UNITED POWER TECHNOLOGY

# Annual Report 2014


聯合動力
UNITEDPOWER

# Key Financials

| | | 2014 | 2013 | +/–% |
|---|---|---|---|---|
| Revenues | EUR million | 95.59 | 103.67 | –7.79 |
| Gross profit | EUR million | 16.36 | 20.67 | –20.85 |
| Gross profit margin | % | 17.12 | 19.94 | –2.82pp |
| EBIT | EUR million | 9.09 | 13.88 | –34.51 |
| EBIT margin | % | 9.51 | 13.39 | –3.88pp |
| Profit for the period | EUR million | 5.44 | 10.00 | –45.60 |
| Profit for the period margin | % | 5.69 | 9.65 | –3.96pp |
| Earnings per share [1] | EUR | 0.44 | 0.82 | –46.34 |

1) EPS for 12 months 2013 and 2014 is based on the weighted average of shares (12.30 million shares)

**Revenue by region by end user based on internal analysis** (in EUR million)[1]

| Region | 2014 | 2013 |
|---|---|---|
| China | 24.6 | 26.2 |
| Europe | 32.7 | 37.4 |
| North America | 15.3 | 16.7 |
| Other regions | 23.0 | 23.4 |
| **Total** | **95.6** | **103.7** |

1) Revenue split by end consumer

**Revenue by segment** (in EUR million)[1]

| | 2014 | 2013 |
|---|---|---|
| Commercial generators | 49.3 | 54.2 |
| Residential generators | 42.7 | 43.3 |
| Components | 0.5 | 1.7 |
| Outdoor power equipment | 3.1 | 4.4 |

1) Based on (non-consolidated) segment information as per the accounts

# United Power Technology Group

**United Power Technology Group** is a leading manufacturer of engine-driven power equipment in China. We design, develop, manufacture and sell an extensive range of generators, outdoor power equipment and components such as engines. Our major products comprise residential as well as commercial generators, which are currently delivered into more than 70 countries around the world.

## Content

# Members of the Management Board

### Mr Xu WU
Chairman, Co-CEO
Co-founder and major indirect shareholder

Responsible for government and key domestic accounts relationships as well as Group strategy

### Mr Zhong Dong HUANG
Deputy Chairman, Co-CEO
Co-founder and major indirect shareholder

Responsible for strategy and general management of the Group

### Mr Oliver KUAN
CFO

Responsible for finance function of the Group

# Dear Fellow Shareholders,

While we have taken important steps in 2014 to prepare for an expected upswing in the industry, the financial year 2014 has all in all been a challenging year for our company. This was primarily due to three factors: Firstly, adverse market conditions have continued to prevail in 2014. This includes on-going industry consolidation in China and accompanying price competition, which commenced to affect us since the second half of 2013. Secondly, we have seen another year that our industry has suffered from a quiet hurricane season, leading to decreased demand for portable power solutions. In addition, economic uncertainties in connection with the political conflicts in the Ukraine and a weakening Rouble have negatively affected some of our key markets in Europe.

Against the background of these developments, we achieved Group revenues of EUR 95.6 million in 2014. This represents a decline of 7.8% compared to the previous year. The adverse market conditions have also affected our profitability. We realized a lower operating result (EBIT) of EUR 9.1 million and an EBIT margin of 9.5%. At the same time, cash and cash equivalents significantly increased from EUR 38.8 million in 2013 to EUR 50.2 million in 2014, a plus of 29.3%. This was primarily due to new short-term borrowings, which were raised because of the higher investment activities in connection with the Group's expansion. At the same time, the Group's total equity grew by 12.7% to EUR 123.4 million (2013: EUR 109.5 million) due to positive currency effects and higher retained earnings. Despite a stronger equity position our equity ratio decreased to 76.5% (2013: 84.4%) due to the combination of the effects described above.

