectively reducing their time-to-market and lowering their overall costs. Our close collaboration with our customers' product development teams provides us with a unique understanding of their needs, enabling us to customize our suppliers' technology components with module designs that meet our customers' requirements. In addition, in 2006, we began offering technology and engineering services in the PRC and in 2007, we began offering software design services in the PRC.

We focus on the digital media, telecommunications equipment and industrial business end-markets in the PRC. In the digital media end-market, we provide mobile handset and module solutions for functionalities such as CMMB mobile TV, motion sensor, camera, power supply and Bluetooth as well as solutions for high definition digital set-top box, GPS and solutions for Tablet. In the telecommunications equipment end-market, we provide solutions for PSTN switching, optical transmitters, electrical signal processing and optical signal amplification; in the industrial business end-market, which commenced in the beginning of 2008, we provide industrial solutions for the green energy and auto-electronics sectors. Currently, we have approximately 1,600 customers, including many of the most established manufacturers in the digital media, telecommunications equipment and industrial business end-markets in the PRC such as ZTE, TCL and BYD. We work with original equipment manufacturers, or OEMs, as well as subsystem designers and contract manufacturers to provide solutions to support industry leader like Huawei. In developing customized module design solutions for use in our customers' products, we collaborate closely with over 30 suppliers of technology components, including many large multinational companies such as Broadcom, Matsushita, Sandisk and Atmel. Additionally, in October 2006, we became one of the first PRC-based companies to license software technology and have access to selected source codes directly from Microsoft.

We have two reportable operating segments: product sales consisting of revenues generated by providing customized module design solutions focusing primarily in the digital media, telecommunications equipment and industrial business end-markets, and service revenue, generated by providing technology and engineering services, network system integration and related training and maintenance services.

Principal Factors Affecting Our Results of Operations

The major factors affecting our results of operations and financial condition include:

Revenue mix. Our net revenue and gross profit are affected by our product mix. Over the last year, industrial business related sales, which have generally higher profit margins than our digital module related sales and our telecommunications equipment module related sales, have constituted a greater portion of our total net revenue as compared to the previous years.

Growth in end-market industries. The rapid growth of the domestic telecommunications equipment, industrial business and digital media end-markets have been important growth drivers for PRC's electronics manufacturing industries. Specific markets that we expect to experience continued growth are the data communications market, consisting of asymmetric digital subscriber line (ADSL) modems and Voice over Internet Protocol (VoIP) equipment; the routers and network security equipment markets; the optical transmission systems market; the fixed line telecommunications network market, as well as the digital media market particularly relating to digital TV and GPS. Increased domestic consumer spending power has contributed to rapid growth in these markets. This growth in domestic consumer spending power in turn has driven, and we believe will continue to drive, growth in the electronics manufacturing businesses supporting hardware OEMs, including those engaged in the customized design of module solutions such as ourselves. However, these industries and the respective domestic manufacturers that operate in these industries may not continue to grow their sales at historical levels, if at all. The stagnation or reduction in overall demand for telecommunications equipment, industrial business and digital media products could materially affect our results of operations.

Increase in exports. We believe that the development of a highly-skilled, low-cost manufacturing base has also enabled PRC's domestic telecommunications equipment and digital consumer electronics manufacturers to be competitive in the global marketplace. As an example, ZTE, a major manufacturer of mobile handset and telecommunications equipment in the PRC, as well as other telecommunications equipment and mobile handset manufacturers, have also begun to expand overseas. We believe that growth in the export market will likely have a positive effect on our results of operations and financial condition, as it should increase the demand for our solutions, particularly among our digital media clients.

Growth by entering new end-markets, strengthening in-house capabilities and leveraging our customer base. In 2008, we began targeting the industrial business end-market by providing industrial solutions for the green energy and auto-electronics sectors. Since then the revenues generated from this market have grown from 4.5% of our 2008 revenue to 17.4% of our 2010 revenue. We anticipate that sales related to the industrial business end-markets will generally have higher profit margins than our digital media and telecommunications equipment modules related sales, though such higher margins may decline over time as this industry matures. We will also look for opportunities to expand into new end-markets that we believe represent significant growth opportunities.

Our success in the industrial business end-market will depend, in significant part, on our ability to leverage our existing customer base. We expect to continue to incur additional research and development expenses, through hiring additional engineering personnel to develop new solutions and expanding our intellectual property and technological capabilities, to meet the needs of our customers that have expanded into or are expected to expand into the industrial business end-market.

General economic and market conditions. Due to market conditions, the level of consumer and information technology spending has declined and reduced the demand for our mobile handsets since the third quarter of 2008. Furthermore, our profit margins have been reduced since we strategically lowered our pricing in order to grow the business in a slowing economic environment. Since the third quarter of 2010 our profit margin have been stabilized and our other businesses, such as industrial business and digital media products, continue to show solid growth, driven by stable infrastructure investments in the PRC.

Net Revenue

Product sales

For our product sales segment, we do not charge our customers an independent design fee. Instead, our business model is to generate revenue by reselling a limited number of specific components required in our module reference design. The difference between the purchase price we pay our suppliers for these components and our sales price to the customer for these components compensates us for our design, technical support and distribution services. Our net revenue is net of a 17% value-added tax, or VAT. Costs incurred for the design of modules are expensed as incurred and recorded as research and development expense in the Company's consolidated statements of income and comprehensive income.

Our broad and diversified customer base includes many of the major telecommunications equipment, industrial business and digital consumer electronics manufacturers in the PRC. In addition, our customers include industry participants supporting these OEMs, such as subsystem designers and contract manufacturers in the PRC, as well as international manufacturers who have begun to manufacture end-products in the PRC for the domestic and international market. Our two largest customers from the telecommunications equipment industry in terms of 2010 net revenue were ZTE and Wuhan Research Institute of Post & Telecommunications, a major telecommunications equipment manufacturer in the PRC. Our largest customers in the digital media end-market in terms of 2010 net revenue was ZTE and Skyworth Digital, two of the leading digital set up box manufacturers in the PRC and T&W Electronics, a major broadband terminal equipment and digital consumer electronic provider in the PRC. During 2010, ZTE, Skyworth Digital, T&W Electronics, Wuhan Research Institute of Post & Telecommunications and Yulong, accounted for 26.0%, 7.0%, 5.1%, 4.7% and 2.9% of our net revenue, respectively.

Our net revenue are subject to seasonal fluctuation and periods of increased demand. All product module sales are typically highest in the fourth quarter of the year due to desire by OEMs to spend remaining budgets allocated for a given period, usually on an annual basis. Net revenue has historically been lowest in the first quarter of the year due to the Chinese New Year holiday and the general reduction in sales following the holiday season. The digital media industry also experiences cyclical fluctuations, as well as fluctuations in how quickly certain new digital media products and technologies are adopted by the market. These sales patterns may not be indicative of future sales performance.

Service Revenue

We provide technology and engineering services, and related training and maintenance services to our customers. We generate revenue when our services are rendered and acknowledged by our customers. Our service revenue is net of business tax.

Cost of Sales

Our cost of sales comprises cost of goods sold and cost of services.

Cost of Goods Sold

Cost of goods sold primarily consists of the purchase of components from suppliers. We develop our customized module design solutions based on specific technology components purchased from suppliers in our target end-markets. Our list of over 30 key suppliers includes Broadcom (integrated circuit and Bluetooth), Matsushita (switches), Sandisk (Flash memory), Freescale Semiconductor Semiconductor (automotive solutions) and Atmel (industrial solutions). We typically make purchases from our suppliers only after we have received customer orders, enabling us to maintain adequate inventory levels and, in turn, minimize risks typically associated with holding excessive inventory. During 2010, based on cost of sales, we purchased approximately 37.7%, 9.3%, 8.2% and 7.1% of the components sold to our customers from Broadcom, Matsushita, Sandisk and Atmel and its affiliated entities, respectively. If we lose a key supplier, or a supplier reduces the quantity of products it sells to us, does not maintain a sufficient inventory level of products required by us or is otherwise unable to meet our demands for its components, we may have to expend significant time, effort and other resources to locate a suitable alternative supplier and secure replacement components. Even if we are able to find a replacement supplier, we may be required to redevelop the customized module design solution to effectively incorporate the replacement components.

Cost of Services

Cost of services consists of direct staff costs and other direct related costs for providing engineering and technology services including support and materials.

Operating Expenses

Selling, General and Administrative Expenses

Our selling expenses include expenditures to promote our new module solutions and gain a larger customer base, personnel expenses and travel and entertainment costs related to sales and marketing activities, and freight charges. We expense all these expenditures as they are incurred. Selling expenses are expected to continue to grow in the future as we diversify by developing and acquiring new design capabilities and expanding into new end-markets. Also included in selling expenses is provision for doubtful accounts.

General and administrative expenses include compensation and benefits for our general and administrative staff, professional fees, amortization of intangible assets, foreign exchange losses and general travel and entertainment costs. We expense all general and administrative expenses as they are incurred. We expect that general and administrative expenses will continue to increase for the foreseeable future as a result of our expected continued growth and the continuing costs of complying with U.S. rules and regulations necessary to maintain our listing in the United States.

Research and Development Expenses

Research and development expenses consist primarily of salaries and related costs of the employees engaged in research, design and development activities; the costs for design and testing; the cost of parts for prototypes; equipment depreciation; and third party development expenses. We expense research and development expenses as they are incurred. As of December 31, 2010, we had approximately 280 engineers and other technical employees engaged in research and development related activities to develop new customized module design solutions targeted at the telecommunications equipment, industrial business and digital media industries. As a result of additional costs incurred in developing new customized module design solutions, research and development expenses were higher in 2010 than they were in 2009, and we expect that our research and development expenses, including those relating to the planned hiring of additional research and development personnel, will increase in the future as we seek to expand our business by developing new customized module design solutions and penetrating new end-markets, and as we seek to grow our engineering services business.

Noncontrolling Interest

Noncontrolling interest consisted of 40% and 30% of the outstanding equity interest in Comtech Digital Technology (Hong Kong) Limited (“Comtech Digital”) and Comtech Broadband Corporation Limited (“Comtech Broadband”), respectively. For the year ended December 31, 2010, approximately 52.3% of our total net revenue was generated through Comtech Broadband. Comtech Digital was established in March 2010 and 0.9% of our total net revenue was generated for the year 2010.

Taxation

Our Company and our subsidiaries file separate income tax returns.

USA

Our Company is incorporated in the United States, and is subject to United States federal and state income taxes. We did not generate taxable income in the United States in 2008, 2009 and 2010.

Cayman Islands and British Virgin Islands

Under the current laws of the Cayman Islands and the British Virgin Islands, our subsidiaries that are incorporated in the Cayman Islands and the British Virgin Islands are not subject to tax on income or capital gains. In addition, upon payments of dividends by these companies, no Cayman Islands or British Virgin Islands withholding tax will be imposed.

Hong Kong

Our subsidiaries that are incorporated in Hong Kong are subject to Hong Kong Profits Tax. The applicable profits tax rate is 16.5% for 2008, 2009 and 2010. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

PRC

On March 16, 2007, the National People's Congress passed the Corporate Income Tax law (the "CIT law") which revised the PRC statutory income tax rate to 25%. The CIT law was effective on January 1, 2008. Accordingly, our PRC subsidiaries are subject to income tax at 25% effective from January 1, 2008 unless otherwise specified.

Prior to January 1, 2008, Shenzhen Comtech International Limited ("Shenzhen Comtech"), Comtech Communication Technology (Shenzhen) Company Limited ("Comtech Communication"), Comtech Software Technology (Shenzhen) Company Limited ("Comtech Software"), Comloca Technology (Shenzhen) Company Limited ("Comloca"), Epcot Multimedia Technology (SZ) Co. Ltd. ("Epcot"), Shenzhen Huameng Software Company Limited ("Huameng PRC") and Viewtran Technology (Shenzhen) Co., Limited ("Viewtran PRC") (collectively the "Shenzhen Subsidiaries"), being entities located in the Shenzhen Special Economic Zone, were entitled to the preferential tax rate of 15%. In addition, the Shenzhen Subsidiaries, being production oriented foreign investment enterprises, were each entitled to a tax holiday of two-year tax exemption followed by three-year 50% tax reduction starting from the first profit making year from the PRC tax perspective ("2+3 tax holiday") under the then effective tax regulations.

The CIT law and its relevant regulations provide a five-year transition period from January 1, 2008 for those companies which were established before March 16, 2007 and were entitled to preferential lower tax rates under the then effective tax regulations, as well as grandfathering certain tax holidays. The transitional tax rates are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

Accordingly, the Shenzhen Subsidiaries are entitled to enjoy the transitional rates and continue their tax holidays until they expire. For Comloca and Huameng PRC, they had not commenced their respective tax holidays as of December 31, 2007 and CIT law and its relevant regulations require their tax holidays to begin on January 1, 2008.

Based on the above, the Shenzhen Subsidiaries are subject to the following tax rates:

- Shenzhen Comtech and Comtech Communication are subject to income tax at 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively.
- Comtech Software is subject to income tax at 9%, 10%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively.
- Comloca and Huameng PRC were tax exempt for 2008 and 2009. They are subject to income tax at 11%, 12%, 12.5% and 25% for 2010, 2011, 2012 and 2013 onwards, respectively.
- Viewtran PRC and Epcot were tax exempt for 2008 and are subject to income tax at 10%, 11%, 12% and 25% for 2009, 2010, 2011 and 2012 onwards, respectively.
- Mega Sky (Shenzhen) Limited ("Mega Sky SZ") and Mega Smart (Shenzhen) Limited ("Mega Smart SZ"), being software and integrated circuit design enterprises, are each granted a 2+3 tax holiday during 2010. As a result, they are tax exempt for 2010 and 2011, and are subject to income tax at 12.5% from 2012 to 2014 and at 25% from 2015 onwards.

In addition, in 2010, Shanghai E&T System Company Limited, Shanghai Comtech Electronic Technology Limited, Keen Awards Beijing Limited, R&E Microelectronics (Shenzhen) Company Limited, Comtech Digital Technology (Shenzhen) Limited, Chengdu Comtech Communication Technology Company Limited, Wuhan Comtech Communication Technology Company Limited, Hangzhou Mega Sky Communication Technology Company Limited and Nanjing Youyingjie Technology Company Limited are subject to the corporate income tax of 25% under the CIT law.

As a result of the incentives above, our operations have historically been subject to relatively low tax liabilities, which increase in the near future. See “Risk Factors – Our financial results benefit from tax concessions granted by the PRC government, the change to or expiration of which would materially change our results of operations.” Our effective tax rate was 9.5%, 10.8% and 2.2% in 2010, 2009 and 2008, respectively. Included in the income tax expense for the year ended December 31, 2010 was deferred income tax benefit of RMB5.3 million as a result of the amortization, disposal and impairment of intangible assets of RMB32.3 million.

Basis of Presentation

Our financial statements reflect the historical consolidated operations of Cogo Cayman. In the July 2004 share exchange with Trident, the stockholders of Cogo Cayman received in exchange for our business approximately 91.2% of the then-outstanding common stock of Trident. This share exchange transaction was accounted for as a reverse acquisition in which Cogo Cayman was deemed the accounting acquirer and Trident was deemed the legal acquirer. In connection with the share exchange, we changed our name to Comtech Group, Inc. from Trident. On May 13, 2008, we changed our name to Cogo Group, Inc.

As a result of the share exchange transaction:

- the historical financial statements of Trident for periods prior to the date of the share exchange transaction are no longer presented;
- the historical financial statements for periods prior to the date of the transaction are those of Cogo Cayman, as the accounting acquirer;
- all references to the financial statements apply to the historical financial statements of Cogo Cayman prior to the transaction; and
- the number of our shares of common stock has been restated retroactively to reflect the share exchange ratio as at the date of the share exchange transaction.

In order to exercise control over Shenzhen Comtech (a PRC operating company legally permitted to engage in a commodity trading business), without direct shareholding by us (a U.S.-listed company and therefore a foreign-invested entity), Honghui Li, our vice president, and Huimo Chen, the mother of Jeffrey Kang, our chief executive officer, through contractual agreements exercise control over Shenzhen Comtech, which in turn owns a controlling interest in Shanghai E&T. Under these contractual agreements, we enjoy voting control and are entitled to the economic interests associated with their equity interest in Shenzhen Comtech and Shanghai E&T. For additional details regarding these contractual agreements, see “Item 13. Certain Relationships and Related Transactions, and Director Independence.”

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of our assets, liabilities, revenue and expenses. These estimates are based on our historical experience and on various other assumptions that we believe to be reasonable. Estimates are evaluated on an ongoing basis, but actual results may differ from these estimates.

Critical accounting policies are those that, in management’s view, are most important in the portrayal of our financial condition and results of operations. Those that require significant judgments and estimates include:

Business Combinations. In 2009, we acquired 100% equity interest in Mega Smart. Prior to 2009, our significant acquisitions included the acquisition of a 70% equity interest in Long Rise, the acquisition of the remaining 45% equity interest in Comtech Broadband, the acquisition of 100% equity interest in Keen Awards which the consideration payable was contingent upon achieving certain agreed earning levels over an agreed measurement period, and the acquisition of the 100% equity interest in Viewtran.

We have adopted ASC 805, *Business Combinations*, in connection with the acquisition of Mega Smart in 2009, and SFAS No. 141, *Business Combinations*, in connection with the acquisitions prior to 2009. For our acquisitions, we allocate the cost of an acquired entity to the assets acquired and the liabilities assumed based on their estimated fair value on the date of acquisition. This process is commonly referred to as the purchase price allocation. As part of the purchase price allocation, we are required to determine the fair value of any identifiable intangible assets acquired. The determination of the fair value of the intangible assets acquired involves certain judgements and estimates. These judgements can include, but are not limited to, the cash flows that an asset is expected to generate in the future. A change in the amount allocated to identifiable intangible assets would have an offsetting effect on the amount of goodwill recognized from the acquisition and would change the amount of amortization expense recognized related to those identifiable intangible assets.

The fair values of our identifiable intangible assets were determined by us with inputs from our independent appraisers using mainly the income approach. Future cash flows are predominately based on the historical pricing and expense levels, taking into consideration the relevant market size, growth factors and expected industry growth. The resulting cash flows are then discounted at a rate approximating our weighted average cost of capital.

Valuation of Long-Lived Assets. We assess the impairment of long-lived assets, which include goodwill, identifiable intangible assets, and property and equipment ("P&E"), at least annually for goodwill or whenever events or changes in circumstances indicate that the carrying value may not be recoverable for all long-lived assets. Changes in the underlying business could adversely affect the fair value of the enterprise and intangible asset and P&E asset groups. Important factors which could require an impairment review include: (i) underperformance relative to expected historical or projected future operating results; (ii) changes in the manner of use of the assets or the strategy for our overall business; (iii) negative industry or economic trends; (iv) our enterprise fair value relative to net book value.

Our impairment evaluation of identifiable intangible assets and P&E includes an analysis of estimated future undiscounted net cash flows expected to be generated by the assets over their remaining estimated useful lives. If the estimated future undiscounted net cash flows are insufficient to recover the carrying value of the assets over the remaining estimated useful lives, we record an impairment loss in the amount by which the carrying value of the assets exceeds the fair value. We determine fair value based on either market quotes, if available, or discounted cash flows using a discount rate commensurate with the risk inherent in our current business model for the specific asset being valued. Major factors that influence our cash flow analysis are our estimates for future revenue and expenses associated with the use of the asset. Different estimates could have a significant impact on the results of our evaluation. If, as a result of our analysis, we determine that our amortizable intangible assets or other long-lived assets have been impaired, we will recognize an impairment loss in the period in which the impairment is determined. Any such impairment charge could be significant and could have a material negative effect on our results of operations.

Our impairment evaluation of goodwill is based on comparing the fair value to the carrying value of our reporting units. The reporting units' fair value is measured using a combination of the income approach, utilizing the discounted cash flow method that incorporates our estimates of future revenues and costs for our business, and the public company comparables approach, utilizing multiples of profit measures in order to estimate the fair value of the reporting units. The estimates we use in evaluating goodwill are consistent with the plans and estimates that we use to manage our operations. If we fail to deliver new products, if the products fail to gain expected market acceptance, or if market conditions fail to materialize as anticipated, our revenue and cost forecasts may not be achieved and we may incur charges for goodwill impairment, which could be significant and could have a material negative effect on our results of operations. Please refer to "Impairment loss of goodwill and intangible assets" under "Results of operations" below for details of impairment loss of goodwill recorded in the current year.

The net book values of these tangible and intangible long-lived assets at December 31, 2010 and 2009 were as follows:

	Years ended December 31,		
	2010		2009
	Amount	Amount	Amount
	(in millions)		(in millions)
Property and equipment, net	USD 2.2	RMB 14.6	RMB 14.4
Goodwill	26.6	175.4	196.9
Intangible assets, net	12.7	83.5	115.8
Total net book value	USD41.5	RMB273.5	RMB327.1

Allowance for Doubtful Accounts. We establish an allowance for doubtful accounts primarily based upon the age of receivables and factors surrounding the credit risk of specific customers. We generally do not require collateral or other security from our customers. As of December 31, 2010, our accounts receivable balance was RMB681.9 million (USD103.3 million), net of a RMB73.3 million (USD11.1 million) allowance for doubtful accounts. As our business grows, we expect our accounts receivable balance to increase, as could our allowance for doubtful accounts. If the financial condition of our customers deteriorates, our uncollectible accounts receivable could exceed our current or future allowances.

Share-based Compensation. We applied ASC 718, *Compensation—Stock Compensation*. ASC 718 requires that all share-based compensation be recognized as an expense in the consolidated financial statements and that such cost be measured at the fair value of the award and requires compensation cost to reflect estimated forfeitures. The determination of the fair value of share-based compensation awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables, including our expected stock price volatility over the term of the awards, actual and projected share option exercise behaviors, risk-free interest rate and expected dividends. Furthermore, we estimate forfeitures at the time of grant and record share-based compensation expense only for those awards that are expected to vest. If actual forfeitures differ from those estimates, we revise the estimates used in subsequent periods which will affect the amount of employee share-based compensation expenses we recognize in our consolidated financial statements. ASC 718 was adopted using the modified prospective method of application. Under this method, we record share-based compensation expense for awards granted prior to, but not yet vested as of January 1, 2006 and for share-based awards granted after January 1, 2006. Compensation cost is recognized on a straight line basis over the requisite service period, which is generally the same as the vesting period. Since the adoption of ASC 718, we have only granted equity share unit and performance shares to minimize the level of estimation. Our share-based compensation expense for the years ended December 31, 2010 and 2009 was RMB100.9 million (USD15.3 million) and RMB59.1 million, respectively.

We currently use authorized shares and shares of a subsidiary to satisfy share award exercises.

Write-down for Obsolete Inventories. We record inventory write-downs for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and its estimated realizable value based upon assumptions about future demand and market conditions. Management records a write-down against inventory based on several factors, including expected sales price of the item and the length of time the item has been in inventory. If actual demand and market conditions are less favorable than those projected by management, additional inventory write-down could be required. In that event, our gross margin would be reduced.

Taxation. We provide for income taxes in accordance with the provisions of ASC 740, *Income Taxes*. Deferred tax assets and liabilities are recognized consistent with the asset and liability method required by ASC 740. Our deferred tax assets and liabilities primarily result from temporary differences between the amounts recorded in our consolidated financial statements and the tax basis of our assets and liabilities.

At each balance sheet date, we assess the need to establish a valuation allowance that reduces deferred tax assets when it is more likely than not that all, or some portion, of the deferred tax assets will not be realized. A valuation allowance would be based on all available information including our assessment of uncertain tax positions and projections of future taxable income from each tax-paying component in each jurisdiction, principally derived from business plans and available tax planning strategies. The deferred tax asset balance is analyzed regularly by management. Based on these analyses, we have determined that our deferred tax asset is irrecoverable and full valuation allowance is provided as of December 31, 2010. Projections of future taxable income incorporate several assumptions of future business and operations that are apt to differ from actual experience. If, in the future, our assumptions and estimates that resulted in our forecast of future taxable income for each tax-paying component prove to be incorrect, the valuation allowance against our deferred tax asset may be adjusted.

We adopted the provisions of ASC 740-10-25 and as a result, we apply a more likely than not recognition threshold for all tax uncertainties. ASC 740-10-25 only allows the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities. As of December 31, 2010, all uncertain tax positions were considered to be more likely than not to be sustained upon examination by the relevant authorities. If, in the future, our assumptions and estimates that resulted in the determination of sustainability prove to be incorrect, a tax expense adjustment may be necessary.

Results of Operations

Year ended December 31, 2010 compared to year ended December 31, 2009

Net Revenue. Total net revenue increased by RMB493.3 million (USD74.7 million), or 23.5%, in 2010 when compared to 2009. The increase was mainly due to the continued expansion in all end-markets.

Product Sales

Details of product sales by product type for the years ended December 31, 2010 and 2009 were as follows:

	Years ended December 31,					
	2010		2010	2009	2009	% Change
	Amount		% of Net Revenue	Amount	% of Net Revenue	
	(in millions, except for percentages)					
Digital media	USD223.3	RMB1,474.3	57.0%	RMB1,267.1	60.4%	16.3%
Telecommunications equipment	95.5	630.1	24.3	523.9	25.0	20.3%
Industrial business	68.3	450.6	17.4	275.8	13.2	63.4%
Total product sales	<u>USD387.1</u>	<u>RMB2,555.0</u>	<u>98.7%</u>	<u>RMB2,066.8</u>	<u>98.6%</u>	<u>23.6%</u>

Product sales for the year ended 2010 was RMB2,555.0 million (USD387.1 million), or RMB488.2 million (USD74.0 million), higher than the year ended 2009. Digital media related sales increased by RMB207.2 million (USD31.4 million), or 16.3%, telecommunications equipment related sales increased by RMB106.2 million (USD16.1 million), or 20.3%, and industrial business related sales increased by RMB174.8 million (USD26.5 million), or 63.4%. The increase in product sales was mainly attributable to the Group's continued effort and strategic focus in the expansion of the industrial business end-market, and increased sales volume, which resulted from an increase in customer base and an increase in our product variety for all product markets such as automotive, HDTV, smart meters, smart grid and 3G handset access. The wider variety of component solutions drove an increase in sales orders from some of the existing customers such as ZTE and Skyworth Digital. The contribution to total net revenue by digital media sales in 2010 increased to RMB1,474.3 million (USD223.3 million), or 57.0% of total net revenue, from RMB1,267.1 million, or 60.4% of total net revenue in 2009. The contribution to total net revenue by telecommunications equipment sales in 2010 increased to RMB630.1 million (USD95.5 million), or 24.3% of total net revenue, from RMB523.9 million, or 25.0% of total net revenue in 2009. The contribution to total net revenue by industrial business sales increased, from RMB275.8 million or 13.2% in 2009, to RMB450.6 million (USD68.3 million) or 17.4% in 2010.

