POWERLAND

ANNUAL REPORT 2014

GROUP KEY FIGURES

EUR ’000	Q4 2013	Q4 2014	Change	2013*	2014	Change
Revenue	45,561	37,946	–16.7%	167,117	175,090	4.8%
Gross profit	16,446	14,100	–14.3%	60,816	60,561	–0.4%
Gross profit margin	36.1%	37.2%		36.4%	34.6%	
EBIT[1]	1,103	–2,379		12,313	10,668	–13.4%
EBIT margin	2.4%	–6.3%		7.4%	6.1%	
Net profit	–1,615	–5,059	–213.3%	5,391	3,760	–30.3%
Net profit margin	–3.5%	–13.3%		3.3%	2.1%	
Earnings per share in EUR[2]	–0.11	–0.34	–209.1%	0.36	0.25	–30.6%
Luxury						
Revenue	32,367	29,522	–8.8%	104,242	120,721	15.8%
Gross profit	13,364	11,956	–10.5%	47,163	50,879	7.9%
Gross profit margin	41.3%	40.5%		45.2%	42.1%	
EBIT[1]	288	3,373	1,071.2%	7,006	14,449	106.2%
EBIT margin	0.9%	11.4%		6.7%	12.0%	
Casual						
Revenue	13,194	8,424	–36.2%	62,875	54,369	–13.5%
Gross profit	3,082	2,143	–30.5%	13,653	9,682	–29.1%
Gross profit margin	23.4%	25.4%		21.7%	17.8%	
EBIT[1]	815	–5,753	–805.9%	5,307	–3,781	–171.2%
EBIT margin	6.2%	–68.3%		8.4%	–7.0%	

* Adjusted in accordance with IAS 8, see note 4

in EUR ’000	31 Dec 2013	31 Dec 2014
Total equity and liabilities	221,734	217,373
Total equity	151,311	170,622
Equity ratio	68.2%	78.5%
Cash and cash equivalents	15,394	8,678
Net cash/net debt (–)	–44,276	–25,465

Employees	31 Dec 2013	31 Dec 2014
Total	1,574	1,232

[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,

2014 remained a challenging year for Powerland. Although China is gradually migrating to a consumption-driven economy, the general economic slow-down has an adverse impact on the consumer market. In particular, China's luxury goods market has unprecedentedly contracted by one per cent on a year-on-year basis. Meanwhile, the commercial banks in China have tightened up the credit lines in the second half of 2014 and influenced the Company in a negative way. Suffering from combined external factors, Powerland missed the growth target and underperformed what had been achieved in 2013.

Nevertheless, progress has been made in various business aspects. Operation wise, the Company downsized the distribution network and adjusted the locations of a series of underperforming stores. Along with the close-downs, the Company opened many stores first of their kind in 2014: the first store outside mainland China at Hong Kong airport, the first lifestyle store in Putian offering the full product series and the first three online stores at jingdong.com, tmall.com and vip.com. Marketing wise, the Company launched a nationwide tour of its "Dreams & Wings" collection and implemented point-of-sales activities to boost sales. The Company liaised with various famous Chinese actors and actresses to produce promotion videos and print advertisements for Powerland. Furthermore, the Company sponsored the Tsinghua Fashion Festival to increase PLD's brand awareness in China's top campus. Our ongoing investment in brand equity constantly polishes the premium brand image and makes the brand known to a wider consumer group.

Looking ahead, China can no longer sustainably attain double-digit growth and its entry into a "new normal" stage of slower growth is inevitable. As Beijing has stressed on various occasions that they do not intend to introduce massive stimulus to the economy, the country has to implement fundamental reforms and boost domestic consumption at the expense of investments and exports. Reforms are painful and will be accompanied by short-term turbulence that distresses growth. Headwinds will blow harder and we have not yet witnessed a silver lining ahead.

Finally, I would like to extend my sincere gratitude to our hard-working and enterprising staff. Their high working ethics will be the core assets for us to wade through difficulties. Besides, I would also like to thank our business partners and shareholders for your long-standing support.

Guangzhou / Frankfurt am Main, 29 May 2015

Shunyuan Guo

Chairman of the Management Board and Chief Executive Officer

HIGHLIGHTS 2014

January 2014
Powerland launched the "Dreams & Wings" product series for the year 2014.

Powerland teamed up with leading shopping malls in China to initiate a nationwide tour to promote the new product series.

May 2014
Powerland sponsored the Tsinghua Fashion Festival.

The show served to boost Powerland's brand awareness amongst the future target customers.

July 2014
Powerland opened its first store outside mainland China.

The new store is located in Hong Kong International Airport and assists Powerland to address the international market.

September 2014
Powerland rolled out its first Lifestyle Store in Putian, Fujian Province.

Powerland's Lifestyle Store offers a full spectrum of Powerland products as a start to extensively execute the multi-product strategy.

September 2014
Powerland teamed up with China's leading e-commerce platforms for its online business.

Powerland has launched its online stores in tmall.com and jd.com, China's two biggest B2C platforms, and starts collaboration with VIP.com, China's leading special sales platform, to hold regular online sales events.

December 2014
By the end of 2014, Powerland operated a total of 200 stores, of which 34 stores are run by the Company itself.

Report of the Supervisory Board for the Fiscal Year 2014

Dear shareholders,

Due to the less dynamic growth in China's macro economy and its consumer market, business of Powerland AG was confronted with headwinds in the financial year 2014.

In the 2014 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 advised the Management.

As the Supervisory Board statutorily consists of only three members, the installation of separate committees making decisions on behalf of the Supervisory Board 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 for the financial year 2014

The Supervisory Board held five regular meetings about the financial year 2014 at which it discussed the development of the Company's operations, examined the results presented to it by the Management Board as well as the forecast planning. The dates of the meetings were 27 March 2014, 25 April 2014, 21August 2014, 12 November 2014, and 12 March 2015.

In the meeting held on 27 March 2014 in Frankfurt, the Supervisory Board focused on the operational development so far since 2014 and the 2014 budget, along with the organizational structure of the new Supervisory Board. The Management Board presented to the Supervisory Board the performance summary in the first two months of 2014. The 2014 budget was submitted to the Supervisory Board which discussed and examined it during and post the meeting. The Supervisory Board appointed Mr. Binghui Lu as the Chairman and Mr. Stephan Oehen as the Deputy Chairman.

The second meeting was held on 25 April 2014 in Guangzhou. 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 2013. The auditor's report by Moore Stephens Dusseldorf AG and the auditor's report on the annual financial statements were presented via telephone to the Supervisory Board. The (stand-alone) financial statements, the consolidated financial statements, the management report and the dependency report of Powerland AG were adopted thereafter. In addition, the dividend proposal and a recommendation for the appointment of the auditor for financial year 2014 were resolved. Furthermore, the Supervisory Board agreed upon the 2014 budget. In addition, rules of Procedures for the Management Board and the Supervisory Board were approved. Other items including the current business development, the organization of the AGM and remuneration of the management team were covered as well.

The meeting held on 20 August 2014 via conference call discussed in detail the business performance of the first half of 2014 and the current business development progress. The Management Board elaborated on the e-commerce strategy and the selection of partners. Topics including forthcoming new product series, the restructuring of the production facilities and personnel movements in different business units were covered by the meeting. The Supervisory Board was informed about the unchanged outlook for the rest of the year and particular attention was paid to Management Board's action plans such as moderate store expansion, optimization of the current distribution network, enhanced VIP services and more resources allocated to the casual segment, to materialize the guidance.

The meeting held on 12 November 2014 in Shanghai summarized the business performance for the first nine months of 2014. The Supervisory Board was provided with an overview about the current challenging consumer market in China. Meanwhile, the Management Board notified the Supervisory Board about the recent change of risk preference of Chinese banks and the tightened creditlines for most non-state-run enterprises including Powerland. The Management Board rolled out corresponding measures to stabilize the business performance, including enhanced distribution network management, company-wide cost-savings programmes and pursuant to higher margin segment. The Supervisory Board stressed the importance of cash flow management and required the Company to further enhance the efficiency of working capital.

The meeting held on 12 March 2015 via conference call discussed the business performance of the financial year 2014. During the meeting, the Supervisory Board was re-affirmed about the challenging market conditions in China. The Management Board outlined the current strategic focus and the corresponding measures to maintain stable business performance. The Management Board briefly summarized its outlook for the financial year 2015. The Supervisory Board required the Management Board to closely monitor the liquidity position to reduce the exposure to the credit risks.

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 Supervisory Board 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 22 April 2015 the Management Board and the Supervisory Board made a statement of compliance pursuant to Section 161 German Stock Corporation Act (AktG) which replaces the declaration dated 6 May 2014 and made it permanently available to the Company's shareholders on the Company website.

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

Audit of the Individual and Consolidated Financial Statements

The individual financial statements of Powerland AG are prepared in accordance with the German generally accepted accounting principles as provided for in the German Commercial Code (Handelsgesetzbuch/HGB). The consolidated financial statements of Powerland AG are prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union (EU).

The General Shareholders' Meeting of the Company has elected ADKL AG Wirtschaftsprufungsgesellschaft, Duesseldorf, as auditor of the Company and the Group. The Supervisory Board has thereupon awarded the auditor the audit order in accordance with the requirements of statutory law and the recommendations of the German Corporate Governance Code. In this context, the Supervisory Board has satisfied itself of the auditor's independence.

The auditor examined the individual and the consolidated financial statements as of 31 December 2014, the status report and the group status report as well as the report of the Management Board on the relations to affiliated entities and issued an unqualified audit opinion. The audit did not lead to any qualifications.

The aforesaid documents, including the report of the auditor, were timely distributed to all Supervisory Board members. The Supervisory Board comprehensively reviewed the documents in its meeting on 28 May 2015 in the presence of the Management Board and the auditor. The auditor reported on the main results of the audit and on the scope, focal points and costs of the audit. The Management Board explained the financial statements in the meeting. Both the Management Board and the auditor were available for questions and additional information. On the basis of its own examination and discussion of the aforesaid documents, the Supervisory Board came to the conclusion that no objections are to be raised with respect to the reports. The Supervisory Board therefore approved the individual and consolidated financial statements. The individual financial statements of Powerland AG for the time period from 1 January until 31 December 2014 are, therefore, adopted.

The Supervisory Board also approved the status report and the group status report as well as the assessment of the further development of the Company and the Group.

Dependency Report

The Supervisory Board further reviewed the report prepared by the Management Board on the Company's relations to affiliated entities in accordance with section 312 of the German Stock Corporation Act as well as the related audit report prepared by the auditor. According to the report of the Management Board and the audit of the auditor, the Company has received adequate consideration for all transactions entered into with the controlling enterprise or at instigation of the controlling enterprise and has not suffered any other disadvantages at the instigation of the controlling enterprise. The report prepared by the Management Board on the Company's relations to affiliated entities was issued with an unqualified audit opinion by the auditor. The unqualified opinion of the auditor is as follows:

Based on the circumstances known to us at the time when the transactions were entered into, Powerland AG has received adequate consideration in each transaction described in the report on the relations to affiliated enterprises. There have not been any other reportable measures during the reporting period.

The auditor attended the deliberations of the Supervisory Board on 28 May 2015 and explained the results of the audit. The Supervisory Board agreed with the results of the audit by the auditor. No objections are to be raised to the statements of the Management Board regarding the Company's relation to affiliated companies.The Supervisory Board would like to thank the Management Board and the employees of the Company for their contributions in the past financial year.

Guangzhou / Frankfurt am Main, 28 May 2015

Binghui Lu

Chairman of the Supervisory Board

Supervisory Board Members

Binghui Lu

Chairman of the Supervisory Board*, member of the Supervisory Board since 2014*

Binghui Lu is an investment specialist living in Beijing, P.R. China. From 2010 to 2012, he worked as Private Equity Principal for Kohlberg Kravis Roberts & Co. in Beijing where he was mainly responsible for proprietary deal sourcing, transaction execution and post-investment management. Prior to that – starting in 2005 – he worked for Goldman Sachs within the Investment Banking China Business. During that time, he gained extensive experience of both domestic and overseas deals where he was mainly responsible for deal origination, client coverage and the deal execution management. He started his career as an investment banking analyst at Bank of China International Holdings Limited in Beijing, where he led or participated in equity/debt financings and gained M&A experience.

Binghui Lu was born in 1975 and has a Master degree in Economics from Peking University as well as a Bachelor degree in Philosophy from Peking University. His mother tongue is Mandarin and he is fluent in English.

Stephan Oehen

Deputy Chairman of the Supervisory Board, member of the Supervisory Board since 2014

Stephan Oehen is a communications strategist living in Zollikon-Zurich, Switzerland. He is owner of Oehen PR and also founded InvestinSwitzerland, a unique one-stop business services platform for investors in Switzerland. From 2011 to 2013, he was CEO of Grayling Switzerland. He started his career in journalism for the daily press. Stephan Oehen is a member of the Swiss Public Relations Society and the Swiss Public Affairs Society.

Stephan Oehen was born in 1968 and studied economics and law. His mother tongue is German and he is fluent in French, English, Spanish and Italian.

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**") (http://www.corporate-governance-code.de) as amended on 24June2014.

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 22 April 2015. The Company acted in conformity 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 24June2014, except for the following deviations:

1. Constitution of the Management Board

Sec. 4.2.1 contains the recommendation that the management board shall consist of several members.

Since the resignation of the former CFO, Mr. Yachen Jiang, Mr. Shunyuan Guo is the only member of the Management Board. However, the Company intends to appoint again a second member of the Management Board in the near future.

