

Trading-up



Kinghero AG

Annual Report 2011

KINGHERO AG at a glance

Key financial figures

for the period 1 January 2011 to 31 December 2011

in EUR'000	2011	2010	+/- %
	KH AG Consolidated	KH AG Consolidated	
Revenue	101,542	72,753	39.6%
Gross profit	37,070	22,793	62.6%
EBIT	24,020	18,203	32.0%
Net profit	18,251	14,370	27.0%
Gross profit margin	36.5%	31.3%	5.2 PP
EBIT margin	23.7%	25.0%	(1.3) PP
Net profit margin	18.0%	19.8%	(1.8) PP

Segment information

for the period 1 January 2011 to 31 December 2011

in EUR'000			Total for reportable segments
	Men's wear	Women's wear	
Revenue	67,335	34,207	101,542
Cost of sales	(40,929)	(23,543)	(64,472)
Gross profit	26,406	10,664	37,070

Balance sheet

as of December 31, 2011

in EUR'000	31 December 2011	31 December 2010
	KH AG Consolidated	KH AG Consolidated
Assets		
Non-current	27,684	15,123
Current	85,453	51,477
Total assets	113,137	66,600
Equity and Liabilities		
Capital and Reserves	96,795	58,785
Non-current liabilities	73	65
Current liabilities	16,269	7,750
Total equity and liabilities	113,137	66,600

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Letter to Shareholders

Dear Shareholders,

2011 was the most commercially successful year in our company's history. We implemented our strategic goals and drove our growth further. Group revenue increased by 39.6% to EUR 101.5 million. At the same time, we again increased our operating profit, generating EUR 24.0 million in the past year, an increase of 32.0%. Our gross profit margin was 36.5% compared to 31.3% in the previous year.

In addition, we implemented some milestones of our strategy in the past year:

Increase in flagship stores

We increased our direct sales significantly with the opening of 51 flagship stores in the most important urban centres of China. This was made possible by, among other things, the successful capital increase in May 2011. Due to the continuous expansion of our flagship stores, we were able to further increase the awareness and acceptance of our KINGHERO brand among our end-customers.

We plan to increase our network of flagship stores to a total of 100 stores by the end of 2012, and expect this to generate high-margin increases in sales.

New cooperation

As already mentioned in last year's Annual Report, we entered into a cooperation agreement with PCD Stores (Group) Limited in February 2011. This enables us to open KINGHERO flagship stores as one of the few selected Chinese fashion brands in the same prime locations such as Gucci, Boss, Cartier, and Swarovski, from which we expect positive image transfer effects. The first store was successfully opened in Xiamen, Fujian Province last year. We are now looking at opening additional stores in various locations during the current fiscal year. In addition, our products were offered by 45 authorised distributors at the end of 2011.

Increasing production capacity and reducing time-to-market

Over an area of 70,000m², our new production plants in Xiamen successfully started operations in March of last year. A total of 1,157 employees were employed in China at the end of December 2011. By taking renovation and modernisation measures in the amount of EUR 3 million we are on the way to increasing our production capacity by up to 20%, while simultaneously increasing production flexibility and decreasing time-to-market.

Premiere of the women's premium collection "Auvadis"

With the presentation of our new women's premium collection in July, carried under the brand of "Auvadis", we will be targeting the growing consumer group of well-earning, successful, and fashion-conscious Chinese women aged 28 to 45 to an even greater degree in the future. The products are currently exclusively sold in our own flagship stores and selected exclusive stores of the distributors of KINGHERO. In addition to greater brand awareness, we above all expect to be able to realise higher sales prices. The sales launch of the Auvadis collection is planned for the beginning of 2012.

In addition to the goals achieved, we have set ourselves further challenges for the future.

Last summer, we announced that we would undertake a segment change from Entry Standard to the strictly regulated Prime Standard. KINGHERO is already voluntarily complying with many of the regulations, such as communication in English and German, publication of quarterly figures and shorter disclosure time limits.

We will also continue to aim for a change in segment but due to the unfavourable market environment will combine this with a future capital market measure.

Our plan is to pursue our growth strategy further in 2012. We have laid the foundation for future growth with the enlargement of our network of flagship stores, the new "Auvadis" brand, and the expanded production capacities. We will further increase our brand value through a consistent trading-up strategy and will thus be in a position to increase prices and compensate for fluctuations in the prices of raw materials.

We are planning to generate further increases in revenue for 2012 as a result of the measures described. We expect to generate revenue of approx. EUR 125 million in the current fiscal year, as well as solid margins at the previous year's level. Provided that our business performance continues to remain positive, we plan to distribute a dividend of 10% - 15% of the group profit for 2012.

I would like to take this opportunity to thank all our shareholders for their continued support and the trust they place in us. I would also like to thank our employees and my fellow Board members for their hard work in the past fiscal year.

I look forward to overcoming the challenges of 2012 together with you.

Sincerely yours,

Zhang Yu

The Share

Difficult market environment in 2011

The share markets were characterised by high volatility in particular in the second half of 2011. After initial positive performance, our relevant benchmark - the SDAX - reached its highest level for the year at the beginning of July with 5,611 points. From the middle of July, increasing uncertainty regarding the economic performance in the eurozone - in particular with respect to the debt situation in Greece - resulted in major price collapses. A possible spill-over of the debt crisis to Italy and Spain, and concern about the future of the US economy, further reinforced this negative trend. The SDAX reached its lowest level of the year with 4,133 points at the beginning of October. At the end of the year, the financial markets were again more positive. The SDAX closed at 4,421 points as at 30 December. Taken over the whole year, this corresponds to a drop of just under 15%.

In 2011, the KINGHERO AG share was unfortunately unable to build on the good performance of the previous year. On 1 January 2011, our share opened with a price of EUR 32.00 and by 19 January already reached its highest price of the year with EUR 36.00. As a result of profit-taking, the share price dropped in the first quarter to rise strongly once more in June. Given the deteriorating overall market performance, which also affected us, our share was exposed to a continuous selling pressure until November. This was reinforced by an increasing distrust of Chinese companies due to the scandals involving non-transparent Chinese companies listed on the Canadian and New York stock exchanges. In our view, the KINGHERO share was unjustifiably affected by these developments and our share was no longer valued appropriately and fairly based on the still excellent operating profit.

The share's lowest price of the year was EUR 9.90. On 30 December 2011, our share closed at EUR 10.90. This corresponds to a performance of around -70 per cent over the course of the year.

Evaluation by analysts

Several research reports were again published on our share in 2011. These included reports by Bank of America/ML, BankM - Repräsentanz der biw Bank für Investments und Wertpapiere AG, GBC Investment Research, Silvia Quandt Research GmbH and Warbug Research.

Successful capital increase

We were able to successfully execute a capital increase in May. This was undertaken as part of a capital increase with subscription rights, as well as a private placement of 650,000 shares with new investors, current shareholders and management. The placement price was EUR 23.00. After entry of the capital increase in the commercial register, the share capital amounted to EUR 6,775,000.00. The new shares are participating as of 1 January 2010.

The proceeds from the capital increase amounting to approx. EUR 15 million were to have already been used in 2011 to develop the highly profitable "flagship store" network.

Those commissioned to supervise the capital increase were BankM – Repräsentanz der biw Bank für Investments und Wertpapiere AG, as the sole bookrunner, and Silvia Quandt & Cie. AG, contractually bound agent for the biw Bank für Investments und Wertpapiere AG, which was joint lead manager together with BankM.

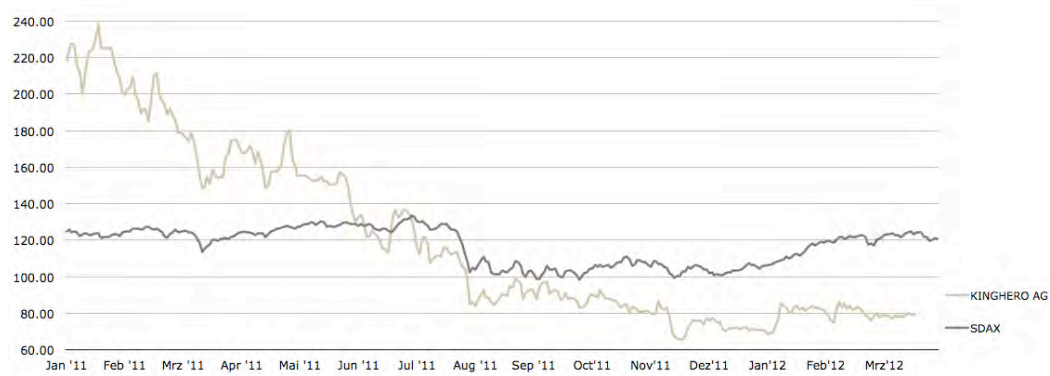
Capital market communication

In the past year we continued to maintain open and transparent communication with our investors to ensure a fair valuation of our share. We held active dialogues and discussions with our investors at various conferences such as the Entry and General Standard Conference, the Investor Conference of Bank of America / Merrill Lynch in London, the DVFA Small Cap Conference, and the German Equity Forum in Frankfurt.

In addition, we presented our company at a number of road shows in various European cities. We publish all relevant company information on our website in German and English in order to make information about our company as accessible as possible to the largest possible group of participants. This represents a clear over-fulfilment of the Entry Standard reporting regulations. In addition, you can find our latest financial calendar, announcements, presentations, and most recent publications at <http://www.kinghero.de>.

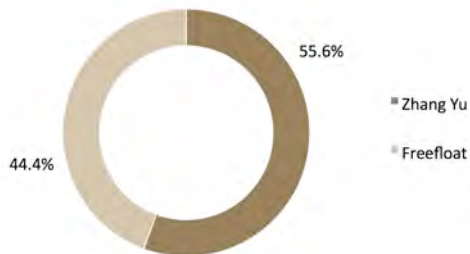
SHARE PERFORMANCE

1 January 2011 to 15 April 2012



SHAREHOLDER STRUCTURE

in percent



MASTER DATA

as of Dec 31, 2011

		2011
Number of shares	in Tsd.	6,775
Closing price	EUR	10.90
Market Cap.	Mio. EUR	73.8
High price	EUR	36.00
Low price	EUR	9.90

Source: Deutsche Börse

Report of the Supervisory Board

Dear Shareholders,

In financial year 2011, the Supervisory Board of KINGHERO AG thoroughly performed its duties as assigned by law, the Articles of Incorporation and the Rules of Procedure. We regularly advised the Management Board in the direction of the Company and continuously accompanied and monitored its management activities. We have satisfied ourselves of the legality and correctness of the Company's management and of the efficiency and productivity of the Company's organization. The Management Board informed us fully, regularly and in a timely manner about the economic situation and development of the Company and significant business matters, both verbally and in writing. This included, in particular, the development of the Company's business and fundamental aspects of corporate planning and business strategy. The Supervisory Board further dealt with the risk situation, risk management and compliance of the Company's management with applicable laws.

The Management Board comprehensively fulfilled its reporting duties in relation to the aforementioned topics. The Supervisory Board fully performed its duties as assigned by law, the Articles of Incorporation and the Rules of Procedure and made the necessary decisions.

Outside the meetings, the Management Board kept the Supervisory Board informed in writing and verbally about significant events. Moreover, important topics and upcoming decisions were dealt with in regular discussions between the Chairman of the Management Board and the Chairman of the Supervisory Board. The Chairman of the Supervisory Board kept himself regularly informed outside the meetings by the Chairman of the Management Board on significant events. We did not exercise our examination right according to Section 111(2) of the German Stock Corporation Act (AktG), as the reporting by the Management Board gave no reason to do so. The Supervisory Board did not set up any committees during the reporting period.

No conflicts of interest involving members of the Management Board and the Supervisory Board have arisen in the reporting year, which would have had to be promptly disclosed to the Supervisory Board and of which the General Meeting would have to be informed.

Meetings and Resolutions of the Supervisory Board

In the reporting year three meetings were held in which, among other things, the economic situation and development of the Company and the Group as well as significant business matters were discussed. In 2011 the members of the Supervisory Board participated in all of the Supervisory Board meetings. Furthermore, the Supervisory Board also passed written resolutions outside meetings.

The essential matters deliberated on by the Supervisory Board during the reporting period are summarized in the following.

At the first meeting in the reporting year held on May 1, 2011, the Supervisory Board intensively discussed and examined the Company's annual financial statements, the consolidated financial statements and the group management report of the Management Board for the financial year 2010 in the presence of the annual auditors. Based on its own examination, the Supervisory Board concurred with the auditor's results of the audit of the Company's annual financial statements and the consolidated financial statements. Based on the final results of its examination the Supervisory Board did not raise any objections. The Supervisory Board approved the Company's annual financial statements, the consolidated financial statements and the group management report prepared by the Management Board. The annual financial statements have thereby been adopted. The Supervisory Board furthermore examined the report of the Management Board on relations with affiliated companies in accordance with Section 312 AktG ("Dependent Company Report") and did not raise any objections to the final declaration of the Management Board.

In addition, the Supervisory Board discussed the cash capital increase from authorized capital 2010 with subscription rights resolved by the Management Board as provided for in § 5 of the Articles of Incorporation. The key points of the capital increase were explained to the Supervisory Board. Following intensive deliberations and discussions, the Supervisory Board reached the conclusion that a cash capital increase with subscription rights at the terms and conditions as described in detail at the Supervisory Board meeting is in the interest of both the Company and the shareholders. The Supervisory Board consented to the resolution passed by the Management Board to increase the Company's share capital by way of a written resolution adopted after the meeting; the Supervisory Board also took note of and agreed to the time schedule for the implementation of the capital increase described in detail by the Management Board at the Supervisory Board meeting.

At the second meeting in the reporting year held on 28 September 2011, the Supervisory Board was informed by the Management Board in detail about the business situation of the Company during the first half-year of 2011 and the prospect of the Company's result in the second half-year of 2011. The meeting further dealt with tax matters, matters related to the Management Board and the analysis published on the Website claimpickers.com regarding financial information of the Company.

At the third meeting in the reporting year held on 19 December 2011, the Supervisory Board discussed the current business and financial situation as well as the strategy of the Company and the flagship stores. Furthermore, the Management Board reported to the Supervisory Board on the envisaged upgrade in 2012 to the stock market segment Prime Standard and informed the Supervisory Board that a dual listing in Shanghai or Hong Kong will also be examined. The Supervisory Board further discussed and approved the conclusion of a service agreement with HRG Hansische Revisions-Gesellschaft mbH, Hamburg, of which the Chairman of the Supervisory Board, Gerrit Kaufhold, is a partner.