On a segment level, the decrease in revenue did affect all our major product segments. Revenues from the commercial generator segment decreased by 9.0% to EUR 49.3 million. Revenues from the residential generator segment fell by 1.6% to EUR 42.7 million. In addition to the aforementioned factors, austerity measures in our home market and resulting reduced spending on construction activity affected our results in the commercial generator segment. Our revenues generated from the outdoor power segment were EUR 3.1 million, a decrease compared to last year's comparable period in which we achieved EUR 4.4 million. The strategically less important component segment recorded a decrease in revenues from EUR 1.7 million to EUR 0.5 million in 2014. Despite the fact that our results are broadly in line with our revised guidance for the financial year 2014, we cannot be satisfied with them.

Nevertheless, despite the challenging business environment we have been able to achieve further steps regarding the implementation of our three-pronged growth strategy, consisting of scaling up the size of our products, broadening the range of engine-powered products and further geographic expansion and penetration: in the second half of 2014 we reached the final stage of completing the buildings of the phase 3 expansion of our production site in Gaoqi Industrial Park. In total we have added four new four-story factory buildings with a total usable factory space of more than 45,000 sqm and one new dormitory to the current factory space. The first additional production lines we expect to complete in 2015. However, in the meantime, given the prime location of the production facilities in Gaoqi Industrial Park, not utilized factory space may be rented to third-party companies providing an additional income stream.

Furthermore, we have enhanced our product portfolio in 2014, focusing on generators with higher output and larger engine sizes. As a result, our top five products represent approximately a third of our total revenues showing the breadth of our product range and proving that we are not reliant on any single product. We have channelled more resources into our R&D activities in order to accelerate new product development as well as modifications in order to meet new technical requirements and the demand of our customers. Correspondingly, in 2014 our R&D expenses increased by more than 14 % compared to 2013. We have focused our R&D activities on outdoor power equipment and larger size generator in line with the strategy of the company. As a result our R&D department worked on 15 new products in 2014, spanning all our four segments, of which ten products were already successfully completed. Finally, we have also been able to address to a large extent the new technical requirements, which have impeded our sales in Europe.

This year we will focus on significantly stepping up the sales and brand building effort as well as the development of larger generators including industrial generators and both our sales and distribution as well as R&D budgets will be significantly increased towards meetings these objectives. The capacity expansion in 2014 and our efforts in 2015 will all strengthen our company, products and brand and are designed to optimally position us for the upswing in our industry. However, while we are confident that these measures will bear fruits over the mid and long term, we expect overall the financial results in the full year 2015 again to be weaker than in 2014: concerning the group revenues we expect to halt the downward trend in 2015 assuming a stable RMB:EUR exchange rate of 6.7:1.

As far as our profitability is concerned we expect gross profit and EBIT margins to drop by 2 to 5 percentage points compared to 2014 due to further price adjustments, higher fixed asset depreciation as well as the aforementioned significant step up in sales, brand building and distribution as well as research and development budget. Nevertheless, we remain confident about our continuing profitable growth prospects particularly over the medium to long term.

On this note, I would like to thank you, our shareholders and business partners, for your trust and valued cooperation. At the same, we would like to express our gratitude to all our employees for their tireless commitment.

Kind regards,

Xu Wu
Chairman of the Management Board

# Report of the Supervisory Board

In the financial year 2014, the Supervisory Board again conscientiously fulfilled the tasks incumbent upon it pursuant to law, the company articles and the rules of procedure. We continuously advised and supervised the Management Board in the management of the company.

The Management Board regularly provided us with information on corporate planning, business operations, strategic development as well as on the current state of the group. On the basis of the Management Board's reporting, we discussed the business development as well as the measures and business activities to be decided upon with the Management Board. As chairman of the Supervisory Board, I was furthermore in regular contact with the Management Board also in between the meetings of the Supervisory Board and informed myself about the current development of the business situation and key business issues.

## Topics of the Supervisory Board Meetings

In the financial year 2014, the Supervisory Board held four meetings with physical presence of the members and passed further resolutions beyond these meetings. The members of the Supervisory Board participated in the aforementioned meetings by appearing in person or participating via telephone conference. In the reporting year, all of the members of the Supervisory Board attended all meetings and participated in the passing of all resolutions of the Supervisory Board. Since the Supervisory Board consists of only three persons, it has not formed any committees. The entire Supervisory Board handles the relevant topics.