2. Compensation Structure of the Members of the Management Board

Sec. 4.2.5contains recommendations on the disclosure of the compensation structure of Management Board members.

As the members of the Management Board only receive a fixed remuneration from the Company's Chinese subsidiaries, which is transparently disclosed in the remuneration report of the Company, the Company refrains from the detailed disclosure mechanism recommended in sec. 4.2.5 which is designed to show in particular variable remuneration elements.

3. 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.

4. 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.

5. 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. 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.

6. 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.

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 2014, ADKL AG Wirtschaftsprüfungsgesellschaft (formerly: Moore Stephens Düsseldorf AGWirtschaftsprüfungsgesellschaft), Breite Straße 29-31, 40213 Düsseldorf (the "Auditor"), has been appointed as auditor by the shareholders of the Company on 11June 2014 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

No stock option has been granted as at 31 December 2014 and as of the date of this report.

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.

As of 31 December 2014, the Management Board of the Company consisted of one member: Mr. Shunyuan Guo (Chairman of the Management Board and Chief Executive Officer).

Insofar as the Management Board was or will be composed of several members 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 conferences. 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 25 April 2014.

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: Mr. Binghui Lu (Chairman of the Supervisory Board), Mr. Stephan Oehen (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 regarding the financial year 2014.

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 25 April 2014.

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 has 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.

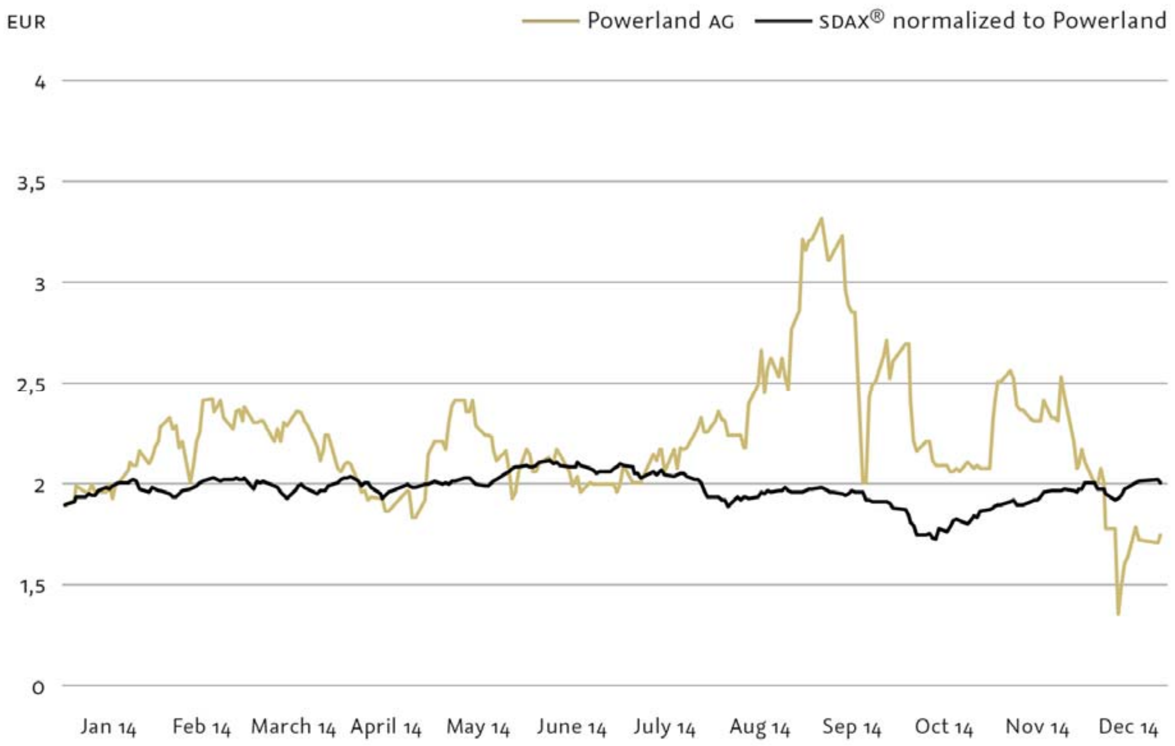
The Chairman of the Management Board maintains regular contact with the Chairman of the Supervisory Board and consults with him on issues of strategy, planning, business development, risk situation, risk management and regulatory compliance of Powerland Group.

Guangzhou / Frankfurt am Main, 28 May 2015

Management Board Supervisory Board

SHARE AND INVESTOR RELATIONS

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



The Powerland share showed a sideways movement through the year 2014, affected by volatile tendencies, and had to put up with a loss for the overall year.

The uptrend that has been seen repeatedly in the course of the year is among other things due to the fact that Powerland managed to return to a regular financial communication calendar in 2014, after having solved the issues concerning the 2012 financial statements. Thus, the share price increased after the publication of the Annual Report 2013 at the end of April. The volatility can be explained with the weak performance of the Chinese retail market but also an increased lack of trust regarding Chinese companies listed in Germany caused by the misconduct of certain companies. In the wake of the announcement of the Q1 2014 results at the end of May, the share price saw a sideways trend at first. Starting in July, the share showed a significant upswing – which was further strengthened by the presentation of the Q2 results – until the beginning of September. Nevertheless, this development was lost again by the middle of September. Until the end of the third quarter, the share price developed in a positive trend.

During the fourth quarter the share price recorded significant volatility and a downward movement, although the Q3 result, published on 21 November, fully delivered on the positive expectations regarding the operational development. Towards the end of the last quarter the share price developed negatively as a reaction of raising a RMB 200 million loan as well as the resignation of CFO Yachen Jiang.

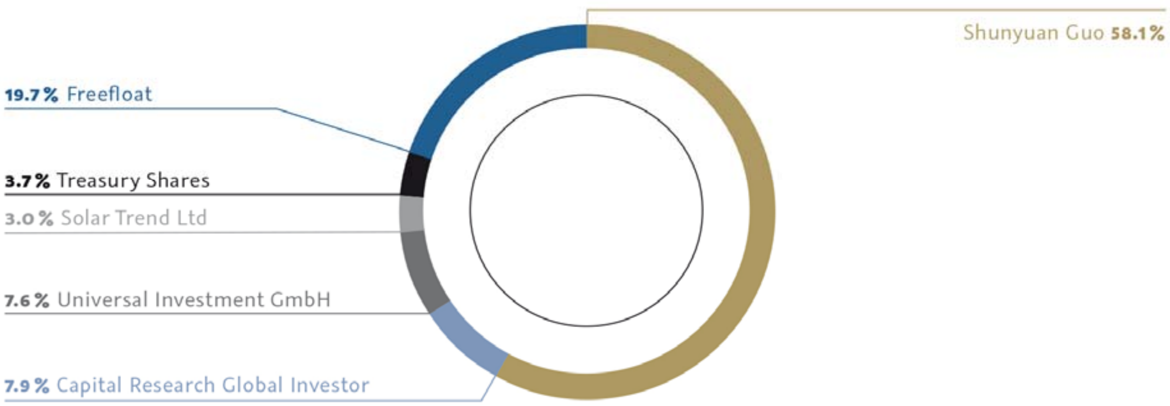
From January until December 2014 the share price moved in a range between the low at EUR 1.35 on 16 December 2014 and the high of EUR 3.30 on 8 September 2014. At the end of the year on 30 December 2014, Powerland shares traded at EUR 1.74. Compared to the closing price of the last trading day of the previous year on 30 December 2013 this represents a decrease of 7.93%.

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 30 December 2013	EUR 1.89
Share price as of 30 December 2014	EUR 1.74
Market capitalization as of 30 December 2014	EUR 26,100,000

SHAREHOLDER STRUCTURE

as of 30 December, 2014 *Shares outstanding: 15.0 million*



GROUP MANAGEMENT REPORT

Content

HIGHLIGHTS OF THE FINANCIAL YEAR 2014

- Group revenue increased by 4.8% to EUR 175.1 million;
- Group gross profit slightly declined by 0.4% to EUR 60.6 million;
- Revenue from Luxury Segment increased 15.8% to EUR 120.7 million;
- Luxury segment contributed 68.9% to Group revenue in contrast to 62.4% in 2013;
- Inventory decreased by 41.6% to EUR 17.7 million;
- Cash flow generated from operating activities increased to EUR 24.3 million in the year 2014;
- As at 31 December 2014, there were a total of 34 self-operated stores, 163 distributor-operated stores and 3 online stores, altogether 200 Powerland stores compared to 214 stores as at 31 December 2013.

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 belts and expanded into products for men. Since inception, Powerland demonstrated solid business development into its two 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:

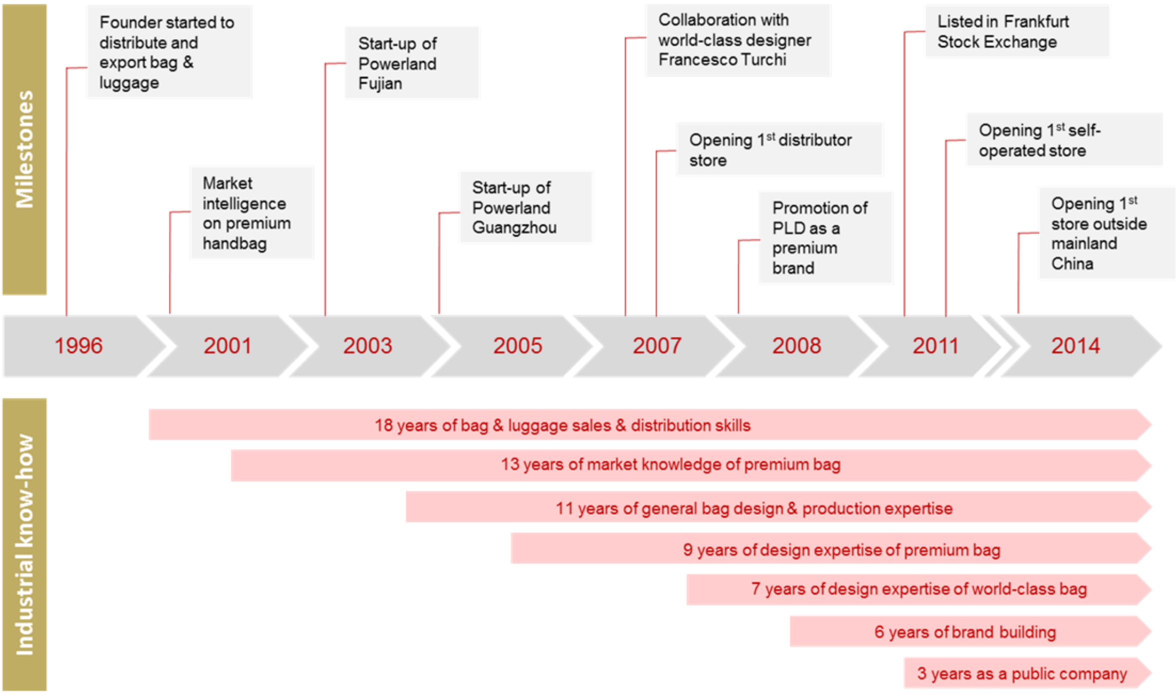
- Products of the Luxury segment are exclusively sold in the People's Republic of China. As at 31 December 2014, the Company's Luxury segment products were mainly sold in 163 stores run by external distributors, 34 stores run by the Company and 3 on-line stores. The stores are mainly located in tier 1 and tier 2 cities in mainland China and the Company is expanding in lower tier cities as well. The Luxury segment is the Company's core focus for further growth.

- 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 major operational businesses in Mainland China, located in Fujian and Guangzhou. Powerland had 1,232 employees as at 31 December 2014.

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 affordable 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 and finance. 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.

Yachen Jiang (Chief Financial Officer) joined Powerland in July 2013 and is responsible for Powerland's financial reporting and investor relations management. Mr. Yachen Jiang has more than 15 years experience in corporate finance, internal control, auditing and accounting. Mr. Jiang started his career in KPMG Berlin and received a Diplom-Kaufmann from Freie University in Berlin, Germany. He resigned from office on 30 December 2014.

Members of the Supervisory Board

The Supervisory Board of Powerland AG is composed of three members: Mr. Binghui Lu (Chairman), Stephan Oehen (Deputy Chairman), each appointed on the Annual General Meeting on 26 March 2014, and Hsueh Yi Huang, who was appointed in 2012.

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 the remuneration report on page 48.

BUSINESS ACTIVITIES AND PRODUCTS

Powerland is one of China's leading affordable luxury brands. Powerland sells and distributes premium handbags and accessories with classic design and best-in-class quality at medium prices. The Company mainly targets at 25 – 45 year old business women and female entrepreneurs in China, a consumer group amounting to more than 5 million. They live in tier 1 and tier 2 cities and are considered to be influenced by western lifestyles and fashion trends. With more sophisticated tastes and diversified demands, the targeted consumer group are now seeking for quality products with a lower profile rather than mere conspicuous logos.

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 20items 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 and exotic leather in a very small proportion. 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 targeted consumers.

Powerland sells its luxury items through a retail distribution network which consists of163 distributor-operated stores and 34 self-operated stores mainly in Chinese tier 1 and tier 2 cities and including 25self-operated airport stores (as at 31 December 2014). In terms of store operation, Powerland acts as wholesaler to distributors who will invest in new stores and manage the sales activities. However, the location selection is under strict supervision of Powerland. In the meantime, Powerland has full control of all the self-operated stores. To diversify the sales channels, Powerland has been constantly seeking for exposure to China's ecommerce boom. In the second half of 2014, Powerland launched on-line stores for its luxury product series on JD.com and tmall.com, China's biggest B2C platforms. Meanwhile, Powerland teamed up with VIP.com, China's leading special sales platform, to hold regular on-line sales events. In addition, Powerland is also exploring other B2B channels.

