ANNUAL REPORT FY 2011

30.04.2012

GROUP KEY FIGURES

in EUR'000	Q4 2010	Q4 2011	Change	FY 2010	FY 2011	Change
Revenue	27,524	37,687	36.9 %	112,635	146,948	30.5 %
Gross profit	11,086	16,858	52.1 %	44,770	64,994	45.2 %
Gross profit margin in %	40.3 %	44.7 %		39.7 %	44.2 %	
EBIT[1]	6,274	6,312	0.6 %	27,018	32,249	19.4 %
EBIT margin in %	22.8 %	16.7 %		24.0 %	21.9 %	
Net profit	5,257	3,503	-33.4%	22,617	18,337	-18.9 %
Net profit margin	19.1 %	9.3 %		20.1	12.5	
Earnings per share*	0.35	0.23	-34.3 %	1.51	1.22	-19.2 %
Luxury						
Revenue	13,560	22,862	68.6 %	52,847	80,170	51.7 %
Gross profit	6,075	11,519	89.6 %	23,536	39,892	69.5 %
Gross profit margin	44.8 %	50.4 %		44.5 %	49.8 %	
EBIT[1]	2,210	3,004	35.9 %	9,492	15,077	58.8 %
EBIT margin in %	16.3 %	13.1 %		18.0 %	18.8 %	
Casual						
Revenue	13,964	14,825	6.2 %	59,788	66,778	11.7 %
Gross profit	5,011	5,339	6.5 %	21,234	25,102	18.2 %
Gross profit margin	35.9 %	36.0 %		35.5 %	37.6 %	
EBIT[1]	4,064	3,308	-18.6 %	17,526	17,172	-2.0 %
EBIT margin in %	29.1 %	22.3 %		29.3 %	25.7 %	

in EUR'000	31 Dec 2010	31 Dec 2011
Total equity and liabilities	72,501	176,334
Total equity	27,205	129,358
Equity ratio in %	37.5	73.4
Cash and cash equivalents	15,319	76,146
Net debt (–)/net cash	– 6,547	50,885

Employees	31 Dec 2010	31 Dec 2011
Total	1,075	1,398

[1] *EBIT represents earnings before net finance cost and tax. EBIT for Q4 2011 has been amended as disclosed in Note 25 (a) of the financial statements.*

* *the computation of earnings per share is based on net profit of the period and 15 million shares.*

Highlights of Financial Year 2011

- Revenue increased by 30.5 % in EUR and 30.6 % in RMB for 2011
- Gross profit increased by 45.2 % in EUR and gross profit margin improved to 44.2 % in 2011
- EBIT up by 19.4 % in EUR
- Launch of Spring/Summer 2012 collections to distributors and retailers
- Successful introduction of Ms Michelle Lee and Italian designer Mr Turchi as brand ambassadors to highlight the continued upgrade of the Powerland brand positioning and design philosophy
- Altogether 54 new stores opened in 2011, of which 13 self-operated stores
- Opening of first self-operated flagship store in September 2011 in Shanghai
- Start of airport advertising in over 30 Chinese airports, through which the newly shot image of brand ambassador Ms Michelle Lee and bags are displayed in more than 2000 LED and other digital light boxes

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Group Management Report

I. Structure and Business Activities

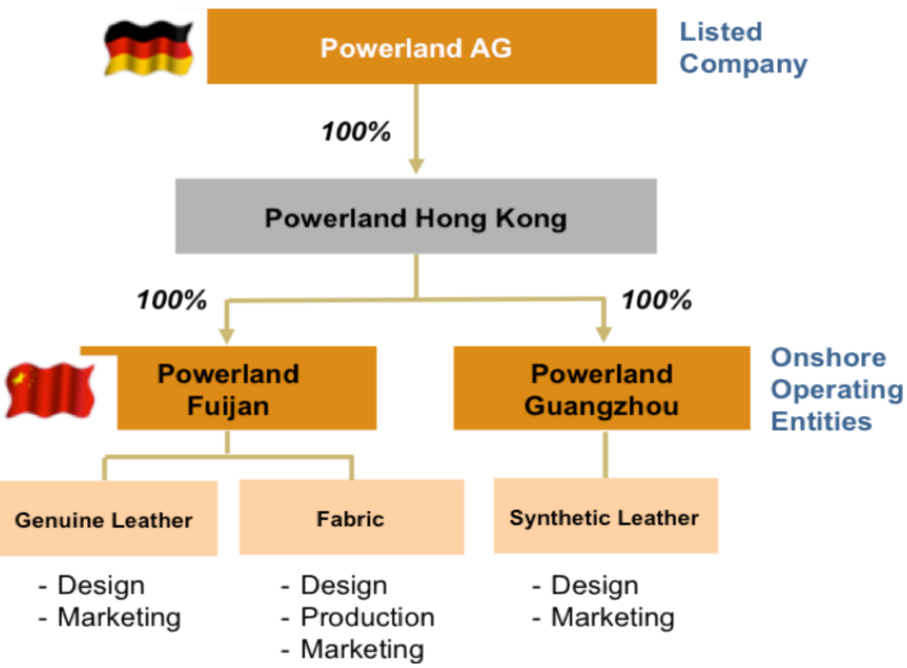
Company Profile

Powerland is a leading Chinese manufacturer of fashionable bags and luggage with a focus on ladies' luxury handbags made from genuine leather. In recent years the Company's business has benefited from very strong organic growth with significant profit margins. Powerland's business is organized in two primary divisions: a Luxury segment and a Casual segment.

The Company's operating subsidiaries are located in the South-East of China in Fujian province (Powerland Fujian) and Guangdong province (Powerland Guangzhou). Powerland Guangzhou is, in addition, home to the new Powerland brand and marketing centre, where the Company's top management is also located.

Powerland AG was incorporated in February 2011 and registered with the Commercial register of Frankfurt/Main, Germany, under the registration number HRB 90460. The Company was listed on Frankfurt Stock Exchange on 11 April 2011 and had 1,398 employees as at 31 December 2011.

The following graph shows the corporate structure of Powerland AG

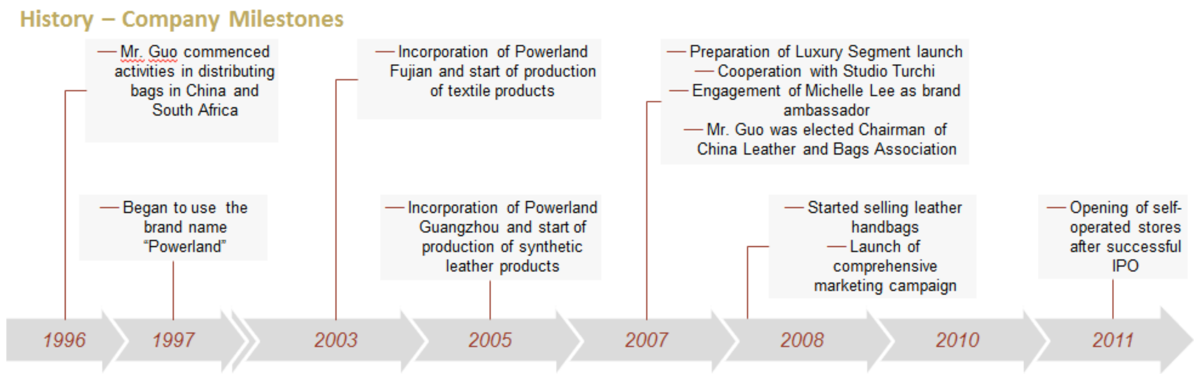


Through its Luxury segment the Company primarily sells women's handbags with trend setting designs made from genuine leather. In addition Powerland serves its customers with a wide range of other luxury products such as fashionable travel cases, wallets, purses, men's hand bags, briefcases, and belts all made from genuine leather as well. The products are exclusively sold in China under the premium brand "Powerland". The target for these products is the mid- to high-end segment of the Chinese luxury bags and luggage market. Powerland sees itself as a Chinese brand with European heritage and has been awarded "Chinese Well-known Trademark and "Chinese Famous Brand" . Powerland believes that its Powerland brand is so far the only handbag brand in China that has been granted both the status as "Chinese Well-known Trademark" as well as "Chinese Famous Brand". These awards underline Powerland's brand recognition in China.

The Company is also one of the few enterprises that has been allowed to sell its luxury products in Diaoyutai State Guest House, which is run by the Chinese central government in Beijing. In 2011 revenues from the Luxury segment accounted for EUR 80.2 million (54.6% of total revenues). The Luxury segment is the core focus of the Company with respect to further growth and expected to account for approximately 70% of the Group's revenues in two to three years.

In the Casual Segment the Company sells casual bags made of textiles, synthetic leather or a mix of materials including genuine leather. Products include handbags, backpacks, travel bags, notebook bags, wallets, purses and other accessories. These products target the mid- to low-end segment of the Chinese and overseas non-luxury bags and luggage market. The Casual segment products are either sold under the Company's second brand "Sotto", under third party brands, or as unbranded white label products for department stores or supermarkets. The Casual products are mainly sold in China, but also to selected overseas markets. Powerland sells its casual products to distributors, including wholesalers and trading companies. In 2011 the Company achieved revenues from the Casual segment of EUR 66.8 million (45.4% of total revenues).

Powerland's successful bag and luggage business has been expanded continuously in recent years.



Management and Control

Powerland is run by a management team with many years of experience in the design, production and distribution of bags, luggage and accessories as well as in all necessary management functions in the fields of product development, marketing, accounting and finance. The management team is located in Guangzhou, in the new design and marketing center (located in the Luogang district of the city)

Members of the Management Board

Shunyuan Guo is the Chairman of the Management Board, Chief Executive Officer (CEO) and founder of Powerland. Mr. Guo has over 15 years of experience in the Chinese and international textile and leather products industry and established a significant business network domestically and internationally. He has been appointed as CEO until 21 February 2016.

Yongliang Guo serves as the Company's Chief Production Officer (CPO) and has been with Powerland for more than eight years. He manages the fields of purchasing, logistics, and the production of textile and synthetic leather products. Mr. Guo has been appointed as CPO until 21 February 2014.

Hock Soon Gan is the Company's Chief Financial Officer (CFO) is responsible for financial reporting, in particular with respect to International Financial Reporting Standards (IFRS) and regular reports required under capital markets law as well as for the Company's investor relations activities. Mr Gan has been appointed as CFO until 21 February 2014.

Qingsheng Cai is employed as the Company's Chief Accounting Officer (CAO). He is in charge for accounting and record-keeping, in particular for the accounts of Powerland's Chinese subsidiaries. He had worked as the Company's CFO since 2005 and became CAO in 2011. Mr. Cai has been appointed as CAO until 21 February 2014.

MEMBERS OF THE SUPERVISORY BOARD

The Supervisory Board of Powerland AG consists of three members. Dr. Peter Diesch, Volker Potthoff and Hsueh Yi Huang who were all appointed in 2011. Their terms expire in 2012 after the Annual General Meeting.

The Supervisory Board appoints the members of the Management Board and is entitled to dismiss them for good cause. It advises the Management Board on how to manage the Company and supervises its management activities. Pursuant to the German Stock Corporation Act, the Supervisory Board may not engage in management activities. However, under the Articles of Association or the Management Board's respective rules of procedure, the Management Board must obtain the Supervisory Board's approval for certain transactions, usually prior to the implementation of such measures or transactions. Powerland's Supervisory Board has not set up any committees, in particular, it does not have an audit committee or a remuneration committee.

Link to the website:
http://www.powerland.ag/index.php?option=com_content&view=article&id=18&Itemid=15

BUSINESS ACTIVITIES AND PRODUCTS

Powerlands operational strength is reflected in its value chain. In the Luxury segment the Company cooperates with Italian Studio Turchi who delivers 120 trend-setting bag designs per year. Powerland launches new product series twice a year, according to the fashion seasons. A product series usually consists of three individual items, such as handbags in various sizes, wallets, and purses. Sometimes a series includes up to six items. The spring/summer season lasts from March until September, the autumn/winter season from October until February. Products for the autumn/winter season tend to have darker colours as they are made to match autumn/winter clothes, whilst bags tend to be larger than the ones from the spring/summer season. Powerland launches approximately 60 new bags and compatible accessories like wallets and purses, i.e. approximately 20 per new product series, for the Luxury Segment per season. Besides its seasonal products, Powerland also markets certain longer running product lines.

The raw materials (e.g. leather, zippers) are sourced by Powerland itself with a clear focus on quality. Products from the Luxury Segment are predominantly made of genuine leather, mainly cow leather, and, to a smaller extent, sheep leather. The production of the luxury products is mainly outsourced to best-in class OEMs. A small, but growing portion of the production is manufactured in-house to be able to react quickly in case of a high demand for certain bag models. The bags are all hand-made and produced with special care for quality. The Powerland workforce knows that every little detail (e.g. accurate stitching) is important to satisfy the high expectations of the 25-45 year old female business women, the main target customer group for Powerland's luxury bags. They live in Tier 1 and Tier 2 cities of China and are considered to be influenced by western lifestyles and fashion trends. They expect high quality and put particular emphasis on branded products.

Powerland has three main product lines in its Luxury Segment:

- Classic line: This product line covers the whole target customer group of Powerland's Luxury Segment and includes classic luxury leather products.
- Fashion line: It targets younger customers of 25 to 35 years of age and includes fashion avant-

garde and popular seasonal styles.

- Leisure line: This product line also targets the full customer range of Powerland's Luxury Segment and includes trendy and practical leisure designs.

With respect to marketing and brand building the Company has been following a clear strategy with former Miss Hong Kong Michelle Lee as brand ambassador for many years and, since September 2011 also as part of a two-year airport marketing campaign.

Powerland sells its luxury items through a retail distribution network which consists of 151 distributor-operated-stores and 13 self-operated stores mainly in Chinese Tier-1 and Tier-2 cities (as at December 2011).

Powerland's retail prices for luxury handbags are usually above RMB 2,000 (EUR 250),which is considerably lower than comparable products of top international luxury brands.

Luxury Segment products are exclusively sold in the PRC under the Powerland brand, and often coupled with the "PLD" logo imprinted on the products. Powerland has used the brand "Powerland" and the logo "PLD" since 2003, originally for both the Luxury Segment and the Casual Segment. Since 2008 the Powerland brand and the "PLD" logo have primarily been used for Powerland's Luxury Segment Products. The Company intends to exclusively use them for the Luxury Segment in the future.

Powerland's Casual Segment products comprise casual bags and accessories made of textile or synthetic leather or material mixtures.The Company's textile products include handbags, sport bags, backpacks, travel bags, laptop bags, tool bags, cooling bags and accessories like wallets and purses. Textile products are usually designed for leisure, sports and outdoor activities.

Powerland's synthetic leather products are made of PU (Polyurethane) and PVC (Polyvinyl chloride) which are commonly used thermoplastic polymers. Synthetic leather based products have a plain and glossy surface, they resemble leather products, and are commonly priced lower than the genuine leather ones. Powerland's product range for synthetic leather products encompasses women's handbags, men's bags, suitcases, briefcases, and accessories like wallets, and purses.

The products of the Casual segment are designed by the Company's design team of about 30 designers and produced in Powerland's own production facilities in Fujian province (Putian city, Xiuyu district) and Guangdong province (Guangzhou, Huadu district). Raw materials are sourced through local suppliers, with production benefiting from economies of scale and the bags' quality benefitting from the workers skills and experiences which they have developed over many years. To promote sales the Company is engaged in marketing and branding and sells bags to wholesalers or trading houses in China and in overseas markets including the United Arab Emirates (UAE), South Africa, the USA, Chile and Australia.

Products from the Casual Segment are either sold under Powerland's second brand "Sotto", as unbranded white label products for supermarkets and department stores or, in cases in which Powerland acts as OEM manufacturer for international brands, under third party brands. In the Casual Segment there are no clear-cut product series like in the Luxury Segment because Powerland predominantly produces these products based on orders received from its customers.

The usual retail prices in the PRC for Sotto products are between RMB 100 (EUR 12) and RMB 400 (EUR 50).

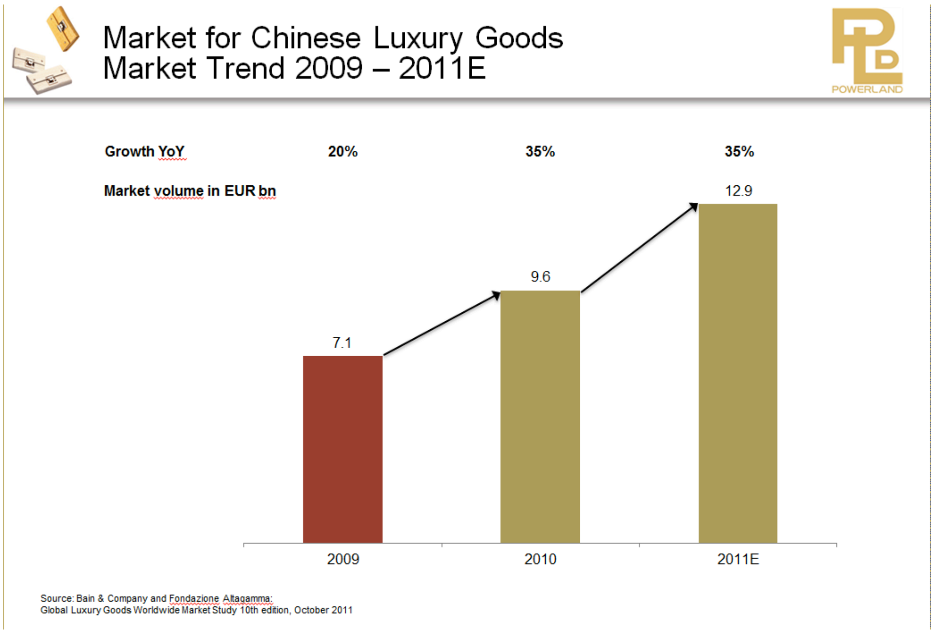
II. Market and Competition

Market Structure

Structure, Volume and Growth of the Chinese Luxury Market

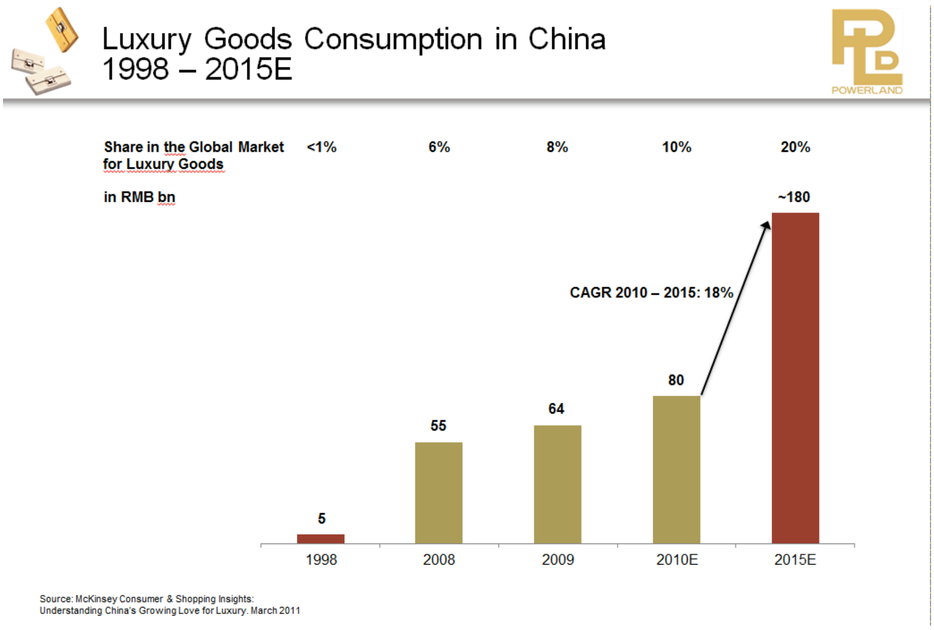
China's luxury market continues to grow rapidly and steadily. According to Bain & Company, the total luxury goods sales volume in China during 2009 was RMB 68.4 billion. This number increased to RMB 87.1 billion in 2010 and to an estimated figure of RMB 110.8 billion in 2011 (Bain & Company and Fondazione Altagamma: Global Luxury Goods Worldwide Market Study 10th edition, October 2011). Bain & Company defined the following product categories as luxury goods: "womens' ready-to-wear", "shoes", "jewelry", "mens' ready-to-wear", "leather goods", "cosmetics, perfume and personal care", and "watches".

Unlike the mature European and US luxury markets that have developed over many decades every year more and more Chinese customers spend money on luxury products for the first time in their lives. This group of "new customers" is the biggest luxury growth driver in China and accounted for over 60 per cent of the total growth from 2010 to 2011. However, the spendings of the group of "existing customers" also increased substantially by about 40 per cent over the period. These figures provided by Bain & Company show that the Chinese luxury market is still primarily supply driven. Moreover the figures also demonstrate that store openings will help create and satisfy new demand also in the future. The following table shows the development of the Chinese luxury market in the years 2009, 2010 and 2011:



Following Bain & Company China's luxury market study, one can see the luxury market in China has been growing significantly with a year-on-year growth of 35% on a Euro basis (27% in RMB) from 2009 to 2010 and 2010 to 2011. Growth rates in China therefore continue to clearly outperform the global luxury market as a whole. When including Hong Kong and Macau, China becomes the world's third biggest luxury market after the USA and Japan (and soon set to overtake Japan).

This positive development is likely to continue in the future. According to a McKinsey survey, China will account for over 20% of the global luxury market by 2015 (McKinsey Consumer & Shopping Insights: Understanding China's Growing Love for Luxury. March 2011). Chinese luxury consumption – as shown in the following McKinsey chart – is expected to grow by 18 per cent annually until 2015. Please note that for McKinsey the term "luxury goods" includes less and different product categories compared with Bain & Company. McKinsey considers “fashion ready-to-wear”, “leather goods/handbags”, “watches” and “fine jewelry” as luxury goods.



China’s women’s handbag market and segmentation
Powerland is mainly operating in China’s women’s handbag market. The total women’s handbag market in China (luxury and non-luxury) is estimated to reach Euro 10 billion in 2012. There has been a continuous growth from EUR 5 billion in 2008, to EUR 6.3 billion in 2009, EUR 7.5 billion in 2010 and estimated EUR 8.8 billion in 2011 (Beijing Industry and Economy Research Institute, State Information Center).

According to the Company’s own research and assessment the market for women’s handbags in China can be divided into

- the high-end segment with a market size of approximately EUR 2 billion and retail prices above EUR 750,
- the mid-high segment with a market size of approximately Euro 1 billion and retail sales price range from EUR 250 to EUR 750
- and the mid-low end segment with a market size of approximately Euro 4.5 billion retail prices below EUR 250.

The first two segments belong to the luxury segment, the latter to the non-luxury segment.

MARKET PLAYERS

- **Luxury segment**

The Chinese luxury market in general, and the luxury handbag and luggage markets in particular are mainly controlled by international luxury brands that operate in the high-end segment of the market. According to the Company’s own assessment and in accordance with Bain & Company the following international brands ranked as consumers' top five brands in 2011 in the product category “leather goods”: Chanel, Gucci, Hermes, Louis Vuitton, and Prada (Bain & Company: 2011 China Luxury Market Study. December 2011)

The key players in the mid-high segment of the market for women’s handbags in the PRC including, in addition to Powerland, Coach, WHY, Dissona and Cobo. These are direct competitors for the Luxury segment products of Powerland.

- **Casual segment**

The mid-low end segment of the Chinese market for women's handbags, as well as for casual bags and luggage, is highly fragmented. The Company estimates that in this segment there are approximately 15,000 manufacturers. The competition in the market for textile and synthetic leather bags can therefore be considered as extremely intense. Product quality and pricing are key success factors here. The Company identified Elle, Esprit, Hilly and l'alpina as some of the key players in the segment of casual women's handbags.

Adidas, Nike, Li Ning, Puma, Jansport, Levi's, Samsonite, Crown and Diplomat are considered to be key players in the market for casual bags and luggage.

