POWERLAND

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ANNUAL REPORT 2012

GROUP KEY FIGURES

in EUR '000	Q4 2011	Q4 2012	Change	2011	2012	Change
Revenue	37,687	49,785	32.1%	146,948	190,972	30.0%
Gross profit	16,858	21,853	29.6%	64,994	83,126	27.9%
Gross profit margin	44.7%	43.9%		44.2%	43.5%	
EBIT[1]	6,312	10,100	60.0%	32,249	35,296	9.4%
EBIT margin	16.7%	20.3%		21.9%	18.5 %	
Net profit	3,503	6,106	74.4%	18,337	23,995	30.9%
Net profit margin	9.3%	12.2%		12.5%	12.6%	
Earnings per share in EUR[2]	0.23	0.41	78.3%	1.22	1.60	31.1%
Luxury						
Revenue	22,862	31,657	38.5%	80,170	112,797	40.7%
Gross profit	11,519	16,495	43.2%	39,892	59,165	48.3%
Gross profit margin	50.4%	52.1%		49.8 %	52.5%	
EBIT[1]	3,004	6,501	116.4%	15,077	18,790	24.6%
EBIT margin	13.1%	20.5%		18.8%	16.7%	
Casual						
Revenue	14,825	18,128	22.3%	66,778	78,175	17.1%
Gross profit	5,339	5,358	0.4%	25,102	23,961	- 4.5%
Gross profit margin	36.0%	29.6%		37.6%	30.7%	
EBIT[1]	3,308	3,599	8.8%	17,172	16,506	- 3.9%
EBIT margin	22.3%	19.9%		25.7%	21.1%	

in EUR '000	31 Dec 2011	31 Dec 2012
Total equity and liabilities	176,334	213,267
Total equity	129,358	147,479
Equity ratio	73.4%	69.2%
Cash and cash equivalents	76,146	64,108
Net cash/net debt (–)	50,885	27,699

Employees	31 Dec 2011	31 Dec 2012
Total	1,398	1,777

[1] *EBIT represents earnings before net finance cost and tax.*
[2] *The computation of earnings per share is based on net profit and 15 million shares.*

CONTENT

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

The reporting year 2012 was a successful year for Powerland AG. We have generated a year-on-year revenue growth of 30.0%, while earnings per share increased by 31.1% to EUR 1.60 in contrast to EUR 1.22 in 2011. In 2012, we have implemented a thorough review of our distribution network reflecting our improved market and brand position by applying higher standards for store location and size which resulted in several stores being relocated and some being closed down in the process. Despite this strategy, the number of Powerland stores increased from 164 as of 31 December 2011 to 180 as of 31 December 2012 – many of them in top locations.

From the current perspective of 2014, the year 2012 seems to be a long time ago and things have changed very rapidly since then. The Company experienced two rounds of forensic audits after the completion of the initial 2012 annual audit. The whole exercise has laid tremendous strain on the Company's staff and business partners, and most importantly, lead to fading investors' confidence and wore away on their patience with the Company. We would like to take this opportunity to apologize to you for this and want to assure you that the Company will make every effort to prevent such complication in future. The Company will put an even higher emphasis on transparency as well as better internal control and external communication mechanisms.

BDO AG, the Company's statutory auditor, announced to us on 2 July 2013 that they would issue an adverse opinion on the Company's consolidated and unconsolidated financial statements for 2012. The Company published an ad-hoc announcement on 2 July 2013 to inform investors hereof. In a further ad-hoc dated 15 July 2013 we informed of the hindering factors underlying the adverse opinion and gave our own analysis. In August 2013, the Supervisory Board and the Management Board engaged Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, as an independent auditor to investigate into the hindering factors brought forward by BDO. Ernst & Young completed the field work in early November 2013 and finalized a forensic audit report in early January 2014.The Company would like to share its view as well as the results of the independent auditor's investigations into the hindering factors and the resulting adverse opinion.

1. Export revenue

   The statutory auditor is unconvinced about the validity of the export revenue, which constituted approximately 18% of the Group's total revenue in 2012. This argument is based on the inconsistency of information contained in export documents, the fact that certain incoming payments would not be matched with individual orders, and transactions made by the Company with related entities.

   The Management Board deems the inconsistent information as irrelevant for revenue recognition, as payments have been fully collected and the delivered goods were fairly priced. In addition, detailed explanations have been made that inconsistent information such as consignee name and delivery address, as well as collective payments, which resulted in the payment mismatch, is customary in international trades. Furthermore, the Company has elaborated on the nature of the questioned transactions and proven that these transactions are reasonable. The Company has even arranged for BDO to pay on-site visits of our South African business partners. During the trip, BDO physically verified the existence of the export business.

   During the forensic audit, Ernst & Young reviewed the export documentation of our export revenues once provided to BDO, with a special focus on documents from trust worthy credit-worthy third-parties, i.e. the Chinese Tax Bureau, the Chinese Customs Office and the State Administration of Foreign Exchange. In the meantime, intensive interviews were conducted with relevant personnel and external shipping agents. In addition, sample testing of container information and other substantive procedures were performed. On the aforementioned information basis, Ernst & Young reports that all interviewees confirmed the accuracy of the stated activities. Transactional testing on sample export sales source documents also confirmed the consistency of container numbers in the bills of lading (BOL), custom declaration notes and packaging lists. In general, there is no significant finding regarding the concerns raised by BDO.

2. Cash and demand deposits

The statutory auditor cast doubts on existence of the Company's cash and demand deposits as at 31 December 2012 of EUR 61.1 million. The amount of bank deposits was confirmed by written evidence provided to BDO when BDO paid on-site visits to the local branches of the account keeping banks. However, BDO requested to visit the headquarters of the account-keeping Chinese banks as an extended audit procedure and the Management Board denied this request.

The Management Board deems BDO's request highly uncustomary for audit procedures in China. The Company does not have a relationship with the banks' headquarters who are not legally obliged to provide the bank deposit information. BDO's request is beyond the scope of what the Company could possibly accommodate for.

During the forensic audit, Ernst & Young visited local Chinese banks and obtained bank statements of 2012 (sealed with official chops). Ernst & Young also performed a sample testing of bank transactions above 5 million CNY in December 2012/January 2013 and had access to Powerland's accounts via the Internet online banking system. This inspection demonstrated the balances/transactions in the past six months and confirmed the year-end balance of 2012 by back-calculation. Ernst & Young concluded that bank balance and transaction procedures revealed no exception as at December 31, 2012. Therefore, BDO's concerns with regard to our bank deposit are not justified.

3. Bank borrowings

The statutory auditor believed that our bank borrowings were not sufficiently proven. BDO requested a "Borrowing Card" report from the People's Bank of China (PBOC) for reference and the Company refused to collaborate.

The Company has provided sufficient supporting documentation from local account-keeping banks to evidence the borrowing balances. There was no necessity to provide supplementary documents to verify the borrowings. Moreover, the request for a PBOC confirmation is beyond the scope of what the Company could possibly accommodate for.

Ernst & Young obtained a borrowing card report for the Company's Chinese entities when Ernst & Young visited the local banks. Though there was a discrepancy between borrowing card information and the Company's book, it was mainly due to the fact that the latest information had not been updated by the lending banks and this phenomenon was confirmed by the People's Bank of China. Therefore, Ernst & Young states that the review of reconciliation of bank borrowing balance differences as prepared by the management revealed no exceptions. Powerland's borrowing balances as at 31 December 2012 are fairly stated.

4. Related parties

The statutory auditor believed that the Company's major export counterparties, i.e. Suntec and Fimont, as well as Duerde, one of the Company's major domestic distributors, could be related parties of the Company.
The Management Board has provided sufficient documents and explanations on the relationship between the Company and the aforesaid business partners.

> Ernst & Young has inspected legal documents and declarations such as business licenses and in the meantime, conducted interviews with the relevant personnel, particularly the Company's management. Ernst & Young states that more conclusive evidence may be required to effectively support the management's position. Nevertheless, the reviewed documentation as well as the interviews does not support BDO's assumption that the above business partners are related parties of the Company.

Based on the above, the Management Board has come to the conclusion that BDO was not justified to issue an adverse opinion on the basis of the allegedly hindering factors. The Management Board also had intensive discussions with the Supervisory Board regarding the possibility of adjusting and restating the financial statements and presenting the restated financial statements to BDO for a re-audit. However, the Management Board is still convinced that the financial statements are correct and was further strengthened in its position by the Ernst & Young report. Moreover, a re-audit process would again be time-consuming and taking into account BDO's position would not necessarily guarantee the issuance of an audit opinion by BDO. Evidently, the Company does not have adequate time. Therefore, the Management Board has decided together with the Supervisory Board that it is in the best interest of the Company as well as the shareholders to inform the shareholders on the situation regarding the financial statements 2012 and to give them the opportunity to decide on the adoption of the consolidated and unconsolidated financial statements for 2012. This will enable the shareholders to make their own decisions on the basis of the reports of the Supervisory Board and of the Management Board as well as the results reported by Ernst & Young.

Looking ahead, while the pace of recovery remains uncertain for both the global and domestic economy, we maintain a cautiously optimistic outlook about our future. Despite the decelerated growth in the consumer sector, we believe that investments in brand equity will generate long-term return and we will continue to improve our brand image by various efforts. In the meantime, we will keep on expanding our distribution network conservatively so that we can achieve sustainable growth and in return serve the best interest of our shareholders.

Finally, we would like to thank, in particular, our employees for their remarkable contributions and the solid trust towards the Company. It is their hard work that enables us to remain a growing company. We would also like to express our gratitude to our shareholders and business partners for your confidence in the Company and your steady support during this challenging period.

Guangzhou, 11 February 2014
Shunyuan Guo

Chairman of the Management Board and

Chief Executive Officer

HIGHLIGHTS 2012

April 2012
Powerland launched its 2012 autumn/winter collection under the theme “POWERLAND•LOVE PASSION FOR ORCHID” in Beijing.

More than 200 celebrities and journalists from the fashion media, as well as leading retailers and franchisees attended the fashion show.

June 2012
The Annual General Meeting of Powerland adopts the dividend proposal of EUR 0.25 per ordinary share for financial year 2011.

Shareholders participate in the Company’s success in the first financial year as a listed company.

July 2012
Powerland is integrated as story background into 72 episodes of a TV drama aired in major Chinese TV channels.

Handbags showcased in the drama series are from Powerland, and the fictional story itself is set in a company called Powerland with the PLD logo.

November 2012
First Powerland online shop in China is opened in cooperation with Fifth Avenue Globe Inc., the leading Chinese luxury goods online trading platform.

A selected range of women’s handbags from Powerland’s latest collections is made available from the online shopping mall Fifth Avenue (www.5lux.com).

November 2012
Powerland exhibits and presents the equity story at the German Equity Forum 2012.

Powerland is the only Chinese company who presented product samples with an exclusive exhibition booth at the German Equity Forum, held from November 12–14, 2012 in Frankfurt/Main.

December 2012
By the end of 2012 Powerland has opened a total of 180 stores, of which 31 stores are run by the Company itself.

Of the self-operated stores, 19 are airport stores, a fact that reflects the synergy efficiencies in brand building via digitalized advertising at over 30 domestic airports and the store rollout in China.

Report of the Supervisory Board for the Fiscal Year 2012

>> Dear shareholders,

The 2012 financial year was another successful year for the Powerland Group. Despite the significantly challenging environment following the slowed-down dynamic growth of the Chinese economy during the reporting year, the company was able to further grow profitably as a key provider of luxury goods in the Chinese market. The strategic focus during the reporting year was on targeted expansion and the optimisation of the distribution network as well as the significantly expanded marketing activities to strengthen the brand.

In the 2012 financial year, the Supervisory Board provided advice and monitoring to the Management Board and discharged all duties and obligations imposed on it by law, the Company's Articles of Association and its internal rules of procedure. It is the Supervisory Board's responsibility to monitor and supervise the Management Board and to act in an advisory capacity.

The Management Board provided the Supervisory Board with regular information on the development of the overall performance, results and activities of Powerland AG, the Group and its individual product and market segments and responded to the questions put to it by the Supervisory Board. The Supervisory Board requested and received information on corporate planning, the company's continued strategic development and principal projects on an ongoing basis and was advising the Management.

As the Supervisory Board statutorily consists of only three members, the installation of separate committees is impossible according to section 108 para. 2 s. 3 AktG and apart from that not necessary, as intense and qualified discussions can be conducted in plenary meetings. Accordingly, the Supervisory Board did not form any committees.

Supervisory Board Meetings in 2012

The Supervisory Board held five regular meetings at which it discussed the company's budget planning, the development of the Company's operations, examined the reports submitted to it by the Management Board, status reports on current projects as well as the forecast planning. The dates of the regular meetings were 15 February 2012, 24 April 2012, 19 June 2012, 12 October 2012, and 18 December 2012.

The meeting held on 15 February 2012 focused on the budget planning for the business year 2012. In addition the Supervisory Board discussed aspects of dividend policy as well as the current status of the financial statement. A further item on the agenda was the company's risk management. In the context of budget planning, particular focus was put on the importance of Powerland's marketing activities at airports. Further, the Supervisory Board agreed upon the investment planning for 2012.

In the meeting held on 24 April 2012, the Management Board presented the (stand-alone) financial statements, the consolidated financial statements and the management report for Powerland AG and the Group for the business year 2011. The auditor's report by BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, ("BDO") and the auditor's report on the financial statements were presented by the head auditor personally at the meeting. The (stand-alone) financial statements and consolidated financial statements of Powerland AG were adopted at the meeting. In addition, Management Board and Supervisory Board jointly resolved on a dividend proposal to be made to the shareholders meeting on 20 June 2012 of 0.25 EUR per share. Further resolutions related to proposals to the AGM regarding the formal approval of the actions of the Management Board and the Supervisory Board, on the election of the auditor, the remuneration of the Supervisory Board, the election of Supervisory Board members as well as the acquisition and utilisation of own shares. Further items on the agenda were the current business development and the organisation of the AGM.

The focus of the meeting on 19 June 2012 was the report of the Management Board on the business development in the first six months of fiscal year 2012 and the current business situation and the expansion of the distribution network. In particular, the Supervisory Board looked into the review conducted on sales partners which led to the termination of business relationships with 15 sales partners. Further parts of the discussion were the expected real estate price development and its impact on the intended expansion of the distribution network and expected growth rates in the retail business. Further topics were upcoming product road shows, the potential of the brand „SOTTO", marketing expenditure of luxury goods companies in general as well as Powerland's capital market communication. Finally, organisational details regarding the Annual General Meeting on 20 June 2012 were discussed.

At the meeting on 12 October 2012 the focus was initially on Board members: Once again, the Supervisory Board appointed Dr. Peter Diesch as Chairman and Volker Potthoff as Deputy Chairman. Furthermore, it was discussed with the Management Board to appoint Kelvin Ho with effect from 1 December 2012 as successor of Hook Soon Gan, who had left the company for personal reasons, as CFO and member of the Management Board. In the course of the meeting the Management Board reported on the actual operational development of the fiscal year, the enhanced marketing activities and the actual number of sales points as well as the impact of the real estate prices on the opening of new shops. The Board also informed about the progress of a newly built factory. The meeting further focused on the issues of capital market communication and investor relations. In addition, the Board gave an overview on the existing risk management system at Powerland.

During the meeting on 18 December 2012 Hock Soon Gan was discharged as CFO and Kelvin Ho as his successor was appointed as new CFO and member of the Management Board. The Board reported on the current business development and the continued branch expansion. Main topic of the meeting was the discussion on the budget planning for financial year 2013. Particular attention was paid to branch expansion, medium-term prospects of success and to the sectoral budgets for Sales, Marketing and Investments. Additional topics were aspects of risk management. Further subjects of the meeting were aspects of share price development and investor relations activities.

Meetings and Measures in 2013 concerning the Business Year 2012

In the meeting on 15 March 2013 (by way of a telephone conference) the Supervisory Board focused on the status of the year end reporting work for the financial year 2012. It was decided to continue the discussions in this respect in detail in an extraordinary Supervisory Board Meeting on 25 March 2013. A main issue in this meeting was also a real estate investment carried-out without the necessary consent of the Supervisory Board.

Between meetings, further aspects of the operating business, events and developments in the capital market, budget planning and the strategic further development of Powerland have been regularly discussed verbally and in writing between the Management Board and the Supervisory Board, in particular its chairman. The Management Board informed the Supervisory Board verbally and in writing about the business development and in relation to specific matters between meetings.

As in the previous year, the Supervisory Board, in particular represented by its chairman, was regularly liaising with the company's auditor BDO. Already at the end of January 2013 BDO pointed out to the chairman that from BDO's perspective the documentation with regard to the export business to South Africa was insufficient and aggravating the audit. During the following weeks BDO came to the conclusion that without complimentary documents a major part of the export turnover to South Africa could not be audited.

On 28 February 2013 the Management Board published preliminary, unaudited financial figures for the fiscal year 2012. On 1 March 2013 BDO indicated to the Supervisory Board that further audit procedures were necessary and as a consequence, from BDO's point of view, the final financial figures will differ from the published figures. Subsequently, in a series of meetings, the chairman of the

Supervisory Board and BDO have discussed the issues of concern existing from the point of view of BDO.

In a telephone conference on 15 March 2013 the Supervisory Board discussed the situation with regard to preparation of the financial statements 2012.