**The major topics of the Supervisory Board meetings and the resolutions adopted:**

During the Supervisory Board meeting held on 6 January 2014, the Supervisory Board reviewed the latest financial report, the latest internal audit report, the share option plan and the report from the financial forum in Frankfurt. Additionally, the Supervisory Board visited the R&D department and reviewed the report from the head of R&D department.

During the Supervisory Board's meeting held on 9 April 2014, the auditor from Deloitte Touche GmbH reported to the Supervisory Board the results of the audit regarding the management report and group management report, the annual financial statements and the consolidated financial statements as well as the notes for financial year 2013. The Supervisory Board also reviewed the Directors' Remuneration and acknowledged this with no further comments. In additional, the Supervisory Board discussed the investment plan 2014, the dividend policy and the latest internal audit report.

By resolution as of 11 April 2014, the annual financial statements submitted by the Management Board were agreed. The Supervisory Board also approved the consolidated financial statements. The Supervisory Board also agreed to the management report. Furthermore the report of the Supervisory board has been agreed.

By resolution via telephone and email as of 16 May 2014, the Supervisory Board together with Management Board decided to postpone the annual general meeting.

During the Supervisory Board's meeting held on 26 June 2014, we reviewed the report on executed investment in 2014, the latest financial report, the internal audit report, and approved the acquisition of the remaining 49% shares of our subsidiary company "Fujian Di Sheng Wan Kai Machinery Co. Ltd."

By resolution the Supervisory Board approved the partial conversion of an intercompany loan into equity in HK United Power Equipment Co., Ltd. on July 1, 2014.

On 5 July 2014, we passed our resolution regarding the agenda for the annual general meeting on 20 August 2014 via email.

During its meeting held on 19 August 2014, the Supervisory Board dealt with the activities to accelerate R&D as well to optimize quality and cost of the current range. We also reviewed the report on investments for the new building of the factory, the latest financial report and the reports regarding the internal audit as well as risk management.

During the meeting held on 16 November 2014, we reviewed the latest financial report, the revised full year forecast, and the latest internal audit and risk management reports. We especially dealt with the latest sales activities to catch up with order intake. We also approved a resolution that granted 86,100 stock options in accordance with the subscription conditions of the stock option plan 2012 to the Management Board member Oliver Kuan.

## Annual financial statements and consolidated financial statements for 2014

The auditing company Deloitte & Touche GmbH, Wirtschaftsprüfungegesellschaft, Frankfurt am Main, was elected by the General Shareholders' Meeting of 20 August, 2014 as the independent auditor for the annual financial statements and the consolidated financial statements for the financial year 2014.

The present management report and the annual financial statements of United Power Technology AG as of 31 December 2014 prepared in accordance with the HGB (Handelsgesetzbuch, German Commercial Code), the consolidated financial statements as of 31 December 2014 prepared in accordance with the IFRS/IAS, and the group management report, including the accounting records, have been audited by the independent auditor and an unlimited audit opinion has been issued with respect to them. In accordance with the relevant legal provisions, the group's risk management system was inter alia, in particular, a focal point of the audit as well as the internal control system, the cash situation, the revenue and accounts payable existence as well as any potential related party transactions.

The Supervisory Board obtained information on the progress of the audit from the independent auditor on a regular basis. The annual financial statements, the consolidated financial statements and the combined management report of United Power Technology AG and United Power Group and the audit reports were made available to all members of the Supervisory Board and were thoroughly assessed at the accounts review meeting of the Supervisory Board on 20 April 2015 in the presence of the independent auditor. The independent auditor submitted a report on the main findings of his audit. In particular he gave details on the company's and the Group's assets, financial condition and results of operations and was prepared to provide any additional information on request.