Service Revenue. Service revenue for the years ended December 31, 2010 and 2009 were as follows:

	Years ended December 31,				
	2010		2010	2009	2009
	Amount		% of Net Revenue	Amount	% of Net Revenue
	(in millions, except for percentages)				
Service revenue	USD5.2	RMB34.5	1.3%	RMB29.4	1.4%

Service revenue was derived from the provision of technology and engineering services, software design, network system integration and related training and maintenance services. The increase of RMB5.1 million (USD0.8 million), or 17.3%, was mainly attributable to more sales generated from software design services in 2010, such as Microsoft software for embedded systems, as compared to 2009.

Gross Profit. Gross profit was RMB366.6 million (USD55.6 million) in 2010, an increase of RMB65.3 million (USD9.9 million), or 21.7%, when compared to RMB301.3 million in 2009. Gross margin was 14.2% in 2010, compared to 14.4% in 2009. The increase in gross profit is consistent with the increase in sales due to the continued expansion in all end-markets during the year. The decrease in gross margin is primarily attributable to reduced selling prices for mobile handset and telecommunications equipment products.

Selling, General, Administrative, Research & Development Expenses, provision for doubtful accounts, net gain on settlement relating to the acquisition of Long Rise before goodwill impairment and impairment loss of goodwill and intangible assets. Selling, general and administrative, R&D expenses, provision for doubtful accounts, net gain on settlement relating to the acquisition of Long Rise before goodwill impairment and impairment loss of goodwill and intangible assets were RMB291.2 million (USD44.1 million) for the year ended December 31, 2010, or 27.6% higher than those of the prior year. The expenses for the years ended December 31, 2010 and 2009 were as follows:

	Years ended December 31,				
	2010		2010	2009	2009
	Amount	Amount	% of Net Revenue	Amount	% of Net Revenue
	(in millions, except for percentages)				
Selling expenses	USD 6.9	RMB 45.4	1.8%	RMB 35.4	1.7%
General and administrative expenses	22.2	146.5	5.6	89.4	4.3
R&D expenses	11.8	77.9	3.0	67.5	3.2
Provision for doubtful accounts	—	—	—	36.0	1.7
Net gain on settlement relating to the acquisition of Long Rise before goodwill impairment	(6.6)	(43.7)	(1.7)	—	—
Impairment loss of goodwill and intangible assets	3.2	21.4	0.8	—	—
Total	USD37.5	RMB247.5	9.5%	RMB228.3	10.9%

Selling, General and Administrative Expenses. The increase in selling expenses in 2010 of RMB10.0 million (USD1.5 million), or 28.2%, was mainly attributable to the increased staff number within the sales team and the effects of salary increment in 2010 which led to increase in staff related cost. Increased expenditures on other indirect selling expenses such as product logistics, traveling and promotion expenses as a result of increased volume of sales transactions also contributed to the increase in selling expenses.

The increase in general and administrative expenses of RMB57.1 million (USD8.7 million), or 63.9%, was primarily attributable to share-based compensation cost of RMB61.5 million (USD9.3 million), including fair value of RMB31.7 million (USD4.8 million) relating to an incentive stock grant of a subsidiary, Comtech Broadband Corporation Limited, as compared to share-based compensation cost of RMB23.3 million for the same period of 2009. The increase in general and administrative expenses was also contributed by a foreign currency exchange loss of RMB3.0 million (USD0.5 million) for the year ended December 31, 2010, as compared to an exchange gain of RMB14.8 million, mainly consisting of RMB14.9 million unrealized gain resulted by the appreciation of Australian Dollars against RMB for the same period of 2009, and an increase in other general and administrative expenses such as staff cost and office rental due to an increase in headcount as a result of our expansion in industrial business end-market and the acquisition of Mega Smart in May 2009.

R&D Expenses. R&D expenses increased in 2010 by RMB10.4 million (USD1.6 million), or 15.4%, as compared to 2009. The increase was primarily attributable to the increase in share-based compensation cost of RMB4.9 million (USD0.7 million) as a result of additional R&D personnel and engineers and research expenditures spent for potential new markets, such as industrial business.

Provision for Doubtful Accounts. Additional charge against doubtful accounts of RMB0.002 million (USD0.0003 million) was made in 2010, as compared to RMB36.0 million made in 2009. The additional charge of doubtful accounts was due to certain receivable balance being overdue in which the assessment of recoverability is remote.

Impairment loss of goodwill and intangible assets. On December 31, 2010, the selling shareholders of Long Rise and the Company agreed to the Supplementary Agreement and at the completion of such agreement, the selling shareholders of Long Rise and the key employees included in the non-compete agreement resigned from the Company. Based on the goodwill impairment review analysis resulting from the Supplementary Agreement, a significant decline in the fair value of Long Rise was noted. The decline in fair value resulted from the loss of key employees with market knowledge and technical expertise, in addition to the loss of key customer relationships. The Company compared the fair value of Long Rise as a reporting unit with the carrying amount. As a result, the Company recorded total goodwill impairment charges of RMB21.4 million (USD3.2 million) related to Long Rise.

Net gain on settlement relating to the acquisition of Long Rise before goodwill impairment. As a result of the Supplementary Agreement relating to Long Rise, the Company recorded a net gain on settlement relating to the acquisition of Long Rise before goodwill impairment of RMB43.7 million (USD6.6 million) for the year ended December 31, 2010, with the amount consisting of RMB54.2 million (USD8.2 million) relating to the release of deferred consideration no longer payable, offset by the elimination of the non-compete agreement of RMB2.6 million (USD0.4 million) and impairment losses of customer relationships and proprietary technology of RMB7.9 million (USD1.2 million).

Interest Expense. Interest expense increased in 2010 by RMB7.4 million (USD1.1 million) or 370%, as compared to 2009. The increase in interest expense was attributable to an increase in the average bank borrowing balances.

Interest Income. Interest income in 2010 amounted to RMB14.7 million (USD2.2 million), compared to RMB14.5 million in 2009. The increase by RMB0.2 million (USD0.1 million) was mainly attributable to an increase in average interest rates as compared to 2009.

Income Tax. The effective tax rate for 2010 was 9.5% compared to 10.8% for 2009. The decrease in effective tax rate was contributed by significant non-taxable items including the net gain on settlement relating to the acquisition of Long Rise before goodwill impairment of RMB43.7 million, offset by the transitional tax rates under the PRC CIT law of 20% in 2009 to 22% in 2010 and the expiry of tax holiday for certain Shenzhen subsidiaries.

Noncontrolling Interest. Noncontrolling interest consisted of 30% and 40% of the outstanding equity interest in Comtech Broadband and Comtech Digital. For the year ended December 31, 2010, net income attributable to noncontrolling interest amounted to RMB0.7 million (USD0.1 million).

Net Income and Earnings Per Share attributable to Cogo Group, Inc. As a result of the above items, net income attributable to Cogo Group, Inc. for 2010 was RMB112.4 million (USD17.0 million), compared to net income attributable to Cogo Group, Inc. of RMB80.2 million in 2009. We reported basic per share earnings of RMB3.01 (USD0.46) for 2010, based on 37,275,427 outstanding weighted average shares, and a diluted per share earnings of RMB2.94 (USD0.45), based on 38,188,814 outstanding weighted average shares, compared to basic per share earnings of RMB2.20 for 2009, based on 36,541,037 outstanding weighted average shares, and a diluted per share earnings of RMB2.13, based on 37,673,351 outstanding weighted average shares.

Year ended December 31, 2009 compared to year ended December 31, 2008

Net Revenue. Total net revenue increased RMB136.7 million, or 7.0%, in 2009 when compared to 2008. The increase was mainly due to growing demand in the industrial applications end-market, but partly offset by a decrease in telecommunications equipment revenue as a result of a strategic reduction in selling price in order to maintain the sales volume and market share.

Product Sales

Details of product sales by product type for the years ended December 31, 2009 and 2008 were as follows:

	Years ended December 31,				
	2009		2008		% Change
	(in millions, except for percentage)				
Amount	% of Net Revenue	Amount	% of Net Revenue		
Digital Media	RMB1,267.1	60.4%	RMB1,279.7	65.3%	(1.0)%
Telecommunications equipment	523.9	25.0	563.4	28.8	(7.0)
Industrial business	275.8	13.2	88.7	4.5	210.9
Total product sales	<u>RMB2,066.8</u>	<u>98.6%</u>	<u>RMB1,931.8</u>	<u>98.6%</u>	<u>7.0%</u>

Product sales for the year ended 2009 was RMB2,066.8 million, or RMB135.0 million, higher than the year ended 2008. Digital media related sales decreased by RMB12.6 million, or 1.0%, telecommunications equipment related sales decreased by RMB39.5 million, or 7.0%, and industrial business related sales increased by RMB187.1 million, or 210.9%. The increase in product sales was mainly attributable to the Group's continued effort and strategic focus in the expansion of the industrial business end-market, and increased sales volume, which resulted from an increase in customer base and an increase in our product variety for all product markets offset by lower selling prices (which attracted additional customers), particularly for mobile handset and telecommunications equipment products. The wider variety of component solutions drove an increase in sales orders from some existing customers such as ZTE and T&W. The contribution to total net revenue by digital media sales in 2009 decreased to RMB1,267.1 million, or 60.4% of total net revenue, from RMB1,279.7 million, or 65.3% of total net revenue, in 2008. The contribution to total net revenue by telecommunications equipment sales in 2009 decreased to RMB523.9 million, or 25.0% of total net revenue, from RMB563.4 million, or 28.8% of total net revenue in 2008. The contribution to total net revenue by industrial business sales increased, from RMB88.7 million or 4.5% in 2008 to RMB275.8 million or 13.2% in 2009.

Service Revenue. Service revenue for the years ended December 31, 2009 and 2008 were as follows:

	Years ended December 31,			
	2009		2008	
	(in millions, except for percentages)			
Amount	% of Net Revenue	Amount	% of Net Revenue	
Service revenue	RMB29.4	1.4%	RMB27.7	1.4%

Service revenue was derived from the provision of technology and engineering services, software design, network system integration and related training and maintenance services. The increase of RMB1.7 million, or 6.1%, was mainly attributable to more sales generated from software design services in 2009, such as Microsoft software for embedded systems, as compared to 2008.

Gross Profit. Gross profit was RMB301.3 million in 2009, a decrease of RMB15.5 million, or 4.9%, when compared to RMB316.8 million in 2008. Gross margin was 14.4% in 2009, compared to 16.2% in 2008. The decrease in both gross profit and percentage is primarily attributable to reduced selling prices for mobile handset and telecommunications equipment products, partly offset by an increase in industrial business revenue, which has a higher margin than the other markets in which we operate. The comparatively higher margin in industrial business revenue was driven by the growth prospects on the small and medium-sized customers with large spending on projects like smart grid, smart meter and railways.

Selling, General, Administrative, Research & Development Expenses, provision for doubtful accounts and impairment loss of goodwill and intangible assets. Selling, general and administrative, R&D expenses and provision for doubtful accounts and were RMB228.3 million for the year ended December 31, 2009, or 6.6% lower than those of the prior year. The expenses for the years ended December 31, 2009 and 2008 were as follows:

	Years ended December 31,			
	2009		2008	
	(in millions, except for percentages)			
Amount	% of Net Revenue	Amount	% of Net Revenue	
Selling expenses	RMB 35.4	1.7%	RMB 38.9	2.0%
General and administrative expenses	89.4	4.3	114.0	5.8
R&D expenses	67.5	3.2	51.0	2.6
Provision for doubtful accounts	36.0	1.7	6.8	0.3
Impairment loss of goodwill and intangible assets	—	—	33.8	1.7
Total	<u>RMB228.3</u>	<u>10.9%</u>	<u>RMB244.5</u>	<u>12.4%</u>

Selling, General and Administrative Expenses. The decrease in selling expenses in 2009 of RMB3.5 million or 9.0%, was mainly attributable to the reduced expenditures on other indirect selling expenses such as travelling and promotion expenses. Share-based compensation expense also decreased in 2009, as compared to 2008.

The decrease in general and administrative expenses of RMB24.6 million, or 21.6%, was primarily attributable to foreign currency exchange gain of RMB14.4 million, mainly consisting of RMB14.9 million unrealized gain resulted by the appreciation of Australian Dollars against RMB during 2009, as compared to exchange loss of RMB19.5 million for the same period of 2008, and offset by an increase in other general and administrative expenses such as staff cost and office rental due to an increase in headcount as a result of our acquisition of Long Rise in July 2008 and Mega Smart in May 2009.

R&D Expenses. R&D expenses increased in 2009 by RMB16.5 million, or 32.4%, as compared to 2008. The increase was primarily attributable to the increase in share based compensation cost of RMB19.3 million as a result of additional R&D personnel and engineers and research expenditures spent for potential new markets, such as industrial business.

Provision for Doubtful Accounts. Additional charge of doubtful account of RMB36.0 million was made in 2009, as compared to RMB6.8 million made in 2008. The additional charge of doubtful accounts was due to certain receivable balance being overdue in which the assessment of recoverability is remote.

Interest Expense. Interest expense increased in 2009 by RMB0.9 million or 81.8%, as compared to 2008. The increase in interest expense was attributable to an increase in the average bank borrowing balances.

Interest Income. Interest income in 2009 amounted to RMB14.5 million, compared to RMB27.9 million in 2008. The decrease by RMB13.4 million was mainly attributable to a decrease in average interest rates as compared to 2008.

Income Tax. The effective tax rate for 2009 was 10.8% compared to 2.2% for 2008. The increase in effective tax rate was contributed by the transitional tax rates under the PRC CIT law of 18% in 2008 to 20% in 2009 and the expiry of tax holiday for certain Shenzhen subsidiaries.

Extraordinary Item. On August 28, 2009, the Company and the seller of Keen Awards agreed that the contingency in respect of the acquisition for Keen Awards was resolved and the Company determined that no further consideration was payable. Therefore, because the amount of contingent consideration recognized, as if it were a liability, exceeded the amount settled, the excess of RMB29.1 million was first allocated to reduce the assets acquired being the intangible assets acquired net of deferred taxation of RMB22.4 million and the remaining amount of RMB6.7 million was recognized as an extraordinary gain in the consolidated statements of income and comprehensive income.

Noncontrolling Interest. Noncontrolling interest consisted of 30% of the outstanding equity interest in Long Rise. For the year ended December 31, 2009, net income attributable to noncontrolling interest amounted to RMB2.9 million.

Net Income and Earnings Per Share attributable to Cogo Group, Inc. As a result of the above items, net income attributable to Cogo Group, Inc. for 2009 was RMB80.2 million, compared to net income attributable to Cogo Group, Inc. of RMB95.9 million in 2008. We reported basic earnings per share of RMB2.20 for 2009, based on 36,541,037 outstanding weighted average shares, and a diluted earnings per share of RMB2.13, based on 37,673,351 outstanding weighted average shares, compared to basic earnings per share of RMB2.49 for 2008, based on 38,488,861 outstanding weighted average shares, and a diluted earnings per share of RMB2.42, based on 39,585,921 outstanding weighted average shares.

Quarterly Results of Operations

The following table presents our supplemental selected unaudited quarterly results of operations for the eight quarters prior to and including the quarter ended December 31, 2010. You should read the following table in conjunction with our audited consolidated financial statements and related notes contained elsewhere in this Form 10-K. In our management's opinion, we have prepared our unaudited quarterly results of operations on substantially the same basis as our audited consolidated financial statements. Due to the evolving nature of our business and other factors affecting our business as described under "Item 1A. Risk factors," our results of operations for any quarter are not necessarily indicative of results that may be expected for any future periods.

	For the three months ended,							
	Dec 31, 2010	Sept 30, 2010	June 30, 2010	Mar 31, 2010	Dec 31, 2009	Sept 30, 2009	June 30, 2009	Mar. 31, 2009
	(in millions of RMB, except per share data)							
Net revenue	749.3	670.4	617.0	552.8	601.3	560.0	502.6	432.3
Gross profit	106.3	95.0	87.3	78.0	87.5	80.8	71.6	61.4
Net income attributable to Cogo Group Inc.	30.4	31.1	27.2	23.7	29.3	23.0	17.3	10.6
Earnings per share								
Basic	0.81	0.83	0.73	0.64	0.79	0.62	0.48	0.30
Diluted	0.78	0.82	0.71	0.63	0.77	0.61	0.46	0.29

The overall increase in our net revenue over the past two years was consistent with (1) the Group's continued effect and strategic focus in the expansion of the industrial business end-market, and (2) a wider variety of products (due to the various acquisitions made since 2006 which brought new businesses to the Group) generating revenue.

The gradual increase in gross profit in 2010 was primarily attributable to an increase in industrial business related sales and increased sales volume for mobile handset and telecommunications equipment products as a result of reduced selling price.

The increase in our net income attributable to Cogo Group, Inc. in the later half of 2010 was primarily due to the net gain on settlement relating to the acquisition of Long Rise before goodwill impairment, less share-based compensation of Comtech Broadband.

Recently Issued Accounting Pronouncements

Accounting Standards Update ("ASU") 2010-17, an update to ASC 605, Revenue Recognition

In April 2010, the FASB issued ASU 2010-17, *Revenue Recognition (ASC 605): Milestone Method*. ASU 2010-17 recognizes the milestone method as an acceptable revenue recognition method for substantive milestones in research or development transactions. A milestone is substantive when the consideration earned from achievement of the milestone is commensurate with either (a) the vendor's performance to achieve the milestone or (b) the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the vendor's performance to achieve the milestone and the consideration earned from the achievement of a milestone relates solely to past performance and is reasonable relative to all of the deliverables and payment terms (including other potential milestone consideration) within the arrangement. ASU 2010-17 is effective for milestones achieved in interim and annual periods beginning on or after June 15, 2010 with early adoption permitted. The Company has evaluated that ASU 2010-17 had no significant impact on the consolidated financial statements.

ASU 2010-06, an update to ASC 820, Fair Value Measurements and Disclosures – Improving Disclosures about Fair Value Measurements

In January 2010, the FASB issued ASU 2010-06, an update to ASC 820, *Fair Value Measurements and Disclosures – Improving Disclosures about Fair Value Measurements*. ASU 2010-06 requires new disclosures about recurring or nonrecurring fair-value measurements including significant transfers in and out of Levels 1 and 2, as well as information about activity in Level 3 fair value measurements, including presenting information about purchases, sales, issuances and settlements on a gross versus a net basis in the Level 3 activity roll forward. In addition, ASU 2010-06 clarifies existing disclosures regarding input and valuation techniques, as well as the level of disaggregation for each class of assets and liabilities. ASU No. 2009-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures pertaining to purchases, sales, issuances and settlements in the roll forward of Level 3 activity; those disclosures are effective for interim and annual periods beginning after December 15, 2010. Early adoption is permitted. The Company has evaluated the impacts on the consolidated financial statements and expanded the relevant disclosures accordingly.

ASU 2009-14, an update to ASC 985, Software: Certain Revenue Arrangements That Include Software Elements

In October 2009, the FASB issued ASU 2009-14, an update to ASC 985, *Software: Certain Revenue Arrangements That Include Software Elements*. ASU 2009-14 modifies the scope of the software revenue recognition guidance to exclude (i) non-software components of tangible products and (ii) software components of tangible products that are sold, licensed or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. ASU 2009-14 is effective for fiscal years beginning on or after June 15, 2010 with early adoption permitted. The guidance may be applied retrospectively or prospectively for new or materially modified arrangements. The Company has evaluated that there are no significant impacts on the consolidated financial statements.

ASU 2009-13, an update to ASC 605, Revenue Recognition: Multiple-Deliverable Revenue Arrangements

In October 2009, the FASB issued ASU 2009-13, an update to ASC 605, *Revenue Recognition: Multiple-Deliverable Revenue Arrangements*. ASU 2009-13 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how the arrangement consideration should be allocated among the separate units of accounting. ASU 2009-13 is effective for fiscal years beginning on or after June 15, 2010 with early adoption permitted. The guidance may be applied retrospectively or prospectively for new or materially modified arrangements. The Company has evaluated that ASU 2009-13 will have no significant impacts on the consolidated financial statements.

Liquidity and Capital Resources

Cash Flows and Working capital

Our accounts payable cycle typically averages approximately ten days, whereas our receivables cycle typically averages approximately three to four months. Accordingly, additional working capital, being current assets less current liabilities, is needed to fund this timing difference.

As at December 31, 2010, we had no material commitments for capital expenditures.

As of December 31, 2010, we had approximately RMB699.7 million (USD106.0 million) in cash. We regularly review our cash funding requirements and attempt to meet those requirements through a combination of cash on hand, cash provided by operations, available borrowings under bank lines of credit and factoring facilities and possible future public or private equity offerings. At times, we may evaluate possible acquisitions of, or investments in, businesses that are complementary to ours, which may require the use of cash. We believe that our cash, increased operating cash flows, credit arrangements, and access to equity and debt capital markets, taken together, provide adequate resources to fund our ongoing operating expenditures for the next 12 months. In the event that they do not, we may require additional funds in the future to support our working capital requirements or for other purposes and may seek to raise such additional funds through the sale of public or private equity, as well as from other sources.

As of December 31, 2010, we had working capital of RMB1,446.1 million (USD219.1 million), including RMB699.7 million (USD106.0 million) in cash, as compared with working capital of RMB1,243.6 million including RMB667.3 million in cash as of December 31, 2009.

Operating activities used cash of RMB22.3 million (USD3.4 million) for the year ended December 31, 2010, compared to cash used of RMB33.5 million for the year ended December 31, 2009. The decrease in cash used in operating activities for 2010 was primarily due to improved cash management approach by utilizing banking facilities to factor accounts receivable. For the year ended December 31, 2009, operating activities used cash of RMB33.5 million which was primarily due to an increase in accounts receivables as sales increased in the fourth quarter of 2009 which have not been settled.

Investing activities used RMB292.5 million (USD44.3 million) during 2010, mainly for increase in pledged bank deposit of RMB220.4 million (USD33.4 million), payments for acquisitions of subsidiaries, net of cash acquired of RMB65.3 million (USD9.9 million) and purchases of property and equipment of RMB6.9 million (USD1.0 million). Investing activities used RMB91.6 million during 2009, mainly for payments for acquisitions of subsidiaries, net of cash acquired of RMB89.2 million and purchases of property and equipment of RMB2.4 million.

Financing activities provided cash of RMB352.3 million (USD53.4 million) during 2010, primarily attributable to proceeds from bank borrowings of RMB400.5 million (USD60.7 million), partly offset by purchase of treasury stock of RMB48.2 million (USD7.3 million). Financing activities provided cash of RMB105.9 million during 2009, primarily attributable to proceeds from bank borrowings of RMB119.5 million and proceeds from exercises of stock warrants and options of RMB2.0 million, partly offset by purchase of treasury stock of RMB15.6 million.

Distributions by our PRC operating companies to us may be subject to governmental approval and taxation. Any transfer of funds from us to our PRC operating companies, either as a shareholder loan or as an increase in registered capital, is subject to registration or approval with or by PRC governmental authorities, including the relevant administration of foreign exchange and/or other relevant examining and approval authorities. These limitations on the free flow of funds between us and our PRC operating companies may restrict our ability to act in response to changing market conditions. To date, none of our PRC operating companies, including Shenzhen Comtech and Shanghai E&T, have declared or paid dividends to us, and historically, we have not relied on such distributions for our liquidity needs. In addition, we have not declared dividends since the share exchange transaction. Our holding companies have no business operations and therefore the related expenses are relatively low, consisting mainly of legal, accounting and other fees and expenses associated with being a holding company or, in the case of Cogo Group, Inc., a public company. Our major operating companies, Comtech International (Hong Kong) Limited, Comtech Broadband Corporation Limited and Comtech Industrial (Hong Kong) Limited, Hong Kong incorporated companies, and Comtech Communication, Comtech Software and Viewtran, wholly owned foreign enterprises, are legally permitted to declare and pay dividends, enabling them to provide any funds necessary to meet the holding companies' limited operating expenses, although in the case of a wholly owned foreign enterprise, such dividends would be subject to the conditions described in "Risk Factors—PRC laws and our corporate structure may restrict our ability to receive dividend payments from, and transfer funds to, our PRC operating companies, which may negatively affect our results of operations and restrict our ability to act in response to changing market conditions." We do not expect restrictions between us and our PRC operating companies to affect our liquidity and capital resources in the near future. For risks associated with the uncertainty in our receipt of the equivalent economic interest in connection with the equity interest in Shenzhen Comtech, see "Risk factors—PRC laws and our corporate structure may restrict our ability to receive dividends and payments from, and transfer funds to, our PRC operating companies, which may negatively affect our results of operations and restrict our ability to act in response to changing market conditions."