SPECIFIC MARKET CONDITIONS/TRENDS

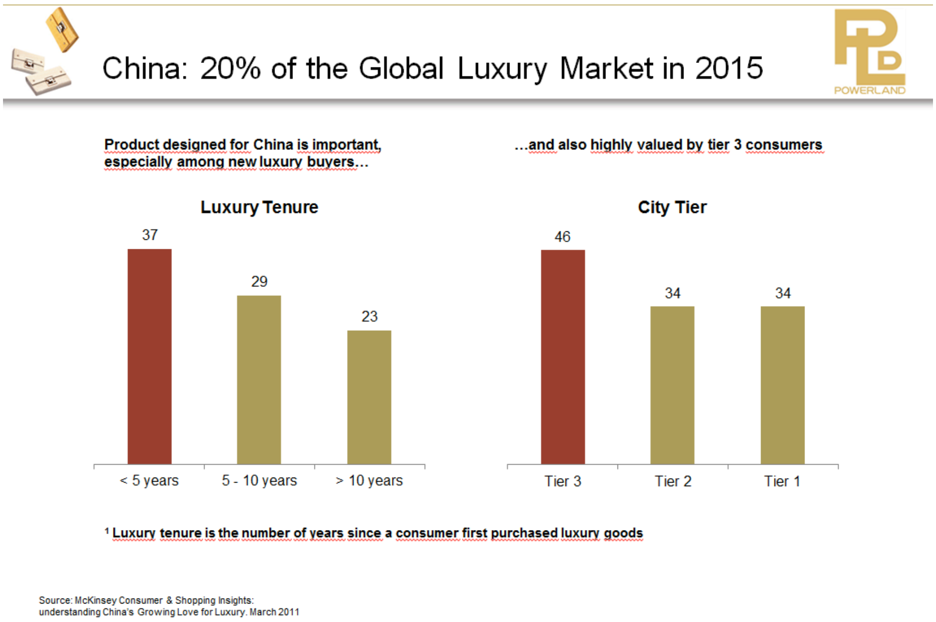
Watches and leather goods are the current luxury growth leaders
Watches account for 40 per cent of the market volume, leather goods for 25 – 30 per cent. Leather goods are expected to continue the past growth trend into the future. They are widely perceived as ideal gifts on private and business occasions (Bain & Company: 2011 China Luxury Market Study. December 2011).

Youth of luxury consumers in China
One of the special Chinese characteristics of luxury good consumption is the youth of the consumers. 73% of Chinese luxury goods consumers are under 45 years old (compared to only about 50% in the US). And as many as 45% are under 35 years old (compared to about 28% in Western Europe). (McKinsey Consumer & Shopping Insights: Understanding China's Growing Love for Luxury. March 2011)

Reasons to buy luxury products
The general trend underscored by another McKinsey survey (Consumer and Shopping Insights: Understanding Chinese love for luxury, March 2011) shows that Chinese consumers express a growing appreciation for authentic luxury products. Many of the consumers taking part in the survey stated that they were uncomfortable with owning a "fake" watch or bag which would lead to a most embarrassing situation in a culture were the concept of "face" and "reputation" is so important. That is the reason why it is a must for Chinese consumers to buy an authentic product. The survey also stated that in 2010 for 50 per cent of the consumers better quality through "superior craftsmanship" is the most important reason to buy luxury goods (up from 38 per cent in 2008). Superior craftsmanship was even more important than buying an "internationally well-known brand" which became the second most important buying consideration mentioned by 43 per cent of the consumers.

This survey also describes an interesting trend. In 2010 41 per cent of consumers (compared to only 32 per cent in 2008) thought that showing off brash luxury goods on the one hand exhibits "poor taste", and on the other hand could leave them open to the risk of being accused of outshining their pears and superiors.

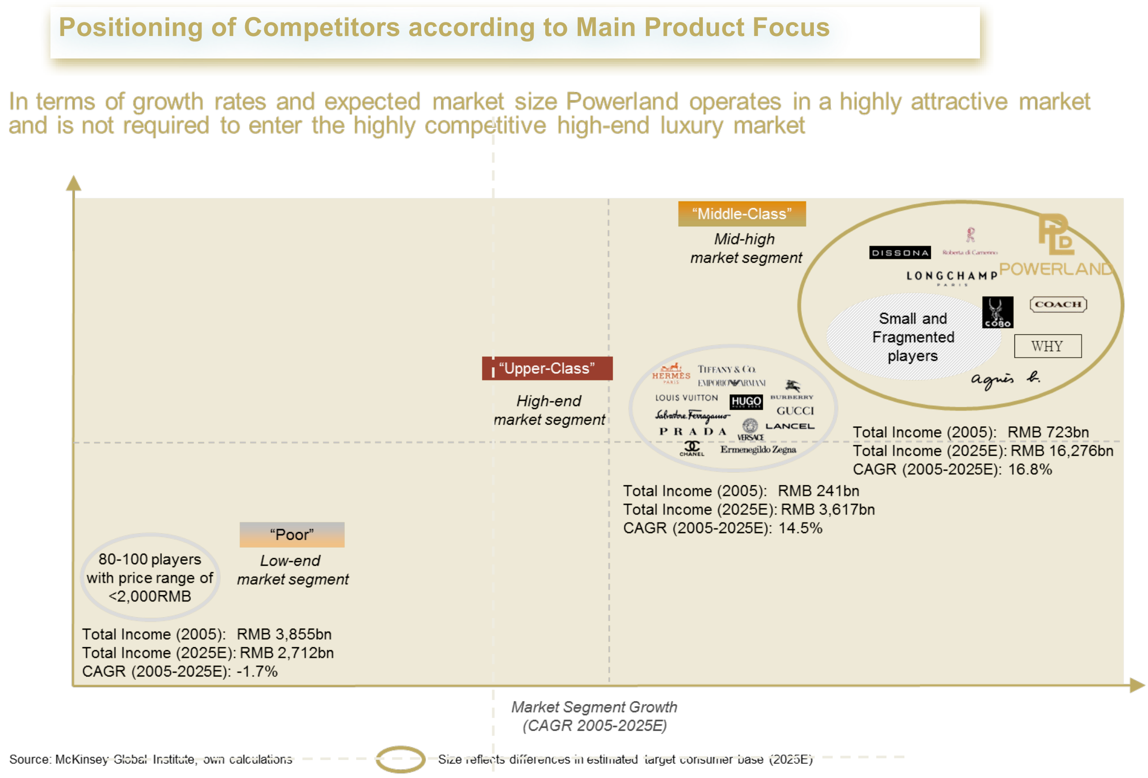
McKinsey mentions another recent development in luxury goods consumption. A survey of theirs came to the conclusion that most of the Chinese luxury consumers look for products with an international heritage. Critically, however, and in conjunction with the above one third of the same group of new Chinese customers, which mainly drive growth in the market, also stated that they would prefer to buy luxury products that were specifically designed for China (e.g. with incorporated Chinese imagery). This particularly holds true for emerging middle-class consumers.



The more consumers get informed and educated the more they demand excellent services, particulary if they are going to pay premium prices. Better sales and after sales services that are more personalized and consistent across all regions of China will become crucial in the next step of the market and brand development. Luxury brands therefore need to take care particular Human Resources and Customer Experience measures to ensure delivery of professional services. The breadth and extent of this challenge is can be demonstrated by the fact that even some of the best international brands in China do not have an adequate after sales service in case of customer complaints or requests (Bain & Company: 2011 China Luxury Market Study. December 2011).

Differentiation of Competition at Product Level

In the Luxury segment Powerland focuses on classical state-of-the-art Italian design, excellent craftsmanship and superior product quality. Target customers come from the Chinese middle and upper-middle class, the focus is on business women and professionals.



Development of Market Position

For its premium brand “Powerland”, the Company followed a clear positioning in the mid-high segment of the Chinese market for women’s handbags right from the launch of this segment in 2008. The company since then enhanced its successful positioning in the market and followed a clear strategy of organic growth by opening additional stores across the country accompanied by various marketing measures like TV campaigns, print advertisements, point of sales marketing activities, and since 2011, also airport marketing measures. Since the Chinese luxury market at its current stage is mainly supply driven Powerland will continue to open more and more stores and will, in parallel, increase its brand awareness and brand recognition with well-chosen targeted marketing activities.

Business Segments/Areas with Outstanding Market Position

Powerland started its business with the Casual segment in 2003 and launched the Luxury segment in 2008. Since then, the brand “Powerland” was introduced to the market and is mainly associated with womens’ luxury handbags. The Luxury segment is the clear growth driver for the Company. Powerland is determined to further focus on the Luxury segment because of the high and continuous growth. The Casual segment’s business which still accounted for approximately 53% of the Group’s EBIT in 2011. The Company is confident it was the right decision to further expand the luxury business which will be the core business in only a few years. The combination of excellent genuine materials, first class Italian design, Chinese design elements for certain product series, and a suitable positioning in the luxury market is pretty unique and contributes a lot to the Company’s success.

III. Objectives and Strategy

Powerland aims to outperform Market Growth

The Company’s main goal is sustained profitable and organic growth. The Luxury segment will remain the biggest Company growth driver, though the Casual segment is expected to grow further too. Growth of the Casual segment plays an important role for Powerland, as it provides steady revenues and cash flows that can be utilized to assist in the expansion of the Luxury segment. Overall, mid- and long-term growth will be achieved by broadening the product portfolio, in particular by adding new and innovative Luxury segment’s products and also by upgrading the Casual segment’s product mix. Powerland will continue to deliver best-in-class Italian design and excellent product quality, a combination which the Company believes distinguishes it clearly from its Chinese competitors.

It is also Powerland’s clear goal to further strengthen its position as a leading brand in China’s mid-to high end luxury market. The Company aims to be among the most profitable companies in the industry. The goal is to defend its number one position among domestic players and to improve its number three position in order to ultimatively surpass its international competitors Coach (USA) and Why (Japan).

The Company believes that its average annual sales growth in 2012 and 2013 will be higher than China’s overall luxury goods consumption growth.

The Company will also continue its successful path of expanding its overall distribution network and launching more and more self-operated stores in particular. Powerland aims to have a total of 300 stores by 2014, an expansion that will be accompanied by extensive marketing measures with Michelle Lee as brand ambassador of Powerland. The Company is aware of the importance of improving brand recognition and brand awareness and to create a positive and unique brand reputation. The reason for establishing more and more self-operated stores is to increase margins, to improve and control the efficiency of marketing activities, and to collect direct customer feedback.

Management aims to achieve higher EBIT in 2012 and 2013 than in previous years. Because of the successful business development and the high level of profitability Powerland aims to pay a dividend of EUR 0.25 per ordinary share to its shareholders for the financial year 2011. Going forward the company expects to maintain an active dividend policy and the operational discipline that this requires.

POWERLAND'S STRATEGIC OBJECTIVES

Powerland pursues the following strategic objectives:

LUXURY SEGMENT AS THE MAJOR GROWTH DRIVER

The Company intends to increase its focus on the Luxury segment, because it believes that this segment will continue to offer the most growth potential, both in terms of revenue and in terms of profitability. While revenue deriving from the Luxury segment contributed approximately 55% of Powerland's total revenue in 2011, Powerland intends to increase this percentage to approximately 70 per cent by 2013. In addition the Company is going to expand its product range in the Luxury Segment and increase its collaboration with the Italian design company Studio Turchi.

While the Company's main focus continues to be women's leather handbags, Powerland's goal is to further diversify the product base in the Luxury segment. In the mid to long run Powerland intends to add new products like leather jackets, perfumes, sunglasses, watches etc. to the Luxury segment.

EXPAND THE RETAIL DISTRIBUTION NETWORK AND MARKET PRESENCE IN CHINA

Powerland believes that the Chinese market for luxury handbags is to a large extent supply driven, which means that opening more stores creates further consumer demand. Powerland therefore intends to increase its market presence in China by expanding its retail distribution network with a focus on Tier 1 and Tier 2 cities. To this end, Powerland intends to increase from 13 self- operated stores as at 31 December 2011 to approximately 70 self- operated stores with a size of approximately 200 square meters at prime locations, such as main shopping districts, shopping malls and airports within the next three years. The focus for new shop openings will be in those regions where Powerland's distributors already operate Powerland stores. The new self-operated stores will include approximately 45 self-operated flagship stores and other exclusive stores at top locations, and approximately 25 airport stores.

Powerland plans to purchase the business premises for approximately one fourth of the newly opened self-operated stores, in particular of the flagship stores, and to rent premises for the remaining new self-operated stores. The Company believes that ownership of stores at strategic locations is an important strategic goal given the expected strong growth of the Chinese consumer market.

In addition to this, Powerland intends to increase the total number of retail outlets operated under the Powerland brand by independent distributors from 151 as at 31 December 2011 to approximately 230 by 2014. In particular, Powerland will open retail points of sales in well-known shopping malls in its major strategic markets in Tier 1 and Tier 2 cities in China. The additional stores will partly be operated by independent distributors from Powerland's existing distributor base, but also by additional adequately qualified distributors, which Powerland intends to identify and contract for this purpose.

In order to get preferred access to prime locations and to achieve its expansion goals in the field of self-operated and distributor-operated stores, the Company cooperates with the Dalian Wanda Group and the Bailian Group, two large operators of department stores and shopping centers in China. Dalian Wanda has over 35 shopping centers in 32 key cities across 21 municipalities. Bailian Group is one of the biggest retail conglomerates in China with over 7,000 retail outlets in 25 municipalities.

Should such opportunities arise, Powerland may also consider acquiring some of its independent distributors in order to maximize profitability through higher margins, and to increase control over its retail outlets with respect to brand communication, direct marketing activities, retail pricing, and customer feedback.

FURTHER INVESTMENTS IN MARKETING TO ENHANCE BRAND RECOGNITION AND IMAGE

While competition in the non-luxury segment of the Chinese bags and luggage market by competitors in China is intense, Powerland believes that its domestic competitors in the Luxury segment of the Chinese bags and luggage market do not yet place great enough emphasis on building and fostering a brand, something which creates an attractive opportunity for Powerland. The Company aims to become a leading brand in China for luxury leather bags and accessories. With a still booming Chinese economy and rising living standards, Powerland expects the Chinese market for luxury bags to continue growing. The Company is of the opinion that brand recognition, awareness and image are key factors in enhancing Powerland’s presence in this market.

Powerland believes that China’s industry for luxury bags is, except for international luxury brands, in an early stage of development and lacks large domestic players. With the positioning of its brand in recent years, the Company is convinced that it has captured a first-mover advantage over domestic competitors. In order to capitalise on, and further strengthen this position, Powerland intends to further invest in the marketing and promotion of the “POWERLAND” brand by developing and launching marketing campaigns, including advertising in various media, focusing on fashion magazines, prime time TV spots and digitalized airport campaigns.

The Company is convinced that by implementing such branding and marketing initiatives, coupled with product quality, international-style design and enlarged retail distribution network, it can further enhance its brand image, become a trendsetter and achieve greater customer recognition and loyalty as well as higher average selling prices over time.

ESTABLISH LUXURY PRODUCTION CAPABILITY AND GAIN CLOSER PRODUCTION CONTROL

A key element of Powerland’s growth strategy is to expand the production capability for its Luxury segment products and further build up internal competence and expertise. For these reasons the Company intends to continue to invest in production equipment and other supporting facilities for leather made luxury handbags in order to establish production lines in Guangzhou for the production of leather-made luxury handbags. Even though Powerland only intends to produce a very limited portion of its Luxury Segment products in-house, having its own production capabilities for the Luxury segment products will allow Powerland to shorten delivery times for certain urgent product orders from its distributors for top-selling products, as well as produce some sample bags for test sales before the official launch of a new collection.

Emphasis on Design and Product Development Capacity

Powerland is determined to further strengthen its design and product development capacity and capability in order to develop new products and improve the quality of the Company’s products, which Powerland believes is essential in order to adapt to changing consumer preferences. To this end, Powerland intends to significantly invest in additional design and research & development equipment, and to hire additional design and product development staff. The Company has recently extended its design contract with its Italian- based design partner Studio Turchi by another five years and Mr. Turchi will spend a substantial amount of time in China each season working closely with Powerland’s in-house design staff.

IV. General Conditions

General Economic Conditions

Decelerated Growth of the Global Economy

The global economy is in a difficult phase with many challenges to solve. The World Bank stated that global real GDP growth had been strong in 2010 at a growth rate of 4.1 per cent and before slowing down in 2011 with an estimated annual growth of 2.7 per cent.

According to the International Monetary Fund (IMF), the global economic slowdown began in a moderate fashion before accelerating sharply as the European financial crisis hit the world economy in the second half of 2011. Structural problems in Europe's financial system became obvious, and as a consequence banks slowed down financial flows, became more conservative with respect to their balance sheets and at the same time tightened lending. Economic activity slowed down globally, confidence decreased, and stock prices fell.

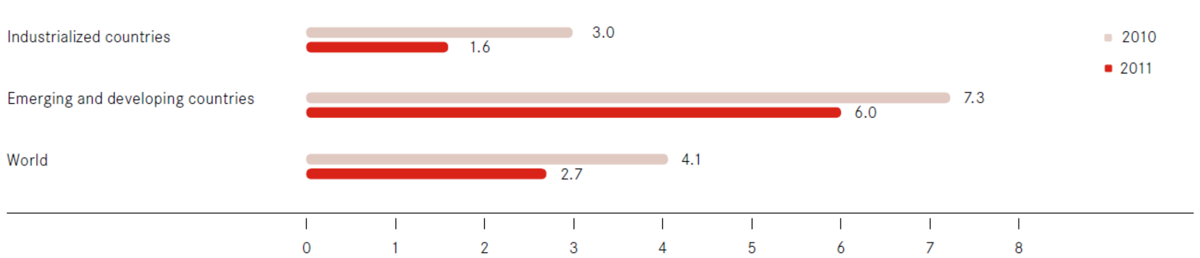
Despite these facts the IMF has stated that there will still be global growth in upcoming years, but in general at a lower pace. The World Bank currently projects 2.5 per cent GDP growth for 2012 and 3.1 per cent for 2013 or 3.4 per cent (2012) and 4.0 per cent (2013) respectively when calculated using purchasing power parity (PPP) weighting.

GDP Growth in Advanced and Emerging/Developing Economies

In 2010 GDP growth of the advanced economies was 3.0 per cent and slowed down to an estimated 1.6 per cent in 2011. The GDP growth in the emerging/developing economies was 7.3 per cent in 2010 and an estimated 6.0 per cent in 2011.

According to the World Bank GDP growth in the advanced (high income) economies will on average be relatively low standing at an estimated with 1.4 per cent in 2012 and 2.0 per cent in 2013. For emerging/developing economies the World Bank forecasts robust growth of 5.4 per cent in 2012 and 6.0 per cent in 2013

DEVELOPMENT OF GROSS DOMESTIC PRODUCT IN 2010/2011 (%)



Source: World Bank

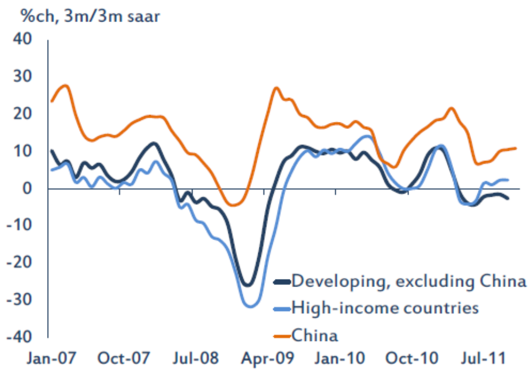
GDP Growth and Industrial Performance in China

China has experienced double digit GDP growth rates for many years, and became the world's biggest export nation three years ago. When China opened its economy in 1978 its industrial performance was relatively weak and its economic output only played a minor role in world economy. Today China is second biggest economy after the USA.

In 2010 China's GDP grew by 10.4 per cent and in 2011 by an estimated 9.4 per cent. No other economy has been growing at these rates and as continuously as China has done over the last 30 years. Although the global economy is forecasted to grow more slowly in future years China's growth will remain significant. The World Bank forecasts GDP growth for China of 8.4 per cent for 2012 and 8.3 per cent for 2013.

In 2011 worldwide industrial production growth was influenced by the Tohoku earthquake in Japan and its economic consequences for global supply chains. This also effected China whose industrial production growth in the second quarter of 2011 decreased to approximately 7 per cent after a strong first quarter growth of 21 per cent. However, this decline was only partly due to the disastrous event in Japan, and was also caused by the Central government policy-induced cooling in the domestic Chinese housing market. In the third quarter growth reaccelerated to 10.5 per cent. The following graph shows that, although the general direction of the worldwide industrial production has been moving sideways over the last four to five years, China has continuously outperformed and played a leading role.

Figure IP.1 Industrial production moving sideways



Source: World Bank

Source: The World Bank: Global Economic Prospects. Uncertainties and Vulnerabilities. Volume 4, January 2012

The World Bank projects that in China industrial production growth will remain much stronger than in high-income countries and other emerging economies. However, industrial growth will moderate (as it has done in high-income countries), because of weaker external demand particularly from high-income countries.

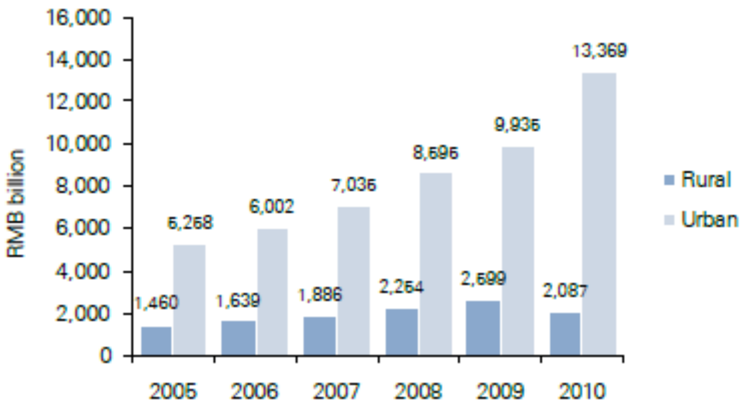
Favorable economic conditions for China – and for Powerland

Despite the current global economic slowdown China's economy is still booming and is expected to show ongoing growth in future years. This leads to a situation which is very favorable for Powerland's business, because China's economic success goes hand-in-hand with urbanization and an increase in disposable income. The more money Chinese people earn the more they are able and willing to spend on consumer goods e.g. luxury, but also casual poducts.

Development of essential (Chinese) sales markets

Powerland is operating in the Chinese consumer market with a focus on the sale of luxury products. Its Luxury segment business relies on a network of 164 retail stores (as at 31 December 2011). Chinese retail sales of consumer goods have increased substantially in recent years, mainly driven by urban households with increasing disposable incomes. The following graph illustrates the split of urban and rural consumption in China and underlines the importance of the urbanization process in China for Powerland's business success.

Retail sales of consumer goods (RMB billion)



Source: China National Bureau of Statistics (http://www.stats.gov.cn/tjsj/)

Powerland's strategy to open 300 stores by 2014 focusses mainly on an expansion in Tier-1 and Tier-2 cities, where the Company's target customer groups are mainly located. These cities will be in the center of the ongoing urbanization process. And these are the places where the biggest part of the boost in domestic consumption is taking place.

Increase in disposable income – rise of a new middle class

China's urbanisation process has helped to create a new social class, from the low income class to the newly created mid-income classes with rising per capita income (Source: Deutsche Bank, Consumer & Luxury Goods, "Luxury Goods – China & Japan Focus", September 2010).

In 1985, almost all of the urban Chinese households were considered as "poor" with a disposable annual income of less than RMB 25,000 (approx. EUR 3,000). Ten years later, only small improvements had been be achieved, with still 91 per cent of households considered poor. But over the next ten years to 2005, this portion of poor households decreased to only 36 per cent. A new middle class had emerged comprising two segments: lower aspirants earning RMB 25,000 to RMB 40,000 (approx. EUR 3,000 to EUR 4,800) per year, and upper aspirants earning RMB 40,000 to RMB 100,000 (approx. EUR 4,800 to EUR 12,000) per year.

This group of upper aspirants of the new Chinese middle class is estimated to increase to 51 per cent of the population by 2015 and to 61 per cent by 2025, or 612 million people. Together with the group of "affluent" (wealthy) households which have a disposable income of RMB 100,000 (approx. EUR 12,000) to RMB 200,000 (approx. EUR 24,000) they are Powerlands target customer group for the Luxury segment.

According to McKinsey, by 2025, the real aggregate urban disposable income in China is estimated to reach RMB 22.6 trillion (approx. EUR 2.7 trillion).

Growth in luxury spendings is mainly driven by China's upper aspirants middle class households, of which the majority lives in Tier-1 and Tier-2 cities. These people long to buy luxury products – which until recently could only be afforded by very wealthy Chinese.

Price development and availability of raw materials

According to the IMF, consumer prices in China increased by 3.3 per cent in 2010 and 5.5 per cent in 2011 and are forecast to increase at a lower level (by 3.3 per cent) in 2012.

In general the raw materials that Powerland needs for the manufacturing of its products are widely and easily available from multiple suppliers on the domestic market. This demonstrates that there is no significant bargaining power arising from only a few suppliers. The raw materials also do not underlie specific import restrictions.

The most important raw material for the Company's Luxury segment is leather, cow, but also sheep leather. Other components include zips, chains, ribbon, swheels, and other hardware. Except for additional materials needed for production like threads, glue and other sewing accessories, which are provided by Powerland's OEMs, Powerland sources all materials needed for the Luxury segment production by itself.