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 the contract was renewed in 2013.To boost Powerland's brand awareness for targeted consumers, Powerland delivers digital advertisements in China's major airports and the outcome is further enhanced by Powerland’s stores in these locations. The Company also works closely with leading fashion magazines and on-line media which have the widest exposure to our customers. In terms of creative marketing campaigns, Powerland constantly works with high-profile TV series or movies led by first-tier actresses who comply perfectly with Powerland’s brand image. Typically, product placement is implemented and Powerland's handbags will be showcased throughout the major scenes.

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 of textile 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 are commonly priced lower than the genuine leather ones. Powerland’s product range for synthetic leather products encompasses women’s handbags, men’s bags, suitcases, briefcases, and accessories like wallets and purses.

The products of the Casual segment are designed by the Company’s design team of 46 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 and in overseas markets including the United Arab Emirates (UAE), South Africa, the USA, Chile and Australia.

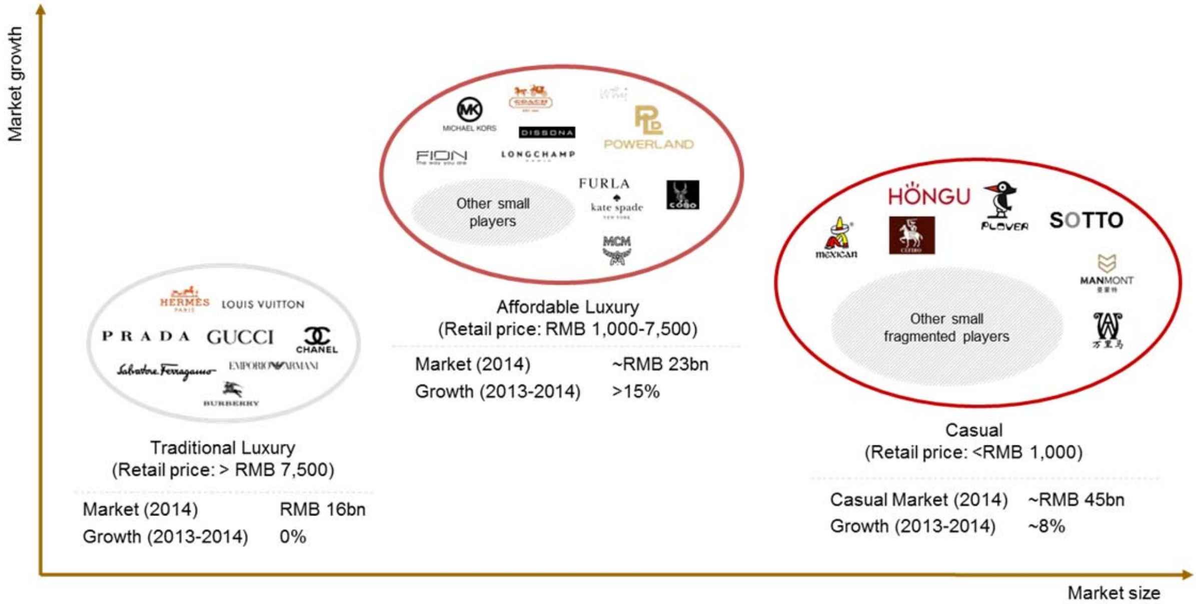
Products from the Casual segment are either sold under Powerland’s second brand “Sotto”, as unbranded white label products for supermarkets and department stores or, in cases in which Powerland acts as OEM manufacturer for international and domestic customers, under third-party brands. In the Casual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

Structure, volume and growth of the Chinese handbag market

China's handbag market has been growing rapidly and steadily due to the increasing disposable income and rising emphasis on lifestyle. In general, the whole market can be divided into three segments: traditional luxury, affordable luxury and casual. The affordable luxury segment, where Powerland's core business lies in, is by far the best performer due to the persisting anti-graft campaign and its adverse impacts on traditional luxury segment as well as the intensive competition in the casual segment.

China handbag market 2014



Source: Bain & Company, Fion, China Leather Goods Association, Company estimates; market size for domestic consumption only (excluding exports)

Specific market conditions / trends

Traditional luxury segment

The year 2014 was a challenging year for the Chinese luxury goods market which unprecedentedly demonstrated negative growth and contracted by one per cent in 2014, according to the latest report from Bain & Company. The sluggish demand was partially due to Beijing's on-going crackdown on corruption and was worsened by China's slow-down economy. Furthermore, Chinese consumers are increasingly lean to purchase luxury goods overseas rather than from mainland China and the purchasing channel evolution also dampened the China market. The leather goods segment, which used to drive the growth for the luxury goods market as a whole, achieved stagnant growth of zero in 2014 and remained at a market size of approximately RMB 16 billion.

The Chinese luxury market in general and the luxury handbag 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 the product category "leather goods": Chanel, Gucci, Hermès, Louis Vuitton, and Prada. Other international brands like Burberry, Ferragamo and Armani which have operations in accessories and handbags also belong to this category.

Affordable luxury segment
Despite the stagnant growth in the traditional luxury segment, the affordable luxury segment continues to demonstrate growth momentum. Instead of purchasing for gifts, Chinese consumers shows more appetite for buying for themselves and favors more over products with higher quality, lower profile and better value for money. Bain & Company predicts that the accessible brands have been drawing wide attention from China's rising middle-class consumers and the market size is expected to double by 2017.

The key players in the affordable luxury segment of the market for women’s handbags in the PRC include, in addition to Powerland, Coach, Longchamp, Lancel, Michael Kors, Kate & Spade, Furla, WHY, Dissona, Cobo and Fion. These are direct competitors of Powerland. As more companies from home and abroad are entering this sector, we are expecting more competitions in the coming few years.

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. 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, l’alpina and domestic companies such as Honggu as some of the key players in the segment of casual women’shandbags.

Highlights of Powerland

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

Development of market position
For its premium brand “Powerland”, the Company followed a clear positioning in the mid- 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.

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.

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 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 will also continue its successful path of expanding its overall distribution network. 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. Powerland has already added new products like trench coats, perfumes, sunglasses, watches etc. to the Luxury segment. In the mid to long run Powerland intends to integrate more products such as jewellery into its portfolio.

Optimize and diversify the retail distribution network and market presence in China
Chinese luxury handbag market has reached a new normal state. As Powerland has already established a sound distribution network in China's tier 1 & 2 cities at prime locations, the Company is now focusing more on the optimization of the existing terminal stores. Powerland is implementing more stringent criteria in selecting store locations and will adjust the stores which do not fulfill the performance requirements. Meanwhile, Powerland is more actively launching stores in tier 3 and below cities to capture a wider consumer group.

In order to leverage from the e-commerce boom within China's luxury goods segment, Powerland will actively explore the online retail opportunities and team up with top-tier B2C platforms to diversify Powerland's sales & distribution channels.

Further investments in marketing to enhance brand recognition and image

While competition in the non-luxury segment of the Chinese bags and luggage market by competitors in China is 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 in China for luxury leather bags and accessories. With a still booming Chinese economy and rising living standards, Powerland expects the Chinese market for luxury bags to continue growing. The Company is of the opinion that the success factors in enhancing Powerland's presence in this market are brand recognition, brand awareness and brand image.

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 the marketing and promotion of the "Powerland" brand by developing and launching marketing campaigns, including advertising in various media, focusing on fashion magazines, prime time TV spots and digitalized airport campaigns.

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 growth picks up but China decelerates
According to IMF's World Economic Outlook in January 2015, global economic growth remained at 3.3% in 2014 after the same growth rate in 2013 and is expected to gain momentum in 2015. Global economy has been largely driven by advanced economies, the United States in particular, which substantially benefited from strengthening consumer spending. Emerging economies underwent a mixed year while China's economy growth missed its target and hit a 24-year low at 7.4%. The slow-down is expected to extend into 2015 and the central government will in the short-run focus on the structural reform, rather than extensive stimulus programme, to alleviate vulnerabilities from the rapid credit and investment growth in the past few years.

Global economic output

Percentage change	2013	2014	2015e
Advanced economies	1.3	1.8	2.4
Emerging economies	4.7	4.4	4.3
China	7.7	7.4	6.8
World	3.0	3.3	3.5

Source: IMF, January 2015

Chinese retail market on the rise at a slower pace

As an increasingly important contributor to China's GDP, growth of China's retail industry slows down as the national-wide economy decelerates. Total retail consumption in 2014 reached a record high at RMB 26.2 trillion but grew at a ten-year low rate of 12%. The moderate growth was partially due to a larger comparison basis and another major factor was the surging rental and labor costs that cornered the traditional brick-and-mortar stores which still contributed over 90% of total retail consumption.

China retail sales

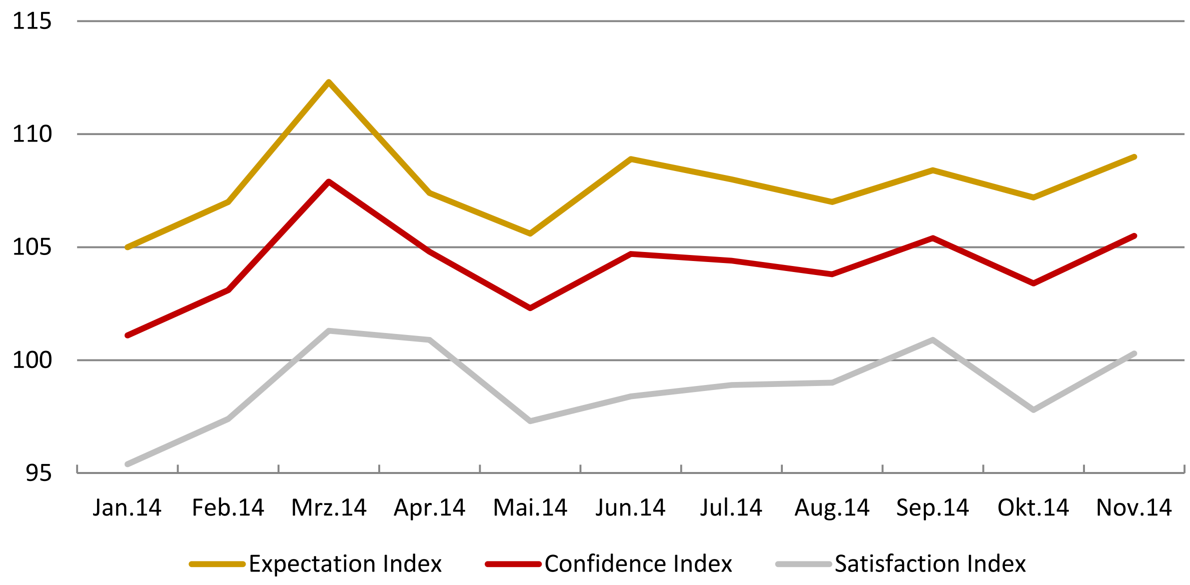
	2011	2012	2013	2014
Retail sales (in RMB trillion)	18.1	20.7	23.4	26.2
Year-on-year growth	17%	14%	13%	12%

Source: China National Statistics Bureau, March 2015

Positive outlook from consumer perspective

Although suffering from a struggling start, China's consumer sentiment hovered above the 100 level throughout the year 2014 and therefore indicated general willingness to spend. The consumer optimism was attributable to increasing household disposable income, stablising consumer prices and gradually improved social welfare mechanisms. According to the Central Economic Work Conference held in Beijing during December 2014, it has been estimated that Chinese consumers have generally completed the purchase of the products for basic needs. The next stage of consumption will migrate to customized and lifestyle-oriented products. Chinese consumers are expected to emphasize more on both quality and uniqueness when they make purchase decisions. Therefore despite that the retail market is experiencing headwinds as a whole, the lifestyle segment, is still enchanted with growth potentials.

Chinese consumer sentiment



Source: China National Statistics Bureau, March 2015

SIGNIFICANT EVENTS IN FINANCIAL YEAR 2014

In December 2014, Powerland secured financing of RMB 200 million from a Chinese financial institute.

In December 2014, Mr. Yachen Jiang, CFO and Management Board member of Powerland, resigned from office 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 China's major cities 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 a par with international brands and are ready to grant Powerland better options for positioning new stores.

Since 2013, in line with the quality growth strategy, the Company has implemented a review of the sales and brand performance of our existing 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. In the meantime, some store locations were adjusted from higher to lower floors to enhance the brand visibility and boost single-store performance in return. Powerland has implemented more stringent criteria for new stores opening as the brand name is getting more recognized and customer appeal has increased.

The number of Powerland stores decreased from 214 as at 1 January 2014 to 200 as at 31 December 2014. In total, 36 stores were newly opened in 2014 while 50 stores were closed during the same period.

The roll-out of Powerland stores for the past few years is shown in the table below:

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
accumulated no. of Powerland stores	**112**	**123**	**146**	**164**	**149**	**155**	**160**	**180**	**188**	**189**	**202**	**214**	**224**	**221**	**209**	**200**
of which distributor-operated stores	112	122	143	151	136	136	139	149	153	153	164	173	180	177	166	163
of which self-operated stores		1	3	13	13	19	21	31	35	36	38	41	44	44	43	34
of which on-line stores																3

Powerland's stores for the Luxury segment are currently opened exclusively in China and the location spread all across mainland China. Powerland's footprint now covers every province except Jiangxi and Taiwan.