Within the framework of an all-day extraordinary Supervisory Board Meeting held on 25 March 2013, the issues of the audit of the financial statements 2012 were being intensively discussed in the presence of representatives from BDO. The main topics regarding the findings from the perspective of BDO at that time were

- verification of turnover/receivables resulting from the export business to South Africa
- inadequate disclosure of the circle of related parties
- valuation approaches for buildings/real estate as well as decision-making processes and procedures with regard to the recent real estate acquisition carried out by the Management Board.

As a result of this extraordinary Supervisory Board Meeting a detailed action plan was jointly approved by the Supervisory Board, the Management Board and the participating representatives from BDO. Additionally, the CFO Kelvin Ho was released from his duties.

Parallel to the discussions outlined above, the Supervisory Board started to discuss with BDO at the beginning of March 2013, to what extent an additional forensic investigation of the critical issues from BDO's perspective could help to clarify the situation. Eventually, a specialised team of BDO was commissioned with such an investigation. The areas of priority of this investigation were

- verification/falsification of turnover/receivables resulting from the export business to South Africa
- several "related party" situations presumed by BDO
- verification of the balance of accounts made up by the Management Board for the company's most important bank accounts.

Supervisory Board members were informed in detail by BDO representatives weekly or in intervals of up to ten days about the progress and results of this special investigation.

In the course of the intense and very complex investigations, BDO raised plenty of further detail questions, also on facts that had not been challenged during previous audits conducted by BDO. The originally intended indisputable verification or falsification of individual findings which were materially effecting the financial statements has from the Supervisory Board's point of view, not been achieved for the most part. Therefore, following intensive deliberation with the Management Board at the end of June 2013, the members of the Supervisory Board came to the conclusion that the continuation of the special investigation by BDO for the purpose of elimination of the hindering factors does not seem to be expedient.

At the same time, BDO informed the chairman of the Supervisory Board that BDO would finalise the auditing of the (stand-alone) financial statements and the management report of Powerland AG and the consolidated financial statements and the consolidated management report of Powerland AG with an adverse opinion each. In its audit reports BDO was referring mainly on the following hindering factors (*Prüfungshemmnisse*):

- Insufficient evidence of sales revenue (approximately EUR 35 million) in the export business with clients in South Africa as well as insufficient documentation on correlating receipts of payments.

- Insufficient proof of means of payment, demand deposits (approximately EUR 61.1 million) and bank debt (approximately EUR 36.4 million).
- Insufficient disclosure of the group of related parties according IAS 24.

In an ad hoc release dated 15 July 2013 the Management Board commented on these matters.

Further Investigations by an independent Auditing Company

At the same time of the above described events in June and July 2013, the Supervisory Board and the Management Board discussed further steps which could lead to a clarification of the doubts raised by BDO and after a further clarification to a supplementary audit or a revoke of the adverse audit opinion and certified financial statements.

In its meeting on 8 July 2013 the Supervisory Board discussed in detail the situation regarding the preparation of the financial statements following the refusal of BDO to issue a positive audit opinion on the financial statements and the termination of the forensic additional analysis by BDO. The Supervisory Board decided to assign a neutral accounting firm with the analysis of the findings criticised by BDO. At the same time it discussed the communication with the public and the Management Board was instructed to develop and implement an action plan to fundamentally improve staffing, systems, methods and processes in the area of accounting, financial controlling and risk management. During this meeting an in-depth conversation with the potential CFO-candidate Mr. Yachen Jiang took place.

Subsequently, Mr. Yachen Jiang was appointed as new CFO by the Supervisory Board meeting, conducted via conference call on 15 and 16 July 2013. Also during this meeting on 15 July 2013, a share buyback programme was resolved.

Following intensive discussions with a number of accounting firms, the Supervisory Board decided on 25 July 2013 in a telephone conference to assign an internationally recognized auditing company with the respective investigation. The assignment was issued at the beginning of August 2013 with the following instructions:

- To analyse the findings criticised by BDO as being audit hindrances and to establish an independent opinion and to report this to the Advisory Board and the Management Board,
- to try to enter into dialogue with BDO on the basis of their independent analysis with the objective to carry out a supplementary audit and to obtain positive audit opinions for the financial statements by BDO.

The investigation was carried-out by a German and a Chinese team of the independent auditing company and covered the following areas according to the issues provided by BDO in its audit opinions:

- Documentation of the export business to South Africa
- Balances of their main bank accounts
- Status of bank debts
- Connection of the group of related parties to business partners.

At intervals of sometimes only a few days, the Supervisory Board was informed by the independent auditor about the progress and results of this investigation. In the framework of these discussions, the Supervisory Board partially specified the tasks and agreed upon further audit activities.

Details and progress of the investigation by the independent auditor were continuously debated between the Supervisory Board and the Management Board and were also discussed in a Supervisory Board meeting held on 4 September 2013.

In the Supervisory Board meeting on 6 November 2013 the results were presented in detail by the independent auditor and were discussed.

Based on the investigations carried out by the independent auditor mostly on-site in China the Supervisory Board got the impression that many positions of the Management Board regarding critical facts were strengthened. In the course of this investigation the Company was again not able to provide documents that fulfilled very high demands regarding completeness and detail. However, significant progress was achieved with respect to the evidence of the Management Board's position vis-à-vis the individual profit & loss and financial figures, in particular with regard to the balances of the company's bank accounts and its debts vis-à-vis its main banks. In order to eliminate the doubts raised by BDO regarding the correctness of the provided bank balances additional investigations were carried out and sealed bank confirmations concerning a substantial part of the bank accounts were obtained, which prove the correctness of the provided balances under reasonable evaluation.

Further, the investigations also strengthened the position of the Management Board regarding the export transactions. The independent auditor carried out over 70 sample tests regarding the transactions indicated by BDO. In the course of this investigation the majority of transactions could be retraced based on the existing documentation. In addition, the investigations did not provide any prove for the non-existence of any of the indicated transaction. The investigations also showed that the documentation of the transactions was mainly in accordance with market standards, e.g. regarding the incorrect bills of lading.

During November and December 2013 there were several attempts based on the outlined results to resume detailed and constructive discussions between BDO, the independent auditor and the company based on these results aiming at the continuation of the audit. In the end, this attempt was not successful since BDO issued a number of conditions which would have consequence not only substantial additional costs but also incalculably delayed the finalization of the audit process. After careful consideration of the expected further time, financial resource and staff resource required, BDO's position vis-à-vis individual findings and the further considerable distraction of key persons from the operative business as well as the information needs of the shareholders, the Supervisory Board and the Management Board decided to abort the attempt for a positive audit opinion regarding the financial statements.

Corporate Governance

Powerland AG and its bodies are committed to good and responsible corporate governance. This commitment is supported by both its majority shareholders and its entire group management. As well as complying with legal stipulations and the recommendations laid down in the German Corporate Governance Code, Powerland AG places the highest importance on ethical standards such as safety at work and high product quality.

Corporate Governance of Powerland AG was a regular topic on the agenda of the meetings. The Management Board reported on corporate governance in accordance with Sentence 3.10 of the German Corporate Governance Code as part of the declaration on corporate governance pursuant to Section 289a of the German Commercial Code (HGB). The declaration on corporate governance has been made available to the public on the Powerland AG website. In addition, the Supervisory Board regularly examined the application and ongoing development of the Company's corporate governance principles. On 24 April 2012 the Management Board and the Supervisory Board made a statement of compliance pursuant to Section 161 German Stock Corporation Act (AktG) and made it permanently available to the company's shareholders on the company website.

In regard of the Corporate Governance of the Company it has to be pointed out that the Management Board carried out one real estate investment without the necessary approval by the Supervisory Board. This incident was intensely discussed with the Management Board. The Management Board confirmed that such violation will not occur again.

Conflicts of interest that would have had to be disclosed according to Sentence 5.5.2 German Corporate Governance Code have not occurred.

Adoption of the Annual Financial Statements

Over the past months the Supervisory Board has dealt with specific issues of the Annual Financial Statements in an unusually detailed and time-consuming manner. Nevertheless, it does not have the same detailed knowledge about certain facts as the Management Board and the auditors involved in the audit, although the report of independent auditor was able to clarify certain critical issues.

In view of the outlined situation regarding the financial statements 2012 the Supervisory Board thinks that it is in the best interest of the Company as well as the shareholders that this situation is not only presented to the shareholders but that the approval of these financial statements should also be in the discretion of the shareholders.

Against this background the Supervisory Board will not approve the stand-alone and group financial statements 2012. Further, the Supervisory Board will recommend the shareholders to review, accept and approve the (stand-alone) financial statements and the consolidated financial statements produced by the Management Board. This recommendation is not given on any superior knowledge of the facts which are relevant for the financial statements but by weighing up the given alternatives. Continuing the audit by BDO would have consequenced immense additional operational and financial burdens without granting any security whether the critical facts would have been clarified to the auditor's satisfaction. Further, taking into account the report by the independent auditor the Supervisory Board did not get to the conclusion that any facts were revealed which would cause fundamental doubts regarding the situation of the Company.

The dependency report of the Management Board dated 31 July 2013 has been provided to the Supervisory Board. There are no objections regarding this report.

The company hereby publishes the annual financial statements and the consolidated annual financial statements for the financial year 2012 without auditor's certificate.

Thanks

The Supervisory Board would like to extend its thanks to the Management Board and all employees of the company for their work over the past financial year.

Frankfurt / Main, 11 February 2014

Dr. Peter Diesch

Chairman of the Supervisory Board

Dr. Peter Diesch

Chairman of the Supervisory Board, Member of the Supervisory Board since 2011

Dr. Peter Diesch studied economics at the University of Freiburg and obtained a doctorate in business administration. Since 1992, he has been a managing director and member of management at a number of companies, primarily in functions such as finance, mergers & acquisitions, procurement/materials management and human resources/labour director. Dr. Diesch was a managing director of Airbus Deutschland GmbH and Dornier Medizintechnik GmbH and a member of the Group Management Board of KarstadtQuelle AG, Linde AG and Tchibo Holding AG. Over the past five years, he has been a member of various supervisory boards and advisory boards. Dr. Diesch is currently a member of the following management and supervisory bodies:

- BCI Board Consultants International Dr. Diesch GmbH, Hamburg, owner and managing director;
- Delton AG, Bad Homburg, member of the Supervisory Board;
- Inros Lackner SE, Rostock, member of the Administrative Board.

Volker Potthoff

Deputy Chairman of the Supervisory Board, member of the Supervisory Board since 2011

Mr. Volker Potthoff is a lawyer. After working at White & Case, New York, and BHF-Bank, Frankfurt/Main, he performed various functions at Deutsche Börse AG, most recently as a member of the Management Board and Managing Director responsible for Stock Exchange Business and Banking & Custody Services. Mr. Potthoff was a member of the Government Commission of the German Corporate Governance Code until July 2006. Since 2006, Mr. Potthoff has worked at the law firm CMS Hasche Sigle as an expert for the capital markets. Mr. Potthoff is currently a member of the following management and supervisory bodies:

- Addwis GmbH, Managing Director;
- Obermark S.à r.l., member of management;
- pfm medical AG, Chairman of the Supervisory Board.

Hsueh Yi Huang

Member of the Supervisory Board since 2011

Mr. Hsueh Yi Huang is a marketing expert with extensive experience and is a lecturer at Xiamen University. He also works as a strategic corporate consultant. Mr. Huang received an MBA from Wisconsin State University and a business management degree from Boston University, where he majored in international business. He gained professional experience as the marketing assistant to the CEO of the listed Taiwanese corporation Thunder Tiger, the managing director of the US subsidiary Ace Hobby Distributors and a strategic consultant for a Chinese subsidiary of the Taiwanese Hep Group. Mr. Huang also gives lectures in corporate strategy, marketing and brand-building for the EMBA courses at the Xiamen University, Zhejiang University, Sun Yat Sen University and Nanjing University. Mr. Huang is currently not a member of any other management and supervisory bodies.

CORPORATE GOVERNANCE REPORT

Good corporate governance is of great significance for Powerland AG (the "**Company**"). The following pages contain the Company's statement on corporate governance in accordance with sec. 289a of the German Commercial Code ("**HGB**") as well as the Corporate Governance Report in accordance with sec. 3.10 of the German Corporate Governance Code ("**Code**") (www.corporate-governance-code.de) as amended on 15 May 2012.

The Code contains recommendations and suggestions for managing and supervising listed stock corporations in Germany, with reference to shareholders and the annual General Meeting, the Management Board, the Supervisory Board, and to transparency, accounting policies and auditing. There is no obligation to comply with the recommendations and suggestions of the Code. The German Stock Corporation Act ("**AktG**") merely obliges the Management Board and the Supervisory Board of a listed stock corporation to make an annual declaration that the recommendations of the "German Corporate Governance Code Government Commission" as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette have been and are being adhered to or, should this not be the case, which recommendations have not been or are not adhered to. Shareholders must be given permanent access to such declaration ("**Declaration of Conformity**"). The Declaration of Conformity has to be made continuously available on the website of the Company.

I. DECLARATION OF CONFORMITY

The Management Board and the Supervisory Board of the Company issued a Declaration of Conformity in accordance with sec. 161 AktG on 24 April 2013. The Company acted in con-formity with the recommendations of the Code as follows:

The Company has complied and will comply with the recommendations of the Code in the version dated 15 May 2012, except for the following deviations:

1. Compensation Structure of the Members of the Management Board

Sec. 4.2.3 contains recommendations on the compensation structure of Management Board members.

The Company deviates from the recommendations as set forth in sec. 4.2.3 of the Code, insofar as the current members of the Management Board only receive fixed salaries without variable components. Only the Company's former CFO, Mr. Hock Soon Gan, who resigned from office in November 2012, was entitled to a bonus payment after the admission of the Company's shares to trading on the Frankfurt Stock Exchange during financial year 2011. The subsequent CFO, Mr. Kelvin Ho, who was appointed as a member of the Management Board with effect from 18 December 2012 and resigned from office on 25 March 2013, received a fixed salary. The compensation of the members of the Management Board is exclusively provided under the employment agreements with the Company's Chinese subsidiaries in China and Hong Kong. This complies with the current Chinese standards which usually only contain fixed and no variable remuneration components.

The Company intends to introduce variable components to the current compensation structure and is working on the implementation of the stock option programme which was already resolved by the Company's shareholders' General Meeting on 22 March 2011. More details on the stock option programme can be found in note 36 to the consolidated financial statements.

2. Age Limit for the Board Members

Sec. 5.1.2 para. 2 and 5.4.1 para. 2 of the Code recommend an age limit for members of the Management Board and the Supervisory Board.

The Company has not provided for an age limit of management or supervisory board members as it considers qualified persons with comprehensive experience eligible for the Management Board or the Supervisory Board irrespective of their age.

3. Committees within the Supervisory Board

Sec. 5.3 and 5.2 para. 2 of the Code recommend the constitution of Supervisory Board committees.

Since the Company's Supervisory Board is composed of only three members, the constitution of supervisory board committees making decisions on behalf of the Supervisory Board is legally impossible (sec. 108 para. 2. s. 3 AktG). The Company, therefore, deviates from the recommendations set forth in sec. 5.3 and 5.2 para. 2 of the Code as the constitution of committees that only prepare decisions of the Supervisory Board seems not appropriate.

4. Concrete objectives of the Supervisory Board and the implementation

Sec. 5.4.1 para. 2 of the Code recommends that the Supervisory Board should specify concrete objectives regarding its composition which in particular stipulate an appropriate degree of female representation.

Diversity in terms of professional education, local market know-how, international business experience, stock- and capital-market experience, gender and nationality was taken into consideration in forming the Supervisory Board on the occasion of establishing Powerland AG and its IPO in the year 2011. Such and further criteria concerning the composition of the Supervisory Board will be reconsidered on a regular basis, which the Supervisory Board considers more appropriate than quotas for special groups.

5. Financial Reports

Section 7.1.2 of the Code recommends that the annual consolidated financial statements should be publicly accessible within 90 days of the end of the financial year; interim reports should be publicly accessible within 45 days of the end of the respective reporting period.

By now, the Company does not comply with these time limits. The reason is that due to its international holding structure and some linguistic challenges which have to be overcome during the preparation of the financial reports, the Company has put and will put more emphasis on accurate financial statements rather than to exactly meet the recommended time limits.

Besides, the consolidated financial statement of the Company as of and for the year ended 31 December 2012 will not be available for publication on 30 April 2013 as previously envisaged. The auditor of the Company needs more time for the audit than envisaged beforehand, as additional auditing procedures related to internal control mechanisms have turned out to be indispensable. Meantime, the Company takes all necessary measures to support the audit work and align their inter control mechanism to the additional requirements of the auditor.

II. TRANSPARENCY

The Company's aim is to inform all shareholders, shareholder representatives and the interested general public promptly and with equality of access. The annual reports, interim reports and all of the press releases and ad-hoc disclosures are available in both German and English language on the Company's website: www.powerland.ag. The Company informs investors and analysts about the current and future development of its business in investors' conferences. Also the recordings of various quarterly conference calls and the company presentations at the German Equity Forum can be found on the Company's website.

III. SHAREHOLDING OF BOARD MEMBERS AND DIRECTORS' DEALINGS

Information on shareholdings of board members and directors' dealings is available on our website at www.powerland.ag.

IV. ACCOUNTING AND AUDITING

The accounting of the Powerland Group is carried out in accordance with the International Reporting Standards (IFRS) as to be applied in the European Union and the additional requirements pursuant to Section 315a para. 1 HGB. The annual individual financial statements of Powerland AG are prepared in accordance with the provisions of the German Commercial Code and supplementary provisions of the Company's articles of association. The interim financial reporting (semi-annual and quarterly reports) in accordance with those IFRS rules applicable to interim financial reporting as adopted by the EU is prepared in accordance with sec. 37w, 37x para. 3 and 37y of the WpHG and sec. 51 of the Exchange rules of the Frankfurt Stock Exchange.