Our PRC operating companies are required, where applicable, to allocate a portion of their net profit to certain funds before distributing dividends, including at least 10% of their net profit to certain reserve funds until the balance of such fund has reached 50% of their registered capital. These reserves can only be used for specific purposes, including making-up cumulative losses of previous years, conversion to equity capital, and application to business expansion, and are not distributable as dividends. Our PRC operating subsidiaries are required, where applicable, to allocate an additional 5% to 10% of their net profits to a statutory common welfare fund. These reserves can only be used for specific purposes and are not distributable as dividends. For risks associated with the uncertainty in our receipt of the equivalent economic interest in connection with the equity interest in Shenzhen Comtech or Shanghai E&T, see "Risk factors—PRC laws and our corporate structure may restrict our ability to receive dividends and payments from, and transfer funds to, our PRC operating companies, which may negatively affect our results of operations and restrict our ability to act in response to changing market conditions."

Indebtedness

We entered into several banking facilities with Standard Chartered Bank (Hong Kong) Limited (“SCB”), Bank of China (Hong Kong) Limited (“BOC”), Guangdong Development Bank Holdings Company Limited (“GDB”) and China Merchants Bank Company Limited (“CMB”). As of December 31, 2010 and 2009, the aggregate credit limit of these facilities amounted to RMB886.2 million (USD134.3 million) and RMB379.0 million, respectively. These facilities include letters of guarantee, bank loans and irrevocable letters of credit. The banking facility with BOC also included an accounts receivable factoring agreement as discussed below. The credit limit and the respective secured deposits for the accounts receivable factoring agreement shares the same credit limit with the banking facility with BOC.

Our banking facilities contain various covenants, including our consolidated net borrowing ratio not exceeding 0.25 times and our Company maintaining a tangible net worth of not less than RMB1,000.0 million (USD151.5 million). Other conditions include our Company’s Chief Executive Officer remaining as the single largest beneficial owner of our Company and Chairman of the Board of Directors and actively involving in the management of our Company and our Company remaining as listed in NASDAQ and retaining at least 50% equity interest in its subsidiaries as borrowers. As of December 31, 2010, we were in compliance with all covenants.

As of December 31, 2010 and 2009, the total outstanding bank borrowings amounted to RMB505.9 million (USD76.7 million) and RMB119.4 million, respectively. The weighted average interest rate on outstanding bank borrowings as of December 31, 2010 was 2.1% (2009: 2.0%). The aggregate amount of funds secured as pledged deposits with the respective banks at December 31, 2010 and 2009 amounted to RMB332.1 million (USD50.3 million) and RMB116.0 million, respectively.

As of December 31, 2010 and 2009, the aggregate amount of unutilized banking facilities (including the unutilized facility amount under the accounts receivable factoring agreement with BOC) amounted to RMB192.3 million (USD29.1 million) and RMB259.6 million, respectively.

During the year, we entered into a factoring agreement with BOC in which certain accounts receivable were transferred with recourse to BOC. Under the factoring agreement, BOC pays an amount net of discount to us and collects the factored accounts receivable balances directly from customers. The discount costs 2.0% to 2.3% of the balance transferred and is included in “interest expense”. For the year ended December 31, 2010, we received proceeds from the sale of accounts receivable amounting to RMB455.4 million (USD69.0 million). There was no sale of accounts receivable for the year ended December 31, 2009.

Some of our customers enter into arrangements with their respective banks for purposes of settling their bills. Under such arrangements, we were entitled to collect the amounts owed directly from the customers’ banks when the invoice becomes due. In certain circumstances, we have arranged to transfer with recourse certain of our bills receivable to the bank. Under this discounting arrangement, the bank pays a discounted amount to us and collects the amounts owed from the customers’ banks. The discount typically ranges from 1.5% to 3.0% of the balance transferred, which is recorded as “interest expense”. For the year ended December 31, 2010, we had received proceeds from the sales of the bills receivable amounting to RMB22.9 million (USD3.5 million), compared with RMB72.6 million for the previous year.

Contractual Obligations and Commercial Commitments

The following table sets forth our contractual payment obligations for operating leases and purchase obligations as of December 31, 2010:

<u>Contractual Obligations</u>	<u>Payments due by Period</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>More Than 5 Years</u>
Operating lease obligations	19.6	9.6	10.0	—	—
Purchase obligations	1,214.3	1,214.3	—	—	—
Total	<u>1,233.9</u>	<u>1,223.9</u>	<u>10.0</u>	<u>—</u>	<u>—</u>

Operating lease obligations consist primarily of operating lease agreements for our office facilities, including our head office and research center in Shenzhen. Our leases have remaining terms ranging from 3 to 29 months.

Purchase obligations consists of outstanding purchase orders for components from our suppliers. We do not have any minimum purchase obligations with these suppliers.

On January 31, 2011, we acquired 100% of the outstanding shares of MDC Tech International Holdings Limited for a cash consideration of RMB145.2 million (USD22.0 million). Payable for such acquisition will be made over twelve months in four equal installments on or before the last business day of each of the four fiscal quarters. All the payments are due within 2011.

Off-Balance Sheet Arrangements

Apart from the factoring of accounts receivable and discounting of bills receivable discussed under “Indebtedness” and operating lease obligations discussed under “Contractual Obligations,” we have no outstanding off-balance sheet arrangements, derivative financial instruments, interest rate swap transactions or foreign currency forward contracts. We do not engage in trading activities involving non-exchange traded contracts.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

Our reporting currency is the Renminbi. Transactions in other currencies are recorded in Renminbi at the rates of exchange prevailing when the transactions occur. Monetary assets and liabilities denominated in other currencies are remeasured into Renminbi at rates of exchange in effect at the balance sheet dates. Exchange gains and losses are recorded in our statements of operations as a component of current period earnings.

The State Administration on Foreign Exchange, or SAFE, of the PRC, under the authority of the People’s Bank of China, controls the conversion of Renminbi into foreign currencies. The principal regulation governing foreign currency exchange in the PRC is the Foreign Currency Administration Rules (1996), as amended, or the “Rules.” Under the Rules, once various procedural requirements are met, Renminbi is convertible for current account transactions, including trade and service-related foreign exchange transactions and dividend payments, but not for capital account transactions, including direct investment, loans or investments in securities outside the PRC, without prior approval of the SAFE of the PRC, or its local counterparts.

Since July 2005, the Renminbi is no longer pegged to the U.S. dollar. Although currently the Renminbi exchange rate versus the U.S. dollar is restricted to a rise or fall of no more than 0.3% per day and the People’s Bank of the PRC regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future, the PRC authorities may lift restrictions on fluctuations in the Renminbi exchange rate and lessen intervention in the foreign exchange market. As of December 31, 2010, the exchange rate of RMB to USD1.0000 was RMB6.6000. On June 19, 2010, the People’s Bank of China announced the removal of the de facto peg. Following this announcement, the Renminbi appreciated from 6.7968 Renminbi per U.S. dollar on June 21, 2010 to 6.7709 Renminbi per U.S. dollar on July 2, 2010.

We conduct substantially all of our operations through our PRC operating companies, and their financial performance and position are measured in terms of Renminbi. Our solutions are primarily procured, sold and delivered in the PRC for Renminbi. The majority of our net revenue are denominated in Renminbi.

Any devaluation of the Renminbi against the U.S. dollar would consequently have an adverse effect on our financial performance and asset values when measured in terms of U.S. dollars. On the other hand, the appreciation of the Renminbi could make our customers’ products more expensive to purchase because many of our customers are involved in the export of goods, which may have an adverse impact on their sales. A decrease in sales by our customers could have an adverse effect on our operating results. In addition, as of December 31, 2010 and 2009, we have cash denominated in U.S. dollars amounting to RMB291.5 million (USD44.2 million) and RMB149.4 million. Also, from time to time we may have U.S. dollar denominated borrowings. Accordingly, a decoupling of the Renminbi may affect our financial performance in the future.

We recognized a foreign currency translation adjustment of approximately RMB10.1 million (USD1.5 million) for the year ended December 31, 2010. We do not currently engage in hedging activities, as such, we may in the future experience economic loss as a result of any foreign currency exchange rate fluctuations.

Interest Rate Risk

We are exposed to interest rate risk arising from short-term variable rate borrowings from time to time. Our future interest expense will fluctuate in line with any change in our borrowing rates. We do not have any derivative financial instruments and believe our exposure to interest rate risk and other relevant market risks is not material. Our bank borrowings amounted to RMB505.9 million (USD76.7 million) as of December 31, 2010. Based on the variable nature of the underlying interest rate, the bank borrowings approximated fair value at that date.

If there was a hypothetical 1% change in interest rates, the net impact to earnings and cash flows would be approximately RMB5.1 million (USD0.8 million). The potential change in cash flows and earning is calculated based on the change in the net interest expense over a one year period due to an immediate 1% change in price.

Inflation

In recent years, the PRC has not experienced significant inflation, and thus inflation has not had a material impact on our results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements and the footnotes thereto are included in the section beginning on page F-1.

1. Reports of Independent Registered Public Accounting Firm.
2. Consolidated Balance Sheets as of December 31, 2010 and 2009.
3. Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2010, 2009 and 2008.
4. Consolidated Statements of Changes in Equity for the years ended December 31, 2010, 2009 and 2008.
5. Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008.
6. Notes to Consolidated Financial Statements.

The Management's Report on Internal Control over Financial Reporting, Reports of Independent Registered Public Accounting Firm, Consolidated Financial Statements and Notes to Consolidated Financial Statements which are listed in the Index to Financial Statements and which appear beginning on page F-2 of this report are incorporated into this Item 8. Quarterly Results of Operations information is included elsewhere in this report and is incorporated into this Item 8.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision of and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act were effective as of December 31, 2010.

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Inherent Limitations Over Internal Controls

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management, including the Company's Chief Executive Officer and Chief Financial Officer, does not expect that the Company's internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods are subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's Annual Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act. Management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Our management's annual report on internal control over financial reporting and the related report of our independent registered public accounting firm are included in this report on pages F-2 and F-3, respectively.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the fourth quarter of fiscal 2010, which were identified in connection with management's evaluation required by paragraph (d) of rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

The following table sets forth information about our directors and executive officers as of March 2, 2011.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Jeffrey Kang	41	Chief Executive Officer and Chairman of the Board
Yi Yuan	50	President
Frank Zheng	44	Chief Financial Officer, Treasurer and Secretary and Director
Q.Y. Ma ⁽¹⁾⁽²⁾⁽³⁾	54	Director
JP Gan ⁽¹⁾⁽²⁾⁽³⁾	39	Director
George Mao ⁽¹⁾⁽²⁾⁽³⁾	49	Director

- (1) Member of Audit Committee
(2) Member of Nominating and Governance Committee
(3) Member of Compensation Committee

Jeffrey Kang, Chairman of the Board and Chief Executive Officer. Mr. Kang was a co-founder of Cogo and has served as our chief executive officer and chairman of the board since September 1999. Mr. Kang founded Shenzhen Matsunichi Electronics Co., Ltd. and Matsunichi Electronic (Hong Kong) Limited, a predecessor of the Company, in 1995, when Matsunichi commenced operations as a distributor for Matsushita. In 1999, Mr. Kang transferred all operations and assets of Matsunichi into the Company's immediate predecessor. Prior to forming Matsunichi, Mr. Kang worked for Matsushita Electronics from June 1992 to July 1995 where he was responsible for selling components to the telecommunications industry within China. From 1998 to 1999, Mr. Kang was vice president of Shenzhen SME (Small and Medium Enterprises) Association, a non-profit association in Shenzhen. Mr. Kang earned a B.S. degree in Electrical Engineering from South China Technology University in Guangzhou, China. As a co-founder of the Company, we believe that Mr. Kang brings essential knowledge of our customers and business visions to the Board of Directors.

Yi Yuan, President. Mr. Yuan has been the President of Cogo since May 8, 2008 and was the Chief Operating Officer from April 1, 2008 through May 8, 2008. Prior to joining Cogo, Mr. Yuan was the President of TCL Communication Technology from September 2005 to February 2008. Prior to joining TCL, he had been in various positions at Broadcom from March 2000 to August 2005, including the Chief Representative, General Manager and Director of Sales for Greater China and the Director of Asia business development. Prior to joining Broadcom, he was the global business manager at Texas Instruments where he pioneered China development. Mr. Yuan received a B.S. degree from Shanghai Jiao Tong University and obtained a M.S. degree in Electronic Engineering from Northern Illinois University.

Frank Zheng, Chief Financial Officer, Treasurer, Secretary and Director. Mr. Zheng has been Chief Financial Officer since January 1, 2008, Treasurer and Secretary from May 2008, was a director from January 2005 to December 2007 and was re-elected a director in December 2008. He was the vice president of travel service for eLong, Inc., a leading online travel service company in China, from July 2000 to June 2007. Mr. Zheng was responsible for the overall operation of eLong's travel services. Before he joined eLong, Mr. Zheng was a senior director of travel services with Asia.com. From 1994 through 2000, Mr. Zheng held various financial and operations positions with The Bank of New York, The Reserve Management Corp, and Dean Witter InterCapital Company. Mr. Zheng received a B.B.A degree in Accounting from City University of New York. We believe that Mr. Zheng brings essential knowledge of operations and internal control practices to the Board of Directors.

Q.Y. Ma, Director. Dr. Ma has been a director since December 2004. Dr. Ma has been the managing director of Time Innovation Ventures, a venture capital firm, since 2000, and served as a professor at the University of Hong Kong from 1998 to 2000. Dr. Ma was an associate professor at Columbia University from 1994 to 2000. He has also served as a technology consultant to IBM, General Electric, TRW, Inc. and DuPont. Dr. Ma is a co-founder and advisor of Semiconductor Manufacturing International Corp., and has served as an adviser to the Ministry of Information Industry, Beijing Government, and a senior advisor to Zhangjiang Hi-Tech Park in Shanghai. Dr. Ma received his Ph.D. from Columbia University, and attended the Executive Program of Stanford University's School of Business. We believe that Dr. Ma's vast knowledge of technology and investments in innovative ventures brings a unique expertise to the Board of Directors.

JP Gan, Director. Mr. Gan has been a director since January 2008. Mr. Gan has been a managing director of Qiming Venture Partners since January 2007. From May 2005 to December 2006, Mr. Gan was the Chief Financial Officer of KongZhong Corporation, a Nasdaq listed wireless internet company. Prior to joining KongZhong, Mr. Gan was a director of The Carlyle Group responsible for venture capital investments in the Greater China region from May 2000 to May 2005. Mr. Gan worked at the investment banking division of Merrill Lynch in Hong Kong from August 1999 to May 2000, and worked at Price Waterhouse in the United States from August 1994 to September 1997. Mr. Gan obtained his Masters of Business Administration from the University of Chicago Graduate School of Business and his Bachelor of Business Administration from the University of Iowa. He is a Certified Public Accountant in the United States. We believe that Mr. Gan's vast knowledge of investment banking and venture capital investments brings a unique expertise to the Board of Directors.

George Mao, Director. Dr. Mao has been a director since January 2008. Dr. Mao is the co-founder and has been the general manager of RYHT Asset Management Inc. since 2005. Before co-founding RYHT, Dr. Mao was Vice General Manager of Franklin Templeton Sealand Fund Management Co. Ltd. from May 2003 to December 2004. Dr. Mao held management positions with Pin An Securities Company Inc. and China Eagle Securities Company overseeing IPOs from September 1999 through May 2003. Dr. Mao obtained an MBA degree and a PhD degree from the University of Western Ontario in Canada and an M.A. degree from the Chinese Academy of Sciences, Beijing. Dr. Mao sits on various boards, including Shenzhen Cao Technology Co., Ltd. which is listed on Shenzhen Stock Exchange and Beijing Zhong Biao Fang Yuan Technology Anti-counterfeiting Company. We believe that Dr. Mao's substantial experience in technology and international finance brings a unique expertise to the Board of Directors.

Board Practices

Our business and affairs are managed under the direction of our board of directors. The primary responsibilities of our board of directors are to provide oversight, strategic guidance, counseling and direction to our management. It is our expectation that the board of directors will meet regularly on a quarterly basis and additionally as required.

Board Committees

Our board of directors has an audit committee, a nominating and corporate governance committee, and a compensation committee, each established in 2005. Our board of directors has determined that Dr. Q.Y. Ma, Mr. JP Gan and Dr. George Mao, the members of these committees, are "independent" under the current independence standards of Rule 5605(a)(2) of the Marketplace Rules of The NASDAQ Stock Market, LLC and meet the criteria for independence set forth in Rule 10A(m)(3) under the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act). Our board of directors has also determined that these persons have no material relationships with us—either directly or as a partner, stockholder or officer of any entity—which could be inconsistent with a finding of their independence as members of our board of directors.

Audit Committee

The audit committee, consisting of Dr. Ma, Mr. Gan and Dr. Mao, oversees our financial reporting process on behalf of the board of directors. The committee's responsibilities include the following functions:

- approve and retain the independent auditors to conduct the annual audit of our books and records;
- review the proposed scope and results of the audit;
- review and pre-approve the independent auditors' audit and non-audited services rendered;
- approve the audit fees to be paid;
- review accounting and financial controls with the independent auditors and our internal auditors and financial and accounting staff;
- review and approve transactions between us and our directors, officers and affiliates;
- recognize and prevent prohibited non-audit services; and
- meeting separately and periodically with management and our internal auditor and independent auditors.

Our board of directors has determined that Mr. Gan, the Chair of the Audit Committee, is an "audit committee financial expert" as defined by the SEC's rules.

Nominating And Corporate Governance Committee

The nominating and governance committee, consisting of Dr. Ma, Mr. Gan and Dr. Mao, is responsible for identifying potential candidates to serve on our board and its committees. The committee's responsibilities include the following functions:

- making recommendations to the board regarding the size and composition of the board;
- identifying and recommending to the board nominees for election or re-election to the board, or for appointment to fill any vacancy;
- establishing procedures for the nomination process;
- advising the board periodically with respect to corporate governance matters and practices, including periodically reviewing corporate governance guidelines to be adapted by the board; and
- establishing and administering a periodic assessment procedure relating to the performance of the board as a whole and its individual members.

The nominating and corporate governance committee will consider director candidates recommended by security holders. Potential nominees to the board of directors are required to have such experience in business or financial matters as would make such nominee an asset to the board and may, under certain circumstances, be required to be "independent", as such term is defined under independence standards applicable to the Company. Security holders wishing to submit the name of a person as a potential nominee to the board must send the name, address, and a brief (no more than 500 words) biographical description of such potential nominee to the committee at the following address: Nominating and Corporate Governance Committee of the Board of Directors, c/o Cogo Group, Inc., Suite 1001, Tower C, Skyworth Building, High-Tech Industrial Park, Nanshan, Shenzhen 518057, People's Republic of China. Potential director nominees will be evaluated by personal interview, such interview to be conducted by one or more members of the committee, and/or any other method the committee deems appropriate, which may, but need not, include a questionnaire. The committee may solicit or receive information concerning potential nominees from any source it deems appropriate. The committee need not engage in an evaluation process unless (1) there is a vacancy on the board, (2) a director is not standing for re-election, or (3) the committee does not intend to recommend the nomination of a sitting director for re-election. A potential director nominee recommended by a security holder will not be evaluated any differently than any other potential nominee.

There are no differences in the manner in which the nominating and corporate governance committee evaluates nominees for director based on whether the nominee was recommended by a stockholder. Among other things, the nominating and corporate governance committee takes into account, when acting upon nominees, factors such as familiarity with the industry in which the Company operates, experience in working with PRC-based companies, the relevant expertise of its directors and director nominees, whether the director or nominee would be considered independent, the time that the director or nominee will be able to devote to Company matters, experience with U.S. public companies, language skills and other factors. "Diversity," as such, is not a criterion that the committee considers. The nominating and corporate governance committee believes that it is appropriate to include representation of senior management on the Board of Directors.

Compensation Committee

The compensation committee, consisting of Dr. Ma, Mr. Gan and Dr. Mao, is responsible for making recommendations to the board concerning salaries and incentive compensation for our officers and employees and administers our stock option plans. Its responsibilities include the following functions:

- reviewing and recommending policy relating to the compensation and benefits of our officers and employees, including reviewing and approving corporate goals and objectives relevant to the compensation of our chief executive officer and other senior officers; evaluating the performance of these officers in light of those goals and objectives; and setting compensation of these officers based on such evaluations;
- administering our benefit plans and the issuance of stock options and other awards under our stock plans; and reviewing and establishing appropriate insurance coverage for our directors and executive officers;
- recommending the type and amount of compensation to be paid or awarded to members of our board of directors, including consulting, retainer, meeting, committee and committee chair fees and stock option grants or awards; and
- reviewing and approving the terms of any employment agreements, severance arrangements, change-of-control protections and any other compensatory arrangements for our executive officers.

Compensation Committee Interlocks And Insider Participation

No member of our compensation committee has at any time been an officer or employee of ours, or our subsidiaries. No interlocking relationship exists between our board of directors or compensation committee and the board of directors or compensation committee of any other company, nor has any interlocking relationship existed in the past.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, requires our executive officers, directors and persons who beneficially own more than 10% of a registered class of our equity securities to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. These executive officers, directors, and greater than 10% beneficial owners are required by SEC regulation to furnish us with copies of all Section 16(a) forms filed by such reporting persons.

Based solely on our review of such forms furnished to us and written representations from certain reporting persons, we believe that all other filing requirements applicable to our executive officers, directors and greater than 10% beneficial owners were complied with during 2010.

Code of Ethics

On November 4, 2004, we adopted a Code of Business Conduct and Ethics that applies to our directors, officers and employees, including our chief executive officer and chief financial officer. A copy of our Code of Business Conduct and Ethics is available on the Investor Information page of our website, http://www.cogo.com.cn/investorinfo_coe.html.

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Overview

This compensation discussion describes the material elements of compensation awarded to, earned by, or paid to each of our executive officers listed in the Summary Compensation Table below (the “named executive officers”) during the last completed fiscal year. This compensation discussion focuses on the information contained in the following tables and related footnotes and narrative for primarily the last completed fiscal year, but we also describe compensation actions taken before or after the last completed fiscal year to the extent it enhances the understanding of our executive compensation disclosure.

The compensation committee currently oversees the design and administration of our executive compensation program.

The principal elements of our executive compensation program are base salary, annual cash incentives, long-term equity incentives in the form of stock options, other benefits and perquisites, post-termination severance and acceleration of stock option vesting for certain named executive officers upon termination and/or a change in control. Our other benefits and perquisites consist of life and health insurance benefits.

Objectives and Philosophy

In General. The objectives of our compensation programs are to:

- attract, motivate and retain talented and dedicated executive officers,
- provide our executive officers with both cash and equity incentives to further the interests of us and our stockholders, and
- provide employees with long-term incentives so we can retain them and provide stability during our growth stage.

Generally, the compensation of our executive officers is composed of a base salary, an annual incentive compensation award and equity awards in the form of stock options. In setting base salaries, the compensation committee generally reviews the individual contributions of the particular executive. In addition, stock options are granted to provide the opportunity for long-term compensation based upon the performance of our common stock over time. Our philosophy is to position the aggregate of these elements at a level that is commensurate with our size and sustained performance.

Elements of Compensation

Compensation consists of following elements:

Base Salary. Base salaries for our executive officers are established based on the scope of their responsibilities, taking into account competitive market compensation paid by other companies in our industry for similar positions, and the other elements of the executive officer’s compensation, including share-based compensation. Our intent is to target executive base salaries near the median of the range of salaries for executives in similar positions with similar responsibilities at comparable companies, in line with our compensation philosophy. Base salaries are reviewed annually, and may be increased annually to realign salaries with market levels after taking into account individual responsibilities, performance and experience. Based on publicly available information, we believe that the base salaries established for our executive officers are comparable to those paid by similar companies in our industry.

Annual Bonuses. Our executive officers and certain other employees are eligible for annual cash bonuses, which are paid at the discretion of our compensation committee. The determination of the amount of annual bonuses paid to our executive officers generally reflects a number of subjective considerations, including the performance of our company overall and the contributions of the executive officer during the relevant period.

Incentive Compensation. We believe that long-term performance is achieved through an ownership culture that encourages long-term performance by our executive officers through the use of share-based awards. We adopted the Comtech Group, Inc. 2006 Equity Incentive Plan, which permits the grant of shares of our incentive stock options, non-qualified stock options, restricted stock, stock appreciation rights, and performance stock awards. Our Board or a committee created by the Board will have the authority under the plan to award incentive compensation to our executive officers, employees, consultants and directors in such amounts and on such terms as the committee determines in its sole discretion.

Currently, we do not maintain any incentive compensation plans based on pre-defined performance criteria. Incentive compensation is intended to compensate executive officers, employees, consultants and directors for achieving financial and operational goals and for achieving individual annual performance objectives. These objectives are expected to vary depending on the individual executive, but are expected to relate generally to strategic factors such as expansion of our services and to financial factors such as improving our results of operations. The actual amount of incentive compensation for the prior year will be determined following a review of each executive's individual performance and contribution to our strategic goals conducted during the first quarter of each year. Specific performance targets used to determine incentive compensation for each of our executive officers in 2010 have not yet been determined.

Other Employee Grants and Other Compensation. Each employment agreement provides the executive with certain other benefits, including reimbursement of business and entertainment expenses and life insurance. Each executive is eligible to participate in all benefit plans and programs that are or in the future may be available to other executive employees of our company, including any profit-sharing plan, thrift plan, health insurance or health care plan, disability insurance, pension plan, supplemental retirement plan, vacation and sick leave plan, and other similar plans. The compensation committee in its discretion may revise, amend or add to the officer's executive benefits and perquisites as it deems advisable. We believe that these benefits and perquisites are typically provided to senior executives of similar companies.

Compensation of Chief Executive Officer

In December 2007 the Compensation Committee met to review the salaries that seven PRC-based companies listed on US exchanges with market capitalizations ranging from under USD20 million to greater than USD147 billion, paid to their chief executive officer. The companies included SORL Auto Parts, Inc., Sohu.com Inc, Netease.com Inc., Huaneng Power International Inc., Guangshen Railway Col, Ltd, e-Future Information Technology Inc. and Asiainfo Holdings Inc. The Compensation Committee's intent was to target the chief executive officer's base salary near the median of the range of salaries for executives in a similar position and with similar responsibilities, in line with our compensation philosophy. The Compensation Committee determined that the median base salaries for persons acting as chief executive officer for the above companies were approximately USD93,000.