The provincial location details of Powerland stores is shown as below:

The majority of Powerland stores are located in tier 1 (Beijing, Shanghai, Guangzhou, Shenzhen) and tier 2 cities (Chongqing, Chengdu, Harbin etc.) where our targeted customers live and work. Since the fourth quarter of 2013, Powerland started to spare more efforts to tier 3 and other cities where there are rising middle-class or wealthy consumers. Amongst the 197 physical stores as of 2014, 36 stores are located in tier 1 cities while 114 and 47 stores are respectively located in tier 2 and tier 3 and other cities.

EARNINGS SITUATION

The following table presents income statement data of Powerland AG for the years ended 31 December 2013 and 2014 on a consolidated basis. The table also presents income statement data as a percentage of revenue.

	2013*		2014	
	EUR ’000	**% of revenue**	**EUR ’000**	**% of revenue**
Revenue	167,117	100	175,090	100
Cost of sales	–106,301	–63.6	–114,529	–65.4
Gross profit	**60,816**	**36.4**	**60,561**	**34.6**
Other income	221	0.1	408	0.2
Selling and distribution costs	–33,769	–20.2	–29,326	–16.7
Administrative and other expenses	–14,955	–8.9	–20,975	–12.0
EBIT	12,313	7.4	10,668	6.1
Net finance costs	–2,736	–1.6	–2,984	–1.7
Profit before tax	**9,577**	**5.8**	**7,684**	**4.4**
Tax expense	–4,186	–2.5	–3,924	–2.2
Net profit	**5,391**	**3.3**	**3,760**	**2.1**
Earnings per share (EUR)	0.36		0.25	

** Adjusted in accordance with IAS 8, see note 4*

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 167,117 thousand in 2013 by EUR 7,973 thousand, or 4.8%, to EUR 175,090 thousand in 2014. The increase in revenue measured in EUR was driven by an increase in sales of products from the Luxury segment of approximately 15.8%.

REVENUE BY SEGMENT

Luxury segment

EUR '000	Q4 2013	Q4 2014	Change	FY 2013	FY 2014	Change
Revenue	32,367	29,522	–8.8%	104,242	120,721	15.8%
Gross profit	13,364	11,956	–10.5%	47,163	50,879	7.9%
Gross profit margin	41.3%	40.5%		45.2%	42.1%	
EBIT	288	3,373	1,071.2%	7,006	14,449	106.2%
EBITmargin	0.9%	11.4%		6.7%	12.0%	

Revenue in the Luxury segment increased from EUR 104,242 thousand in 2013 by EUR 16,479 thousand, or 15.8%, to EUR 120,721 thousand in 2014. The increase was mainly due to intensified sales stimulus and de-stocking efforts.

Casual segment

EUR '000	Q4 2013	Q4 2014	Change	FY 2013	FY 2014	Change
Revenue	13,194	8,424	–36.2%	62,875	54,369	–13.5%
Gross profit	3,082	2,143	–30.5%	13,653	9,682	–29.1%
Gross profit margin	23.4%	25.4%		21.7%	17.8%	
EBIT	815	–5,753	–805.9%	5,307	–3,781	–171.2%
EBITmargin	6.2%	–68.3%		8.4%	–7.0%	

Revenue in the Casual segment decreased from EUR 62,875 thousand in 2013 by EUR 8,506 thousand, or 13.5%, to EUR 54,369 thousand in 2014. The decrease was mainly due to the restructuring practice within the Putian factory as well as the increasing competition in international trading.

REVENUE BREAKDOWN BY REGION

In the Luxury segment, all revenues are generated with customers in China. In the Casual segment, most products made of synthetic leather are sold to Chinese customers, whereas products made of fabric 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 2013 and 2014:

	2013		2014	
	EUR '000	% of revenue	EUR '000	% of revenue
China	128,587	76.9	133,172	76.1
Rest of World[1]	38,530	23.1	41,918	23.9
Total	**167,117**	**100.0**	**175,090**	**100.0**

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

GROSS PROFIT AND GROSS PROFIT MARGIN

POWERLAND GROUP

Gross profit of Powerland decreased from EUR 60,816 thousand in 2013 by EUR 255 thousand, or 0.4%, to EUR 60,561 thousand in 2014. This decline was mainly due to the gross profit decrease of 29.1% in the Casual segment. Powerland's gross profit margin was 36.4% in 2013 and 34.6% in 2014.

Luxury segment
Gross profit in the Luxury segment increased from EUR 47,163 thousand in 2013 by EUR 3,716 thousand, or 7.9%, to EUR 50,879 thousand in 2014. Gross profit margin in the Luxury segment was 45.2% in 2013 and 42.1% in 2014. The decrease of gross profit margin in 2014 was mainly due to lower unit selling prices resulting from sales stimulus and de-stocking efforts.

Casual segment
Gross profit in the Casual segment decreased from EUR 13,653thousand in 2013 by EUR 3,971 thousand, or 29.1%, to EUR 9,682 thousand in 2014. Gross profit margin in the Casual segment was 21.7% in 2013 and 17.8% in 2014. The decrease was mainly due to the increasing competition in both the domestic and the overseas market.

SELLING AND DISTRIBUTION (S&D) COSTS

From 2013 to 2014, S&D costs decreased from EUR 33,769 thousand, by EUR 4,443 thousand, or 13.2%, to EUR 29,326 thousand. The decrease was mainly caused by more efficient management of distributors and allocation of the marketing budget. S&D costs as a percentage of revenues amounted to 20.2% in 2013 and 16.7% in 2014.

ADMINISTRATIVE AND OTHER EXPENSES

Powerland's administrative and other expenses increased from EUR 14,955 thousand in 2013 by EUR 6,020 thousand, or 40.3%, to EUR 20,975 thousand in 2014. The increase was mainly due to provisions for trade receivables. Administrative expenses as a percentage of revenues amounted to 8.9% in 2013 and 12.0% in 2014.

EBIT AND EBIT MARGIN

POWERLAND GROUP

EBIT of Powerland Group decreased from EUR 12,313 thousand in 2013 by EUR 1,645 thousand, or 13.4%, to EUR 10,668 thousand in 2014. EBIT margin decreased from 7.4% in 2013 to 6.1% in 2014.

Luxury segment

EBIT in the Luxury segment increased from EUR 7,006 thousand in 2013 by EUR 7,443 thousand, or 106.2%, to EUR 14,449 thousand in 2014. The EBIT margin for the Luxury segment increased from 6.7% in 2013 to 12.0% in 2014. The increase was mainly due to lower selling and distribution costs accompanied by gross profit increase.

Casual segment

EBIT in the Casual segment decreased from EUR 5,307 thousand in 2013 by EUR 9,088 thousand, or 171.2%, to negative EUR 3,781 thousand in 2014. The EBIT margin of the Casual segment decreased from 8.4% in 2013 to -7.0% in 2014. The decline was mainly due to substantial gross profit decrease.

NET FINANCE COSTS

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

Net finance costs increased from EUR 2,736 thousand in 2013 by EUR 248 thousand, or 9.1%, to EUR 2,984 thousand in 2014. The increase was mainly due to the higher borrowings during the reporting period and foreign exchange loss.

PROFIT BEFORE TAX

Profit before tax decreased from EUR 9,577 thousand in 2013 by EUR 1,893 thousand, or 19.8%, to EUR 7,684 thousand in 2014. This was mainly due to higher financial expenses accompanied by a decrease in EBIT.

TAX EXPENSE

Expenses for income tax decreased from EUR 4,186 thousand in 2013 (corresponds to 43.7% of profit before taxes) to EUR 3,924 thousand in 2014 (corresponds to 51.1% of profit before income tax). Prior-year figures have been adjusted in accordance with IAS 8 and please refer to note 4.

The statutory income tax rate for Powerland Fujian was 25.0% in 2013 and 2014. The income tax rate for Powerland Guangzhou was 25.0% in 2013 and 2014.

NET PROFIT AND NET PROFIT MARGIN

Net profit of Powerland Group decreased from EUR 5,391 thousand in 2013 by EUR1,631 thousand, or 30.3%, to EUR 3,760 thousand in 2014. The net profit margin in 2014 at 2.1% was lower as compared to 2013 (3.3%). The decrease was mainly due to the lower profit before tax. Prior-year figures have been adjusted in accordance with IAS 8 and please refer to note 4.

EARNINGS PER SHARE

Earnings per share (EPS) were EUR 0.36 in 2013 and EUR 0.26 in 2014. 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 14,536,982 shares for 2014(2013: 14,909,623 shares).

The EPS figures for 2013 and 2014 would be EUR 0.36 and EUR 0.25calculated on the basis of the total number of 15 million issued shares as at 31 December 2014.

	2013*	2014
Net profit for the financial period (EUR '000)	5,391	3,760
Earnings per share in EUR based on weighted average number of shares for the year 14,536,982	0.36	0.26
Earnings per share in EUR based on total number issued shares 15,000,000	0.36	0.25

** Adjusted in accordance with IAS 8, see note 4*

OTHER SELECTED FINANCIAL DATA Q4 2013 AND Q4 2014, 2013 AND 2014

	2013*		2014	
	EUR '000	% of revenue	EUR '000	% of revenue
Gross profit margin		36.4		34.6
EBITDA	15,398		16,631	
EBITDA margin		9.2		9.5
EBIT	12,313		10,668	
EBIT margin		7.4		6.1
Net profit margin		3.3		2.1

** Adjusted in accordance with IAS 8, see note 4*

GROUP FINANCIAL POSITION AND CASH FLOW

The development of the financial position between the dates 31 December 2013 and 2014 is as follows:

EUR '000	31 Dec 2013*	31 Dec 2014
Total equity and liabilities	221,734	217,373
Equity	151,311	170,622
Equity ratio in %	68.2	78.5
Cash and cash equivalents	15,394	8,678
Net cash / net debt (–)	–44,276	–25,465

** Adjusted in accordance with IAS 8, see note 4*

NON-CURRENT ASSETS

Intangible Assets

Intangible assets mainly comprise the rights of the Powerland trademark and software. Intangible assets amounted to EUR 159 thousand as at 31 December 2013 and EUR 116 thousand as at 31 December 2014. The decrease was due to the amortization charge for the year.

Property, plant and equipment

Property, plant and equipment (PPE) mainly comprises buildings, plant & machinery and factory equipment, office and other equipment, and motor vehicles. Property, plant and equipment increased from EUR 74,599 thousand as at 31 December 2013 by EUR 4,045 thousand, or 5.4%, to EUR 78,644 thousand as at 31 December 2014. The increase was mainly due to the appreciation of RMB.

Land use rights

Land use rights increased from EUR 4,217 thousand as at 31 December 2013 and by EUR 318thousand, or 7.5%, to EUR 4,535 thousand as at 31 December 2014. The increase was due to the currency revaluation in 2014.

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 decreased from EUR 30,339 thousand as at 31 December 2013 by EUR 12,618 thousand, or 41.6%, to EUR 17,721 thousand as at 31 December 2014. The decrease was mainly due to Powerland's exhaustive de-stocking efforts.

Trade and other receivables

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

Trade and other receivables increased from EUR 97,026 thousand as at 31 December 2013 by EUR 10,653 thousand, or 11.0%, to EUR 107,679 thousand as at 31 December 2014. The increase was mainly due to distributors' slower turnover ratio of trade receivables in the face of challenging retail environment.

Cash and cash equivalents

Cash and cash equivalents mainly comprise cash at bank. Cash and cash equivalents decreased from EUR 15,394 thousand as at 31 December 2013 by EUR 6,715thousand or 43.6% to EUR 8,678 thousand as at 31 December 2014.

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 151,311 thousand as at 31 December 2013 by EUR 19,311 thousand, or 12.8% to EUR 170,622 thousand as at 31 December 2014 mainly resulting from the profit generated in 2014. The exchange difference loss from translating foreign operations was EUR 16,174 thousand. The equity ratio increased from 68.2% as at 31 December 2013 to 78.5% as at 31 December 2014. Prior-year figures have been adjusted in accordance with IAS 8 and please refer to note 4.

NON-CURRENT LIABILITIES

Non-current liabilities consist of borrowings primarily from bank loans. Long-term borrowings increased from EUR 2,170 thousand as at 31 December 2013, by EUR 849 thousand or 39.1% to EUR 3,019 thousand as at 31 December 2014.

CURRENT LIABILITIES

Borrowings

Borrowings comprise liabilities resulting from short-term bank loans. Short-term borrowings decreased from EUR 57,500 thousand as at 31 December 2013, by EUR 26,376 thousand or 45.9% to EUR 31,124 thousand as at 31 December 2014. The decrease was mainly attributable to the tightening credit lines of Chinese commercial banks.

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 9,297 thousand as at 31 December 2013, by EUR 1,932 thousand or 20.8%, to EUR 11,229 thousand as at 31 December 2014. The increase of trade and other payables was mainly due to an increased sales volume.

Current tax liabilities

Current tax liabilities decreased from EUR 1,456 thousand as at 31 December 2013, by EUR 77 thousand, to EUR 1,379 thousand as at 31 December 2014 due to income tax expense accrued in 2014. For further details please see note 28 to the consolidated financial statements. Prior-year figures have been adjusted in accordance with IAS 8 and please refer to note 4.