The annual individual and consolidated financial statements are prepared by the Management Board, examined by the Supervisory Board and audited by an independent auditor appointed by the annual general meeting. For the financial year 2012, BDO AG Wirtschaftsprüfungsgesellschaft, Ferdinandstraße 59, 20095 Hamburg (the "**Auditor**"), has been appointed as auditor by the founders of the Company on 20 June 2012 at the Annual General Meeting of the Company. Thereafter, the Auditor has been engaged by the Chairman of the Supervisory Board on behalf of the Company.

The Supervisory Board has agreed with the Auditor that the Chairman of the Supervisory Board will be informed immediately of any grounds for disqualification or partiality occurring during the audit, unless such grounds are eliminated immediately and the Auditor would report immediately on any findings or occurrences during the audit which have a special importance for the duties of the Supervisory Board. It was also agreed that the Auditor will inform the Supervisory Board or note in the Auditor's report if, during the performance of the audit, the Auditor comes across facts which show a misstatement by the Management Board and Supervisory Board on the Code.

V. STOCK OPTION PROGRAMMES

For information on our stock option programme, please refer to note 36 to the consolidated financial statements.

VI. INFORMATION ON CORPORATE GOVERNANCE PRACTICES

Risk Management

The Group has developed a risk management system which includes the identification of risks, their classification and an assessment on the likelihood of occurrence as well as risk prevention measures. The following factors have been identified as the main risks to which the Group is subject:

- External strategic risks,
- Internal strategic risks,
- Group financial risks,
- Operational risks sorted by segments,
- Investor relations risks,
- Legal risks.

The task of risk management has been distributed to various departments of the Group according to the relevance and competence. The responsible department is also obliged to regularly report on the prevention and control of the respective risk. The Enterprise Risk Management Framework identifying the responsible departments is available on our website at http://www.powerland.ag/de/investor-relations/corporate-governance-de.

The risk management system is reviewed on an annual basis.

VII. SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETING

The shareholders exercise their rights at the shareholders' General Meeting. Each share grants one vote at the shareholders' General Meeting. The shareholders are entitled to exercise their voting rights at the shareholders' General Meeting in person or by proxy, for which they can authorize a representative of their choice or the proxy nominated by the Company acting on their instructions.

A representative will be appointed by the Management Board to exercise shareholders' voting rights in accordance with instructions. This representative is also reachable during the General Meeting.

The chair of the General Meeting is guided by the fact that an ordinary general meeting will be completed after six hours at the latest.

VIII. MANAGEMENT BOARD

The Management Board members are responsible for managing the Company and all of its direct and indirect subsidiaries applying the care of a diligent and faithful businessman in accordance with the law, the articles of association, the Code, the rules of procedure for the Management Board and their service contracts. The Management Board's actions and decisions are driven by the Company's interest and the aim to sustainably increase the Company's value.

The former Chief Financial Officer Mr. Hock Soon Gan resigned from office in November 2012 for personal reasons.

Mr. Kelvin Ho (born 1976) joined the Company on 2 July 2012 as Deputy CFO. He became a member of the Management Board and was appointed as Chief Financial Officer with effect from 18 December 2012. Kelvin Ho has left Powerland on 26 March 2013 with immediate effect upon mutual agreement between the Supervisory Board and him. His functions had been taken over temporarily by the Chief Accounting Officer of Powerland Mr. Qingsheng Cai.

As of 31 December 2012, the Management Board of the Company consisted of four members: Mr. Shunyuan Guo (Chairman of the Management Board and Chief Executive Officer), Mr. Yongliang Guo (Chief Production Officer), Mr. Kelvin Ho (former Chief Financial Officer) who left the Company on 26 March 2013 and Mr. Qingsheng Cai (Chief Accounting Officer)

Management Board meetings take place at regular intervals, at least once a month. If necessary, ad-hoc meetings will be convened without delay.

Resolutions of the Management Board will be passed in meetings, including telephone and video conference. The chairman of the Management Board may arrange for resolutions to be passed outside Management Board meetings in writing, by fax or e-mail.

The Company has entered into a D&O insurance for the members of the Management Board which complies with the statutory requirements of sec. 93 para. 2 s. 3 AktG.

The rules of procedure for the Management Board of the Company were resolved upon by the Supervisory Board on 10 September 2011.

IX. SUPERVISORY BOARD

The Supervisory Board regularly advises and supervises the Management Board. It also appoints and dismisses the members of the Management Board. Fundamental decisions on the Company's development require the Supervisory Board's approval. The members of the Supervisory Board act in the best interest of the Company and its shareholders.

The Supervisory Board of the Company currently consists of three members: Dr. Peter Diesch (Chairman of the Supervisory Board), Mr. Volker Potthoff (deputy Chairman of the Supervisory Board) and Mr. Hsueh Yi Huang.

In addition to the ordinary meetings of the Supervisory Board, extraordinary meetings may be arranged by the chairman of the Supervisory Board at any time at the request of a Supervisory Board member or the Management Board. The Management Board shall attend the meetings of the Supervisory Board, unless otherwise determined by the Supervisory Board. The Supervisory Board held five meetings in the financial year 2012.

As for members of the Management Board, the Company has entered into a D&O insurance for the members of the Supervisory Board. The insurance conditions contain a similar deductible (*Selbstbehalt*) as the D&O insurances of the Management Board members.

The rules of Procedure for the Supervisory Board of the Company were resolved upon by the Supervisory Board on 10 September 2011.

Due to it consisting of three members only, the Supervisory Board has not established any committees.

Each member of the Supervisory Board is required to disclose any conflicts of interest or potential conflicts of interest without delay to the Supervisory Board. This in particular applies to conflicts of interest or potential conflicts of interest which could result from an advisory function, position on a body or other activity at customers, suppliers, creditors, competitors or other business partner. The Supervisory Board informs on any conflict of interest which have occurred together with their treatment in its report to the shareholders' General Meeting.

X. COOPERATION BETWEEN THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The Management Board and the Supervisory Board of the Company cooperate closely to the benefit of the Company and its subsidiaries (together "**Powerland Group**").

The Management Board informs the Supervisory Board regularly, without delay and comprehensively, of all issues important to Powerland Group with regard to strategy, planning, business development, risk situation, risk management, compliance, and any events that may have a material effect on the business, financial condition and result of the operations of Powerland Group. The Management Board points out deviations of the actual business development from previously formulated plans and targets, indicating the reasons.

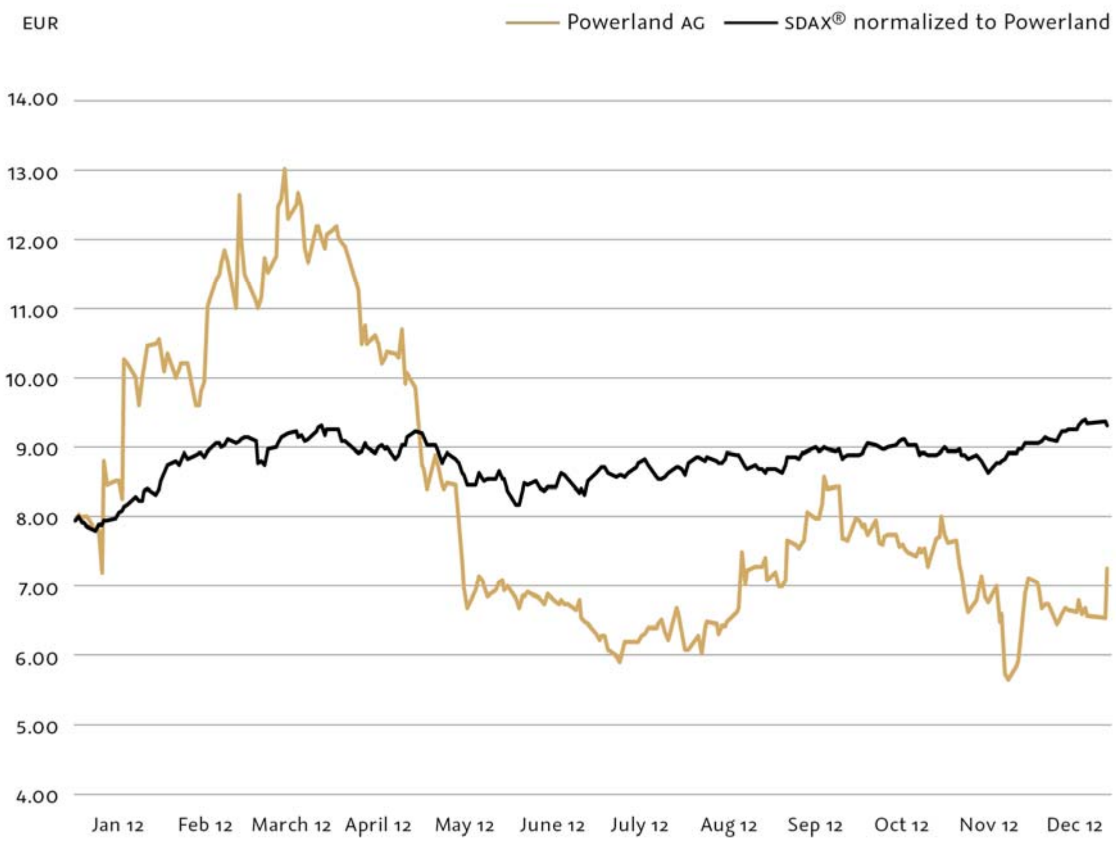
The Chairman of the Management Board maintains regular contact with the Chairman of the Supervisory Board and consults with him on issues of strategy, planning, business development, risk situation, risk management and regulatory compliance of Powerland Group.

Frankfurt am Main, 24 April 2013

Management Board   Supervisory Board

SHARE AND INVESTOR RELATIONS

PERFORMANCE OF THE POWERLAND SHARE COMPARED WITH THE SDAX® SHARE INDEX



In 2012, the stock markets were highly volatile. The sharp rise in the leading global indices at the start of the year was followed by disillusionment in the second quarter, as the sustained uncertainty triggered by concerns about the future development of the global economy and the on-going debt problems in Europe led to falling share prices. The stock markets only recovered in the second half of 2012, closing the year with new highs. This was due to the announcement by the central banks ECB and FED that they would continue to provide the markets with low-cost liquidity in the long term. The resulting low interest rates and sustained concerns about inflation reinforced the trend towards investments in assets. Accordingly, the winners on the stock markets in 2012 were internationally active companies from non-economically sensitive areas and high-yielding stocks in particular.

Powerland's shares closed the year at EUR 7.26 on 28 December 2012, down slightly compared to the price as at 30 December 2011 (EUR 8.00). In 2012, Powerland's shares were unable to keep pace with the leading benchmark indices. The MSCI World Index rose by around 13% in 2012, while the leading German index, the DAX, closed 29% higher than at the start of 2012. The SDAX benchmark index saw growth of around 19%. However, a comparison of the performance of Powerland's shares with the Shanghai Composite Index gives a different picture: the leading Chinese index saw below-average performance in 2012, falling by as much as 13% at some points between December 2011 and December 2012. Only a late rally in the last two weeks of December allowed it to recover to +/ 0%. The parallel development of Powerland and the Shanghai Composite underlines the extent to which the share price is tied to the perception of China as Powerland's core market.

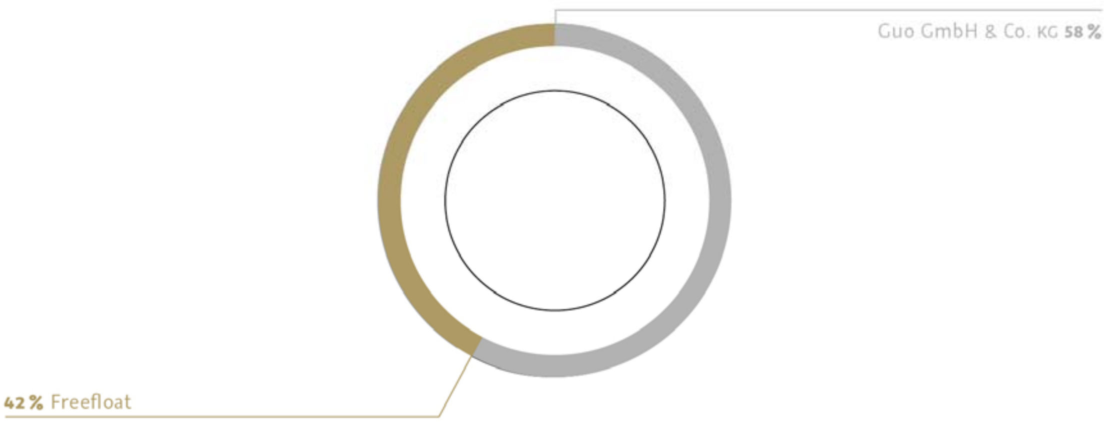
In 2012, share price performance among Chinese companies was affected by the country's comparatively weak macroeconomic growth rates of around 7.7%. The failure to meet the targets set by the government led to temporary uncertainty on the markets. In 2012, the government introduced a more restrictive monetary and investment policy in order to prevent a potential bubble from forming on the real estate market. In 2012, Powerland intensified its communication with investors and other stakeholders through roadshows and various investor conferences, such as the Equity Forum in Frankfurt in November 2012 and the tenth Annual Berenberg European Conference held at Pennyhill in December 2012.

POWERLAND SHARE KEY DATA

Description	New Company (Regulated Market)
Transparency level	Prime Standard
Supersector	Consumer Goods
First trading day	April 11, 2011
Symbol	1PL
WKN	PLD555
ISIN	DE000PLD5558
Class	Bearer shares without par value
Number of shares	15,000,000
Share price as of 28 Dec 2012	EUR 7.26
Share price as of 28 Dec 2011	EUR 8.00
Market capitalization as of 31 Dec 2012	EUR 108,900,000

SHAREHOLDER STRUCTURE

as at 31 December, 2012 *Shares outstanding: 15.0 million*



GROUP MANAGEMENT REPORT

Content

HIGHLIGHTS OF THE FINANCIAL YEAR 2012

- Revenue increased by 30.0% in EUR and 17.2% in RMB compared to 2011.

- Gross profit went up by 27.9% in EUR and gross profit margin was 43.5% (2011: 44.2 %).

- Revenue of Luxury Segment grew by 40.7 % in EUR and by 26.9% measured in RMB terms.

- Gross profit in Luxury Segment grew by 48.3% in EUR.

- As at 31 December 2012, there were a total of 31 self-operated stores and 149 distributor operated stores, altogether 180 Powerland stores compared to 164 stores as at 31 December 2011.

- Our new designs of the "Orchid" collection of women’s handbags and introduction of an enhanced men´s fashion collection.

- Our investment in selling and distribution has been directed at brand building campaigns by focusing on various high-traffic channels.

- Leveraging from the B2C boom in China by opening the first Powerland online store in cooperation with one of the leading online-shopping portals for luxury goods, Fifth Avenue (www.5lux.com).

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. The Company also manufactures accessories such as wallets, purses and beltsand expanded into products for men. Until 2012, Powerland demonstrated very strong growth with significant profit margins in its two business segments: Luxury and Casual.

For the Luxury segment, the Company primarily designs and distributes ladies' handbags made of genuine leather under the brand "Powerland" while the Casual segment focuses on the design, manufacturing and distribution of fashionable sporty and casual bags made of textile/fabric and synthetic leather mainly under the brand "Sotto".

Most of the Powerland's products are sold in the Chinese domestic market:

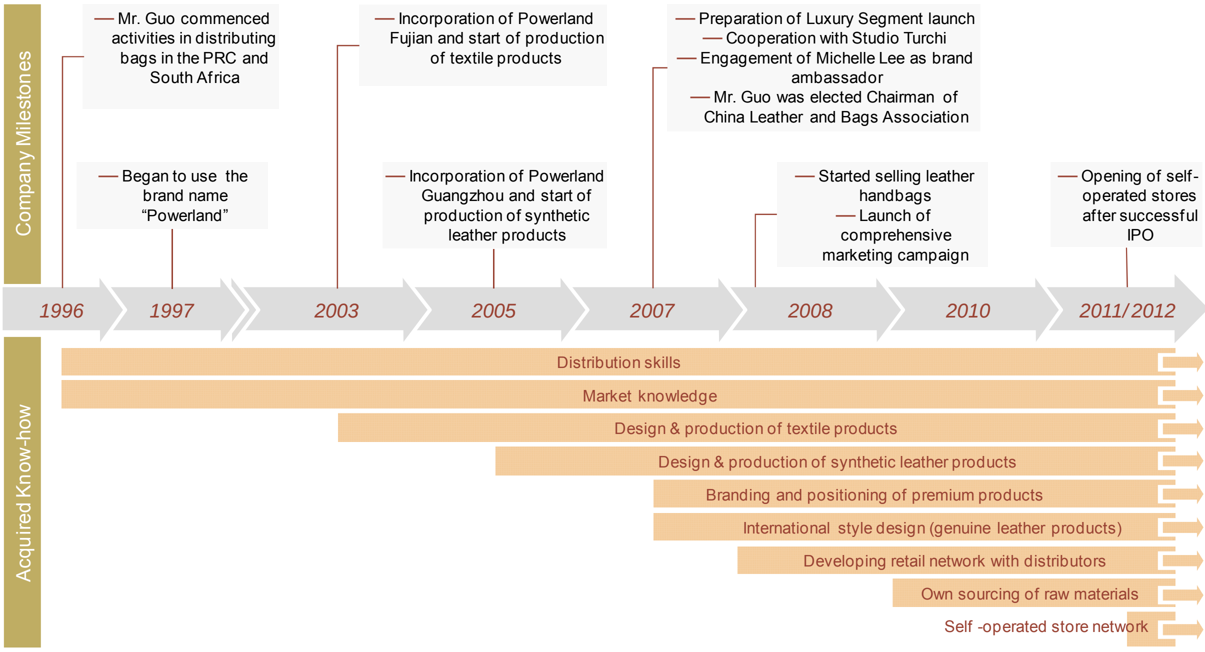
- Products of the Luxury segment are exclusively sold in the People's Republic of China. As at 31 December 2012, the Company's Luxury segment products were sold in 149 stores run by external distributors and 31 stores run by the Company, mainly in tier 1 and tier 2 cities in China. The Luxury segment is the Company's core focus for further growth and is expected to account for approximately 70 % of the Group's revenues in two to three years.