On December 21, 2007, the Compensation Committee of our Board of Directors approved the following compensation package for its Chief Executive Officer: a base salary of USD100,000 per year, which was not materially different from the median base salary of the chief executive officers listed above; the grant of 20,000 shares of the Company's common stock for each of 2008, 2009 and 2010 (for a total of 60,000 shares) that vest quarterly; the potential grant of a bonus on a yearly basis of up to an additional (i) 40,000 shares of the Company's common stock if the Company's pro forma earnings per share CAGR is at or above 30% and (ii) 40,000 shares of the Company's common stock if the pro forma earnings per share is 40% or more above the previous year's pro forma earnings per share. The bonus shares would vest in three equal yearly installments beginning immediately after the filing of the Form 10-K for the applicable year. The Compensation Committee based the level of compensation for our Chief Executive Officer on its belief of what is typical for public companies of our size and type and the fact that the Compensation Committee was satisfied with the performance of the Chief Executive Officer. No executive officer participated in the determination of the salary for the Chief Executive Officer.

Although the Compensation Committee originally agreed to pay our Chief Executive Officer USD100,000, the actual base salary paid to our Chief Executive Officer in 2008 and 2009 was USD74,940, which increased to USD100,000 in 2010. In February 2011, he was paid the USD25,060 difference between his agreed upon salary and his actual salary for each of 2008 and 2009. The Compensation Committee did not issue our Chief Executive Officer the 40,000 shares of common stock he was eligible to receive in the event that the Company's pro forma earnings per share CAGR was greater than 40%, as the Company did not meet that threshold. Our Board of Directors reviewed the compensation of each of our directors and executive officers, including our Chief Executive Officer, before the end of 2010, and a new compensation package for our Chief Executive Officer was approved by the Compensation Committee on January 31, 2011.

Compensation of Other Officers

In December 2007 the Compensation Committee met to review the salaries that seven PRC-based companies listed on US exchanges with market capitalizations ranging from under USD20 million to greater than \$147 billion, paid to their president and chief financial officer. The companies included SORL Auto Parts, Inc., Sohu.com Inc, Netease.com Inc., Huaneng Power International Inc., Guangshen Railway Co., Ltd, e-Future Information Technology Inc. and Asiainfo Holdings Inc. The Compensation Committee's intent was to target executive base salaries near the median of the range of salaries for executives in similar positions with similar responsibilities, in line with our compensation philosophy. The Compensation Committee determined that the median base salaries for persons acting as president and chief financial officer for the above companies was approximately USD93,000 and USD103,000, respectively.

On December 21, 2007, the Compensation Committee of our Board of Directors approved the following compensation package for its Chief Financial Officer: a salary of USD100,000 per year; the grant of 15,000 shares of the Company's common stock for each of 2008, 2009 and 2010 (for a total of 45,000 shares) that vest each quarter; and the potential grant of a bonus on a yearly basis of up to an additional (i) 5,000 shares of the Company's common stock for achieving timely filing of Form 10-Ks and Form 10-Qs in each of 2008, 2009 and 2010 and (ii) 5,000 shares of the Company's common stock if the pro forma earnings per share compared annual growth rate, or CAGR, is at or above 30% for each of 2008, 2009 and 2010.

On March 27, 2008, the Compensation Committee of our Board of Directors approved the following compensation package for its President: a salary of USD100,000 per year for the three-year period commencing April 1, 2008 through and including March 31, 2011; the grant of 80,000 shares of the Company's common stock that vests in twelve equal installments on a quarterly basis, beginning June 30, 2008; and the potential grant of a bonus on a yearly basis of up to an additional (i) 26,667 shares of the Company's common stock if the Company's pro forma earnings per share compound annual growth rate is at or above 30% and (ii) 26,667 shares of the Company's common stock if the pro forma earnings per share is 40% or more above the previous year's pro forma earnings per share.

The salaries for our Chief Financial Officer and President were negotiated with such persons prior to their becoming employed by us. The Compensation Committee based the level of compensation for such officers on its belief of what is typical for public companies of our size and type and the amounts that it believed that such persons would be willing to accept to join us. Our Chief Executive Officer participated in the determination of the salary for each of such officers. The actual base salary paid to our president and chief financial officer in 2009 was USD100,000 each. Our Board of Directors reviewed the compensation of each of our directors and executive officers, including our Chief Financial Officer and President, before the end of 2010, and new compensation packages for our Chief Financial Officer and President were approved by the Compensation Committee on January 31, 2011.

Other Determinations of the Compensation Committee

The Compensation Committee did not award any cash bonus to any named executive officer in 2010, 2009 or 2008. The Compensation Committee has determined that the combination of base salary, stock awards and option awards resulted in satisfactory aggregate compensation levels for our executives and determined that additional cash compensation was not necessary to adequately reward its executives. The Compensation Committee does not establish thresholds by which executives may earn a cash bonus, and the lack of any cash bonus award being paid during these years does not indicate that any executive failed to meet any particular performance threshold.

In making its equity award determinations, the Compensation Committee agreed that Jeffrey Kang and Yi Yuan, our Chief Executive Officer and President, respectively, were crucial to the Company's day-to-day operations, as well as to its long-term growth. The Compensation Committee agreed that, based on the Company's results of operations and its market outlook, it was appropriate to reward Messrs. Kang and Yuan for the Company having exceeded expectations in 2010 as documented in their employment agreements. The Compensation Committee considered a pro forma earnings per share CAGR of 30% to be a benchmark achievement, and considered a pro forma earnings per share CAGR of 40% or above to be extraordinary performance. Since the Company's proforma earnings per share CAGR for 2010 was below 30%, the Compensation Committee did not issue our Chief Financial Officer or our President 5,000 shares and 26,667 shares of common stock that each was respectively eligible to receive under his employment agreement. However, the Compensation Committee determined that it was appropriate to award Mr. Zheng the 5,000 shares of the Company's common stock which he was entitled to receive under his employment agreement for, among other things, timely filing the Company's Annual Report on Form 10-K, his successful oversight of the Company's financial activities and internal controls over financial reporting, and exceeding management's expectations for his dedication to the Company and his management efforts.

Compensation Committee Report on Executive Compensation

Our compensation committee has certain duties and powers as described in its charter. The compensation committee is currently composed of the three non-employee directors named at the end of this report, each of whom is independent as defined by the Nasdaq Global Market listing standards.

The compensation committee has reviewed and discussed with management the disclosures contained in the Compensation Discussion and Analysis section of this Annual Report on Form 10-K. Based upon this review and discussion, the compensation committee recommended to our Board of Directors that the Compensation Discussion and Analysis section be included in this Form 10-K.

**The Compensation Committee of
the Board of Directors consists of the following members:**

Q. Y. Ma

JP Gan

George Mao

SEC filings sometimes "incorporate information by reference." This means that we are referring you to information that has previously been filed with the SEC, and that this information should be considered as part of the filing you are reading. Unless we specifically state otherwise, this report shall not be deemed to be incorporated by reference and shall not constitute soliciting material or otherwise be considered filed under the Securities Act or the Securities Exchange Act.

Executive Compensation

Summary Compensation Table

Name and Principal Position	Year	Salary (USD)	Bonus (USD)	Stock Awards (USD)	Option Awards (USD)	Non-Equity Incentive Plan Compensation (USD)	All Other Compensation (USD)	Total (USD)
Jeffrey Kang, Chairman and Chief Executive Officer	2010	100,000	—	320,600	—	—	2,275 ⁽¹⁾⁽²⁾	422,875
	2009	74,940	—	320,600	—	—	2,251 ⁽¹⁾⁽²⁾	397,755
	2008	74,940	—	320,600	—	—	2,119 ⁽¹⁾⁽²⁾	397,659
Yi Yuan, President	2010	100,000	—	289,333	—	—	1,548 ⁽³⁾	390,881
	2009	100,000	—	289,333	—	—	1,548 ⁽³⁾	390,881
	2008	100,000	—	217,000	—	—	1,548 ⁽³⁾	318,548
Frank Zheng, Chief Financial Officer	2010	100,000	—	307,242	—	—	1,548 ⁽⁴⁾	408,790
	2009	100,000	—	307,242	—	—	1,548 ⁽⁴⁾	408,790
	2008	100,000	—	387,392	—	—	1,548 ⁽⁴⁾	488,940

- (1) Mr. Kang is entitled to retirement benefits under a PRC government-managed retirement plan. Expenses related to Mr. Kang's participation in the PRC government managed retirement plan amounted to approximately RMB4,800 (USD727), RMB4,800 and RMB3,893 for the years ended December 31, 2010, 2009 and 2008.
- (2) Mr. Kang is entitled to retirement benefits under Hong Kong's mandatory provident fund scheme. Expenses related to Mr. Kang's participation in the mandatory provident fund scheme amounted to approximately HKD12,000 (USD1,548), HKD12,000 and HKD12,000 for the years ended December 31, 2010, 2009 and 2008.
- (3) Mr. Yuan is entitled to retirement benefits under Hong Kong's mandatory provident fund scheme. Expenses related to Mr. Yuan's participation in the mandatory provident fund scheme amounted to approximately HKD12,000 (USD1,548), HKD12,000 and HKD12,000 for the years ended December 31, 2010, 2009 and 2008.
- (4) Mr. Zheng is entitled to retirement benefits under Hong Kong's mandatory provident fund scheme. Expenses related to Mr. Zheng's participation in the mandatory provident fund scheme amounted to approximately HKD12,000 (USD1,548), HKD12,000 and HKD12,000 for the years ended December 31, 2010, 2009 and 2008.

Director Compensation

The following table summarizes compensation that our directors earned during 2010 for services as members of our Board.

Name	Fees Earned or Paid in Cash (USD)	Stock Awards (USD)	Option Awards (USD)	Non-Equity Incentive Plan Compensation (USD)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (USD)	All Other Compensation (USD)	Total (USD)
Jeffrey Kang	—	—	—	—	—	—	—
Frank Zheng	—	—	—	—	—	—	—
Q. Y. Ma	28,000	—	—	—	—	—	28,000
JP Gan	48,000	—	—	—	—	—	48,000
George Mao	28,000	—	—	—	—	—	28,000

No options were granted to our non-employee directors in 2010.

On January 31, 2011, the Compensation Committee of our Board of Director approved the following compensation for members of our Board of Directors in 2011: Mr. Gan will receive USD48,000 in cash and Dr. Ma and Dr. Mao each will receive USD28,000 in cash.

Grants of Plan Based Awards

No plan based awards were made to our named executive officers under any plan in 2010.

2004 Stock Incentive Plan

On August 3, 2004, the Company's board of directors adopted the 2004 Stock Incentive Plan (the 2004 Plan), under which 2,500,000 shares of common stock are reserved for issuance upon exercise of stock options, and for the issuance of stock appreciation rights (SAR's), restricted stock awards and performance shares. The purpose of the 2004 Plan is to provide additional incentive to employees, directors, advisors and consultants by facilitating their acquisition of common stock. The 2004 Plan provides for a term of ten years from the date of its adoption by the board of directors (unless the 2004 Plan is earlier terminated), after which no awards may be made. Options granted under the 2004 Plan are either incentive stock options (i.e., options that afford favorable tax treatment to recipients upon compliance with certain restrictions pursuant to Section 422 of the U.S. Internal Revenue Code (IRC) and that do not result in tax deductions to us unless participants fail to comply with that Section) or options that do not so qualify.

Our board of directors determines when options under the 2004 Plan are exercisable and the option exercise price. The 2004 Plan permits options to be exercised with cash, check, certain other shares of our common stock, consideration received by us under "cashless exercise" programs, or if permitted by our board, promissory notes or other property. Our board also determines the performance goals and performance period for performance shares; the purchase price and conditions of repurchase for restricted stock and the terms of stock appreciation rights. Our board may at any time accelerate the vesting of any outstanding award. In the event we are sold, merged, consolidated, reorganized or liquidated, our board may take any of the following actions as to outstanding awards: (a) provide that the successor will assume or provide a substitute for the awards; (b) provide that all unexercised options and stock appreciation rights shall terminate immediately prior to the consummation of the transaction, if not previously exercised; (c) in the event of a sale where common stockholders receive cash for their shares, provide that each outstanding vested option and stock appreciation right will be exchanged for a payment in cash equal to the excess of the sales price over the exercise price; and (d) make such other adjustments deemed necessary to provide participants with a benefit substantially similar to that which they would have been entitled had the event not occurred. In the event of any stock dividend, split, recapitalization or other similar change, our board may adjust the number and kind of shares subject to outstanding awards, the exercise or purchase price of awards, and any other equitable adjustments it deems appropriate.

The 2004 Plan and the Directors' Plan are administered by the compensation committee of our board of directors. The compensation committee selects the employees to whom awards are to be granted, the number of shares to be subject to such awards, and the terms and conditions of such awards, provided that any discretion exercised by the compensation committee must be consistent with resolutions adopted by our board and the terms of the 2004 Plan.

As of December 31, 2010, options to purchase an aggregate of 2,235,832 shares had been granted under the 2004 Plan, and options to purchase an aggregate of 115,000 shares had been granted under the Company's 1995 Stock Option Plan for Outside Directors (the "Directors' Plan").

2006 Equity Incentive Plan

On November 24, 2006, the Company's board of directors adopted the 2006 Stock Incentive Plan (the 2006 Plan), under which 4,800,000 shares of common stock are reserved for issuance. The purpose of the 2006 Plan is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees, directors and consultants and to promote the success of the Company's business. The 2006 Plan provides for the grant of options, stock appreciation rights ("SARs"), performance share awards and restricted stock awards to officers, employees and independent contractors of the Company or its affiliates. If any award expires, is cancelled, or terminates unexercised or is forfeited, the number of shares subject thereto is again available for grant under the 2006 Plan. The number of shares of Common Stock for which awards may be granted to a participant under the 2006 Plan in any calendar year cannot exceed 2,400,000.

The 2006 Plan is administered by the compensation committee of the board of directors, which has complete discretion, subject to the express limits of the 2006 Plan, to determine the employees and independent contractors to be granted an award, the type of award to be granted, the number of shares of Common Stock subject to each award, the exercise price of each option and base price of each SAR, the term of each award, the vesting schedule for an award, whether to accelerate vesting, the value of the stock, and the required withholding. The compensation committee may amend, modify or terminate any outstanding award, provided that the participant's consent to such action is required if the action would materially and adversely affect the participant. The compensation committee is also authorized to construe the award agreements, and may prescribe rules relating to the 2006 Plan. Notwithstanding the foregoing, the compensation committee does not have any authority to grant or modify an award under the 2006 Plan with terms or conditions that would cause the grant, vesting or exercise to be considered nonqualified "deferred compensation" subject to Code Section 409A.

Options granted under the 2006 Plan may be either “incentive stock options” (“ISOs”), which are intended to meet the requirements for special federal income tax treatment under the Code, or “nonqualified stock options” (“NQSOs”). Except as provided in the 2006 Plan, awards granted under the 2006 Plan are not transferable and may be exercised only by the respective grantees during their lifetime or by their guardian or legal representative. The 2006 Plan is effective for 10 years, unless it is sooner terminated or suspended. The Committee may at any time amend, alter, suspend or terminate the 2006 Plan; provided, that no amendment requiring stockholder approval will be effective unless such approval has been obtained. No termination or suspension of the 2006 Plan will affect an award which is outstanding at the time of the termination or suspension.

As of December 31, 2010, all restricted stock awards of 4,800,000 shares had been granted under the 2006 Plan.

2009 Equity Incentive Plan

On November 9, 2009, the Company’s board of directors adopted the 2009 Stock Incentive Plan (the 2009 Plan), under which 6,000,000 shares of common stock are reserved for issuance. The purpose of the 2009 Plan is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees, directors and consultants. The 2009 Plan provides for the grant of options, stock appreciation rights (“SARs”), performance share awards, distribution equivalent right awards and restricted stock awards to directors, officers, employees and independent contractors of the Company or its affiliates. If any award expires, is cancelled, or terminates unexercised or is forfeited, the number of shares subject thereto is again available for grant under the 2009 Plan. The number of shares of Common Stock for which awards may be granted to a participant under the 2009 Plan in any calendar year cannot exceed 2,400,000.

The 2009 Plan is administered by the compensation committee of the board of directors, which has complete discretion, subject to the express limits of the 2009 Plan, to determine the employees and independent contractors to be granted an award, the type of award to be granted, the number of shares of Common Stock subject to each award, the exercise price of each option and base price of each SAR, the term of each award, the vesting schedule for an award, whether to accelerate vesting, the value of the stock, and the required withholding. The compensation committee may amend, modify or terminate any outstanding award, provided that the participant’s consent to such action is required if the action would materially and adversely affect the participant. The compensation committee is also authorized to construe the award agreements, and may prescribe rules relating to the 2009 Plan. Notwithstanding the foregoing, the compensation committee does not have any authority to grant or modify an award under the 2009 Plan with terms or conditions that would cause the grant, vesting or exercise to be considered nonqualified “deferred compensation” subject to Code Section 409A.

Options granted under the 2009 Plan may be either “incentive stock options” (“ISOs”), which are intended to meet the requirements for special federal income tax treatment under the Code, or “nonqualified stock options” (“NQSOs”). Except as provided in the 2009 Plan, awards granted under the 2009 Plan are not transferable and may be exercised only by the respective grantees during their lifetime or by their guardian or legal representative. Options under the 2009 Plan is effective for 10 years, unless it is sooner terminated or suspended. The Committee may at any time amend, alter, suspend or terminate the 2009 Plan; provided that no amendment requiring stockholder approval will be effective unless such approval has been obtained. No termination or suspension of the 2009 Plan will affect an award which is outstanding at the time of the termination or suspension.

As of December 31, 2010, restricted stock awards of an aggregate of 1,970,262 shares had been granted under the 2009 Plan.

Outstanding Equity Awards at Fiscal Year-End

The following table summarizes the number of securities underlying outstanding plan awards for each named executive officer as of December 31, 2010.

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (USD)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (USD) ⁽²⁾	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Award: Market Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (USD)
Jeffrey Kang	450,043	—	—	3.74	November 11, 2014	—	—	—	—
Yi Yuan	—	—	—	—	—	6,667 ⁽¹⁾	58,994	—	—
Frank Zheng	—	—	—	—	—	—	—	—	—

(1) 6,667 shares vest on March 31, 2011.

(2) The market value of the shares that have not vested has been calculated by multiplying the number of shares times \$8.85, which represents the last reported sale price of our common stock on the Nasdaq Global Market on December 31, 2010, which is the last day of the most recent fiscal year.

Option Exercises and Stock Vested

The following table summarizes stock option exercises by our named executive officers in 2010 and shares of restricted stock that vested in 2010.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (USD)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (USD) ⁽⁴⁾
Jeffrey Kang	—	—	20,000 ⁽¹⁾	141,300
Yi Yuan	—	—	26,667 ⁽²⁾	188,403
Frank Zheng	—	—	20,000 ⁽³⁾	142,975

(1) 5,000 shares vested each quarter on March 31, June 30, September 30 and December 31.

(2) 6,666 shares vested on June 30 and 6,667 vested on March 31, September 30 and December 31.

(3) 3,750 shares vested each quarter on March 31, June 30, September 30 and December 31 and 5,000 shares vested on March 12.

(4) The market value of the shares realized on vesting has been calculated by adding the number of shares vested in each quarter times the last reported sale price of our common stock on the Nasdaq Global Market on March 12, March 31, June 30, September 30 and December 31, which are USD7.4, USD6.99, USD6.24, USD6.18 and USD8.85, respectively.

Pension Benefits

We do not sponsor any qualified or non-qualified defined benefit plans.

Nonqualified Deferred Compensation

We do not maintain any non-qualified defined contribution or deferred compensation plans. The compensation committee may elect to provide our officers and other employees with non-qualified defined contribution or deferred compensation benefits if the compensation committee determines that doing so is in our best interests.

Employment Agreements

Jeffrey Kang, Chief Executive Officer.

Comtech International (Hong Kong) Limited entered into an employment agreement with Jeffrey Kang, our Chief Executive Officer, in January 2008, which expires in December 2010. Pursuant to the agreement, Mr. Kang's annual base compensation is USD100,000 in cash and 20,000 shares of our common stock. Mr. Kang is eligible to receive a bonus of 40,000 shares of our common stock annually if we reach a compound annual growth rate above 30%, and he is eligible to receive an additional bonus of 40,000 shares of our common stock annually if we reach a compound annual growth rate above 40%. Pursuant to the agreement, Mr. Kang will devote all of his working time to his respective duties with us and will not become employed in any competitive business while employed by us or for two years following the termination of his employment with us, and Mr. Kang will not solicit the services of any of our employees for two years after he terminates employment with us. We may terminate Mr. Kang for cause at any time without notice, or without cause upon 12 weeks prior written notice to Mr. Kang.

Yi Yuan, President.

Comtech Broadband Corporation Limited entered into an employment agreement with Yi Yuan, our President, in April 2009, which expires in March 2011. Pursuant to the agreement, Mr. Yuan's annual base compensation is USD100,000 in cash and 22,666 shares of our common stock. Mr. Yuan is eligible to receive a bonus of up to 26,667 shares of our common stock annually if we reach a compound annual growth rate above 30%, and he is eligible to receive an additional bonus of up to 26,667 shares of our common stock annually if we reach a compound annual growth rate above 40%. Pursuant to the agreement, Mr. Yuan will devote all of his working time to his respective duties with us and will not become employed in any competitive business while employed by us or for two years following the termination of his employment with us, and Mr. Yuan will not solicit the services of any of our employees for two years after he terminates employment with us. We may terminate Mr. Yuan for cause at any time without notice, or without cause upon 12 weeks prior written notice to Mr. Yuan.

Frank Zheng, Chief Financial Officer.

Comtech Broadband Corporation Limited entered into an employment agreement with Frank Zheng, our President, in January 2008, which expired in December 2010. Pursuant to the agreement, Mr. Zheng's annual base compensation is USD100,000 in cash and 15,000 shares of our common stock. Mr. Zheng is eligible to receive an annual bonus of 5,000 shares of our common stock if we timely file our Quarterly and Annual Reports on Forms 10-Q and 10-K, and he is eligible to receive an additional bonus of 5,000 shares of our common stock annually if we reach a compound annual growth rate above 30%. Pursuant to the agreement, Mr. Zheng will devote all of his working time to his respective duties with us and will not become employed in any competitive business while employed by us or for two years following the termination of his employment with us, and Mr. Zheng will not solicit the services of any of our employees for two years after he terminates employment with us. We may terminate Mr. Zheng for cause at any time without notice, or without cause upon one month prior written notice to Mr. Zheng.

Potential Payments Upon Termination or Change In Control

We have no potential payments upon termination or change in control.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The following table sets forth, as of March 2, 2011, certain information as to the stock ownership of (1) each person known by us to own beneficially more than five percent of our common stock, (2) each of our directors, (3) each of our executive officers, and (4) our executive officers and directors as a group. The business address of each shareholder is c/o Cogo Group, Inc. Company, Suite 1001, Tower C, Skyworth Building, High-Tech Industrial Park, Nanshan, Shenzhen 518057, People's Republic of China.

Name of Beneficial Owner	Number of Shares Beneficially Owned ⁽¹⁾	Percentage Ownership
Jeffrey Kang, Chief Executive Officer and Chairman of the Board	10,341,567 ⁽²⁾⁽³⁾	28.9%
Yi Yuan, President	33,333	*
Frank Zheng, Chief Financial Officer, Treasurer, Secretary and Director	153,801	*
Q. Y. Ma, Director	11,301 ⁽⁴⁾	*
JP Gan, Director	9,000	*
George Mao, Director	5,000	*
All executive officers and directors as a group (6 persons)	10,554,002	29.4%

Principal Stockholders

Nan Ji	9,711,524 ⁽³⁾⁽⁵⁾	27.1%
Comtech Global Investment Ltd.	9,711,524 ⁽³⁾⁽⁵⁾	27.1%
Cadian Capital Management, LLC	2,701,885 ⁽⁶⁾	7.5%
Ren Investment International Ltd.	2,290,028 ⁽⁷⁾	6.4%
AXA	1,961,100 ⁽⁸⁾	5.5%

* Represents beneficial ownership of less than one percent of our outstanding shares.