NET WORKING CAPITAL

EUR '000	**31 Dec 2013**	**31 Dec 2014**
Inventories	30,339	17,721
Trade and other receivables	97,026	107,679
	127,365	**125,400**
Trade and other payables	9,297	11,229
Net working capital	118,068	114,171
Revenue	167,117	175,090
Net working capital / Revenue in %	70.6	65.2

The net working capital as at 31 December 2014 was 65.2% of the annual revenue in 2014, which is lower than 70.6% as at 31 December 2013. Trade and other receivables increased from EUR 97.0 million as at 31 December 2013 to EUR 107.7 million as at 31 December 2014. Inventories were lower as at 31 December 2014 than at the end of 2013 (EUR 17.7 million as compared to EUR 30.3 million as at 31 December 2013). De-stocking efforts were made to reduce the inventory level by 35.9% by the end of 2014 in comparison as of the third quarter of 2014.

LIQUIDITY

Net cash flow from / used in operating activities

Net cash flow from operating activities in 2013 amounted to EUR –64.1 million and improved to EUR 24.3 million in 2014, mainly due to net decrease in working capital in 2014.

Net cash flow used in investing activities

Net cash used in investing activities changed from EUR 8.3 million in 2013 by EUR 6.4 million to EUR 1.9 million in 2014. This decrease was mainly attributable to a decrease in the addition of fixed assets in 2014.

Net cash flow from / used in financing activities

Net cash from financing activities changed from EUR 22.9 million in 2013, by EUR 52.9 million to EUR –30.0 million in 2014. The decrease was mainly due to payback of short-term borrowings and proceeds used in the share repurchase program.

The negative cash flow from investing and financing activities exceeding the positive cash flow from operating 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 labour and forced labour, 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 solid waste is generated 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 2014, there were10 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.

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 2014, there were 46 Chinese designers and prototype specialists engaged in the Casual segment's design. They created new bag models for the Sotto brand, such as 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 the end products.

EMPLOYEES

As at 31 December 2014, Powerland had a total of 1,232 employees.

At the end of 2014, 284 people were working at the Company's management and administration level to run the Luxury and the Casual segment's business.

Powerland does not employ temporary contract workers, but only relies on full-time staff. During 2014, the staff turnover rate was approximately 85%.

The employees' benefits for financial years 2013 and 2014 are as follows:

EUR '000	2013	2014
Wages and salaries	9,605	10,350
Social security contributions	972	973
Other short-term benefits	397	522
Total	**10,974**	**11,845**

The increase in employee benefits in 2014 is mainly due to the increase of labor cost.

The numbers of employees for 2013 and 2014 (each as at 31 December) are as follows:

Category of employees	2013	2014
Management and administration	346	284
Sales, marketing and procurement	250	200
Design, production and quality assurance	978	748
Total employees	1,574	1,232
Change in %	–11.4	–21.7

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

Years	31 Dec 2013	31 Dec 2014
> 5 years	205	70
3-5 years	168	192
1-2 years	691	271
< 1 year	510	699
Total	**1,574**	**1,232**

Powerland has not only a fast-growing but also a young workforce with an educational level that fits the Company's needs. Out of 1,232 employees (at the end of 2014) 674 were between 18 and 30 years old, 319 were between 31 and 40 years old and 239 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	2
Bachelor	93
Associate	166
Others	971
Total	**1,232**

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 SECTION 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 organizational, 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 163 distributor-operated stores (as at 31 December 2014),34 self-operated stores (as at 31 December 2014) and 3 on-line stores (as at 31 December 2014) 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.

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 has introduced its own production facility and produces leather handbags on its own production premises. The small facility gives 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. To mitigate part of the impact from increasing cost of the principal raw materials, part of the increases could be passed on 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 markets could 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 choosing 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.

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 counterparty 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 future legal 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 2014, the members of the Executive Board received the following fixed remuneration. They are not entitled to receive any further, particularly performance-based remuneration:

EUR ’000	**2013**	**2014**
Shunyuan Guo	62	62
Yachen Jiang *(since 16July 2013, until 31 December 2014)*	88	176
Kelvin Ho *(since 1 December 2012, until 26 March 2013)*	34	–
Qingsheng Cai(*until 1 July 2013*)	20	–
Yongliang Guo (*until 1 December 2013*)	31	–
	235	**238**

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 2013 and 2014 are as follows:

EUR ’000	**2013**	**2014**
Dr. Peter Diesch		
Fixed	65	21
Variable	-	3
Volker Potthoff	59	20
Hsueh Yi Huang	45	49
Binghui Lu		66
Stephan Oehen		30
	169	**189**

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

1SUBSCRIBED CAPITAL

The share capital of Powerland AG amounts to EUR 15,000,000.00 and is divided into15,000,000 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.

During the reporting period, there is no voting rights change to these shares in accordance with the WpHG.

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 consists of one member appointed by the Supervisory Board for a period not exceeding five years and ending 21 February 2016 for the Chairman of the Management Board.

Reappointment or extension of the term, for a maximum of five years in each case, is permissible upon a resolution of the Supervisory Board that may be adopted not earlier than one year prior to the expiration of the current term of office. The Supervisory Board may revoke the appointment of a Management Board member prior to the expiration of its term for good cause, such as for gross breach of fiduciary duties or if the 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 Board members) (section 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 section 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 contributions in cash or in kind (the "Authorised Capital 2011") until 20 February 2016. Authorisation exists for the issuance of common shares and/or alternatively preferred shares without a voting right. The Management Board is further authorised, in each case with the consent of the Supervisory Board, to exclude the pre-emptive rights of the shareholders.

An exclusion of the pre-emptive rights, however, is only admitted in the following cases:

»if the new shares are issued to acquire enterprises, shares in enterprises or parts of an enterprise;
»for fractional amounts;
»for granting shares to employees and members of the management of the Company or of a connected enterprise in connection with employees' participation programmes;
»if the shares are issued in consideration of contributions in cash at an issue price which is not substantially below the stock exchange price and the exclusion of the pre-emptive rights is only applied to new shares that represent not more than 10%of the share capital; for the calculation of the 10% limitation any other exclusion of the pre-emptive rights according to Section 186, paragraph 3, sentence 4 of the Stock Corporation Act (Aktiengesetz) has to be taken into account;
» to list shares of the Company or certificates representing shares of the Company on domestic or
»foreign stock exchanges where they are not listed yet;
»to the extent necessary to grant holders of convertible bonds, convertible profit participation rights (Genussrechte), or stock options pre-emptive rights that they would have in case they became shareholders.

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

8.2 CONDITIONAL CAPITAL 2011

The extraordinary General Meeting of Shareholders held on 22 March 2011 resolved upon the creation of conditional capital 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.

OUTLOOK

During China's annual parliamentary meeting in March 2015, Premier Li Keqiang reported to the parliament that China would target at ”around 7 per cent“ economic growth for 2015. It is the slowest expansion rate since a quarter of century ago and the premier admitted that China faced greater economic headwinds this year than in 2014. The lower target is no surprise as prior to the National People's Congress, the central bank had already cut interest rates twice in three months, signaling the downward pressure that the country is facing. The migration to a consumption-driven economy, the leadership's ultimate goal, fell short of expectations: Retail sales grew at 11.9 per cent in 2014 - compared with the 14.5 per cent growth target set a year ago. The top planning agency now aims at 13 per cent growth and shows further determination to boost consumption. As the cabinet has shown more flexibility in meeting the targets, uncertainties are rising whether the proposed targets will actually be fulfilled.

As a highly cyclical sub-segment of the consumer market, China's luxury goods market also hit brakes in 2014 and unprecedentedly contracted by 1 per cent. It is observed by Bain & Company that most of Chinese luxury goods consumers now lean towards overseas purchase or parallel purchase and they are increasingly interested in experiential types of luxury. Those key trends pose threats to the dynamics of the target market that Powerland is exposed to.

In this context, the Company holds a conservative outlook about 2015. Group revenue is expected to decline to approximately EUR 112 million in 2015 due to weakening demand from both the domestic and the overseas market. In response, Powerland plans to deepen the restructuring of its nationwide distribution network and contract self-operated stores to further reduce store maintenance cost. Furthermore, sales & distribution channels of the Luxury segment will be further diversified to offset the impact from the decelerating retail market, but the effect of the strategic transition is yet to be testified. In addition, the Company will continue to pursue austerity in the management of operating expenses. However, due to the adverse market conditions faced by our distribution partners, the trade receivable position is subject to higher provision adjustment. As a result, the Company predicts that Group EBIT of 2015 will decline to approximately EUR 6 million and Group net profit is exposed to risk of net loss. To improve liquidity, the Company has no major capital expenditure plan in 2015 and will have exhaustive efforts to reduce the level of working capital.

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 nor plans to update any of the forward-looking statements.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

The loan of RMB 200 million has been paid out to the Company on 10 February 2015.

The Company is actively seeking for candidates to fulfill the CFO position.

DEPENDENCY REPORT

Closing statement

In accordance to section 312 and section 17 of the German Stock Corporation Act (AktG) the Company has prepared a dependency report. Pursuant to section 312, para.3 AktG, the Management Board of Powerland AG declares as follows:

Based on the circumstances known to us at the time when the transactions were entered into, Powerland AG has received adequate consideration in each transaction described in the report on the relations to affiliated enterprises. There have not been any other reportable measures during the reporting period.

Guangzhou / Frankfurt am Main, 27 May 2015

Management Board

Shunyuan Guo

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

EUR ’000	**Note**	**2013***	**2014**
Revenue	7	167,117	175,090
Cost of sales	8	–106,301	–114,529
Gross profit		60,816	60,561
Other income	9	221	408
Selling and distribution costs	10	–33,769	–29,326
Administrative and other expenses	11	–14,955	–20,975
Profit from operations		**12,313**	**10,668**
Finance income	12	623	202
Finance costs	12	–3,359	–3,186
Profit before tax		**9,577**	**7,684**
Tax expense	13	–4,186	–3,924
Net profit		**5,391**	**3,760**
Net profit attributable to owners of the parent company		5,391	3,760
Basic and diluted earnings per share (EUR)	16	0.36	0.25

** Adjusted in accordance with IAS 8, see note 4.*

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

EUR '000	Note	2013*	2014
Net profit		**5,391**	**3,760**
Exchange differences on translating foreign operations	25	7	16,174
Total comprehensive income		5,398	19,934
Net profit attributable to owners of the parent company		5,391	3,760
Total comprehensive income attributable to owners of the parent company		5,398	19,934

** Adjusted in accordance with IAS 8, see note 4.*

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 STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

EUR ’000	Note	2013	2014
Cash flows from operating activities			
Profit before tax		9,577	7,684
Adjustments for:			
Amortisation of intangible assets	19	46	82
Depreciation of land use rights	18	126	127
Depreciation of property, plant and equipment	17	2,913	5,754
Unrealised foreign exchange gain/loss		451	–77
Interest income		–623	–202
Interest expenses		2,458	3,828
Deferrred tax expenses		248	–
Operating profit before working capital changes		15,196	17,196
Changes in inventories		–13,184	14,627
Changes in trade and other receivables		–40,465	412
Changes in trade and other payables		–17,258	735
Cash generated from operations		**–55,711**	**32,970**
Interest received		623	202
Interest paid		–2,458	–3,828
Income taxes paid	27	–6,624	–5,079
Net cash from operating activities		**–64,170**	**24,265**
Cash flows from investing activities			
Purchase of property, plant and equipment	17	–8,325	–1,910
Purchase of intangible assets		–	–27
Net cash for investing activities		**–8,325**	**–1,937**

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

Cash flows from financing activities			
Payment for share repurchase		–1,014	–622
Drawdown of borrowings		103,375	42,541
Repayments of borrowings		–79,497	–71,965
Net cash from financing activities		**22,864**	**–30,046**
Net increase/(decrease) in cash and cash equivalents		**–49,631**	**–7,718**
Cash and cash equivalents at the beginning of the year		**64,108**	**15,394**
Effect of exchange rate changes		917	1,002
Cash and cash equivalents at the end of the year	22	**15,394**	**8,678**

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

EUR '000	Note	31 Dec 2013*	31 Dec 2014
ASSETS			
Non-current assets			
Property, plant and equipment	17	74,599	78,644
Land use rights	18	4,217	4,535
Intangible assets	19	159	116
Total non-current assets		**78,975**	**83,295**
Current assets			
Inventories	20	30,339	17,721
Trade and other receivables	21	97,026	107,679
Cash and cash equivalents	22	15,394	8,678
Total current assets		**142,759**	**134,078**
TOTAL ASSETS		**221,734**	**217,373**
EQUITY AND LIABILITIES			
Equity			
Share capital	23	15,000	15,000
Capital reserve	24	64,801	64,801
Foreign exchange translation reserve	24	14,528	30,702
Consolidated reserves	24	57,996	61,756
Treasurystock	24	–1,014	–1,637
Total equity		**151,311**	**170,622**
Liabilities			
Non-current liabilities			
Borrowings	25	2,170	3,019
Current liabilities			
Trade and other payables	26	9,297	11,229
Borrowings	25	57,500	31,124
Current tax liabilities	27	1,456	1,379
Total current liabilities		**68,253**	**43,732**
Total liabilities		**70,423**	**46,751**
TOTAL EQUITY AND LIABILITIES		**221,734**	**217,373**

** Adjusted in accordance with IAS 8, see note 4*

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 2014

						Consolidated reserves		
EUR '000	Note	Share capital	Capital reserve	Treasury stock	Foreign exchange translation reserve	Non-distributable	Distrib-utable	Total equity
1 January 2013		**15,000**	**65,353**	**–**	**14,521**	**7,480**	**45,125**	**147,479**
Net profit as reported		–	–	–	–	–	6,842	6,842
IAS 8 adjustment		–	–	–	–	–	-1,451	-1,451
Net profit as adjusted		–	–	–	–	–	5,391	5,391
Other comprehensive income as reported		–	–	–	–25	–	–	–25
IAS 8 adjustment		–	–	–	32	–	–	32
Other comprehensive income as adjusted		–	–	–	7	–	–	7
Shares repurchased		–	–	–1,014	–	–	–	–1,014
Dividends		–	–	–	–	–	–	–
Transfer to statutory surplus reserve		–	–	–	–	778	–778	–
Write-off of the deferred tax		–	–552	–	–	–	–	–552
31 December 2013 and 1 January 2014 as reported		15,000	64,801	–1,014	14,496	8,258	51,189	152,730
Correction of errors*					32		–1,451	–1,419
31 December 2013 and 1 January 2014 as adjusted		15,000	64,801	–1,014	14,528	8,258	49,738	151,311
Net profit		–	–	–	–	–	3,760	3,760
Other comprehensive income		–	–	–	16,174	–		16,174
Share repurchased		–	–	–623	–	–	–	–623
Dividends		–	–	–	–	–	–	–
Transfer to statutory surplus reserve		–	–	–	–	856	–856	–
31 December 2014		**15,000**	**64,801**	**–1,637**	**30,702**	**9,114**	**52,642**	**170,622**

* See note 4

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 Powerland Leather Case & Products, Co. Ltd. ("PFL") and Guangzhou Powerland Leather Case & Products, Co. Ltd. ("PGL") and Powerland Business Management, Co. Ltd. ("PBM"), 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").