- Products of the Casual segment are mainly, but not exclusively sold domestically. Powerland sells them to distributors, including wholesalers and trading companies. Casual products are sold under the brand name "Sotto", under third-party brands, and as white label products to supermarkets and department stores.

The Company has two operational businesses in Mainland China, located in Fujian and Guangzhou. Powerland had 1,777 employees as at 31 December 2012.

Powerland AG was incorporated in February 2011 and was registered with the Commercial register of Frankfurt/Main, Germany, under the registration number HRB 90460. The Company's shares were admitted to trading on the Frankfurt Stock Exchange on 11 April 2011.

History – Company Milestones



Source: Powerland

MANAGEMENT AND SUPERVISION

The Management Board of Powerland develops the business strategy in coordination with the Supervisory Board. The business strategy and operational developments are reviewed on a regular basis to reflect the dynamic development in the Chinese market for luxury goods.

Powerland is run by a management team with many years of experience with 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 andfinance. The management team is located in Guangzhou, in the new design and marketing center (located in the Luogang district).

Members of the Management Board and divisional responsibilities

Shunyuan Guo (Chairman of the Management Board and Chief Executive Officer) is responsible for Powerland's overall business strategy and operations. He holds an Executive MBA from Beijing University and has over 15 years of experience in the Chinese and international textile and leather products industry. Over the years he has established a wide spread and excellent business network domestically as well as internationally. He has been appointed as CEO until 21 February 2016.

Yongliang Guo (Chief Production Officer) joined Powerland in 2003 and has served in various positions in the fields of procurement, logistics, and production. He is in particular responsible for the management of the production of textile and synthetic leather products. Yongliang Guo holds an MBA from Zhongshan University in Guangzhou.Yongliang Guo has been appointed as CPO until 21 February 2014.

Kelvin Ho was Chief Financial Officer of Powerland and responsible for the financial reporting with respect to international accounting standards (IFRS), and managing investor communications with shareholders. He has previously worked for major accounting firms and international investment banks and possesses experience in auditing, accounting and corporate finance. He holds a bachelor degree in accountancy from RMIT and he is a member of CPA Australia. Kelvin Ho has left

Powerland on 26 March 2013 with immediate effect upon mutual agreement between the Supervisory Board and him. His functions had been taken over temporarily by the Chief Accounting Officer of Powerland Mr. Qingsheng Cai.

Qingsheng Cai (Chief Accounting Officer) looks back on more than 24 years of experience in the areas of finance and controlling. He joined Powerland in the year 2005 as Chief Financial Officer and became Chief Accounting Officer in 2011. He is responsible for accounting and record-keeping, in particular concerning the accounts of Powerland's subsidiaries in the PRC. Qingsheng Cai has been appointed as CAO until 21 February 2014.

Members of the Supervisory Board

The Supervisory Board of Powerland AG is composed of three members. Dr. Peter Diesch (Chairman), Volker Potthoff (Vice Chairman) and Hsueh Yi Huang who were all appointed in 2012. Their terms expire in 2015 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.

The compensation of the individual Management and Supervisory Board members are described in remuneration report on page 57.

BUSINESS ACTIVITIES AND PRODUCTS

Powerland's 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 product groups, such as handbags in various sizes, wallets, and purses. Sometimes a series includes up to six product groups. The spring/summer season lasts from March until September, the autumn/winter season from October until February. Powerland launches approximately 60 new bags and compatible accessories like wallets and purses, i.e. approximately 20 items 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 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.

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. In 2012, in terms of creative marketing campaigns, we have integrated Powerland as story background into 72 episodes of a TV drama aired via Jiangsu and cetv Channel in which the cast carry our handbags throughout the major scenes. The drama serial was shown at the prime time in the months of June and July 2012 and ranked as the most popular series in June.

Powerland sells its luxury items through a retail distribution network which consists of 149 distributor-operated stores and 31 self-operated stores mainly in Chinese tier-1 and tier-2 cities and including 19 self-operated airport stores (as at 31 December 2012).

Powerland's retail prices for luxury handbags are usually between RMB 2,000 – 7,000 (EUR 250 – 750) 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. Today the "PLD" logo is exclusively used for the Luxury segment.

Powerland's Casual segment products comprise casual bags and accessories made oftextile or synthetic leather or material mixtures. The Company's textile products include handbags, sports 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 (Polyvinylchloride) which are commonly used thermoplastic polymers. Synthetic leather-based products have a plain and glossy surface, they resemble leather products, and arecommonly 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 more than 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 benefitting 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 andin 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, underthird-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 customers' orders.The usual retail prices in the PRC for Sotto products are between RMB 100 (EUR 12) and RMB 400 (EUR 50).

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, China including Hong Kong meanwhile became the second largest market for luxury goods in the world behind Japan and ahead of the USA. According to the Bain & Company survey "2012 Luxury Goods Worldwide Market Study 11th edition, 15 October 2012" total luxury goods market worldwide increased by around 10% to EUR 212 billion in 2012 compared to 2011. Total luxury goods market in China increased by 20% to EUR 15 billion. Including Hong Kong, Macau and Taiwan this number increased by 19% to EUR 27.3 billion. One out of four consumers of luxury products is Chinese.

Bain & Company defined the followingproduct categories as luxury goods: "womens' ready-to-wear", "shoes", "jewelry", "mens' ready-to-wear", "leather goods", "cosmetics, perfume and personal care", and "watches".

Growth is based on two reasons: The number of Chinese customers that are spending money on luxury products for the first time in their lives is increasing. Existing purchasers of luxury goods are spending more money on luxury goods.

The following table shows the development of the Chinese luxury market in theyears 2009 to 2012:

Market for Chinese personal luxury goods – Market trend 2009 – 2012:

	Market volume in EUR billion	Growth yoy
2012	15.0	20%
2011	12.5	25%
2010	10.0	40%
2009	7.1	20%

Source: Bain & Company: 2012 Luxury Goods Worldwide Market Study 11th edition, 15 October 2012

The high dynamics in the Chinese luxury goods market have slowed down for several reasons. Due to the weak Euro, Chinese tend to buy luxury goods directly in Europe where they already count for almost one third of the luxury goods market. In addition, increasingly sophisticated consumers are shifting their focus from overexposed logo brands to absolute quality products. Growth in the Chinese luxury market is mainly due to an increasing number of women in well paid managerial positions. Consumers are focusing more and more on an exclusive shopping experience and a tailored product offer.

Luxury Goods* Consumption in China 2010 – 2015e

	In RMB billion	Share in the Global Market for Luxury Goods
2015e	374	34%
2012	245.7	27%
2010	149.3	19%
2008	92.4	14%

Source: McKinsey Consumer & Shopper Insights: Luxury Without Borders: China's New Class of Shoppers Take on the World, December 2012

** McKinsey defined the following product categories as luxury goods: clothing, shoes, handbags, watches and jewelry.*

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 the following international brands ranked as consumers' top five brands in 2012 in the product category "leather goods": Chanel, Gucci, Hermes, Louis Vuitton, and Prada.

The key players in the mid to high segment of the market for women's handbags in the PRC include, in addition to Powerland, Coach, WHY, Dissona, Cobo, Longchamp, Agnes B, Lancel and Shanghai Tang. These are direct competitors of Powerland for the Luxury segment products.

Casual segment

The mid to 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'shandbags. 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

Leather goods and watches are the current luxury growth leaders

Watches continue to account for the majority of the luxury goods market volume in China closely followed by accessories. In particular leather goods have shown the strongest growth between 2010 and 2012 (Bain & Company: "2012 Luxury Goods Worldwide Market Study 11th edition, 15 October 2012").

Youth of luxury consumers in China

One of the special Chinese characteristics of luxury goods consumption is the youthof the consumers. 73% of Chinese luxury goods consumers are under 45 years old, while this figure is only about 50% in the USA. Additionally, as many as 45% of Chinese luxury goods consumersare under 35 years old, while this figure is about 28% in Western Europe (McKinsey: "Luxury Without Borders: China´s New Class of Shoppers Take on the World, December 2012").

Reasons to buy luxury products

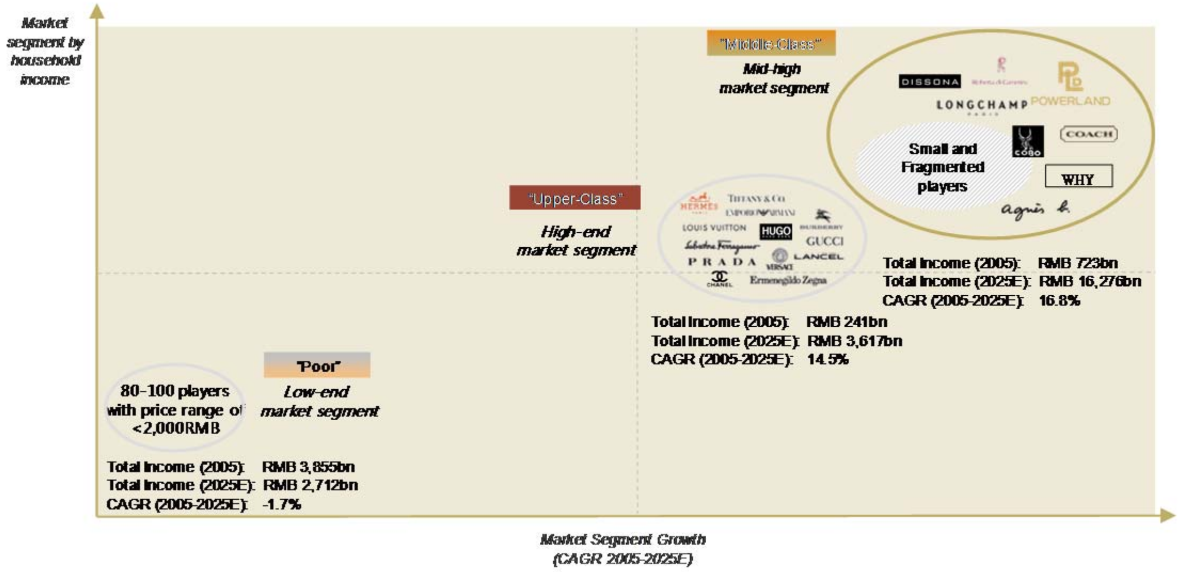
The general trend underscored by McKinsey shows that Chinese consumers express a growing appreciation for authentic luxury products.

In 2012, 41% of consumers (compared to only 37% in 2010) thought that showing off brash luxury goodsexhibits "poor taste". Accordingly, 66% of the respondents prefered discreet and conservative luxury goods.

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.

Competitive landscape



Source: McKinsey Global Institute (2006), Company calculations

Development of market position
For its premium brand “Powerland”, the Company followed a clear positioning in the mid to high end segment of the Chinese market for women’s handbags right from the launch of this segment in 2008. Since then, the Company 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 in conjunction increase its brand awareness and brand recognition through its 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 potential.

Revenues in the Luxury segment increased by 40.7% to EUR 112.8 million from 2011 to 2012 and accounted for 59.1% of the Group´s revenues in 2012. The Casual segment’s business still accounted for approximately 40.9% of the Group’s revenues and 46.8% of the Group´s EBIT in 2012.

The Company remains confident and optimistic of its decision to further expand the luxury business which will become its core business in the coming years. The combination of excellent genuine materials with first class Italian design fused with Chinese design elements for its products and a suitable positioning in the luxury market will contribute significantly to the Company’s future growth.

OBJECTIVES AND STRATEGY

POWERLAND AIMS TO OUTPERFORM MARKET GROWTH

The Company's main goal is sustained profitable and organic growth. 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 goal is to remain as the leading player among domestic competitors and to improve its number two position in order to ultimately surpass the market leader Coach (USA) who is also the initiator of the "affordable luxury" concept.

The Company believes that its average annual revenue growth in the Luxury segment in 2013 and 2014 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 will continue its expansion which 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.

Besides expanding our distribution network and extensive marketing plans, as part of our strategy to achieve business sustainability, we will review our business plans regularly to maximise market opportunities. This includes ongoing efforts to expand our product range so as to secure new customers and to serve our existing customers more comprehensively.

POWERLANDS 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. 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 may 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 at prime locations, such as main shopping districts, shopping malls and airports within the next two years.

In order to get preferred access to prime locations and to achieve its expansion goalsin 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 centres in China.

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 are getting more aggressive and intense, Powerland believes that its domestic competitors in the Luxury segment of the Chinese bags and luggage market do not 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 inChina for luxury leather bags and accessories. With a still booming Chinese economyand rising living standards, Powerland expects the Chinese market for luxury bags to continue growing. The Company is of the opinion that the success factors are brand recognition, brand awareness and brand image 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 believes that it has captured a first-mover advantage over domestic competitors. In order to further strengthen this position, Powerland intends to further invest in themarketing 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.

Through the implementation of such branding and marketing initiatives, coupled with product quality, international-style design and an enlarged retail distribution network, the Company believes that it can further enhance its brand image and become a trendsetter and achieve greater customer recognition and brand loyalty.

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, capacity and expertise. For these reasons the Company intends to continue to invest in production and other supporting facilities for leather-made luxury handbags to develop its production capacity of leather-made luxury handbags. This will allow Powerland to offer flexibility in production schedules, as well as producing 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 extended its design contract with its Italian-based design partner Studio Turchi by another five years in 2011. Mr. Turchi will spend a substantial amount of time in China each season working closely with Powerland's in-house design staff.

GENERAL CONDITIONS

GENERAL ECONOMIC CONDITIONS

Global economy faces further slow down
The global economy is still in a difficult period. According to the International Monetary Fund (IMF) global output has shown a growth rate of 3.3% in 2012 after 3.8% in 2011. The global economic slowdown is caused mainly by the ongoing European financial crisis, economic superpowers like Japan and the USA being unable to recover from their slump and some other parts of the world still

suffering from the lingering effects of the global financial crisis of 2009-10. Despite the uncertainties, the IMF has projected a 3.6% GDP growth in 2013.

GDP growth in advanced and emerging / developing economies

According to the World Bank the GDP growth of the advanced economies was 1.6% in 2011 and slowed down to an estimated 1.3% in 2012. In contrast the emerging and developing economies have shown a GDP growth rate of 5.3% in 2012 (2011: 6.2%).

According to the World Bank GDP growth in the advanced economies will on average be relatively low projected at an estimated 1.2% in 2013. For the emerging / developing economies the World Bank forecasts growth of 5.1%.

Development of gross domestic product in 2011/2012

in %	2011	2012
Advanced economies	1.6	1.3
Emerging / Developing Economies	6.2	5.3
World	3.8	3.3

Source: World Bank

GDP growth and industrial performance in China

China has experienced double-digit GDP growth rates for many years, and today is the world's biggest export nation. Today China is the second biggest economy after the USA.

After showing double-digit growth rates for years, GDP growth in China in 2011 was 9.4%. According to the state-owned news agency Xinhua[1] growth in the Chinese economy slowed down to 7.7% in 2012, the weakest growth rate for 13 years. The GDP growth rate declined for seven quarters in a row and has been at 7.4% in Q3 2012. In the fourth quarter 2012 the Chinese economy showed an upward trend again. This is reflected in increasing earnings of numerous foreign and Chinese companies in November and December 2012. In addition, industrial production increased in this period. Therefore the World Bank increased its growth estimates for China to 8.4% for 2013 from 8.1% forecast in October 2012 (World Bank: „East Asia and Pacific Data Monitor").

Industrial production in China

According to governmental estimates industrial production has grown 10% in 2012 and will show a growth rate of 10% in 2013 as well[2].

Favorable economic conditions for China – and for Powerland

Despite the worldwide global economic slowdown, China's economy has continued to grow and is expected to show ongoing growth in future years. The Chinese government stated clearly to accelerate the transformation of the economy to a more consumer-focused economy. Particularly with regard to increasing private consumption due to increasing disposable income, this will lead to favorable conditions for Powerland's business as the Chinese citizens earn more and are therefore able to spend larger amounts on consumer goods such as Powerland's products.

[1] http://de.reuters.com/article/economicsNews/idDEBEE90A03D20130111
[2] http://wirtschaft.t-online.de/china-erwartet-2013-anstieg-der-industrieproduktion-von-10-prozent/id_61470266/index

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 180 retail stores (as at 31 December 2012). Chinese retail sales of consumer goods have increased substantially in recent years, mainly driven by urban households with increasing disposable incomes.

The following table 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

in RMB billion	**urban**	**rural**
2012	17,932	2,784
2011	15,955	2,437
2010	13,612	2,088

Source: China National Bureau of Statistics

Powerland's expansion program will mainly take place 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.