- (1) Beneficial ownership is determined in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC). In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options held by that person that are currently exercisable or exercisable within 60 days of March 2, 2011 are deemed outstanding. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. Except as indicated in the footnotes to the following table or pursuant to applicable community property laws, each stockholder named in the table has sole voting and investment power with respect to the shares set forth opposite such stockholder's name. The percentage of beneficial ownership is based on 35,848,764 shares of common stock outstanding as of March 2, 2011.
- (2) Consists of (a) 450,043 shares issuable upon exercise of currently exercisable stock options, (b) 180,000 shares and (c) 9,711,524 shares beneficially owned by Comtech Global Investment Ltd., over which Mr. Jeffrey Kang and his wife, Ms. Nan Ji, share voting and investment power.
- (3) Mr. Jeffrey Kang owns a 29% interest and Ms. Nan Ji a 71% interest in Comtech Global Investment Ltd. The directors of Comtech Global Investment Ltd. are Mr. Jeffrey Kang and his brother, Mr. Yi Kang who does not have an economic interest in any shares of Comtech Global Investment Ltd.
- (4) Consists of (a) 5,000 shares issuable upon exercise of currently exercisable stock options and (b) 6,301 shares owned by Dr. Ma.
- (5) Mr. Jeffrey Kang and his wife, Ms. Nan Ji, share voting and investment power over the 9,711,524 shares beneficially owned by Comtech Global Investment Ltd.
- (6) Based on the Schedule 13F filed by Cadian Capital Management, LLC, Inc. on February 14, 2011. The business address of Cadian Capital Management LLC is at 461 Fifth Avenue, 24th Floor, New York NY 10017. Graham Quigley is the Chief Financial Officer of Cadian Capital Management LLC.
- (7) Consists of 2,290,028 shares beneficially owned by Ren Investment International Ltd., over which Mr. Yi Kang, as sole director, has sole voting and investment power and Mr. Yi Kang, the brother of Jeffery Kang, does not have an economic interest in any shares of Ren Investment International Ltd.
- (8) Based on the Schedule 13F filed by AXA on February 9, 2011. The business address of AXA is 25, avenue Matignon 75008 Paris France. Alvin H. Fenichel is the Attorney-in-Fact of AXA.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Other Related Party Transactions

At the time of its incorporation, foreign shareholding in a trading business such as Shenzhen Comtech could not exceed 65%. With subsequent PRC deregulation, foreign ownership of such a trading business can now reach 100%, and approval of foreign ownership of companies in the PRC engaged in commodity trading businesses—which includes agency trade, wholesale, retail and franchise operations is now delegated to local government agencies of the PRC Ministry of Commerce. In order to exercise control over Shenzhen Comtech (a PRC operating company legally permitted to engage in a commodity trading business), without direct shareholding by us (a U.S.-listed company and therefore a foreign-invested entity), Honghui Li, our vice president, and Huimo Chen, the mother of our principal shareholder and chief executive officer, Jeffrey Kang, hold 99% and 1%, respectively, of the equity interests of Shenzhen Comtech, and through contractual agreements with us hold such equity interests exclusively for the benefit of our 100% directly owned subsidiary, Comtech China. Shenzhen Comtech, in turn owns a 60% equity interest in another of our PRC operating companies, Shanghai E&T, with the other 40% being held by Comtech China through trust agreements. Under the trust agreements, Shenzhen Comtech owns a 35% equity interest in Shanghai E&T for the benefit of Comtech China and Honghui Li owns a 5% equity interest in Shanghai E&T for the benefit of Comtech China. While we do not have any equity interest in Shenzhen Comtech, through these contractual agreements, we enjoy voting control and are entitled to the economic interests associated with their equity interest in Shenzhen Comtech. For additional details regarding these contractual agreements, see “Risk Factors—Risks Related to our Business—We depend upon contractual agreements with the two shareholders of Shenzhen Comtech in conducting our business through Shenzhen Comtech and Shanghai E&T and receiving payments, which may not be as effective in providing operational control as direct ownership and may be difficult to enforce. Further, if the PRC government finds these contractual agreements violate or conflict with PRC governmental regulations, our business would be materially adversely affected.”

In 2005, Nan Ji executed an agreement to transfer her 70% equity interest in Shenzhen Comtech to Jeffrey Kang and her 1% equity interest in Shenzhen Comtech to Huimo Chen, the mother of Jeffrey Kang, who is a PRC citizen. Jeffrey Kang and Huimo Chen have also agreed that upon the successful transfer of Nan Ji's equity interest as described above, they will enter into and be bound by the same contractual arrangements with Comtech China relating to the voting control of Shenzhen Comtech. In 2006, Jeffrey Kang executed an agreement to transfer his 99% equity interest in Shenzhen Comtech to Honghui Li.

On August 6, 2006, Comtech China, our wholly-owned subsidiary, entered into a share acquisition agreement pursuant to which Comtech China acquired the remaining 40% minority interests of Shanghai E&T for cash consideration of RMB16.0 million. Comtech China in turn entered into trust agreements with Honghui Li and Shenzhen Comtech. Under the trust agreements, Honghui Li owns 5% interest in Shanghai E&T, and Shenzhen Comtech owns 35% interest in Shanghai E&T, in addition to 60% equity interest it owned previously. We enjoy voting control over and all economic interests associated with Shanghai E&T.

At present, most of our business in the PRC is done through Shenzhen Comtech and Shenzhen Communication, except for business in Shanghai, which is conducted mostly through Shanghai E&T.

In the event any transaction in which we propose to engage is a related-person transaction, our management must present information regarding the proposed related-person transaction to the disinterested non-employee members of our board of directors for consideration and approval or ratification. The presentation must include a description of, among other things, the material facts, the interests, direct and indirect, of the related persons, the benefits to us of the transaction and whether any alternative transactions were available. To identify related-person transactions in advance, we rely on information supplied by our executive officers, directors and significant stockholders. In considering related-person transactions, the disinterested non-employee members of the board take into account the relevant available facts and circumstances including, but not limited to (a) the risks, costs and benefits to us, (b) the impact on a director's independence in the event the related person is a director, immediate family member of a director or an entity with which a director is affiliated, (c) the terms of the transaction, (d) the availability of other sources for comparable services or products and (e) the terms available to or from, as the case may be, unrelated third parties or to or from employees generally. In the event a director has an interest in the proposed transaction, the director must excuse himself or herself from the deliberations and approval. The policy requires that, in determining whether to approve, ratify or reject a related-person transaction, the disinterested non-employee members of the board look at, in light of known circumstances, whether the transaction is in, or is not inconsistent with, our best interests and our stockholders, as determined in the good faith exercise of such directors' discretion.

Director Independence

See the information set forth in the section titled "Directors, Executive Officers and Corporate Governance—Board Committees" in Part III, Item 10 of this Annual Report.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents the aggregate fees for professional services and other services rendered by our principal accountant to us in 2010 and 2009.

	2010	2009
	(in millions)	
Audit fees ⁽¹⁾	RMB4.2	RMB4.2
Audit related fees	0.5	0.8
Tax fees	—	—
All other fees	—	—
Total	RMB4.7	RMB5.0

(1) Audit fees consist of fees billed for the professional services rendered for the audit of our consolidated financial statements for each of these fiscal years and the review of the interim financial statements for the fiscal years ended December 31, 2010 and December 31, 2009, respectively.

We are required to obtain pre-approval by our audit committee for all audit and permitted non-audit services performed by our independent auditors. In accordance with this requirement, during fiscal 2010, 100% of all audit, audit-related, tax and other services performed by KPMG were approved in advance by the audit committee. Any pre-approved decisions are presented to the full audit committee at the next scheduled meeting. KPMG was our principal auditor and no work was performed by persons outside of this firm.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Index to Consolidated Financial Statements

Please see the accompanying Index to Consolidated Financial Statements which appears on page F-1 of this report. The Management's Report on Internal Control over Financial Reporting, Reports of Independent Registered Public Accounting Firm, Consolidated Financial Statements and Notes to Consolidated Financial Statements which are listed in the Index to Consolidated Financial Statements and which appear beginning on page F-2 of this report are included in Item 8 above.

(a)(2) Financial Statements Schedule

All financial statements schedules have been omitted because the information required to be set forth therein is not applicable or is included in the Consolidated Financial Statements or notes thereto.

Exhibits

The following exhibits are filed as part of, or are incorporated by reference in, this Form 10-K:

	<u>Descriptions</u>
3.1	Amended Articles of Restatement of the Articles of Incorporation. (Incorporated by reference to Exhibit 3.1 of the Annual Report on Form 10-K for the fiscal year ended December 31, 1996 filed with the Securities and Exchange Commission on April 15, 1997.)
3.1(a)	Amendments to Articles of Incorporation. (Incorporated by reference to the Registration Statement on Form S-1 filed on December 23, 2004, and subsequently amended on February 2, 2005.)

- 3.2 Amended and Restated Bylaws. (Incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 13, 2008.)
- 3.3 Articles of Merger. (Incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 13, 2008.)
- 4.1 Specimen Stock Certificate. (Incorporated by reference to the Registration Statement on Form S-1 filed on December 23, 2004, and subsequently amended on February 2, 2005.)
- 4.2 Shareholders Agreement, dated July 23, 2004. (Incorporated by reference to Exhibit 4.1 of the Form 8-K filed with the Securities and Exchange Commission on July 22, 2004.)
- 10.1 Facility Letter by and between Bank of China and Comtech Broadband Corporation Limited, Comtech International (Hong Kong) Limited, Keen Awards Limited and Hong Kong JJT Limited, dated March 19, 2010. (Incorporated by reference to the Current Report on Form 8-K filed with the Commission on April 29, 2010)
- 10.2 Factoring Agreement by and between Bank of China (Hong Kong) Limited and Comtech Broadband Corporation Limited, dated April 28, 2010. (Incorporated by reference to the Current Report on Form 8-K filed with the Commission on April 29, 2010)
- 10.3 Confirmation Letter of Bank of China (Hong Kong) Limited, dated April 23, 2010. (Incorporated by reference to the Current Report on Form 8-K filed with the Commission on April 29, 2010)
- 10.4 Confirmation Letter of Bank of China (Hong Kong) Limited, dated April 28, 2010. (Incorporated by reference to the Current Report on Form 8-K filed with the Commission on April 29, 2010)
- 10.5 General Terms and Conditions for Banking Facilities. (Incorporated by reference to the Current Report on Form 8-K filed with the Commission on April 29, 2010)
- 10.6 Confirmation Letter of Standard Chartered Bank (Hong Kong) Limited, dated July 6, 2010. (Incorporated by reference to the Current Report on Form 8-K filed with the Commission on July 9, 2010)
- 10.7 Facility Letter by and among Standard Chartered Bank (Hong Kong) Limited, Comtech International (Hong Kong) Limited, Keen Awards Limited and Comtech Broadband Corporation Limited, dated February 22, 2010. (Incorporated by reference to the Current Report on Form 8-K filed with the Commission on July 9, 2010)
- 10.8 Facility Letter by and between Comtech International (Hong Kong) Limited and Hong Kong Branch of China Merchants Bank, dated October 8, 2010. (Incorporated by reference to the Current Report on Form 8-K filed with the Commission on October 20, 2010)
- 10.9 Form of General Commercial Agreement. (Incorporated by reference to the Current Report on Form 8-K filed with the Commission on October 20, 2010)
- 10.10 Form of Credit Amount Contract by and between Comtech International (Hong Kong) Limited and Macau Branch of Guangdong Development Bank, dated December 10, 2010. (Incorporated by reference to the Current Report on Form 8-K filed with the Commission on December 15, 2010)
- 10.11 Form of Credit Amount Contract by and between Comtech Broadband Limited and Macau Branch of Guangdong Development Bank, dated December 10, 2010. (Incorporated by reference to the Current Report on Form 8-K filed with the Commission on December 15, 2010)
- 10.12 Form of Credit Facility Agreement by and between Comtech Communication Technology (Shenzhen) Company Limited and Shenzhen Branch of Guangdong Development Bank, dated December 7, 2010. (Incorporated by reference to the Current Report on Form 8-K filed with the Commission on December 15, 2010)
- 10.13 Form of Maximum Amount Rights Pledge Contract by and between Comtech Communication Technology (Shenzhen) Company Limited and Shenzhen Branch of Guangdong Development Bank, dated December 7, 2010. (Incorporated by reference to the Current Report on Form 8-K filed with the Commission on December 15, 2010)

- 10.14 Form of Maximum Amount Rights Pledge Contract by and between Comtech Software Technology (Shenzhen) Company Limited and Shenzhen Branch of Guangdong Development Bank, dated December 7, 2010. (Incorporated by reference to the Current Report on Form 8-K filed with the Commission on December 15, 2010)
- 10.15 Amendment to the Factoring Agreement by and between Bank of China (Hong Kong) Limited and Comtech Broadband Corporation Limited, dated October 13, 2010. (Incorporated by reference to the Current Report on Form 8-K filed with the Commission on January 3, 2011)
- 14.1 Code of Business Conduct and Ethics. (Incorporated by reference to Exhibit 14.1 to our Form 10-K for the year ended December 31, 2004 filed on March 31, 2005)
- 21.1 List of Subsidiaries of the Registrant. (Incorporated by reference to Exhibit 21.1 to our Form 10-K for the year ended December 31, 2007 filed on March 17, 2008)
- 23.1† Consent of KPMG, Independent Registered Public Accounting Firm
- 24.1 Power of Attorney (included on signature page to Form 10-K)
- 31.1† Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2† Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1†† Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2†† Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

† Filed herewith

†† Furnished herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COGO GROUP, INC.

Dated: March 16, 2011

By: /s/ Jeffrey Kang
Name: **Jeffrey Kang**
Title: **Chairman and Chief Executive Officer**

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Jeffrey Kang and Frank Zheng, and each of them, his or her true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him or her in any and all capacities, to sign any or all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: March 16, 2011

By: /s/ Jeffrey Kang
Name: **Jeffrey Kang**
Title: **Chairman and Chief Executive Officer (Principal Executive Officer)**

Dated March 16, 2011

By: /s/ Frank Zheng
Name: **Frank Zheng**
Title: **Chief Financial Officer (Principal Financial Officer) and Director**

Dated March 16, 2011

By: /s/ Allen Wu
Name: **Allen Wu**
Title: **Financial Controller and Chief Accounting Officer (Principal Accounting Officer)**

Dated March 16, 2011

By: /s/ Q.Y. Ma
Name: **Q.Y. Ma**
Title: **Director**

Dated March 16, 2011

By: /s/ JP Gan
Name: **JP Gan**
Title: **Director**

Dated March 16, 2011

By: /s/ George Mao
Name: **George Mao**
Title: **Director**

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate "internal control over financial reporting" (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) for Cogo Group, Inc. (the "Company") and its subsidiaries (collectively, the "Group"). Our internal control over financial reporting is a process designed under the supervision of the Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of our assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company, and (3) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Under the supervision of and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, management evaluated the effectiveness of Cogo's internal control over financial reporting as of December 31, 2010. In its evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Management believes that as of December 31, 2010, the Company's internal control over financial reporting was effective based on those criteria.

Based on our assessment and the criteria described above, management has concluded that, as of December 31, 2010, our internal control over financial reporting was effective.

The Company's independent registered public accounting firm has issued an audit report on management's assessment of the Company's internal control over financial reporting. This report is included herein.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Cogo Group, Inc.:

We have audited Cogo Group, Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Cogo Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Cogo Group, Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Cogo Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Cogo Group, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income and comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated March 16, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ **KPMG**

Hong Kong, China
March 16, 2011

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Cogo Group, Inc.:

We have audited the accompanying consolidated balance sheets of Cogo Group, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income and comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of Cogo Group, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cogo Group, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements as of and for the year ended December 31, 2010 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, such consolidated financial statements expressed in Renminbi have been translated into United States dollars on the basis set forth in Note 2(c) to the consolidated financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Cogo Group, Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2011 expressed an unqualified opinion on the effectiveness of Cogo Group, Inc.'s internal control over financial reporting.

/s/ **KPMG**

Hong Kong, China
March 16, 2011

COGO GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	Note	December 31,		
		2010 USD	2010 RMB	2009 RMB
ASSETS				
Current assets:				
Cash		106,007	699,650	667,320
Pledged bank deposits	9	50,311	332,050	116,040
Accounts receivable, net	3	103,320	681,911	617,613
Bills receivable	4	4,697	31,001	17,592
Inventories	5	37,966	250,573	146,132
Income taxes receivable		375	2,478	1,263
Prepaid expenses and other receivables		7,475	49,338	28,083
Total current assets		310,151	2,047,001	1,594,043
Property and equipment, net	6	2,214	14,613	14,406
Intangible assets, net	7 & 8	12,651	83,499	115,804
Goodwill	7 & 8	26,581	175,436	196,858
Other assets		222	1,468	416
TOTAL ASSETS		351,819	2,322,017	1,921,527
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable		9,587	63,283	81,140
Bank borrowings	9	76,650	505,888	119,402
Income taxes payable		2,447	16,153	11,847
Accrued expenses and other liabilities	11	2,361	15,581	138,008
Total current liabilities		91,045	600,905	350,397
Deferred tax liabilities	10	2,086	13,777	19,108
Total liabilities		93,131	614,682	369,505
Equity:				
Common stock				
Par value: USD0.01				
Authorized: 200,000,000 shares				
Issued: 41,181,529 shares in 2010 and 40,079,336 shares in 2009				
Outstanding: 35,848,764 shares in 2010 and 35,770,025 shares in 2009				
		505	3,332	3,258
Additional paid in capital		199,365	1,315,806	1,221,538
Retained earnings		108,612	716,839	604,464
Accumulated other comprehensive loss		(17,800)	(117,479)	(107,384)
		290,682	1,918,498	1,721,876
Less cost of common stock in treasury, 5,332,765 shares in 2010 and 4,309,311 shares in 2009		(34,317)	(226,495)	(178,309)
Total Cogo Group, Inc. equity		256,365	1,692,003	1,543,567
Noncontrolling interest		2,323	15,332	8,455
Total equity		258,688	1,707,335	1,552,022
Commitments and contingencies	16			
TOTAL LIABILITIES AND EQUITY		351,819	2,322,017	1,921,527

See accompanying notes to consolidated financial statements.

COGO GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(in thousands, except share data)

	Note	Year ended December 31,			
		2010	2010	2009	2008
		USD	RMB	RMB	RMB
Net revenue					
Product sales	14	387,120	2,554,991	2,066,815	1,931,845
Service revenue	14	5,231	34,527	29,401	27,695
		392,351	2,589,518	2,096,216	1,959,540
Cost of sales					
Cost of goods sold		(332,561)	(2,194,901)	(1,771,166)	(1,624,101)
Cost of services		(4,238)	(27,971)	(23,716)	(18,664)
		(336,799)	(2,222,872)	(1,794,882)	(1,642,765)
Gross profit		55,552	366,646	301,334	316,775
Selling, general and administrative expenses		(29,069)	(191,855)	(124,842)	(152,898)
Research and development expenses		(11,801)	(77,888)	(67,504)	(50,947)
Provision for doubtful accounts	3	—	(2)	(35,992)	(6,847)
Net gain on settlement relating to the acquisition of Long Rise before goodwill impairment	7(d)	6,617	43,676	—	—
Impairment loss of goodwill and intangible assets	7 & 8	(3,246)	(21,422)	—	(33,759)
Other operating income, net		70	463	116	214
Income from operations		18,123	119,618	73,112	72,538
Interest expense		(1,425)	(9,407)	(1,963)	(1,056)
Interest income		2,226	14,693	14,490	27,895
Earnings before income taxes and extraordinary item		18,924	124,904	85,639	99,377
Income tax expense	10	(1,795)	(11,849)	(9,207)	(2,215)
Income before extraordinary item		17,129	113,055	76,432	97,162
Extraordinary item, net of nil tax	7(e)	—	—	6,737	—
Net income		17,129	113,055	83,169	97,162
Less net income attributable to noncontrolling interest		(103)	(680)	(2,945)	(1,255)
Net income attributable to Cogo Group, Inc.		17,026	112,375	80,224	95,907
Earnings per share attributable to Cogo Group, Inc.					
Income before extraordinary item		0.46	3.01	2.01	2.49
Extraordinary item		—	—	0.19	—
- Basic	13	0.46	3.01	2.20	2.49
Income before extraordinary item		0.45	2.94	1.95	2.42
Extraordinary item		—	—	0.18	—
- Diluted	13	0.45	2.94	2.13	2.42
Weighted average number of common shares outstanding					
- Basic	13		37,275,427	36,541,037	38,488,861
- Diluted	13		38,188,814	37,673,351	39,585,921
Amounts attributable to Cogo Group, Inc.					
Income before extraordinary item		17,026	112,375	73,487	95,907
Extraordinary item		—	—	6,737	—
Net income attributable to Cogo Group, Inc.		17,026	112,375	80,224	95,907
Comprehensive income:					
Net income		17,129	113,055	83,169	97,162
Other comprehensive income (loss), net of tax					
Foreign currency translation adjustments		(1,589)	(10,486)	260	(44,570)
Comprehensive income		15,540	102,569	83,429	52,592
Less comprehensive income, net of tax attributable to noncontrolling interest		(44)	(289)	(2,944)	(1,256)
Comprehensive income attributable to Cogo Group, Inc.		15,496	102,280	80,485	51,336

See accompanying notes to consolidated financial statements.

COGO GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands, except share data)

	Cogo Group, Inc. Stockholders							Total equity
	Common Stock		Additional paid in capital	Retained earnings	Accumulated other comprehensive loss	Treasury Stock	Non controlling interest	
	No. of Shares outstanding	RMB						
Balance as of January 1, 2008	38,496,167	3,150	1,085,459	428,333	(63,074)	—	—	1,453,868
Net income	—	—	—	95,907	—	—	1,255	97,162
Foreign currency translation adjustments	—	—	—	—	(44,571)	—	1	(44,570)
Acquisition of Long Rise (note 7 (d))	—	—	—	—	—	—	4,255	4,255
Issuance of common stock pursuant to share-based compensation	502,602	34	(34)	—	—	—	—	—
Share-based compensation	—	—	40,722	—	—	—	—	40,722
Issuance of common stock in connection with consideration paid for the acquisition of Comtech Broadband	177,303	12	20,693	—	—	—	—	20,705
Purchase of treasury stock	(3,944,411)	—	—	—	—	(162,687)	—	(162,687)
Balance as of December 31, 2008	35,231,661	3,196	1,146,840	524,240	(107,645)	(162,687)	5,511	1,409,455
Net income	—	—	—	80,224	—	—	2,945	83,169
Foreign currency translation adjustments	—	—	—	—	261	—	(1)	260
Issuance of common stock pursuant to share-based compensation	785,059	53	1,996	—	—	—	—	2,049
Share-based compensation	—	—	59,045	—	—	—	—	59,045
Issuance of common stock in connection with consideration paid for the acquisition of Comtech Broadband	118,205	9	13,657	—	—	—	—	13,666
Purchase of treasury stock	(364,900)	—	—	—	—	(15,622)	—	(15,622)
Balance as of December 31, 2009	35,770,025	3,258	1,221,538	604,464	(107,384)	(178,309)	8,455	1,552,022
Net income	—	—	—	112,375	—	—	680	113,055
Foreign currency translation adjustments	—	—	—	—	(10,095)	—	(391)	(10,486)
Issuance of common stock pursuant to share-based compensation	1,102,193	74	(74)	—	—	—	—	—
Share-based compensation	—	—	69,250	—	—	—	—	69,250
Decrease in ownership interest of Comtech Broadband (note 12 (e))	—	—	16,472	—	—	—	15,208	31,680
Purchase of the remaining noncontrolling interest of Long Rise (note 7(d))	—	—	8,620	—	—	—	(8,620)	—
Purchase of treasury stock	(1,023,454)	—	—	—	—	(48,186)	—	(48,186)
Balance as of December 31, 2010	35,848,764	3,332	1,315,806	716,839	(117,479)	(226,495)	15,332	1,707,335
Balance as of December 31, 2010 (in USD)		505	199,365	108,612	(17,800)	(34,317)	2,323	258,688

See accompanying notes to consolidated financial statements.

COGO GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years ended December 31,			
	2010 USD	2010 RMB	2009 RMB	2008 RMB
Cash flows from operating activities:				
Net income	17,129	113,055	83,169	97,162
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation expense	931	6,144	5,826	8,765
Amortization of intangible assets	3,304	21,803	28,521	28,719
Impairment loss of goodwill and intangible assets	3,246	21,422	—	33,759
In-process research and development	—	—	—	4,390
Deferred income taxes	(808)	(5,331)	(4,500)	(10,841)
Loss on disposal of property and equipment	67	442	175	50
Extraordinary item (note 7(e))	—	—	(6,737)	—
Net gain on settlement relating to the acquisition of Long Rise before goodwill impairment (note 7(d))	(6,617)	(43,676)	—	—
Provision for doubtful accounts	—	2	35,992	6,847
Share-based compensation	15,292	100,930	59,045	40,722
Changes in current assets and liabilities, net of effects of acquisitions and dispositions:				
Accounts receivable, net	(11,676)	(77,065)	(155,560)	(92,852)
Bills receivable	(2,032)	(13,409)	(4,037)	21,745
Inventories	(16,556)	(109,267)	(50,309)	40,748
Prepaid expenses and other receivables	(3,440)	(22,706)	(6,665)	(3,958)
Income taxes receivable	(196)	(1,296)	(1,265)	—
Accounts payable	(2,412)	(15,919)	(26,382)	(60,698)
Amount due to a related party	—	—	—	(1,338)
Income taxes payable	664	4,385	3,620	(156)
Accrued expenses and other liabilities	(268)	(1,772)	5,597	(15,602)
Net cash provided by (used in) operating activities	(3,372)	(22,258)	(33,510)	97,462
Cash flows from investing activities:				
Increase in pledged bank deposits	(33,388)	(220,359)	—	(68,963)
Payments for acquisitions of subsidiaries, net of cash acquired	(9,891)	(65,281)	(89,215)	(41,333)
Purchases of property and equipment	(1,045)	(6,895)	(2,429)	(7,551)
Net cash used in investing activities	(44,324)	(292,535)	(91,644)	(117,847)
Cash flows from financing activities:				
Purchase of treasury stock	(7,301)	(48,186)	(15,622)	(162,687)
Proceeds from bank borrowings	60,677	400,469	119,486	—
Repayment of bank borrowings	—	—	—	(17,962)
Proceeds from exercises of stock warrants and options	—	—	2,049	—
Net cash provided by (used in) financing activities	53,376	352,283	105,913	(180,649)
Effect of exchange rate changes on cash	(782)	(5,160)	182	(32,237)
Net increase (decrease) in cash	4,898	32,330	(19,059)	(233,271)
Cash at beginning of the year	101,109	667,320	686,379	919,650
Cash at end of the year	106,007	699,650	667,320	686,379
Supplementary cash flow information:				
Interest paid	1,425	9,407	1,963	1,056
Income taxes paid	2,133	14,079	11,349	11,680
Non-cash investing activities:				
Shares issued for Comtech Broadband acquisition consideration payable, included in other liabilities	—	—	13,666	20,468
Acquisition of Mega Smart included in accrued expenses and other liabilities (note 7(c))	—	—	122,415	—
Acquisition of Long Rise included in accrued expenses and other liabilities (note 7(d))	—	—	—	60,921
Reduction of intangible assets upon reversal of contingent consideration payable in respect of Keen Awards (note 7(e))	—	—	26,803	—
Gain on settlement relating to the acquisition of Long Rise before goodwill impairment (note 7(d))	(8,209)	(54,178)	—	—

See accompanying notes to consolidated financial statements.