Changes on the Supervisory Board and the Management Board

In the reporting period Mr. Marcus Wenzel resigned from the Supervisory Board as of 31 October 2011. Mr. Gerrit Kaufhold was appointed by the court as a member of the Supervisory Board.

There have been no changes on the Management Board during the reporting period.

Annual and Consolidated Financial Statements, Dependent Company Report

The auditing firm Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, had been elected as annual auditors for the financial year 2011 by the General Meeting on July 6, 2011 and was appointed by the Supervisory Board to conduct the audit. The annual auditors have examined the consolidated financial statements as at 31 December 2011 prepared by the Management Board and the group management report for the financial year 2011 and have issued an unqualified opinion relative thereto. The consolidated financial statements were on a voluntary basis pursuant to Section 315a(3) of the German Commercial Code (HGB) prepared in accordance with the International Financial Reporting Standards (IFRS), as applicable in the EU, as well as the supplementary commercial law rules to be applied pursuant to Section 315a(1) HGB. The annual financial statements of KINGHERO AG as at 31 December 2011 prepared by the Management Board in accordance with the rules of German commercial law have been examined by the annual auditors and an unqualified auditor's opinion has been issued thereon as well.

The documents relating to the financial statements and the auditor's reports were in due time received by the members of the Supervisory Board.

The Supervisory Board discussed the Management Board's proposal for the appropriation of profits in detail and, following its own examination, reached the conclusion that it is necessary to carry the balance sheet loss of KINGHERO AG for the financial year 2011 forward to new account.

At its meeting held on 27 April, 2012 the Supervisory Board intensively discussed and examined the Company's annual financial statements, the consolidated financial statements and the group management report of the Management Board. The auditors having signed the audit report were present during the Supervisory Board's deliberations on the annual financial statements and reported on the essential results of their audit; they were available to the members of the Supervisory Board for questions and supplementary information.

Based on its own examination, the Supervisory Board concurred with the auditor's results of the audit of the Company's annual financial statements and the consolidated financial statements. Based on the final results of its examination the Supervisory Board did not raise any objections. The Supervisory Board approved the annual financial statements, the consolidated financial statements and the group management report prepared by the Management Board. The annual financial statements have thereby been adopted.

The annual auditors furthermore audited the report prepared by the Management Board on relations with affiliated companies in accordance with Section 312 AktG ("Dependent Company Report") and reported on the essential results of their audit at the Supervisory Board meeting held on 27 April 2012. The Supervisory Board thoroughly examined the Dependent Company Report and the audit report. The Supervisory Board did not raise any objections to the final declaration of the Management Board.

The Supervisory Board would like to thank the Management Board and all employees of the Company for the work performed and the great personal commitment shown by them during the financial year 2011.

27 April 2012

On behalf of the Supervisory Board

Gerrit Kaufhold
Chairman of the Supervisory Board

Trading-up Strategy

How we create value

We plan to further enhance our unique brand value for casual wear by an intelligent trading-up strategy. Our ambition is to move into a higher price level and further increase the fashion degree of our brand.

This includes utilising distribution channels, material sourcing, cooperations, marketing activities and premium collections. Furthermore we plan to expand into accessories and the business segment.



Distribution

We are establishing Flagship Stores in the most important cities of China for direct contact to our customers. Furthermore we sell our products through Exclusive Stores.





KINGHERO

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Fabrics

Since 2011 KINGHERO is increasingly focussing on high quality fabrics for new collections. We want to guarantee our customers the feeling of excellent quality combined with a high fashion degree.





Cooperations

We benefit from a positive image transfer through cooperations with leading companies, for example with the exclusive PCD stores and Swarovski ELEMENTS. We attract costumers with interest in luxury and fashion.



MADE WITH
SWAROVSKI
ELEMENTS



Marketing

We position our advertisement at the most well known spots of the major cities in China. Furthermore we use online and print advertisements in magazines as well as wallpapers in well-known shopping malls to catch attention.







Fashion Shows

We present our new collections on the well known fashion shows in China – and beyond. We are a regular participant on the Chic fair in Peking.



Collections

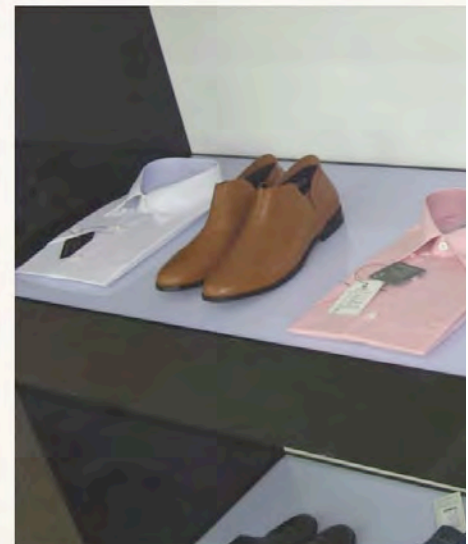
With our collections under the brands “KINGHERO” and “AUVADIS” we create awareness for high class fashion. We want to attract customers, which wear casual outfits and are fashion-conscious.





Accessories

The product portfolio is rounded off by our Accessories. Exclusively sold through our own Flagship Stores, we offer products that strengthen our fashion brand, high quality and fashionable.





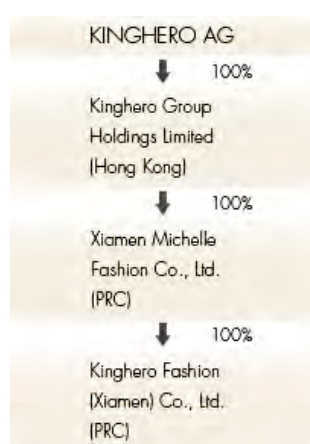
Management Report

for the period 1 January 2011 to 31 December 2011

Business and Operating Environment

Business purpose

KINGHERO AG is the German Holding Company of the KINGHERO Group of companies, mainly active in the Peoples Republic of China (PRC). The Group is a strongly growing apparel manufacturer and designer, featuring a leading Chinese fashion brand for the strongly growing urban middle class in China. The key to the Company's success is a high fashion degree with a European "touch and feel" as well as an upscale quality. The high speed of the design and marketing of new collections ensures a fit to the changing demands of the growing urban middle class in China. The product portfolio includes suits, jackets, shirts, pants, sweaters for men and women and is divided into a business casual range and a general casual range.



Group structure (Legal structure)

KINGHERO Group was formed on 31 March 2010 when the transfer of the entire share capital in KINGHERO Group Holdings, Hong Kong into KINGHERO AG, Munich, Germany. The operating business of KINGHERO Group was and is carried out by KINGHERO Fashion (Xiamen) Co. Ltd. ("KINGHERO Xiamen") and Xiamen Michelle Fashion Co., Ltd. ("Michelle").

As the formation of the Group had legal effect on 1. April 2010, the first consolidated financial data of KINGHERO Group is derived from the consolidated statement of financial position prepared in accordance with IFRS, as endorsed for application in the EU, as at 1. April 2010. As this date is the initial moment of the legal existence of KINGHERO Group.

Important events during the reporting period

In March 2011, KINGHERO started with the operation in the new production facility in Xiamen. The new production covers an area of 70,000 sqm. KINGHERO's total investment in refurbishment and equipment amounted to EUR 3 million. Due to the strong growth of KINGHERO, the opening of the new facility enables the company to increase its production volume by 20% and to further increase manufacturing flexibility. The new production facility is equipped to produce the entire product range of KINGHERO and significantly reduce the time-to-market of new fashion. The facility is located in Xiamen.

Beginning of May 2011, the Management Board of KINGHERO decided with the approval of the Supervisory Board to carry out a capital increase against cash contribution by issuing up to 875,000 new shares and partially using the authorised capital. Within the scope of the rights issue, the shareholders could subscribe the new shares in a ratio of 7:1 (every seven existing shares entitled to subscribe for one new share) from 9 May to 23 May 2011 at the subscription price of EUR 23.00 per new share.

End of May 2011, KINGHERO placed 650,000 shares within the scope of the rights issue capital increase and a private placement with new investors, existing shareholders and the management. After the entry in the Commercial Register, the new share capital amounted to EUR 6,775,000.00. The new shares carry dividend rights as of 1 January 2010. The proceeds of the capital increase amounting to approx. EUR 15 million are to be used to establish further flagship stores. In 2011, around EUR 10 million were expensed for opening 51 flagship stores, around EUR 7 million were invested for the renovation and equipment, EUR 3,4 million were rental cost of the whole flagship stores.

Beginning of July 2011, KINGHERO presented the new, high-quality women's collection in Xiamen. In front of 500 invited guests, among them distributors, television broadcaster and journalists, a total of 50 new designs of the new premium women's collection "AUVADIS" were exclusively presented.

The high-priced women's collection "AUVADIS" is intended for the target group of women aged 28 to 45 years and will be introduced in the Chinese market firstly only in the own flagship stores and selected exclusive stores of the distributors of KINGHERO.

Mr. Marcus Wenzel, resigned from office as chairman of the supervisory board by 31 October 2011. Effective from 01 November 2011, Mr. Kaufhold was his successor by legal appointment. Mr. Gerrit Kaufhold is auditor and tax consultant. He has been working at Dr. Schmitz & Partner / HRG Hansische Revisions-Gesellschaft mbH, Hamburg since 2005. Prior to this he was employed at Deutsche Bank, Arthur Andersen and Esche Schümann Commichau.

General market conditions and business development

General economic outlook

In 2011, the slowed down economic growth of developed countries and the European debt crisis posed huge challenges to China's economic growth. Despite the global macroeconomic challenges, due to gradual slowdown in the inflation trend, Chinese economic growth has stabilized.

According to the data from National Bureau of Statistics, China's GDP amounted to RMB 47.2 trillion of the year 2011, representing a year-on-year increase of 9.2%. Although the macro-control measures led to a structural adjustment in the Chinese economy, rapid urbanization and increased disposable income per capita fuelled the consumption growth in the mid-to-high-end retail market. The total sales of consumer goods reached RMB 18.4 trillion, representing a year on year increase of 17,1%. During the year, total retail sales of garments, hats, footwear and knitwear amounted to RMB795.5 billion, representing a year-on-year increase of 24.2%. The growth in retail sales is expected to show steady growth in the coming years on the back of an acceleration in urbanization which in turn is expected to drive the consumption and demand for business and casual wear. KINGHERO Group is well-positioned to take advantage of this growth.

Overview Apparel Market

China has one of the biggest apparel industries in the world and this industry, as one of the fast growing industries in China, is expected to continue to post double-digit growth. In the period from 2002 to 2010 garment sales grew at a compound annual growth rate of 25%. In 2011, the total retail sales of garments, hats, footwear and knitwear amounted to RMB795.5 billion, representing a year-on-year increase of 24.2%. Apparel accounts for more than 10% of urban household's consumption expenditures, while apparel accounts for more than 6% of rural household's consumption expenditures. The continuing urbanization of China should be an important growth driver for the apparel industry, as the Chinese government targets to increase the urbanization rate by 4 percent points in the next 5 years.

Despite the increase in raw material prices and rise of labour costs, in combination with a strengthening currency, the purchasing power of Chinese citizens is increasing, and the Chinese economy is increasingly driven by domestic consumption. The demand for high-end branded products is also growing and the branded apparel industry is expected to benefit and show a healthy development.

Products and services

The product portfolio is divided into a business casual range and a general casual range. KINGHERO emphasizes design and quality. Next to the menswear, KINGHERO has launched womenswear since 2007 and accessories in 2010. Since 2010, the design and positioning of KINGHERO's products and the opened 58 Flagship stores (as of 31 December 2011) have been developed into a more fashionable style with a stronger brand image. Besides the well received KINGHERO's women's wear and KINGHERO's men's wear, KINGHERO launched an additional women's premium collection under the "AUVADIS" brand which was presented in July 2011. The introduction of the "AUVADIS" brand represents a strategic step towards directly addressing the strongly growing segment of well-earning, successful and fashionable women. "AUVADIS" will be positioned in the upper price segment and combines current fashion trends with high quality.

Research & Development

Product planning is KINGHERO Group's own starting point of the business model. KINGHERO Group's product planning department's main tasks include the formulation of product development and design programs, their implementation and tracking. Product development and design is carried out by KINGHERO Group independently. KINGHERO Group's product development and design team, grasping the domestic business casual wear market trends and combining the customers' demands with brand positioning, designs a wide range of casual clothing well-directed to the targeted customers. The design team with 45 designers and specialists is led by the chief designer Mrs Xiuming He, who is also a member of the management board. Kinghero Group presents two main collections per year plus 3-4 additional series per month. The time to market is currently around 70 days.

Sales Network

KINGHERO Group increased its number of distributors from 38 (as of 31 December 2010) to 45 (as of 31 December 2011) in order to enhance brand image and strengthen the wholesales network. Regarding the retail network, KINGHERO started with the opening of own flagship stores last August 2010 and the number of flagship stores amounted to 58 (as of 31 December 2011). This not only strengthened the connection with end customers, accelerated and improved feedback and information flow but also improved the profit margin.

Employees

The increase in number of staff from 1,008 as of 31 December 2010 to 1,159 as of 31 December 2011 is due to the increase in production requirements and the expansion of sales network.

Revenue analysis and financial condition

The Group was formed on 31 March 2010 when the transfer of the entire share capital in KINGHERO Group Holdings, Hong Kong into KINGHERO AG, Munich, Germany took legal effect. Therefore the income of KINGHERO Group Holdings, Hong Kong for the period 1 January to 31 December 2011 is included in the condensed statement of comprehensive income of KINGHERO AG. The net profit of KINGHERO Group Holdings, Hong Kong for the period 1 January to 31 March 2010 in the amount of kEUR 3,630 is included in the retained earnings in the first consolidated statement of financial position prepared in accordance with IFRS, as endorsed for application in the EU, as at 31 March 2010.

The following analysis of the revenues includes the comprehensive income of KINGHERO AG for the period 1 January to 31 December 2011, compared to the "as-if" figures 2010 of the KINGHERO Group Holdings, Hong Kong.