The Supervisory Board itself also carefully reviewed the annual financial statements, the consolidated financial statements and the management report of United Power Technology AG and United Power Group for the financial year 2014 and determined that there were no objections to the final results of this audit. The audit reports submitted by the independent auditor were reviewed by the Supervisory Board. There were no objections. With the resolution of 6 May 2015, the annual financial statements submitted by the Management Board was agreed and thus been approved. The Supervisory Board also approved the consolidated financial statements. The Supervisory Board agreed to the management report for United Power Technology AG and the Group. After careful consideration, the Supervisory Board adopted the proposal made by the Management Board concerning the appropriation of net income as it became convinced that, with due regard to the legitimate interests of the shareholders, the provision for the company is preserved.

## Corporate Governance

In addition, the Supervisory Board focused on corporate governance issues and considered the recommendations and suggestions of the German Corporate Governance Code. The Management Board and the Supervisory Board adopted a joint declaration of conformity in accordance with Section 161 of the AktG. This declaration of compliance is available for inspection in the Corporate Governance Report and also on the company's website. The recommendations set forth in the German Corporate Governance Code have been implemented with the exception of the points listed in the declaration of conformity. The Supervisory Board is not aware of any conflicts of interest on the part of the Supervisory Board.

For additional information, please refer to the Management Board's and the Supervisory Board's joint Corporate Governance Report.

## Composition of the Supervisory Board

The members of United Power Technology AG's Supervisory Board are Mr. Wei Song (Chairman), Mr. Hubertus Krossa (Deputy Chairman), and Mr. Brian K. Krolicki

No changes occurred in the supervisory board of the company in 2014.

On behalf of the Supervisory Board, I would like to thank all employees of the group's companies and the company's Management Board for their active commitment and achievements throughout the past financial year.

6 May 2015

On behalf of the Supervisory Board

Wei Song
Chairman of the Supervisory Board

# Members of the Supervisory Board

### Mr Wei SONG
Chairman of the Supervisory Board

- Co-founder and major indirect shareholder
- Formerly member of the management of the Group

### Mr Hubertus KROSSA
Deputy Chairman of the Supervisory Board

- Member of the Supervisory Board SFC Energy AG, Brunnthal
- Chairman of the Supervisory Board of Balfour Beatty Rail GmbH, Munich/Germany
- Chairman of the Supervisory Board of Eckelmann AG, Wiesbaden/Germany
- Member of the Supervisory Board of ALNO AG, Pfullendorf/Germany

### Mr Brian K. KROLICKI
Member of the Supervisory Board

- Former Lieutenant Governor of the US state of Nevada
- Former State Treasurer of the US state of Nevada
- Former Chairman of the state of Nevada Commission on Economic Development
- Former Chairman of the state of Nevada Commission on Tourism
- Member of the Intergovernmental Policy Advisory Committee on Trade for the United States

# The Share

## Market environment

The German stock market displayed an overall volatile development in 2014. In the first half 2014 the financial market environment was characterized by a generally positive sentiment which was to a certain degree due to the on-going low interest rate environment. Increasing uncertainty marked the second half of the year due to the geopolitical uncertainties in Syria, Iraq and Ukraine as well as weaker economic prospects and the falling oil price. The key German stock index, the DAX, showed volatile lateral movement until the end of August. The index reached its low in the middle of October before realizing gains again during the second half of the year. Overall, the key German stock index reached an all time high in 2014 and passed the significant 10,000-point-mark on four occasions. The DAX ended the financial year 2014 with a plus of 2.7% following another growth spurt towards the end of 2014.

Despite a volatile development throughout the entire financial year, the SDAX, a comparative index for United Power, displayed a slightly better development in 2014 compared to the DAX. It started at 6,788 points at the beginning of the year and closed after a particular strong fourth quarter on 30 December 2014 at 7,186 points. It reached its lowest price on 16 October 2014 with 6,181 points. However, in total, the SDAX recorded an increase for the year 2014 of 5.9%.