Powerland Business Management, Co. Ltd. was incorporated into Fujian Powerland Leather Case & Products, Co. Ltd. and is 100% owned directly/indirectly by PFL. PBM's major business is corporate business consulting and sales and distribution of luggage and leather goods.

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 held by the Company	Equity EUR '000	Profit/(Loss) for the year EUR '000	Nature of investment
PHK	31 December 2013	100	35,908	15	Direct
	31 December 2014	100	48,373	7,918	Direct
PFL	31 December 2013*	100	82,817	5,245	Indirect under PHK
	31 December 2014	100	99,593	7,237	Indirect under PHK
PGL	31 December 2013*	100	24,967	454	Indirect under PHK
	31 December 2014	100	22,685	–4,577	Indirect under PHK
PBM	31 December 2013	100	43	–78	Indirect under PFL
	31 December 2014	100	–152	–184	Indirect under PFL

* Adjusted in accordance with IAS 8, see note 4

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 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 2014 have been prepared in accordance with International Financial Reporting Standards (referred to as “IFRS”) issued by the International Accounting Standards Board (“IASB”), 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. 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 consolidated financial statements on the basis of their statutory records, with adjustments and reclassifications recorded for the purpose of the fair presentation in accordance with EUIFRS.

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

All subsidiaries of the Company are consolidated.

4 ERROR CORRECTION

In the fiscal year 2014, Powerland AG has become aware of a situation which was not properly reflected in the same period of 2013. During the calculation of tax expenses, expenses which lacked tax deductibility were considered deductible. Consequently, a lower tax expense and an insufficient tax liability were presented in the consolidated financial statements for the fiscal year 2013. The correction is made according to IAS 8.41.

The tables below illustrate the effects of the error correction on the previous year's figures:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS:

	2013		
EUR '000	BEFORE ADJUSTMENT	ADJUSTMENT	AFTER ADJUSTMENT
Tax expense	2,735	1,451	4,186
Net profit	**6,842**	**-1,451**	**5,391**
Net profit attributable to owners of the parent company	6,842	-1,451	5,391
Basic and diluted earnings per share (EUR)	0.46	-0.12	0.36

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME:

	2013		
EUR '000	BEFORE ADJUSTMENT	ADJUSTMENT	AFTER ADJUSTMENT
Net profit	**6,842**	**-1,451**	**5,391**
Exchange differences on translating foreign operations	-25	32	7
Total comprehensive income	**6,818**	**-1,419**	**5,398**
Net profit attributable to owners of the parent company	6,842	-1,451	5,391
Total comprehensive income attributable to owners of the parent company	6,818	-1,419	5,398

CONSOLIDATED STATEMENT OF FINANCIAL POSITION:

	2013		
EUR '000	BEFORE ADJUSTMENT	ADJUSTMENT	AFTER ADJUSTMENT
Foreign exchange translation reserve	14,496	32	14,528
Consolidated reserves	59,448	-1,451	57,996
Total equity	**152,731**	**-1,419**	**151,311**
Current tax liabilities	37	1,419	1,456
Total current liabilities	**66,833**	**1,419**	**68,253**
Total liabilities	**69,003**	**1,419**	**70,423**

5 SIGNIFICANT ACCOUNTING POLICIES

5.1 Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU IRFS") as well as within the regulations under the commercial law set forth in Section 315a (I) of the German Commercial Code (Handelsgesetzbuch – HGB). The Group adopted EU IFRS that were effective on or before 1 January 2015. The Financial statements have been prepared under historical cost convention, except as disclosed in the accounting policies below.

In the 2014 financial year, Powerland applied the following endorsed new EU IFRS and amendments to EU IFRS for the first time:

Standard / Interpretation		new / amended
IFRS 10:	Consolidated Financial Statements	new
IFRS 11:	Joint Arrangements	new
IFRS 12:	Disclosure of Interests in Other Entities	new
Miscellaneous:	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)	new
Miscellaneous:	Investment entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	new
IAS 27:	Separate Financial Statements	amended
IAS 28:	Investments in Associates and Joint Ventures	amended
IAS 32:	Financial Instruments Presentation – Offsetting Financial Assets and Financial Liabilities	amended
IAS 36:	Impairment of Assets: Recoverable Amount – Disclosures for Non-Financial Assets	amended
IAS 39:	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting	amended

The adoption of the new and amended IFRSs does not have a material impact on the presentation of Powerland's results of operations, financial position, cash flows, or the composition of the Group.

In its 2014 consolidated financial statements, Powerland did not apply the following accounting pronouncements that have already been adopted by the IASB, but were not yet required to be applied for the financial year.

Standard / Interpretation (until 31.12.2014)		Effective date from Powerland's perspective	Adopted by the EU (until 31.12.2014)	Expected effects
IFRS 9	Financial Instruments	preliminary 01.01.2018	No	Under investigation
IFRS 10 / IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	preliminary 01.01.2016	No	None
IFRS 10 / IFRS 12/ IAS 28	Investment Entities: Applying the Consolidation Exception	preliminary 01.01.2016	No	None
IFRS 11	Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations	preliminary 01.01.2016	No	None
IFRS 14	Regulatory Deferral Accounts	preliminary 01.01.2016	No	None
IFRS 15	Revenue from Contracts with Customers	preliminary 01.01.2016	No	Probably no material effects on revenue recognition, increased disclosures
IAS 1	Presentation of financial statements: Disclosure initiative	preliminary 01.01.2016	No	Under investigation
IAS 16 / IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	preliminary 01.01.2016	No	None
IAS 16 / IAS 41	Agriculture: Bearer Plants	preliminary 01.01.2016	No	None
IAS 19	Employee Benefits: Defined Benefit Plans – Employee Contributions	01.01.2015	Yes	None
IAS 27	Separate Financial Statements: Equity-Method	preliminary 01.01.2016	No	None
Miscellaneous	Improvements to IFRSs 2010-2012	01.01.2015	Yes	No material effects
Miscellaneous	Improvements to IFRSs 2011-2013	01.01.2015	Yes	No material effects
Miscellaneous	Improvements to IFRSs 2012-2014	preliminary 01.01.2016	No	No material effects
IFRIC 21	Levies	01.01.2015	Yes	None

5.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where an investor controls an investee when he is exposed, or has rights, to variable returns from his involvement with the investee and has the ability to affect those returns through his power over the investee.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and the consolidated statement 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 are eliminated in full on consolidation.

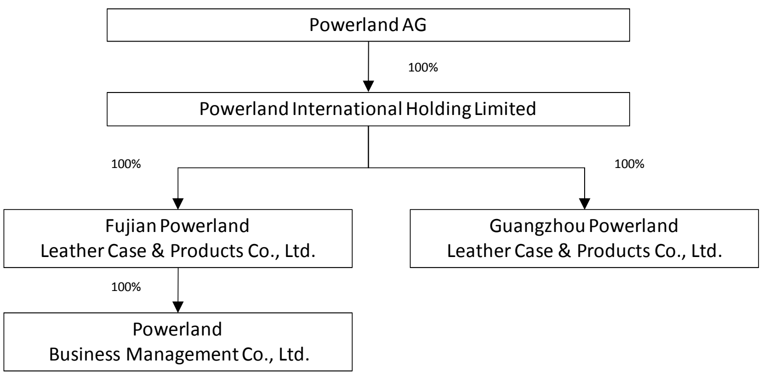
The financial statements of the subsidiaries are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for similar transactions and events in similar circumstances.

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

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

5.2.1 Business combinations involving entities under common control

The current Powerland Group was formed 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 and PBM in the PRC.PBM was first included in the consolidated financial statements in 2013. The initial consolidation was carried out on 1 March 2013.



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.

5.3 Foreign currencies

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

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

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

	Period end rates	Average rates
31 December 2013	RMB 1.00 = EUR 0.1198	RMB 1.00 = EUR 0.1225
31 December 2014	RMB 1.00 = EUR 0.1327	RMB 1.00 = EUR 0.1222

31 December 2013	RMB 1.00 = HKD 1.2811	RMB 1.00 = HKD 1.2619
31 December 2014	RMB 1.00 = HKD 1.2496	RMB 1.00 = HKD 1.2590

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

1) Non-monetary items for each statement of financial position presented are translated at the historical rate;

2) Monetary items for each statement of financial position presented are translated at the period end rate of that statement of financial position;

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

4) All resulting exchange differences are recognised in the foreign currency translation reserve, a separate component of equity.

Other comprehensive income comprises only gains and losses arising from translating the financial statements of the foreign operations. The currency translations do not imply any current or deferred tax effects.

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

5.4 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.

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 40 years
Machinery and factory equipments	10 years
Office and other equipments	3 or 5 years
Motor vehicles	3 or 5 years
Renovation for self-operated stores	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.

5.5 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 statement of profit or loss. Land use rights represent up-front payments to acquire long-term interests in the usage of land.

5.6 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.

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.

5.7 Impairment of long-term assets

The carrying amounts of long-term 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 smallest 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 costs of disposal 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.

5.8 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.

5.9 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.

5.9.1 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.

5.9.2 *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 includes 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.

5.9.3 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.

5.9.4 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.

5.10 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.

5.11 Employee benefits

5.11.1 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.

5.11.2 Defined contribution plan

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

5.12 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 taxes 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 statement 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 statement 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 is not recoverable from the taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of the expense items as applicable; and

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

Land use right tax and other taxes are not based on taxable profits and are recognised within the administrative and other expenses line in the consolidated statement of profit or loss.

5.13 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 notes of the consolidated financial statement.

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.

5.14 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.

5.15 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 risks and rewards of ownership of the goods have 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 by reference to the stage of completion of the transaction at the end of the reporting period, when the stage of completion 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.

5.16 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.

5.17 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 lease. 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 recognized in the statement of profit or loss as costs on a straight-line basis over the term of the lease.

5.18 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 leases or finance lease in the same way as leases of other assets.

5.19 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 costs are recognised in profit or loss in the period in which they are incurred.

5.20 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 . Related parties may be individuals or other entities. Related parties include key management personnel and close members of those persons' family having authority and responsibility over the entity, directly and indirectly, which comprise of the Management Board and Supervisory Board members.

5.21 Operating segments

Operating segments are defined as components of the Group that:

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

(b) whose operating results are regularly reviewed by the Group's chief operating decision maker (i.e. the Management Board) 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.

6 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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 their right 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 may 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 of disposal 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, amount of operating costs, and discount rate.

(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 of the 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 realisable value. 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.

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	**2013**	**2014**
Revenue from sales of:		
Luxury segment products	104,242	133,172
Casual segment products	62,875	41,918
Revenue	**167,117**	**175,090**

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, the cost of materials (2014: EUR 78,701 thousand, 2013: EUR 73,137 thousand) and movements in inventories of finished goods and work in progress.

9 OTHER INCOME

Other income comprises rental income, OEM service fee and government grants and incentives for research and development.