Revenue and earnings position

Combined statement of comprehensive income of KINGHERO GROUP

for the period January to December 2011, including income of KINGHERO Group Holdings, Hong Kong for the period 1 January to 31 December 2010

	2011	2010	
	KH AG Consolidated EUR'000	KH AG "As-If" EUR'000	+/- %
Revenue	101,542	72,753	39.6
Cost of sales	(64,472)	(49,960)	29.0
Gross profit	37,070	22,793	62.6
Other income	515	232	122.0
Selling and distribution expenses	(9,380)	(3,599)	160.6
Administrative expenses	(4,177)	(1,219)	242.7
Other expenses	(8)	(4)	100.0
Finance result	267	70	281.4
Profit before taxation	24,287	18,273	32.9
Income tax expense	(6,036)	(3,903)	54.7
Net profit and profit attributable to Equity holders of the Company	18,251	14,370	27.0
Selected Financial data			
Gross profit margin	36.5	31.3	5.2 PP
EBIT	24,020	18,203	32.0%
EBIT margin	23.7	25.0	(1.3) PP
Net profit margin	18.0	19.8	(1.8) PP

Segment reporting

Management determines the operating segments, which represents product category, based on reports reviewed and used for strategic decisions. The Group's business segments are organized into two main operating segments:

- Men's wear
- Women's wear

Both these segments are managed by the Group. The Group intends to transfer the management of women's wear to its subsidiary company, Xiamen Michelle Fashion Co. Ltd., and started with this transfer in 2009. It is expected that in the future the Xiamen KINGHERO will manage only men wear and Michelle will manage women wear. The segmental analysis is expected to change with this development.

Both operating segments are monitored and strategic decisions are made on the basis of the segmental gross margins. Items of expense and income below the gross profit margin are not analysed by management on a segmental basis, as these are not considered relevant for the operational and strategic analysis of the business. Management considers the Group's total assets, comprising property, plant and equipment, inventory, trade and other receivables and cash and bank balances as reasonable allocable to the operating segments on a pro rata basis determined by segment revenues.

During the period under review, there were no inter-segment transfers.

The segment information provided to the management for the reportable segments for the financial period from 1 January 2011 to 31 December 2011 is as follows:

	Men's Wear	Women's wear	Total for reportable segments
	EUR'000	EUR'000	EUR'000
Revenue	67,335	34,207	101,542
Cost of sales	(40,929)	(23,543)	(64,472)
Gross profit	26,406	10,664	37,070

Development of revenues

The revenues increased significantly by 39.6% from kEUR 72,753 of the year 2010 to kEUR 101,542 of the year 2011. The increase in demand is mainly due to the strategic pricing of products and contemporary designs, variety and product mix. Along with brand building strategy KINGHERO introduced more high-end products into product mix. The strong brand visibility and brand image also contributed to the higher demand. Furthermore, the opened 58 flagship stores generated roughly 6.7% of the revenues in this period, which improved not only the margin but also the brand management.

Revenues by wholesale and retail (Flagship stores):

	2011		2010 „As-If“	
	EUR'000	% of sales	EUR'000	% of sales
Wholesales	95,134	93.7	72,302	99.4
Retail (Flagship stores)	6,408	6.3	451	0.6
Total	101,542	100.0	72,753	100.0

Revenue by women's wear and men's wear:

	2011		2010“As-If”	
	EUR'000	% of sales	EUR'000	% of sales
Women's wear	34,207	33.7	28,285	38.9
Men's wear	67,335	66.3	41,481	57.0
Reconciling items	0	0.0	2,987	4.1
Total	101,542	100.0	72,753	100.0

Revenue by regions:

	2011		2010 “As-If”	
	EUR'000	% of sales	EUR'000	% of sales
Eastern China	39,909	39.3	27,154	37.3
South China	34,091	33.6	26,657	36.6
North China	13,652	13.4	10,258	14.1
Western China	13,890	13.7	8,684	11.9
Total	101,542	100.0	72,753	100.0

Note:

- (1) North PRC includes Qinghai, Gansu, Xinjiang, Heilongjiang, Jilin, Inner Mongolia, Liaoning, Hebei, Shaanxi, Shandong, Shanxi, Ningxia, Beijing, Tianjin
- (2) South PRC includes Jiangsu, Hubei, Hunan, Henan, Anhui, Jiangxi, Guangdong, Guangxi, Hainan
- (3) East PRC includes Zhejiang, Fujian, Shanghai,
- (4) West RC includes Yunnan, Guizhou, Sichuan, Chongqing

The main regions contributing to turnover were again Eastern China and South China, accounting to 72.9% of total revenues (2010: 73.9%). Following the “Go West” strategy of the Chinese Central Government, Western China became the fastest growth region of KINGHERO with a considerable growth of 59.9%.

Revenue by products

	2011			2010 "As-If"			Changes	
	Unit'000 Volume	% of volume	ASP (EUR)	Unit'000 Volume	% of volume	ASP (EUR)	Unit'000 Volume	ASP (EUR)
Shirts	1,314	19.3	14.7	1,212	17.4	11.6	102	3.1
T-shirts	778	11.4	10.6	739	10.6	8.6	38	2.0
Jacket	1,381	20.2	24.9	1,591	22.8	14.8	(209)	10.1
Pants	1,282	18.8	12.9	1,199	17.2	9.6	82	3.3
Knittings wear	1,387	20.3	9.9	1,514	21.7	67	(127)	3.2
Skirts	681	10.0	13.6	725	10.4	10.0	(44)	3.6
Total	6,825	100.0	14.4	6,983	100.0	10.2	(158)	4.2

KINGHERO continued to build its brand through a successful 'trade up' strategy. In 2011, unit sales underlined KINGHERO's value adding strategy. Unit sales declined by 2%. The high fashion degree of KINGHERO allowed the company to focus on higher priced products, particularly jackets, knittings wear, pants and skirts.

As a result, average unit prices increased by 41.2% to EUR 14.4. This development was assisted by KINGHERO's flagship stores, Via own flagship stores, KINGHERO typically sells higher priced, highly fashionable products, receiving 100% of the retail sales price. As KINGHERO continues to expand its flagship store network, this trend is expected to accelerate.

In addition, the Group has leveraged on its extensive retail network and its competitive advantages in terms of design, product mix, quality, price and customer services.

Cost of sales

Cost of sales mainly comprises material, labour costs for employees in production, depreciation of property, plant and equipment used for production purposes and operating lease expenses. Cost of sales increased from kEUR 49,960 in 2010 by 29% to kEUR 64,472 in 2011. This increase was primarily due to the price increase for materials. They are still the most important cost item and increased from kEUR 47,592 in 2010 by approximately 23,5% to kEUR 58,784 in 2011. The increase of R&D Expenses made also a contribution to this result.

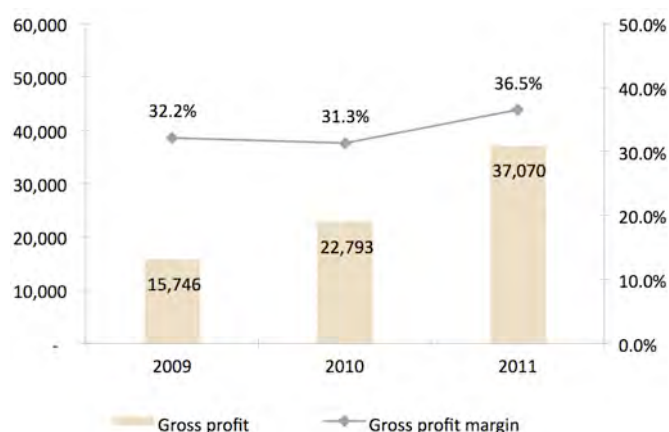
	2011	2010 "As-If"	Changes
	EUR'000	EUR'000	+/- %
Cost of sales			
Materials	58,784	47,592	23.5
Labour-wages	1,754	1,383	26.8
Depreciation of PPE	697	117	495.7
Amortisation of land use rights	8	8	0.0
Operating lease expense	96	188	(48.9)
R&D Expenses	1,229	562	118.7
R&D Salaries	117	84	39.3
R&D SSI ¹	23	13	76.9
Materials - Changes in inventories and others	1,763	13	13,461.5
Total	64,472	49,960	29.0

¹ Social Security Insurance

Others includes utilities, repair & maintenance, consumables, packaging and other material and sales tax.

Gross profit analysis

in EUR'000



Gross profit margin increased year-on-year from 31.3% of 2010 to 36.5% of 2011. The increase was due to the enhanced brand image, pricing policy and product mix, especially the contribution of sales from well operated own flagship stores. The Group has successfully transferred the impact from cost increase to selling price and strengthened its competitiveness.

2011 Gross Profit Margin				
	EUR'000	% of sales	Gross Profit	Gross Profit Margin
Wholesales	95,134	93.7%	33,578	35.3%
Retail (Flagship stores)	6,408	6.3%	4,322	67.4%
Total	101,542	100.0%	37,070	36.5%

Other income

Other income in 2011 was kEUR 515 (kEUR 232 of 2010), which was mainly attributable to increase of exchange gain.

Development of EBIT and EBIT margin

EBIT (Operating profit) increased from kEUR 18,203 to kEUR 24,020 by 32.0% in financial year 2011. The corresponding EBIT margin amounted to 23.7% in 2011 (2010: 25.0%). This development primarily reflects the increased turnover and effective control over cost of sales and operating expenses. Due to the increase of the selling and distribution expenses for flagship stores and the increase of the administrative expenses for the capital increase in May 2011, the EBIT margin decreased slightly from 25.0% to 23.7%.

Selling and Distribution Expenses

The Group's selling and distribution expenses in 2011 amounted to kEUR 9,380 representing approximately 9.2% of total turnover, which was comparable to the 4.9% for last year.

Included in selling and distribution expenses were mainly advertising cost amounted to kEUR 2,676, rental of flagship stores amounted to kEUR 3,400 and Sales salaries amounted to kEUR 1,776.

Administrative Expenses

The Group's administrative expenses were kEUR 4,177 for 2011, representing an increase of kEUR 2,958 as compared to the corresponding period last year. The amount accounted for approximately 4.1% of the revenues with a year on year increase of 2.4 percentage points. The increase in administrative expenses was attributable to several key factors including the increase in relevant administrative expenses after listing and the one time advisory fee for the capital increase in May 2011. Especially, due to the depreciation of Euro in the year 2011, which resulted to the high exchange loss amounted to kEUR 1,409.

Financial result

The financial result for the 2011 is positively affected by the interest income from the proceeds of the IPO in 2010 and the proceeds of capital increase in 2011. Interest expenses result from short-term borrowings.

Income taxes

As KINGHERO AG did not have assessable profits during the financial year ended 31 December 2011, no German corporate income taxes have been provided for.

The PRC subsidiaries are subject to PRC income tax on profit arising or derived from the tax jurisdiction in which subsidiaries of the Company operate and are domiciled. Business operations set up in the special economic zones by foreign enterprises are subject to a reduced enterprise income tax rate. The provision for PRC income tax on profits arising from operations in the PRC is calculated based on reduced enterprise income tax rates of 24% for the financial year ended 31 December 2011, in accordance with the relevant PRC income tax rules and regulations.

Net result for the period and earnings per share

The net result for the period 1 January 2011 to 31 December 2011 is kEUR 18,251.

Earnings per share

The basic earnings per share is calculated based on the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial period.

	31 December 2011
Net profit attributable to equity holders of the Company ('000)	18,251
Weighted average number of ordinary shares outstanding ('000)	6,519
Basic earnings per share ('000)	2.80

Assets and Liabilities

Balance Sheet KINGHERO AG

	31 December 2011		31 December 2010	
	KH AG Consolidated EUR'000	%	KH AG Consolidated EUR'000	%
Assets				
Non-current	27,684	24.5	15,123	22.7
Current	85,453	75.5	51,477	77.3
Total assets	113,137	100.0	66,600	100.0
Equity and Liabilities				
Capital and Reserves	96,795	85.6	58,785	88.3
Non-current liabilities	73	0.1	65	0.1
Current liabilities	16,269	14.3	7,750	11.6
Total equity and liabilities	113,137	100.0	66,600	100.0

Total assets as of 31 December 2011 amount to kEUR 113,137 (previous year: kEUR 66,000).

The increase in fixed assets is primarily due to the business expansion and is related to the investments made in modernizing the flagship stores (kEUR 11,812) as well as furniture, fixtures and office equipment (kEUR 375). The flagship stores are located in the People's Republic of China.

Current assets increased by kEUR 33,976 (+66.0%) to kEUR 85,453 compared to the previous year and thus account for 75.5% of total assets. The increase is mainly due to the higher balance of cash and cash equivalents (+kEUR 19,949) to kEUR 51,995 as well as the increase in trade receivables and other receivables (+kEUR 12,766) to kEUR 28,439.

Trade receivables increased by kEUR 12,669 (+95.8%) to kEUR 25,899 due to the higher sales revenue for the financial year.

Inventories rose by kEUR 907 (+24.3%) to kEUR 4,645 compared to the previous year. The increase is due to the high rate of business expansion. Finished products increased significantly as a result (+kEUR 701).

Capital and Reserves increased by kEUR 38,010 (+64.7%) to kEUR 96,795 compared to the previous year and comprises 85.6% of the balance sheet total. The increase is a result of the capital increase carried out in the financial year (+kEUR 14,636) as well as the profits generated in the financial year (kEUR 18,251) and the increase in the currency translation reserve (+kEUR 5,123).

The increase in short-term liabilities of kEUR 7,447 to kEUR 14,057 is primarily due to the increase in trade payables in the amount of kEUR 6,580 to kEUR 11,593. Short-term liabilities include mainly taxes on income to be paid (kEUR 2,212) in addition to trade payables.

Investment

The Group has purchased six factory buildings to increase the production capacity. The factory buildings cover an area of overall 70,000 sqm. After renovation, the relocation of the production facility was completed in 2011. Due to the strong growth of KINGHERO, the opening of the new facility enables the company to increase its production volume by 20% and to further increase manufacturing flexibility. The new production facility is equipped to produce the entire product range of KINGHERO and significantly reduce the time-to-market of new fashion.

Land use rights have been acquired for the land located in Hou Xi Zhen, Jimei, Xiamen, Fujian Province, PRC. These expire in December 2055.

Financial position

The company's financial management mainly encompasses cash and liquidity management. The objective is to ensure that the company has financial stability and flexibility.

The company's capital structure is primarily financed by internal financing sources. The equity ratio of the company is 85.6%.

Financing sources were supplemented with authorised capital from the capital increase during the financial year. The capital increase resulted in an inflow of funds of KEUR 14,636.