## Share development

Over the course of the year United Power's share price was marked by a volatile downward trend. The share of United Power started on 2 January 2014 with a share price of EUR 3.08. During the reporting period, the share price reached its low at EUR 1.19 on 19 December 2014. The share closed at a price of EUR 1.40 on 30 December 2014. The decline should be seen in the context of increasingly negative sentiment against Chinese companies listed in Germany due to the emergence of several cases of serious irregularities during 2014.

## Dividend policy

In view of the lower revenues and earnings of United Power Technology in 2014 compared to the previous year and the on-going investment into expansion as well as possible acquisition opportunities, the Management Board and Supervisory Board have jointly decided not to propose a dividend for financial year 2014 to the Annual General Meeting on 26 August 2015.

It is the intention though to resume and gradually increase dividend payments as soon as the Management and Supervisory Boards are of the view that the exceptionally challenging industry circumstances impacting on the company have subsided and the company has resumed on a path of profitable growth.

## Designated sponsor and research coverage

United Power Technology has designated sponsorship and research coverage from the investment bank Kepler Cheuvreux, the lead manager of the company's IPO in 2011. All latest research notes can be found on the Investor Relations website of United Power under www.unitedpower.de.com/en.

In its latest research dated 14 November 2014 Kepler Cheuvreux has confirmed its recommendation of reduce with a target price of EUR 1.50 due to the unchanged level of the Group's business.

## Transparent investor relations

United Power Technology is determined to provide a comprehensive and transparent communication vis-à-vis its shareholders. Therefore, the Company has attended several investor conferences since its IPO, e.g. the DVFA Small Cap Conference (SCC) and the Equity Forum of the Deutsche Börse. Furthermore, the Company invites its shareholders periodically to investor presentations and conference calls and meets up with investors on road shows all over Europe.

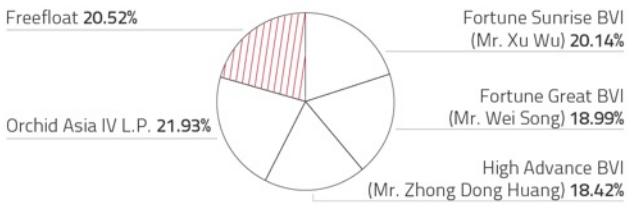
In the future, United Power will continue its transparent Investor Relations activities through further institutionalization and a continuous flow of information. Regular road shows, individual talks, telephone conferences as well as attendance at investors' and analysts' conferences are aimed at satisfying investors' information needs. An extensive range of information can be found on the Company's Investor Relations website under www.unitedpower.de.com/en. All of these activities are geared towards an objective and fair assessment of the Company.

**KEY DATA**

| | |
|---|---|
| ISIN/WKN/Ticker/Reuters | DE000A1EMAK2/A1EMAK/UP7/UP7G.DE |
| Market Segment/Stock exchange | Regulated Market (Prime Standard)/Frankfurt Stock Exchange |
| First Trading Day | 10 June 2011 |
| Shares issued (in shares) | 12,300,000 |
| Market capitalization (EUR million) | 17.22 |

as at 31 December 2014

**SHAREHOLDER STRUCTURE** (in %)




(as at 31 December 2014)

**SHARE PERFORMANCE** (January 1 to December 31, 2014)

# Corporate Governance Report

To comply with sec. 3.10 of the German Corporate Governance Code, the Management Board and Supervisory Board shall report once a year on corporate governance in the company. The corporate governance report of United Power Technologies AG also includes the declaration on corporate management required by sec. 289a of the German Commercial Code (HGB). The declaration on corporate management pursuant to sec. 289a of the German Commercial Code (HGB) comprises the declaration of conformity pursuant to sec. 161 of the German Stock Corporation Act (AktG), and descriptions of how the Management Board and Supervisory Board work, and of the composition and method of working of their committees.

The corporate governance report is also readily available in the internet at www.unitedpower.de.com/Investor Relations/Corporate Governance.