COGO GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share data)

1. ORGANIZATION AND NATURE OF OPERATIONS

Cogo Group, Inc. (the “Company”), formerly Comtech Group, Inc., and its subsidiaries (together, the “Group”) are principally engaged in the sale of component parts for electronic devices and equipment, such as liquid crystal display, cameras, persistent storage and peripheral devices for wireless handsets and fixed-line telecommunications, and industrial business components to manufacturers in the People’s Republic of China (“PRC”) and other overseas countries. The Group also provides technology and engineering services, business process outsourcing and other related services in the PRC.

As of December 31, 2010, the subsidiaries which principally affect the results of operations and financial condition of the Company are as follows:

<u>Name of company</u>	<u>Place of incorporation or establishment</u>	<u>Attributable equity interest held</u>	<u>Principal activity</u>
Comloca Technology (Shenzhen) Company Limited (“Comloca”)	PRC	100%	Location-based search business
Comtech Broadband Corporation Limited (“Comtech Broadband”)	Hong Kong	70% (2009: 100%)	Sales of electronics components and related products
Comtech Communication Technology (Shenzhen) Company Limited (“Comtech Communication”)	PRC	100%	Sales of electronics components and related products
Comtech International (Hong Kong) Limited (“Comtech Hong Kong”)	Hong Kong	100%	Sales of electronics components and related products
Comtech Software Technology (Shenzhen) Company Limited (“Comtech Software”)	PRC	100%	Sales of electronics components and related products and research and development of software products
Epcot Multimedia Technology (SZ) Co. Ltd. (“Epcot”)	PRC	100%	Provision of media communication and collaboration platforms and solutions
Keen Awards Limited (“Keen Awards”)	Hong Kong	100%	Sales of technology components and provision of design and engineering services for integrated display technology solutions
Shenzhen Comtech International Limited (“Shenzhen Comtech”)	PRC	100%	Sales of electronics components and related products (note a)
Shanghai E&T System Company Limited (“Shanghai E & T”)	PRC	100%	Sales of electronics components and related products (note a)

<u>Name of company</u>	<u>Place of incorporation or establishment</u>	<u>Attributable equity interest held</u>	<u>Principal activity</u>
Shenzhen Huameng Software Company Limited (“Huameng PRC”)	PRC	100%	Provision of technology and engineering services, outsourcing, network system integration and related training and maintenance services
Viewtran Technology (Shenzhen) Co., Limited (“Viewtran PRC”)	PRC	100%	Provision of media communication and collaboration platforms and solutions
Rise Year Limited (“Rise Year”)	Hong Kong	100% (2009: 70%)	Provision of code division multiple access (“CDMA”) mobile handset design solutions
Comtech Digital Technology (Hong Kong) Limited (“Comtech Digital”)	Hong Kong	60%	Sales and development of digital and industrial applications, microcontrollers and complementary products
Comtech Industrial (Hong Kong) Limited (“Comtech Industrial”)	Hong Kong	100%	Sales and development of industrial applications, microcontrollers and complementary products
Mega Sky (Shenzhen) Limited (“Mega Sky SZ”)	PRC	100%	Provision of industrial and microcontroller based system solutions and research and development of software products
Mega Smart (Shenzhen) Limited (“Mega Smart SZ”)	PRC	100%	Provision of industrial and microcontroller based system solutions on customer, industrial, automotive, smart meter and smart grid markets

Note a The Company exercises its control over Shenzhen Comtech, which in turn, has 95% equity interest in Shanghai E&T, through legal arrangements between Comtech (China) Holding Limited (“Comtech China”), a wholly-owned subsidiary of the Company, and Shenzhen Comtech’s legal shareholders (“Legal Shareholders”), Jeffrey Kang, CEO of the Group, Huimo Chen, the mother of Jeffrey Kang, and Honghui Li, the Vice President of the Group. In 2006, Jeffrey Kang executed an agreement to transfer his 99% equity interest in Shenzhen Comtech to Honghui Li. The Legal Shareholders agreed to hold the equity interest in Shenzhen Comtech on behalf of Comtech China, and waived their full rights and risks of ownership of the equity interests in favor of Comtech China. The legal shareholders of Shanghai E&T is Shenzhen Comtech and Honghui Li with equity interests of 95% and 5% respectively. Honghui Li entered into and is bound by similar legal arrangements with Comtech China relating to his holding of 5% equity interest in Shanghai E&T on behalf of Comtech China waiving his full rights and risks of ownership of the equity interests in favor of Comtech China.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”).

(a) *Principle of Consolidation*

The consolidated financial statements include the accounts of Cogo Group, Inc. and its subsidiaries. All significant inter-company balances and transactions have been eliminated upon consolidation.

(b) *Use of estimates*

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management of the Group to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the recoverability of the carrying amount of property and equipment, goodwill and intangible assets; the allocation of the purchase price for the Company’s acquisitions; the collectibility of accounts receivable; the realizability of deferred tax assets and inventories; fair value of share-based compensation; the useful lives and salvage values of property and equipment; and amounts recorded for contingencies. These estimates are often based on complex judgments and assumptions that management believes to be reasonable but are inherently uncertain and unpredictable. Actual results may differ from those estimates.

(c) Foreign Currency Transactions and Translation

The Group's reporting currency is the Renminbi ("RMB"). The functional currency of the Company is the U.S. dollar ("USD"), whereas the functional currency of the Company's subsidiaries in the PRC and Hong Kong is the RMB and Hong Kong dollar ("HKD"), respectively. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency using the applicable exchange rates at each balance sheet date. The net foreign currency exchange gain/(loss) amounted to RMB (2,954) (USD(448)), RMB14,381 and RMB(19,510) for the years ended December 31, 2010, 2009 and 2008, respectively, are included in 'Selling, general and administrative expenses' in the consolidated statements of income and comprehensive income.

Gains and losses resulting from translation of the financial statements of the Company and the Company's subsidiaries in Hong Kong into the RMB reporting currency are recorded as a separate component of accumulated other comprehensive loss within equity.

For the convenience of the readers, the December 31, 2010 RMB amounts, included in the accompanying consolidated financial statements have been translated into USD at the rate of USD1.0000 = RMB6.6000, representing the rate quoted by the People's Bank of China at the close of business on December 31, 2010. No representation is made that the RMB amounts could have been, or could be, converted into USD at that rate or at any particular rate or at all.

(d) Cash and Pledged Bank Deposits

Cash consists of cash on hand, cash in bank accounts and interest-bearing savings accounts. Cash deposits that are restricted as to withdrawal or pledged as security, are disclosed separately on the face of the consolidated balance sheet, and not included in the total cash for the purpose of the consolidated statements of cash flows.

(e) Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Group's best estimate of the amount of probable credit losses in the Group's existing accounts receivable. The Group determines the allowance based on a review of specifically identified accounts and aging data. The Group reviews its allowance for doubtful accounts monthly. Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. All other balances are reviewed on a pooled basis.

Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company's subsidiaries in the PRC are required to comply with local tax requirements on the write-offs of doubtful accounts, which allow for the deductibility of such write-offs only when sufficient evidence is available to prove the debtors' inability to make payments. For financial reporting purposes, the Group generally records write-offs of doubtful accounts at the same time the local tax requirements for the write-offs are met. As a result, there are generally time lags between the time when a provision for doubtful accounts is provided and the time the doubtful accounts and the related allowance are written off.

Apart from those disclosed in note 16(c) and 16(d), the Group does not have any off balance-sheet credit exposure related to its customers.

(f) **Inventories**

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method. Cost of inventories comprises direct materials.

(g) **Long-lived Assets**

Property and Equipment and Intangible Assets

Property and equipment is stated at cost less depreciation and if applicable, impairment. Depreciation is calculated on a straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Property	20 years
Furniture and office equipment	1 to 5 year(s)
Machinery	5 years
Motor vehicles	5 years

Intangible assets that are subject to amortization are amortized over their respective estimated useful lives as follows:

Customer relationships	5 to 10 years
Supplier relationships	11.5 years
Proprietary technology	3 to 6.5 years
Proprietary designs	3 years
Website and software assets	3 years
Non-compete agreements	1 to 6 year(s)
License agreements	2 years

Property and equipment and intangible assets subject to depreciation/amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

Goodwill

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a purchase business combination. Goodwill is not amortized, but instead tested for impairment at the reporting unit level at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The goodwill impairment test is a two-step test. Under the first step, the fair value of a reporting unit is compared with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. However, if the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the Group must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. For the years ended December 31, 2010 and 2008, impairment loss amounted to RMB21,422 (USD3,246) and RMB4,264, respectively. For the year ended December 31, 2009, no impairment loss was recorded.

(h) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in consolidated statements of income and comprehensive income in the period that includes the enactment date or date of change in tax rate. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion or all of the deferred tax assets will not be realized.

The Group applies ASC 740, *Income Taxes* to account for uncertain tax positions. ASC 740-10-25 requires that an entity recognizes in the consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Group has elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as a component of income tax expense in the consolidated statements of income and comprehensive income.

(i) Revenue Recognition

Product Sales

The Company recognizes revenue at the point in time when the components are delivered and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

Sales of components represent the invoiced value of goods, net of value added taxes (“VAT”), sales returns, trade discounts and allowances.

In the PRC, VAT at a general rate of 17% on invoice amount is collected on behalf of tax authorities in respect of the sales of products and is not recorded as revenue. VAT collected from customers, net of VAT paid for purchases, is recorded as a liability in the consolidated balance sheets until it is paid to the authorities.

Service Revenue

Revenue for services is generally recognized when services are performed.

(j) Research and Development and Advertising

Research and development and advertising costs are expensed as incurred. Research and development costs, inclusive of in-process research and development, amounted to RMB77,888 (USD11,801), RMB67,504 and RMB50,947 for the years ended December 31, 2010, 2009 and 2008, respectively. Advertising costs amounted to RMB157 (USD24), RMB59 and RMB713 for the years ended December 31, 2010, 2009 and 2008, respectively.

(k) Shipping and Handling Fees and Costs

Costs incurred by the Group for shipping and handling, including costs paid to third-party transportation companies, to transport and deliver products to customers, are included in “selling, general and administrative expenses.” Shipping and handling fees and costs amounted to RMB9,798 (USD1,484), RMB7,749 and RMB8,423 for the years ended December 31, 2010, 2009 and 2008, respectively.

(l) Share-based Compensation

The Group applies ASC 718, *Compensation- Stock Compensation* to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognizes the costs over the period the employee is required to provide service in exchange for the award, which generally is the vesting period. For awards with performance conditions, the compensation expense is based on the grant-date fair value of the award, the number of shares ultimately expected to vest and the vesting period.

Share-based compensation expense amounted to RMB100,930 (USD15,292), RMB59,045 and RMB40,722 for the years ended December 31, 2010, 2009 and 2008, respectively. Since share-based compensation is not tax deductible in the PRC, Hong Kong and the United States, no related tax benefit has been recognized.

The Group currently uses authorized shares and shares of a subsidiary to satisfy share award exercises.

(m) Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common stock outstanding during the year, including contingently issuable shares when all necessary conditions for the issuance have been satisfied. Diluted earnings per share is computed by dividing net income by the weighted average number of common and dilutive potential common shares outstanding during the year. Dilutive potential common shares consist of common shares issuable upon the exercise of stock options, non-vested equity share units, including performance shares, warrants using the treasury stock method. Dilutive potential common shares also includes common shares issuable in connection with a business combination upon resolution of contingencies based on the number of such shares that would be issuable at the end of the year assuming it was the end of the contingency period.

(n) Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

(o) Recently Issued Accounting Pronouncements

Accounting Standards Update (“ASU”) 2010-17, an update to ASC 605, Revenue Recognition

In April 2010, the FASB issued ASU 2010-17, *Revenue Recognition (ASC 605): Milestone Method*. ASU 2010-17 recognizes the milestone method as an acceptable revenue recognition method for substantive milestones in research or development transactions. A milestone is substantive when the consideration earned from achievement of the milestone is commensurate with either (a) the vendor’s performance to achieve the milestone or (b) the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the vendor’s performance to achieve the milestone and the consideration earned from the achievement of a milestone relates solely to past performance and is reasonable relative to all of the deliverables and payment terms (including other potential milestone consideration) within the arrangement. ASU 2010-17 is effective for milestones achieved in interim and annual periods beginning on or after June 15, 2010 with early adoption permitted. The Company has evaluated that ASU 2010-17 had no significant impact on the consolidated financial statements.

ASU 2010-06, an update to ASC 820, Fair Value Measurements and Disclosures – Improving Disclosures about Fair Value Measurements

In January 2010, the FASB issued ASU 2010-06, an update to ASC 820, *Fair Value Measurements and Disclosures – Improving Disclosures about Fair Value Measurements*. ASU 2010-06 requires new disclosures about recurring or nonrecurring fair-value measurements including significant transfers in and out of Levels 1 and 2, as well as information about activity in Level 3 fair value measurements, including presenting information about purchases, sales, issuances and settlements on a gross versus a net basis in the Level 3 activity roll forward. In addition, ASU 2010-06 clarifies existing disclosures regarding input and valuation techniques, as well as the level of disaggregation for each class of assets and liabilities. ASU No. 2009-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures pertaining to purchases, sales, issuances and settlements in the roll forward of Level 3 activity; those disclosures are effective for interim and annual periods beginning after December 15, 2010. Early adoption is permitted. The Company has evaluated the impacts on the consolidated financial statements. See note 19.

ASU 2009-14, an update to ASC 985, Software: Certain Revenue Arrangements That Include Software Elements

In October 2009, the FASB issued ASU 2009-14, an update to ASC 985, *Software: Certain Revenue Arrangements That Include Software Elements*. ASU 2009-14 modifies the scope of the software revenue recognition guidance to exclude (i) non-software components of tangible products and (ii) software components of tangible products that are sold, licensed or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. ASU 2009-14 is effective for fiscal years beginning on or after June 15, 2010 with early adoption permitted. The guidance may be applied retrospectively or prospectively for new or materially modified arrangements. The Company has evaluated that there are no significant impacts on the consolidated financial statements.

ASU 2009-13, an update to ASC 605, Revenue Recognition: Multiple-Deliverable Revenue Arrangements

In October 2009, the FASB issued ASU 2009-13, an update to ASC 605, *Revenue Recognition: Multiple-Deliverable Revenue Arrangements*. ASU 2009-13 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how the arrangement consideration should be allocated among the separate units of accounting. ASU 2009-13 is effective for fiscal years beginning on or after June 15, 2010 with early adoption permitted. The guidance may be applied retrospectively or prospectively for new or materially modified arrangements. The Company has evaluated that ASU 2009-13 will have no significant impacts on the consolidated financial statements.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of the following:

	<u>2010</u> USD	<u>2010</u> RMB	<u>2009</u> RMB
Accounts receivable	114,425	755,203	690,919
Less: allowance for doubtful accounts	(11,105)	(73,292)	(73,306)
	<u>103,320</u>	<u>681,911</u>	<u>617,613</u>

An analysis of the allowance for doubtful accounts is as follows:

	<u>2010</u> USD	<u>2010</u> RMB	<u>2009</u> RMB	<u>2008</u> RMB
Balance at the beginning of year	11,107	73,306	37,314	30,467
Additional allowance for doubtful accounts	—	2	35,992	6,847
Write-off of accounts receivable against the allowance for doubtful accounts	(2)	(16)	—	—
Balance at the end of year	<u>11,105</u>	<u>73,292</u>	<u>73,306</u>	<u>37,314</u>

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

During the year, the Group entered into a factoring agreement with Bank of China (Hong Kong) Limited ("BOC") (see note 9) in which certain accounts receivable were transferred with recourse to BOC. Under the factoring agreement, BOC pays an amount net of discount to the Group and collects the factored accounts receivable balances directly from customers. The discount costs 2.0% to 2.3% of the balance transferred and is included in "interest expense". The Group records the transfers of accounts receivable pursuant to the factoring agreement as sales when it is considered to have surrendered control of such receivables under the provisions of ASC 860, *Transfers and Servicing*. As of December 31, 2010, the Group has not accrued a recourse liability since the estimated fair value of the recourse obligation was immaterial.

For the year ended December 31, 2010, the Group received proceeds from the sale of accounts receivable amounting to RMB455,437 (USD69,006). There was no sale of accounts receivable for the years ended December 31, 2009 and 2008. In addition, the Group recorded discounts amounting to RMB1,852 (USD281) in respect of the accounts receivable factored for the year ended December 31, 2010. As of December 31, 2010, the Group has derecognized factored accounts receivable amounting to RMB188,042 (USD28,491) in accordance with ASC 860.

4. BILLS RECEIVABLE

To reduce the Group's credit risk, the Group requires certain customers to pay for the sale of the Group's products by bills receivable. Bills receivable are short-term notes receivable issued by a financial institution that entitles the Group to receive the full face amount from the financial institution at maturity, which generally ranges from 3 to 6 months from the date of issuance. Historically, the Group has experienced no losses on bills receivable.

In certain circumstances, the Group has arranged to transfer with recourse certain of its bills receivable to banks. Under this discounting arrangement, the bank pays a discounted amount to the Group and collects the amounts owed from the customers' banks. The discount costs 1.5% to 3.0% of the balance transferred, which is recorded as "interest expense".

For the years ended December 31, 2010, 2009 and 2008, the Group received proceeds from the sale of bills receivable amounting to RMB22,911 (USD3,471), RMB72,613 and RMB74,576, respectively. In addition, the Group recorded discounts amounting to RMB210 (USD32), RMB479 and RMB783 in respect of the bills receivable sold for the years ended December 31, 2010, 2009 and 2008, respectively.

For bills receivable sold to banks that the Group has surrendered control, the Group derecognized the discounted bills receivable pursuant to the provisions of ASC 860. As of December 31, 2010 and 2009, the Group has derecognized discounted bills receivable amounting to RMB2,158 (USD327) and RMB33,871, respectively in accordance with ASC 860.

5. INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method. Cost of inventories comprises direct materials.

Inventories by major categories are as follows:

	<u>2010</u>	<u>2010</u>	<u>2009</u>
	USD	RMB	RMB
Raw materials	25	162	1,792
Finished goods	37,941	250,411	144,340
Total	<u>37,966</u>	<u>250,573</u>	<u>146,132</u>

Inventories amounting to RMB9,600 (USD1,455), RMB6,365 and RMB1,200 were written off during the years ended December 31, 2010, 2009 and 2008, respectively.

6. PROPERTY AND EQUIPMENT, NET

Property and equipment is stated at cost less depreciation and if applicable, impairment.

Property and equipment consists of the following:

	<u>2010</u>	<u>2010</u>	<u>2009</u>
	USD	RMB	RMB
Property	253	1,671	1,671
Machinery	566	3,732	3,627
Furniture and office equipment	4,591	30,301	26,388
Motor vehicles	1,058	6,981	6,298
Total	6,468	42,685	37,984
Less: accumulated depreciation	(4,254)	(28,072)	(23,578)
Property and equipment, net	<u>2,214</u>	<u>14,613</u>	<u>14,406</u>

Depreciation expense for the years ended December 31, 2010, 2009 and 2008 is as follows:

	<u>2010</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	USD	RMB	RMB	RMB
Cost of sales	5	36	139	296
Selling, general and administrative expenses	670	4,418	3,776	3,829
Research and development expenses	256	1,690	1,911	4,640
Total	<u>931</u>	<u>6,144</u>	<u>5,826</u>	<u>8,765</u>

7. ACQUISITIONS AND EXTRAORDINARY INCOME

(a) 2011 Acquisition and post balance sheet event

MDC Tech International Holdings Limited (“MDC”)

On January 31, 2011, the Group acquired 100% of the outstanding shares of MDC for a cash consideration of RMB145,200 (USD22,000). On that date, MDC became a wholly-owned subsidiary of the Company. MDC is a technology solutions and engineering services company with most of its operations in the PRC. The purchase consideration was funded with existing cash balances. The purchase consideration will be paid over twelve months in four equal installments on or before the last business day of each of the four fiscal quarters. The first installment was RMB36,300 (USD5,500), which is payable on or before March 31, 2011.

The Group will account for the MDC transaction pursuant to the acquisition method in accordance with ASC 805, *Business Combinations*. Due to the relatively short period of time between the MDC acquisition date and the date the consolidated financial statements were issued, and given that the evaluations of the fair values of certain significant assets and liabilities of MDC as of the acquisition date are not sufficiently completed, it is impracticable for the Group to disclose the allocation of the aggregate purchase price to the assets and liabilities of MDC at this time. Since the unaudited pro forma financial information data are dependent on the purchase price allocation, the Group is also unable to provide unaudited pro forma financial information for the year ended December 31, 2010 at this time. The Group expects to include these disclosures in the unaudited condensed consolidated financial statements for the period ending March 31, 2011.

(b) 2010 Acquisition

The Group made no acquisitions during the year ended December 31, 2010.

(c) 2009 Acquisition

Mega Smart Group Limited (“Mega Smart”)

On May 30, 2009, the acquisition date, the Group acquired 100% of the outstanding shares of Mega Smart and thereby turn obtained control of Mega Smart and its subsidiary for a consideration of RMB122,866. The purchase consideration will be paid in thirteen installments. The first installment was RMB40,955, which was payable within three months of May 30, 2009. The subsequent amount of RMB81,911 is payable over twelve equal monthly installments of RMB6,826 one month following the first installment. In light of the installment schedule, the borrowing rate adopted reflects the normal borrowing rate that the Group can obtain for transactions with similar terms over the payment period and calculated the fair value of the purchase consideration as RMB122,415.

The principal activities of Mega Smart and its subsidiary are the development of the industrial applications component business in China.

The acquisition of Mega Smart was accounted for by the Group as a purchase business combination in accordance with ASC 805. The acquisition of Mega Smart resulted in the recognition of goodwill of RMB83,647 and the recording of net identifiable assets of RMB38,768 at the date of acquisition. Recognized intangible assets relate to supplier relationships, customer relationships, non-compete agreements and proprietary technology which have a total weighted-average useful life of 7.5 years from the date of acquisition. Goodwill and the amortization of these intangible assets are not deductible for tax purposes.

The acquisition is expected to support the expansion of the Company’s industrial applications component business in China. Goodwill is attributed by (1) synergy to expand Mega Smart’s operation and business on the established platform, industry knowledge and experience of the Group; (2) assembled workforce including engineers and management; and (3) the expected outlook in the PRC industrial application market with the PRC government stimulus package. The combination of these factors are the drivers behind the excess of purchase price paid over the value of assets and liabilities acquired.

Management increased the fair value of acquired proprietary technology from RMB2,048 as of May 30, 2009 (the “acquisition date”) to RMB6,145 due to the refinement of the valuation for the year ended December 31, 2009. Accordingly, the related deferred tax liabilities were increased by RMB676. The impact of all changes were charged to goodwill and resulted in the reduction of goodwill by RMB3,421 for the year ended December 31, 2009.

The impact of the purchase price allocation after refinement is as follows:

	RMB
Intangible assets	
– supplier relationships	8,876
– customer relationships	24,580
– non-compete agreements	10,925
– proprietary technology	6,145
Goodwill	80,226
Deferred tax liabilities	(8,337)
Net asset acquired	<u>122,415</u>

Unaudited proforma financial information

The following unaudited proforma financial information represents the combined results of operations of the Group as if the acquisition of Mega Smart had occurred as of each of the years beginning January 1, 2009 and 2008. The unaudited proforma information is not necessarily indicative of what the Company’s consolidated results of operations actually would have been had it completed the acquisition at the beginning of each year. In addition, the unaudited proforma financial information does not attempt to project the future results of operations of the Group.

	Year ended December 31,	
	2009	2008
	RMB	RMB
	(unaudited)	(unaudited)
Net revenue		
Product sales	2,107,743	1,997,307
Services revenue	29,401	27,695
	<u>2,137,144</u>	<u>2,025,002</u>
Income from operations	75,806	80,172
Net Income attributable to Cogo Group, Inc.	82,475	102,280
Earnings per share attributable to Cogo Group, Inc.		
Basic	2.26	2.66
Diluted	2.19	2.58

(d) 2008 Acquisition

Long Rise

On July 31, 2008, the Group entered into a share purchase agreement (the “Original Agreement”) to purchase 70% of the outstanding shares of Long Rise Holdings Limited (“Long Rise”) and its subsidiary, Rise Year, for a consideration of RMB60,921 payable in cash, none of which is contingent. The purchase agreement did not include a fixed payment schedule, and as a result the acquisition price was deemed to be payable on demand. The Company and the selling shareholders of Long Rise agreed that the consideration could be held back by the Company to settle any claims that might arise for contractual warranties and for any misrepresentations made to the Company. The Company paid approximately RMB3,485, RMB476 and RMB550 (USD83) in 2008, 2009 and 2010, respectively.

The acquisition of Long Rise was accounted for by the Group as a purchase business combination in accordance with Statements of Financial Accounting Standards (“SFAS”) No. 141, *Business Combinations* (“SFAS No.141”). The acquisition of Long Rise resulted in the recognition of goodwill of RMB21,422 and recording net identifiable assets of RMB39,499 at the date of acquisition. Recognized intangible assets relate to customer relationships, non-compete agreements and proprietary technology which have a weighted-average useful life of 3.9 years from the date of acquisition. Goodwill and the amortization of these intangible assets are not deductible for tax purposes. Purchased in-process research and development of RMB4,390 was also recognized as an intangible asset and was expensed upon acquisition because technological feasibility had not been established and no future alternative uses exist. This amount is included in research and development expense and is not deductible for tax purposes.