The changes in cash and bank balances for the period 1 January to 31 December 2011 shows following statement of cash flows:

	31 December 2011	31 December 2010 ¹
	EUR'000	EUR'000
Cash Flows from operating activities		
Profit before taxation	24,287	13,752
Adjustments for:		
Finance income / finance cost	(267)	(65)
Depreciation of property, plant and equipment	1,506	153
Amortization of intangible assets	8	8
Exchange differences	260	2,612
Operating profit before working capital changes	25,794	16,460
Increase/ Decrease in inventories	(626)	312
Increase in trade and other receivables	(12,334)	(4,392)
Increase/ Decrease in trade and other payables	5,435	(4,778)
Net cash generated from operations	18,269	7,602
Interest received	200	-
Income tax paid	(5,596)	(2,868)
Net cash provided by operating activities	12,873	4,734
Cash Flows from Investing Activities		
Cash payments to acquire property, plant and equipment and other long-term assets	-	(1,990)
	(11,085)	(2,887)
Net cash used in investing activities	(11,085)	(4,877)
Cash Flows from financing activities		
Increase in Receivables from related parties	347	(20)
Cash proceeds from issuing shares or other equity instruments	14,636	12,778
Net cash provided by financing activities	14,983	12,758
Net increase in cash and cash equivalents	16,771	12,615
Effect of currency translation on cash and cash equivalents	32,046	(906)
Cash and cash equivalents at beginning of year	3,178	20,337
Cash and cash equivalents at end of year	51,995	32,046

¹ The changes in cash and bank balances for the period 1 April to 31 December 2010

Cash flow from operating activities increased by kEUR 8,136 to kEUR 18,266 compared to the previous year. The year-on-year comparability of the figures is however limited as the previous year encompassed only the shortened period from 1 April to 31 December 2010.

The investments made during the financial year resulted in a cash outflow of kEUR 11,085 for the company.

The financial position of KINGHERO strengthened considerably compared to the previous year with the conclusion of the most successful financial year in the company's history. The strategic objectives of the company were also met during the period.

Other factors that impacted results

Research and development

New products and state-of-the-art designs were carried out by our own R&D department. KINGHERO's product development and design team grasping the market trends and combining the customers' demands with brand positioning, designs a wide range of casual clothing well-directed to the targeted customers with very short time to market. Since the IPO, the time to market was shortened from 100 days to around 70 days. The design team was enlarged to 45 employees.

Supply and production

KINGHERO Group evaluates and assesses suppliers according to their product quality, production speed, production costs, timing, delivery and management level. The pricing of purchasing raw materials is based on the following principles: 1) in case of raw materials of the same quality and same kind, an open, fair and reasonable principle of bidding is adopted; 2) In case of same quality, the supplier with the best price is selected, and in case of identical prices, the supplier with the best quality is selected.

The operational entities of KINGHERO are currently producing in the new production facility in Xiamen. The factory buildings cover an area of overall 70,000 sqm.

Distribution

The sales activities of Group are conducted through a network of designated distributor (45 up to 31 December 2011) and own flagship stores (58 up to 31 December 2011).

Personnel

KINGHERO is in full compliance with all aspects of PRC protective measures concerning rules regarding termination and health and safety regulations, as well as the drafting of employment agreements. The company provides the following employee benefits, among others: retirement insurance, contributions to health insurance, paid maternity leave, etc. KINGHERO places a high priority on having well educated employees in order to ensure the company's growth over the long term. KINGHERO therefore offers training and continuing education programs to its employees on a regular basis. Such programs are provided both by in-house and outside trainers; the company also plans to expand the training courses offered in the future.

Environmental protection

In China, the company monitors compliance with environmental protection requirements, e.g. regarding water usage. The KINGHERO Group is already in compliance with the stipulated guidelines but would like to further expand its commitment. We intend to introduce environmentally friendly manufacturing at the new and expanded production sites in Jimei. KINGHERO is aware that for future growth, it must increasingly use environmentally friendly manufacturing processes and facilities.

Risks and opportunities

Risks and opportunities are inherent to its business activities. Risks are defined as events which could lead to a negative variance from the objectives planned for the future. If these risks become reality, business performance may be permanently adversely affected, earnings may be reduced and the financial position of the Company worsened. In contrast, opportunities are defined as factors which could have a positive effect on the future development of KINGHERO.

The Group's activities expose it to market risk, concentration risk, credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimize adverse effects from the unpredictability of financial markets on the Company's financial performance.

The board of directors provides guidance for overall risk management as well as policies covering specific areas. Management analyses and formulates measures to manage the Company's exposure to financial risk in accordance with the objectives and underlying principles approved by the board of directors. Generally, the Company employs a conservative strategy regarding its risk management. As the Company's exposures to market risk and financial risk are kept at a minimum level, the Company has not used any derivatives or other financial instruments for hedging purposes. The Company does not hold or issue derivative financial instruments for trading purposes.

The investments made in the previous year in additional production capacities in Xiamen, which were completed during the financial with the relocation, open up opportunities for the company to increase its production volumes by 20% in the future and thereby expand production flexibility.

The company assumes that the ongoing urbanization of China will be a significant growth driver for the clothing industry in general and for KINGHERO in particular.

With the further expansion of the flagship stores during the financial year, KINGHERO took greater advantage of the opportunity to cement its relationships with its end customers and the existing distribution network.

Time to market was shortened with the expansion of the design team ensuring improved reaction to rapidly changing fashion trends.

Sector and market related risks – Entry of new competitors

Competition in the Chinese and global markets for clothing is particularly intense and KINGHERO Group expects this competition to continue to increase and intensify in the future. KINGHERO Group's current competitors include Chinese companies such as Fujian Septwolves Industry Co., Ltd., Fujian Seven Brand Group Co., Ltd., LILANZ (China) Co., Ltd., Joeone (Fujian) Fashion & Development Co., Ltd., and K-boxing Men's Wear Co., Ltd. New competitors could arise at any time. Existing and new competitors might have stronger and more established brands, a larger customer base, more advanced production facilities or greater financial resources, which allow them to compete aggressively in this market by lowering their prices and/or expanding their production capacity. To remain competitive, KINGHERO Group must continue to invest significant resources in the ongoing development of new products and improvement of existing products. There can be no assurance that KINGHERO Group will have sufficient resources to make these investments or that such investments will improve KINGHERO Group's position in the Chinese market as compared to its competitors.

In addition, in connection with the economic slowdown and the results of the financial crisis in industrialized countries, KINGHERO Group expects more of its international competitors to increase their sales activities in the Chinese market, which is believed to be one of only a few growth markets worldwide. This could lead to intensified competition with respect to high-quality products and for qualified personnel in China.

Increased competition or the entry of new competitors could result in lower margins or a loss of market share, either of which could have a material adverse effect on KINGHERO Group's business, financial condition and results of operations.

Sector and market related risks – Rapid changes in fashion trends

KINGHERO Group depends on the development and market acceptance of new products and may not be able to effectively predict or react quickly to changing consumer preferences that could render its products obsolete.

The markets in which KINGHERO Group competes are characterized by the frequent introduction of new products, changing consumer preferences and demands as well as changing consumer spending patterns. The Company believes that its future success will depend on KINGHERO Group's ability to continually develop and bring to market new products with high quality standards, innovative designs and other features in a timely manner.

Product cycles in the fashion industry generally tend to be shorter than in other industries. For this reason, KINGHERO Group may in the future be required to substantially increase its investments in research, development and design in order to maintain its market share and reputation. KINGHERO Group's products can only remain competitive if they meet consumer preferences in terms of quality and design and can react to rapid changes of customers' preferences. KINGHERO Group cannot predict which new products or product designs will emerge to meet changing consumer preferences and demands. KINGHERO Group might not be able to adapt to changing consumer preferences and offer attractive products on a timely basis. If KINGHERO Group does not anticipate or adequately respond to evolving market demands or meet changing consumer preferences, its ability to sell its products may be limited and the appeal of its brand may be reduced. The materialization of any of these risks could have a material adverse effect on KINGHERO Group's business, financial condition and results of operations.

KINGHERO Group believes that design is essential to attaining its success. KINGHERO Group attaches significant importance to product design with high quality tailoring. Through great emphasis on what KINGHERO Group believes are innovative designs, KINGHERO Group aims to become a fashion trend-leader in casual wear within the PRC.

The product development and design team takes into account KINGHERO Group's brand strategies, drawing inspirations from domestic and international fashion trends and collaborating with both suppliers and distributors to fine-tune designs, helping to adapt to the constantly changing consumer trends of the markets. Whether the designs are compatible to consumers' needs and preferences or not is essential to KINGHERO Group's growth.

Concentration risk

Concentration risk arises from the sales to the Company's authorized distributors. In view of the nature of the industry and the Company's sales strategy which is the selling of their products to consumers through the authorized distributors, the management does not consider the risk to be significant. The Company's policy is to monitor the business development of the authorized distributors and to continuously source for suitable distributors who are able to promote the brand and expand the existing distribution network.

Market risk – currency risk

Currency risk arises within entities in the Company when transactions are denominated in foreign currency. The Company has no significant concentration of transactional currency risk. The Company operates predominantly in the PRC and transacts primarily in Renminbi.

However the Company prepares its financial statements in EURO and therefore its results and net asset position are exposed to retranslation risk as a result of fluctuation in the RMB/EURO exchange rate.

Market risk – interest rate risk

The Company is not significantly exposed to interest rate risk as it is primarily self-financing. The Company has no interest bearing loans or significant interest-bearing assets.

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group may encounter difficulties in meeting its financial obligations as they fall due. All financial liabilities fall due within one year.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty fails to meet its contractual obligations. Credit risk of the Company arises primarily from the Company's trade receivables.

The Company's exposure to credit risks is restricted by credit limits that are approved by the general manager. The Company typically allows the existing customer credit terms of up to 3 months. In deciding whether credit shall be extended, the Company will take into consideration factors such as the relationship with the customer, its payment history and credit worthiness. In relation to new distributors, the sales and marketing department will prepare credit proposals for approval by the general manager.

Overall risk

All in all, the described risks are controllable and the continuation of KINGHERO is not endangered. Compared to the previous year, there has been no significant change in the overall risk situation as a result of the individual risks described above. From today's point of view, no fundamental change in the risk situation is expected.

Dependent company report (Related-party transactions)

Because there is no control agreement with the majority shareholder, the Board of Directors of KINGHERO AG was required under section 312 of the German Companies Act (AktG) to file a report on relationships with affiliated companies. This report contained information on the relationships with the majority shareholder Zhang Yu and the KINGHERO Group companies. Pursuant to section 312, para.3 of the AktG, the Management Board declares "For the transactions listed in the report on relationships with affiliated companies, based on the circumstances that we were aware of at the time such transactions took place, our company received appropriate consideration for each transaction. No measures subject to reporting requirements were taken during the fiscal year which were detrimental to the company."

Report on Events after the Reporting Period

At the time of publication there were no significant post-balance sheet date events to report.

Forecast Report

In 2012, the Chinese economic growth is expected to continue steadily, subject to the uncertainties of the world economy and the domestic real estate market adjustment. Despite the uncertainties of global economic environment in 2012, the Chinese apparel market is expected to show strong demand due to the huge population, growing urbanization, increasing living standards and rising personal incomes. At March 5, 2010 Meeting of the National People's Congress Prime Minister Wen Jinbao again stressed the necessity to encourage consumption and fight inflation. The purchasing power for fashionable and branded high-quality products is expected to be sustained. The development of the Chinese garment industry should benefit from these factors.

In December 2011, the Chinese National Bureau of Statistics announced that the national urbanization rate had surpassed the 50 percent threshold. Now, for the first time in China, there are more citizens living in cities than there are in the countryside. Thus the target group of KINGHERO should increase considerably over the next years.

Outlook

KINGHERO Group plans to further enhance its unique brand value for casual wear by expanding into accessories and the business segment. KINGHERO has already announced the launch of the new upscale "AUVADIS" women's wear collection. Although "AUVADIS" will only contribute a small share to group revenues in the beginning, we are confident it should lead to rising average selling prices and should strengthen our brand image.

The Group expects to achieve further revenue growth in 2012 and 2013 by implementing its growth strategy that is associated with strengthening the brand building, increasing production capacity and integrating new technologies.

The Group also plans to take full advantage of the optimistic retail growth in China by rolling out more flagship stores and further expanding its distribution network. In 2012, KINGHERO pursues the target of opening approx. 40 flagship stores in tier one, two and three cities. End of 2012, KINGHERO expects 100 total flagship stores. As a result, the Group anticipates not only to increase high-margin revenue, but also to improve the brand management in the closely monitored flagship stores as well as a positive image transfer through immediate vicinity to leading international fashion brands in the context of store openings with the leading luxury malls.

As one of the leading enterprises for business and casual wear in China, KINGHERO leverages on the passion for design, the pursuit of high quality, the efforts in channel and brand management and professional knowledge of the garment market in China. KINGHERO will continue the strategy of optimizing product mix and enhancing brand image. By doing so, KINGHERO expects overall sales of approx. 125 Mio EUR in 2012 and sustainable margins at previous year's level again. In case this positive business development continues, the company intends to start paying dividends in the year 2013 for the financial year 2012 in the range of 10% to 15% of consolidated net profit.