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, operating expenses for self-owned stores, 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, design and development expenses, utilities costs, travel expenses, entertainment expenses and other miscellaneous office expenses incurred for administrative purposes, donations, 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	**2013**	**2014**
Finance income		
Interest income on bank balances	623	202
Total finance income	**623**	**202**
Finance costs		
Interest expense on borrowings	2,458	3,828
Net foreign exchange loss(income)	901	–642
Total finance costs	**3,359**	**3,186**
Net finance costs recognised in profit or loss	**2,736**	**2,984**

13 TAX EXPENSE

EUR '000	**2013***	**2014**
Tax expense based on profit for the financial years (Note 28)		
current year	3,906	3,924
Provision for prior year	32	–
Deferred tax expenses		
current year	248	–
Tax expense according to the consolidated statement of profit or loss	**4,186**	**3,924**

* Adjusted in accordance with IAS 8, see note 4

Tax expense for respective taxation authorities is calculated at the rates prevailing in these jurisdictions. During the financial years ended 31 December 2013 and 31 December 2014, 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, PGL and PBM**	25.0%

**: PBM tax basis: 4% of revenue

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	2013	2014
Profit before taxation	**9,577**	**7,684**
Of which PRC	9,733	6,400
Of which PHK	15	7,917
Of which PAG	(171)	(6,633)
Tax at applicable tax rate - PRC	25.0%	25.0%
Tax at applicable tax rate - HK	16.5%	16.5%
Tax at applicable tax rate - Germany	31.5%	31.5%
Tax expense at applicable tax rate - PRC	2,433	1,600
Tax expense at applicable tax rate - HK	2	1,306
Tax expense at applicable tax rate - Germany	(54)	(2,089)
Tax at tax rate applicable to profits in the countries concerned	2,382	817
Tax effect of non-deductible expense	1,451	2,273
Write-off deferred tax assets	248	--
Tax effect due to tax-exempt (PHK)	-2	-1,306
Non-application of tax assets from losses carried forward (PAG)	55	2,090
Non-application of tax assets from losses carried forward (PBM)	20	45
Tax PBM (4% of revenues)	--	5
Provision for prior year	32	--
Tax expense according to the consolidated statements of profit or loss	**4,186**	**3,924**

As at 31 December 2014 there are unused tax losses carried forward of EUR 3,286 thousand (2013:EUR 3,256 thousand) in Germany, for which no deferred tax asset has been recognized because they are not likely to be used in the next five years. Prior-year figures have been adjusted in accordance with IAS 8 and please refer to note 4.

As at 31 December 2014 PHK has a profit of EUR 7,917 thousand (accumulated profit at EUR 12,288 thousand) in Hong Kong. The profit represents interest income and exchange gains. According to Hong Kong tax exemption regulations, such profit is not taxable.

14 DIVIDEND

No dividend was paid out to the shareholders during the fiscal year 2014.

15 EMPLOYEE BENEFITS

EUR ’000	2013	2014
Wages and salaries	9,605	10,350
Social security contributions	972	973
Other short-term benefits	397	522
	10,974	11,845

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

EUR ’000	2013	2014
Salaries and short-term allowances	235	237

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

	2013	2014
Management and administration	312	366
Sales, marketing and procurement	246	233
Design, production and quality assurance	1,100	1,121
	1,658	1,720

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 statement of profit or loss in the financial year 2014 amounted to EUR 445 thousand (2013: EUR 340 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.

Earnings per share calculation is based on the profit of the year and average weighted shares.

	2013*	2014
Profit attributable to equity holders of the parent company (EUR '000)	5,391	3,760
Weighted average number of ordinary shares in issue ('000)	14,910	14,537
Basic earnings per ordinary share (EUR)	0.36	0.26

* Adjusted in accordance with IAS 8, see note 4

(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 2013	49,238	394	294	516	1,828	16,739	69,009
Additions	2,668	189	403	56	4,932	556	8,804
Disposals	–	–	–	–	–	–	–
Depreciation charge for the year	–978	–65	–159	–230	–1,478	–	–2,910
Reclassification	–11,382	–	–	–	–	11,381	–1
Translation adjustments	91	–4	–6	2	–81	–305	–303
As at 31 December 2013 and 1 January 2014	39,637	514	532	344	5,201	28,371	74,599
Additions	26	215	131	77	1,580	54	2,083
Reclassification	11,704	11				–11,715	–
Depreciation charge for the year	–1,789	–83	–186	–162	–3,536	–	–5,756
Translation adjustments	5,122	68	53	30	392	2,053	7,718
As at 31 December 2014	54,700	725	530	289	3,637	18,763	78,644

EUR '000	Buildings	Machinery and factory equipments	Office and other equipments	Motor vehicles	Renovation	Construction in progress	Total
As at 31 December 2013							
Cost	42,862	809	917	1,028	8,116	28,371	82,103
Accumulated depreciation	–3,225	–295	–385	–684	–2,915	–	–7,504
Carrying amount	39,637	514	532	344	5,201	28,371	74,599
As at 31 December 2014							
Cost	60,215	1,142	1,159	1,222	10,705	18,763	93,206
Accumulated depreciation	–5,515	–417	–629	–933	–7,068	–	–14,562
Carrying amount	54,700	725	530	289	3,637	18,763	78,644

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

EUR '000	31 Dec 2013	31 Dec 2014
Purchase of property, plant and equipment	8,325	1,910
Financed by other payables	479	173
	8,804	2,083

(b) As at 31 December 2014, the buildings and construction-in-progress with a carrying amount of EUR 51,972thousand (31 December 2013: EUR 46,920 thousand) and EUR nil (31 December 2013: EUR nil thousand) respectively have been charged to a bank for credit facilities granted to the Group (Note 26(a)).

18 LAND USE RIGHTS

EUR '000	2013	2014
Carrying amount		
As at 1 January	4,351	4,217
Additions	–	–
Depreciation charge for the year	–125	–125
Translation adjustments	–9	443
As at 31 December	**4,217**	**4,535**

EUR '000	2013	2014
Cost	5,037	5,579
Accumulated depreciation	–820	–1,044
Carrying amount	**4,217**	**4,535**

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

(b) As at 31 December 2014, land use rights with a carrying amount of EUR 3,684 thousand have been pledged to a bank for credit facilities granted to the Group (31 December 2013: EUR 2,494 thousand (Note 26(a)).

(c) Payments have been paid out in full on the date when the land was acquired and there is no outstanding payment.

19 INTANGIBLE ASSETS

EUR '000	As at 1 Jan 2013	Additions	Amortisation charge for the year	Translation adjustments	As at 31 Dec 2013
Carrying amount					
Trademark	54		–12		42
Software	150		–33		117
	204		–45		159

	Cost	Accumulated amortisation	Carrying amount
As at 31 December 2013			
Trademark	123	–81	42
Software	164	–47	117
	287	–128	159

EUR '000	As at 1 Jan 2014	Additions	Amortisation charge for the year	Translation adjustments	As at 31 Dec 2014
Carrying amount					
Trademark	42	–	–12	3	33
Software	117	27	–70	9	83
	159	27	–82	12	116

	Cost	Accumulated amortisation	Carrying Amount
As at 31 December 2014			
Trademark	136	–103	33
Software	210	–127	83
	346	–230	116

(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 INVENTORIES

EUR ’000	2013	2014
At cost		
Raw materials	8,709	4,617
Work in progress	6,249	6,883
Finished goods	15,381	6,221
	30,339	**17,721**

The decrease of the finished goods in 2014 was due to Powerland's exhaustive de-stocking efforts.

21 TRADE AND OTHER RECEIVABLES

EUR ’000	2013	2014
Trade receivables	56,268	79,563
Other receivables	1	32
Total financial assets other than cash and cash equivalents classified as loans and receivables	56,269	79,595
Value-added tax recoverable	767	643
Advances to third party	13	25
Advance payments to suppliers	27,411	20,671
Deposits	2,808	2,133
Prepayments	9,251	4,612
Prepaid income tax	507	–
Total trade and other receivables	**97,026**	**107,679**

(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:

EUR '000	31 Dec 2013	31 Dec 2014	Change
Neither past due nor impaired:			
Within 30 days	16,877	–	-100.0%
31 – 60 days	15,989	16,182	1.2%
61 – 90 days	12,958	11,800	-8.9%
Receivables neither past due nor impaired	45,824	27,982	-38.9%
Past due, not impaired:			
More than 90 days	10,444	57,306	448.7%
Total trade receivables	**56,268**	**85,288**	**51.6%**
Impairments	–	5,725	
Total trade receivables with impairments	**56,268**	**79,563**	**41.4%**

Trade receivables that are neither past due nor impaired are creditworthy receivables with good payment records with the Group. The increase of trade receivables was due to distributors' slower turnover ratio of trade receivables in the face of the challenging retail environment.

The Group makes impairment of receivables based on an assessment of the recoverability of receivables. 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 of the impairment of receivables. As of 31 December 2014, the Group established specific and general provisions that amount to EUR 5,725 thousand in accordance with the overdue proportion of the trade receivables.

(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:

EUR '000	31 Dec 2013	31 Dec 2014
Renminbi (RMB)	82,917	86,851
United States Dollar (USD)	13,907	20,764
Euro (EUR)	201	64
Hong Kong Dollar (HKD)	1	–
	97,026	107,679

22 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

EUR '000	31 Dec 2013	31 Dec 2014
Cash and bank balances	8,925	8,366
Deposits with licensed banks	6,469	312
	15,394	**8,678**

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

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

EUR '000	**31 Dec 2013**	**31 Dec 2014**
Renminbi (RMB)	15,128	8,374
United States Dollar (USD)	139	295
Hong Kong Dollar (HKD)	11	1
Euro (EUR)	116	8
	15,394	8,678

23 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 ISIN DE000PLD5558.

24 RESERVES

(a) Capital reserve

According to the initial public offering placement in April 2011, Powerland AG raised gross proceeds of EUR75,000,000 from 5,000,000 new shares of offering price EUR15.00 each. The surplus of EUR70,000,000was recorded as capital reserve in accordance with the German Company Law. The IPO costs of EUR 5,199 thousand were recorded as capital surplus deduction as at 31 December 2011.

(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 2013**	**31 Dec 2014**
Balance at beginning of the years	14,521	14,528
IAS 8 Adjustment	32	-
Exchange differences on translating foreign operations	-25	16,174
Balance at end of the years	**14,528**	**30,702**

(c) Consolidated reserves

The consolidated reserves arise from the accumulated profits and the net profit for the year. The consolidated reserves also include the surplus reserves of PGL and PFL.

In accordance with relevant PRC regulations, the China subsidiary companies are required to maintain certain statutory reserves by appropriating from the profit after taxation in accordance with the relevant laws and regulations in the PRC and Articles of Association of the Company before declaration or payment of dividends. The reserves form part of the equity of the Company. The statutory reserve fund can be used to increase the registered capital and eliminate future losses of the Company, but it cannot be distributed to shareholders except in the event of a solvent liquidation of the Company.

The appropriation to the statutory common surplus reserve represents 10% of the profit after taxation of the Company. In accordance with the laws and regulations in the PRC, the appropriations to statutory common reserve cease when the balances of the reserve reach 50% of the registered capital of the Company. The statutory reserve is not distributable by way of dividends.

The statutory reserve can only be used to set off against losses or to increase the capital of the Company. However, the balance of the statutory reserve must be maintained at a minimum of 25% of the share capital of the Company after such usages.

The statutory reserve of the Group amounted to EUR 9,114 thousand as at 31 December 2014 and EUR 8,258 thousand as at 31 December 2013.

(d) Shares repurchased

The share buyback programme lasted from 27 January 2014 to 31 December 2014. During the reporting period, 268,235 shares were bought back at a weighted average price of EUR 2.31 plus 0.4% commission fee incurred by the service provider. The cost of EUR 623 thousand associated with own shares include both the purchasing price and the commission fee on the basis of total volume.

25 BORROWINGS

EUR ’000	Note	31 Dec 2013	31 Dec 2014
Non-current liabilities			
Long-term bank loans – secured	(a)	2,170	3,019
		2,170	**3,019**
Current liabilities			
Short-term bank loans – secured	(a)	44,366	25,910
Short-term bank loans – unsecured	(b)	13,134	5,214
		57,500	**31,124**
Total borrowings			
Short-term loans		57,500	31,124
Long-term loans		2,170	3,019
		59,670	**34,143**

(a) Details of the securities of the secured bank loans are as follows:

EUR '000	Note	31 Dec 2013	31 Dec 2014
Secured by:			
- Land use rights	18	2,494	3,684
- Buildings	17	46,920	51,972
		49,414	55,656

As at 31 December 2014, secured long-term and short-term bank loans of EUR 3,019 thousand and EUR 16,661 thousand (31 December 2013: EUR 2,170 thousand and EUR 32,422 thousand) respectively are also guaranteed by a member of the Management Board of the Group.

Details of the guaranteed bank loans are as follows:

EUR '000	31 Dec 2013	31 Dec 2014
Jointly guaranteed by:		
- Member of the Management Board and related parties	8,350	3,410
- Third parties	3,594	5,839
	11,944	9,249

(b) Details of the unsecured bank loans are as follows:

EUR '000	31 Dec 2013	31 Dec 2014
Unsecured loan	13,134	5,214

(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 2013**	**31 Dec 2014**
Renminbi (RMB)	53,345	32,949
United States Dollar (USD)	6,325	1,194
	59,670	34,143

(e) The repayment terms of the term loans as of 31 December 2014 are as follows:

Entity	Floating rate	Currency	Amount	Maturity
PFL	6.60%	TEUR	5,109	2015/5/6
PFL	6.90%	TEUR	763	2015/5/20
PFL	6.30%	TEUR	577	2015/7/8
PFL	7.20%	TEUR	1,400	2015/8/4
PFL	6.30%	TEUR	1,261	2015/8/13
PFL	6.90%	TEUR	1,460	2015/10/14
PFL	7.56%	TEUR	1,712	2015/12/4
PFL	7.56%	TEUR	1,188	2015/12/15
PFL	7.56%	TEUR	1,466	2015/12/15
PGL	7.80%	TEUR	1,610	2015/1/6

PGL	2.77%	TEUR	1,233	2014/9/25
PGL	6.50%	TEUR	739	2014/10/11
PGL	7.80%	TEUR	3,981	2015/7/10
PGL	7.20%	TEUR	3,981	2015/10/20
PGL	7.20%	TEUR	4,645	2015/11/19
Subtotal (<12 months)			**31,124**	
PGL	6.00%	TEUR	3,019	2017/12/28
Subtotal (>12 months)			**3,019**	
Total			**34,143**	

26 TRADE AND OTHER PAYABLES

EUR '000	Note	31 Dec 2013	31 Dec 2014
Trade payables	(b)	1,274	3,354
Other payables		3,942	2,939
Accruals	(c)	2,126	690
Subtotal		**7,342**	**6,983**
Advance payments from customers	(d)	–	1,814
Value-added tax payable		530	1,204
Other accruals - tax surcharges, social security contributions and trade union fees	(e)	1,424	1,228
Total trade and other payables		**9,296**	**11,229**

(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, employee salaries, 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:

EUR ’000	**31 Dec 2013**	**31 Dec 2014**
Renminbi (RMB)	8,570	10,255
Euro (EUR)	726	974
	9,296	11,229

27 CURRENT TAX LIABILITIES/(ASSETS)

EUR ’000	**Note**	**31 Dec 2013***	**31 Dec 2014**
Balance at beginning of the year		3,585	1,456
Current year provision (as adjusted, see note 4)	13	4,427	4,862
Provision for prior year	13	31	–
Income tax paid		–6,626	–5,079
Translation adjustments		39	140
Balance at end of the year		**1,456**	**1,379**

** Adjusted in accordance with IAS 8, see note 4*

28 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 Management Board of the Group generally follows the Group’s product categories, i.e. Luxury and Casual. The Management Board of the Group has defined earnings before interest and tax, as the key performance indicators for management and reporting.