The acquisition was expected to extend the Group's product offerings to address the demand of the expanding CDMA market, stimulated by new entrance into the CDMA market in the second half of 2008 following the restructuring of the PRC's telecommunications industry. Because Long Rise's operations and business model was similar to the Group, management was able to achieve significant operating synergies from this acquisition. The combination of these factors is the drivers behind the excess of purchase price paid over the value of assets and liabilities acquired.

The following table summarizes the amounts assigned to each major asset acquired and liability assumed at the date of acquisition.

	<u>RMB</u>
Cash	8,753
Accounts receivable	16,807
Inventories	8,010
Property and equipment	17
Intangible assets	
– customer relationships	10,671
– non-compete agreements	13,527
– in-process research and development	4,390
– proprietary technology	5,959
Goodwill	21,422
Bank borrowings	(9,314)
Income taxes payable	(1,584)
Accrued expenses and other liabilities	(8,506)
Deferred tax liabilities	(4,976)
Noncontrolling interest	(4,255)
Purchase price allocated	<u>60,921</u>

Unaudited proforma financial information

The following unaudited proforma financial information presents the combined results of operations of the Group as if the acquisition of Long Rise had occurred as of the beginning of January 1, 2008. The unaudited proforma financial information is not necessarily indicative of what the Company's consolidated results of operations actually would have been had it completed the acquisition at the beginning of each year. In addition, the unaudited proforma financial information does not attempt to project the future results of operations of the Group.

	<u>Year ended December 31,</u> <u>2008</u> <u>RMB</u> <u>(unaudited)</u>
Net revenue	
Product sales	1,983,300
Services revenue	27,695
	<u>2,010,995</u>
Income from operations	83,549
Net income attributable to Cogo Group, Inc.	105,114
Earnings per share	
Basic	<u>2.73</u>
Diluted	<u>2.66</u>

In 2010, the Company and the selling shareholders of Long Rise renegotiated certain clauses in the Original Agreement. On December 31, 2010, the Company and the selling shareholders of Long Rise signed a supplementary agreement (the “Supplementary Agreement”) in which the selling shareholders of Long Rise discharged the Group’s obligation to pay the outstanding payable for the acquisition of Long Rise of RMB54,178 (USD8,209) and transferred the remaining 30% equity interest in Long Rise to the Group for no consideration and the Group agreed to release the selling shareholders of Long Rise from the non-compete agreements. As a result of the Supplementary Agreement, the Company recognised a net gain on settlement relating to the acquisition of Long Rise before goodwill impairment of RMB43,676 (USD6,617) in the consolidated statement of income and comprehensive income for the year ended December 31, 2010 summarized as follows:

	USD	RMB
Adjustment to the purchase consideration	8,209	54,178
Disposal of the non-compete agreements	(399)	(2,630)
Impairment losses of customer relationships and proprietary technology	<u>(1,193)</u>	<u>(7,872)</u>
Net gain on settlement relating to the acquisition of Long Rise before goodwill impairment	<u>6,617</u>	<u>43,676</u>

As a result of the above arrangements, the Company compared the carrying value of the customer relationships and proprietary technology to the undiscounted cash flows expected to be generated from those assets. For those customer relationships and proprietary technology for which the carrying amount was larger than its estimated undiscounted cash flow, the Company recorded an impairment charge to the extent the carrying amounts of customer relationships and proprietary technology exceeded their respective fair values. As a result, the carrying amount of RMB7,872 (USD1,193) of customer relationships and proprietary technology were fully impaired.

In addition, as a result of the above arrangements, management revised its future cash flow expectations for its business in the reporting unit relating to Long Rise. Since the carrying value exceeded the fair value of this reporting unit, which was determined by a discounted cash flow model, a second step of the goodwill impairment test was performed to measure the impairment loss based on any excess of the carrying value of the reporting unit’s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill was determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. Accordingly, the Company recognized an impairment loss of RMB21,422 (USD3,246) in relation to the reporting unit relating to Long Rise. As a result, the carrying amount of the goodwill relating to Long Rise was fully impaired.

For additional details, see note 8 for a summary of the changes in the carrying amount of goodwill for the years ended December 31, 2008, 2009 and 2010.

(e) Other acquisition and extraordinary income

Keen Awards

The Group entered into a share purchase agreement on August 1, 2007 to purchase all the outstanding common shares of Keen Awards, for a consideration of approximately RMB150,924 payable in cash, common stock of the Company and the common stock of Keen Awards, all of which were contingently payable at various dates upon achieving certain agreed earnings levels over the two year period following the acquisition. The sum of the fair market values of the identifiable assets acquired less liabilities assumed which amounted to RMB63,032 exceeded the acquisition cost, excluding the contingent consideration by RMB63,032, resulting in negative goodwill. Since the contingent consideration could result in recognition of additional purchase price in a future period, the Company recognized, as if it were a liability, an amount equal to the lesser of the maximum of the amount of the contingent consideration and the total amount of negative goodwill. Accordingly, the amount of the negative goodwill of RMB63,032 was recognized as if it were a liability at the date of acquisition.

Subsequent to the initial recognition, the Company made total cash payments in relation to the contingent consideration for the acquisition of Keen Awards of RMB33,914. The consideration recognized of RMB63,032 for the Keen Awards acquisition was contingently payable in cash. In addition to the contingent cash payment recognized, the agreement includes additional contingent payments of:

- an additional RMB27,522 in cash;
- 287,770 shares with an assigned fair value of RMB30,185 at acquisition date; and
- a 20% equity interest in Keen Awards with an assigned fair value of RMB30,185 at acquisition date.

Based on the terms of the Keen Awards acquisition agreement, the Company was first required to settle the cash contingent consideration until all cash payments are settled, followed by the issuance of the shares of the Company and finally, the issuance of 20% of the shares in Keen Awards. However, the contingent consideration recognized was restricted to the lesser of the maximum of the amount of the contingent consideration and the total amount of negative goodwill. Therefore, the Company was not required to recognize the fair value of any of the shares contingently issuable for the acquisition of Keen Awards.

On August 28, 2009, the Company and the seller of Keen Awards agreed that the contingency in respect of the acquisition for Keen Awards was resolved and it was also determined that no further consideration was payable. Therefore, because the amount of contingent consideration recognized, as if it were a liability, exceeded the amount settled, the excess of RMB29,118 was first allocated to reduce the assets acquired being the intangibles asset of RMB26,803 net of deferred taxation of RMB4,422 and remaining amount of RMB6,737 was recognized as an extraordinary gain in the consolidated statements of income and comprehensive income.

8. GOODWILL AND INTANGIBLE ASSETS

(a) *Goodwill*

The changes in the carrying amount of our goodwill, by segment, for the years ended December 31, 2010, 2009 and 2008 are as follows:

	Product sales RMB	Service revenue RMB	Total RMB
Balance as of January 1, 2008			
Goodwill	51,825	47,649	99,474
Accumulated impairment losses	—	—	—
	<u>51,825</u>	<u>47,649</u>	<u>99,474</u>
Acquisition of 70% interest of Long Rise	21,422	—	21,422
Impairment loss of Shanghai E&T (note a)	(4,264)	—	(4,264)
Balance as of December 31, 2008			
Goodwill	73,247	47,649	120,896
Accumulated impairment losses	(4,264)	—	(4,264)
	<u>68,983</u>	<u>47,649</u>	<u>116,632</u>
Acquisition of Mega Smart	83,647	—	83,647
Adjustment on goodwill of Mega Smart (note b)	(3,421)	—	(3,421)
Balance as of December 31, 2009			
Goodwill	153,473	47,649	201,122
Accumulated impairment losses	(4,264)	—	(4,264)
	<u>149,209</u>	<u>47,649</u>	<u>196,858</u>
Impairment loss of Long Rise (note 7(d))	(21,422)	—	(21,422)
Balance as of December 31, 2010			
Goodwill	153,473	47,649	201,122
Accumulated impairment losses	(25,686)	—	(25,686)
	<u>127,787</u>	<u>47,649</u>	<u>175,436</u>
Balance as of December 31, 2010 (in USD)	<u>19,361</u>	<u>7,220</u>	<u>26,581</u>

Note a During the year ended December 31, 2008, the Company recognized an impairment loss of RMB4,264 in relation to one of the reporting units of the Product Sales segment. The impairment loss was due to the difficult end-market environment which had led to a reduction in demand for this reporting unit. As a result of the reduced demand, management revised its future cash flow expectations for its business in this reporting unit. Since the carrying value exceeded the fair value of this reporting unit, which was determined by a discounted cash flow model, a second step of the goodwill impairment test was performed to measure the impairment loss based on any excess of the carrying value of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill was determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation.

Note b Goodwill arising from the acquisition of Mega Smart was adjusted in 2009 on completion of the assessment of the estimated discounted cash flows in relation to the proprietary technology acquired.

(b) **Intangible Assets**

The Company reviews long-lived assets, including its intangible assets subject to amortization, which for the Company are its customer relationships, supplier relationships, proprietary technology, proprietary designs, website and software asset, non-compete agreements and license agreement, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset group to the future undiscounted net cash flows expected to be generated by those assets. If such assets are considered to be impaired, the impairment charge recognized is the amount by which the carrying amounts of the assets exceed the fair value of the assets.

As of December 31, 2010, there were no significant events or changes in circumstances to indicate that the carrying value of intangible assets in other asset group of the Company may not be recoverable. As of December 31, 2010 and 2009, the Company's intangible assets related to the Company's acquisitions consisted of the following:

	As of December 31, 2010					
	Gross carrying amount	Impairment / disposal of intangible assets of Long Rise (note 7(d))	Adjusted carrying amount	Amortization period	Accumulated amortization	Net carrying amount
	RMB	RMB	RMB	Years	RMB	RMB
Customer relationships	143,939	5,513	138,426	5 to 10	75,271	63,155
Supplier relationships	8,876	—	8,876	11.5	1,222	7,654
Proprietary technology	18,713	2,359	16,354	3 to 6.5	11,705	4,649
Proprietary designs	1,627	—	1,627	3	1,627	—
Website and software asset	575	—	575	3	575	—
Non-compete agreements	41,659	2,630	39,029	1 to 6	30,988	8,041
License agreement	1,249	—	1,249	2	1,249	—
Total	216,638	10,502	206,136		122,637	83,499
Total (in USD)	32,824	1,592	31,232		18,581	12,651

	As of December 31, 2009					
	Gross carrying amount	Adjustment on intangible assets of Keen Awards (note 7(e))	Adjusted carrying amount	Amortization period	Accumulated amortization	Net carrying amount
	RMB	RMB	RMB	Years	RMB	RMB
Customer relationships	169,929	25,990	143,939	5 to 10	63,005	80,934
Supplier relationships	8,876	—	8,876	11.5	450	8,426
Proprietary technology	18,713	—	18,713	3 to 6.5	9,272	9,441
Proprietary designs	2,440	813	1,627	3	1,627	—
Website and software asset	575	—	575	3	573	2
Non-compete agreements	41,659	—	41,659	1 to 6	24,658	17,001
License agreement	1,249	—	1,249	2	1,249	—
Total	<u>243,441</u>	<u>26,803</u>	<u>216,638</u>		<u>100,834</u>	<u>115,804</u>

Amortization expense for intangible assets for the years ended December 31, 2010, 2009 and 2008 of RMB21,803 (USD3,304), RMB28,521 and RMB28,719 was included in selling, general and administrative expenses, respectively. Estimated amortization expense for the next five years is: RMB19,924 in 2011, RMB16,673 in 2012, RMB14,915 in 2013, RMB13,670 in 2014 and RMB12,529 in 2015.

9. PLEDGED BANK DEPOSITS, BANK BORROWINGS AND BANKING FACILITIES

The Group entered into several banking facilities with Standard Chartered Bank (Hong Kong) Limited (“SCB”), BOC, Guangdong Development Bank Holdings Company Limited (“GDB”) and China Merchants Bank Company Limited (“CMB”). As of December 31, 2010 and 2009, the aggregate credit limit of these facilities amounted to RMB886,233 (USD134,278) and RMB378,991, respectively. These facilities include letters of guarantee, bank loans and irrevocable letters of credit. The banking facility with BOC also included an accounts receivable factoring agreement as disclosed in note 3. The credit limit and the respective secured deposits for the accounts receivable factoring agreement shares the same credit limit with the banking facility with BOC.

The Group’s banking facilities contain various covenants, including the Group’s consolidated net borrowing ratio not exceeding 0.25 times and the Company maintaining a tangible net worth of not less than RMB1,000,000 (USD151,515). Other conditions include the Company’s Chief Executive Officer remaining as the single largest beneficial owner of the Company and Chairman of the Board of Directors and actively involving in the management of the Group, the Company remaining as listed in NASDAQ and retaining at least 50% equity interest in its subsidiaries as borrowers. As of December 31, 2010, the Group was in compliance with all covenants.

As of December 31, 2010 and 2009, the total outstanding bank borrowings amounted to RMB505,888 (USD76,650) and RMB119,402, respectively. The weighted average interest rate on outstanding bank borrowings as of December 31, 2010 was 2.1% (2009: 2.0%). The aggregate amount of funds secured as pledged deposits with the respective banks at December 31, 2010 and 2009 amounted to RMB332,050 (USD50,311) and RMB116,040, respectively.

As of December 31, 2010 and 2009, the aggregate amount of unutilized banking facilities (including the unutilized facility amount under the accounts receivable factoring agreement with BOC) amounted to RMB192,303 (USD29,137) and RMB259,589, respectively.

10. INCOME TAXES

The Company and its subsidiaries file separate income tax returns.

USA

The Company is incorporated in the United States, and is subject to United States federal and state income taxes. The Company did not generate taxable income in the United States in 2008, 2009 and 2010.

Cayman Islands and British Virgin Islands

Under the current laws of the Cayman Islands and the British Virgin Islands, the Company's subsidiaries that are incorporated in the Cayman Islands and the British Virgin Islands are not subject to tax on income or capital gains. In addition, upon payments of dividends by these companies, no Cayman Islands or British Virgin Islands withholding tax will be imposed.

Hong Kong

The Company's subsidiaries that are incorporated in Hong Kong are subject to Hong Kong Profits Tax. The applicable profits tax rate is 16.5% for 2008, 2009 and 2010. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

PRC

On March 16, 2007, the National People's Congress passed the Corporate Income Tax law (the "CIT law") which revised the PRC statutory income tax rate to 25%. The CIT law was effective on January 1, 2008. Accordingly, the Company's PRC subsidiaries are subject to income tax at 25% effective from January 1, 2008 unless otherwise specified.

Prior to January 1, 2008, Shenzhen Comtech, Comtech Communication, Comtech Software, Comloca, Epcot, Huameng PRC and Viewtran PRC (collectively the "Shenzhen Subsidiaries"), being entities located in the Shenzhen Special Economic Zone, were entitled to the preferential tax rate of 15%. In addition, the Shenzhen Subsidiaries, being production oriented foreign investment enterprises, were each entitled to a tax holiday of two-year tax exemption followed by three-year 50% tax reduction starting from the first profit making year from the PRC tax perspective ("2+3 tax holiday") under the then effective tax regulations.

The CIT law and its relevant regulations provide a five-year transition period from January 1, 2008 for those companies which were established before March 16, 2007 and were entitled to preferential lower tax rates under the then effective tax regulations, as well as grandfathering certain tax holidays. The transitional tax rates are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

Accordingly, the Shenzhen Subsidiaries are entitled to enjoy the transitional rates and continue their tax holidays until they expire. For Comloca and Huameng PRC, they had not commenced their respective tax holidays as of December 31, 2007 and CIT law and its relevant regulations require their tax holidays to begin on January 1, 2008.

Based on the above, the Shenzhen Subsidiaries are subject to the following tax rates:

- Shenzhen Comtech and Comtech Communication are subject to income tax at 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively.
- Comtech Software is subject to income tax at 9%, 10%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

- Comloca and Huameng PRC were tax exempt for 2008 and 2009. They are subject to income tax at 11%, 12%, 12.5% and 25% for 2010, 2011, 2012 and 2013 onwards, respectively.
- Viewtran PRC and Epcot were tax exempt for 2008 and are subject to income tax at 10%, 11%, 12% and 25% for 2009, 2010, 2011 and 2012 onwards, respectively.
- Mega Sky SZ and Mega Smart SZ, being software and integrated circuit design enterprises, are each granted a 2+3 tax holiday during 2010. As a result, they are tax exempt for 2010 and 2011, and are subject to income tax at 12.5% from 2012 to 2014 and at 25% from 2015 onwards.

(a) ***Income before Income Taxes and Provision for Income Taxes***

The Group's earnings/(loss) before income taxes and noncontrolling interest consists of the following:

	<u>2010</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	USD	RMB	RMB	RMB
PRC, excluding Hong Kong	22,033	145,418	126,278	138,876
Non-PRC	(3,109)	(20,514)	(40,639)	(39,499)
	<u>18,924</u>	<u>124,904</u>	<u>85,639</u>	<u>99,377</u>

The provision for income taxes consists of the following:

	<u>2010</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	USD	RMB	RMB	RMB
Current tax				
PRC, excluding Hong Kong	2,024	13,361	9,020	6,570
Hong Kong	579	3,819	4,687	6,486
Deferred tax				
PRC, excluding Hong Kong	—	—	(172)	(984)
Hong Kong	(808)	(5,331)	(4,328)	(9,857)
Income tax expense	<u>1,795</u>	<u>11,849</u>	<u>9,207</u>	<u>2,215</u>

Reconciliation between income tax expense and the amount that result by applying the PRC statutory tax rate to earnings before income taxes and extraordinary item is as follows:

	<u>2010</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	USD	RMB	RMB	RMB
Earnings before income taxes and extraordinary item	<u>18,924</u>	<u>124,904</u>	<u>85,639</u>	<u>99,377</u>
PRC statutory tax rate		25%	25%	25%
Computed "expected" income tax expense	4,731	31,226	21,409	24,844
Effect of PRC preferential income tax rate	(322)	(2,123)	(6,227)	(10,641)
Effect of tax holiday	(4,017)	(26,511)	(29,501)	(28,214)
Tax rate differential for non-PRC entities	(91)	(599)	19	2,921
Non-PRC entities not subject to income tax	10	68	58	(727)
Changes in enacted tax rates/laws	—	—	—	(1,395)
Change in valuation allowance	907	5,982	3,826	(5,119)
Non-taxable items:				
Interest income	(2)	(12)	(416)	(1,939)
Foreign exchange gain	(17)	(112)	(2,418)	—
Adjustment of consideration payable, net of disposal / impairment of respective intangible assets for Long Rise (note 7(d))	(1,354)	(8,939)	—	—
Non-deductible items:				
Impairment loss of goodwill	536	3,535	—	1,066
In-process research and development	—	—	—	725
Provision for inventory write-down	320	2,112	646	142

	<u>2010</u> USD	<u>2010</u> RMB	<u>2009</u> RMB	<u>2008</u> RMB
Allowance for doubtful accounts	—	—	5,311	1,130
Foreign exchange loss	—	—	—	3,530
Share-based compensation	1,082	7,144	11,809	7,330
Other non-deductible items	10	63	25	930
Deemed income for income tax purposes	<u>2</u>	<u>15</u>	<u>4,666</u>	<u>7,632</u>
Income tax expense	<u>1,795</u>	<u>11,849</u>	<u>9,207</u>	<u>2,215</u>

The PRC tax rate has been used because the majority of the Company's pre-tax and taxable incomes arise in the PRC. The effects of the tax holiday are RMB26,511 (USD4,017), RMB29,501 and RMB28,214 for the years ended December 31, 2010, 2009, and 2008, respectively (equivalent to basic earnings per share amount of RMB0.71 (USD0.11), RMB0.81 and RMB0.73 and a diluted earnings per share amount of RMB0.69 (USD0.11), RMB0.78 and RMB0.71 for the years ended December 31, 2010, 2009 and 2008, respectively).

(b) **Deferred Tax Assets and Liabilities**

The tax effects of the Group's temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

	<u>2010</u> USD	<u>2010</u> RMB	<u>2009</u> RMB
Deferred tax assets:			
Tax loss carryforwards	1,731	11,424	5,778
Valuation allowance	<u>(1,731)</u>	<u>(11,424)</u>	<u>(5,778)</u>
Net deferred tax asset	—	—	—
Deferred tax liabilities:			
Intangible assets	<u>(2,086)</u>	<u>(13,777)</u>	<u>(19,108)</u>
Net deferred tax liability	<u>(2,086)</u>	<u>(13,777)</u>	<u>(19,108)</u>

Classification on consolidated balance sheets:

Deferred tax liabilities:			
- Non-current	<u>(2,086)</u>	<u>(13,777)</u>	<u>(19,108)</u>

The increase (decrease) in valuation allowance during the years ended December 31, 2010, 2009 and 2008 were RMB5,646 (USD855), RMB4,320 and RMB(5,077), respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible or tax loss carryforwards are utilized.

As of December 31, 2010, for United States federal income tax purposes, the Company had net tax loss carryforwards of approximately USD11,991 which would expire at various dates through 2030. Included in these US tax losses were net tax loss carryforwards of approximately USD9,717 that were subject to significant limitations due to prior ownership change, as defined under Section 382 of the Internal Revenue Code. Based on management's best estimate, these US tax loss carryforwards are not expected to be utilizable due to this prior ownership change and thus, deferred tax assets recognized in respect of tax loss carryforwards as of December 31, 2010 and 2009 were the net tax loss carryforwards that were not subject to such limitations. However, management determines it is more likely than not that the recognized net tax loss carryforwards will not be realized, and therefore, full valuation allowances have been provided as of December 31, 2010 and 2009.

As of December 31, 2010, the Company's PRC and Hong Kong subsidiaries had tax loss carryforwards of approximately RMB20,281 (USD3,073) and RMB7,583 (USD1,149), respectively. The tax losses for the PRC subsidiaries amounting to RMB4,717, RMB7,974 and RMB7,590 will expire in 2013, 2014 and 2015 respectively, and the tax loss for the Hong Kong subsidiary does not expire under the current Hong Kong tax legislation. However, management determines it is more likely than not that the tax loss carryforwards will not be realized, and therefore, full valuation allowances have been provided as of December 31, 2010.

According to the prevailing PRC income tax law and its relevant regulations, non-PRC-resident enterprises are levied withholding tax at 10%, unless reduced by tax treaties or similar arrangements, on dividends from their PRC-resident investees for earnings accumulated beginning on January 1, 2008, and undistributed earnings generated prior to January 1, 2008 are exempt from such withholding tax. Further, the Company's distributions from its overseas subsidiaries are subject to the U.S. federal income tax at 34%, less any applicable qualified foreign tax credits. Due to the Company's policy of reinvesting permanently its earnings in its overseas business, the Company has not provided for deferred income tax liabilities of RMB320,987 (USD48,634) and RMB239,387 (which does not include any potential qualified foreign tax credits or potential PRC dividend withholding taxes), for U.S. federal income tax purposes on its overseas subsidiaries' undistributed earnings of RMB944,078 (USD143,042) and RMB704,079 as of December 31, 2010 and 2009, respectively.

The Company revised its deferred tax asset relating to tax loss carryforwards and the related valuation allowance as of December 31, 2009, to correct an immaterial error, reducing both the deferred tax asset and the valuation allowance by RMB13,106 (USD1,986). This revision had no impact on any line items within the consolidated balance sheets as of December 31, 2010 and 2009, nor the related consolidated statements of income and comprehensive income, consolidated statements of changes in equity, or cash flows for each of the years in the three-year period ended December 31, 2010.

(c) **Accounting for uncertainty in Income Taxes**

As of January 1, 2008 and for each of the years ended December 31, 2008, 2009 and 2010, the Group did not have unrecognized tax benefits, and it does not expect that the amount of unrecognized tax benefits will change significantly within the next 12 months. Accordingly, no interest or penalties related to unrecognized tax benefits were accrued.

The Company and its subsidiaries file income tax returns in the United States, PRC and Hong Kong. The Company could be subject to U.S. federal income tax examination by tax authorities for years beginning in 2007. According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances where the underpayment of taxes is more than RMB100 (USD15). In the case of transfer pricing issues, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. Accordingly, the PRC tax returns for the Company's PRC subsidiaries are open to examination by the PRC state and local tax authorities for the tax years beginning in 2005. The tax returns for the Company's Hong Kong subsidiaries are currently open to examination by the Hong Kong tax authorities for the tax years beginning in 2004.

11. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following:

	<u>2010</u> <u>USD</u>	<u>2010</u> <u>RMB</u>	<u>2009</u> <u>RMB</u>
Legal and professional fees	416	2,749	4,305
Accrued staff related costs	1,175	7,750	7,967
Payables for acquisitions (Note a)	—	—	121,453
Other accruals	770	5,082	4,283
	<u>2,361</u>	<u>15,581</u>	<u>138,008</u>

Note a The balance at December 31, 2009 represented amounts payable in relation to the Group's acquisitions of Comtech Broadband, Long Rise and Mega Smart amounting to RMB10,341, RMB56,989 and RMB54,123 respectively. The amounts payable in relation to the Group's acquisitions of Comtech Broadband and Mega Smart were fully settled in 2010 and the outstanding amount payable in relation to Long Rise was adjusted and fully settled in 2010 (note 7 (d)). Amounts payable in relation to the acquisitions were non-interest bearing.

12. SHARE-BASED COMPENSATION

(a) *Options and stock warrants assumed under the Share Exchange Agreement*

Under the Company's 1995 Stock Option Plan for Outside Directors (the "Directors' Plan"), the Company issued options to non-employee director of Trident Rowan Group Inc. ("Trident") to purchase 115,000 shares of the Company's common stock. As of January 1, 2008, 100,000 options remained outstanding and were all exercised in 2009 before their expiry date of July 1, 2009. The options granted under the Directors' Plan had a weighted average exercise price per option of USD3.00.