Munich, 9 April 2012

KINGHERO AG

Management Board

Consolidated Financial Statements

Statements of financial position

as at 31 December 2011

	Note	31 December 2011 EUR'000	31 December 2010 EUR'000
Assets			
Non-current			
Property, plant and equipment	4	25,533	14,222
Land use rights	5	382	369
Long term Prepayment		583	0
Deferred tax assets	7	1,186	532
		27,684	15,123
Current			
Inventories	8	4,645	3,738
Trade and other receivables	9	28,439	15,673
Receivables from related parties	10	374	20
Cash and bank balances	11	51,995	32,046
		85,453	51,477
Total assets		113,137	66,600
Liabilities			
Non-current			
Other provisions	12	73	65
Current			
Trade and other payables	13	14,057	6,610
Current income tax payable	14	2,212	1,140
		16,269	7,750
Total liabilities		16,342	7,815
Net Assets		96,795	58,785
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	15	6,775	6,125
Share premium	16	29,770	15,784
Statutory reserve	16	243	243
Foreign currency translation reserve	16	8,363	3,240
Retained earnings	16	51,644	33,393
Total Equity		96,795	58,785

Consolidated statement of comprehensive income

for the financial year ended 31 December 2011

		1 January- 31 December 2011	1 April- 31 December 2010
	<i>Note</i>	EUR'000	EUR'000
Revenue	17	101,542	57,836
Cost of sales	18	(64,472)	(40,568)
Gross profit		37,070	17,268
Other income		515	208
Selling and distribution expenses		(9,380)	(3,046)
Administrative expenses		(4,177)	(735)
Others		(8)	(5)
Finance income and finance costs	19	267	62
Profit before income tax	20	24,287	13,752
Taxation	14	(6,036)	(2,868)
Total profit for the year		18,251	10,884
Other comprehensive income:			
Currency translation arising from consolidation		5,123	1,733
Total comprehensive income		23,374	12,617
Profit attributable to owners of the parent		18,251	10,884
Total comprehensive income attributable to owners to the parent		23,374	12,617
Earnings per share (EUR cents per share)			
- Basic	21	2.80	1.91
- Diluted	21	2.80	1.91

Consolidated statement of changes in equity

for the financial year ended 31 December 2011

	Share capital EUR'000	Other reserves		Exchange translation reserve (OCI) EUR'000	Statutory common reserve EUR'000	Total EUR'000
		Share premium EUR'000	Retained earnings EUR'000			
2010						
Beginning of financial year						
1 April 2010	5,050	4,081	22,509	1,507	243	33,390
Issue of shares	1,075	11,703	-		-	12,778
Total comprehensive income for the year	-	-	10,884	1,733	-	12,617
End of financial year	6,125	15,784	33,393	3,240	243	58,785
2011						
Issue of shares	650	13,986	-	-	-	14,636
Total comprehensive income for the year	-	-	18,251	5,123	-	23,374
End of financial year	6,775	29,770	51,644	8,363	243	96,795

Consolidated statement of cash flows

for the financial year ended 31 December 2011

	31 December 2011	31 December 2010
	EUR'000	EUR'000
Cash Flows from Operating Activities		
Profit before taxation	24,287	13,752
Adjustments for:		
Finance income and finance costs	(267)	(65)
Depreciation of property, plant and equipment	1,506	153
Amortization of intangible assets	8	8
Exchange differences	260	2,612
Operating profit before working capital changes	25,794	16,460
Increase/ Decrease in inventories	(626)	312
Increase in trade and other receivables	(12,334)	(4,392)
Increase/ Decrease in trade and other payables	5,435	(4,778)
Net cash generated from operations	18,269	7,602
Interest received	200	-
Income tax paid	(5,596)	(2,868)
Net cash provided by operating activities	12,873	4,734
Cash Flows from Investing Activities		
Cash payments to acquire property, plant and equipment and other long-term assets	(11,085)	(1,990)
Cash payments to acquire other business shall	-	(2,887)
Net cash used in investing activities	(11,085)	(4,877)
Cash Flows from Financing Activities		
Increase in Receivables from related parties	347	(20)
Cash proceeds from issuing shares or other equity instruments	14,636	12,778
Net cash provided by financing activities	14,983	12,758
Net increase in cash and cash equivalents	16,771	12,615
Effect of currency translation on cash and cash equivalents	32,046	(906)
Cash and cash equivalents at beginning of year (Note 11)	3,178	20,337
Cash and cash equivalents at end of year (Note 11)	51,995	32,046

Notes to the financial statements

for the financial year ended 31 December 2011

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

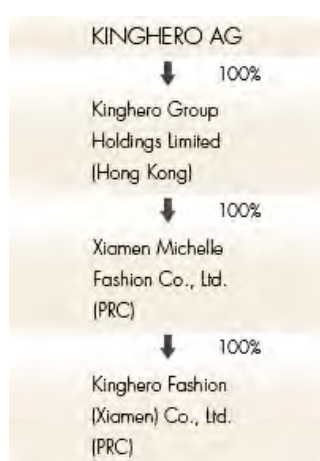
1 General information

Nature of operations

The principal activity of the Group is manufacture, wholesale and retail of menswear and womenswear. The principal place of business of the Group is located at Jinhui Road 58-70th, Houxi Town, District of Jimei, Xiamen, Fujian Province, the People's Republic of China (the "PRC").

The Group sells its products via a network of distributors located in the PRC and own flagship stores in PRC.

Group structure (Legal structure)



KINGHERO Group was formed on 31 March 2010 when the transfer of the entire share capital in KINGHERO Group Holdings, Hong Kong into KINGHERO AG, Munich, Germany ("KINGHERO AG") took legal effect. The operating business of KINGHERO Group was and is carried out by KINGHERO Fashion (Xiamen) Co. Ltd. ("KINGHERO Xiamen") and Xiamen Michelle Fashion Co., Ltd. ("Michelle").

The addresses of its registered office and principal place of business are disclosed in the introduction to the annual report. The principal activities of the Company and its subsidiaries (the Group) are described in note 6.

The Company's fiscal year is the calendar year (i.e. 1 January to 31 December). The duration of the Company is unlimited. The Consolidated Financial Statement for the reporting period ended 31 December 2011 (including comparative information relating to the accounting year 2010)

were approved and authorized for issue by the Management Board on 9 April 2012. They were approved by the Supervisory Board in its meeting of 27 April 2012.

Scope of consolidation

The Group was formed on 31 March 2010 when the transfer of the entire share capital in KINGHERO Group Holdings, Hong Kong into KINGHERO AG, Munich, Germany took legal effect.

At the time of the transaction, KINGHERO AG was essentially a shell company, without its own business. The purpose of the transaction was to enable the operating group of KINGHERO Holdings, Hong Kong to obtain a listing on the Entry Standard of the German Stock Exchange. Since August 2010, KINGHERO AG has been listed at Frankfurt Stock Exchange. Hence this transaction has been accounted for similarly to a reverse acquisition, without the recognition of goodwill.

KINGHERO Holdings, Hong Kong forms the operating sub group and comprises the operating companies KINGHERO Xiamen and Michelle, as well as KINGHERO Holdings itself. On 14 July 2009, KINGHERO Group Holdings Limited (the "KINGHERO HK") entered into a share purchase agreement to purchase all of the shares in Michelle. On 8 November 2009, Michelle entered into a share purchase agreement to purchase all of the shares in KINGHERO Xiamen. These transactions did not represent business combinations as defined in IFRS 3 'Business Combinations', but are deemed to be transactions under common control, as there was one ultimate controlling party involved. There is no guidance elsewhere in IFRS which covers the accounting for such transactions under common control. In the absence of an international standard or interpretation that specifically applies to such a transaction, paragraphs 10 to 12 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' set out the approach to be followed. This requires, inter alia, that where IFRS does not include guidance for a particular issue, the Directors may also consider the most recent

pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards.

2 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") in so far as these have been adopted by the European Union ("EU") in effect at 31 December 2011 and in accordance with Sec. 315a Para. 3 of the German Commercial Code. The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The Financial Statements have been prepared in accordance with the significant accounting policies set out below and these accounting policies are in accordance with IFRS.

The preparation of the Financial Statements in conformity with IFRS requires the use of judgments, estimates and assumptions that affect the application of accounting policies as disclosed below, reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial statements and the reported amounts of revenue and expenses during the financial years.

Overall Considerations

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below. The financial statements have been prepared using the measurement bases and accounting policies specified by IFRS for each type of asset, liability, income and expense. These are more fully described below.

The consolidated financial statements have been prepared in accordance with the significant accounting policies set out below. These accounting policies are in accordance with IFRS as endorsed for application in the EU.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of judgments, estimates and assumptions that affect the application of accounting policies as disclosed below, reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the financial years.

Presentation of Consolidated Financial Statements

The consolidated financial statements are presented in accordance with IAS 1 Presentation of Financial Statements. The statement of comprehensive income has been prepared using the function of expense method.

The Company has elected to adopt IAS 1 (One-Statement-Approach) by presenting the 'Statement of comprehensive income' in one statement.

Basis of Consolidation

A subsidiary is a company controlled by the Group parent. Control is achieved when the Group parent has the power, directly or indirectly, to govern the financial and operating policies of the company so as to acquire benefit from its activities.

The consolidated financial statements comprise the financial statements of the Group parent and its subsidiaries as at the financial reporting date. The financial statements of the subsidiaries are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All inter-group balances, transactions, income, expenses, and profits and losses resulting from inter-group transactions, insofar as they occur, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group parent obtains control, and continue to be consolidated until the date such control ceases.

Business Combinations and Equity Accounted Investments

Except as disclosed in notes 1.3, acquisitions of subsidiaries are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus cost directly attributable to the acquisition. Identified assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest.

Any excess of the cost of the business combination over the Group's interest in the net fair value of the identified assets, liabilities and contingent liabilities represents goodwill.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognized as negative goodwill in profit or loss on the date of acquisition.

Equity accounted investments are those entities over which the Group is able to exert dominating influence but which are neither subsidiaries nor interests in a joint venture. Equity accounted investments are recognized at cost.

Any goodwill or fair value adjustments attributable to the Group's share in equity accounted investments are included in the amount recognized as equity accounted investments.

All subsequent changes to the Group's share of equity accounted investments are recognized in the carrying amount of equity accounted investments. Changes resulting from the profit or loss generated by equity accounted investments are reported within 'Share of results of equity accounted investments'. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities.

Changes resulting from items recognized directly in the equity accounted investments' equity are recognized in equity of the Group, as applicable. However, when the Group's share of losses in an equity accounted investment equals or exceeds its interest in the equity accounted investment, including any unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the equity accounted investment. If the equity accounted investment subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Amounts reported in the financial statements of equity accounted investments have been adjusted where necessary to ensure consistency with the accounting policies of the Group.

Critical accounting estimates and judgment

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

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

2 (a) Key sources of estimation uncertainty

Critical assumption used and accounting estimates in applying accounting policies

Income taxes

The Group has exposure to income tax arising from their operations in the PRC. Significant judgment is required in determining the provision for income taxes. There are also claims for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. When the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax expense and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's income tax payable as at 31 December 2011 amounted to kEUR 2,212 (2010: kEUR 1,140).

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management determines the estimated useful lives of property, plant and equipment to be within 5 to 20 years. The carrying amount of the Group's property, plant and equipment as at 31 December 2011 was kEUR 25,533 (2010: kEUR 14,222). Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets. Therefore, future depreciation charges could be revised. A 5% difference in the expected useful lives of the property, plant and equipment would not result in a significant change to the Group's net profit for the respective financial years.

Inventories

Inventories are measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the times the estimates are made. The Company's core business is subject to raw material price changes and changes in customer behavior which may cause selling prices to change rapidly.

Provisions

The respective legislation in the PRC requires the Company to commit itself to remediate any environmental damages which may have been incurred. Management is of the opinion that no environmental damage has been caused by the Company and hence has not provided for this. The Company has made a provision for the legal obligation to dismantle buildings on land for which the company has land use rights in respect of future dismantling costs at the time the respective land-use-rights expire. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding additional amount of property, plant and equipment of equivalent value to the provision is also created. This is subsequently depreciated as part of the asset. Other than the unwinding discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding amount of property, plant and equipment.

Allowance for inventory obsolescence

The Group reviews the ageing analysis of inventories at each reporting date, and makes provision for obsolete and slow moving inventory items identified that are no longer suitable for sale. The net realizable value for such inventories are estimated based primarily on the latest invoice prices and current market conditions. Possible changes in these estimates could result in revisions to the valuation of inventories.

Allowance for bad and doubtful debts

Allowances for bad and doubtful debts are based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the expected outcome is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

Estimation of cost attributable to intangible assets (land use rights) and to property plant and equipment

As part of a real estate transaction the company acquired land use rights and buildings for total consideration of EUR 7,910,000 in 2009. This consideration was not attributed separately to land use rights and to the building in the real estate purchase agreement. Management has obtained an estimated amount of the purchase price attributable to the land use rights and to the building from the stated--owned developer who determined the open market value of the land use rights based on similar real estate transactions, assuming existing market conditions remain unchanged.

The accounting policies used by the Group have been applied consistently to all periods presented in these financial statements.

2 (b) Standards, Interpretations and Amendments to Standards and Interpretations applied for the first time in the financial year 2011

On 1 January 2011, the Group adopted the new or amended IFRS and interpretations that are mandatory for application from that date. This includes the following which are relevant to the Group:

Reference	Description
Amendments to IFRS 7	Financial Instruments – Transfer
IFRS 19	Extinguishing Financial Liabilities with Equity Instruments
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement
Amendments to IFRS 2	Group Cash-settled Share-based Payment Transactions
IAS 24	Related Party Disclosure – Revised definition of related party
IAS 32	Financial Instruments: Presentation – Amendments relating to classification of rights issues
Improvements to IFRSs 2010	

The Group does not expect any material effect in the financial statements on the changes made in the accounting standards for the financial year ended 31 December 2011.

2(c) IFRS not yet effective

At the date of authorisation of these financial statements, the following IFRS and IFRSC were issued but not yet effective:

Reference	Description
Amendments to IFRS 7	Disclosures – Transfers of Financial Assets
IFRS 9	Financial Instruments – Clarification and Measurement
IFRS 10	Consolidated Financial Statements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 27	Separate Financial Statements
IAS 18	Investments in Associates and Joint Ventures
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
Amendments to IFRS 1	Severe Hyperinflation and Removal of Fixed Assets for First-time Adopters
Amendments to IFRS 7	Disclosures – Transfers of Financial Assets
Amendments to IAS 12	Deferred Tax – Recovery of Underlying Assets
Amendments to IAS 19	Employee Benefits – Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects
Amendments to IAS 32	Disclosures – Offsetting Financial Assets and Financial Liabilities

- IFRS 9 - Financial Instruments and subsequent amendments (amendments to IFRS 9 and IFRS 7)

The standard is effective for annual periods beginning on or after 1 January 2015.

Under IFRS 9, all recognised financial assets that are within the scope of the IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically under IFRS 9, for all financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

- IFRS 10 - Consolidated Financial Statements

This builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The company is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 12 - Disclosures of Interests in other Entities

This includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The company is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

Management is currently considering the revised definition of IFRS 10 and 12 to determine whether any additional disclosures will be required and has yet to put systems in place to capture the necessary information. As this is a disclosure standard like IFRS 12, it will have no impact on the financial position or financial performance of the Group when implemented in 2011.

- IFRS 13 – Fair Value Measurement

Aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The group is yet to assess IFRS13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

So far, the Management Board assumes that all the new and amended standards and interpretations mentioned above, which are not explained in detail, will likely not have a material effect on the consolidated financial statements when they are applied by the Group.

The aforementioned IFRS are to be applied in the Consolidated Financial Statements of the KINGHERO Group from the 2012 financial year or later.

3 Significant accounting policies

Consolidation

The financial statements of the Group include the financial statements of the Company and its subsidiaries made up to the end of the financial year. Information on its subsidiaries is given in Note 6.

All inter-company balances and significant inter-company transactions and resulting unrealised profits or losses are eliminated on consolidation and the consolidated financial statements reflect external transactions and balances only. The results of subsidiaries acquired or disposed of during the financial year are included or excluded from the consolidated profit or loss from the effective date in which control is transferred to the Group or in which control ceases, respectively.

Business combinations are accounted for using the acquisition method, if any. The consideration transferred for an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiaries. Costs attributable to the acquisition are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Any excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition date fair value of previous equity interest in the acquiree over the fair value of the net identifiable assets acquired represents goodwill. The goodwill is accounted for in accordance with the accounting policy for goodwill stated below. In instances where the latter amount exceeds the former, the excess is recognised as a gain from bargain purchase in the profit or loss on the date of acquisition.