Price development and availability of raw materials

According to the National Bureau of Statistics, consumer prices in China increased by only 2.6% in 2012 after 5.5% in 2011.

In general the raw materials that Powerland requiresfor the manufacturing of its products are widely available from multiple suppliers on the domestic market. The raw materials do not have specific import restrictions. The most important raw material for the Company's Luxury segment is cow leather and, to a lesser extent, sheep leather. Other components include zips, chains, ribbon, wheels, 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 raw materials for the Luxury segment production itself.

Powerland sources for its genuine leather from China trading companies which procure their leather from China, Europe, South America, Australia or New Zealand. Powerland also consults Studio Turchi when sourcing raw materials.

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

Xi Jinping was elected General Secretary of the Chinese Communist Party and Chairman of the Central Military Commission during the 18th Party Congress in November 2012, replacing Hu Jintao as the paramount leader of China. He will continue with the economic and political reform efforts in China and boost investor confidence.

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 a direct and indirect impact on consumer markets until 2015 (KPMG China: China's 12th Five-Year Plan: Consumer Markets. April 2011):

» To grow China's GDP by 7% per year, to hold inflation (CPI) at or below 4% per year, to increase urbanization from 47.5% to 51.5%,
» 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 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% of medical bills.

SIGNIFICANT EVENTS IN FINANCIAL YEAR 2012

In October 2012, Powerland opened its first online shop in China. A selected range of women's handbags from Powerland's latest collections is now available from the online shopping mall Fifth Avenue (www.5lux.com). Fifth Avenue Globe Inc. is the leading Chinese trading platform for luxury goods.

Mr. Kelvin Ho, who has been the Deputy CFO since July 2012, has been appointed as CFO of Powerland in December 2012. He took over the position from the former CFO, Mr. Hock Soon Gan, who left the Company for personal reasons.

COMPANY DEVELOPMENT

CURRENT RETAIL DISTRIBUTION NETWORK DEVELOPMENT

During the launch phase of the Powerland brand from 2008 to 2010, the nationwide retail distribution network of the Company's Luxury business had been fully based on franchised stores with an average floor area of up to 50 m^2 operated by distributors in China. Prior to the public listing of its shares in April 2011, the Company announced plans to open a double-digit number of self-operated stores with above 100 m^2 floor area between 2011 and 2014 by using a substantial part of the IPO proceeds, while continuing to support the distributors in expanding their shop-in-shops with a floor space of about 40 m^2.

Given that premium locations in the tier 1 and tier 2 cities in China are in high demand by both international and domestic competitors, this store roll-out plan is ambitious. Nevertheless, Powerland has enhanced its brand awareness which continues to gain more and more customer appeal from the premium department stores and shopping malls. They recognize Powerland as one of the rising Chinese brands with the potential to perform on par with international brands and are ready to grant Powerland better options for positioning new stores.

In order to realize the ambitious planned flagship, exclusive and airport stores in prime locations in China, we have entered into strategic alliances with some of the leading commercial property developers such as Dalian Wanda Group and the leading department stores chain developer, Bailian Group, as well as Beijing Capital Airport Holding Company.

In 2012, in line with our quality growth strategy, we have implemented a review of the sales and brand performance of our existing distributor-operated stores and closed down a number of stores which are smaller in size and no longer have capacity to expand as well as locations which have not been successful enough. We have implemented more stringent criteria for new stores opening as our brand name is getting more recognized and customer appeal has increased.

Nevertheless, the number of Powerland stores increased from 164 as at 1 January 2012 to 180 as at 31 December 2012. In Q4 2012, there were 10 new self-operated stores opened and 10 new net additions of distributor-operated stores.

The roll-out of Powerland stores for 2010, 2011and 2012 is shown in the table below:

	Q4 2009	**Q1 2010**	**Q2 2010**	**Q3 2010**	**Q4 2010**	**Q1 2011**	**Q2 2011**	**Q3 2011**	**Q4 2011**	**Q1 2012**	**Q2 2012**	**Q3 2012**	**Q4 2012**
accumulated No. of stores	71	89	98	105	110	112	123	146	164	149	155	160	180
of which distributor-operated stores	71	89	98	105	110	112	122	143	151	136	136	139	149
of which self-operated stores							1	3	13	13	19	21	31

EARNINGS SITUATION

The following table presents income statement data of Powerland AG for the years ended 31 December 2011 and 2012 on a consolidated basis. The table also presents income statement data as a percentage of revenue.

	2011		2012	
	EUR '000	% of revenue	EUR '000	% of revenue
Revenue	**146,948**	**100.0**	190,972	100.0
Cost of sales	– 81,954	– 55.8	- 107,846	- 56.5
Gross profit	**64,994**	**44.2**	**83,126**	**43.5**
Other income	89	0.1	138	0.1
Selling and distribution costs	– 19,643	– 13.4	- 34,521	- 18.1
Administrative and other expenses	– 13,191	– 9.0	- 13,447	- 7.0
EBIT	32,249	21.9	35,296	18.5
Net finance costs	– 4,777	– 3.2	- 1,716	- 0.9
Profit before tax	**27,472**	**18.7**	33,580	17.6
Tax expense	– 9,135	– 6.2	- 9,585	- 5.0
Net profit	**18,337**	**12.5**	**23,995**	**12.6**
Earnings per share (EUR)	1.35		1.60	

REVENUE

Revenue is 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.

POWERLAND GROUP

Revenue increased from EUR 146,948 thousand in 2011 by EUR 44,024 thousand, or 30.0%, to EUR 190,972 thousand in 2012. The increase in revenue measured in EUR was driven by an increase in sales of products from the Luxury segment of approximately 40.7% and an increase of 17.1% in the sales of products from the Casual segment. Measured in RMB, revenue growth amounted to 17.2% 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 26.9% and an increase of 5.6% in the sales of products from the Casual segment.

REVENUE BY SEGMENT

Luxury segment

EUR '000	Q4 2011	Q4 2012	Change	FY 2011	FY 2012	Change
Revenue	22,862	31,657	38.5%	80,170	112,797	40.7%
Gross profit	11,519	16,495	43.2%	39,892	59,165	48.3%
Gross profit margin	50.4%	52.1%		49.8%	52.5%	
EBIT	3,004	6,501	116.4%	15,077	18,790	24.6%
EBIT margin	13.1%	20.5%		18.8%	16.7%	

Revenue in the Luxury segment increased from EUR 80,170 thousand in 2011 by EUR 32,627 thousand, or 40.7%, to EUR 112,797 thousand in 2012. Measured in RMB revenue in the Luxury segment increased by 26.9%.

These increases were mainly driven by the increase in the average selling price and an expansion of Powerland's retail network with relatively higher average numbers of stores in operation during financial year 2012 as compared to 2011. The number of Powerland stores increased from 164 as at 31 December 2011 to 180 as at 31 December 2012.

We also believe that the increase in revenue in the Luxury segment was partly triggered by our strong marketing campaign adopted since 2011.

Casual segment

EUR `000	Q4 2011	Q4 2012	Change	FY 2011	FY 2012	Change
Revenue	14,825	18,128	22.3%	66,778	78,175	17.1%
Gross profit	5,339	5,358	0.4%	25,102	23,961	- 4.5%
Gross profit margin	36.0%	29.6%		37.6%	30.7%	
EBIT	3,308	3,599	8.8%	17,172	16,506	- 3.9%
EBIT margin	22.3%	19.9%		25.7%	21.1%	

Revenue in the Casual segment increased from EUR 66,778 thousand in 2011 by EUR 11,397 thousand, or 17.1%, to EUR 78,175 thousand in 2012. Measured in RMB this was a revenue increase of 5.6%.

These increases were mainly due to the higher export sales of 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 of 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 2011 and 2012:

	2011		2012	
	EUR '000	% of revenue	EUR '000	% of revenue
China	124,612	84.8	155,228	81.3
Rest of World[1]	22,336	15.2	35,744	18.7
Total	**146,948**	**100.0**	**190,972**	**100.0**

[1] *mainly South Africa, United Arab Emirates and Chile*

GROSS PROFIT AND GROSS PROFIT MARGIN

POWERLAND GROUP

Gross profit of Powerland increased from EUR 64,994 thousand in 2011 by EUR 18,132 thousand, or 27.9%, to EUR 83,126 thousand in 2012. This strong growth was mainly due to the gross profit growth of 48.3% in the Luxury segment, which contributed more than 50% to the Group's revenue.

Powerland's gross profit margin was 44.2% in 2011 and 43.5% in 2012. Overall, this was due to a change in the product mix within the Casual segment with a higher sales contribution from synthetic leather products which have a below average gross profit margin. This was partially offset by an improved gross profit margin in the Luxury segment.

Luxury segment

Gross profit in the Luxury segment increased from EUR 39,892 thousand in 2011 by EUR 19,273 thousand, or 48.3%, to EUR 59,165 thousand in 2012. The increase was mainly driven by an expansion of Powerland´s retail network, an improvement of the quality of distributor-stores locations and successful marketing campaigns.

Gross profit margin in the Luxury segment was 49.8% in 2011 and 52.5% in 2012. The increase in 2012 was mainly due to higher unit selling prices.

Casual segment

Gross profit in the Casual segment decreased from EUR 25,102 thousand in 2011 by EUR 1,141 thousand, or 4.5%, to EUR 23,961 thousand in 2012. The decrease was mainly due to a change in the product mix towards the increasingly popular synthetic leather products.

Gross profit margin in the Casual segment was 37.6% in 2011 and 30.7% in 2012. The decrease was mainly due to a change in the product mix towards synthetic leather products which have a relatively lower margin than fabric products.

SELLING AND DISTRIBUTION (S&D) COSTS

From 2011 to 2012, S&D costs increased from EUR 19,643 thousand, by EUR 14,878 thousand, or 75.7%, to EUR 34,521 thousand. The increase was mainly caused by higher marketing costs from strategic brand building marketing activities and the operating costs of self-operated stores. S&D costs as a percentage of revenues amounted to 13.4% in 2011 and 18.1% in 2012.

ADMINISTRATIVE AND OTHER EXPENSES

Powerland's administrative and other expenses increased from EUR 13,191 thousand in 2011 by EUR 256 thousand, or 1.9%, to EUR 13,447 thousand in 2012. The increase was mainly due to higher administrative costs post IPO, higher research and development (R&D) expenses and variable administrative costs. Administrative expenses as a percentage of revenues amounted to 9.0% in 2011 and 7.0% in 2012.

EBIT AND EBIT MARGIN

POWERLAND GROUP

EBIT of Powerland Group increased from EUR 32,249 thousand in 2011 by EUR 3,047 thousand, or 9.4%, to EUR 35,296 thousand in 2012. EBIT growth was relatively lower than at gross profit growth, because of the higher selling and distribution costs for brand building in the Luxury segment as well as the higher administrative costs post IPO.

The decrease in EBITmargin (from 21.9% in 2011 to 18.5% in 2012) was mainly due to higher selling and distribution costs (which increased from 13.4% of revenues in 2011 to 18.1% in 2012).

Luxury segment

EBIT in the Luxury segment increased from EUR 15,077 thousand in 2011 by EUR 3,713 thousand, or 24.6%, to EUR 18,790 thousand in 2012. The growth of EBIT was slightly weaker than that of gross profit mainly due to enhanced selling and distribution costs as well as operating costs including set-up costs of new self-operated stores.

The EBIT margin for the Luxury segment decreased from 18.8% in 2011 to 16.7% in 2012 which mainly resulted from the higher selling and distribution costs and administration and other expenses, partially offset by a higher segment gross profit margin in 2012 (increase from 49.8% in 2011 to 52.5% in 2012).

Casual segment

EBIT in the Casual segment decreased from EUR 17,172 thousand in 2011 by EUR 666 thousand, or 3.9%, to EUR 16,506 thousand in 2012. The decrease resulted mainly from the lower sales contribution from fabric products which earned higher margins as synthetic leather products.

The EBITmargin of the Casual segment decreased from 25.7% in 2011 to 21.1% in 2012. The decline was mainly due to a lower gross profit margin (37.6% in 2011 and 30.7% in 2012) as a result of a change in the product mix.

NET FINANCE COSTS

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

Net finance costs decreased from EUR 4,777 thousand in 2011 by EUR 3,061 thousand, or 64.1%, to EUR 1,716 thousand in 2012. This was mainly due to net foreign exchange losses in 2011 of EUR 3.5 million derived from a post IPO Euro cash holding due to currency fluctuations during the required conversion process which was subject to capital control procedures. As of 31 December 2012, cash holdings in Euro were reduced to minimise the foreign exchange impact.

PROFIT BEFORE TAX

Profit before tax increased from EUR 27,472 thousand in 2011 by EUR 6,108 thousand, or 22.2%, to EUR 33,580 thousand in 2012. This was mainly due to increases in gross profit and lower net financing costs offset by higher selling and distribution costs.

TAX EXPENSE

Expenses for income tax increased from EUR 9,135 thousand in 2011 (corresponds to 33.3% of profit before taxes) to EUR 9,585 thousand in 2012 (corresponds to 28.5% of profit before income tax). The lower effective income tax rate in financial year 2012 was due to a lower amount of non-deductable expenses during the financial year 2012.

The statutory income tax rate for Powerland Fujian was 25.0% in 2011 and 2012. The income tax rate for Powerland Guangzhou was 12.5% in 2011 and 25.0% in 2012.

NET PROFIT AND NET PROFIT MARGIN

Net profit of Powerland Group increased from EUR 18,337 thousand in 2011 by EUR 5,658 thousand, or 30.9%, to EUR 23,995 thousand in 2012. The increase of net profit in absolute terms was the result of several external factors that jointly occurred in 2011 and 2012. The higher net profit in 2012 resulted in particular from the higher net finance costs compared to 2011, as a significant devaluation of the Euro against the RMB as well as IPO transaction costs were charged to the income statement in 2011. Although higher costs for enhanced marketing activities in the Luxury segment incurred in 2012, finance costs were still lower than in 2011.

The net profit margin in 2012 at 12.6% was slightly higher as compared to 2011 (12.5%). The slight increase was mainly due to the lower net finance costs as explained above.

EARNINGS PER SHARE

Earnings per Share (EPS) were EUR 1.35 in 2011 and EUR 1.60 in 2012. The calculation has been based on the net profit of the year and the average weighted number of shares. The calculation has been computed on the basis of 15 million shares for 2012 (2011: 13,611,111 shares).

The EPS figures for 2011 and 2012 would be EUR 1.22 and EUR 1.60 calculated on the basis of the total number of 15 million issued shares as at 31 December 2012.

	2011	2012
Net profit for the financial period (EUR '000)	18,337	23,995
Earnings per share in EUR based on weighted average number of shares for the year	1.35	1.60
Earnings per share in EUR based on total number issued shares 15,000,000	1.22	1.60

Other Selected Financial Data Q4 2011 and Q4 2012, 2011 and 2012

	2011		2012	
	EUR '000	% of	EUR '000	% of
Gross profit margin		44.2		43.5
EBITDA	33,418		37,753	
EBITDA margin		22.7		19.8
EBIT	32,249		35,296	
EBIT margin		21.9		18.5
Net profit margin		12.5		12.6

GROUP FINANCIAL POSITION AND CASH FLOW

The development of the financial position between the dates 31 December 2011 and 2012 is as follows:

EUR `000	31 Dec 2011	31 Dec 2012
Total equity and liabilities	176,334	213,267
Equity	129,358	147,479
Equity ratio in %	73.4	69.2
Cash and cash equivalents	76,146	64,108
Net cash / net debt (–)	50,885	27,699

NON-CURRENT ASSETS

Intangible Assets

Intangible assets mainly comprise the rights of the Powerland trademark and software. Intangible assets amounted to EUR 231 thousand as at 31 December 2011 and EUR 204 thousand as at 31 December 2012. The decrease was due to the amortisation charge for the year.

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 44,617 thousand as at 31 December 2011 by EUR 24,392 thousand, or 54.7%, to EUR 69,009 thousand as at 31 December 2012. The increase was mainly due to the acquisition of PPE amounting to EUR 27,584 thousand which includes the newly purchased buildings of EUR 11.8 million, the new factory under renovation of EUR 13.2 million and renovation cost of approximately EUR 2.6 million incurred in 2012.

Land use rights

Land use rights decreased from EUR 4,529 thousand as at 31 December 2011 and by EUR 178 thousand, or 3.9%, to EUR 4,351 thousand as at 31 December 2012. The decrease was mainly due to depreciation charge in 2012 of EUR 126 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 9,277 thousand as at 31 December 2011 by EUR 8,212 thousand, or 88.5%, to EUR 17,489 thousand as at 31 December 2012. Increase in inventory as at 31 December 2012 is to meet the anticipated ongoing strong market demand for Powerland products.

Trade and other receivables

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

Trade and other receivables increased from EUR 40,734 thousand as at 31 December 2011 by EUR 16,571 thousand, or 40.7%, to EUR 57,305 thousand as at 31 December 2012. The increase was mainly due to the increase in trade receivables which is in line with higher sales in 2012.

Cash and cash equivalents

Cash and cash equivalents mainly comprise cash at bank. Cash and cash equivalents decreased from EUR 76,146 thousand as at 31 December 2011 by EUR 12,038 thousand or 15.8% to EUR 64,108 thousand as at 31 December 2012.

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 129,358 thousand as at 31 December 2011 by EUR 18,121 thousand, or 14.0% to EUR 147,479 thousand as at 31 December 2012 mainly resulting from the profit generated in 2012. Exchange difference loss from translating foreign operations was EUR 2,157 thousand. The equity ratio decreased from 73.4% as at 31 December 2011 to 69.2% as at 31 December 2012.