Powerland sources the genuine leather from trading companies in China, which procure their leather in China, Europe, South America, Australia or New Zealand. Powerland also followinging the suggestions of Studio Turchi, has decided for a mixed sourcing strategy taking different leather qualities and prices into account.

For the Casual segment Powerland sources textile, synthetic leather, and the above mentioned additional components. All these materials are sourced from domestic suppliers.

General political and regulatory conditions

In March 2011 the Chinese Central Government specifically defined the increase in domestic consumption as a cornerstone of the current 12th Five-Year Plan (2011 – 2015). The newly set conditions are likely to have positive effects on the Company's Luxury segment as well as the Casual segment.

To further boost domestic consumption in a market of 1.3 billion people the country has set the following targets with direct and indirect impact on consumer markets till 2015 (KPMG China: China's 12th Five-Year Plan: Consumer Markets. April 2011):

- To grow China's GDP by 7 per cent per year, to hold inflation (CPI) at or below 4 per cent per year, to increase urbanization from 47.5 per cent to 51.5 per cent,
- to create 45 million new urban jobs, to increase the disposable income of urban residents and the net income of rural residents by over 7 per cent per year,
- to improve the social welfare network by building 36 million units of low-income housing, by covering 357 million urban peoples' pension scheme, and by improving health insurance to cover 70 per cent of medical bills.

According to Credit Suisse China's household income is expected to reach RMB 55.8 trillion (EUR 6.7 trillion) in 2015, up from RMB 24.2 trillion (EUR 2.9 trillion) in 2010. If we take this rising income into account Chinese retail sales are expected by KPMG China to reach RMB 40.5 trillion (EUR 4.9 trillion) in 2015, up from RMB 15.4 trillion (EUR 1.9 trillion) in 2010.

V. Company Development

Current Retail Distribution Network Development

During the launch phase of Powerland brand from 2008 to 2010, the nationwide retail distribution network of the Company's Luxury business has been fully based on the franchised stores operated by regional distributors in China. The Company has planned to open a total 70 self-operated stores from 2011 to 2014 by using substantial part of its IPO proceeds, while continuing to support distributors to expand distributor-operated stores from 151 as at 31 December 2011, to 230 by 2014.

Given that the premium locations in tier 1 and tier 2 cities in China are in high demand by both international and domestic competitors, this store roll-out plan is considered by management to be ambitious. However, the Company has successfully entered into strategic alliance with the leading commercial property developer Dalian Wanda Group and the leading department stores chain, Bailian Group, as well as Bejing Capital Airport Holding Company etc. In order to open the planned flagship-, exclusive and airport stores across prime locations in China.

Roll-out of Powerland stores for 2010 and Q1-Q4 2011 has been shown in the table below:

	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Accumulated no. of stores	71	89	98	105	110	112	123	146	164
Of which distributor-operated stores	71	89	98	105	110	112	122	143	151
Of which self-operated stores							1	3	13

EARNINGS SITUATION

The following table presents income statement data of Powerland AG for the year ended 31 December 2010 and 2011 on a consolidated basis. The table also presents income statement data as a percentage of revenue

	2010		2011	
	EUR'000	% of revenues	EUR'000	% of revenues
Revenue	**112,635**	**100.0**	**146,948**	**100.0**
Cost of sales	– 67,865	– 60.3	– 81,954	– 55.8
Gross Profit	**44,770**	**39.7**	**64,994**	**44.2**
Other income	85	0.1	89	0.1
Selling and distribution costs	– 11,234	– 10.0	– 19,643	– 13.4
Administrative and other expenses	– 6,603	– 5.8	– 13,191	– 9.0
EBIT	27,018	24.0	32,249	21.9
Net finance costs	– 920	– 0.8	– 4,777	– 3.2
Profit before tax	**26,098**	**23.2**	**27,472**	**18.7**
Tax expense	– 3,481	– 3.1	– 9,135	– 6.2
Net profit	**22,617**	**20.1**	**18,337**	**12.5**
Earnings per share (EUR)	2.26		1.35	

REVENUE

Revenue are generated from the sale of handbags for women, trolley cases, wallets, bags for men, belts and accessories made of mainly genuine leather in the Luxury segment and backpacks, trolley bags, travel bags, laptop bags, ice bags, tool bags and other products made of textiles and synthetic leather in the Casual segment.

Revenue increased from EUR 112,635 thousand in 2010 by EUR 34,313 thousand, or 30.5 %, to EUR 146,948 thousand in 2011. Measured in RMB, revenue growth amounted to 30.6% during this period. The increase in revenue measured in RMB was driven by an increase in sales of products from the

Luxury segment of approximately 51.8 % and an increase of 11.8 % in the sales of products from the Casual segment.

REVENUE BY SEGMENT

Luxury segment

EUR `000	Q4 2010	Q4 2011	Change	FY 2010	FY 2011	Change
Revenue	13,560	22,862	68.6 %	52,847	80,170	51.7 %
Gross profit	6,075	11,519	89.6 %	23,536	39,892	69.5 %
Gross profit margin in %	44.8 %	50.4 %		44.5 %	49.8 %	
EBIT	2,210	3,004	35.9 %	9,492	15,077	58.8 %
EBIT margin in %	16.3 %	13.1 %		18.0 %	18.8 %	

Revenue in the Luxury segment increased from EUR 52,847 thousand in 2010 by EUR 27,323 thousand, or 51.7%, to EUR 80,170 thousand in 2011. Measured in RMB revenue in the Luxury segment increased by 51.8%.

These increases were mainly driven by an expansion of Powerland's retail network and a significant increase in selling prices. The number of Powerland stores increased from 110 as at 31 December 2010 to 164 as at 31 December 2011.

Casual segment

EUR `000	Q4 2010	Q4 2011	Change	FY 2010	FY 2011	Change
Revenue	13,964	14,825	6.2 %	59,788	66,778	11.7 %
Gross profit	5,011	5,339	6.5 %	21,234	25,102	18.2 %
Gross profit margin in %	35.9 %	36.0 %		35.5 %	37.6 %	
EBIT	4,064	3,308	-18.6 %	17,526	17.,172	-2.0 %
EBIT margin in %	29.1 %	22.3 %		29.3 %	25.7 %	

Revenue in the Casual segment increased from EUR 59,788 thousand in 2010 by EUR 6,990 thousand, or 11.7%, to EUR 66,778 thousand in 2011. Measured in RMB this was a revenue increase of 11.8 %.

These increases were mainly due to the higher export sales for synthetic leather products.

REVENUE BREAKDOWN BY REGION

In the Luxury segment all revenue are generated with customers in China. In the Casual segment most products made from fabric are sold to Chinese customers, whereas products made of synthetic leather are mostly sold to customers domiciled outside China.

The following table shows a breakdown of Powerland's revenue by region based on customer location for the financial years ended 31 December 2010 and 2011:

	2010		2011	
	EUR'000	% of revenue	EUR'000	% of revenue

China	98,091	87.1	124,612	84.8
Rest of World[1]	14,544	12.9	22,336	15.2
Total	**112,635**	**100.0**	**146,948**	**100.0**

[1] *mainly South Africa, United Arab Emirates, Australia, the United States of America and Chile*

GROSS PROFIT AND GROSS PROFIT MARGIN

Luxury segment

Gross Profit in the Luxury segment increased from EUR 23,536 thousand in 2010 by EUR 16,356 thousand, or 69.5 %, to EUR 39,892 thousand in 2011. The increase was mainly driven by an expansion of Powerland´s retail network. Gross profit margin in the Luxury segment was 44.5 % in 2010 and 49.8 % in 2011. The increase in 2011 was mainly due to higher unit selling prices and an improved product mix.

Casual segment

Gross Profit in the Casual segment increased from EUR 21,234 thousand in 2010 by EUR 3,868 thousand, or 18.2 %, to EUR 25,102 thousand in 2011. The increase was mainly driven by the higher volume per batch ordering of synthetic leather bags made by existing export partners. The increase of own production capacity and the capability to maintain the same quality standard while outsourcing the production has become more and more important in bidding for large volume ordering in this mass product market in China.

Gross profit margin in the Casual segment was 35.5 % in 2010 and 37.6 % in 2011. Increases in 2011 were mainly due to an improved product mix and enhanced cost control.

Group

Gross Profit of Powerland increased from EUR 44,770 thousand in 2010 by EUR 20,224 thousand, or 45.2%, to EUR 64,994 thousand in 2011. This strong growth was mainly due to the joint contribution of the overproportional growth rate of 69.5 % in the Luxury segment, which for the first time represented more than half of the Group´s revenues, and the relative strong growth of the Casual segment of 18.2 %, which as well overperformed the single digit growth rate of the casual market in China.

Powerland's GP margin was 39.7 % in 2010 and 44.2 % in 2011. Overall, this was driven by increases in the selling prices of the products exceeding increases in input costs such as raw material, labour and overheads, and a positive effect from changes in the product mix.

SELLING AND DISTRIBUTION (S&D) COSTS

From 2010 to 2011, S & D costs increased from EUR 11,234 thousand, by EUR 8,409 thousand, or 74.9 %, to EUR 19,643 thousand. The increase was caused by increases in marketing costs for higher advertisement cost upon commencement of airport advertisement in September 2011, broadcasting & advertisement and conferences for launching Powerland Luxury Products for its "2011 Autumn/Winter Series" and "Powerland 2012 Spring/Summer Series" in May 2011 and September 2011 respectively. S & D costs as a percentage of revenues amounted to 10.0 % in 2010 and 13.4 % in 2011.

ADMINISTRATIVE AND OTHER EXPENSES

Powerland's administrative and other expenses increased from EUR 6,603 thousand in 2010 by EUR 6,588 thousand, or 99.8 %, to EUR 13,191 thousand in 2011. The increase was mainly due to higher administrative costs post IPO, the enforcement of additional tax surcharge for city construction fees payable to the tax authority applicable to foreign-invested corporation effective from 1 December 2010 and staff costs and non-recurring IPO costs of approximately EUR 2.3 million which are charged to the income statements. Administrative expenses as a percentage of revenues amounted to 5.8 % in 2010 and 9.0 % in 2011. Excluding the non-recurring IPO costs of EUR 2.3 million, adjusted administrative expenses would have been approximately 7.4 % of revenues in 2011.

EBIT AND EBIT MARGIN

Luxury segment

EBIT in the Luxury segment increased from EUR 9,492 thousand in 2010 by EUR 5,585 thousand, or 58.8 %, to EUR 15,077 thousand in 2011. The growth of EBIT was slightly weaker than that of gross profit mainly due to enhanced selling and distribution costs as a result of the offensive brand building in traditional media as well as new digital media. Moreover, the increase in administrative and other expenses post IPO contributed to the relative slower growth of EBIT in the Luxury segment.

The EBIT margin for Luxury segment increased from 18.0 % in 2010 to 18.8 % in 2011 which mainly resulted from the higher segment GP margin in 2011 (increase from 44.5 % in 2010 to 49.8 % in 2011) partially offset by higher selling and distribution costs and administration and other expenses.

Casual segment

EBIT in the Casual segment decreased from EUR 17,526 thousand in 2010 by EUR 354 thousand, or 2.0 %, to EUR 17,172 thousand in 2011. This marginal decrease resulted mainly from higher administration and other expenses post IPO and product development costs during the process of shifting certain product groups to higher margin products with better material and fashionable design since the second half of 2011. The target of the gradual product upgrade is to enhance the SOTTO brand and maintain the profitability of the Casual segment without substantial marketing spending.

The EBIT margin of the Casual segment decreased from 29.3 % in 2010 to 25.7 % in 2011. The decline was mainly due to higher administrative and other expenses partially offset by a higher GP margin (35.5 % in 2010 and 37.6 % in 2011).

Group

EBIT of Powerland Group increased from EUR 27,018 thousand in 2010 by EUR 5,231 thousand, or 19.4%, to EUR 32,249 thousand in 2011. Growth at the EBIT level was lower than at the gross profit level, because of the non-recurring IPO costs and the higher selling and distribution costs for brand building in the Luxury segment as well as the higher administration post IPO.

The decrease in EBIT margin (from 24.0 % in 2010 to 21.9 % in 2011) was mainly due to higher selling and distribution costs (which increased from 10.0 % of revenues in 2010 to 13.4 % in 2011) and higher administration and other expenses (which increased from 5.8 % in 2010 to 9.0 % in 2011). This was cushioned by the higher GP margin in 2011, which increased from 39.7 % in 2010 to 44.2 % in 2011.

EBIT adjusted for the non-recurring IPO costs of approximately EUR 2,335 thousand charged to adminstration and other expenses would have been EUR 34,584 thousand. The adjusted EBIT margin then would have been 23.5% in 2011.

NET FINANCE COSTS

Net finance costs mainly comprise interest expenses on bank borrowings and net foreign exchange losses.

Net finance costs increased from EUR 920 thousand in 2010 by EUR 3,857 thousand, or 419.2 %, to EUR 4,777 thousand in 2011. This was mainly due to increases in net foreign exchange losses in 2011 of EUR 3.5 million. We experience a foreign exchange losses on our post IPO Euro cash holding due to currency fluctuations during required conversion process which is subject to capital control procedures. As of 31 December 2011, substantial IPO proceeds in Euro have been converted to RMB which will minimise the negative foreign exchange impact from the conversion of IPO proceeds.

PROFIT BEFORE TAX

Profit before tax increased from EUR 26,098 thousand in 2010 by EUR 1,374 thousand, or 5.3 %, to EUR 27,472 thousand in 2011. This was mainly due to increases in gross profit offset by higher overheads and net financing costs as explained above.

TAX EXPENSE

Expenses for income tax increased from EUR 3,481 thousand in 2010 (corresponds to 13.3 % of profit before taxes) to EUR 9,135 thousand in 2011 (corresponds to 33.3 % of profit before income tax). The higher effective income tax rate in 2011 was due to higher non-tax deductable expenses (including foreign exchange losses), withholding tax for dividend payable by china subsidiaries and the lower statutory income tax rate for Powerland Fujian in 2010.

The statutory income tax rate for Powerland Fujian was 12.5 % in 2010 and is 25.0 % in 2011. The income tax rate for Powerland Guangzhou was 12.5 % in 2010 as well as in 2011.

NET PROFIT AND NET PROFIT MARGIN

Net Profit of Powerland Group decreased from EUR 22,617 thousand in 2010 by EUR 4,280 thousand, or 18.9%, to EUR 18,337 thousand in 2011. The decline of net profit in absolute terms was the result of several external factors that jointly occurred in 2011. In particular the higher net finance cost as a result of dramatic devaluation of the Euro against the Chinese currency, the expiration of the tax holiday for Powerland Fujian and the enhanced marketing acitivities in the Luxury segment led to the lower net profit. In addition expenses in the amount of EUR 2,335 thousand occurred for the successful stock exchange listing.

As a result the net profit margin in 2011 at 12.5 % was lower compared to 2010 (20.1%). This decline was mainly due to the lower EBIT margin, higher net finance costs and the higher effective tax rate as explained above.

EARNINGS PER SHARE

Earnings per Share (EPS) were EUR 2.26 in 2010 and EUR 1.35 in 2011. They were calculated average weighted shares. The calculation has been based on the net profit of the year and a time-weighted average of 13,611,111 shares outstanding for 2011 (2010: 10,000,000 shares).

The EPS figures for 2010 and 2011 would be EUR 1.51 and EUR 1.22 calculated on the basis of the total number of 15 million issued shares as at 31 December 2011.

GROUP FINANCIAL POSITION AND CASH FLOW

The development of the financial position between the dates 31 December 2010 and 2011 is as follows:

EUR `000	31 Dec 2010	31 Dec 2011
Total equity and liabilities	72,501	176,334
Equity	27,205	129,358
Equity ratio in %	37.5	73.4
Cash and cash equivalents	15,319	76,146
Net debt (–) / net cash	–6,547	50,885

NON-CURRENT ASSETS

Intangible Assets

Intangible assets mainly comprise the rights of the Powerland trademark and software. Intangible assets amounted to EUR 79 thousand as at 31 December 2010 and EUR 231 thousand as at 31 December 2011. The increase was mainly due to the acquisition of software amounting to EUR 147 thousand.

Property, plant and equipment

Property, plant and equipment (PPE) mainly comprise buildings, plant & machinery and factory equipment, office and other equipment, and motor vehicles. Property, plant and equipment increased from EUR 20,358 thousand as at 31 December 2010 by EUR 24,259 thousand, or 119.2 %, to EUR 44,617 thousand as at 31 December 2011. The increase was mainly due to the acquisition of PPE amounting to EUR 22,080 thousand which include the buildings under construction in progress of EUR 20.3 million and renovation cost of approximately EUR 0.7 million incurred in 2011.

Land use rights

Land use rights increased from EUR 4,375 thousand as at 31 December 2010 and by EUR 154 thousand, or 3.5 %, to EUR 4,529 thousand as at 31 December 2011. The increase was mainly due to translation differences in 2011 of EUR 260 thousand.

CURRENT ASSETS

Inventories

Inventories comprise raw materials (leather, textile and synthetic leather), work in progress, raw materials delivered to the contract manufacturers and not yet returned as finished goods and finished goods products on stock.

Inventories increased from EUR 7,518 thousand as at 31 December 2010 by EUR 1,759 thousand, or 23.4%, to EUR 9,277 thousand as at 31 December 2011. Increase in inventory as at 31 December 2011 is to meet the expected ongoing strong market demand for Powerland products.

Trade and other receivables

Trade and other receivables comprise trade receivables and non-trade receivables from related parties, and other receivables, claims resulting from advance payments to suppliers and value added tax recoverable.

Trade and other receivables increased from EUR 24,846 thousand as at 31 December 2010 by EUR 15,888 thousand, or 64.0 %, to EUR 40,734 thousand as at 31 December 2011. The increase was mainly due to the increase in trade receivables which is in line with higher sales in 2011.

Cash and cash equivalents

Cash and cash equivalents mainly comprise cash at bank. Cash and cash equivalents increased from EUR 15,319 thousand as at 31 December 2010 by EUR 60,827 thousand to EUR 76,146 thousand as at 31 December 2011.

For a more detailed discussion of cash and cash equivalents at the end of each period, see "Liquidity" in this section.

EQUITY

Equity increased from EUR 27,205 thousand as at 31 December 2010 by EUR 102,153 thousand, or 375.5 % to EUR 129,358 thousand as at 31 December 2011 mainly due to the IPO gross proceeds of

EUR 75,000 thousand for the issuance of 5 million new shares of Powerland AG on 11 April 2011 and the increase in reserves. This is reduced by IPO expenses (net of related estimated deferred taxes) of EUR 4,647 thousand charged to reserves and exchange difference gain on translating foreign operations of EUR 13,463 thousand. Equity ratio improved mainly as a result of the proceeds from the IPO to 73.4 % as at 31 December 2011, compared to 37.5 % in 2010 and thus builds a solid basis for future growth.

NON-CURRENT LIABILITIES

Non-current liabilities consist of borrowings primarily from bank loans. Long term borrowings were reduced from EUR 3,729 thousand as at 31 December 2010, by EUR 1,748 thousand to EUR 1,981 thousand as at 31 December 2011 as a result of net repayment.

CURRENT LIABILITIES

Borrowings

Borrowings comprise liabilities resulting from short-term bank loans besides trade and other payables. The increase was mainly attributable to additional short-term loans granted by local banks in China to finance working capital requirements.

Trade and other payables

Trade and other payables comprise trade payables (mainly payables to suppliers of raw materials and OEM manufacturers and payables resulting from advertising and marketing activities), other payables and advance payments from customers, value-added tax payables and accruals for tax surcharges, social security contributions and trade union fees and accruals for salaries and utilities.

Trade and other payables decreased from EUR 22,476 thousand as at 31 December 2010, by EUR 2,776 thousand or 12.4 %, to EUR 19,700 thousand as at 31 December 2011. The decrease of trade and other payables is mainly due to faster payment to suppliers compared to December 2010 for better prices of raw materials.

Income tax liabilities

Income tax liabilities increased from EUR 954 thousand as at 31 December 2010, by EUR 1,061 thousand or 111.2 %, to EUR 2,015 thousand as at 31 December 2011 in line with the increase in effective tax rate for 2011. For further details please see note 28 of the consolidated and combined financial statements.

NET WORKING CAPITAL

EUR'000	**31.12.2010**	**31.12.2011**
Inventories	7,518	9,277
Trade receivables	19,705	33,608
	27,223	**42,885**
Trade payables	15,403	13,916
Net Working Capital	11,820	28,969
Revenue	112,635	146,948
Net Working Capital / Revenue in %	10.5	19.7

The net working capital as at 31 December 2011 was 19.7 % of annual revenue 2011, which is higher than 10.5 % as at 31 December 2010. Trade receivables have been increasing from EUR 19.7 million as at 31 December 2010 to EUR 33.6 million as at 31 December 2011. Inventories were higher as at 31 December 2011 (EUR 9.3 million as compared to EUR 7.5 million as at 31 December 2010), because of the need to secure on-time delivery to customers in expectation of ongoing strong market demand.

Taking into account the normal seasonal fluctuations and the opening up of self-operated stores we expect net working capital (as a percentage of revenues) for the full year of 2012 to be around 20 %.

LIQUIDITY

Net Cash Flow generated from Operating Activities

Cash flow from operating activities in 2010 amounted to EUR 26.1 million and decreased to EUR 6.3 million in 2011 mainly due to higher working capital requirements and higher corporate tax expenses paid in 2011.

Net Cash Flow used in Investing Activities

Net cash used in investing activities increased from EUR 16.7 million in 2010 by EUR 5.5 million to EUR 22.2 million in 2011. This increase was mainly attributable to higher purchases of PPE in 2011 which include the buildings under construction in progress and buildings enhancement cost.

Net Cash Flow used in / from Financing Activities

Net cash used in financing activities has changed from EUR 2.9 million in 2010 to net cash from financing activities of EUR 68.0 million in 2011 mainly due to the gross IPO proceeds amounting to EUR 75.0 million (gross proceeds) minus IPO expenses of EUR 7.5 million.

The positive cash flow from operating activities and financing activities exceeding the negative cash flow used in investing activities has also led to an increase in cash and cash equivalents as at the financial year end.

NON-FINANCIAL PERFORMANCE INDICATORS AND SUSTAINABILITY

It goes without saying that Powerland complies with the law. All employees must comply with laws as well as internal company policies and agreements. Consequently, it is important that all employees are aware of the legislation and internal company policies that are relevant for their sphere of activities.

Executives of Powerland must conduct themselves in a particularly exemplary manner. All executives bear responsibility for making certain that all of their subordinates have received sufficient instruction to ensure that no violations of law occur that could have been avoided through the provision of proper information and supervision. They must make it clear to all of their subordinates that violations of the law will not be tolerated and may result in disciplinary measures.

Our dealings with business partners are, in the best interest of the company, based on objective criteria such as quality, service, price and sustainability. You may not give preferential treatment to a business partner because you have a personal relationship with such person.

In any case you must notify your superior in writing if you or a person close to you operates or holds a material interest in a business that has a business relationship with Powerland. Employee may not have private jobs performed by companies with which they have contact through their work for Powerland if this results in receiving preferential treatment.

All employees are obliged to do their part to ensure a smooth and rapid exchange of information within the company. Knowledge relevant to company work may not be falsified, selectively passed on or withheld from other departments unless there is another overriding interest for example arising from duties of confidentiality or secrecy or data protection provisions.

Confidential information must be kept secret. Any information which has not yet been made public is considered confidential information. Such confidential information includes especially information regarding current negotiations and contracts that have not yet been concluded, products that have not yet been launched, customer as well as supplier data and financial forecasts. The duty of confidentiality will continue to apply after the employment or business relationship ends.

The global electronic exchange of information is crucial to business success. The IT department undertakes suitable organizational and technical measures to ensure that data is protected and the access to data is secure. Each employee is responsible for ensuring that his access data is handled correctly. It is not permitted to disclose access data to another employee or to a person who is not employed by Powerland.

All information must satisfy the criteria of veracity and transparency. This applies in particular to records and reports which must be complete, timely, accurate and verifiable.

The health and safety of our employees at work is of great importance. Each employee is called upon to create safe working conditions. This applies to not only the technical planning of workplaces, equipment and processes, but also to safety management and the employees‘ personal conduct in their day-to-day work.

The merchandise produced by Powerland must not be harmful. Accordingly, it is important to ensure that no hazardous materials are used in the design phase. The materials used must comply with national laws and must not be harmful to health during the manufacturing process, for example through harmful emissions, or during use.

Powerland has committed itself and its suppliers to comply with the internationally recognized minimum social and labor standards as laid down in the Conventions of the International Labor

Organization (ILO). These Social Standards include in particular a ban on child labor and forced labor, a ban on discrimination and a commitment to assuring humane working conditions.