When the control over a subsidiary is lost, the assets and liabilities of the subsidiary, including any goodwill, are derecognised. Any retained interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained investment at the date when control is lost and its fair value is recognised in profit or loss.

Where accounting policies of a subsidiary do not conform to those of the Group, adjustments are made on consolidation when the amounts involved are considered significant to the Group.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiary not held by the Group. They are presented in the consolidated statement of financial position within equity, separately from the parent shareholders' equity, and are separately disclosed in the consolidated statement of comprehensive income. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this result in the non-controlling interests having deficit balances.

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

Property, plant and equipment

Property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment comprises the purchase price and any costs directly attributable to bringing the asset to the working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally recognised in profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, and the expenditure of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset.

Advance payments for property, plant and equipment acquired are recognised as an asset when payment for the property, plant and equipment has been made in advance of the final delivery of the property, plant and equipment.

Depreciation on property, plant and equipment is calculated using the straight-line method to write off the cost of property, plant and equipment, less any estimated residual values, over the following estimated useful lives:

Buildings	20 years
Renovations	5 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	10 years

The estimated residual values, estimated useful lives, and depreciation method of the property, plant and equipment are reviewed, and adjusted as appropriate, at each statement of financial position date.

The gain or loss on disposal or retirement of an item of property, plant and equipment recognised in profit or loss is the difference between the net disposal proceeds and the carrying amount of the relevant asset.

Intangible assets and Land use rights

Land use rights are recognised at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to profit or loss, using the straight-line method, so as to write off the cost of land use rights, over the remaining lease term of the land.

The amortisation period and amortisation methods for land use rights are reviewed and adjusted as appropriate at each statement of financial position date as follows:

Land use rights over the remaining term of land use rights to expiration in December 2055.

Impairment of non-financial assets

Property, plant and equipment are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating-unit (“CGU”) to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss, unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

Financial assets

The financial assets of the Group are categorised as loans and receivables. The Group’s loans and receivables comprise trade and other receivables, cash and cash equivalents, restricted cash and amounts due from related parties in the statement of financial position.

Regular purchases and sales of financial assets are accounted for at trade date.

The loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally via the provision of goods and services to distributors (e.g. trade receivables), but also incorporate other types of contractual monetary assets. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue if any, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence that the Group will be unable to collect all of the amounts due under the terms of receivables, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivables. For trade receivables, which are reported net of impairment provisions, such provisions are recorded in a separate allowance account with the loss being recognised within administration expense in profit or loss. On confirmation that the trade receivables will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Gains on loans and receivables are primarily from interest and are determined on the effective interest method. Losses are primarily from impairment and are determined by management analysis of the ageing of loans and receivables based on experience of default risk and history.

In 2011, the net gains on loans and receivables amounted to EUR Nil.

Trade and other receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, as all mature within 12 months after the statement of financial position date.

Receivables are measured on initial recognition at fair value plus transaction cost and subsequently carried at amortised cost using the effective interest method. Allowances for impairment are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprise raw materials, direct labour and other overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

The carrying values of inventories are disclosed under Note 8.

Equity reserves and dividend payments

Share capital represents the nominal value of shares that have been issued in the Company.

Share capital is determined using the nominal value of shares that have been issued.

Retained earnings include all current and prior period results as determined in the statement of comprehensive income.

Foreign currency translation differences arising on the translation are included in the translation reserve.

Dividend distributions payable to equity shareholders are included in 'other liabilities' when the dividends have been approved in a general meeting prior to the reporting date.

In accordance with the relevant laws and regulations of PRC, the subsidiary of the Company established in PRC are required to transfer 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve. When the balance of such reserve reaches 50% of the subsidiary's share capital, any further transfer of its annual statutory net profit is optional. Such reserve may be used to offset accumulated losses or to increase the registered capital of the subsidiary subject to the approval of the relevant authorities. However, except for offsetting prior years' losses, such statutory reserve must be maintained at a minimum of 25% of the share capital after such usage. The statutory reserves are not available for dividend distribution to the shareholders.

Relevant transactions with owners of the parent are recorded separately within equity.

Financial liabilities

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument. Financial liabilities are recognised initially at fair value, plus in the case of financial liabilities other than derivatives, directly attributable transaction costs. Subsequent to initial recognition, all financial liabilities are measured at amortised cost using the effective interest method, except for derivatives, which are measured at fair value. All interest related charges are recognised as an expense in profit or loss.

Financial liabilities are derecognised when the obligation for the liabilities is discharged or cancelled or expired. For financial liabilities other than derivatives, gains and losses are recognised in profit or loss when the liabilities are derecognised or impaired, and through the amortisation process.

The Group's financial liabilities include trade and other payables.

Trade and other payables

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. However, this asset may not exceed the amount of the related provision. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Provisions for environmental protection are recorded if future cash outflows are likely to be necessary to ensure compliance with environmental regulations or to carry out remediation work, such costs can be reliably estimated and no future benefits are expected from such measures. Estimating the future costs of environmental protection and remediation involves many uncertainties, particularly with regard to the status of laws and regulations. Management considers that environmental damage has not been caused by the Group and hence has not provided for environmental protection.

The respective legislation in the PRC requires the Group to commit itself to remediate any environmental damages which may have been incurred may lead to a (constructive) obligation.

Liabilities for dismantling costs are recognised when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. Where an obligation exists due to land-use-rights regulations, this will be on construction and an obligation for decommissioning may also crystallize during the period of operation of a facility through a change in legislation or through a decision to terminate operations.

The Group has made provisions for dismantling costs for the legal obligation to dismantle buildings on land to which the Group has land use rights in accordance with Management's estimation of the future dismantling costs at the time the respective land-use-rights expire.

The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the asset. Other than the unwinding discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding item of property, plant and equipment.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised. All provisions and contingent liabilities are reviewed at each reporting date and adjusted to reflect the current best estimate.

Revenue and other income

Revenue is measured at the fair value of the consideration received or receivable and presented net of goods and services taxes and trade discounts. The Company sells menswear and womenswear via distributors and own flagship stores. Revenue from the sale of manufactured products are recognized when the Company has transferred to the distributors the significant risks and rewards of ownership of the goods, which generally coincides with the delivery and acceptance of goods by the distributor; and when the Company can reliably measure the amount of revenue and the cost incurred and to be incurred in respect of the transaction; and it is probable that the collectability of the related receivables is reasonably assured.

Rental income from operating leases is recognized on a straight-line basis over the lease term.

Employee benefits - Retirement benefits scheme

Pursuant to the relevant regulations of the PRC government, the Company participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiaries located in the PRC are required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries located in the PRC. The only obligation of the Company with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the profit or loss as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions. These plans are considered defined contribution plans. The Company has no legal or constructive obligations to pay further contributions after its payment of the fixed contributions into the national pension schemes. Contributions to national pension schemes are recognized as an expense in the period in which the related service is performed.

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors and certain managers are considered key management personnel of the Company.

Income tax

Tax expense recognized in profit or loss comprises the sum of current and deferred tax not directly recognized in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period in the respective countries in which the Company is operating.

Value-added tax ("VAT")

KINGHERO AG's rendered services are subject to German VAT at the applicable tax rate of currently 19%. Input VAT can be deducted from output VAT.

The Company's sale of goods in the PRC are subject to VAT at the applicable tax rate of 17% for the PRC domestic sales. Input VAT on purchases can be deducted from output VAT. The net amount of VAT recoverable from, or payable to, the tax authority is included as part of "other receivables" or "other payables" in the statement of financial position.

Revenue, expenses and assets are recognized net of the amount of VAT except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

Foreign currencies

- Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”).

The Company conducts its business predominately in the PRC and hence its functional currency is the Renminbi (RMB).

The presentation currency of the Company is EUR, being the presentation currency of its ultimate German domiciled legal parent and holding company, and therefore the financial information has been translated from RMB to EUR at the following rates:

	Period end rates	Average rates
31 December 2011	EUR 1.00 = RMB 8.2253	EUR 1.00 = RMB 8.9877
31 December 2010	EUR 1.00 = RMB 8.8231	EUR 1.00 = RMB 8.9789

The results and financial positions of the Company in its functional currency RMB are translated into the presentation currency as follows:

1. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
2. Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
3. All resulting exchange differences are recognized in the foreign currency translation reserve, a separate component of equity.

- Transactions and balances

Foreign currency transactions are measured and recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rates ruling at the respective statement of financial position dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Related parties

The Company has the following types of related parties:

- entities or individuals which directly, or indirectly through one or more intermediaries, (1) control, or are under common control with, the Company; (2) have an interest in the Company that gives them significant influence over the Company;
- the key management personnel of the Company or its direct parent and its ultimate parent company;
- close members of the family of any individual referred to in (i) or (ii);

Leases**Lessee**

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

Lessor

Leases of machinery where the Company retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net any incentives given to the business) is recognized in profit or loss in a straight-line basis over the lease term.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors of the Company which makes strategic decisions. The management of the Company bases its decisions on the internal reporting on menswear and womenswear, which are the Company's two business segments.

Segment information is presented in respect of the Company's business segment. The primary format, business segment, is based on the Company's management and internal reporting structure. In presenting information on the basis of the business segment, segment revenue and segment assets are based on the nature of the products provided by the Company.

The accounting policies the Company uses for segment reporting under IFRS 8 are the same as those used in its financial statements.

Development activities

The Company develops new collections of menswear and womenswear. This includes research into current trends and the development of the designs for the production of the current seasons' collections. Costs of each current seasonal range of menswear and womenswear are expensed when incurred, as the benefits to the company tend to be linked to the short term nature of fashion trends and so are not expected to be of benefit for substantially longer than one accounting period. The amounts of this expense on collection design in 2011 was kEUR 1,369 (2010: kEUR 661).

Government assistance

Government assistance obtained in the land use rights and property transaction described in notes 4 and 5 is taken into account in determining the carrying amount of these assets. The assistance involved a favorable purchase price, which was subject to subsequent increase should certain conditions not be fulfilled. The conditions are set out in note 4. In June 2010 however, the compensation penalty which would lead to the subsequent increase in purchase price was waived.

4 Property, plant and equipment

The Group	Buildings EUR'000	Renovations EUR'000	Plant and machinery EUR'000	Furniture, fixtures and office equipment EUR'000	Motor vehicles EUR'000	Total EUR'000
2011						
<u>Cost</u>						
Beginning of financial year	8,590	1,944	4,099	32	104	14,769
Translation differences	518	1,097	246	33	6	1,900
Additions	-	10,715	-	342	28	11,085
End of financial year	9,108	13,756	4,345	407	138	27,754
<u>Accumulated depreciation</u>						
Beginning of financial year	1	55	407	28	56	547
Translation differences	15	87	59	4	4	169
Depreciation charge	162	915	385	27	16	1,505
End of financial year	178	1,057	851	59	76	2,221
Net book value						
As at 31 December 2011	8,930	12,699	3,494	348	62	25,533

Depreciation expense is recognized in the income statement as follows:

	31 December 2011	31 December 2010
	EUR'000	EUR'000
Depreciation expense charged to:		
Cost of sales	697	90
Selling and distribution expenses	700	-
Administrative expenses	108	63
	1,505	153

- Nearly all property, plant and equipment held by the Company are located in the PRC. Only a company car and office equipment of the German headquarter are located in Germany.
- Chinese motor vehicles with carrying amount of EUR 3,487 (2010: EUR 9,000) were held in trust by employees of the Company at the balance sheet date.
- Buildings held by the Company are located in the PRC. They are recorded at cost less accumulated impairment. The Company relocated completely to the purchased buildings in 2011. The additions also include the capitalization of the net present value of a provision for dismantling costs (see Note 12).

The aforementioned buildings were acquired from a state owned entity at a beneficial price. This was taken into account in determining their carrying cost.

In the event that the Company contravenes certain conditions related to continuity of production and type of usage of the buildings, the Seller has the right to unilaterally void the Agreement and demand compensation of 10% of total purchase price. The seller can also purchase the Property back from the Buyer at the Net Book Value. NBV can be calculated at Cost of Purchase Price (50 – No of years in use)/ 50.

Additionally if the Company defaults on payment of the full purchase price, the Company is obligated to pay compensation to the Seller. However by agreement in June 2010, the compensation penalties mentioned above were waived.

Two manufacturing were units purchased in November 2010.

1. Fujian Yingyi textile manufacturing

This entity produces knitting fabrics for textile manufacturing. The acquisition was made as an asset deal; all fixed assets, technology and personnel set was part of the deal. On the 31. December 2011 the integration in the group was fully fulfilled. The total consideration paid was 15 Mio. RMB (EUR 1.7 Mio.).

2. Quanzhou Fengze Washing Zipper

This entity produces zippers for use in textile manufacturing. The acquisition was made as an asset deal; all fixed assets, technology and personnel set was part of the deal. On the 31. December 2011 the integration in the group was fully fulfilled. The total consideration paid was 10 Mio. RMB (EUR 1.1 Mio.).

The additions in renovations in the amount of 10,715 kEUR concerning primarily to the opening of 51 flagship stores in the most important urban centres of China and renovation of the new factory buildings.

The additions in furniture, fixtures and office equipment in the amount of 342 kEUR concerning primarily air conditioning systems for the production buildings and sewing machines.

5 Land use rights

	31 December 2011	31 December 2010
	EUR'000	EUR'000
Cost		
Beginning of financial year	377	335
Translation differences	23	42
Additions	-	-
End of financial year	400	377
Accumulated amortization		
Beginning of financial year	(8)	-
Amortization	(8)	(8)
Translation differences	(2)	-
End of financial year	(18)	(8)
Net book value	382	369

Intangible assets relate solely to land use rights acquired for the land located in Hou Xi Zhen, Jimei, Xiamen, Fujian Province, the PRC. These expire in December 2055.

The Company made payments in advance for these land use rights, which it subsequently acquired by contract dated September 2009

The land use rights are recorded at cost less accumulated impairment. The Company relocated to the site in 2011.

The aforementioned land use rights were acquired from a state owned entity at a beneficial price. This was taken into account in determining their carrying cost.

The amortization expense is recognized in the income statement in the position cost of sales.

6 Investment in subsidiaries of KINGHERO AG, Munich

Details of investment in subsidiaries of KINGHERO AG, Munich, are as follows:

Name of Company	Country of business/ incorporation	Equity holding		Principal activities
		2011	2010	
KINGHERO Group Holdings Limited	Hong Kong	100%	100%	Investment Group Holding
KINGHERO Fashion (Xiamen) Co., Ltd.	The People's Republic of China	100%	100%	Manufacture, wholesale and retail of garments
Xiamen Michelle Fashion Co. Ltd.	The People's Republic of China	100%	100%	Wholesale of womenswear

The companies are audited by Foo Kon Tan Grant Thornton LLP, Singapur for the purpose of presenting the consolidated financial statements of the Group.