NON-CURRENT LIABILITIES

Non-current liabilities consist of borrowings primarily from bank loans. Long term borrowings increased from EUR 1,981 thousand as at 31 December 2011, by EUR 1,741 thousand or 87.9% to EUR 3,722 thousand as at 31 December 2012 as a result of increase in borrowings mainly to finance the acquisition of new factory in Guangzhou and for working capital requirements.

CURRENT LIABILITIES

Borrowings

Borrowings comprise liabilities resulting from short-term bank loans and trade and other payables. Short term borrowings increased from EUR 23,280 thousand as at 31 December 2011, by EUR 9,407 thousand or 40.4% to EUR 32,687 thousand as at 31 December 2012. As explained above, the increase was mainly attributable to additional short-term loans granted by local banks in China mainly 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 increased from EUR 19,700 thousand as at 31 December 2011, by EUR 6,094 thousand or 30.9%, to EUR 25,794 thousand as at 31 December 2012. The increase of trade and other payables was mainly due to increase in business activity.

Income tax liabilities

Income tax liabilities increased from EUR 2,015 thousand as at 31 December 2011, by EUR 1,570 thousand or 77.9%, to EUR 3,585 thousand as at 31 December 2012 in line with the increase in taxable profit generated in 2012. For further details please see note 28 to the consolidated financial statements.

NET WORKING CAPITAL

EUR ’000	**31 Dec 2011**	**31 Dec 2012**
Inventories	9,277	17,489
Trade receivables	33,608	47,947
	42,885	**65,436**
Trade payables	13,916	20,624
Net working capital	28,969	44,812
Revenue	146,948	190,972
Net working capital / Revenue in %	19.7	23.5

The net working capital as at 31 December 2012 was 23.5% of the annual revenue in 2012, which is higher than 19.7% as at 31 December 2011. Trade receivables increased from EUR 33.6 million as at 31 December 2011 to EUR 47.9 million as at 31 December 2012. This increase was in line with the increase in revenue. Inventories were higher as at 31 December 2012 than at the end of 2011 (EUR 17.5 million as compared to EUR 9.3 million as at 31 December 2011), because of the need to secure on-time delivery to customers in expectation of ongoing strong market demand.

LIQUIDITY

Net cash flow from / used in Operating Activities

Cash flow from operating activities in 2011 amounted to EUR 6.3 million and increased to EUR 9.3 million in 2012 mainly due to the operating profit before working capital changes offset by net increase in working capital in 2012.

Net cash flow used in Investing Activities

Net cash used in investing activities increased from EUR 22.2 million in 2011 by EUR 4.5 million to EUR 26.7 million in 2012. This increase was mainly attributable to a higher increase in PPE in 2012 which include the new buildings and the new factory in Guangzhou, renovation costs as well as Powerland stores enhancement costs.

Net cash flow from / used in Financing Activities

Net cash from financing activities decreased from EUR 68.0 million in 2011, by EUR 62.0 million to EUR 6.0 million in 2012. The decrease was mainly due to the gross IPO proceeds amounting to EUR 75.0 million (gross proceeds) minus IPO expenses of EUR 7.5 million received in the financial year 2011.

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

NON-FINANCIAL PERFORMANCE INDICATORS AND SUSTAINABILITY

All employees must comply with laws as well as internal company policies, rules and regulations. Consequently, it is important that all employees are aware of the legislation and internal company policies that are relevant for their sphere of activities and key responsibilities.

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. Our employees may not give preferential treatment to a business partner because of a personal relationship with such person.

In any case employees must notify their superior in writing if they or a person close to them operates or holds a material interest in a business that has a business relationship with Powerland. Employees may not hold jobs in companies which they have associated through their course of work in Powerland if it results in conflict of interest.

All employees are obliged to undertake every effort 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 especially includes 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 or her access data is handled safely. 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 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 2012, there were 23 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. The Orchid, one of the four noble plants in the Chinese culture, plays a vital part in Powerland's communication strategy since the name "Powerland" was transcribed as "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 considered challenging in the luxury bag business.

At the end of 2012, there were 32 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 31 December 2012, Powerland had a total of 1,777 employees.

At the end of 2012, 324 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 increased substantially in the last years due to the Company's ongoing growth. Like in the past Powerland does not employ temporary contract workers, but only relies on full-time staff. During 2012, the fluctuation rate was approximately 30%. Workers in the production lines account for the vast majority of the fluctuation which is at industry level.

The employees' benefits for financial years 2011 and 2012 are as follows:

EUR ´000	2011	2012
Wages and salaries	6,401	9,193
Social security contributions	690	898
Other short term benefits	300	461
Total	7,391	10,552

The increase in employee benefits in 2012 is mainly due to increase in the number of employees.

The numbers of employees for 2011 and 2012 (each as at 31 December) are as follows:

Category of employees	2011	2012
Management and administration	110	324
Sales, marketing and procurement	282	191
Design, production and quality assurance	1,006	1,262
Total employees	1,398	1,777
Change in %		+27.1

The summary of length of services for Powerland's employees is as follows:

Years	31 Dec 2011	31. Dec 2012
> 5 years	157	162
3-5 years	313	329
1-2 years	572	508
< 1 year	356	778
Total	1,398	1,777

Powerland has not only a fast growing but also a young workforce with an educational level that fits the Company's needs. Out of 1,777 employees (at the end of 2012) 1,115 were between 18 and 30 years old, 427 were between 31 and 40 years old and 235 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	3
Bachelor	126
Associate	478
Others	1,169
Total	1,777

As far as the wage structure is concerned, 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 certain agreed amount per produced unit.

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 comprises 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 in 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 the 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. Under Chinese trade business practices and the risk monitoring in place, customers granted with credit terms are supplemented with regular customer confirmation, to ensure the accuracy of accounts.
- 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 these risks. With regard to the Casual segment, potential increases in raw material prices, 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 149 distributor-operated stores (as at 31 December 2012) and 31 self-operated stores (as at 31 December 2012) under the Powerland brand with uniform design standards (the "Powerland Stores"). Distributor-operated stores are managed or controlled by independent distributors which have been granted the right to sell Powerland products at specific locations in China under distribution agreements. Powerland does not have direct control over the management of the distributor-operated stores. Powerland's business could therefore be adversely affected if distributor operated stores are managed ineffectively or inappropriately.

Powerland will continue to increase the total number of Powerland Stores. The increase in the number of stores is intended to be reached mainly through opening self-operated stores. The new Powerland self-operated stores will not only reduce the dependence on distributors and help to increase overall margins. They will also help to identify our end customers and improve our sales services, pricing policies and gather direct feedback regarding our designs and services. This is valuable to improve our production, pricing, expansion and overall management.

Although there are substantial quality control measures already in place, including onsite inspections on the factory premises of our OEMs, the Company plans to further enhance and improve the monitoring of product quality. Powerland will introduce its own production facility and produce leather handbags on its own production premises. The small facility will give Powerland the possibility to test sales and marketing with sample products in selected stores before a full-scale product launch. It is also intended to 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 have increasing customer appeal. 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 poses great difficulties in designing a product that meets consumer preferences, as the designer needs to anticipate future trends and preferences very early and runs the risk of making a wrong judgement. 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 jeopardized and the appeal of its brand may be affected.

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 over the next five years. At the same time, Italian designers of Studio Turchi will increase their time spent in China, to learn more about the changing preferences of Chinese consumers and the Chinese culture on a timely basis.

Facing the risk of continuing increases in raw material prices in the Casual segment, Powerland has been using price locked in provisions contracts with suppliers and mitigate part of the impact from increasing cost of the principal raw materials by passing on part of the increases to its end customers.

MANAGEMENT OF OPPORTUNITIES

At Powerland we encourage our employees at an individual level to take initiative and give suggestions to improve their work processes, efficiency, and not to be afraid to experiment, to trial and implement new ideas in order to foster a culture of continuous improvement and cost consciousness. These suggestions are evaluated and discussed regarding their potential and regarding their feasibility. It is also part of the Management Board's responsibility to regularly review strategic opportunities.

RISK MANAGEMENT

Many risks and opportunities are inherent to Powerland's 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 operational 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 is 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-to-day involvement of the Management Board under the leadership of the Company's largest shareholder and CEO, 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 and Supervisory Board meetings. The finance department produces detailed monthly management 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

A sustained weakness in or worsening of the economy, particularly in the home market of the Peoples' Republic of China, could have an adverse 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 marketscould lead to supply shortages, problems with the quality of raw materials and increased logistics and manufacturing costs are some of the risks faced by Powerland which cannot be completely compensated for by higher retail prices. Powerland mitigates these risks by employing a targeted supplier policy that concentrates on a panel of 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

A key success factor which helps Powerland to grow successfully is that the Company is able to identify and react to the market trends quickly. Should Powerland fail to identify current trends quickly and match the changing tastes and preferences of its target groups, 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, the close interaction with its customers in its self-operated stores as well as in distributor-operated stores opens up opportunities for Powerland, as direct feedback and suggestions from customers are used to further improve efficiency.

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 for Powerland's self-operated retail stores. When chosing sites and opening new stores, Powerland follows a rigid selection process following economic criteria, location and investment parameters, so as to reduce 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 increased brand awareness. This presents Powerland with the opportunity of further increasing visibility amongst its target customer groups.

Financial risks
Powerland is exposed to currency, interest rate, liquidity and counterparty risks in the course of 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 receivables from foreign customers, as well as interest rate risk with respect to loans with variable interest rates. 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 financial statements for the period 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.

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 deems 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.

The Group's policy is to ensure that it will always have sufficient cash to meet its liabilities when they become due. Liquidity needs are monitored closely with any significant cash outflows being considered against existing liquidity positions prior to it being committed.
In order to finance its growth strategy, Powerland Group may have to raise additional capital in the

future either 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 a 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 fails to perform its contractual obligations. The Group's exposure to credit risk is influenced by each individual 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, the Group extends credit to its customers based upon a careful credit risk 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 are denominated 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 increasing sales and inventory risks. Additionally, the opening up of new stores triggers increasing operating expenses and uncertainty with regard to future profitability.

The opening of more self-operated stores as part of our retail expansion also calls for increased investment and leads to increased personnel and rental costs. There is no guarantee that these increased expenses can be compensated far through 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 places orders with its OEM suppliers once the distributors placed an order.

In the Casual segment, the sales and inventories risk is also normally reduced by “make to orders” i.e. Powerland only produces 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 is necessary. This engenders procurement, production and logistics risks. One risk factor is the deterioration of product quality. In order to ensure stable supply relationships resulting in consistently high product quality and attractive prices for its constantly changing collections, Powerland conducts stringent evaluations and material testing before it makes a request to purchasing agents and manufacturers.

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 in the areas of 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, engaging external experts when required. Despite these measures, the outcome of any ongoing or futurelegal proceedings cannot be predicted with certainty. Legal disputes can be costly, even when the Company’s case is upheld, and could damage Powerland’s reputation.

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 to ensure the company interests are protected.

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.

REMUNERATION REPORT

COMPENSATION OF MANAGEMENT BOARD MEMBERS

For the fiscal year 2012, the members of the Executive Board received the following fixed remuneration. They are not entitled to receive any further, particularly performance-based remuneration, except for Mr. Hock Soon Gan (CFO until 30 November 2012) who was entitled to a bonus upon successful listing in 2011:

EUR ’000	**2011**	**2012**
Shunyuan Guo	56	62
Kelvin Ho *(since 1 December 2012)*	–	9
Hock Soon Gan *(until 30 November 2012)*		
Fixed	107	114
Variable	335	–
Qingsheng Cai	23	37
Yongliang Guo	23	37
	544	**259**

COMPENSATION OF SUPERVISORY BOARD MEMBERS

Every member of the Supervisory Board is entitled to reimbursement of 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 years ended 31 December 2011 and 2012 which are included in the accrued expenses are as follows:

EUR ’000	**2011**	**2012**
Dr. Peter Diesch		
Fixed	61	73
Variable	19	24
Volker Potthoff	36	48
Hsueh Yi Huang	24	35
	140	**180**

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 Powerland AG. The Management Board is not aware of further restrictions regarding voting rights and the right to transfer shares of the Company.

3 DIRECT AND INDIRECT PARTICIPATIONS IN SHARES

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

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 themselves and in their own discretion or by an authorized person. There is no voting right control of employees who are shareholders.

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 two 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 three members appointed by the Supervisory Board for a period not exceeding five years ending 21 February 2016 for the Chairman of the Management Board and not more than three years ending 21 February 2014 for Yongliang Guo and Qingsheng Cai. 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 SupervisoryBoard 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 Annual General 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 Boardmembers) (§ 85 AktG).

7 AMENDMENTS OF THE ARTICLES OF ASSOCIATION

The Articles of Association can only be amended by a resolution of the Annual General Meeting according to § 179 AktG (German Stock Corporation Act). Beside this the Supervisory Board is entitled pursuant to the Articles of Association 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 contributionsin 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 consentof 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 StockCorporation Act (Aktiengesetz) has to be taken into account;
» to list shares of the Company or certificates representing shares of the Company ondomestic or
» foreign stock exchanges where they are not listed yet;
» to the extent necessary to grant holders of convertible bonds, convertible profitparticipation 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 theshare 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 ofissuance 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 consisting of up to 500,000 new ordinary 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.

8.3 AUTHORIZATION TO ACQUIRE AND USE TREASURY SHARE

The Annual General Meeting held on 20 June 2012 resolved to authorize the Company to acquire Powerland AG shares. The authorization is limited to the acquisition of treasury shares with a mathematical participation in share capital totaling up to EUR 1,500,000.00. The authorization is valid until 19 June 2017 and can be executed by the Company or third parties authorized by the Company or in part and in one or several tranches. The share must be acquired on the stock exchange or via a public buyback offer submitted to all Company shareholders. With regards to Powerland AG shares acquired on account of this authorization, the Management Board is authorised to: a/ withdraw these shares without this withdraw or its implementation requiring any further resolution by the AGM; b/ offer and transfer these shares to subscription right holders so as to meet the obligation arising from the stock option programme 2011; c/ use these shares as partial compensation within the scope of company mergers or for the acquisition of companies and investments in companies or company units; d/ sell these shares at a price not significantly less than the Company share price on the stock market; e/ offer these shares for sale and transfer them to Company employees or Group companies; f/ offer these shares for sale and transfer them to third parties that are strategic partners of the Company or its Group companies and significantly contribute to the Company meeting its business target.

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.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

The CFO Kelvin Ho and Powerland mutually decided as of 26 March 2013 that Mr. Ho is going to leave Powerland with immediate effect. His functions were taken over temporarily by the Chief Accounting Officer of Powerland, Mr. Qingsheng Cai.

OUTLOOK

With the change in China's political leadership in the form of Xi Jinping, we believe China's macroeconomic situation will continued to grow in 2013, 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 despite recent slowdowns in the Chinese economy.

The Group has posted an overall impressive revenue growth (in RMB terms) of 17.2% for 2012 in the challenging environment and expect to continue to do well in 2013.

The Luxury segment has grown strongly since its inception in 2007/2008, contributed by the growing number of middle-income consumers in China, the 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 from 2011 (including 13 self-operated stores) to the current 180 stores (including 31 self-operated stores) will contribute substantially to the growth in this 2013. The company confirms the significant mid- and long-term growth potential for the coming years for Luxury segment based on a continued expansion of the distribution network and the expected positive impacts from the extensive brand-building measures and a nationwide marketing campaign.

The slower growth in Casual segment in 2012 is a reflection of on-going macroeconomic slow down and increasing comparative environment, nevertheless, the Company plans to overcome weaker market demand by improving product quality and design in 2013.

Powerland's results should continue to do well 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 management Optimizing the Luxury segment product portfolio and launching new and innovative Casual products should further enhance results.

By taking a long haul term approach with to our strategic goals, looking ahead, we are confident that our experience in developing operational earnings and brand building will, barring any unforeseen circumstances, enable our continual success, which will in turn enhance shareholders' value.

Cautionary Note Regarding Forward-Looking Statements

This document contains forward-looking statements, which are based on current estimates and assumptions by the management of Powerland Group. Forward looking statements are characterized by the use of words such as expect, intend, plan, predict, assume, believe, estimate, anticipate and similar formulations. Such statements are not to be understood as in any way guaranteeing that those expectations will turn out to be accurate as they are made in the light of the current macro-environment and strategic goals as well as other circumstantial factors. Future actual performance and results by Powerland Group depend on numerous factors and affected by risks and uncertainties and may differ materially from the forward-looking statements. Many of the external factors are out of Powerland's control and therefore may not be able to respond or mitigate timely. Powerland Group neither undertakes or plans to update any of the forward-looking statements.