We place great value on environmental protection and the conservation of natural resources. We want every employee to play an active role in making our business more environmentally sound.

SUSTAINABLE PRODUCTION AND ENVIRONMENTAL PROTECTION

For Powerland it is of particular importance to focus on sustainable production and environmental protection. The Company therefore closely follows the guidance of Chinese laws and regulations which clearly describe what measures companies need to undertake in order to protect the environment. These measures for example include the prevention, reduction and control of gas emissions, noise, sewage and solid industrial waste.

Like all the other companies located in Hushi Industry Park in Putian, Powerland Fujian's production site was verified before the start of production ("Environmental Surrounding Verification of Powerland Fujian"). The verifying organization was Putian Municipal Environmental Protection Science Institute, and the related report was issued in April 2004. It describes that during Powerland's production processes there is solid waste occurring which is either treated together with municipal solid waste or sold or recycled in case of industrial solid waste. In addition the Company has to deal with relatively simple waste water, mainly containing organic elements. This waste water is treated and then discharged into the drain network of the industrial park. Furthermore there are gas emissions occurring which are partly filtered where required and then discharged through a chimney. These gas emissions do not have a large impact on the environment. The report also states that in general only little noise occurs. However, for some workers which are exposed to more mechanical noise ear muffs are mandatory. Powerland Fujian fulfills the requirements of GB/T24001-2004/ISO14001:2004.

RESEARCH AND DEVELOPMENT

One of Powerland's core competencies is the trendsetting design which is based on the long lasting and fruitful cooperation with Studio Turchi. Francesco Turchi and two of his designers are responsible for the creation of 120 designs for Powerland every year.

At the end of 2011, there were 33 Chinese designers and prototype specialists engaged in the Company's luxury segment design. They communicate with their Italian counterparts on a daily basis, and they undertake alterations to adapt the design concepts to Chinese consumer taste. In addition they also give important feedback to Studio Turchi after initial test sales.

Powerland regularly integrates classical Chinese arts elements into the luxury bags' design, e.g. eight galloping horses, Chinese totem patterns and orchid flower patterns. Orchids play a vital part in Powerland's communication strategy since the name "Powerland" was translated into "Bao Lan De", which means "to maintain the spirit of the orchid flower".

Most of the Company's luxury bags and accessories are made of cow leather, but Powerland also experiments with new material solutions e.g. a combination of genuine leather and high quality fabric which is quite challenging in the luxury bag business.

At the end of 2011, there were 53 Chinese designers and prototype specialists engaged in the casual segment's design. They created new bag models for the Sotto brand like fashionable and colorful handbags for women between 18 and 25 years. They also developed collections of bags which incorporate parts of genuine leather. In the casual segment the Chinese designers in addition concentrate on imitations of high end brand designs using classic, neo classic and modern designs – also for the bags that are entirely made of synthetic leather. These measures have been undertaken to further strengthen competitiveness in particular for export markets.

Concerning production technology Powerland is increasingly using computer aided design (CAD) for the luxury as well as for the casual segment in order to create high class prototypes and secure the quality of end products.

EMPLOYEES

As at December 2011 Powerland had a total of 1,398 employees.

At the end of 2011, 110 people were working at the Company's management and administration level to run the Luxury and the Casual segment's business.

The total number of Powerland's employees has been increased substantially in the last years due to the Company's ongoing growth. Like in the past Powerland does not employ any temporary contract workers, but only relies on full-time staff. During 2011 the fluctuation rate was approximately 20 %. Workers in the production lines account for the vast majority of the fluctuation which is at industry level.

The employees benefits for financial years 2010 and 2011 are as follows:

EUR'000	**2010**	**2011**
Wages and salaries	4,611	6,401
Social security contributions	642	690
Other short term benefits	122	300
	5,375	7,391

The increase in employee benefits in 2011 is mainly due to increase in the number of employees.

The number of employees for 2010 and 2011 (each as at 31 December) are as follows:

Category of employees	**2010**	**2011**
Management and administration	84	110
Sales, marketing and procurement	62	282
Design, production and quality assurance	929	1,006
Total employees	1,075	1,398
Change in per cent		+30.0

The summary of length of services for the Powerland's employees for the financial years are as follows:

Years	**31.12.2010**	**31.12.2011**
> 5 years	78	157
3-5 years	201	313
1-2 years	475	572
< 1 year	321	356
	1,075	1,398

Powerland has not only a fast growing but also a young workforce with an educational level that fits the Company's needs. Out of 1,398 employees (at the end of 2011) 962 were between 18 and 30 years old, 409 were between 31 and 40 years old and 27 were above 40 years old. The following table provides an overview of the educational level of Powerland's employees:

Educational level	Number of employees
EMBA	1
MBA	2
Bachelor	86
Associate	322
Others	987
Total	**1,398**

As far as the wage structure is concerned Powerland applies the following strategy. The administrative staff wages are divided into a basic salary, a position related salary and a performance related salary. The workers get a basic salary and a piece rate.

DESCRIPTION OF THE MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM RELATING TO THE FINANCIAL REPORTING PROCESS PURSUANT TO § 315 PARA 2 (5) HGB (GERMAN COMMERCIAL CODE)

An accounting-related internal control system is used to ensure the correctness of the booking and accounting as well as the reliability of the financial reporting in the consolidated and combined financial statements and the Group Management Report.

The Management Board has instituted an accounting-related internal control system for the many organisational, technical and business processes in the Group. This integral element of the consolidated accounting process comprise preventive, monitoring, supervisory and detective security and control measures. An important part is the principle of the separation of duties so that business processes are not held in the same hands. Employees only have access to the processes and information that they need for their work.

With regard to new legal regulations and new or uncommon kinds of business transactions, there is also close contact with the auditors and tax advisers throughout the year. The consolidated financial statements are produced by the Company’s own employees with many years of experience and IFRS accounting.

The internal control and risk management system with regard to the accounting process has the goal of ensuring the correctness and effectiveness of accounting and financial reporting of Powerland Group. It is continually further developed and is an integral part of the accounting and financial reporting process in all relevant legal entities and central functions. To closely monitor business developments and risks within luxury and casual segments, management regularly conducts sales and gross margin analysis, liquidity analysis and monitors the account receivables. As part of the Group’s financial control procedures, variances are also identified and analysed during monthly and quarterly reporting processes for developing corrective measures.

The main features of the internal control and risk management system of Powerland Group relating to the financial reporting process can be described as follows:

- There is a distinct division between the responsibilities of the main areas concerning the financial reporting process. The areas of responsibility are clearly assigned. The integrity and responsibility regarding finance and financial reporting are secured by an independent accounting department.
- All agreements and contracts are reviewed for their accounting relevance in order to ascertain timely recognition and appropriate presentation. The departments and areas involved in the financial reporting system are appropriately equipped in qualitative as well as quantitative respects.
- Accounting data received or passed on is continuously checked with regard to completeness and correctness. Processes exist to guarantee the completeness of financial reporting
- Transactions within the Group are fully accounted for and recorded on separate accounts to ascertain proper elimination during the consolidation process.

The essential features of the internal control and risk management system described above ascertain that corporate measures and transactions are correctly and timely validated, processed, and recorded for the financial reporting in accordance with the relevant requirements. The clear definition of responsibilities and various control and verification mechanisms, safeguard the accuracy and correctness of the financial reporting function. The system also ensures that the assets and liabilities are determined, declared and valued correctly in the financial statements and the consolidated financial statements. It is also ensured that reliable and relevant information will be provided in a complete and timely manner.

RISK AND OPPORTUNITY REPORT

The key risk factors associated with Powerland's operations are identified in the dependence on existing distributors with regard to sales, dependence on OEMs with regard to quality assurance and dependence on Studio Turchi with regards to fashion and design creation. However, Powerland believes that it is in a position to effectively leverage its brand reputation and Company resources to mitigate against these risks. With regard to the Casual segment, potential increases in raw material prices, especially the cotton price, also represent a further key risk factor.

The sale of Powerland's Luxury products is effected almost exclusively through a distribution network in China consisting of 151 distributor-operated-stores (as at 31 December 2011) and 13 self-operated exclusive store (as at 31 December 2011) under the Powerland brand with uniform design standards (the "Powerland Stores"). Powerland stores are managed or controlled by independent distributors which have been granted rights to sell Powerland products at specific locations in China under distribution agreements. Powerland does not have direct control over the management of the Powerland Stores. Powerland's business could therefore be adversely affected if Powerland Stores are managed ineffectively or inappropriately.

Powerland intends to substantially increase the total number of Powerland Stores from 164 (as at 31 December 2011) to approximately 300 within the next 2-3 years. During this process, Powerland plans to open and operate 70 flagship and/or exclusive stores. Currently, a majority of the retail stores run by distributors are shop-in-shop stores with an average of 40 m^2 with the planned self-operated flagship stores being, on average, more than double this size. The new Powerland self-operated stores will not only help to reduce the dependence on distributors and increase overall Company margins, but they will also generate substantial expertise in serving the end consumers and point-of-sales ("POS") activities, granting the Company more "know-how" with regards to the management of distributors and experience in better controlling pricing and marketing activities at the pos level.

Although Powerland adopts substantial quality control measures, including onsite inspections on the factory premises of OEMs it engages, the Company plans to further enhance and improve the monitoring of product quality. Following the same principles as those employed in its distribution activities, Powerland introduced its own production facility and produces leather handbags on its own production premises since Quarter 4 of 2011,. The small facility will give Powerland the possibility to test sales and marketing with sample products in some selected stores before the commencement of the new sales seasons, and also enable Powerland to gain additional experience with regard to the entire production process, which in turn can be useful in order to improve the control over the production process within the OEM factories.

Powerland's products can only remain competitive if they continue to meet consumer preferences in terms of quality and design. Powerland might not be able to adapt to changing consumer preferences and offer attractive products on a timely basis. For the products in the Luxury segment, the time span from commencing with the first design to the actual launch of the product is about 18 months. This increases the difficulties of designing a product that meets consumer preferences, as the designer needs to anticipate future trends and preferences very early. If Powerland does not anticipate or adequately respond to evolving market demands or does not meet changing consumer preferences, its ability to sell its products may be limited and the appeal of its brand may be reduced.

In order to maintain the trend-setting and creative Company design, Powerland's in house design team will be gradually trained by Studio Turchi in Italy during the next five years. At the same time, Italian designers of Studio Turchi intended to continue to increase their time spent in China, in order to learn and adapt more quickly to the changing consumer preferences of Chinese consumers.

Facing risks of continuing increases in of raw material prices in the Casual segment, Powerland has reacted proactively with price lock provisions in contracts with suppliers. The Company has also been successful in gradually passing part of the raw material price increases onto consumers. At the same time, Powerland has started to shift systematically to higher margin products, e.g. products made out of a combination of fabric and leather within the current portfolio, in order to increase the segmental margin level.

MANAGEMENT OF OPPORTUNITIES

The corporate culture of Powerland is such that entrepreneurial thinking and activity is valued. All employees are therefore encouraged to seek out and take advantage of opportunities, which may also be outside or beyond their own areas of responsibility. Group companies are charged with identifying opportunities in their operations which may, for example, arise as part of their operating activities or as a result of improved market conditions and to exploit these opportunities with the aim of achieving above-budget profits. These are evaluated and measures are drawn up to be able to exploit them. It is also part of the Management Board's responsibility to regularly review strategic opportunities.

RISK MANAGEMENT

Many 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 Powerland. The Group's activities expose it to market risk, strategic risk, financial risk and operatinal 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 Supervisory board 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 Supervisory board. Generally, the Company employs a conservative strategy regarding its risk management. Financial risk are kept at a minimum level, the Company has not used any derivatives or other financial instruments for hedging purposes.

The most important factor for early risk detection is the day-today involvement of the Management Board under the leadership of the Company's largest shareholder, Mr Guo Shunyuan, in the company's operations and development of all aspects of the value chain. Discussions around the identification and evaluation of potential risks are an integral part of all Management Board meetings and some Supervisory Board meetings. The finance department produces detailed monthly reports on the financial performance and financial situation as well as updates on the current operational position of the Group.

The risks which are relevant to Powerland can be divided into external risks, i.e. market and sector specific risks, and internal risks. The latter include strategic, financial, operational and business related risks.

External risks
Sector and market-related risks
Powerland experienced above-average growth in 2011 compared to the general trend in the bags industry. A sustained weakness in or worsening of the economy, particularly in the home market of the Peoples' Republic of Chinese, could have a negative impact on consumer demand and thus on demand for Powerland products, with resulting reductions in sales and pressure on margins. In addition, the core retail markets in which Powerland operates are characterised by intense competition, which could intensify even further in the future. Powerland counters these risks with a growth-oriented company strategy, which includes further expansion in the domestic markets.

Fluctuations in supply and demand in the supply and commodity markets could lead to supply bottlenecks, problems with the quality of raw materials and increased logistics and manufacturing costs which cannot be (completely) compensated for by higher retail prices. Powerland deals with these risks on the one hand by pursuing a targeted supplier policy that concentrates on reliable business partners and, on the other hand, with the further expansion of the retail business, which allows greater flexibility when it comes to margins and an enhanced ability to compensate for price fluctuations in the supply markets.

Internal risks
Strategic risks
One of the reasons why Powerland has grown so successfully is that trends in the market are identified quickly, acted upon swiftly. Should Powerland fail to identify current trends quickly and match the tastes of its target groups in its target markets, or fail to set prices acceptable to the market or develop and supply new products successfully, this could have a negative effect on the Group's competitive position, growth chances and profitability. However, its closeness to its customers through its self-operated stores as well as distributor-operated stores also opens up opportunities for Powerland, as customer reactions are used to identify and implement new trends swiftly.

The further establishment and reinforcement of the Luxury and Casual segments could fail in spite of the careful marketing strategy, which would impact on growth perspectives. For this reason, great value is placed on protecting and maintaining Powerland's brand image. The increasing expansion in the Luxury segment through self-operated retail stores reduces dependence on major accounts.

Powerland is in a position to exploit opportunities arising out of the expansion of the controlled retail space. Difficult market conditions in the recent past have opened up new opportunities for growth. For example, there are now prime locations available which make it easier for Powerland to site its own retail stores. When selecting sites and opening new stores, Powerland follows a rigid qualifying process with regard to economic criteria, location and investment parameters, so as to counter the risk of opening a badly located or unprofitable store from the outset.

Powerland can exploit the increased media interest caused by the successful IPO to increase brand awareness and improve its brand profile. The dynamic growth of the Group likewise contributes to heightened brand awareness. This presents Powerland with the opportunity of further increasing visibility amongst its target groups.

Financial risks
Powerland is exposed to currency, interest rate, liquidityand counterparty risks in its ordinary business activities which could have an influence on the financial position and results of operations of the Group.

Risks relating to financial instruments are in particular exchange rate risks in relation to the sales invoicing to foreign customers, as well as interest rate risk with respect to the variable-rate loans entered into during the year. The Management Board continuously monitors the level of risk and the costs and benefits of entering into hedging transactions. At present this is not considered necessary.

Currency risks

The Group's consolidated and combined financial statements for the periods under review were prepared in EUR and its future consolidated financial statements will be prepared in EUR, while Powerland Group's operating currency is RMB, which is currently not a freely convertible currency. A devaluation of the RMB versus the EUR would therefore have an adverse currency translation effect on the Group's consolidated financial statements. As the value of the RMB is controlled by PRC authorities, it is also possible that foreign exchange policies of the PRC government could have a significant impact on currency exchange rates.

However, the operational activities of Powerland Group are mainly in RMB and are not influenced by the fluctuations in foreign exchange rates except for certain transactions carried out by the parent company and the translation of the financial statements from RMB to EUR.

Finance and liquidity risks

The management of liquidity risks is one of the main responsibilities of the finance and operation departments. Liquidity risk is the risk that payment obligations cannot be met or not met on time because of insufficient funds. Short and long term borrowings will be undertaken as the management sees as appropriate. Powerland has sufficient lines of credit available to it to be able to compensate for the seasonal fluctuations in liquidity that are a feature of the sector.

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. Liquidity needs are monitored closely with any significant cash outflows being considered against prevailing liquidity position prior to it being committed.

In order to finance its growth strategy, Powerland Group may have to raise additional capital in the future through debt or equity offerings. Powerland Group cannot be certain that suitable financing will be available in the required amounts or on acceptable terms. If additional equity or equity-linked securities are issued, this may result in the dilution of existing shareholders' holdings. If additional debt is incurred, this would result in debt service obligations which could have a negative impact on profitability and could increase Powerland Group's vulnerability to general adverse economic and industry conditions or to the materialization of any of the risks mentioned herein. In addition, the terms of any financing agreement could limit Powerland Group's ability to pay dividends or restrict Powerland Group's flexibility in planning for, or reacting to, changes in its business or its industry. In addition, Powerland Group's subsidiaries in China are subject to foreign exchange registration and approval if they intend to borrow funds from entities outside of China. Furthermore, the Group needs to obtain approval of registration if the Powerland Group intends to secure financing through equity contributions. In the event that it cannot obtain necessary financing on reasonable terms, or at all, it may be forced to scale back its plans for future business expansion. The Powerland Group's subsidiaries in China are also subject to certain restrictions on the amount of foreign debt they can borrow.

Credit risks

Receivables may give rise to credit risk which requires the loss to be recognised if a counter party fail to perform as contracted. The Group's exposure to credit risk is influenced by the individual characteristic of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. The credit risk with regard to customers arises from the granting of payment periods and thus the default risks associated with this.

In order to minimise default risk in operations, the Group extends credit to its customers based upon careful evaluation of the customer's financial condition and credit history on an ongoing basis.

Dividend payment risk
The decision on future dividend payments is always dependent on the circumstances at the time, which includes the earnings situation, the Company's funding and investment requirements, and the availability of net profit (each as reported in the Company's financial statements).

The income and expenses of Powerland fall mainly in RMB, therefore exchange rate changes could have a negative impact on the net income of Powerland AG, which could also affect dividend payments.

Operational risks
Sales and inventory risk
As a consequence of expanding its own retail presence in the Luxury segment with the new opening of retail self-operated-stores, Powerland is exposed to growing sales and inventory risk. Additionally, the opening up of new stores is linked to increased expense and uncertainty with regard to future profitability.

The opening of more self-operated stores as part of retail expansion also calls for increased investment and leads to increased personnel and rental costs. There is no guarantee that this increased expense can be compensated with higher margins, or that new own stores can be run as profitable units. The expansion in the Luxury segment therefore constitutes a higher business risk for the Powerland Group.

For the sales to distributors in the Luxury segment, the sales and inventories risk is normally reduced by "make to orders" i.e. Powerland only place orders with its OEM suppliers once the order has been received from distributors.

In the Casual segment, the sales and inventories risk is also normally reduced by "make to orders" i.e. Powerland only produce once the order has been placed by its customers.

Quality risk
Assuring the consistent high quality of Powerland products, close collaboration with suppliers and other contractual partners are called for. This engenders procurement, production and logistics risks. One risk factor is the potential loss of product quality. In order to ensure stable supply relationships resulting in consistently high product quality and attractive prices for its constantly changing collections, in the area of sourcing Powerland works with purchasing agents and manufacturers, and has done proper evaluation before choosing one. Evaluations and sampling testing are carried out regularly at all the production units to ensure that high standards of quality are being upheld. Each manufacturer is responsible for quality control in the first instance, manufacturing and checking the goods according to precise quality benchmarks.

Business-related risks
IT risks
It is essential that modern IT systems are available and functioning if business processes are to be managed properly and costs controlled. A failure of these systems would impact on business processes and could lead to higher costs. It cannot be ruled out that data might be lost in the event of damage caused by, for example, fire, a power failure, system errors, attacks by hackers, fraud or

terrorism. Powerland will continue to invest in the further development of its IT systems in order to ensure system availability and functionality at all times and to increase process efficiency.

Legal risks
Legal risks typically arise from issues connected to industrial law, industrial property rights, product liability and warranties, or through the introduction of new laws or changes to existing laws or the interpretation thereof. The violation of an existing regulation may result from ignorance or negligence. In order to counter these risks in an appropriate and timely manner, potential risks are analysed thoroughly, calling on the expert knowledge of external specialists. Despite these measures, the outcome of any ongoing or future proceedings cannot be predicted with certainty. Legal disputes can be costly, even if the Company's case is upheld, and could damage Powerland's image.

In order to protect its trademark rights, Powerland monitors the trademark registrations that could be mistaken for its brand names or the PLD logo. If a confusingly similar brand is discovered or the Powerland brand name is used without permission, the necessary legal steps, i.e. usually the registering of objections, are taken immediately.

Employee risks
By continuously strengthening the management team with experienced professionals, the risk of overly depending on a few key individuals in the management team is reduced. The company's growth is increasingly driven by decentralizing activities and decision making to an operational level. It is expected that even if there was a sudden change in key management personnel, the operations of the Company would continue to run smoothly.

Summary of the Group risk situation
Based on our current assessment, the Powerland Group is not exposed to any significant risks that could endanger its continued existence in the foreseeable future.

VI. REMUNERATION REPORT

Compensation of Management Board Members

For the fiscal year 2011, the members of the management board received the following fixed remuneration of which they are not entitled to receive any further, particularly performance-based remuneration, except for the Mr. Hock Soon Gan (CFO) who was entitled to a bonus upon successful listing:

Name	2010 EUR'000	2011 EUR'000
Shunyuan Guo	16	56
Hock Soon Gan		
- fixed	6	107
- variable	-	335
Qingsheng Cai	9	23
Yongliang Guo	4	23

Compensation of Supervisory Board Members

In accordance with German Stock Corporation Law, the Supervisory Board members do not have service agreements with the Company. According to § 113 para. 2 sentence 1 of the German Stock Corporation Act，their remuneration can only be determined by the General Shareholder's Meeting that approves their actions in the first short financial year of the Company, which will be held in 2012.

The members of the Management Board and Supervisory Board intend to propose to that General Shareholders' Meeting to adopt the following remuneration for the Supervisory Board members:

Function	Fixed annual remuneration in EUR'000	Variable remuneration	Attendance fee for board meetings in EUR'000
Dr Peter Diesch, Chairman of the Supervisory Board	60	0.1% of annual net profit	2.5
Mr Volker Potthoff, Deputy Chairman of the Supervisory Board	35	N/A	2.5
Mr Hsueh Yi Huang, Ordinary member of the Supervisory Board	20	N/A	2.5

Every member of the Supervisory Board is entitled to reimbursement for expenses incurred for the purpose of his office, as well as VAT, if applicable. The Supervisory Board members are not entitled to any special benefits upon termination of their office.

The summary of the total remuneration of the members of the Supervisory Board for the financial years in the total amount of EUR 140 thousand which are included in the accrued expenses are as follows:

Name	2010 EUR'000	2011 EUR'000
Dr Peter Diesch		
- fixed	-	61
- variable	-	19
Mr Volker Potthoff	-	36
Mr Hsueh Yi Huang	-	24
	-	140

The former Supervisory Board members did not receive any remuneration from the Company.

VII. STATEMENTS AND REPORT PURSUANT TO SEC. 315 PARA 4 HGB (GERMAN COMMERCIAL CODE)

1. SUBSCRIBED CAPITAL

The share capital of Powerland AG amounts to EUR 15,000,000.00 and is divided into 15,000,000 no par value bearer shares with a notional amount of EUR 1.00 each.

2. RESTRICTIONS REGARDING VOTING RIGHTS AND THE RIGHT TO TRANSFER SHARES

Each single share grants one voting right under the Articles of Association of Powerlamd AG. The Management Board is not aware of restrictions regarding voting rights and the right to transfer shares.

3. DIRECT OR INDIRECT PARTICIPATION IN SHARES

At the time of the issue of the Group Management Report, the Chairman of the Management Board of Powerland AG, Mr. Guo Shunyuan, held 58.1% of the shares of Powerland AG through Powerland Group Holding Ltd. and Guo GmbH & Co. KG, of which Powerland Group Holding Ltd. held 100% of the shares of Guo GmbH & Co. KG. Powerland Group Holdings Ltd. is an entity wholly owned by Mr. Guo Shunyuan.

4. SHARES WITH EXCLUSIVE RIGHTS

There are no shares with exclusive rights which grant control rights.

5. EXERCISE OF VOTING RIGHTS OF EMPLOYEES

Employees, who are shareholders in Powerland AG, exercise their voting rights on their own discretion or by an authorized person. There is no voting right control of employees, who are shareholders, existing.

6. APPOINTMENT AND DISMISSAL OF MANAGEMENT BOARD MEMBERS

The Supervisory Board determines the size of the Management Board which, under the Company's Articles of Association, must have at least 2 members. The Supervisory Board may appoint one Management Board member as chairman or spokesman and another member as deputy chairman or spokesman. Furthermore, the Supervisory Board may appoint further members of the Management Board.