The Company's fiscal year is the calendar year. The duration of the Company is unlimited.

7 Deferred tax assets

The Company is subject to income tax on profit arising or derived from the tax jurisdiction in which Company operate and domiciled. Business operations set up in the special economic zones by foreign enterprises are subject to a reduced enterprise income tax rate. The deferred tax asset for PRC income tax expected to be saved due to the offset of future taxable income with losses is calculated based on the rate of tax which is expected to apply when future taxable income is offset by losses.

Deferred taxes are identified using the liability method based on the requirements of IAS 12. Deferred taxes are thus formed for temporary differences between the carrying amounts in the consolidated financial statements and the figures in the tax base to the extent that these differences will lead to tax refunds or charges in future.

Deferred taxes are measured taking into account the tax rates and tax regulations that apply on the balance sheet date or which are expected to apply when the differences are reversed. Deferred tax assets are only carried to the extent that there is taxable income on the date the difference is reversed against which the difference can be offset.

Moreover deferred taxes must be considered for future property gains resulting from tax loss carried forwards. Deferred taxes are measured using the respective national income tax rates. For the KINGHERO AG these are 15.0% income tax, 5.5% solidarity tax contribution and 17.15% corporate tax.

The whole amount of the deferred tax asset results to the loss carried forwards from the national entities.

8 Inventories

	31 December 2011	31 December 2010
	EUR'000	EUR'000
Raw materials	269	532
Work-in-progress	665	196
Finished goods	3,711	3,010
	4,645	3,738

During the period January 1, 2011 till 31 December 2011 there were no write-downs and reversal of inventories (2010: no write-downs and reversal of inventories).

9 Trade and other receivables

	31 December 2011	31 December 2010
	EUR'000	EUR'000
Trade receivables	25,899	13,230
Rental deposits	-	126
Prepayment	2,137	1,663
Other receivables	403	654
	28,439	15,673

Trade receivables are non-interest bearing and generally have average credit terms of 30 to 90 days (2010: 30 to 90 days) .

The aging based on invoice date are as follows:

	31 December 2011	31 December 2010
	EUR'000	EUR'000
Within 30 days	19,158	10,246
31 to 60 days	6,741	2,900
More than 60 days	-	84
	25,899	13,230

Trade receivables and other receivables are denominated in Renminbi.

Financial Assets	31 December 2011	31 December 2010
Loans and receivables	EUR'000	EUR'000
Trade receivables	25,899	13,230
Receivables from related parties	374	20
Other receivables	2,540	2,443
Cash and cash equivalents	51,995	32,046
Total financial assets classified as loans and receivables	80,808	47,739

All financial assets classified as loans and receivables are current and non-interest bearing. Management considers the carrying amounts recognized in the statement of financial position to be a reasonable approximation of their fair value due to the short duration. Net gains and losses on loans and receivables amounted to EUR Nil. The maximum credit risk is assessed by management to be the amount shown in the above table as at the respective reporting dates.

The recoverability of trade and other receivables is given.

10 Receivables from related parties

	31 December 2011	31 December 2010
	EUR'000	EUR'000
Mr. Zhang, Yu	374	20

The amount due from Mr. Zhang, which is non-trade and unsecured is expected to be repaid within the next 12 months. The amount is charged with interest in the amount of 5% p.a.

11 Cash and bank balances

	31 December 2011	31 December 2010
	EUR'000	EUR'000
Cash at banks	51,987	32,044
Cash on hand	8	2
	51,995	32,046

The cash at bank bears effective interest rate of 0.5% per annum at the balance sheet date.

The cash and bank balances denominated in Renminbi amounting to kEUR 39,294 (2010: kEUR 24,104) the balance sheet dates are not freely remissible for use by the Company because of currency exchange restrictions.

12 Other provisions

	31 December 2011	31 December 2010
	EUR'000	EUR'000
Provision for dismantling costs	65	55
Translation differences	4	6
Additions	4	4
	73	65

Other provisions are considered non-current and relate to costs for dismantling buildings and fixtures constructed on land for which the rights of usage have a fixed term. The Company makes full provision for the future cost of dismantling buildings on a discounted basis. The provision for the cost of dismantling the production facilities at the end of the useful life of the land-use-rights pertaining to the land on which they have been built has been estimated using existing technology in PRC, current prices and discounted using a discount rate of 6%. These costs are generally expected to be incurred over the next 45 years. While the provision is based on the best estimate of future costs and the contractually secured useful life of land-use-rights, there is uncertainty regarding both the amount and timing of incurring these costs.

13 Trade and other payables

	31 December 2011	31 December 2010
	EUR'000	EUR'000
Trade payables	11,593	5,013
Other payables	1,976	1,293
Accruals	488	304
	14,057	6,610

The carrying amount of trade and other payables at the statement of financial position dates approximate to their fair value due to the short duration of maturity.

The accruals comprise, among others, legal, consulting and audit fees not yet invoiced of kEUR 80 (2010: kEUR 80) and payroll related liabilities in the amount of kEUR 248 (2010: kEUR 208). All accruals are recorded as expense of the fiscal year 2011.

Trade and other payables are denominated in Renminbi.

14 Taxation

	31 December 2011	31 December 2010
	EUR'000	EUR'000
Tax expense attributable to profit is made up of:		
- Current income tax arising from operation in the PRC	6,517	3,345
- Deferred tax	(481)	(484)
- Underprovision of current income tax and current income tax in prior financial years in the PRC	0	7
	6,036	2,868

For the German domiciled KINGHERO AG an effective corporation tax rate inclusive solidarity tax contribution of 15.83% (2010: 15.83%) and a trade tax rate of 17.15% (2010: 17.15%) has been assumed.

As the Company did not have assessable profits during the financial year ended 31 December 2011, no German corporate income taxes have been provided for. A deferred tax asset of kEUR 460 (2010: kEUR 253) has been provided for the losses carried forward (2009 to 2011) as management assumes that KINGHERO AG will generate future taxable profits through dividend and interest income in order to be able to fully utilize these losses.

A deferred tax asset of kEUR 427 (2010: kEUR 279) has been provided for the IPO-costs. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

The PRC subsidiaries are subject to PRC income tax on profit arising or derived from the tax jurisdiction in which subsidiaries of the Company operate and are domiciled. Business operations set up in the special economic zones by foreign enterprises are subject to a reduced enterprise income tax rate. The provision for PRC income tax on profits arising from operations in the PRC is calculated based on reduced enterprise income tax rates of 24% (2010: 22%) for the financial year ended 31 December 2011, in accordance with the relevant PRC income tax rules and regulations.

Reconciliation between tax expense and accounting profit at applicable tax rates is as follows:

	31 December 2011	31 December 2010
	EUR'000	EUR'000
Profit before taxation	24,287	13,752
KINGHERO AG actual losses	(645)	(1,448)
Deferred tax assets thereon (at 32%)	207	484
Chinese companies actual net profits	24,465	15,200
Corporate income taxes thereon (24 % / 22%)	(5,872)	(3,345)
Non-deductible operating costs and other	(371)	(7)
	(6,036)	(2,868)

Movement in income tax payable is as follows:

	31 December 2011	31 December 2010
	EUR'000	EUR'000
Beginning of financial year	1,140	1,065
Current year tax expenses	7,112	3,345
Income tax paid	(6,109)	(3,342)
Translation adjustment	69	72
End of financial year	2,212	1,140

15 Share capital

	Number of ordinary shares 31 December 2011	Amount 31 December 2011	Number of ordinary shares 31 December 2010	Amount 31 December 2010
		EUR'000		EUR'000
Beginning of reporting period (01 January 2011)	6,125,000	6,125	5,050,000	5,050
Share issue	650,000	650	1,075,000	1,075
End of financial year	6,775,000	6,775	6,125,000	6,125

All issued ordinary shares are fully paid.

Beginning of May 2011, The Management Board of KINGHERO decided with the approval of the Supervisory Board to carry out a capital increase for cash by up to EUR 875,000.00 to EUR 7,000,000.00 by issuing up to 875,000 new shares and partially using the authorised capital. End of May 2011, KINGHERO placed 650,000 shares within the scope of the rights issue capital increase and a private placement with new investors, existing shareholders and the management. The placement price was EUR 23.00. After the entry in the Commercial Register, the share capital amounts to EUR 6,775,000.00. The new shares carry dividend rights as of 1 January 2010. The proceeds of the capital increase amounting to approx. EUR 15 million are to be used to establish further flagship stores. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that have otherwise would have been avoided. The net transaction costs in the amount of kEUR 314 were deducted from the capital reserve. The remaining authorised capital amounts to EUR 1,000,000.00 after the transaction (2010: EUR 1,650,000.00).

16 Reserves

Share premium

	Amount EUR'000
Beginning of reporting period (01 January 2011)	15,784
Share issue	13,986
End of financial year (31 December 2011)	29,770

Capital reserves include any premiums received on the issue of share capital less net transaction costs.

Statutory reserve

In accordance with the relevant laws and regulations of PRC, the subsidiary of the Group established in PRC are required to transfer 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve. When the balance of such reserve reaches 50% of the subsidiary's share capital, any further transfer of its annual statutory net profit is optional. Such reserve may be used to offset accumulated losses or to increase the registered capital of the subsidiary subject to the approval of the relevant authorities. However, except for offsetting prior years' losses, such statutory reserve must be maintained at a minimum of 25% of the share capital after such usage. The statutory reserves are not available for dividend distribution to the shareholders.

The statutory reserve of the PRC companies amounts to kEUR 243 at 31 December 2011.

Foreign currency translation reserve

Foreign currency translation reserve represents the foreign currency translation difference arising from the translation of the financial statements from RMB to EUR.

Retained earnings

The retained earnings reserve comprises the cumulative net gains and losses recognized in the Group's income statement.

17 Revenue

	1 January -31 December 2011 EUR'000	1 April-31 December 2010 EUR'000
Sale of goods	101,542	57,836

18 Cost of Sales

Cost of sales comprise of purchasing materials, labor costs for personnel employed in production, depreciation and amortization of non-current assets used for production purposes, trading goods and others (mainly utilities and maintenance costs). The following table shows a breakdown of costs of sales for the period under review for each category:

	1 January-31 December 2011	1 April-31 December 2010
	EUR'000	EUR'000
Materials	58,784	37,878
Labour	1,754	1,335
Depreciation of property, plant and equipment	697	90
Amortisation of land use rights	8	8
Operating lease expense	96	145
Collection design	1,369	661
Other	1,764	451
	64,472	40,568

19 Finance income and finance costs

Finance Income

	1 January – 31 December 2011	1 April-31 December 2010
	EUR'000	EUR'000
Interest income	271	65

Finance costs

	1 January- 31 December 2011	1 April-31 December 2010
	EUR'000	EUR'000
Interest expense	-	-
Others	(4)	(3)
	(4)	(3)

20 Profit before taxation

Group profit before taxation totals EUR 24,287,429 which corresponds to an operating margin of 23.9%.

21 Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

There is no dilutive potential ordinary share as at the financial year end.

	1 January - 31 December 2011	1 April-31 December 2010
	EUR'000	EUR'000
Net profit attributable to equity holders of the Company	18,251	10,884
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	6,519	5,693
Basic earnings per share (EUR cents per share)	2.80	1.91

22 Commitments

The Company leases factory and office space from non-related parties under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

The leasing arrangements consist of leases on the Company's previous factory and office premises on which rentals ended 30.06.2011 and the flagship stores.

The future minimum lease payables under non-cancellable operating leases contracted for at the statement of financial position date but not recognized as liabilities, are as follows:

	1 January - 31 December 2011	1 April-31 December 2010
	EUR'000	EUR'000
Not later than one year	6,604	1,704
Between one and five years	10,347	3,214
More than five years	-	-
	16,951	4,918

The leases on the Group's flagship stores on which rentals are payable will expire from 20 October 2013 to 5 August 2015, and the current rent payable on the lease ranges from EUR 7,786 to EUR 27,807 per month which are subject to revision on renewal.

At the statement of financial position date, the Group had the following rental income under noncancellable lease for machineries with a term of more than one year:

	1 January - 31 December 2011	1 April-31 December 2010
	EUR'000	EUR'000
Lease which expires:		
Not later than one year	258	5
Between one and five years	451	-
More than five years	-	-
	709	5

The leases on the Company's machineries on which rentals are received expired on January 2011 with renewals at the then prevailing rates.

23 Financial risk management objectives and policies

The Company's activities expose it to market risk, concentration risk, credit risk and liquidity risk. The Company's overall risk management strategy seeks to minimize adverse effects from the unpredictability of financial markets on the Company's financial performance.

The board of directors provides guidance for overall risk management as well as policies covering specific areas. Management analyses and formulates measures to manage the Company's exposure to financial risk in accordance with the objectives and underlying principles approved by the board of directors. Generally, the Company employs a conservative strategy regarding its risk management. As the Company's exposures to market risk and financial risk are kept at a minimum level, the Company has not used any derivatives or other financial instruments for hedging purposes. The Company does not hold or issue derivative financial instruments for trading purposes.

- Sector and market related risks

For the sector and market related risks we refer to the management Report.

- Market risk - currency risk

Currency risk arises within entities in the Company when transactions are denominated in foreign currency.

The Company has no significant concentration of transactional currency risk. The Company operates predominantly in the PRC and transacts primarily in Renminbi.

However the Company prepares its financial statements in EURO and therefore its results and net asset position are exposed to retranslation risk as a result of fluctuation in the RMB/EURO exchange rate.

- Market risk - interest rate risk

The Company is not significantly exposed to interest rate risk as it is primarily self-financing. The Company has no interest bearing loans or significant interest-bearing assets.

- Concentration risk

Concentration risk arises from the sales to the Company's authorized distributors. In view of the nature of the industry and the Company's sales strategy which is the selling of their products to consumers through the authorized distributors, the management does not consider the risk to be significant. The Company's policy is to monitor the business development of the authorized distributors and to continuously source for suitable distributors who are able to promote the brand and expand the existing distribution network.

- Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty fails to meet its contractual obligations. Credit risk of the Company arises primarily from the Company's trade receivables.

The Company's exposure to credit risks is restricted by credit limits that are approved by the general manager. The Company typically allows the existing customer credit terms of up to 3 months. In deciding whether credit shall be extended, the Company will take into consideration factors such as the relationship with the customer, its payment history and credit worthiness. In relation to new distributors, the sales and marketing department will prepare credit proposals for approval by the general manager.