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

EUR '000	**Note**	**2011**	**2012**
Revenue	7	146,948	190,972
Cost of sales	8	–81,954	– 107,846
Gross profit		64,994	83,126
Other income	9	89	138
Selling and distribution costs	10	– 19,643	– 34,521
Administrative and other expenses	11	– 13,191	– 13,447
Profit from operations		**32,249**	**35,296**
Finance income	12	32	652
Finance costs	12	– 4,809	– 2,368
Profit before tax		**27,472**	**33,580**
Tax expense	13	– 9,135	– 9,585
Net profit		**18,337**	**23,995**
Net profit attributable to owners of the parent company		18,337	23,995
Basic and diluted earnings per share (EUR)	16	1.35	1.60

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

EUR '000	Note	2011	2012
Net profit		**18,337**	**23,995**
Other comprehensive income/(expense)			
Exchange differences on translating foreign operations	25	13,463	– 2,157
Total comprehensive income		**31,800**	21,838
Net profit attributable to owners of the parent company		18,337	23,995
Total comprehensive income attributable to owners of the parent company		31,800	21,838

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 financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

EUR '000	Note	2011	2012
Cash flows from operating activities			
Profit before tax		27,472	33,580
Adjustments for:			
Amortisation of intangible assets	19	12	25
Depreciation of land use rights	18	106	126
Depreciation of property, plant and equipment	17	1,051	2,306
Loss on disposal of property, plant and equipment		–	12
Unrealised foreign exchange gain		566	– 50
Interest income		– 32	– 652
Interest expenses		1,358	2,039
Non-operating items		2,335	–
Operating profit before working capital changes		32,868	37,386
Changes in inventories		– 1,183	– 8,548
Changes in trade and other receivables		– 13,174	– 17,451
Changes in trade and other payables		– 4,392	5,860
Cash generated before tax payments		14,119	17,247
Income taxes paid	28	– 7,772	– 7,948
Net cash from operating activities		6,347	9,299
Cash flows from investing activities			
Interest received		32	652

Sales proceeds from disposal of property, plant and equipment		–	2
Purchase of intangible assets	19	– 147	–
Purchase of property, plant and equipment	17	– 22,080	– 27,304
Other investment		–	– 1
Net cash used in investing activities		– 22,195	– 26,651
Cash flows from financing activities			
Proceeds from IPO		75,000	–
IPO expenses paid		– 7,534	–
Dividends paid	14	–	– 3,717
Drawdown of borrowings		29,053	43,347
Repayments of borrowings		– 27,188	– 31,582
Interest paid		– 1,358	– 2,039
Net cash from in financing activities		67,973	6,009
Net increase/(decrease) in cash and cash equivalents		52,125	– 11,343
Cash and cash equivalents at the beginning of the year		15,319	76,146
Effect of exchange rate changes		8,702	– 695
Cash and cash equivalents at the end of the year	23	76,146	64,108

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

EUR '000	Note	31 Dec 2011	31 Dec 2012
ASSETS			
Non-current assets			
Property, plant and equipment	17	44,617	69,009
Land use rights	18	4,529	4,351
Intangible assets	19	231	204
Other investment		–	1
Deferred tax assets	20	800	800
Total non-current assets		**50,177**	74,365
Current assets			
Inventories	21	9,277	17,489
Trade and other receivables	22	40,734	57,305
Cash and cash equivalents	23	76,146	64,108
Total current assets		**126,157**	**138,902**
TOTAL ASSETS		**176,334**	**213,267**
EQUITY AND LIABILITIES			
Equity			
Share capital	24	15,000	15,000
Capital reserve	25	65,353	65,353
Foreign exchange translation reserve	25	16,678	14,521
Consolidation reserve	25	32,327	52,605
Total equity		**129,358**	**147,479**

Liabilities			
Non-current liabilities			
Borrowings	26	1,981	3,722
Current liabilities			
Trade and other payables	27	19,700	25,794
Borrowings	26	23,280	32,687
Current tax liabilities	28	2,015	3,585
Total current liabilities		**44,995**	**62,066**
Total liabilities		**46,976**	**65,788**
TOTAL EQUITY AND LIABILITIES		**176,334**	**213,267**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

					Consolidation reserve		
EUR ’000	**Note**	**Share capital**	**Capital reserve**	**Foreign exchange translation reserve**	**Non-distributable**	**Distribut-able**	**Total equity**
1 January 2011		–	–	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**

Total comprehensive income		–	–	– 2,157	–	23,995	21,838
Dividends	14	–	–	–	–	– 3,717	– 3,717
Transfer to statutory surplus reserve		–	–	–	2,307	– 2,307	–
Transfer to other reserves		–	–	–	231	– 231	–
31 December 2012		**15,000**	**65,353**	**14,521**	**7,480**	**45,125**	**147,479**

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

NOTES TO THE CONSOLIDATED STATEMENTS

1 GENERAL INFORMATION

The consolidated financial statements include the financial statements of the holding company, Powerland AG (the “Company”) and its subsidiaries. These subsidiaries are Fujian PowerlandLeather 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 financial statements represent an unofficial translation of their registered Chinese names by the 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 with their financial data according to the International Financial Reporting Standards. In summary:

		Share directly held in %	Equity EUR '000	Profit/(Loss) for the year EUR '000
PHK	31 December 2011	100	28,744	18,271
	31 December 2012	100	35,983	– 1,240
PFL	31 December 2011	100	55,627	23,608
	31 December 2012	100	77,412	23,069
PGL	31 December 2011	100	24,052	– 14
	31 December 2012	100	24,147	402

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 brand names "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 the 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 financial statements of Powerland AG for the year ended 31 December 2012 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.

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

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

The preparation of consolidated 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 judgment in the process of applying the accounting policies. The areas involving such judgments, estimates and assumptions are disclosed in Note 6 to the consolidated 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 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 consolidatedfinancial 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 financial statements are presented in thousands of Euro (“EUR ’000”), unless otherwise stated.

All subsidiaries of the Company are consolidated.

4 SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of consolidation

The consolidated 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 income statements and the consolidated statements of comprehensive income from the effective date of obtaining control of these companies and up to the effective date of losing 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.

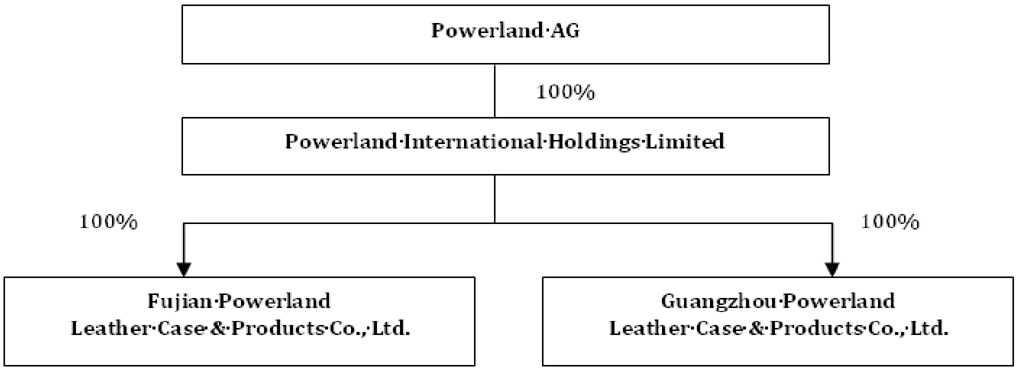
The financial statements of the subsidiaries are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for similar transactions and events in similar circumstances.

Individual line items have been summarized in the consolidated income statements and the consolidated 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 income statement and in a consolidated statement of comprehensive income. The function of sales method has been used in classifying expenses in the consolidated income statement.

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 a 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 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 in preparing the consolidated 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, the 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 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 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 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 financial statements have been translated from the functional currency, RMB to EUR at the following rates:

	Period end rates	**Average rates**
31 December 2011	RMB 1.00 = EUR 0.1216	RMB 1.00 = EUR 0.1112
31 December 2012	RMB 1.00 = EUR 0.1201	RMB 1.00 = EUR 0.1233

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

Trademark

Trademark acquired has a finite useful life and is shown at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the 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 possible 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 and held-to-maturity investments, the Group does not have any financial assets at fair value through profit or loss and available-for-sale financial assets.

Held-to-maturity investments

Financial assets classified as held-to-maturity comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.

Subsequent to initial recognition, financial assets classified as held-to-maturity are measured at amortised cost using the effective interest method. Gains or losses on financial assets classified as held-to-maturity are recognised in profit or loss when the financial assets are derecognised or impaired, and through the amortisation process.

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.

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 income statements (operating profit).

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

4.8.2 *Impairment of financial assets*

The Group assesses whether there is any objective evidence that a financial asset is impaired at the end of each reporting period.

The Group collectively considers factors such as the probability of bankruptcy or significant financial difficulties of the receivable, and default or significant delay in payments by the receivable, to determine whether there is objective evidence that an impairment loss on held-to-maturity investments and loans and receivables has occurred. Other objective evidence of impairment include historical collection rates determined on an individual basis and observable changes in national or local economic conditions that are directly correlated with the historical default rates of receivables.

If any such objective evidence exists, the amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of held-to-maturity investments is directly reduced by the impairment loss whilst the carrying amount of loans and receivables are reduced through the use of an allowance account.

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

4.8.3 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 income statements.

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 statements of comprehensive income over the periods of the borrowings using the effective interest method.

4.8.4 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.

4.8.5 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. A 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.

4.8.6 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%. 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 statements of comprehensive income.

Derivatives are recognised initially at fair value, attributable transaction costs are recognised in the consolidated 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 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 statements of comprehensive income in the same period that the hedged item affects consolidated 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 statements of comprehensive income.

Separable embedded derivatives

Changes in the fair value of separated embedded derivatives are recognised immediately in the consolidated 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 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 income statements 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 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) 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 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 isnot 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 income statements.

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 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 income statement 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 income statements 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 income statements relate to government rewards and funds received by the Group from the local authorities in recognition of the Group’s efforts in building a 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 financial statements, parties are considered to be related to the Group if a consolidated 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 entity, 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) engage in business activities from which theymay 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) percent 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) percent 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) percent 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 financial statements for the financial years ended 31 December 2012 and 2011.

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 2012 and 2011.

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 financial statements are set out below:

(a) Amendments to IFRS *7 Financial Instruments: Disclosures – Transfers of Financial Assets* are mandatory for annual periods beginning on or after 1 January 2012.

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.

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

(b) Amendments to IAS 1*2 Deferred Tax – Recovery of Underlying Assets are mandatory for a*nnual 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.

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

(c) 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 January 2012.

These amendments include two changes. The first amendments provide 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 2006 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'.

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

5.2 New IFRSs that have been issued, but are only effective for annual periods beginning on or after 31 January 2013

(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 Controlled 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 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.

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 IFRS 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) 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 percent of the plan assets and 10 percent 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.

(j) Amendments to IFRS 1 *Government Loans* are mandatory for annual periods beginning on or after 1 January 2013.

The amendments relate to the treatment of government loans as defined in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* when adopting IFRS for the first time.

The amendments address the inconsistency that arose from the 2008 amendment to IAS 20, which required an entity to account prospectively for a government loan at a below-market rate of interest as a government grant received for periods beginning on or after 1 January 2009 – as opposed to the retrospective requirement of IFRS 1.

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.

(k) Improvements to IFRSs 2009 – 2011 Cycle are mandatory for annual periods beginning on or after 1 January 2013.

Amendments to IFRS 1 *Repeated Application of IFRS 1* clarify that an entity that has applied IFRSs in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRSs, must either apply IFRS 1 or else apply IFRSs retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Estimates and Errors* as if the entity had never stopped applying IFRSs.

Amendments to IFRS 1 *Borrowing Costs* clarify that an entity that capitalised borrowing costs in accordance with its previous generally accepted accounting practice (GAAP) before the date of transition to IFRSs may carry forward, without adjustment, the amount previously capitalised in the opening statement of financial position at the date of transition.

The improvement also states that borrowing costs incurred after the date of transition that relate to qualifying assets that are already under construction at the date of transition are accounted for (that is, capitalised or expensed) in accordance with IAS 23 Borrowing Costs and not in accordance with previous GAAP.

Amendments to IAS 16 Classification of Servicing Equipment clarify that items such as spare parts, stand-by equipment and servicing equipment shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

Amendments to IAS 32 *Tax Effect of Distribution to Holders of Equity Instruments* clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with IAS 12. The Group does not expect any impact on the financial statements upon adoption of these Amendments.

Amendments to IAS 34 *Interim Financial Reporting and Segment Information for Total Assets and Liabilities* clarify that an entity shall disclose the total assets and liabilities for a particular reportable segment only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment to be consistent with the requirements in IFRS 8. The Group does not expect any impact on the financial statements upon adoption of these Amendments.

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.

(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) Mandatory Effective Date of IFRS 9 and Transition Disclosures is effective immediately upon adoption of IFRS 9.

This Amendment modifies the effective date of IFRS 9 from 1 January 2013 to 1 January 2015. Transitional provisions in IFRS 9 were also amended to provide certain relief from retrospective adjustments.

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

(n) Amendments to IFRS 10 – *Investment Entities* are mandatory for annual periods beginning on or after 1 January 2014.

The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss, rather than consolidating them in its consolidated financial statements. Measurement at fair value through profit or loss must also be applied to an investment entity's separate financial statements. The amendments also introduce disclosure requirements for investment entities into IFRS 12 *Disclosure of Interests in Other Entities* and amend IAS 27 *Separate Financial Statements*.

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

(o) Amendments to IFRS 10, IFRS 11 and IFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* are mandatory for annual periods beginning on or after 1 January 2013.

The amendments clarify certain aspects that are applicable when an entity transitions from IAS 27 Consolidated and Separate Financial Statements/SIC-12 *Consolidation – Special Purpose Entities* to the new consolidation standards IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* which become effective 1 January 2013.

(p) Amendments to IAS 32 *Financial Instruments: Presentation* is 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.

(q) IFRIC 20 *Stripping Cost in the Production Phase of a Surface Mine* is mandatory for annual periods beginning on or after 1 January 2013.

This Interpretation clarifies that removed material that can be used to build up inventory is accounted for in accordance with the principles of IAS 2 *Inventories*. Other removed material, that provides access to deeper levels of material that would be mined in future periods, is recognised as a non-current asset (referred to as a 'stripping activity asset') if the recognition criteria are met. This Interpretation requires stripping activity assets to be measured at cost at initial recognition. Subsequently, they are carried either at cost or revalued amount less depreciation or amortisation and any impairment losses.

The Group does not expect any impact on the financial statements arising from the adoption of this IFRIC.

6 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

6.1 Critical judgments made in applying accounting policies

The following are judgments made by management in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

(a) Classification of leasehold land

The Group has assessed and classified land use rights of the Group as finance leases based on the extent to which risks and rewards incidental to ownership of the land resides with the Group arising from the lease term. Consequently, the Group has classified the unamortised upfront payment for land use rights as finance leases in accordance with IAS17.

(b) Classification of non-current bank borrowings

Term loan agreements entered into by the Group include repayment on demand clauses at the discretion of financial institutions. The Group believes that in the absence of a default being committed by the Group, these financial institutions are not entitled to exercise theirright to demand for repayment. Accordingly, the carrying amount of the term loans have been classified between current and non-current liabilities based on their repayment period.

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 judgment 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 judgment 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 judgment 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 judgments 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 2012, temporary differences relating to the undistributed profits of the Group's subsidiaries in Mainland China amounted to EUR 40,085 thousand. Deferred tax liabilities of EUR 2,004 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 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	**2011**	**2012**
Revenue from sales of:		
Luxury segment products	80,170	112,797
Casual segment products	66,778	78,175
Revenue	**146,948**	**190,972**

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 comprises government grants 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	**2011**	**2012**
Finance income		
Interest income on bank balances	32	652
Total finance income	**32**	**652**
Finance costs		
Interest expense on borrowings	1,358	2,039
Net foreign exchange loss	3,451	329
Total finance costs	**4,809**	**2,368**
Net finance costs recognised in profit or loss	**4,777**	**1,716**

13 TAX EXPENSE

EUR '000	**2011**	**2012**
Tax expense based on profit for the financial years (Note 28)		
current year	8,688	9,591
under provision in prior year	6	- 6
Deferred tax income		
current year	- 226	-
Withholding tax expense	667	-
	9,135	**9,585**

Tax expense for respective taxation authorities is calculated at the rates prevailing in these jurisdictions. During the financial years ended 31 December 2011 and 31 December 2012, the applicable enterprise tax rates for the respective consolidated entities are as follows:

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

Details of the tax incentive periods are as follows:

in years	Tax exemption	Tax rebate	Statutory tax rate
Applicable enterprise tax rates	**(0.0%)**	**(12.5%)**	**(25.0%)**
PFL	2006-2007	2008-2010	2011 onwards
PGL	2007-2008	2009-2011	2012 onwards

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 financial statements regarding the calculation of the deferred taxes of Powerland AG the total tax rate is estimated at 31.5%.

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 financial statements are as follows:

EUR ’000	2011	2012
Tax at the domestic tax rates applicable to profits in the countries concerned	6,868	8,819
Tax effects in respect of:		
Non-allowable expenses	2,744	1,327

Tax losses not recognised	- 1,150	- 555
Underprovision in prior year	6	- 6
Withholding tax	667	-
	9,135	**9,585**

14 DIVIDENDS

Dividends of EUR 3,717 thousand were paid to the shareholders in June 2012.

15 EMPLOYEE BENEFITS

EUR ’000	**2011**	**2012**
Wages and salaries	6,401	9,193
Social security contributions	690	898
Other short term benefits	300	461
	7,391	10,552

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

EUR ’000	**2011**	**2012**
Salaries and allowances	543	262

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

EUR ’000	**2011**	**2012**
Management and administration	117	137
Sales, marketing and procurement	188	230
Design, production and quality assurance	1,048	1,340
	1,353	1,707

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 statements of comprehensive income in the financial year 2012 amounted to EUR 345 thousand (2011: EUR 260 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 and 15,000,000 for 2012.