Members of the Management Board are appointed by the Supervisory Board for a maximum term of five years. The Management Board of Powerland AG currently comprises four members appointed by the Supervisory Board for a period not exceeding five years ending 21 February 2016 for Chairman of Management Board and not more than three years ending 21 February 2014 for other members.

Reappointment or extension of the term, for a maximum of five years in each case, is permissible upon a resolution of the Supervisory Board that may be adopted not earlier than one year prior to the expiration of the current term of office. The Supervisory Board may revoke the appointment of a Management Board member prior to the expiration of its term for good cause, such as for gross breach of fiduciary duties or if the General Shareholders' Meeting adopts a no-confidence resolution in relation to the Management Board member in question.

In urgent cases, the local court (Amtsgericht) may appoint a missing and required management board member upon application by any person with interests meriting protection (e.g. other management board members) (§ 85 AktG).

7. AMENDMENTS OF THE ARTICLES OF ASSOCIATION

The Articles of Association can only be amended by a resolution of the general shareholders' meeting according to § 179 AktG (German Stock Corporation Act). Beside this the Supervisory Board is pursuant to the Articles of Association entitled to make changes to the Articles of Association, provided that these changes only concern the wording or form.

8. AUTHORITY OF MANAGEMENT BOARD TO ISSUE NEW SHARES

8.1 Authorised Capital

The management board is authorised to increase the share capital of the Powerland AG with the consent of the supervisory board once or several times by up to EUR 5,000,000.00 by issue of up to 5,000,000.00 shares in consideration of contributions in cash or in kind (the "Authorised Capital 2011") until 20 February 2016. Authorisation exists for the issuance of common shares and or alternatively preferred shares without a voting right. The management board is further authorised, in each case with the consent of the Supervisory Board, to exclude the pre-emptive rights of the shareholders. An exclusion of the pre-emptive rights, however, is only admitted in the following cases:

- if the new shares are issued to acquire enterprises, shares in enterprises or parts of an enterprise;
- for fractional amounts;
- for granting shares to employees and members of the management of the Company or of a connected enterprise in connection with employees' participation programs;
- if the shares are issued in consideration of contributions in cash at an issue price which is not substantially below the stock exchange price and the exclusion of the pre-emptive rights is only applied to new shares that represent not more than 10 % of the share capital; for the calculation of the 10 % limitation any other exclusion of the pre-emptive-rights according to Section 186, paragraph 3, sentence 4 of the Stock Cooperation Act (Aktiengesetz) has to be taken into account;

- to list shares of the Company or certificates representing shares of the Company on domestic or
- foreign stock exchanges where they are not listed yet;
- to the extent necessary to grant holders of convertible bonds, convertible profit participation rights (Genussrechten), or stock options pre-emptive rights that they would have in case they became shareholders.

A capital increase where the pre-emptive rights are excluded may not exceed 10 % of the share capital existing at the time when this authorisation is made use of, if such capital increase serves for an employees' participation programme. The management board decides with the consent of the Supervisory Board on the rights to and the conditions of issuance of new shares to be generated through the Authorised Capital 2011.

8.2 Conditional Capital 2011

The extraordinary general meeting of shareholders held on 22 March 2011 resolved upon the creation of conditional capital (bedingtes Kapital) consisting of up to 500,000 new ordinary bearer shares with no par value of an aggregate amount of up to EUR 500,000 (Conditional Capital 2011). The Conditional Capital 2011 will lead to an actual increase of the Company's share capital only to the extent that the holders of option rights granted by the Company in connection with the Stock Option Plan 2011 exercise their option rights.

The new shares will participate in the Company's balance sheet profits from the start of the financial year in which they are created as a result of the exercise of the pre-emptive right.

9. CHANGE OF CONTROL PROVISIONS

There do not exist any agreements with Powerland AG, which are subject to the condition of a change of control due to a take-over offer.

10. AGREEMENTS ON COMPENSATION IN CASE OF A TAKE-OVER OFFER

There do not exist any agreements between the members of the Management Board or employees and Powerland AG which provide for compensation in case of a change of control due to a take-over offer.

VIII. MATERIAL EVENTS AFTER THE REPORTING PERIOD

No material events occurred since 31 December 2011.

As at the reporting date, there were no further note-worthy operational and structural changes or business transactions in the Powerland Group that have significantly changed the asset, financial and earnings situation since 31 December 2011.

IX. OUTLOOK

We believe China's macroeconomic situation will remain healthy in 2012, which should sustain market demand for our products. Continued urbanization and government policies designed to increase domestic consumption as a percentage of GDP are likely to benefit the company.

Management aims to achieve higher sales in 2012 and 2013 than in previous years. The consolidated EBIT should also rise, both as reported and on an adjusted basis. We anticipate the Luxury segment to be the company's primary source of higher sales and earnings.

The Luxury segment has grown strongly since its inception in 2007/2008, thanks to China's growing number of middle-income consumers, development of a nationwide sales network, and enhanced brand awareness among consumers. Management believes that new store openings and increased productivity from the 54 stores opened in 2011 (including 13 self-operated stores) will contribute substantially to segment growth in 2012. A further significant increase in sales and profitability is planned the year after.

The Casual segment faces a challenging market environment. The company plans to overcome weak market demand by further improving product quality and design and by increasing the product range. Powerland will also place greater emphasis on developing the Sotto brand and increase production capacity for the purpose of bidding for large batch orders for synthetic leather-based handbags from domestic and overseas markets. We also believe a further growth in 2012 in sales of Casual segment as well as an increase in profitability as compared to previous year, with further increase in sales and profitablility in 2013.

Powerland's results should improve due to our "cost plus" pricing strategy and a series of existing initiatives, such as, more efficient usage of working capital, improved cash flow management, better cost control and supply chain oversight. Optimizing the Luxury segment product portfolio and launching new and innovative Casual products should further enhance results.

The aim of Powerland is for its shareholders to participate proportionately in the Company's future success. These forecasts are based upon certain assumptions and the actual outcome may differ from the forecasts.

The outlook for 2012 and 2013 takes into account all events known at this time that could influence the business development of the Group. However, political and economic uncertainties over which the Powerland Group has no influence could result in actual business developments that may deviate from the forecast.

Consolidated and Combined Financial Statements and Notes

Consolidated and Combined Statements of Income and Expenses.

for the Financial Year ended 31 December 2011

EUR'000	Note	2010	2011
Revenue	7	112,635	146,948
Cost of sales	8	– 67,865	–81,954
Gross profit		44,770	64,994
Other income	9	85	89
Selling and distribution costs	10	– 11,234	– 19,643
Administrative and other expenses	11	– 6,603	– 13,191
Profit from operations		**27,018**	**32,249**
Finance income	12	26	32
Finance costs	12	– 946	– 4,809
Profit before tax		**26,098**	**27,472**
Tax expense	13	– 3,481	– 9,135
Net profit		**22,617**	**18,337**
Net profit attributable to owners of the parent company		22,617	18,337
Basic and diluted earnings per share (EUR)	16	2.26	1.35

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentation currency (EUR).

Consolidated and Combined Statements of Comprehensive Income

for the Financial Year ended 31 December 2011

EUR'000	Note	2010	2011
Net profit		**22,617**	**18,337**
Other comprehensive income/(expense)			
Exchange differences on translating foreign operations	25	2,302	13,463
Total comprehensive income		**24,919**	**31,800**
Net profit attributable to owners of the parent company		22,617	18,337
Total comprehensive income attributable to owners of the parent company		24,919	31,800

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentation currency (EUR).
The accompanying notes form an integral part of the consolidated and combined financial statements.

Consolidated and Combined Statements of Cash Flows

for the Financial Year ended 31 December 2011

EUR'000	Note	2010	2011
Cash flows from operating activities			
Profit before tax		26,098	27,472
Adjustments for:			
Amortisation of intangible assets	19	12	12
Depreciation of land use rights	18	69	106
Depreciation of property, plant and equipment	17	327	1,051
Loss on disposal of property, plant and equipment		2	–
Unrealised forex		–	566
Interest income		– 26	– 32
Interest expenses		822	1,358
Non-operating items		–	2,335
Operating profit before working capital changes		27,304	32,868
Changes in inventories		– 2,102	– 1,183
Changes in trade and other receivables		– 11,233	– 13,174
Changes in trade and other payables		15,716	– 4,392
Cash generated before tax payments		29,685	14,119
Income taxes paid	28	– 3,582	– 7,772
Net cash generated from operating activities		26,103	6,347
Cash flows from investing activities			
Interest received		26	32
Sales proceeds from disposal of property, plant and equipment		35	–
Purchase of intangible assets	19	–	– 147
Purchase of land use rights	18	– 1,728	–
Purchase of property, plant and equipment	17	– 15,056	– 22,080
Net cash used in investing activities		– 16,723	– 22,195

Cash flows from financing activities			
Additional capital contributed by the subsidiaries		1,465	–
Proceeds from IPO		–	75,000
IPO expenses paid		–	– 7,534
Dividend paid	14	– 16,695	–
Drawdown of borrowings		21,754	29,053
Repayments of borrowings		– 8,589	– 27,188
Interest paid		– 822	– 1,358
Net cash (used in)/from financing activities		– 2,887	67,973
Net increase in cash and cash equivalents		6,493	52,125
Cash and cash equivalents at the beginning of the year		7,718	15,319
Effect on exchange rate changes		1,108	8,702
Cash and cash equivalents at the end of the year	23	15,319	76,146

The accompanying notes form an integral part of the consolidated and combined financial statements.

CONSOLIDATED AND COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

EUR'000	Note	31.12.2010	31.12.2011
ASSETS			
Non-current assets			
Property, plant and equipment	17	20,358	44,617
Land use rights	18	4,375	4,529
Intangible assets	19	79	231
Deferred tax assets	20	–	800
Total non-current assets		**24,812**	**50,177**
Current assets			
Inventories	21	7,518	9,277
Trade and other receivables	22	24,846	40,734
Current tax assets	28	6	-
Cash and cash equivalents	23	15,319	76,146
Total current assets		**47,689**	**126,157**
TOTAL ASSETS		**72,501**	**176,334**

EQUITY AND LIABILITIES			
Equity			
Share capital	24	–	15,000
Capital reserve	25	–	65,353
Foreign exchange translation reserve	25	3,215	16,678
Consolidation reserve	25	23,990	32,327
Total equity		**27,205**	**129,358**
Liabilities			
Non-current liabilities			
Borrowings	26	3,729	1,981
Current liabilities			
Trade and other payables	27	22,476	19,700
Borrowings	26	18,137	23,280
Current tax liabilities	28	954	2,015
Total current liabilities		**41,567**	**44,995**
Total liabilities		**45,296**	**46,976**
TOTAL EQUITY AND LIABILITIES		**72,501**	**176,334**

The accompanying notes form an integral part of the consolidated and combined financial statements.

CONSOLIDATED AND COMBINED STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

					Consolidation reserve		
EUR'000	**Note**	**Share capital**	**Capital reserve**	**Foreign exchange translation reserve**	**Non-distributable**	**Distributable**	**Total equity**
1 January 2010		–	–	913	9,708	6,894	17,515
Additional paid-in capital		–	–	–	1,466	–	1,466
Total comprehensive income		–	–	2,302	–	22,617	24,919
Dividends	14	–	–	–	–	–16,695	–16,695
Transfer to statutory surplus reserve		–	–	–	6	–6	–
Transfer to other reserves		–	–	–	1,142	–1,142	–
Paid in capital		–	–	–	–	–	–
31 December 2010		**–**	–	**3,215**	**12,322**	**11,668**	**27,205**
Total comprehensive income		–	–	13,463	–	18,337	31,800
Transfer to statutory surplus reserve		–	–	–	2,382	–2,382	–
Transfer to other reserves		–	–	–	238	–238	–
Paid-in capital	24	10,000		–	– 10,000	–	–
Proceeds from IPO, gross		5,000	70,000	–	–	–	75,000
Charging IPO costs directly to equity		–	– 5,199	–	–	–	– 5,199
Deferred taxes on IPO expenses charged to equity		–	552	–	–	–	552
31 December 2011		**15,000**	**65,353**	**16,678**	**4,942**	**27,385**	**129,358**

The accompanying notes form an integral part of the consolidated and combined financial statements.

NOTES TO THE CONSOLIDATED AND COMBINED STATEMENTS

1 GENERAL INFORMATION

The consolidated and combined financial statements include the financial statements of the holding company, Powerland AG (the “Company”) and its subsidiaries. These subsidiaries are Fujian Powerland Leather Case & Products, Co. Ltd. (“PFL”) and Guangzhou Powerland Leather Case & Products, Co. Ltd. (“PGL”), which are located in the Peoples’ Republic of China (“PRC”), and Powerland International Holdings Limited (“Powerland Hong Kong” or “PHK”), which is located in Hong Kong, Special Administrative Region of the Peoples’ Republic of China (“Hong Kong”).

The English names of certain companies/parties referred to in the consolidated and combined financial statements represent unofficial translation of their registered Chinese names by management and these English names have not been legally adopted by these entities.

HOLDING COMPANIES

Guo GmbH & Co. KG is the direct parent company of Powerland AG, which is incorporated in Germany. The ultimate holding company is Powerland Group Holding Ltd., which is incorporated Hong Kong. Both parent companies do not prepare a Group consolidated financial statement.

Powerland AG (the “Company”)

The Company is the parent company and a German stock corporation (Aktiengesellschaft). The legal seat (Satzungssitz) of the Company is in Frankfurt. The Company is registered with the commercial register (Handelsregister) of the local Court (Amtsgericht) in Frankfurt under registration number HRB 90460. The Company’s financial year is the calendar year (that means 1 January through 31 December). The Company has been established for an unlimited period of time.

Powerland AG’s shares are traded in the Prime Standard, a special segment of the regulated market (Regulierter Markt) of the Frankfurt Stock Exchange. The first day of trading of Powerland’s shares occurred on 11 April 2011.

All subsidiaries of the Company are consolidated and combined with their financial data according to the International Financial Reporting Standards. In summary:

		Share directly held %	Equity EUR’000	Profit/(Loss) for the year EUR’000
PHK	31 December 2010	100	21,307	–
	31 December 2011	100	28,744	18,271
PFL	31 December 2010	100	24,215	22,673
	31 December 2011	100	55,627	23,608
PGL	31 December 2010	100	2,989	(56)
	31 December 2011	100	24,052	(14)

Current PRC regulations permit the payment of dividends only out of accumulated profits determined in accordance with Chinese accounting standards and regulations. In addition, the Company's PRC subsidiaries are required to set aside at least 10% of their after-tax profits each year to fund a statutory reserve fund until such reserves in aggregate reach 50% of their registered capital and may be required to set aside a portion of their profits to fund an employee welfare fund. These reserves are not distributable as cash dividends.

Under PRC foreign exchange rules and regulations, payments of current account items, including profit distributions and operating-related expenditures, may generally be made in foreign currencies without prior approval but are subject to procedural requirements. Strict foreign exchange controls generally apply to capital account transactions. These transactions must be approved by and/or registered with the State Administration of Foreign Exchange ("SAFE") or its local counterparts, and repayment of loan principal, distribution of return on direct capital investment and financial investments are also subject to restrictions.

2 NATURE OF OPERATIONS

Powerland AG and its subsidiaries (hereinafter referred to as “the Group”, “Powerland Group” or “Powerland”) are principally engaged in the designing, manufacturing, and sale of luggage, bags and leather products. There have been no significant changes in the principal activities during the financial year under review.

The Group’s products are sold in China and overseas markets, under the Group’s own brands name “Powerland” for Luxury segment products and “Sotto” for Casual segment products as well as under other third party brand names (i.e. Original Equipment Manufacturer (“OEM”) mode).

Powerland’s retail distribution network for Luxury segment consists of outlets being operated mostly by unaffiliated outlet owners who have been engaged by unaffiliated distributors that Powerland appointed. Powerland only has contractual relationships with the unaffiliated distributors based on standardised distribution agreements. Powerland’s has also opened its self-operated stores to sell the luxury segment products.

3 BASIS OF PREPARATION

The consolidated and combined financial statements of Powerland AG for the year ended 31 December 2011 have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively referred to as “IFRS”) issued by the International Accounting Standards Board (“IASB”), including the IFRS Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union (“EU IFRSs”), and in accordance with the additional corresponding rules of the German Commercial Code pursuant to Sec. 315a Para 1 HGB. Powerland AG has prepared for the first time consolidated and combined financial statements in accordance with the EU IFRSs. Due to this initial application of EU IFRSs the consolidated and combined financial statements of Powerland Group were adopted to the EU IFRSs beginning 1 January 2010. Therefore no significant changes were necessary.

The principal accounting policies adopted in the preparation of the consolidated and combined financial statements are set out below. These policies have been applied consistently and also formed the basis of preparation for the consolidated and combined financial statements (prepared at Powerland Hong Kong level).

The consolidated and combined financial statements have been generally prepared under the historical cost convention except as otherwise stated in the consolidated and combined financial statements.

The preparation of consolidated and combined financial statements requires the Directors to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities. In addition, the Directors are also required to exercise their judgement in the process of applying the accounting policies. The areas involving such judgements, estimates and assumptions are disclosed in Note 6 to the consolidated and combined financial statements. Although these estimates and assumptions are based on the Directors’ best knowledge of events and actions, actual results could differ from those estimates. Thus, the Directors of the Company are responsible for preparing the consolidated and combined financial statements.

The operating subsidiaries in China (“Chinese subsidiaries”) maintain their accounting records in RMB and prepare their statutory financial statements in accordance with Chinese generally accepted accounting practice. The financial statements of these subsidiaries have been included in the consolidated and combined financial statements on the basis of their statutory records, with adjustments and reclassifications recorded for the purpose of the fair presentation in accordance with EU IFRS.

The consolidated and combined financial statements are presented in thousands of Euro (“EUR’000”), unless otherwise stated.

All subsidiaries of the Company are consolidated and combined.

4 SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of consolidation

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

Income and expenses of subsidiaries are included in the consolidated and combined statements of income and expenses and statements of comprehensive income from the effective date of obtaining control of these companies and up to the effective date of loosing control, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

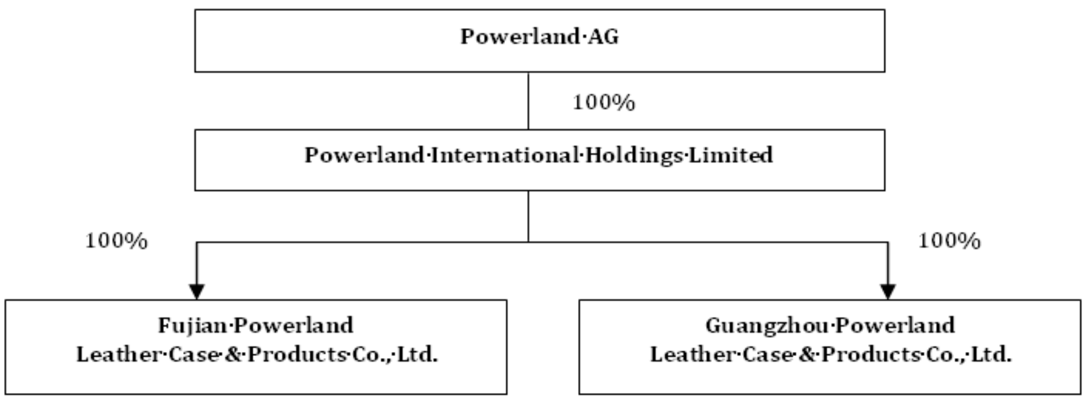
The financial statements of the subsidiaries are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for similar transactions and events in similar circumstances.

Individual line items have been summarized in the consolidated and combined statement of income and expenses and statements of comprehensive income and the consolidated statements of financial position to aid clarity of presentation. These items are disclosed and explained separately in the notes.

All items of income and expenses recognised during the period have been presented in a consolidated statement of income and expenses and in a statement of comprehensive income. The function of sales method has been used in classifying expenses in the consolidated statement of income and expenses and in the consolidated statement of comprehensive income.

4.1.1 Business combinations involving entities under common control

The current Powerland Group was constituted in 2011 by a series of transactions to set up the group structure. This involved the establishment of the Company as holding company and the acquisition of Powerland Hong Kong, which in return holds all the shares in the PFL and PGL in the PRC.



During the restructuring transactions, taking place in stages between fiscal years 2010 and 2011, the ultimate controlling party of all entities involved has been Mr. Shunyuan Guo. Therefore all share transfer agreements, by which the new group structure has been set up, involved the combination of entities under common control.

Under current IFRS standards, these transactions between entities under common control which qualify as a business combination are not subject to IFRS 3; the scope exclusion is expressed as "a combination of entities or businesses under common control". For the purpose of the exemption from IFRS 3, a business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination. The standard notes that an entity can be controlled by an individual, or by a group of individuals acting together under a contractual agreement, and that the individual or group of individuals may not be subject to the financial reporting requirements of IFRSs.

Thus, a transaction involving entities controlled by the same individual - including one that results in a new parent entity – would be beyond the scope of IFRS 3, and there is no guidance elsewhere in IFRS which covers the accounting for such transactions.

The Group is regarded as continuing entity resulting from the reorganisation exercise since the management of all the above entities, which took part in the reorganisation exercise were controlled by the same management and under the common controlling party, i.e. Mr. Shunyuan Guo before and immediately after the reorganisation exercise. Consequently, there was a continuation of the control over the entities' financial and operating policy decision and risk and benefits to the ultimate control party that existed prior to the reorganisation exercise. The reorganisation exercise has been accounted for as restructuring transactions under common control.

In the absence of an international standard or interpretation that specifically applies to a transaction, paragraph 10 to 12 of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" set out the approach to be followed. This requires, among other things, that where IFRS does not include guidance for a particular issue, Powerland's management should select an appropriate accounting policy. Under this circumstance, the predecessor accounting method in a manner similar to the pooling of interest method of accounting has been applied for the accounting of the combinations of Powerland Hong Kong with the business of the two operating entities, PFL and PGL, and subsequently, of Powerland AG with Powerland Hong Kong. The predecessor accounting method combines and presents the financial information of the Group as if Powerland AG, and the entities combined have always been part of the Group. Accordingly, the assets and liabilities transferred to Powerland AG have been recognised at historical cost.

The accompanying consolidated and combined financial statements present the financial information of the Company and its subsidiaries as if the Group had been in existence as a single economic enterprise throughout the periods presented and as if Powerland Hong Kong, together with its wholly-owned Chinese subsidiaries, were transferred to the Company as of 1 January 2010. Assets, liabilities, revenue and expenses of Powerland AG, Powerland Hong Kong and the two Chinese subsidiaries as shown in their individual financial statements for the period prior to the legal formation of the Company were combined or aggregated and consolidated and combined in preparing the consolidated and combined financial statements.

4.2 Foreign currencies

4.2.1 Functional currency

The Management Board has determined the currency of the primary economic environment in which the Group operates, to be Chinese Yuan or Renminbi ("RMB") as the functional currency of the Group. Sales and major costs arising from the provision of goods and services including major operating expenses are primarily influenced by fluctuations in RMB.

4.2.2 Foreign Currency Transactions

Transactions in foreign currencies are measured in the respective functional currencies of the consolidated and combined entities and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date 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 values are determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in the consolidated and combined statements of comprehensive income as exchange differences arising on the settlement of foreign subsidiaries. These exchange differences are recognised in a separate component of equity as foreign currency translation reserve in the consolidated and combined statements of financial position.

4.2.3 Presentation currency

The presentation currency of the Group is EUR using a German holding company which was established in 2011. The consolidated and combined financial statements have been translated from the functional currency, RMB to EUR at the following rates:

	Period end rates	**Average rates**
31 December 2010	RMB 1.00 = EUR 0.1145	RMB 1.00 = EUR 0.1113
31 December 2011	RMB 1.00 = EUR 0.1216	RMB 1.00 = EUR 0.1112

The results and financial position are translated into EUR using the following procedures:

Assets and liabilities for each statement of financial position are presented at the foreign exchange rate ruling at the reporting date. Income and expenses for consolidated and combined statements of comprehensive income are translated at average exchange rates for the period. Exchange differences are charged or credited to other comprehensive income and recognised in the currency translation reserve in equity.

On disposal of an operation with functional currency different to presentational currency the cumulative translation differences recognised in other income are classified to profit or loss and recognised as part of the gain or loss on disposal.

4.3 Property, plant and equipment and depreciation

All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. These expenses comprise also the cost expected for the dismantling and removal of property, plant and equipment and site restoration, to which the Group is obliged.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group is obligated to incur when the asset is acquired, if applicable.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and which has different useful life is depreciated separately.