The Company performs on-going credit evaluation of its distributors' financial position. The concentration of credit risk from the Company's trade receivables 31% for the financial year ended 31 December 2011 comprising 5 distributors.

As the Company does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position.

The Company's major classes of financial assets are trade receivables, receivables from related parties and cash and bank balances.

The company considers 30 to 90 days to be normal collection period.

No impairment loss needed to be recognized in the profit or loss in respect of financial assets during the reporting periods.

- Liquidity risk

The Company's financial liabilities are expected to mature within 1 year from the statement of financial position dates. The contractual undiscounted cash flows of the financial liabilities approximate their carrying amounts.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as and when they fall due. The Company's approach to managing liquidity is to regularly monitor their current and expected liquidity requirements and ensure, as far as possible, that it will have sufficient cash reserve and available funding through credit facilities to meet its liabilities when due, without incurring unacceptable losses or risking damages to the Company's reputation. The company was able to generate positive operating cash flows over the reporting period.

24 Related party disclosures – significant related party transactions

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

Related party information

a) Entities/individuals with common control or significant influence over the company.

- Mr. Zhang Yu; controlling shareholder of KINGHERO AG and KINGHERO Group Holding Co. Ltd.

b) Key management/directors of the Company and close family members

- Mr. Zhang, Yu, business man
- Ms. He Xiuming; business woman
- Mr. Zhang Zhaosong; business man
- Ms. Zhang Weimin; close family member

Included in "salaries and related cost" is director's remuneration amounting to EUR 51,000 for the financial year ended 31 December 2011 (2010: EUR 40,000). In addition Mr. Zhang Yu sold his shares in the Company to Xiamen Michelle Fashion Co., Ltd for the nominal value of the shares.

A loan in the amount of EUR 20,416.00 resulting from 2010 existed in the reporting year, which had been granted by KINGHERO AG to Mr. Zhang. This amount has been increased in the reporting year by 4,000 EUR. The total amount of the loan was repaid on 5 October 2011. The loan was subject to an interest rate of 5% p.a.

A loan in the amount of HKD 3,706,747.81 (EUR 368,540.93) has been granted by KINGHERO HK to Mr. Zhang in the reporting year, this loan was subject to an interest rate of 5% p.a.

c) Member of the Management Board

- Mr. Yu Zhang, business man, Xiamen City, PRC
- Ms. He Xiuming; business woman, Xiamen City, PRC
- Ms. Xiaoping Zhao-Moll, business woman, Munich

Remuneration of the Members of the Management Board

The services of Mr. ZHANG Yu, Ms. HE Xiuming and Ms. Xiaoping Zhao-Moll with KINGHERO Group are based on service agreements concluded with the Company represented by Mr. Marcus Wenzel as former chairman of the Supervisory Board (Aufsichtsrat). The service agreements of Mr. ZHANG Yu, Ms. Xiaoping Zhao-Moll and Ms. HE Xiuming were concluded on 15. July 2010.

Under the respective service agreements, only Ms. Xiaoping Zhao-Moll is entitled to remuneration for her service as member of the Management Board (Vorstand). Ms. Zhao-Moll is entitled to a gross annual remuneration of EUR 120,000 payable in 12 monthly installments of EUR 10,000 each. Furthermore, Ms. Zhao-Moll is entitled to a variable remuneration in an amount equivalent to 1% of the profit of the KINGHERO Group before tax and remuneration of the Management Board. For the year 2010, Mrs. Moll received kEUR 223.

d) Supervisory Board

- Herr Marcus Wenzel, business man, Bonn; (Chairman, until 31.October 2011)
- Herr Gerrit Kaufhold, auditor, Hamburg; (Chairman, appointed 1. November 2011)
- Dr. Christoph Dylla, lawyer, Gudow, (deputy Chairman)
- Herr Chen Xiaofeng, Rechtsanwalt, Xiamen City, PRC

Remuneration of the Members of the Supervisory Board

Pursuant to the Articles of Association, the General Shareholders' Meeting resolves upon the remuneration for the members of the Supervisory Board. By resolution dated 31 May 2010, the General Shareholders' Meeting (Hauptversammlung) has, in accordance with section 18 subsection (1) of the Company's Articles of Association (Satzung), determined the following remuneration for the members of the Supervisory Board (Aufsichtsrat):

The chairman of the Supervisory Board (Aufsichtsratsvorsitzender) shall receive a gross remuneration of EUR 20,000 (2010: EUR 20,000) per year while the deputy chairman (Stellvertretender Aufsichtsratsvorsitzender) shall receive a gross remuneration of EUR 15,000 (2010: EUR 15,000) per year. The other members of the supervisory board shall receive a gross remuneration of EUR 12,000 (2010: EUR 12,000) per year.

If a person is a member of the Supervisory Board only for part of a financial year, remuneration is determined for a proportionate period of time (pro rata temporis). In addition, every member of the Supervisory Board (Aufsichtsrat) is entitled to reimbursement for expenses incurred in performing the duties of its office.

25 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to support the Company's stability and growth so as to maximize shareholders' returns and stakeholders' benefits.

A capital structure which does not make significant use of debt financing and seeks to establish a ratio of equity to total assets of 50% or above is considered to be advisable and achievable by the Company's management, providing the Company with a stable basis for achieving its business objectives. Over the financial year, the company actually achieved a ratio of equity to total assets of 85,9% (2010: 88 %). As at 31 December 2011 the Company also did not have any debt borrowing. The Company actively and regularly reviews its capital structure by taking into consideration the future capital requirements of the Company, capital efficiency, prevailing and projected profitability, projected operating cash flows, projected expenditures and projected strategic investment opportunities. As part of managing the capital structure, the Company may adjust the amount of dividend payment, obtain new borrowings or sell assets to reduce or avoid borrowings.

The shown equity on group-level will be used as the control quantity.

26 Segment information

Business segment

Management determines the operating segments, which represents product category, based on reports reviewed and used for strategic decisions. The Company's business segments are organized into two main operating segments:

- Menswear
- Womenswear

Both of these segments are managed by the Company. The Company intends to transfer the management of womenswear to its immediate parent company Xiamen Michelle Fashion Co. Ltd. and started with this transfer in 2009, although the volume of business transferred was only marginal in that year. It is expected that in the future the Company will manage only menswear and its immediate parent company will manage womenswear. The segmental analysis is expected to change with this development.

Both operating segments are monitored and strategic decisions are made on the basis of the segmental gross margins. Items of expense and income below the gross profit margin are not analyzed by management on a segmental basis, as these are not considered relevant for the operational and strategic analysis of the business. Management considers the Company's total assets, comprising property, plant and equipment, inventory, trade and other receivables and cash and bank balances as reasonable allocable to the two operating segments on a pro rata basis determined by segment revenues.

The segment information provided to the management for the reportable segments for the financial year ended 31 December 2011 is as follows:

The Company's revenues in the financial year were derived wholly from the PRC. hence a further geographical segment analysis is not meaningful to the management of the Company.

During the financial year, there are no sales over 10% of the Company's' revenues depended on a single customer. 93.3 % of sales were to external distributors.

The totals presented for the Company's operating segments can be derived directly from the Company's key financial figures for sales, cost of sales and total assets as presented in the financial statements without reconciliation.

An entity shall report a measure of total assets and liabilities for each reportable segment if such goods are regularly provided to the chief operating decision maker. An entity shall also disclose about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker even if not included in that measure of segment profit or loss:

	Men's wear	Women's wear	Reconciling items	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Revenue	67,335	34,207	–	101,542
Cost of sales	(40,929)	(23,543)	–	(64,472)
Gross profit	26,406	10,664	–	37,070
Other income	342	173	–	515
Sales and distribution expenses	(6,220)	(3,160)	–	(9,380)
Administrative expenses	(2,770)	(1,407)	–	(4,177)
Others	(5)	(3)	–	(8)
Finance Income	177	90	–	267
Profit before taxation	17,929	6,358	–	24,287
Income tax expenses	(4,003)	(2,033)	–	(6,036)
Net profit	13,749	4,234	–	18,251

An entity shall report interest revenue from interest expense for each reportable segment as follows:

	Men's wear	Women's wear	Reconciling items	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Interest Income	180	91	-	271
Interest Expense	0	0	-	0

Revenue by regions:

	2011		2010 "As-If"	
	EUR'000	% of sales	EUR'000	% of sales
Eastern China	39,909	39.3	27,154	37.3
South China	34,091	33.6	26,657	36.6
North China	13,652	13.4	10,258	14.1
Western China	13,890	13.7	8,684	11.9
Total	101,542	100.0	72,753	100.0

Note:

- (1) North PRC includes Qinghai, Gansu, Xinjiang, Heilongjiang, Jilin, Inner Mongolia, Liaoning, Hebei, Shaanxi, Shandong, Shanxi, Ningxia, Beijing, Tianjin
- (2) South PRC includes Jiangsu, Hubei, Hunan, Henan, Anhui, Jiangxi, Guangdong, Guangxi, Hainan
- (3) East PRC includes Zhejiang, Fujian, Shanghai,
- (4) West RC includes Yunnan, Guizhou, Sichuan, Chongqing

The main regions contributing to turnover were again Eastern China and South China, accounting to 72.9% of total revenues (2010: 73.9%). Following the "Go West" strategy of the Chinese Central Government, Western China became the fastest growth region of KINGHERO with a considerable growth of 59.9%.

Revenue by products

	2011			2010 "As-If"			Changes	
	Unit'000 Volume	% of volume	ASP (EUR)	Unit'000 Volume	% of volume	ASP (EUR)	Unit'000 Volume	ASP (EUR)
Shirts	1,314	19.3	14.7	1,212	17.4	11.6	102	3.1
T-shirts	778	11.4	10.6	739	10.6	8.6	38	2.0
Jacket	1,381	20.2	24.9	1,591	22.8	14.8	(209)	10.1
Pants	1,282	18.8	12.9	1,199	17.2	9.6	82	3.3
Knittings wear	1,387	20.3	9.9	1,514	21.7	67	(127)	3.2
Skirts	681	10.0	13.6	725	10.4	10.0	(44)	3.6
Total	6,82	100.0	14.4	6,98	100.0	10.2	(158)	4.2

	Men's wear	Women's wear	Reconciling items	Total
	EUR'000	EUR'000	EUR'000	EUR'000
Assets				
<u>Non-current</u>				
Property, plant and equipment	16,908	8,589	36	25,533
Land use rights	94	288	-	382
Long term prepayment	387	196	-	583
Deferred tax assets	-	299	887	1,186
<u>Current</u>				
Inventories	3,080	1,565	-	4,645
Trade and receivables	18,859	9,580	-	28,439
Receivables from related parties			374	374
Cash and bank balances	-	-	51,995	51,995
Total Assets	39,327	20,518	53,292	113,137
Liabilities				
<u>Non Current</u>				
Other provisions	-	-	73	73
<u>Current</u>				
Trade and other payables	9,322	4,735	-	14,057
Income tax payables	1,467	745	-	2,212
Total Liabilities	10,789	5,480	73	16,342

The breakdown between Men's wear and Women's wear for the assets and liabilities is made on the basis on the operating breakdown.

27 Employee benefits

	1 January-31 December 2011	1 April-31 December 2010
	EUR'000	EUR'000
Average number of employees of the Company	1,099	1,008
Management and administration	73	134
Sales	594	552
Production	432	322

The aggregate payroll costs of these employees were as follows:

	1 January-31 December 2011	1 April-31 December 2010
	EUR'000	EUR'000
Wages and salaries	4,104	3,410
Social security costs	729	231
	4,833	3,641

Retirement Benefit Plans

The eligible employees of the Company- who are citizens of the PRC are members of a state-managed retirement benefit scheme operated by the local government. The Company is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Company with respect to the retirement benefit scheme is to make the specified contributions. The cost of retirement benefit contributions charged to the profit or loss in the financial year amounted to EUR 579,000 (2010 EUR 231,000).

28 Contingencies

Trademark claims

The Company uses the trademark Michelle "米雪儿" (Pinyin: "Mi Xue Er") for its sales of womenswear. There are currently two other unrelated companies which both own a trademark named "米雪儿" (Pinyin: "Mi Xue Er") whose wording and pronunciation is similar to the trademark for which the Company has applied for registration. Although the above two similar trademarks are word trademarks only and not a combined word / logo mark as applied for by the Company's subsidiary, it cannot be excluded that any third party will initiate legal actions to revoke the application for trademark registration or such third party raises a claim for tort against the trademark "金米雪儿" or claims because of unfair competition against the company name of Michelle (Chinese Character: 米雪儿). These claims could result in future liabilities of the Company, its subsidiary or its parent company. Management has not been able to estimate the potential amount of any claim.

29 Subsequent event

At the time of publication there were no significant post-balance sheet date events to report.

30. Remuneration of auditor

The service fees of 65 kEUR (2010: 60kEUR) have been disclosed for the auditor Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft of the consolidated financial statements.

Auditors' report (translation)

We have audited the consolidated financial statements prepared by KINGHERO AG, Munich, – comprising a consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements – and the group management report which is combined with the management report of KINGHERO AG, Munich, for the financial year from 1 January to 31 December 2011. The preparation of the consolidated financial statements and the combined group management report in accordance with IFRS, as adopted by the EU, and with the additional requirements of the German commercial law pursuant to section 315a paragraph 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and the combined group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with paragraph 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the combined group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of KINGHERO AG, Munich, for the financial year from 1 January to 31 December 2011 comply with IFRSs as adopted by the EU, the additional requirements of the German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The combined group management report of KINGHERO AG, Munich, is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 27 April 2012

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Dirk Bauer
Wirtschaftsprüfer
[German certified auditor]

Robert Binder
Wirtschaftsprüfer
[German certified auditor]

Financial Calendar

April 27, 2011	Annual report 2011
May 30, 2011	Results 3 Months 2012
June 28, 2011	Annual General Meeting, Munich
August 27, 2011	Half-year report 2012
November 12, 2011	Results 9 Months 2012

Imprint

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Cautionary Note Regarding Forward-Looking Statements

This document contains forward-looking statements, which are based on the current estimates and assumptions by the corporate management of KINGHERO AG. Forward-looking statements are characterized by the use of words such as expect, intend, plan, predict, assume, believe, estimate, anticipate and similar formulations. Such statements are not to be understood as in any way guaranteeing that those expectations will turn out to be accurate. Future performance and the results actually achieved by KINGHERO AG and its affiliated companies depend on a number of risks and uncertainties and may therefore differ materially from the forward-looking statements. Many of these factors are outside KINGHERO's control and cannot be accurately estimated in advance, such as the future economic environment or the actions of competitors and others involved in the marketplace. KINGHERO AG neither undertakes nor plans to update any forward-looking statements.