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**	**Casual**	**Total**
2013			
Revenue	104,242	62,875	167,117
Cost of sales	–57,079	–49,222	–106,301
Gross profit	47,163	13,653	60,816
Gross profit margin	45.2%	21.7%	36.4%
EBIT margin in %	6.7%	8.4%	7.4%
EBIT = Segment result	**7,006**	**5,307**	**12,313**
Finance income			623
Finance costs			–3,358
Profit before tax			**9,578**
As at 31 December 2013			
Reportable segment assets	78,202	87,220	165,422
Intangible assets			159
Other receivables			40,759
Cash and bank balances			15,394
Total Group assets			**221,734**

EUR '000	**Luxury**	**Casual**	**Total**
2014			
Revenue	120,721	54,369	175,090
Cost of sales	–69,842	–44,687	–114,529
Gross profit	50,879	9,682	60,561
Gross profit margin	42.1%	17.8%	34.6%
EBIT margin in %	12.0%	–7.0%	6.1%
EBIT = Segment result	**14,449**	**–3,781**	**10,668**
Finance income			202
Finance costs			–3,186
Profit before tax			**7,684**
As at 31 December 2014			
Reportable segment assets	118,408	62,055	180,463
Intangible assets			116
Other receivables			28,116
Cash and bank balances			8,678
Total Group assets			**217,373**

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

EUR '000	**2013**	**2014**
Geographical analysis of revenue		
China	128,587	133,172
Overseas (export directly)	38,530	41,918
Group's revenues from external customers	**167,117**	**175,090**

Revenue from Chinese customers in the Group's economic domicile, China, has been identified on the basis of the internal reporting system, which is also used for VAT purpose. "China" refers to sales to customers located in China. "Overseas (export directly)" refers to sales to customers located outside China, i.e. South Africa, United 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 2014, there was one customer in the Casual segment with whom the transactions represent more than 10% of the Group's revenue with a total amount of EUR 25,134 thousand. There was one customer that has contributed more than 10% of the Group's revenue with a total of EUR 23,255 thousand during financial year ended 2013.

During the financial year 2014, export revenue in the Casual segment to South Africa is EUR 9,701 thousand, 5.5% of group revenue (2013: EUR 33,091 thousand, 19.8% of group revenue). The decrease is due to the fact that a significant portion of direct export to South Africa now goes through Hong Kong because the client has set up a Hong Kong entity for his trading business.

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.

29 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 . 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
Solar Trend Limited	Company whose sole shareholder is Ms. Biyan Guo, sister of Mr. Shunyuan Guo
Guangzhou Zhongbo'ou Investment Co., Ltd.	Management related and Mutual guarantee
Guangzhou Yimin Drinking Water Technology Co., Ltd.	Management related and Mutual guarantee

(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 Dec2013	31 Dec2014
Short-term borrowings granted by bank from:		
Joint guarantee by a Director and third parties	5,271	5,839
Joint guarantee by a Director and related party	3,079	3,410
Joint guarantee by a Director and a subsidiary	4,456	3,981
Joint guarantee by a Director, a subsidiary and third parties	16,845	1,233
Personal guarantee by a Director	9,608	8,035
Long-term borrowings granted by bank from:		
Personal guarantee by a Director	2,170	3,019

EUR '000	2013	2014
Rental payable to immediate holding company	11	8
Manpower service payable to immediate holding company	228	67
Related party – short-term loan	–	80

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

(c) *Compensation to members of the management team*

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

EUR '000	2013	2014
Short-term employee benefits	322	331
Contributions to defined contribution plans	4	4
	326	335

The remuneration of Management Board members only are disclosed in Note 35 to the consolidated financial statements.

(d) *Compensation to members of the Supervisory Board*

In 2014, the total remuneration to the members of the Supervisory Board amounted to EUR 189 thousand (2013: EUR 169 thousand) (Note 35).

30 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.

30.1 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 2014. 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 2013	–1,364	–1,364
31 December 2014	–2,016	–2,016

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 2013	1,364	1,364
31 December 2014	2,016	2,016

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 2014, 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	**Change of interest**	**Profit for the year**	**Equity**
31 December 2013	Increase of 200 bp	–419	–419
31 December 2014	Increase of 200 bp	–392	–392

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

EUR '000	**Change of interest**	**Profit for the year**	**Equity**
31 December 2013	Decrease of 200 bp	419	419
31 December 2014	Decrease of 200 bp	392	392

30.2 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 42% (2013: 28%) of the Group's trade receivables were due from five major customers who are wholesalers and distributors located in the PRC and South Africa.

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

30.3 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 2013, the Group's liabilities have contractual maturities (including interest payments where applicable) as summarised below:

		Current		**Non-current**	
EUR '000	**Carrying amounts**	**Within 6 months**	**6 to 12 months**	**1 to 5 years**	**Later than 5 years**
Trade and other payables	9,296	8,965	331	–	–
Borrowings	59,670	40,380	17,120	2,170	–
Total financial liabilities	**68,966**	**49,345**	**17,451**	**2,170**	**–**

As at 31 December 2014, the Group's liabilities have contractual maturities (including interest payments where applicable) as summarised below:

		Current		**Non-current**	
EUR '000	**Carrying amounts**	**Within 6 months**	**6 to 12 months**	**1 to 5 years**	**Later than 5 years**
Trade and other payables	11,229	10,732	497	–	–
Borrowings	34,143	7,105	24,019	3,019	–
Total financial liabilities	**45,372**	**17,837**	**24,516**	**3,019**	**–**

30.4 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 2013**	**31 Dec 2014**
Borrowings	59,670	34,143
Cash and cash equivalents	–15,394	–8,678
Net debt	44,276	25,465
Net debt	44,276	25,465
Equity	151,311	170,622
Total net debt and equity	195,587	196,087
Gearing ratio	22.6%	13.0%

30.5 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.

31 SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

(a) In December 2014, Powerland secured financing of RMB 200 million from a Chinese financial institute.
(b) In December 2014, Mr. Yachen Jiang, CFO and Management Board member of Powerland, resigned from office for personal reasons.

32 MATERIAL EVENTS AFTER THE REPORTING PERIOD

The loan of RMB 200 million has been paid out to the Company on 10 February 2015.

The Company is actively seeking for candidates to fulfill the CFO position.

33 COMMITMENTS AND CONTINGENCIES

33.1 Operating lease / finance lease commitments

Powerland leases stores under particular operating lease agreements. The leases have varying terms and conditions. There are no restrictions placed upon the Group by entering into these leases. The operating lease payment recognized as expense in the income statement in every financial year is as follows:

Lease contracts for shops	Term within 1 year	Term between 1 and 5 years
Rental commitments	EUR 12 million	EUR 8 million

33.2 Contigent liabilities and contigent assets

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 2014 (2013: EUR 1,165 thousand) based on the Group's estimates for the past unpaid contributions. Mr. Shunyuan Guo, 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.

34 MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Management Board

Mr. Shunyuan Guo	CEO(Chief Executive Officer)

Former Management Board member

Mr. Yachen Jiang	CFO (Chief Financial Officer) (*Resigned on 30 December 2014*)

Supervisory Board

Mr.Binghui Lu	Chairman of Supervisory Board (Appointed on 26 March 2014)
Mr. Stephan Oehen	Deputy Chairman of the Supervisory Board (Appointed on 26 March 2014)
Mr. Hsueh Yi Huang	Member of the Supervisory Board

Former Supervisory Board

Dr. Peter Diesch	Chairman of Supervisory Board (Resigned on 26 March 2014)
Mr. Volker Potthoff	Deputy Chairman of the Supervisory Board (Resigned on 26 March 2014)

35 REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Remuneration of Management Board Members

For the fiscal years 2013 and 2014, 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. Mr. Yachen Jiang was appointed as the CFO on 16 July 2013. He resigned from his position for personal reasons on 30 December 2014.

The total remuneration of the members of the Management Board for the financial year 2014isas follows:

EUR '000	**2013**	**2014**
Shunyuan Guo	62	62
Yachen Jiang *(since 16 July 2013, until 30 December 2014)*	88	176
Kelvin Ho *(since 1 December 2012, until 26 March 2013)*	34	–
Qingsheng Cai*(until 1 July 2013)*	20	–
Yongliang Guo*(until 1 December 2013)*	31	–
	235	**238**

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 section 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 2014, the General Shareholders' Meeting has determined the following remuneration for the members of the Supervisory Board:

EUR '000	**Fixed annual remuneration**	**Variable remuneration**	**Attendance fee for board meetings**
Binghui Lu, Chairman of the Supervisory Board	60	–	–
Stephan Oehen, Deputy Chairman of the Supervisory Board	30	–	–
Mr. Hsueh Yi Huang, Ordinary member of the Supervisory Board	30	–	–

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 year 2014 is as follows:

EUR ’000	2013	2014
Dr. Peter Diesch		
fixed	65	21
variable	–	3
Volker Potthoff	59	20
Hsueh Yi Huang	45	49
Binghui Lu		66
Stephan Oehen		30
	169	**189**

36 TOTAL AUDITING FEES

ADKL AG Wirtschaftsprüfungsgesellschaft (formerly:Moore Stephens Düsseldorf Wirtschaftsprüfungsgesellschaft AG) was appointed as the auditor of Powerland AG and the Group for the financial year 2014. The following table gives an overview about the calculated fees of audit service recognised (including out-of-pocket expenses without VAT) in the business year.

Expenses recognised in profit or loss		
EUR ’000	**2013**	**2014**
Annual audit services	109	109
	109	**109**

In addition to the audit fee for ADKL AG Wirtschaftsprüfungsgesellschaft, EUR 106 thousand for Moore Stephens Da Hua Certified Public Accounts, Bejing and Fujian Office, China, for audit services are accrued.

37 DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

Pursuant to section 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 http://www.powerland.ag and will be available permanently.

38 VOTING RIGHTS CHANGE

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.

During the reporting period, there is no voting rights change to these shares in accordance with the WpHG.

39 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.

40 PROPOSAL ON THE UTILISATION OF POWERLAND AG'S NET RETAINED EARNINGS

The German financial statements of Powerland AG reflect retained earnings of EUR 3.3 million. The Management Board and the Supervisory Board will not propose any dividend payments for the current financial year.

41 APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized for issuance by the Company's Management Board on 27 May, 2015.

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 / Frankfurt am Main, 27 May 2015

Management Board

Shunyuan Guo

AUDITOR'S OPINION

We have audited the consolidated financial statements - consisting of a balance sheet, income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement as well as the notes to the consolidated financial statements - and the group management report of Powerland AG, Frankfurt am Main, for the business year from 1 January to 31 December 2014. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, the provisions of German commercial law pursuant to § 315a (1) HGB ("Handelsgesetzbuch": German Commercial Code) and the supplementary provisions of the company agreement are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion of the consolidated financial statements and group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (German Institute of Independent Auditors) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the generally accepted accounting principles and in the group management report are detected with reasonable assurance. In defining the audit actions, consideration was given to information as to the Company's business activities, the economic and legal environment of the Company and expectations as to potential errors. In the course of the audit, the effectiveness of accounting-related internal control systems and documentation for information given in the bookkeeping, consolidated financial statements and group management report were assessed, generally based on random spot checks. The audit included an assessment of the accounting principles applied and the essential assessments by the legal representatives, as well as an evaluation of the overall presentation in the consolidated financial statements and group management report. We believe that our audit provides a sufficiently secure basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements are in compliance with the IFRSs, as adopted by the EU, the statutory provisions of German commercial law pursuant to sec. 315a para. 1 HGB and the supplementary provisions of the company agreement and convey a true and fair view of the Company's financial, earnings and liquidity position, with due regard for generally accepted accounting principles. The group management report is consistent with the consolidated financial statements and generally gives an accurate presentation of the situation of the Company and accurately represents the opportunities and risks of future development.

Duesseldorf, May 28, 2015

ADKL AG Wirtschaftsprüfungsgesellschaft

sgd. Klaus Verstegen Wirtschaftsprüfer (German Public Auditor)	sgd. Bernd Lenzen Wirtschaftsprüfer (German Public Auditor)

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