After initial recognition, property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write off the cost of the assets to their residual values on a straight line basis over their estimated useful lives. The principal depreciation periods are as follows:

Buildings	20 to 39 years
Machinery and factory equipments	10 years
Office and other equipments	3 or 5 years
Motor vehicles	5 years
Renovation	1 to 3 years

Construction-in-progress represents factory building under construction and is stated at cost. Construction-in-progress is not depreciated until such time when the asset is available for use.

At each reporting date, the carrying amount of an item of property, plant and equipment is assessed for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable. A write down is made if the carrying amount exceeds the recoverable amount (see Note 4.6 to the consolidated and combined financial statements on impairment of non-financial assets).

The residual values, useful lives and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the carrying amount is included in profit or loss.

4.4 Land use rights

Land use rights are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged so as to write off the cost of land use rights, using the straight line method, over the period of the grant range from 38 to 50 years, which is the lease term. The depreciation is included within the administrative and other expenses line in the consolidated and combined statements of comprehensive income. Land use rights represent up-front payments to acquire long term interests in the usage of land.

4.5 Intangible assets

Intangible assets are recognised only when the identifiability, control and future economic benefit probability criteria are met. Intangible assets are initially measured at cost.

After initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight line basis over the estimated economic useful lives and are assessed for any indication that the asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. The amortisation expense on intangible assets with finite lives is recognised in profit or loss and is included within the administrative and other expenses line item.

An intangible asset has an indefinite useful life when based on the analysis of all the relevant factors; there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows to the Group. Intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication that the carrying amount may be impaired. Such intangible assets are not amortised. Their useful lives are reviewed each period to determine whether events and circumstances continue to support the indefinite useful life assessment for the asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for as a change in accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Expenditure on an intangible asset that is initially recognised as an expense is not recognised as part of the cost of an intangible asset at a later date.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from the derecognition determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset is recognised in profit or loss when the asset is derecognised.

Software

Software acquired has finite useful life and is shown at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using straight line method to allocate the cost of software over its estimated useful life of five (5) years.

Trademark

Trademark acquired has finite useful life and is shown at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using straight line method to allocate the cost of trademark over its estimated useful life of ten (10) years.

4.6 Impairment of non-financial assets

The carrying amount of non-financial assets except for inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset’s recoverable amount is estimated.

The recoverable amount of an asset is estimated for an individual asset. Where it is not probable to estimate the recoverable amount of the individual asset, the impairment test is carried out on the cash generating unit (CGU) to which the asset belongs.

The recoverable amount of an asset or CGU is the higher of its fair value less cost to sell and its value in use.

In estimating the value in use, the estimated future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. An impairment loss is recognised in profit or loss when the carrying amount of the asset or the CGU exceeds the recoverable amount of the asset or the CGU. The total impairment loss is allocated to the assets of the CGU on a pro-rata basis of the carrying amount of each asset in the CGU.

The impairment loss is recognised in profit or loss immediately. An impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Such reversals are recognised as income immediately in profit or loss.

4.7 Inventories

Inventories are initially recognised at cost, and subsequently stated at the lower of cost and net realisable value.

Cost is determined using the weighted average formula. The cost of raw materials comprises all costs of purchase plus the cost of bringing the inventories to their present location and condition. The cost of work-in-progress and finished goods includes the cost of raw materials, direct labour, other direct cost and a proportion of production overheads based on normal operating capacity.

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.

4.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, an equity instrument of another enterprise, a contractual right to receive cash or another financial asset from another enterprise, or a contractual right to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially favourable to the Group.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or a contractual obligation to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially unfavourable to the Group.

4.8.1 Financial assets

The Group classifies its financial assets into one of the categories: fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, depending on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and either the Group has transferred substantially all risks and rewards of ownership or has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset. The derecognition takes place even when the Group retains the contractual rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement.

As at the reporting dates, except for loans and receivables, the Group does not have any financial assets at fair value through profit or loss, held-to-maturity investments or available-for-sale financial assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant range of changes in value.

Loans and receivables

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

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, 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 receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative and other expenses in the consolidated and combined income statements. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

From time to time, the Group elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in the consolidated and combined statements of income and expenses (operating profit).

The Group's loans and receivables comprise trade and other receivables in the consolidated and combined statements of financial position.

4.8.2 Financial liabilities

The Powerland Group classifies its financial liabilities into one of two categories: fair value through profit or loss and other financial liabilities, depending on the purpose for which the liability was acquired.

All financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated and combined statements of income and expenses.

As at the reporting dates, the Group's financial liabilities comprise trade and other payables and borrowings.

Trade payables and other short term monetary liabilities are initially recognised at fair value (historical cost) and subsequently carried at amortised cost using the effective interest method.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated and combined statement of comprehensive income over the periods of the borrowings using the effective interest method.

4.8.3 Equity

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

Equity evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's ordinary shares are classified as equity instruments.

4.8.4 Compound financial instruments

The component parts of compound instruments (convertible notes) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium/other equity. When the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained profits/other equity. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible notes using the effective interest method.

As at the reporting dates, the Group does not have any compound financial instruments.

4.8.5 Derivative financial instruments

Derivative financial instruments are used to hedge foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

On initial designation of the derivative as the hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80 – 125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported consolidated and combined statements of comprehensive income.

Derivatives are recognised initially at fair value, attributable transaction costs are recognised in the consolidated and combined statements of comprehensive income as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below:

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect consolidated and combined statements of comprehensive income, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the net financial expenses.

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to consolidated and combined statements of comprehensive income in the same period that the hedged item affects consolidated and combined statements of comprehensive income. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified in consolidated and combined statements of comprehensive income.

Separable embedded derivatives

Changes in the fair value of separated embedded derivatives are recognised immediately in the consolidated and combined statements of comprehensive income.

Other non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in consolidated and combined statements of comprehensive income.

As at the reporting dates, the Group does not have any derivative financial instruments.

4.9 Provisions

Provisions are recognised when there is a present obligation, legal or constructive, as a result of a past event, when 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.

Where the effect of the time value of money is material, the amount of a provision will be discounted to its present value at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision will be reversed.

Provisions are not recognised for future operating losses. If the Group has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

4.10 Employee benefits

4.10.1 Short term employee benefits

Wages, salaries, social security contributions, paid annual leave, paid sick leave, bonuses and non-monetary benefits are recognised as an expense in the year when employees have rendered their services to the Group.

Short term accumulating compensated absences such as paid annual leave are recognised as an expense when employees render services that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

Bonuses are recognised as an expense when there is a present, legal or constructive obligation to make such payments, as a result of past events and when a reliable estimate can be made of the amount of the obligation.

4.10.2 Defined contribution plan

The Powerland Group makes contributions to statutory social security schemes. The contributions not paid are recognised as a liability.

4.11 Taxation

(a) Income taxes

Income taxes include all domestic taxes on taxable profit of each single company of the Group.

Taxes in the consolidated and combined statements of income and expenses comprise current tax and deferred tax.

(i) Current tax

Current tax is the amount of income taxes payable or receivable in respect of the taxable profit or loss for a period.

Current tax for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted by the reporting date.

(ii) Deferred tax

Deferred tax is recognised in full using the liability method on temporary differences arising between the carrying amount of an asset or liability in the consolidated and combined statements of financial position and its tax base.

Deferred tax is recognised for all temporary differences, unless the deferred tax arises from initial recognition of an asset or liability in a transaction which is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amount of a deferred tax asset is reviewed at each reporting date. If it is no longer probable that sufficient taxable profits will be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset will be reduced accordingly. When it becomes probable that sufficient taxable profits will be available, such reductions will be reversed to the extent of the taxable profits.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority on either:

(i) either the same taxable entity; or

(ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax will be recognised as income or expense and included in the profit or loss for the period unless the tax relates to items that are credited or charged, in the same or a different period, directly to equity, in which case the deferred tax will be charged or credited directly to equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting period.

(iii) Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. When current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(b) Other taxes

The Group's sale of goods in the PRC are subjected to value-added tax ("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 together with other taxes, such as land use right tax, recoverable from, or payable to, the taxation authority is included as part of "other receivables" or "other payables" in the consolidated and combined statements of financial position respectively in line with the requirements in the PRC.

Revenue, income, expenses and assets are recognised net of the amount of VAT except where:

(i) VAT incurred on the purchases of services and other assets are not recoverable from the taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of the expense items as applicable; and

(ii) Receivables and payables are stated with the amount of VAT included.

Land use right tax and other taxes are not based on taxable profits and are recognised within the administrative and other expenses line in the consolidated and combined statements of comprehensive income.

4.12 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Group does not recognise a contingent liability but discloses its existence in the consolidated and combined financial statements.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

4.13 Dividends

Dividends are recognised when the right to receive payment is established. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the AGM.

4.14 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable net of discounts and rebates.

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group, and the amount of revenue and the cost incurred or to be incurred in respect of the transaction can be reliably measured and specific recognition criteria have been met for each of the Group's activities as follows:

(a) Sale of goods

Revenue from sale of goods is recognised when significant risk and rewards of ownership of the goods has been transferred to the customer and where the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, which coincides with delivery of goods and services and acceptance by customers. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) Rendering of service

Revenue from rendering service is recognised when the services are rendered and relative revenue can be measured reliably.

(c) Interest income

Interest income is recognised as it accrues on a time proportionate basis, by reference to the principal outstanding and at the interest rate applicable, using the effective interest method.

4.15 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all conditions attached will be complied with. When the grant relates to an expense item, it is recognised in the statement of income and expenses as a profit over the period necessary to match them on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the statement of financial position and is amortised to the statement of income and expenses as other income over the expected useful life of the relevant asset by equal annual installments.

Government grants which were recognised within the other income line in the consolidated and combined statements of comprehensive income relate to government rewards and funds received by the Group from the local authorities in recognition of the Group's efforts in building PRC domestic brand name, as well as to encourage export sales and further development.

4.16 Research and development

Expenditure on development activities of internally developed products is recognised as an intangible asset when it relates to the production of new or substantively improved products and processes and when the Group can demonstrate that it is technically feasible to develop the product or processes, adequate resources are available to complete the development and that there is an intention to complete and sell the product or processes to generate future economic benefits.

Development expenditure not satisfying the criteria mentioned and expenditure arising from research or from the research phase of internal projects are recognised in profit or loss as incurred.

Research expenditure including the design and production of prototypes of new samples are written off to the profit or loss in the financial year in which it is incurred.

4.17 Operating lease

Leases of assets under which a significant portion of the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Operating lease payments are charged as an expense on a straight-line basis over the period of the respective leases.

When the Group has the use of assets under operating leases, payments made under the leases are recognised in the statement of comprehensive income as costs on a straight-line basis over the term of the lease.

4.18 Leases of land and buildings

For leases of land and buildings, the land and buildings elements are considered separately for the purpose of lease classification and these leases are classified as operating or finance leases in the same way as leases of other assets.

4.19 Borrowing costs

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset to its intended use or sales are in process and the expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

All other borrowing cost is recognised in profit or loss in the period in which they are incurred.

4.20 Related parties

For the purpose of these consolidated and combined financial statements, parties are considered to be related to the Group if a consolidated and combined company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or when the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities. Related parties include key management personnel having authority and responsibility over the enity, directly and indirectly, which comprise of the management board and supervisory board members.

4.21 Operating segments

Operating segments are defined as components of the Group that:

(a) engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group);

(b) whose operating results are regularly reviewed by the Group's chief operating decision maker (i.e. the Group's Chief Executive Officer) in making decisions about resources to be allocated to the segment and assessing its performance; and

(c) for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues.

The Group reports separately information about each operating segment that meets any of the following quantitative thresholds:

(a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is ten (10) per cent or more of the Group's revenue, internal and external, of all operating segments.

(b) The absolute amount of its reported profit or loss is ten (10) per cent or more of the greater, in absolute amount of:

   (i) the Group's reported profit of all operating segments that did not report a loss; and

   (ii) the Group's reported loss of all operating segments that reported a loss.

(c) Its assets are ten (10) per cent or more of the Group's assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if the management believes that information about the segment would be useful to users of the financial statements.

Total external revenue reported by operating segments shall constitute at least seventy five (75) percent of the Group's revenue. Operating segments identified as reportable segments in the current financial period/year in accordance with the quantitative thresholds, if any, would result in a restatement of prior period segment data for comparative purposes.

5 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

5.1 New and revised IFRSs

i) The Group has adopted all EU IFRSs that were effective on or before 1 January 2011 for the preparation of the consolidated and combined financial statements for the financial years ended 31 December 2011 and 2010.

This adoption did not result in changes to the Group's accounting policies and did not materially affect the reported financial position, financial performance or cash flow of the Group for the financial years ended 31 December 2011 and 2010.

ii) Framework for the Preparation and Presentation of Financial Statements ("Framework")

The Framework sets out the concepts that underlie the preparation and presentation of financial statements for external users. It does not define standards for any particular measurement or disclosure issue.

iii) The following new and revised IFRSs that have been applied in the current year and have no material impact on the consolidated and combined financial statements are set out below:

(a) Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters is mandatory for periods beginning on or after 1 July 2010.*

The amendment permits first-time adopters to use the same transitional provisions as are available to existing preparers of IFRS financial statements that are included in Improving Disclosures about Financial Instruments (Amendments to IFRS 7). This means that an entity need not present comparative information for the disclosures required by the amendment to IFRS 7 for: (a) any annual or interim period, including any statement of financial position, presented within an annual comparative period ending before 31 December 2009, or (b) any statement of financial position as at the beginning of the earliest comparative period as at a date before 31 December 2009.

There is no impact upon adoption of this Amendment during the financial year.

(b) Amendment to IAS 24 *Related Party Disclosures – Revised definition of related parties* is mandatory for annual periods beginning on or after 1 January 2011.

IAS 24 was revised in response to concerns that, in practice, the application of the existing disclosure requirements and the definition of a related party could be complex and difficult to apply in practice, particularly in environments where government control is pervasive. The revisions address these concerns by:

- providing a partial exemption for government-related entities – under the previous requirements, if a government controlled, or significantly influenced, an entity, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government. The revised standard requires such entities to disclose information about individually and collectively significant related party transactions only.
- providing a revised definition of a related party – the definition of a related party has been simplified and inconsistencies eliminated. Illustrative examples have also been added. The revised definition means that some entities may have more related parties for which disclosures will be required. The entities that are most likely to be affected are those that are part of a group that includes both subsidiaries and associates, and entities with shareholders that are involved with other entities.

There is no impact upon adoption of this Amendment during the financial year.

(c) Amendments to IAS 32 *Classification of Rights Issues* are mandatory for annual periods beginning or after 1 February 2010.

These amendments address the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities as the exposure to changes in exchange rates meant that the 'fixed for fixed' criterion was not met. However, the amendment requires that, provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

There is no impact upon adoption of these Amendments during the financial year.

(d) Amendments to IFRIC 14 IAS19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction* is mandatory for annual periods beginning or after 1 January 2011.

These amendments apply in the limited circumstances in which an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment expands the circumstances in which the benefit of such an early payment is recorded as an asset.

There is no impact upon adoption of these Amendments during the financial year.

(e) IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* is mandatory for annual periods beginning or after 1 July 2010.

IFRIC 19 addresses transactions in which an entity issues equity instruments to a creditor in return for the extinguishment of all or part of a financial liability (a 'debt for equity swap'). IFRIC 19 does not apply to arrangements in which liabilities are extinguished in return for equity instruments in accordance with the original terms of the financial liability (such as convertible debt; these continue to be addressed by IAS 32), nor does it address the appropriate accounting approach to be adopted by the creditor. For transactions within its scope, where the whole of a financial liability is extinguished, IFRIC 19 requires the equity instruments issued to be measured at their fair value and the difference between that fair value and the carrying value of the financial liability extinguished to be recognised in profit or loss. Where only part of the financial liability is extinguished, an allocation of the consideration between the extinguished portion of the liability and the part of the liability that remains outstanding may be required depending on whether, and the extent to which, the contractual terms of the remaining liability have been modified.

There is no impact upon adoption of this Interpretation during the financial year.

(f) *Improvements to IFRSs (2010)* are mandatory for annual periods beginning on or after 1 January 2011 except for Amendment to IFRS 3(2008) and Amendment to IAS 27(2008) which are effective for annual periods beginning on or after 1 July 2010.

(i) Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards

These amendments clarify that if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 Interim Financial Reporting but before its first IFRS financial statements are issued, it should explain those changes and update the reconciliations between previous GAAP and IFRSs. The requirements in IAS 8 do not apply to such changes.

These amendments also clarify that a first-time adopter is permitted to use an event-driven fair value as 'deemed cost' at the measurement date for measurement events that occurred after the date of transition to IFRSs but during the period covered by the first IFRS financial statements. Any resulting adjustment shall be recognised directly in equity at the measurement date.

These amendments also specify that a first-time adopter may elect to use the previous GAAP carrying amount of items of property, plant and equipment or intangibles that are, or were, used in operations subject to rate regulations. This election is available on an item by item basis.

There is no impact upon adoption of these Amendments during the financial year.

(ii) Amendments to IFRS 3 Business Combinations

These amendments specify that the option to measure non-controlling interests either at fair value or at the proportionate share of the acquiree's net identifiable assets at the acquisition date under IFRS 3(2008) applies only to non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. All other components of non-controlling interests should be measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

These amendments also specify that the current requirement to measure awards of the acquirer that replace acquiree share-based payment transactions in accordance with IFRS 2 at the acquisition date ('market-based measure') applies also to share-based payment transactions of the acquiree that are not replaced. These amendments further specify that the current requirement to allocate the market-based measure of replacement awards between the consideration transferred for the business combination and post-combination remuneration applies to all replacement awards regardless of whether the acquirer is obliged to replace the awards or does so voluntarily.

These amendments also clarify that IAS 32 Financial Instruments: Presentation, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures do not apply to contingent consideration that arose from business combinations whose acquisition dates preceded the application of IFRS 3(2008).

There is no impact upon adoption of these Amendments during the financial year.

(iii) Amendments to IFRS 7 Financial Instruments: Disclosures

These amendments clarify quantitative disclosure requirements for risks arising from financial instruments, and encourages accompanying narrative disclosures if the concentration of risk is not apparent from the quantitative disclosures.

The requirements for disclosures of credit risk, including collateral held, are clarified and reduced, with the carrying amount of assets that would have been past due or impaired unless they had been renegotiated no longer needing to be disclosed.

There is no impact upon adoption of these Amendments during the financial year.

(iv) Amendments to IAS 1 Presentation of Financial Statements

These amendments clarify that the analysis of items of Other Comprehensive Income may be shown in either the (primary) statement of changes in equity, or in the notes to the financial statements.

There is no impact upon adoption of these Amendments during the financial year.

(v) Consequential Amendments from IAS 27 Consolidated and Separate Financial Statements to IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates, and IAS 31 Interests in Joint Ventures

It has been clarified that the amendments made to IAS 21, IAS 28 and IAS 31 as a consequence of IAS 27 (revised 2008) are to be applied prospectively from the date of adoption of that standard (which is, annual periods beginning on/after 1 July 2009 with earlier application permitted). As exceptions, certain requirements of IAS 28 and IAS 31, which relate to accounting in the separate financial statements of the investor, are applied retrospectively.

There is no impact upon adoption of these Amendments during the financial year.

(vi) Amendments to IAS 34 Interim Financial Reporting

The amendments emphasise that disclosure about significant transactions and events is required to update relevant information presented in the most recent annual financial report. IAS 34 has been made more specific about events and transactions for which disclosure is required, and guidance has been added covering the application of the requirements for financial instruments.

There is no impact upon adoption of these Amendments during the financial year.

(vii) Amendments to IFRIC 13 Customer Loyalty Programmes

These amendments clarify that the fair value of award credits includes consideration of the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale.

There is no impact upon adoption of these Amendments during the financial year.

5.2 New IFRSs and Interpretations not adopted

The following new or revised standards, interpretations and amendments to published standards were approved, but will not be applicable for Powerland Group for the year ended 31 December 2011 and were not adopted in these consolidated financial statements:

Amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets are mandatory for annual periods beginning on or after 1 July 2011.

An entity may enter into an arrangement, such as debt factoring, where the related accounting may or may not result in the financial assets subject to the arrangement being transferred to another party (either in whole or in part). The amendment requires the disclosure of information in respect of all transferred financial assets that are not derecognised, and for any continuing involvement in transferred assets which are derecognised, which exists at the reporting date, irrespective of when the related transfer transaction occurred.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2012.

5.3 New IFRSs and Interpretations not yet applicable

(a) IFRS 9 *Financial Instruments – Classification and Measurement* and *IFRS 7 Financial Instruments: Disclosures – Transition Disclosures* is mandatory for annual periods beginning on or after 1

January 2015.

This Standard addresses the classification and measurement of financial assets and financial liabilities. All financial assets shall be classified on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs. Financial assets are subsequently measured at amortised cost or fair value. Financial liabilities are subsequently measured at amortised cost or fair value. However, changes due to own credit risk in relation to the fair value option for financial liabilities shall be recognised in other comprehensive income.

The Group is in the process of assessing the impact of implementing this Standard since the effects would only be observable for the financial year ending 31 December 2015.

(b) IFRS 10 Consolidated Financial Statements is mandatory for annual periods beginning on or after 1 January 2013.

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 *Consolidation – Special Purpose Entities* has been withdrawn upon the issuance IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

The Group is in the process of assessing the impact of implementing this Standard since the effects would only be observable for the financial year ending 31 December 2013.

(c) IFRS 11 Joint Arrangements is mandatory for annual periods beginning on or after 1 January 2013.

IFRS 11 replaces IAS 31 *Interest in Joint Ventures.* IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 *Jointly Controleed Entities – Non-monetary Contributions by Venturers* has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

The Group is in the process of assessing the impact of implementing this Standard since the effects would only be observable for the financial year ending 31 December 2013.

(d) IFRS 12 Disclosure of Interests in Other Entities is mandatory for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities combines, and makes consistent, certain existing disclosures that were previously included, in some cases with overlapping requirements, in IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures. In addition, it introduces certain new disclosure requirements, in particular those related to unconsolidated structured entities where a lack of transparency about entities' exposures to related risks was highlighted by the global financial crisis.

The Group is in the process of assessing the impact of implementing this Standard since the effects would only be observable for the financial year ending 31 December 2013.

(e) IFRS 13 Fair Value Measurement is mandatory for annual periods beginning on or after 1 January 2013 with earlier application permitted.

IFRS 13 *Fair value measurement* sets out a framework for measuring fair value and requires disclosures about fair value measurement. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value; this is dealt with in other applicable IFRSs.

The standard applies when another IFRS requires or permits fair value measurement or disclosures about fair value measurements except for (a) share-based payment transactions within the scope of IFRS 2 Share-based Payment; (b) Leasing transactions within the scope of IAS 17 Leases; (c) Measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

The Group is in the process of assessing the impact of implementing this Standard since the effects would only be observable for the financial year ending 31 December 2013.

(f) IAS 27 Separate Financial Statements (revised) is mandatory effective for annual periods beginning on or after 1 January 2013.

This revised Standard contains accounting requirements for investments in subsidiaries, joint ventures and associates when separate financial statements are prepared. The Company is required to account for those investments either at cost or in accordance with FRS 9 in the separate financial statements.

The Group is in the process of assessing the impact of implementing this Standard since the effects would only be observable for the financial year ending 31 December 2013.

(g) IAS 28 Investments in Associates and Joint Ventures (revised) is mandatory for annual periods beginning on or after 1 January 2013.

This revised Standard defines the equity method of accounting whereby the investment in an associate or joint venture is initially measured at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes its share of the profit or loss of the investee and the other comprehensive income of the investor includes its share of other comprehensive income of the investee.

The Group is in the process of assessing the impact of implementing this Standard since the effects would only be observable for the financial year ending 31 December 2013.

(h) Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* are mandatory for annual periods beginning on or after 1 July 2012.

These amendments require entities to present line items for other comprehensive income (OCI) amounts by nature and to group items presented in OCI into two categories: (a) those that could subsequently be reclassified to profit or loss (reclassification adjustments); and (b) those that that will not be reclassified. IAS 1 permits entities to present components of OCI either net of related tax effects or before tax with one amount shown for the aggregate amount of income tax relating to those components. Entities will continue to have this choice of tax presentation. However, If an entity presents OCI items before related tax effects then tax is required to be allocated and disclosed separately for each of the two OCI groups.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2013.

(i) Amendments to IAS 12 *Deferred Tax – Recovery of Underlying Assets* are mandatory for annual periods beginning on or after 1 January 2012.