The Company granted fully exercisable stock warrants to non-employee director of Trident to purchase up to 925,417 shares of its common stock. As of July 1, 2008, 19,999 stock warrants with a weighted average exercise price per stock warrant of USD2.76 each remained outstanding and expired on July 1, 2009.

(b) *2004 Incentive Plan*

On August 3, 2004, the Board of Directors adopted the 2004 Stock Incentive Plan (the "2004 Incentive Plan") pursuant to which 2,500,000 shares of the Company's common stock are reserved for issuance upon exercise of stock options, and for the issuance of stock appreciation rights, non-vested shares and performance shares. The purpose of the 2004 Incentive Plan is to provide additional incentive to employees, directors, advisors and consultants. The 2004 Incentive Plan provides for a term of 10 years from the date of its adoption by the Board of Directors, after which no awards may be made, unless the 2004 Incentive Plan is early terminated by the Board.

Stock options

A summary of stock options activity is as follows:

	<u>Number of options outstanding</u>	<u>Weighted average exercise price</u> USD	<u>Weighted average remaining contractual term</u> Years	<u>Aggregate intrinsic value</u> USD
Balance as of January 1, 2008	1,192,269	4.09		
Exercised	—	—		
Balance as of December 31, 2008	1,192,269	4.09		
Exercised	—	—		
Balance as of December 31, 2009	1,192,269	4.09		
Exercised	(7,500)	5.53		
Balance as of December 31, 2010	<u>1,184,769</u>	<u>4.08</u>	<u>4.01</u>	<u>5,654</u>

The intrinsic value of options exercised during the year ended December 31, 2010 was USD12.

Non-vested equity share unit

A summary of non-vested equity share unit activity is as follows:

	<u>Shares</u>	<u>Weighted average grant-date fair value</u> USD
Balance as of January 1, 2008	2,964	9.14
Vested	(2,500)	9.14
Balance as of December 31, 2008	464	9.14
Vested	(464)	9.14
Balance as of December 31, 2009 and 2010	<u>—</u>	<u>—</u>

The total fair value of equity share units vested during the years ended December 31, 2009 and 2008 was USD4 and USD23, respectively. The equity share units were fully vested and exercised as of December 31, 2009.

(c) **2006 Incentive Plan**

On December 20, 2006, the Board of Directors adopted the 2006 Equity Incentive Plan (the “2006 Incentive Plan”) pursuant to which 4,800,000 shares of the Company’s common stock are reserved for issuance upon exercise of stock options, and for the issuance of stock appreciation rights, restricted stock awards and performance shares. The purpose of the 2006 Incentive Plan is to provide additional incentive to employees, directors, advisors and consultants. The 2006 Incentive Plan provides for a term of 10 years from the date of its adoption by the Board of Directors, after which no awards may be made, unless the 2006 Incentive Plan is early terminated by the Board.

Non-vested equity share unit

A summary of non-vested equity share units issued under the 2006 Incentive Plan is as follows:

	<u>Shares</u>	<u>Weighted average Grant-date fair value USD</u>
Balance as of January 1, 2008	127,484	15.94
Granted on January 28, 2008 (note i)	962,700	9.67
Granted on March 27, 2008 (note i)	80,000	10.85
Granted on August 4, 2008 (note ii)	280,000	4.52
Granted on October 31, 2008 (note iii)	29,412	5.44
Granted on November 21, 2008 (note ii)	80,125	2.70
Granted on November 21, 2008 (note iii)	1,400,000	2.70
Vested	<u>(678,284)</u>	<u>7.28</u>
Balance as of December 31, 2008	2,281,437	5.56
Granted on January 14, 2009 (note iv)	500,000	5.50
Vested	<u>(1,472,273)</u>	<u>5.42</u>
Balance as of December 31, 2009	1,309,164	5.70
Granted on January 29, 2010 (note i)	932,763	6.36
Vested	<u>(1,455,462)</u>	<u>5.56</u>
Balance as of December 31, 2010	<u>786,465</u>	<u>6.74</u>

Note i The stock awards vest in equal quarterly installments over a period of three years from the date of grant.

Note ii The stock awards were fully vested on the date of grant.

Note iii The stock awards vest in equal quarterly installments over a period of two years from the date of grant.

Note iv The stock awards vest in equal quarterly installments over a period of one year from the date of grant.

The total fair value of the above equity share units vested during the years ended December 31, 2010, 2009, and 2008 were USD8,094, USD7,986 and USD4,936, respectively. As of December 31, 2010, 2009 and 2008, the aggregate fair value of all non-vested equity share units were USD5,297, USD7,459 and USD12,695, respectively, which is expected to be amortized on a straight-line basis over a weighted average period of approximately 24 months (2009: 12 months).

Performance shares

A summary of performance shares activity is as follows:

	<u>Shares</u>	<u>Weighted average Grant-date fair value USD</u>
Balance as of January 1, 2008 (note i, ii)	270,000	16.03
Granted on March 27, 2008 (note i)	160,000	10.85
Vested	<u>(5,000)</u>	<u>16.03</u>
Balance as of December 31, 2008	425,000	14.08
Vested	<u>(5,000)</u>	<u>16.03</u>
Balance as of December 31, 2009	420,000	14.06
Vested	<u>(5,000)</u>	<u>16.03</u>
Expired	<u>(415,000)</u>	<u>14.03</u>
Balance as of December 31, 2010	<u>—</u>	<u>—</u>

Note i The performance shares of 415,000 shares vest in equal annual installments over three years from January 1, 2008 to December 31, 2010 and were subject to the Group meeting certain earning measures in 2008, 2009 and 2010. Management assessed that the earning measures for these performance shares were improbable of achievement for 2008, 2009 and 2010. The vesting period for these performance shares ended on December 31, 2010 and all unvested performance shares amounted to 415,000 shares were expired pursuant to the 2006 Incentive plan.

Note ii The performance shares of 15,000 shares vest in equal annual installments over three years from January 1, 2008 to December 31, 2010 and were subject to the Group meeting performance measures in 2008, 2009 and 2010. The performance measures for these performance shares have been achieved in 2008, 2009 and 2010. As of December 31, 2010, performance shares amounted to 15,000 shares vested pursuant to the 2006 Incentive Plan.

The grant-date fair value of performance shares vested was USD80 for each of the years ended December 31, 2010, 2009 and 2008. As of December 31, 2009 and 2008, the aggregate fair value of all non-vested performance share units were USD5,904 and USD5,984, respectively.

(d) **2009 Incentive Plan**

On November 9, 2009, the Board of Directors adopted the 2009 Omnibus Securities and Incentive Plan (the “2009 Incentive Plan”) pursuant to which 6,000,000 shares of the Company’s common stock are reserved for issuance upon exercise of stock options, and for the issuance of stock appreciation rights, restricted stock awards and performance shares. The purpose of the 2009 Incentive Plan is to provide additional incentive to employees, directors, advisors and consultants. The 2009 Incentive Plan provides for a term of 10 years from the date of its adoption by the Board of Directors, after which no awards may be made, unless the 2009 Incentive Plan is early terminated by the Board.

Non-vested equity share unit

A summary of non-vested equity share units issued under the 2009 Incentive Plan is as follows:

	<u>Shares</u>	<u>Weighted average Grant-date fair value USD</u>
Balance as of January 1, 2010	—	—
Granted on January 29, 2010 (note i)	1,167,237	6.36
Granted on September 23, 2010 (note i)	750,000	6.04
Granted on October 31, 2010 (note ii)	53,025	7.61
Vested	<u>(354,310)</u>	<u>6.30</u>
Balance as of December 31, 2010	<u>1,615,952</u>	<u>6.26</u>

Note i The stock awards vest in equal quarterly installments over a period of three years from the date of grant.

Note ii The stock awards vest in equal quarterly installments over a period of two years from the date of grant.

The total fair value of the above equity share units vested during the year ended December 31, 2010 was USD2,233. As of December 31, 2010, the aggregate fair value of all non-vested equity share units were USD10,124, which is expected to be amortized on a straight-line basis over a weighted average period of approximately 28 months.

(e) *Share-based compensation of Comtech Broadband*

On December 31, 2010, the Group entered into an agreement to award 6,000,000 shares of Comtech Broadband's common stock ("Equity Shares") to an employee of Comtech Broadband (the "Comtech Broadband Stock Grant"). The purpose of the Comtech Broadband Stock Grant is to provide additional incentive to the employee. The Comtech Broadband Stock Grant was immediately vested upon grant.

The fair value of the above equity shares vested during the year ended December 31, 2010 was USD4,800. The Group performed a contemporaneous valuation of the equity by an unrelated valuation specialist using the income approach. The fair value is based on a discounted future cash flow that uses the Group's estimates of revenue, driven by assumed market growth rates, and estimated costs as well as appropriate discount rates. Since Comtech Broadband is a private company, the Group applied a 20% marketability discount in carrying out the valuation. These estimates are consistent with the plans and estimates that the Group use to manage the business. Determining the fair value of the above Equity Shares requires making complex and subjective judgments and there is inherent uncertainty in making these estimates.

13. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the year ended December 31:

	<u>2010 USD</u>	<u>2010 RMB</u>	<u>2009 RMB</u>	<u>2008 RMB</u>
Numerator for basic and diluted earnings per share:				
Income before extraordinary item	17,026	112,375	73,487	95,907
Extraordinary item	—	—	6,737	—
Net income attributable to Cogo Group, Inc.	<u>17,026</u>	<u>112,375</u>	<u>80,224</u>	<u>95,907</u>
Denominator:				
Basic weighted average shares		37,275,427	36,541,037	38,488,861
Effect of dilutive non-vested equity share units, performance shares, options and warrants		<u>913,387</u>	<u>1,132,314</u>	<u>1,097,060</u>
Diluted weighted average shares		<u>38,188,814</u>	<u>37,673,351</u>	<u>39,585,921</u>
Income before extraordinary item	0.46	3.01	2.01	2.49
Extraordinary item	—	—	0.19	—
Basic earnings per share	<u>0.46</u>	<u>3.01</u>	<u>2.20</u>	<u>2.49</u>
Income before extraordinary item	0.45	2.94	1.95	2.42
Extraordinary item	—	—	0.18	—
Diluted earnings per share	<u>0.45</u>	<u>2.94</u>	<u>2.13</u>	<u>2.42</u>

Non-vested equity share units, performance shares, and options and warrants amounting to 234 thousand, 661 thousand and 942 thousand, at December 31, 2010, 2009 and 2008, respectively are excluded from the Company's dilutive computation as their effect would be anti-dilutive.

14. OPERATING SEGMENT INFORMATION

ASC 280, *Segment Reporting*, establishes standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The Company determined it has two operating segments: Product Sales and Service Revenue.

The Product Sales segment primarily consists of the sale of components for digital media (such as network protection devices and data storage), telecommunication system equipment and industrial applications end-markets. The Service Revenue segment primarily consists of the provision of technology and engineering services, business process outsourcing, network system integration and related training and maintenance services. Segment revenue from external customers eliminates only intra-segment revenue. Unallocated expenses include items such as corporate staff costs and overheads. Unallocated assets mainly include cash for corporate use.

Substantially all of the Group's operations are in the PRC. Consequentially, no geographic information is presented.

The following is the segment information for the year ended December 31, 2010:

	Product Sales RMB	Service Revenue RMB	Unallocated RMB	Total RMB
Net revenue				
Segment revenue from external customers	2,554,991	34,527	—	2,589,518
Inter-segment revenue	—	18,780	—	18,780
	<u>2,554,991</u>	<u>53,307</u>	<u>—</u>	<u>2,608,298</u>
Income from operations	196,986	6,437	(83,805)	119,618
Interest expense	(9,407)	—	—	(9,407)
Interest income	14,597	66	30	14,693
Earnings before income taxes and extraordinary item	<u>202,176</u>	<u>6,503</u>	<u>(83,775)</u>	<u>124,904</u>
Significant non-cash items:				
– Depreciation and amortization	27,275	672	—	27,947
– Provision for inventory write-down	9,600	—	—	9,600
– Provision for doubtful accounts	2	—	—	2
– Income tax expense	9,770	2,079	—	11,849
– Share-based compensation cost	31,680	—	69,250	100,930
– Impairment loss of goodwill and intangible assets (Note 7(d) and 8)	21,422	—	—	21,422
– Net gain on settlement relating to the acquisition of Long Rise before goodwill impairment (Note 7(d))	<u>(43,676)</u>	<u>—</u>	<u>—</u>	<u>(43,676)</u>
Segment assets	<u>2,298,459</u>	<u>21,995</u>	<u>1,563</u>	<u>2,322,017</u>
Total expenditures for additions to long-lived assets				
– Property and equipment	<u>6,356</u>	<u>539</u>	<u>—</u>	<u>6,895</u>

The following is the segment information for the year ended December 31, 2009:

	Product Sales RMB	Service Revenue RMB	Unallocated RMB	Total RMB
Net revenue				
Segment revenue from external customers	2,066,815	29,401	—	2,096,216
Inter-segment revenue	513	5,978	—	6,491
	<u>2,067,328</u>	<u>35,379</u>	<u>—</u>	<u>2,102,707</u>
Income from operations	145,881	531	(73,300)	73,112
Interest expense	(1,963)	—	—	(1,963)
Interest income	14,482	8	—	14,490
Earnings before income taxes and extraordinary item	<u>158,400</u>	<u>539</u>	<u>(73,300)</u>	<u>85,639</u>
Significant non-cash items:				
– Depreciation and amortization	31,347	3,000	—	34,347
– Provision for inventory write-down	3,588	2,777	—	6,365
– Provision for doubtful accounts	35,992	—	—	35,992
– Income tax expense	6,846	2,361	—	9,207
– Share-based compensation cost	—	—	59,045	59,045
– Extraordinary item (Note 7(e))	6,737	—	—	6,737
Segment assets	<u>1,851,356</u>	<u>66,444</u>	<u>3,727</u>	<u>1,921,527</u>
Total expenditures for additions to long-lived assets				
– Property and equipment	2,094	335	—	2,429
– Intangible assets (Note 7)	50,526	—	—	50,526
– Goodwill (Note 7)	80,226	—	—	80,226

The following is the segment information for the year ended December 31, 2008:

	Product Sales RMB	Service Revenue RMB	Unallocated RMB	Total RMB
Net revenue				
Segment revenue from external customers	1,931,845	27,695	—	1,959,540
Inter-segment revenue	8,368	63,216	—	71,584
	<u>1,940,213</u>	<u>90,911</u>	<u>—</u>	<u>2,031,124</u>
Income from operations	124,265	(1,740)	(49,987)	72,538
Interest expense	(1,056)	—	—	(1,056)
Interest income	25,426	2,390	79	27,895
Earnings before income taxes and extraordinary item	<u>148,635</u>	<u>650</u>	<u>(49,908)</u>	<u>99,377</u>
Significant non-cash items:				
– Depreciation and amortization	31,164	6,320	—	37,484
– In-process research and development	4,390	—	—	4,390
– Impairment loss of goodwill and intangible assets (Note 8)	33,759	—	—	33,759
– Provision for inventory write-down	511	689	—	1,200
– Provision for doubtful accounts	6,847	—	—	6,847
– Income tax expense	2,054	161	—	2,215
– Share-based compensation cost	—	—	40,722	40,722
Segment assets	<u>1,607,409</u>	<u>75,846</u>	<u>3,555</u>	<u>1,686,810</u>
Total expenditures for additions to long-lived assets				
– Property and equipment	6,257	1,294	—	7,551
– Intangible assets (Note 7)	30,157	—	—	30,157
– Goodwill (Note 7)	21,422	—	—	21,422

Revenues from external customers by product category are summarized as follows:

	<u>2010</u> USD	<u>2010</u> RMB	<u>2009</u> RMB	<u>2008</u> RMB
Net revenue				
Product Sales				
Digital media	223,369	1,474,238	1,267,124	1,279,683
Telecommunications equipment	95,478	630,149	523,940	563,461
Industrial Business	<u>68,273</u>	<u>450,604</u>	<u>275,751</u>	<u>88,701</u>
	387,120	2,554,991	2,066,815	1,931,845
Service Revenue	<u>5,231</u>	<u>34,527</u>	<u>29,401</u>	<u>27,695</u>
Total net revenue	<u><u>392,351</u></u>	<u><u>2,589,518</u></u>	<u><u>2,096,216</u></u>	<u><u>1,959,540</u></u>

15. STATUTORY RESERVES

According to laws applicable to the foreign investment enterprises in the PRC and the Articles of Association of certain subsidiaries of the Company in the PRC (the “PRC subsidiaries”), the PRC subsidiaries are required to appropriate part of their net profits as determined in accordance with the accounting principles and the relevant financial regulations applicable to enterprises limited by shares as established by the Ministry of Finance of the PRC (“PRC GAAP”) to various reserves. These include general reserves, statutory surplus reserve and statutory public welfare fund.

For general reserve, appropriation to general reserve is at the discretion of the board of directors of the relevant PRC subsidiaries. The reserve can only be used for specific purposes and is not distributable as cash dividends.

For statutory surplus reserve, 10% of the net profit, as determined in accordance with PRC GAAP, of the relevant PRC subsidiaries is transferred to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital of the relevant PRC companies. The transfer to this reserve must be made before distribution of dividends to shareholders can be made. The statutory surplus reserve can be used to make good previous years’ losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholders or by increasing the par value of the shares currently held by the shareholders, provided that the balance after such issue is not less than 25% of the registered capital.

For statutory public welfare fund, 5% to 10% of the net profit, as determined in accordance with PRC GAAP, of the relevant PRC subsidiaries is transferred to the statutory public welfare fund. This fund can only be utilized on capital items for the collective benefit of the employees such as the construction of dormitories, canteen and other staff welfare facilities. The fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of dividends to shareholders can be made.

The accumulated balance of these statutory reserves maintained at the Company’s PRC subsidiaries as of December 31, 2010 and 2009 were RMB51,542 (USD7,809) and RMB42,294, respectively.

16. COMMITMENTS AND CONTINGENCIES

- (a) The Group leases its office facilities under non-cancellable operating leases. The leases have remaining terms up to twenty-nine months. Rental expense was RMB10,491 (USD1,590), RMB9,682 and RMB9,496 for the years ended December 31, 2010, 2009, and 2008, respectively.

Future minimum lease payments under non-cancellable operating leases as of December 31, 2010 were as follows:

	<u>USD</u>	<u>RMB</u>
Year ending December 31,		
2011	1,454	9,599
2012	1,110	7,328
2013	401	2,645
Total	<u><u>2,965</u></u>	<u><u>19,572</u></u>

- (b) As of December 31, 2010, the Group has outstanding purchase orders for components from suppliers in the amount of approximately RMB1,214,381 (USD183,997). The Group does not have any minimum purchase obligations with these suppliers. Other than as disclosed above, the Group had no other contractual obligations, off-balance sheet guarantees or arrangements as of December 31, 2010.

- (c) As of December 31, 2010, outstanding accounts receivable factored with banks for which the Group has retained a recourse obligation amounting to RMB188,042 (USD28,491).
- (d) As of December 31, 2010, outstanding bills discounted with banks for which the Group has retained a recourse obligation amounting to RMB2,158 (USD327).

17. CONCENTRATION OF RISK

Revenue concentration

A substantial percentage of the Group's sales are made to the following customers. Details of the customers accounting for 10% or more of total net revenue are as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Customer A	26%	22%	12%
Customer B	*	10%	10%

The total amount of revenues from each customer accounting for 10% or more of total net revenue is as follow:

	<u>2010</u> <u>USD</u>	<u>2010</u> <u>RMB</u>	<u>2009</u> <u>RMB</u>	<u>2008</u> <u>RMB</u>
Customer A	161,362	672,641	458,266	227,736
Customer B	*	*	218,399	198,829

All of the Group's customers with sales over 10% are within the Product Sales segment.

Details of the accounts receivable from the two customers with the largest receivable balances at December 31, 2010 and 2009 are as follows:

	<u>% of accounts receivable</u>	
	<u>2010</u>	<u>2009</u>
Customer A	15%	40%
Customer B	*	13%
	<u>15%</u>	<u>53%</u>

* Accounted for less than 10% of total net revenue in the respective year.

Dependence on suppliers

The Group typically rely on a limited number of key suppliers, and many customized module design solutions that are developed by the Group are designed around technology components provided by these suppliers. The Group typically does not have long-term supply agreements or other forms of exclusive arrangements with these suppliers. If the Group loses a key supplier or a supplier reduces the quantity of products it sells to the Group, it does not maintain a sufficient inventory level of products required or is otherwise unable to meet the demand for its components, the Group may have to expend significant time, effort and other resources to locate a suitable alternative supplier and secure replacement components. If suitable replacement components are unavailable, the Group may be forced to redevelop certain of its solutions, which ultimately may not be accepted by the customers.

A substantial percentage of the Group's purchases are made from the following suppliers. Details of the major suppliers are as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Supplier A	37.7%	36.3%	31.7%
Supplier B	9.3%	10.1%	7.5%
Supplier C	8.2%	9.7%	4.4%
Supplier D	7.1%	9.4%	1.4%

18. EMPLOYEE BENEFIT PLANS

Certain employees of the Group in the PRC are entitled to retirement benefits based on their salaries and length of service upon retirement in accordance with a PRC government-managed retirement plan. The PRC government is directly responsible for the payments of the benefits to these retired employees. The Group is required to make contributions to the government-managed retirement plan at 6.5% to 9% of the monthly basic salaries of certain employees. The contribution expense for the years ended December 31, 2010, 2009 and 2008 was RMB7,770 (USD1,177), RMB5,354 and RMB5,726, respectively.

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The assets of the MPF scheme are held by independent trustees and are separated from those of the Group's assets. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HKD20. Contributions to the plan by the employee vest immediately. The contributions paid by the Group for the years ended December 31, 2010, 2009 and 2008 were RMB321 (USD49), RMB285 and RMB189, respectively.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of pledged bank deposits, accounts receivable, accounts payable, bank borrowings, and accrued expenses and other liabilities approximated the respective carrying amounts because of the short maturity of these instruments. The Group adopted ASC 820-10, *Fair Value Measurements and Disclosures* for the nonfinancial assets and liabilities that are remeasured at fair value on a nonrecurring basis.

ASC 820 clarifies that fair value is an exit price, defined as a market-based measurement that represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value measurements are based on one or more of the following three valuation techniques noted in ASC 820:

Market

This approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Income

This approach uses valuation techniques to convert future amounts to a single present value amount based on current market expectations.

Cost

This approach is based on the amount that would be required to replace the service capacity of an asset (replacement cost).

ASC 820 prioritizes the inputs and assumptions used in the valuation techniques described above into a three-tier fair value hierarchy as follows:

Level 1

Observable inputs, such as quoted market prices in active markets for the identical asset or liability that are accessible at the measurement date.

Level 2

Inputs, other than quoted market prices included in Level 1, that are observable either directly or indirectly for the asset or liability.

Level 3

Unobservable inputs that reflect the entity's own assumptions about the exit price of the asset or liability. Unobservable inputs may be used if there is little or no market data for the asset or liability at the measurement date.

In calculating goodwill impairment for Long Rise (note 7(d)), the Company adopted the income approach. The Company's goodwill of Long Rise as measured and disclosed as a level 3 input at fair value on a nonrecurring basis was nil as of December 31, 2010.

The Company also applied the income approach with level 3 inputs in measuring and disclosing the fair value of the share-based compensation of Comtech Broadband (note 12(e)).

20. FOREIGN CURRENCY RISK

The RMB is not a freely convertible currency. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of the RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market.

The PRC subsidiaries conduct their business substantially in the PRC, and their financial performance and position are measured in terms of RMB. Any devaluation of the RMB against the USD would consequently have an adverse effect on the financial performance and asset values of the Group when measured in terms of USD. The PRC subsidiaries' products are primarily procured, sold and delivered in the PRC for RMB. Thus, their revenues and profits are predominantly denominated in RMB.

21. INTEREST RATE RISK

The Group is exposed to interest rate risk arising from short-term variable rate borrowings from time to time. The Group's future interest expense will fluctuate in line with any change in borrowing rates. The Group does not have any derivative financial instruments as of December 31, 2010 and 2009 and believes its exposure to interest rate risk is not material.

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Cogo Group, Inc.:

We consent to the incorporation by reference in the registration statement (Nos. 333-164699, 333-144326 and 333-125696) on Form S-8 of Cogo Group, Inc. of our reports dated March 16, 2011, with respect to the consolidated balance sheets of Cogo Group, Inc. and its subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income and comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2010 and the effectiveness of internal control over financial reporting as of December 31, 2010, which reports appear in the December 31, 2010 annual report on Form 10-K of Cogo Group, Inc. and to the reference to our firm under the heading "Selected Financial Data" in the annual report.

/s/ **KPMG**

Hong Kong, China
March 16, 2011

**CERTIFICATIONS PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATION

I, Jeffrey Kang, certify that:

1. I have reviewed this annual report on Form 10-K of Cogo Group, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15 (f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2011

/s/ Jeffrey Kang
Jeffrey Kang
Chief Executive Officer

**CERTIFICATIONS PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATION

I, Frank Zheng, certify that:

1. I have reviewed this annual report on Form 10-K of Cogo Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer(s) and I are responsible establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15 (f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2011

/s/ Frank Zheng
Frank Zheng
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Cogo Group, Inc. (the "Company") on Form 10-K for the period ending December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey Kang, Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to my knowledge that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Jeffrey Kang
Jeffrey Kang
Chief Executive Officer
Date: March 16, 2011

A signed original of this written statement required by Section 906 has been provided to Cogo Group, Inc. and will be retained by Cogo Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Cogo Group, Inc. (the "Company") on Form 10-K for the period ending December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frank Zheng, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to my knowledge that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Frank Zheng
Frank Zheng
Chief Financial Officer
Date: March 16, 2011

A signed original of this written statement required by Section 906 has been provided to Cogo Group, Inc. and will be retained by Cogo Group, Inc. furnished to the Securities and Exchange Commission or its staff upon request.