	2011	2012
Profit from continuing operations attributable to equity holders of the parent company (EUR ’000)	18,337	23,995
Weighted average number of ordinary shares in issue (‘000)	13,611	15,000
Basic earnings per ordinary share (EUR)	1.35	1.60

(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							
As at 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
Reclassification	15,984	–	–	–	–	– 15,984	–
Translation adjustments	1,725	27	23	63	38	1,354	3,230
As at 31 December 2011 and 1 January 2012	21,689	400	298	764	441	21,025	44,617
Additions	11,796	69	118	–	2,609	13,335	27,927
Disposals	–	– 14	–	–	–	–	– 14
Depreciation charge for the year	– 706	– 57	– 119	– 245	– 1,179	–	– 2,306
Reclassification	17,468	–	–	–	–	– 17,468	–
Translation adjustments	– 1,009	– 4	– 3	– 3	– 43	– 153	– 1,215
As at 31 December 2012	49,238	394	294	516	1,828	16,739	69,009

EUR ’000	Buildings	Machinery and factory equipments	Office and other equipments	Motor vehicles	Renovation	Construction in-progress	Total
As 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
As at 31 December 2012							
Cost	51,512	626	525	976	3,301	16,739	73,679
Accumulated depreciation	– 2,274	– 232	– 231	– 460	– 1,473	–	– 4,670
Carrying amount	49,238	394	294	516	1,828	16,739	69,009

(a) During the financial year, the Group made the following cash payments to purchase property, plant and equipment:

EUR ’000	**31 Dec 2011**	**31 Dec 2012**
Purchase of property, plant and equipment	22,080	27,304
Financed by other payables	-	623
	22,080	27,927

(b) As at 31 December 2012, the buildings and construction-in-progress with a carrying amount of EUR 45,433 thousand (31 December 2011: EUR 4,545 thousand) and EUR Nilthousand (31 December 2011: EUR 331 thousand) respectively have been charged to a bank for credit facilities granted to the Group (Note 26(a)).

18 LAND USE RIGHTS

EUR ’000	2011	2012
Carrying amount		
As at 1 January	4,375	4,529
Additions	–	–
Depreciation charge for the year	– 106	– 127
Translation adjusmtents	260	– 51
As at 31 December	**4,529**	**4,351**

EUR ’000	2011	2012
Cost	5,112	5,049
Accumulated depreciation	– 583	– 698
Carrying amount	**4,529**	**4,351**

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

(b) As at 31 December 2012, land use rights with a carrying amount of EUR 2,575 thousand have been pledged to a bank for credit facilities granted to the Group (31 December 2011: EUR 2,682 thousand (Note 26(a)).

19 INTANGIBLE ASSETS

EUR ’000	As at 1 Jan 2011	Additions	Amortisation charge for the year	Translation adjustments	As at 31 Dec 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

EUR '000	As at 1 Jan 2012	Additions	Amortisation charge for the year	Translation adjustments	As at 31 Dec 2012
Carrying amount					
Trademark	68	–	– 13	– 1	54
Software	163	–	– 12	– 1	150
	231	–	– 25	– 2	204

	Cost	Accumulated amortisation	Carrying Amount
As at 31 December 2012			
Trademark	123	– 69	54
Software	164	– 14	150
	287	– 83	204

(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. In 2011, the amount recognised as deferred tax asset (EUR800 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 in 2011.

21 INVENTORIES

EUR '000	2011	2012
At cost		
Raw materials	5,431	9,878
Work in progress	1,216	1,492
Finished goods	2,630	6,119
	9,277	**17,489**

22 TRADE AND OTHER RECEIVABLES

EUR '000	2011	2012
Trade receivables	33,608	47,947
Other receivables	62	754
Total financial assets other than cash and cash equivalents classified as loans and receivables	33,670	48,701
Value-added tax recoverable	714	1,055
Advance payments to suppliers	1,016	2,633
Deposits	1,754	1,778
Prepayments	3,580	3,138
Total trade and other receivables	40,734	**57,305**

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

	31 Dec 2011 EUR '000	31 Dec 2012 EUR '000
Neither past due nor impaired:		
Within 30 days	13,702	17,815
31 – 60 days	11,401	16,270
61 – 90 days	8,498	13,840
Receivables that are neither due nor impaired	**33,601**	**47,925**
Past due, not impaired:		
More than 90 days	7	22
Total trade receivables	33,608	47,947

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.

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

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

	31 Dec 2011 EUR '000	31 Dec 2012 EUR '000
Renminbi (RMB)	39,111	51,697
United States Dollar (USD)	1,460	5,503
Euro (EUR)	162	104
Hong Kong Dollar (HKD)	1	1
	40,734	57,305

23 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

EUR '000	31 Dec 2011	31 Dec 2012
Cash and bank balances	76,146	61,112
Other cash and cash equivalents	–	301
Deposits with licensed banks	–	2,695
	76,146	**64,108**

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

(b) Other cash and cash equivalents refer to expired bankers' acceptances which had not been cancelled and claimed back from a bank.

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

	31 Dec 2011	31 Dec 20121
	EUR '000	**EUR '000**
Renminbi (RMB)	72,587	63,896
United States Dollar (USD)	–	129
Hong Kong Dollar (HKD)	–	1
Euro Dollar (EUR)	3,559	82
	76,146	64,108

24 SHARE CAPITAL

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 ISINDE000PLD5558.

25 RESERVES

(a) Capital reserve

According to the initial public offering placement, Powerland AG raised 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.

(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.

EUR '000	31 Dec 2011	31 Dec 2012
Balance at beginning years	3,215	16,678
Exchange differences on translating foreign operations	13,463	– 2,157
Balance at end of the years	**16,678**	**14,521**

(c) Consolidation reserve

The consolidation reserve arises from the share capital of the subsidiaries and their non-distributable reserves, as well as the accumulated profits and the net profit for the year.

26 BORROWINGS

EUR '000	Note	31 Dec 2011	31 Dec 2012
Non-current liabilities			
Long term bank loans – secured	(a)	61	3,722
Long term bank loans – unsecured	(b)	1,920	-
		1,981	**3,722**
Current liabilities			
Short term bank loans – secured	(a)	5,237	15,356
Short term bank loans – unsecured	(b)	18,043	17,331
		23,280	**32,687**

Total borrowings			
Short term loans		23,280	32,687
Long term loans		1,981	3,722
		25,261	**36,409**

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

	Note	31 Dec 2011 EUR '000	31 Dec 2012 EUR '000
Secured by:			
- Land use rights	18	2,682	2,575
- Buildings	17	4,545	45,433
- Construction-in-progress	17	331	-
		7,558	48,008

As at 31 December 2012, secured long term and short term bank loans of EUR 3,691 thousand and EUR 12,325 thousand (31 December 2011: EUR Nil thousand and EUR 5,211 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:

EUR '000	**31 Dec 2011**	**31 Dec 2012**
Personally guaranteed by:		
- Member of the Management Board	3,648	-
Jointly guaranteed by:		
- Member of the Management Board and third parties	8,354	5,360
- Member of the Management Board and subsidiaries	6,623	1,570
- Member of the Management Board and related parties	1,338	690

Unguaranteed loan	-	9,771
	19,963	17,331

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

(d) The currency exposure profile of borrowings are as follows:

EUR '000	**31 Dec 2011**	**31 Dec 2012**
Renminbi (RMB)	25,261	33,082
United States Dollar (USD)	-	3,327
	25,261	36,409

27 TRADE AND OTHER PAYABLES

EUR '000	Note	31 Dec 2011	31 Dec 2012
Trade payables	(b)	13,916	20,624
Payables to related parties – non trade		–	130
Other payables		910	1,369
Accruals	(c)	2,241	1,789
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost		17,067	23,912
Advance payments from customers	(d)	367	27
Value-added tax payable		1,097	438
Other accruals - tax surcharges, social security contributions and trade union fees	(e)	1,169	1,417
Total trade and other payables		19,700	25,794

(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 financial statements.

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

	31 Dec 2011 EUR '000	31 Dec 2012 EUR '000
Renminbi (RMB)	18,815	25,256
Euro (EUR)	885	537
	19,700	25,793

28 CURENT TAX LIABILITES/(ASSETS)

EUR '000	Note	31 Dec 2011	31 Dec 2012
Balance at beginning of the years		948	2,015
Current year provision	13	8,688	9,591
Under provision in prior year	13	6	– 6
Income tax paid		– 7,772	– 7,948
Translation adjusments		145	– 67
Balance at end of the years		**2,015**	**3,585**
Presented after appropriate offsetting:			
Current tax assets		–	–
Current tax liabilities		2,015	3,585
		2,015	**2,724**

29 CAPTIAL COMMITMENT

EUR '000	Note	31 Dec 2011	31 Dec 2012
Property, plant and equipment			
Contracted but not provided for	(a)	11,541	2,313
Approved but not contracted for	(b)	–	7,290

(a) Contracted but not provided for represents renovation cost to be incurred for the renovation of a factory in Guangzhou.

(b) Approved but not contracted for represents the budget approved for the acquisition of self-operated stores and other property, plant and equipment.

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 profit margins.

EUR '000	**Luxury segment**	**Casual**	**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**
Gross profit margin	49.8%	37.6%	44.2%
EBIT margin	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**

As at 31 December 2011			
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**

EUR '000	**Luxury segment**	**Casual**	**Total**
2012			
Revenue	112,797	78,175	190,972
Cost of sales	– 53,632	– 54,214	– 107,846
Gross profit	59,165	23,961	83,126
Gross profit margin	52.5%	30.7%	43.5%
EBIT margin in %	16.7%	21.1%	18.5%
EBIT	18,790	16,506	35,296
Finance income			652
Finance costs			– 2,368
Profit before tax			**33,580**
As at 31 December 2012			
Reportable segment assets	90,255	48,542	138,797
Intangible assets			204
Other receivables			9,358
Cash and bank balances			64,108
Deferred tax asset			800
Total group assets			**213,267**

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

EUR '000	**2011**	**2012**
Geographical analysis of revenue		
China	124,612	155,228
Overseas (export directly)	22,336	35,744
Group's revenues from external customers	**146,948**	**190,972**

Revenue from Chinese customers in the Group's economic domicile, China, hasbeen 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 Arab Emirates and Chile.

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

During the financial year ended 2012, there were one (1) major customer with whom the transactions represent more than 10% of the Group's revenue. This major customer had contributed a total sum of EUR 25,016 thousand to the casual segment during the financial year ended 31 December 2012. 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 the Group's financial figures as presented in the consolidated financial statements. Hence, no reconciliation is being prepared.

The movements in the reportable segment assets of both luxury and casual segments were primarily due to an increase in segment assets and change of management's intention of use of certain construction-in-progress during the first half of 2012.

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 financial statements, the Group had the following transactions with related parties during the financial year:

EUR '000	**31 Dec 2011**	**31 Dec 2012**
Short term borrowings granted by bank from:		
Joint guarantee by a Director and third parties	8,354	3,603
Joint guarantee by a Director and related party	1,338	691
Joint guarantee by a Director and a subsidiary	4,703	4,572
Joint guarantee by a Director, a subsidiary and third parties	-	5,360
Personal guarantee by a Director	8,859	8,721
Long term borrowings granted by bank from:		
Personal guarantee by a Director	-	3,691
Joint guarantee by a Director and a subsidiary	1,920	-

EUR '000	**2011**	**2012**
Rental payable to immediate holding company	5	10
Manpower service payable to immediate holding company	–	97
Related party - sale of products	4,836	182

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

(d) 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	**2011**	**2012**
Short term employee benefits	715	462
Contributions to defined contribution plans	4	4
	719	466

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

(e) Compensation to members of the Supervisory Board

In 2012, the total remuneration to the members of the Supervisory Board amounted to EUR 180 thousand (2011: EUR 140 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 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 EUR and therefore its results and net assets position are exposed to retranslation risk as a result of fluctuation in the RMB/EUR 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 2012. 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 2011	- 430	- 430
31 December 2012	- 528	- 528

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 2011	430	430
31 December 2012	528	528

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 2012, 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 2011	- 505	- 505
31 December 2012	- 587	- 587

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 2011	505	505
31 December 2012	587	587

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 32% (2011: 35%) of the Group's trade receivables were due from fivemajor 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 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 financial statements.

	31 Dec 2011		**31 Dec 2012**	
EUR ’000	**Carrying value**	**Maximum exposure**	**Carrying value**	**Maximum exposure**
Finance assets				
Cash and cash equivalents	76,146	76,146	64,108	64,108
Trade and other receivables	40,734	40,734	57,305	57,305
Total financial assets	116,880	116,880	121,413	121,413

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

	Current		**Non-current**	
EUR '000	**Within 6 months**	**6 -12 months**	**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	-

As at 31 December 2012, the Group's liabilities have contractual maturities (including interest payments where applicable) as summarised below:

	Current		**Non-current**	
EUR '000	**Within 6 months**	**6 -12 months**	**1 to 5 years**	**Later than 5 years**
Trade and other payables	25,369	425	-	-
Borrowings	27,025	5,662	3,722	-
Total financial liabilities	52,394	6,087	3,722	-

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 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 year 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. 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 Dec 2011**	**31 Dec 2012**
Borrowings	25,261	36,409
Cash and cash equivalents	– 76,146	– 64,108
Net debt	– 50,885	– 27,699
Net debt	– 50,885	– 27,699
Equity	129,358	147,479

Total net debt and equity	78,473	119,780
Gearing ratio	– 64.8%	– 23.1%

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 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 PERIOD

(a) In October 2012 Powerland opened its first online shop in China. A selected range of women's handbags from Powerland's latest collections is now made available from the online shopping mall Fifth Avenue (*www.5lux.com*). Fifth Avenue Globe Inc. is the leading Chinese trading platform for luxury goods.

(b) Powerland AG has a new CFO from 1 December 2012. Kelvin Ho, who has been the Deputy CFO since July 2012.Kelvin Ho took over the position from the former CFO, Hock Soon Gan, who resigned from his position for personal reasons.

34 MATERIAL EVENTS AFTER THE REPORTING PERIOD

The CFO of Powerland AG, Mr. Kelvin Ho has left Powerland on 26 March 2013. His functions were taken over temporarily by the Chief Accounting Officer of Powerland, Mr. Qingsheng Cai.

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. Considering the risk for additional payments for prior periods, an accrual of approximately EUR 1,165 thousand was made as at 31 December 2012 (2011: EUR 1,165 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 2012.

36 STOCK OPTION PLAN

No stock option has been granted as at 31 December 2012 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. Kelvin Ho	CFO (Chief Financial Officer) *(Appointed on 1 December 2012)*
Mr. Yongliang Guo	CPO (Chief Production Officer)

Former Management Board member

Mr. Hock Soon Gan	CFO (Chief Financial Officer) *(Resigned on 30 November 2012)*

Supervisory Board

Dr. Peter Diesch	Chairman of Supervisory Board
Mr. Volker Potthoff	Deputy Chairman of the Supervisory Board
Mr. Hsueh Yi Huang	Member of the Supervisory Board

38 REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Remuneration of Management Board Members

For the fiscal year 2011 and 2012, 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 (former CFO) who was entitled to a bonus upon successful listing in 2011. On 1 December 2012, Powerland AG announced that Mr. Kelvin Ho succeeded as the Company's Chief Financial Officer (CFO). Mr. Kelvin Ho was appointed by a unanimous vote of the Supervisory Board and took up his new post on 1 December 2012. He left the Company on 26 March 2013.

The total remuneration of the members of the Management Board for the financial year 2012 are as follows:

EUR '000	**2011**	**2012**
Shunyuan Guo	56	62
Kelvin Ho *(since 1 December 2012)*	–	9
Hock Soon Gan *(until 30 November 2012)*		
fixed	107	114
variable	335	–
Qingsheng Cai	23	37
Yongliang Guo	23	37
	544	**259**

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. By resolution dated 20 June 2012, the General Shareholders' Meeting has determined the following remuneration for the members of the Supervisory Board:

EUR '000	**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	–	2.5
Mr. Hsueh Yi Huang, Ordinary member of the Supervisory Board	25	–	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:

EUR '000	**2011**	**2012**
Dr. Peter Diesch		
fixed	61	73
variable	19	24
Volker Potthoff	36	48
Hsueh Yi Huang	24	35
	140	**180**

39 TOTAL AUDITING FEES

BDO AG Wirtschaftsprüfungsgesellschaft was appointed as the auditor of Powerland AG and the Group for the financial year 2012. 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	**2011**	**2012**
Annual audit services	200	381
Other audit related services		
- Quarterly review	203	178
- IPO	786	–
Other services	18	89
	1,207	648

The amounts recognised in profit or loss for the financial year 2012 as disclosed in the table above include fees and out-of-pocket expenses payable to BDO AG amounting to EUR 422 thousand (2011: EUR 770 thousand).

Expenses recognised in equity		
EUR ’000	**2011**	**2012**
IPO expenses	393	–

The amounts recognised in equity for the financial year 2011 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 for the financial year 2012 consist of annual audit services of EUR 235 thousand (2011: EUR 100 thousand) and for other audit related services EUR 186 thousand (2011: 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 is 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 flows 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 4.2 million. The Management Board and the Supervisory Board will not propose any dividend payments for the current financial year.

43 APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized for issuance by the Company´s Management Board on 24 April, 2013.

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated 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, 16 December 2013

Management Board

Shunyuan Guo Yachen Jiang

IMPRINT

Investor Relations

PowerlandAG
Lyoner Strasse 14
60528 Frankfurt / Main, Germany

Phone: +49 (0)69-66554-459
Fax: +49 (0)69-66554-276

ir@powerland.ag
www.powerland.ag

WWW.POWERLAND.AG