These Amendments apply to the measurement of deferred tax when investment property is measured using the fair value model in IAS 40 *Investment Property*. Although IAS 12 requires the measurement of deferred tax to be based on an entity's expected manner of recovery of the related asset or liability, it is often difficult and subjective to determine this where an investment property is measured at fair value. Consequently, an exception has been introduced to incorporate a presumption that the carrying amount of an investment property is recovered entirely through sale.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2012.

(j) Amendments to IAS 1 *First-time Adoption of International Financial Reporting Standards - Severe Hyperinflation* and *Removal of Fixed Dates for First-time Adopters* are mandatory for annual periods beginning on or after 1 July 2011.

These amendments include two changes. The first amendments provides guidance how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The second amendment made references to a fixed date of 1 January 2004 for the purposes of the date from which certain derecognition transaction are required to be restated have been replaced with 'the date of transition to IFRSs'.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2012.

(k) IAS 19 Employee Benefits (revised) is mandatory for annual periods beginning on or after 1 January 2013.

This revised Standard requires entities to recognise all changes in the defined benefit obligations and in the fair value of related plan assets when those changes occur. This eliminates the 'corridor' approach which permitted entities to leave actuarial gains and losses unrecognised if they were within a corridor (being the greater of 10 per cent of the plan assets and 10 per cent of the plan liabilities) and to defer recognition of actuarial gains and losses outside of that corridor. The amendment requires entities to split the changes in the net defined benefit liability (asset) into three components, to be presented as follows: (a) Service cost – presented in profit or loss; (b) Net interest on the net defined benefit liability (asset) – presented in profit or loss; and (c) Remeasurement of the net defined benefit liability (asset) – presented in other comprehensive income (OCI) and not recycled through profit or loss.

The Group is in the process of assessing the impact of implementing this Standard since the effects would only be observable for the financial year ending 31 December 2013.

(l) Amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* are mandatory for annual periods beginning on or after 1 January 2013.

The amendments require the disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2013.

(m) Amendments to IAS 32 *Financial Instruments: Presentation* are mandatory for annual periods beginning on or after 1 January 2014.

The amendments address inconsistencies in current practice when applying the offsetting criteria. They clarify the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

The Group is in the process of assessing the impact of implementing these Amendments since the effects would only be observable for the financial year ending 31 December 2014.

6 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

6.1 Critical judgements made in applying accounting policies

There are no critical judgements made by the management in the process of applying the Group's accounting policies that have significant effect on the amount recognised in these consolidated and combined financial statements.

6.2 Key sources of estimation uncertainty

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

(a) Impairment

The Management Board determines the impairment loss if circumstances indicate that the carrying amounts of an asset may not be recoverable. The carrying amounts of the assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs.

(b) Depreciation and amortisation

The Management Board reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation charge for the year. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes, which are consistent with the common life expectancies applied in the PRC. The depreciation and amortisation charge for future periods are adjusted if there are significant changes from previous estimates.

(c) Impairment of receivables

The Group makes impairment of receivables based on an assessment of the recoverability of receivables. Impairment is applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Management Board specifically analyses historical bad debt, customer concentration, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy impairment of receivables. Where expectations differ from the original estimates, the differences will impact the carrying amount of receivables.

(d) Write down for obsolete or slow moving inventories

The Group writes down its obsolete or slow moving inventories based on assessment of their estimated net selling price. Inventories are written down when events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Management Board specifically analyses sales trend and current economic trends when making a judgement to evaluate the adequacy of the write down for obsolete or slow moving inventories. Where expectations differ from the original estimates, the differences will impact the carrying amount of inventories.

(e) Fair values of borrowings

The fair values of borrowings are estimated by discounting future contractual cash flows at the current market interest rates available to the Group for similar financial instruments. It is assumed that the effective interest rates approximate the current market interest rates available to the Group based on its size and its business risk.

(f) Income tax

The Group's subsidiaries are subject to the PRC income tax and significant judgement is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Group recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when, despite the Group believes that its subsidiaries' tax return positions are supportable, the Group believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgements about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

(g) Deferred tax liabilities

As at 31 December 2011, temporary differences relating to the undistributed profits of the Group's subsidiaries in the Mainland China amounted to EUR 19,298 thousand. Deferred tax liabilities of EUR 965 thousand have not been recognised in respect of the withholding tax that would be payable on the distribution of these retained profits, as the Company controls the dividend policy of these subsidiaries in the Mainland China and the Directors have determined that these profits are not likely to be distributed in the foreseeable future.

7 Revenue

Revenue represents sale of luggage, bags and leather products. The following table provides a breakdown of revenues for the financial year:

EUR'000	**2010**	**2011**
Revenue from sales of:		
Luxury segment products	52,847	80,170
Casual segment products	59,788	66,778
Revenue	**112,635**	**146,948**

8 Cost of Sales

Cost of sales comprise of raw materials consumed for production, direct labour costs for personnel employed in the production, production overheads incurred for the production, direct purchase costs of finished goods and movements in inventories of finished goods and work in progress.

9 Other Income

Other income comprise government rewards and incentives received.

10 Selling and Distribution Costs

Selling and distribution costs comprise marketing and advertising costs, sponsorship granted to distributors in relation to renovation of retail outlets, transportation costs for product delivery, staff costs for employees engaged in the sales and marketing department, depreciation charges and other miscellaneous expenses in connection to sales activities.

11 ADMINISTRATIVE AND OTHER EXPENSES

Administrative and other expenses comprise, among others, staff costs for management and other employees with administrative functions, depreciation and amortisation charges, research and development expenses, utilities costs, travel expenses, entertainment expenses and other miscellaneous office expenses incurred for administrative purposes, donations, certain IPO costs allocated to profit or loss, other taxes and tax surcharges.

12 NET FINANCE COSTS

Net financing costs comprise mainly net foreign exchange losses with some interest expenses which were set off by interest income and net foreign exchange gain.

Recognised in profit or loss

EUR'000	2010	2011
Finance income		
Interest income on bank balances	26	32
Total finance income	26	32
Finance costs		
Interest expense on borrowings	822	1,358
Net foreign exchange loss	124	3,451
Total finance costs	946	4,809
Net finance costs recognised in profit or loss	920	4,777

13 TAX EXPENSE

EUR'000	2010	2011
Tax expense based on profit for the financial years (Note 28)		
- current year	3,479	8,688
- under provision in prior year	2	6
Deferred tax income		
- current year	-	(226)
Withholding tax expense	-	667
	3,481	9,135

Tax expense for respective taxation authorities are calculated at the rates prevailing in these jurisdictions. During the financial years ended 31 December 2010 and 31 December 2011, the applicable enterprise tax rates for the respective consolidated and combined entities are as follows:

(i) Powerland AG	31.5%
(ii) Powerland Hong Kong	16.5%
(iii) PFL and PGL	25.0%

However, being foreign-invested entities, PFL and PGL were granted tax exemption for two (2) financial years and tax rebate of 50.0 % for subsequent three (3) financial years. Details of the tax incentive periods are as follows:

in years	Tax exemption	Tax exemption

Applicable enterprise tax rates	(0.0%)	(12.5%)
PFL	2006 - 2007	2008 - 2010
PGL	2007 - 2008	2009 - 2011

Statutory income tax for Powerland AG is a sum of corporate income tax (Körperschaftsteuer) and trade tax (Gewerbesteuer). Powerland AG is subject to 15% corporate income tax plus solidarity surcharge on this corporate income tax of 5.5%. The amount of trade tax depends on the multiple factor which will be defined by the local communities. For the purpose of this consolidated and combined financial statements regarding the calculation of the deferred taxes of Powerland AG the total tax rate is estimated at 31.5%.

In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance note, certain subsidiaries in the Mainland China are entitled to tax concessions and tax relief whereby the profits of these subsidiaries are taxed at preferential income tax rates. Taxation of the Group's subsidiaries in the Mainland China are calculated using the applicable preferential income tax rates granted to these subsidiaries.

According to the Corporate Income Tax Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. In addition, under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interests of the PRC company. As all of the Group's foreign-invested enterprises in the PRC are directly and wholly owned by Hong Kong incorporated subsidiary, a rate of 5% is applicable to the calculation of the PRC dividend withholding tax.

The numerical reconciliation between the tax expense of single companies to the applicable tax rate of the Group shown in the consolidated and combined financial statements are as follows:

EUR'000	2010	2011
Tax at the domestic tax rates applicable to profits in the countries concerned	6,525	6,868
Tax effects in respect of:		
Non-allowable expenses	433	2,744
Tax incentives	(3,479)	-
Tax losses not recognised	-	(1,150)
Underprovision in prior year	2	6
Withholding tax	-	667
	3,481	9,135

14 Dividends

Dividends in 2010 of EUR 16,695 thousand were paid by PFL to the shareholder of PFL prior to the restructuring as disclosed in Note 4.1.1 to the financial statements.

15 Employee Benefits

EUR'000	2010	2011
Wages and salaries	4,611	6,401
Social security contributions	642	690
Other short term benefits	122	300
	5,375	7,391

Included in the employee benefits of the Group are Director's remuneration as follows:

EUR'000	2010	2011
Salaries and allowances	36	543

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

	2010	2011
Management and administration	74	117
Sales, marketing and procurement	58	188
Design, production and quality assurance	820	1,048
	952	1,353

Retirement Benefit Plans

The eligible employees of the Group – who are citizens of the PRC are members of a state-managed retirement benefit scheme operated by the local government. The Group 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 Group with respect to the retirement benefit scheme is to make the specified contributions. The cost of retirement benefit contributions charged to the consolidated and combined statements of comprehensive income in the financial year 2011 amounted to EUR 260 thousand (2010: EUR 242 thousand).

16 EARNINGS PER SHARE

(a) Basic

Basic earnings per ordinary share for the financial year is calculated by dividing the profit for the financial period attributable to equity holders of the Company by the time-weighted average number of ordinary shares outstanding during the financial year.

At 11 April, 2011, Powerland AG issued 5,000,000 new shares in initial public offering in return for a contribution in cash. For the purpose of calculating basic earnings per share, the number of ordinary shares shall be weighted. The weighted average number of ordinary shares was calculated by the time-weighted factor.

Earnings per share calculation is based on the profit of the year and average weighted shares. The calculation has been computed on the basis of an average of 13,611,111 for 2011.

	2010	2011
Profit from continuing operations attributable to equity holders of the parent company (EUR'000)	22,617	18,337
Weighted average number of ordinary shares in issue ('000)	10,000*	13,611
Basic earnings per ordinary share (EUR)	2.26	1.35

* *As the Group is regarded as continuing entity resulting from the reorganisation exercise involved the combination of entities under common control and the consolidated and combined financial statements had been prepared on the basis that the Group had been in existence as a single economic enterprise throughout the periods presented and as if Powerland Hong Kong, together with its wholly-owned Chinese subsidiaries, were transferred to the Company as of 1 January 2010. Assets, liabilities, revenue and expenses of Powerland AG, Powerland Hong Kong and the two Chinese subsidiaries as shown in their individual financial statements for the year prior to the legal formation of the Company were combined or aggregated and consolidated in preparing the condensed consolidated financial statements as if they had been in effect since the beginning of the previous financial year, i.e. 1 January 2010, the computation of basic earnings per share for 2010 was based on the 10,000,000 ordinary shares issued during the reorganisation exercise as if they were issued on 1 January 2010.*

(b) Diluted

Diluted earnings per ordinary share for the financial year is calculated by dividing the profit for the financial year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the financial year adjusted for the effects of dilutive potential ordinary shares.

Diluted earnings per ordinary share is equal to basic earnings per share as the Company has no dilutive potential ordinary shares as at the end of the reporting period.

17 PROPERTY, PLANT AND EQUIPMENT

EUR'000	Buildings	Machinery and factory equipments	Office and other equipments	Motor vehicles	Renovation	Construction-in-progress	Total
Carrying amount							
At 1 January 2010	4,257	289	45	93	-	-	4,684
Additions	-	10	52	28	-	14,966	15,056
Depreciation charge for the year	(240)	(37)	(21)	(29)	-	-	(327)
Disposals	-	(31)	-	(6)	-	-	(37)
Translation adjustments	501	33	6	11	-	431	982
At 31 December 2010 and 1 January 2011	4,518	264	82	97	-	15,397	20,358
Additions	-	151	242	725	704	20,258	22,080
Depreciation charge for the year	(538)	(42)	(49)	(121)	(301)	-	(1,051)
Disposals	-	-	-	-	-	-	-
Reclassification	15,984	-	-	-	-	(15,984)	-
Translation adjustments	1,725	27	23	63	38	1,354	3,230
At 31 December 2011	21,689	400	298	764	441	21,025	44,617

EUR'000	Buildings	Machinery and factory equipments	Office and other equipments	Motor vehicles	Renovation	Construction-in-progress	Total
At 31 December 2010							
Cost	5,476	419	145	184	-	15,397	21,621
Accumulated depreciation	(958)	(155)	(63)	(87)	-	-	(1,263)
Carrying amount	4,518	264	82	97	-	15,397	20,358
At 31 December 2011							
Cost	23,295	610	419	988	770	21,025	47,107
Accumulated depreciation	(1,606)	(210)	(121)	(224)	(329)	-	(2,490)
Carrying amount	21,689	400	298	764	441	21,025	44,617

(a) During the financial year, the Group made cash payments to purchase property, plant and equipment which are equal to the additions shown in the presentation of property, plant and equipment movements.

(b) As at 31 December 2011, the buildings and construction-in-progress with carrying amount of EUR 4,545 thousand (31 December 2010: EUR 4,518 thousand) and EUR 331 thousand (31 December 2010: EUR 15,397 thousand) respectively have been charged to a bank for credit facilities granted to the Group (Note 26(a)).

(c) As at 31 December 2011, the Group had concluded another six real estate pre-sale contracts (included in construction-in-progress of EUR 20,694 thousand) with one developer. In the previous financial year ended 31 December 2010, the Group had concluded three real estate pre-sale contracts (included in construction-in-progress and land use rights of EUR 14,966 thousand and EUR 1,728 thousand respectively) with two developers. Pre-sale under PRC laws means sale of real estates before the construction work of such real estate is finally completed and the real estate ownership certificate of such real estate is issued. No Land Use Rights and Real Estate Ownership Certificate can be issued at the time of pre-sale. In this regard, there was a risk that the Group might not able to obtain the Land Use Rights and Real Estate Ownership Certificate in the end. In such case, the developer shall assume the liabilities for breaching the pre-sale contract. The Land Use Rights and Real Estate Ownership Certificate was obtained during the financial year ended 31 December 2011.

18 LAND USE RIGHTS

	2010 EUR'000	2011 EUR'000
Carrying amount		
At 1 January	2,384	4,375
Additions	1,728	-
Depreciation charge for the years	(69)	(106)
Translation adjustments	332	260
At 31 December	4,375	4,529
Cost	4,813	5,112
Accumulated depreciation	(438)	(583)
Carrying amount	4,375	4,529

(a) The land use rights represent prepaid lease payments for land situated in the PRC. The Group are granted land use rights for a period ranged from 38 to 50 years.

(b) As at 31 December 2011, land use rights with carrying amount of EUR 2,682 thousand have been pledged to a bank for credit facilities granted to the Group (31 December 2010: EUR 4,375 thousand (Note 26(a)).

(c) In the previous financial year ended 31 December 2010, the Group had acquired new land use rights with carrying amount of EUR 1,728 thousand. However, there was a risk that the Group might not able to obtain the Land Use Rights and Real Estate Ownership Certificate in the end (Note 17). However, the Land Use Rights and Real Estate Ownership Certificate have been obtained during the financial year ended 31 December 2011.

19 INTANGIBLE ASSETS

EUR'000	As at 1.1.2010	Additions	Amortisation charge for the year	Translation adjustments	As at 31.12.2010
Carrying amount					
Trademark	78	-	(11)	9	76
Software	4	-	(1)	-	3
	82	-	(12)	9	79

	Cost	Accumulated amortisation	Carrying amount
As at 31 December 2010			
Trademark	118	(42)	76
Software	4	(1)	3
	122	(43)	79

EUR'000	As at 1.1.2011	Additions	Amortisation charge for the year	Translation adjustments	As at 31.12.2011
Carrying amount					
Trademark	76	-	(11)	3	68
Software	3	147	(1)	14	163
	79	147	(12)	17	231

	Cost	Accumulated amortisation	Carrying amount
As at 31 December 2011			
Trademark	125	(57)	68
Software	166	(3)	163
	291	(60)	231

(a) Trademark is amortised on a straight line basis over a period of ten (10) years.

(b) Software is amortised on a straight line basis over a period of five (5) years.

20 DEFERRED TAX ASSETS

Powerland AG accumulated a taxable net loss under German GAAP at the end of 2011. It mainly resulted from the IPO costs. Powerland AG expects a net taxable income in the future mainly by lending parts of the proceeds raised during the IPO to its subsidiaries, trading and dividend income. The amount recognised as deferred tax asset (EUR 800 thousand) has been calculated based on the estimation of net taxable income of the next five years. The deferred tax assets included an amount of EUR 552 thousand (Note 25 (a)) credited to the equity for the related IPO expenses allocated to equity.

21 INVENTORIES

EUR'000	31.12.2010	31.12.2011
At cost		
Raw materials	4,806	5,431
Work in progress	1,032	1,216
Finished goods	1,680	2,630
	7,518	9,277

22 TRADE AND OTHER RECEIVABLES

EUR'000	31.12.2010	31.12.2011
Trade receivables	19,705	33,608
Other receivables	413	62
Total financial assets other than cash and cash equivalents classified as loans and receivables	20,118	33,670
Value-added tax recoverable	349	714
Advance payments to suppliers	4,045	1,016
Deposits	12	1,754
Prepayments	35	3,580
Deferred IPO costs	287	-
Total trade and other receivables	24,846	40,734

(a) The fair values of financial assets other than cash and cash equivalents classified as loans and receivables approximate their carrying amounts due to the relatively short term maturity of the financial instruments.

(b) Trade receivables are non-interest bearing and the normal trade credit term granted by the Group is ninety (90) days.

(c) Advance payments to suppliers refer to prepayments for future supplies of raw materials.

(d) The deferred IPO costs has been charged to equity and income or expenses upon successful listing of the Company in Germany in 2011.

(e) The ageing analysis of trade receivables of the Group is as follows:

	31.12.2010 EUR'000	31.12.2011 EUR'000
Neither past due nor impaired		
Within 30 days	10,675	13,702
–31 - 60 days	9,030	11,401
–61 - 90 days	-	8,498
Receivables that are neither due nor impaired	19,705	33,601
Past due, not impaired		
More than 90 days	-	7
Total trade receivables	19,705	33,608

Trade receivables that are neither past due nor impaired are creditworthy receivables with good payment records with the Group.

None of the trade receivables of the Group that are neither past due nor impaired have been renegotiated during the financial year.

(f) Information on financial risks of trade and other receivables are disclosed in Note 32 to the financial statements.

(g) The currency exposure profile of trade and other receivables is as follows:

	31.12.2010	31.12.2011
	EUR'000	EUR'000
Renminbi	23,592	39,111
United States Dollar	1,010	1,460
Euro	243	162
Hong Kong Dollar	1	1
	24,846	40,734

23 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	31.12.2010	31.12.2011
	EUR'000	EUR'000
Cash and bank balances	15,319	76,146

(a) Information on financial risk of cash and cash equivalents are disclosed in Note 32 to the consolidated and combined financial statements.

(b) The currency exposure profile of cash and cash equivalents are as follows:

	31.12.2010	31.12.2011
	EUR'000	EUR'000
Renminbi	15,057	72,587
United States Dollar	260	-
Hong Kong Dollar	2	-
Euro Dollar	-	3,559
	15,319	76,146

24 SHARE CAPITAL

The Company was founded on 21 February 2011 and the formation was completed on 14 March 2011. Upon effectiveness of the Company's formation, the Company was incorporated on 14 March 2011 with authorised capital of EUR 10,000,000 which is divided into 10,000,000 par value ordinary shares with a nominal interest in the share capital of EUR 1.

Pursuant to a share contribution agreement dated 24 February 2011, the sole shareholder of the Company, Guo GmbH & Co. KG, transferred its entire shareholdings in Powerland Hong Kong in exchange for 10,000,000 no par value bearer shares in Powerland AG at an issue price of EUR 1.00 each.

Pursuant to a shareholder's resolution on 22 March 2011, the share capital of the Company was increased from EUR 10,000,000 comprising of 10,000,000 no par value bearer shares to EUR 15,000,000 comprising of 15,000,000 no par value bearer shares for the purpose of the IPO.

On 11 April, 2011, Powerland AG increased the capital against cash contribution by an initial public offering up to 5,000,000 new ordinary bearer shares non par value, which having a nominal amount of the share capital of EUR 1.00 each. Upon implementation and registration of the capital increase of the issuance of the new shares, the share capital amounts to EUR 15,000,000. Since the IPO the shares of Powerland AG are being traded in Prime Standard at Frankfurt Stock Exchange with ISIN DE000PLD5558.

All shares are no par value bearer shares with a notional amount of the share capital of EUR 1.00 each. The Company´s registered share capital is fully paid up.

25 RESERVES

(a) Capital reserve

According to the initial public offering placement, Powerland AG raised the gross proceeds of EUR 75,000,000 from 5,000,000 new shares of offering price EUR 15.00 each. The surplus of EUR 70,000,000 was recorded as capital reserve in accordance to the German Company Law. The equity transaction costs of EUR 5,199 thousand were recorded as capital surplus deduction. The amount of deduction from capital surplus was recorded as EUR 4,647 thousand (net of deferred tax asset of EUR 552 thousand).

The IPO expenses have been allocated as follows:

	------------------------ Debited to ------------------------			
	Equity	**Profit or loss**	**VAT recoverable**	**Total**
	EUR'000	**EUR'000**	**EUR'000**	**EUR'000**
Incremental costs directly attributable to the issuance of new shares	4,031	-	-	4,031
Other transaction costs attributable to the acquiring listing status for all the existing and new shares *	1,168	2,335	-	3,503
VAT recoverable	-	-	79	79
	5,199	2,335	79	7,613

* *Other transaction costs attributable to the isting for all the existing and new shares were allocated to profit or loss and equity based on the number of existing shares to number of new shares, i.e. 10 million shares to 5 million shares.*

In the interim reports of the Group of the financial year 2011 for the periods ended 30 June 2011 and 30 September 2011, the estimated equity transaction costs of EUR 7,613 thousand were recorded as capital surplus deduction. As at 31 December 2011 a correction to this treatment was made and an amount of EUR 2,335 thousand was debited to profit or loss as these were transaction costs attributable to the listing for all the shares during the IPO. Thus, only the transaction costs related to the issuance of new shares during the IPO amounting to EUR 5,199 thousand was deducted from capital surplus. This will be explained in the interim quarterly reports for the periods in 2012.

(b) Foreign exchange translation reserve

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

	31.12.2010	**31.12.2011**
	EUR'000	**EUR'000**
Balance at beginning years	913	3,215
Exchange differences on translating foreign operations	2,302	13,463
Balance at end of the years	3,215	16,678

(c) Consolidation reserve

The consolidation reserve arises mainly from the accumulated profits and the net profit for the year of the Powerland Group.

26 BORROWINGS

	Note	**31.12.2010 EUR'000**	**31.12.2011 EUR'000**
Non-current liabilities			
Long term bank loans – secured	(a)	3,729	61
Long term bank loans – unsecured	(b)	-	1,920

		3,729	1,981
Current liabilities			
Short term bank loans – secured	(a)	7,380	5,237
Short term bank loans – unsecured	(b)	10,757	18,043
		18,137	23,280
Total borrowings			
Short term loans		18,137	23,280
Long term loans		3,729	1,981
		21,866	25,261

(a) Details of the securities of the secured long term and short term bank loans are as follows:

	Note	31.12.2010 EUR'000	31.12.2011 EUR'000
Secured by:			
- Land use rights	18	4,375	2,682
- Buildings	17	4,518	4,545
- Construction-in-progress	17	15,397	331
		24,290	7,558

As at 31 December 2011, secured long term and short term bank loans of EUR 0 thousand and EUR 5,211 thousand (31 December 2010: EUR 3,729 thousand and EUR 7,380 thousand) respectively are also guaranteed by a member of the Management Board of the Group.

(b) Details of the unsecured long term and short term bank loans are as follows:

	31.12.2010 EUR'000	31.12.2011 EUR'000
Personally guaranteed by:		
- Member of the Management Board	-	3,648
Jointly guaranteed by:		
- Member of the Management Board and third parties	9,498	8,354
- Member of the Management Board and subsidiaries	-	6,623
- Member of the Management Board and related parties	1,259	1,338
	10,757	19,963

(c) Information on financial risks of borrowings is disclosed in Note 32 to the consolidated and combined financial statements.

(d) All borrowings are denominated in RMB.

27 TRADE AND OTHER PAYABLES

EUR'000	31.12.2010	31.12.2011
Trade payables	15,403	13,916
Other payables	5,033	910
Accruals	439	2,241
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	20,875	17,067
Advance payments from customers	43	367
Value-added tax payable	59	1,097
Other accruals - tax surcharges, social security contributions and trade union fees	1,499	1,169
Total trade and other payables	22,476	19,700

(a) The fair values of trade and other payables classified as financial liabilities measured at amortised cost approximate their carrying amounts due to the relatively short term maturity of the financial instruments.

(b) Trade payables are non-interest bearing and the normal credit terms granted to the Group are ninety (90) days.

(c) Accruals include accruals for supervisory and management board members remunerations, audit fees and other administrative expenses.

(d) Advance payments from customers refer to prepayments for future deliveries of bag products.

(e) Social security contributions include accruals made based on the Group's estimates for past unpaid contributions. According to PRC law, in particular, Chinese regulations for social insurance and housing fund, the Group is required to make contributions for the social insurance and for the housing funds to its employees. The Group has in the past not paid the full amount which should have been paid in respect of these contributions. Mr. Shunyuan Guo, the former single owner of the Group has undertaken an agreement with the Group according to which he would reimburse the Group for any additional losses incurred for such additional social insurance and housing funds payments.

(f) Information on financial risks of trade and other payables are disclosed in Note 32 to the consolidated and combined financial statements.

(g) The currency exposure profile of trade and other payables are as follows:

	31.12.2010 EUR'000	31.12.2011 EUR'000
Renminbi	22,476	18,815
Euro	-	885
	22,476	19,700

28 CURENT TAX LIABILITES/(ASSETS)

	31.12.2010 EUR'000	31.12.2011 EUR'000
Balance at beginning of the years	940	948
Current year provision (Note 13)	3,479	8,688
Under provision in prior year (Note 13)	2	6
Income tax paid	(3,582)	(7,772)
Translation adjustments	109	145
Balance at end of the years	948	2,015

Presented after appropriate offsetting:

Current tax assets	(6)	-
Current tax liabilities	954	2,015
	948	2,015

29 CAPTIAL COMMITMENT

EUR'000	**31.12.2010**	**31.12.2011**
Property, plant and equipment		
Contracted but not provided for	1,002	11,541

During the financial year, a real estate pre-sale contract was signed for acquisition of properties. Capital commitment in the previous financial year represents renovation cost to be incurred for the renovation of construction-in-progress with the carrying amount of EUR7,104 thousand. The contract was signed with a developer on 4 November 2010.

30 OPERATING SEGMENTS

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 Chief Executive Officer/Director of the Group who makes strategic decisions.

In identifying the operating segments, the Chief Executive Officer generally follows the Group's product categories. The Management Board of the Group has defined earnings before interest and tax, as the key performance indicators for management and reporting.

The operating segments are not yet managed separately as the Group has grown significantly only since 2008 and the other resources used in the segments do not differ significantly. Due to the strategic goals of the Group, the intended further growth of the Group and its ongoing organizational development, a change in the segmental structure may become indispensable in the future.

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

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

Management currently identifies the Group's two product categories as operating segments. These operating segments are monitored and strategic decisions are made on the basis of segmental gross margins.

EUR'000	Luxury segment	Casual segment	Total
2010			
Revenue	52,847	59,788	112,635
Cost of sales	– 29,311	– 38,554	– 67,865
Gross profit	**23,536**	**21,234**	**44,770**
EBIT margin in %	18.0%	29.3%	24.0%
EBIT	**9,492**	**17,526**	**27,018**
Finance income			26
Finance costs			– 946
Profit before tax			**26,098**
Reportable segment assets	13,920	38,042	51,962
Intangible assets			79
Other receivables			5,141
Cash and bank balances			15,319
Total group assets			72,501

EUR'000	Luxury segment	Casual segment	Total
2011			
Revenue	80,170	66,778	146,948
Cost of sales	– 40,278	– 41,676	– 81,954
Gross profit	**39,892**	**25,102**	**64,994**
EBIT margin in %	18.8%	25.7%	21.9%
EBIT	**15,077**	**17,172**	**32,249**
Finance income			32
Finance costs			– 4,809
Profit before tax			**27,472**
Reportable segment assets	30,874	61,157	92,031
Intangible assets			231
Other receivables			7,126
Cash and bank balances			76,146
Deferred tax asset			800
Total group assets			176,334

The Group's revenue from external customers are divided into the following geographical areas:

EUR'000	2010	2011
Geographical analysis of revenue		
China	98,091	124,612
Overseas (export directly)	14,544	22,336
Group's revenues from external customers	**112,635**	**146,948**

Revenue from Chinese customers in the Group's economic domicile, China, have been identified on the basis of the internal reporting system, which is also used for VAT purpose. "China" refers to sales to customers located in China. "Overseas (export directly)" refers to sales to customers located outside China, i.e. South Africa, United States of America, United Arab Emirates and etc..

Non-current assets, other than financial instruments, of the Group are all situated in the PRC.

During the financial year ended 2010, there were two (2) major customers with whom the transactions represent more than 10 per cent of the Group's revenue. These major customers had contributed a total sum of EUR 26,725 thousand to the casual segment during the financial year ended 31 December 2010. No customer has contributed more than 10% of the Group's revenue during financial year ended 2011.

Figures presented for the Group's reportable segment equal to the Group's financial figures as presented in the consolidated and combined financial statements. Hence, no reconciliation is being prepared.

31 Related Party Disclosures

(a) Identities of related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other parties.

The relationship and identity between the Company and its related parties are as follows:

Identities of related parties	Relationship with the Group
Shunyuan Guo	CEO and controlling person
Shunfa Guo	Brother of Mr. Shunyuan Guo
Guo GmbH & Co. KG	Immediate holding company
Powerland Group Holding Ltd.	Ultimate holding company
Putian City Powerland Trading Co., Ltd. ("Powerland Trading")	Company in which immediate family of a Member of the Management Board of the Company has financial interests
Powerland (Australia) International Trading Co., Ltd.	Company in which immediate family of a Member of the Management Board of the Company has financial interests
Powerland International Trading CC	Company in which immediate family of a Member of the Management Board of the Company has financial interests

(b) In addition to the transactions detailed elsewhere in the consolidated and combined financial statements, the Group had the following transactions with related parties during the financial year:

EUR'000	**31.12.2010**	**31.12.2011**
Short term borrowings granted by bank from:		
Joint guarantee by a Director and third parties	9,498	8,354
Joint guarantee by a Director and related party	2,619	1,338
Personal guarantee by a Director	6,020	8,859
Joint guarantee by a Director and a subsidiary	-	4,703
Long term borrowings granted by bank from:		
Personal guarantee by a Director	2,226	-
Joint guarantee by a Director and a subsidiary	1,503	1,920

EUR'000	**2010**	**2011**
Rental payable to immediate holding company	-	5

EUR'000	**2010**	**2011**
Related party - sale of products	549	4,836

These transactions have been entered into the normal course of business and have been established under negotiated commercial terms.

(c) Compensation to members of the management team

The expense recognised in the financial statements for compensation paid to the Management Board and other members of the management team are as follows:

EUR'000	**2010**	**2011**
Short term employee benefits	68	715
Contributions to defined contribution plans	3	4
	71	719

The remuneration of Management Board members only are disclosed in Note 38 to the financial statements.

(d) Compensation to members of the Supervisory Board

The total remuneration to the members of the Supervisory Board amounted to EUR140 thousand (Note 38).

32 Risk Management Objectives and Policies

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout the consolidated and combined financial statements.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, credit risk, liquidity risk, interest rate risk and certain other price risks, which result from both its operating and investing activities.

32.1 Market risk

(i) Foreign currency sensitivity

Most of the Group's transactions are carried out in RMB. Exposures to currency exchange rates arise from the Group's overseas sales, which are primarily denominated in US dollars (USD). The Group also holds cash balances denominated in US dollars and Euro.

The Group does not currently actively take measures to mitigate its exposure to foreign currency risk in sales.

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

The following table illustrates the sensitivity of profit and equity in regards to the Group's financial assets and USD/RMB exchange rate with all other factors being constant.

It assumes a +/- 10% change of the USD/RMB and EUR/RMB average exchange rate for the twelve (12) months' period for the financial years under review respectively. This percentage has been determined based on the average market volatility in exchange rates during the financial year ended 31 December 2011. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date.

If the RMB had strengthened against the USD and EUR by 10% then this would have had the following impact:

EUR'000	**Profit for the year**	**Equity**
31 December 2010	(123)	(123)
31 December 2011	(430)	(430)

If the RMB had weakened against the USD and EUR by 10% then this would have had the following impact:

EUR'000	**Profit for the year**	**Equity**
31 December 2010	123	123
31 December 2011	430	430

Exposures to foreign exchange rates vary during the financial years depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

(ii) Interest rate sensitivity

The Group's policy is to minimise the interest rate cash flow risk exposures on short term financing. As at 31 December 2011, the Group is exposed to changes in market interest rates through total bank borrowings being renewed at interest rates different to those currently in place. The exposure to interest rates for the Group's funds deposited with banks is considered to be immaterial.

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates of +/- 2%. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each reporting period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

If the average market interest rates increased by 2% then this would have had the following impact:

EUR'000	**Profit for the year**	**Equity**
31 December 2010	(308)	(308)
31 December 2011	(505)	(505)

If the average market interest rates decreased by 2% then this would have had the following impact:

EUR'000	Profit for the year	Equity
31 December 2010	308	308
31 December 2011	505	505

32.2 Credit risk

Receivables may give rise to credit risk which requires the loss to be recognised if a counter party fail to perform as contracted. The Group extends credit to its customers based upon careful evaluation of the customer's financial condition and credit history on an ongoing basis.

The Group's exposure to credit risk is influenced by the individual characteristic of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

At the end of the reporting period, approximately 35% (2010: 45%) of the Group's trade receivables were due from 5 major customers who are wholesalers and distributors located in the PRC and South Africa.

As the Group does not hold any collateral, the maximum exposures to credit risk are represented by the carrying amounts of the financial assets in the consolidated and combined statements of financial position.

In respect of the cash and bank balances placed with major financial institutions, the Directors believe that the possibility of non-performance by these financial institutions is remote on the basis of their financial strength.

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

The Group does not enter into derivatives to manage credit risk.

Quantitative disclosures of the credit risk exposure in relation to financial assets are set out below. Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in Note 22 to the consolidated and combined financial statements.

	31.12.2010		31.12.2011	
EUR'000	**Carrying value**	**Maximum exposure**	**Carrying value**	**Maximum exposure**
Finance assets				
Cash and cash equivalents	15,319	15,319	76,146	76,146
Trade and other receivables	24,846	24,846	40,734	40,734
Total financial assets	40,165	40,165	116,880	116,880

32.3 Liquidity risk analysis

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. Liquidity needs are monitored closely with any significant cash outflows being considered against prevailing liquidity position prior to it being committed.

The Group maintains cash to meet its liquidity requirements for a 30-day periods at a minimum. Funding for long-term liquidity needs is additionally secured by the availability of credit facilities from financial institutions, which the management believes no significant difficulty to obtain given the past repayment record of the Group with the banks.

As at 31 December 2010, the Group's liabilities have contractual maturities (including interest payments where applicable) as summarised below:

EUR'000	Current Within 6 months	 6 -12 months	Non-current 1 to 5 years	 Later than 5 years
Trade and other payables	22,476	-	-	-
Borrowings	9,539	9,090	4,449	-
Total financial liabilities	32,015	9,090	4,449	-

As at 31 December 2011, the Group's liabilities have contractual maturities (including interest payments where applicable) as summarised below:

EUR'000	Current Within 6 months	 6 -12 months	Non-current 1 to 5 years	 Later than 5 years
Trade and other payables	19,700	-	-	-
Borrowings	10,991	13,331	2,192	-
Total financial liabilities	30,691	13,331	2,192	-

32.4 Capital management policies and procedures

The Group's capital management objectives are:

(i) to ensure the Group's ability to continue as a going concern;
(ii) to ensure sufficient capital to achieve the Group's strategic goals; and
(iii) to provide an adequate return to shareholders

by pricing products commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity, loans and cash and cash equivalents as presented on the face of the consolidated and combined statements of financial position.

The Group sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

During the financial years under review, the management monitored capital of the respective companies within the Group separately in a way that there would always be sufficient reserves in the equity for distribution of dividends. Upon the completion of the restructuring exercise and the IPO on the Frankfurt Stock Exchange in Germany, the Powerland Group also monitors capital using a gearing ratio. This gearing ratio will be net debt divided by total net debt and equity. Capital represents equity attributable to the owners of the parent less the fair value adjustment reserve. A detailed calculation of the net debt is shown in the breakdown below:

EUR'000	31.12.2010	31.12.2011
Borrowings	21,866	25,261
Cash and cash equivalents	(15,319)	(76,146)
Net debt	6,547	(50,885)
Net debt	6,547	(50,885)
Equity	27,205	129,358
Total net debt and equity	33,752	78,473
Gearing ratio	19.4%	-64.8%

32.5 Financial Instruments

(a) Fair values

The carrying amounts of financial assets and financial liabilities of the Group as at the end of the reporting period approximate their fair values due to the relatively short term maturity of these financial instruments.

(b) Determination of fair values

Methods and assumptions used to estimate fair values

The fair values of financial assets and financial liabilities are determined as follows:

Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The carrying amounts of financial assets and financial liabilities, such as trade and other receivables, trade and other payables and borrowings, are reasonable approximation of fair value, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

33 SIGNIFICANT EVENTS DURING THE REPORTING

(a) Powerland AG was founded by Guo GmbH & Co. KG ("the Founder") by means of a notarial deed of incorporation Roll of Deeds No. 48 / 2011 of the notary Dr. Andreas Bittner, Frankfurt am Main) dated 21 February 2011. The incorporation of Powerland AG shall take the form of contribution-in-kind.

Pursuant to a share contribution agreement dated 25 February 2011, the sole shareholder of the Founder, Mr. Shunyuan Guo, had transferred his entire shareholdings in Powerland Hong Kong comprising 10,000 units of ordinary shares of HK$ 1.00 each in exchange for 10,000,000 no par value bearer shares in Powerland AG at an issue price of EUR 1.00 each.

Consequently, Powerland Hong Kong became the wholly-owned subsidiary of Powerland AG.

The Group is regarded as continuing entity resulting from the reorganisation exercise since the manage-ment of all the above entities, which took part in the reorganisation exercise were controlled by the same management and under the common controlling party, i.e. Mr. Shunyuan Guo before and immediately after the reorganisation exercise. Consequently, there was a continuation of the control over the entities' financial and operating policy decision and risk and benefits to the ultimate control party that existed prior to the reorganisation exercise. The reorganisation exercise has been accounted for as restructuring transactions under common control.

(b) On 11 April 2011, Powerland AG was successfully listed on the Frankfurt Stock Exchange in Germany.

The Company received gross proceeds from the IPO of EUR75 million on 11 April 2011 for the 5 million new shares issued.

34 MATERIAL EVENTS AFTER THE REPORTING PERIOD

No material events occurred after the reporting period since 31 December 2011.

35 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) Contingent liabilities

As explained in Note 27(e), the Group has in the past not paid the full amount of social insurance and housing funds to its employees in accordance with the PRC Social Security Insurance Collection and Payment Regulation. Considering the risk for additional payments for prior periods, an accrual of approximately EUR 1,165 thousand was made as at 31 December 2011 (2010: EUR 1,097 thousand) based on the Group's estimates for the past unpaid contributions. Mr. Guo Shun Yuan, the owner of the Group has undertaken an agreement with the Group according to which he would reimburse the Group for any additional losses incurred for such additional social insurance and housing funds payments claims by the authorities to the extent of satisfactory resolution of any legal actions taken against the Group in relation to social insurance and housing funds.

(b) Contingent assets
There were no contingent assets as of 31 December 2011.

36 STOCK OPTION PLAN

In connection with a stock option plan (the "Stock Option Plan 2011"), the Company intends to grant to certain members of its Management Board and other members of senior management rights to purchase shares in the Company (the "Stock Options").

The Company's Supervisory Board is responsible for deciding about the issuance of Stock Options to members of the Management Board and the further details of the issuance. A maximum amount of 500,000 Stock Options may be issued under the Stock Option Plan 2011 within a period of 10 years. The term of such Stock Options commences on the day of the issuance of Stock Options and ends after seven years.

Stock Options may only be exercised after a holding period of four years. Furthermore, the participating member of the Management Board or senior management may only exercise up to 50 % of his or her Stock Options during the first year following expiration of the holding period and further 50 % in the year thereafter. The shares needed for the Stock Option Plan 2011 may be derived from the Company's conditional capital in the amount of EUR 500,000.

The exercise of Stock Options is conditional upon the fulfillment of certain performance targets based on the development of the stock market price for the shares of the Company within the period from issuance to the exercise of the respective Stock Option. The performance targets contained in the Stock Option Plan 2011 relate to the development of the stock market price of the Company's shares in the period from the granting of the Stock Option until the exercise of the Stock Option, and correspond to an average increase of the stock market price of the Company's shares of 8 % per year.

The exercise price for Stock Options issued after registration of the conditional capital and before the expiration of 30 days after admission of the Company's shares to trading will be 100 % of the price per Offer Share during IPO. The exercise price for Stock Options issued at a later date will correspond to the average stock price of the Company's shares on twenty immediately sequent trading days before the date of issuance of such Stock Options. Each Stock Option entitles its holder to purchase one share in the Company from the conditional capital created for this purpose against payment of the exercise price.

No stock option has been granted yet as at 31 December 2011 and as of the date of this report.

37 MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Management Board

Mr. Shunyuan Guo	CEO(Chief Executive Officer)
Mr. Qingsheng Cai	CAO (Chief Accounting Officer)
Mr. Hock Soon Gan	CFO (Chief Financial Officer)
Mr. Yongliang Guo	CPO (Chief Production Officer)

Supervisory Board

Dr Peter Diesch	Chairman of Supervisory Board (Appointed in March 2011)
Mr. Volker Potthoff	Deputy Chairman of the Supervisory Board (Appointed in March 2011)
Mr. Hsueh Yi Huang	Member of the Supervisory Board (Appointed in March 2011)

Former Supervisory Board members

Mr. Fujin Chen	Former chairman of Supervisory Board (Appointed in February 2011 and resigned in March 2011)
Mr. Junqi Huang	Former deputy Chairman of the Supervisory Board (Appointed in February 2011 and resigned in March 2011)
Mr. Liming Huang	Former member of the Supervisory Board (Appointed in February 2011 and resigned in March 2011)

These former Supervisory Board members did not receive any remuneration from the Company.

38 REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Remuneration of Management Board Members
For the fiscal year 2011, the members of the management board received the following fixed remuneration of which they are not entitled to receive any further, particularly performance-based remuneration, except for the Mr. Hock Soon Gan (CFO) who was entitled to a bonus upon successful listing:

The total remuneration of the members of the Management Board for the financial year 2011 are as follows:

Name	2010 EUR'000	2011 EUR'000
Shunyuan Guo	16	56
Hock Soon Gan		
- fixed	6	107
- variable	-	335
Qingsheng Cai	9	23
Yongliang Guo	4	23

Remuneration of Supervisory Board Members
In accordance with German Stock Corporation Law, the Supervisory Board members do not have service agreements with the Company. According to § 113 para. 2 sentence 1 of the German Stock Corporation Act, their remuneration can only be determined by the General Shareholder's Meeting that approves their actions in the first short financial year of the Company, which will be held in 2012. The members of the Management Board and Supervisory Board intend to propose to that General Shareholders' Meeting to adopt the following remuneration for the current Supervisory Board members:

Name and function	Fixed annual remuneration in EUR'000	Variable remuneration	Attendance fee for board meetings in EUR'000
Dr Peter Diesch, Chairman of the Supervisory Board	60	0.1% of annual net profit	2.5
Mr. Volker Potthoff, Deputy Chairman of the Supervisory Board	35	N/A	2.5
Mr. Hsueh Yi Huang, Ordinary member of the Supervisory Board	20	N/A	2.5

Every member of the Supervisory Board is entitled to reimbursement for expenses incurred for the purpose of his office, as well as VAT, if applicable. The Supervisory Board members are not entitled to any special benefits upon termination of their office.

The summary of the total remuneration of the members of the Supervisory Board for the financial years in the total amount of EUR 140 thousand which are included in the accrued expenses (Note 27) are as follows:

Name	2010 EUR'000	2011 EUR'000
Dr. Peter Diesch		
-fixed	-	61
-variable	-	19
Volker Potthoff	-	36
Hsueh Yi Huang	-	24
	-	140

39 TOTAL AUDITING FEES

BDO AG Wirtschaftsprüfungsgesellschaft was appointed as the auditor of Powerland AG and the Group for the financial year 2011. The following table gives an overview about the calculated fees of BDO network recognised (including out-of-pocket expenses without VAT) in the business year.

Expenses recognised in profit or loss

EUR'000	2010	2011
Annual audit services	-	200
Other audit related services		
- Quarterly review	-	203
- IPO expenses	-	786
Other services	-	18
		1,207

The amounts recognised in profit or loss as disclosed in the table above include fees and out-of-pocket expenses payable to BDO AG amounting to EUR 770 thousand.

Expenses recognised in equity

EUR'000	2010	2011
IPO expenses	-	393

The amounts recognised in equity as disclosed in the table above include fees and out-of-pocket expenses payable to BDO AG amounting to EUR 271 thousand.

Total fees of BDO AG consists of annual audit services of EUR 100 thousand and for other audit related services EUR 941 thousand.

40 DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

Pursuant to § 161 of the German Stock Corporation Act (AktG), the Management Board and Supervisory Board issued a corporate governance declaration on the recommendations of the provisions of the German Corporate Governance Code as amended.

THIS DECLARATION WILL BE PUBLISHED ON THE COMPANY'S WEBSITE AT WWW.POWERLAND.AG. AND WILL BE AVAILABLE PERMANENTLY.

41 CASH FLOW STATEMENT

The Powerland Group's cash flow statement shows the changes that occurred in cash and cash equivalents during the year under review on the basis of cash transactions. Pursuant to IAS 7, cash flow are reported separately according to source and application in operating activities, investing activities and financing activities. Cash flows from operating activities are derived using the "indirect method".

Changes in the statement of financial position items presented in the cash flow statement cannot be derived directly from the statement of financial position due to adjustment for currency effects.

42 Proposal on the Utilisation of Powerland AG´s Net Retained Earnings

The German financial statements reflect retained earnings of EUR 7.3 million. At the Annual General Meeting, the Management Board and the Supervisory Board will propose to distribute a dividend of EUR 3.75 million (EUR 0.25 per share) and to carry forward the remaining amount of EUR 3.55 million.

43 Approval of the Financial Statements

The consolidated and combined financial statements were approved and authorized for issuance by the Company´s Management Board on 24 April, 2012.

Frankfurt am Main, 24 April 2012

Shunyuang Guo Chief Executive Officer	Hock Soon Gan Chief Financial Officer
Qingsheng Cai Chief Accounting Officer	Yongliang Guo Chief Production Officerv

Independedent Auditors' Report

To the Management of Powerland AG

Report on the consolidated and combined Financial Statements

We have audited the accompanying consolidated and combined financial statements of Powerland AG, Frankfurt am Main, for the year as of December 31, 2011. The financial statements comprise the consolidated and combined statements of financial position, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management´s Responsibility for the consolidated and combined Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated and combined financial statements in accordance with those International Financial Reporting Standards applicable to financial reporting as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of consolidated and combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor´s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and combined financial statements.

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

Opinion

In our opinion, the consolidated and combined financial statements give a true and fair view of the financial position of Powerland AG, for the year as of December 31, 2011 and of its financial performance and its cash flows for the year then ended in accordance with those International Financial Reporting Standards applicable to financial reporting as adopted by the EU.

Hamburg, April 24, 2011

BDO AG
Wirtschaftsprüfungsgesellschaft

Dr Zemke	Green
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated and combined financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Guangzhou, 24 April 2011
Management Board

Guo Shunyuan   Cai Qingsheng   Gan Hock Soon   Guo Yongliang

Financial Calendar

April 30, 2012	Consolidated Financial Statements 2011 Annual Report 2011
May 24, 2012	Interim Report First Three Months 2012
June 20, 2012	Full Year Press Conference Annual General Shareholders' Meeting (AGM) Frankfurt /Main
August 23, 2012	Interim Report First Six Months 2012
November 12, 2012	Interim Report First Nine Months 2012
November 12-14, 2012	Analysts' Conference German Equity Capital Forum, Deutsche Boerse AG Frankfurt /Main

Imprint

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