## Explanations according to sec. 161 AktG (Declaration of Conformity)

On 6 May 2015 the Management Board and the Supervisory Board of United Power Technology AG (the "**Company**") stated the following Declaration of Conformity pursuant to sec. 161 of the German Stock Corporation Act (AktG):

The Company complies with the recommendations of the „Government Commission German Corporate Governance Code" in the version of the Code as of 24 June 2014 – published in the Federal Gazette on 30 September 2014 – and will comply with them in the future, with the exception of the following recommendations:

- In the D&O insurance for the Supervisory Board, a deductible up to a certain amount has been partially agreed (deviation from no. 3.8 para. 3 of the Code). Based on economic considerations and due to the comparatively low remuneration of the Supervisory Board, the Company has decided to introduce a fixed deductible in certain cases.

- During the shareholders' meeting there was not and will not be any reporting regarding a general Management Board remuneration system and any changes in such system (deviation from no. 4.2.3 para. 6 of the Code). The information in the remuneration report is insofar considered to be sufficient.

- When determining the total remuneration of the individual members of the Management Board, the relationship between the remuneration of the Management Board and that of senior management as well as the staff overall has not been taken into consideration yet (deviation from no. 4.2.2 para. 2 s. 3 of the Code). Since this recommendation has come into force on 10 June 2013 the total remuneration of the members of the Management Board has not been redetermined yet. However, the Supervisory Board will consider the implementation of this recommendation when determining the total remuneration in the future.

- In connection with variable compensation components negative developments are not taken into account (deviation from no. 4.2.3 para. 2 s. 4 of the Code). In addition, with regard to the variable remuneration elements, subsequent amendments to the targets of success or to the comparison parameters are not excluded (deviation from no. 4.2.3 para. 2 s. 8 of the Code). Considering the relatively low performance remuneration for Management Board members, the Supervisory Board is of the opinion that neither such an exclusion nor the taking into account of negative developments is necessary.

- The remuneration of the Management Board is not limited by fixed caps regarding the long-term share-based variable payment and the overall remuneration of the Management Board (deviation from no. 4.2.3 para. 2 s. 6 GCGC). A retroactive amendment of agreements entered into with the members of the Management Board would be, in view of the principle of contractual fidelity, not appropriate, for the Company unilaterally not enforceable.

- As far as pension schemes for members of the Management Board are concerned, the Supervisory Board has not yet established the level of provision aimed for in each case – also considering the length of time for which the individual has been a Management Board member – and has not taken into account the resulting annual and long-term expense for the Company (deviation from no. 4.2.3 para. 3 of the Code). Since 10 June 2013, with this recommendation coming into force, no pension commitment has been made vis-à-vis a member of the Management Board. The Supervisory Board will consider the implementation of this recommendation when making a pension commitment in the future.

- The Supervisory Board and the Management Board members have not stipulated how to proceed in case of a premature termination of the Management Board contract (deviation from no. 4.2.3 para. 4 of the Code). Therefore the provisions of law apply in this case. The Company is of the opinion that the provisions of law are sufficient regarding the respective interests when it comes to the resignation of a Management Board member and is thus an appropriate basis.

- So far, abstract provisions requiring the approval of the Supervisory Board with regard to transactions of fundamental importance have not been specified, so that a deviation from no. 4.3.4 s. 3 of the Code is providently declared. However, an array of transactions of fundamental importance that are subject to prior approval are listed in the Management Board by-laws. The Company is of the opinion that it is easier for the Management Board to adhere to a specific catalogue than to abstract regulations.

- There is no general age limit for Management Board members (deviation from no. 5.1.2 para. 2 s. 3 of the Code) and for Supervisory Board members (deviation from no. 5.4.1 para. 2 s. 1 of the Code). However, the Management Board contracts contain an individual regulation stipulating that the employment ends automatically without notice by the end of the month in which the Management Board member turns 65 or – if he is born in 1947 or later – as soon as the regulation for pension annuity of the statutory pension insurance applying to him has become effective. The Supervisory Board does not consider strict age limits as a rule appropriate. In the opinion of the Company, it is not plausible why qualified persons with comprehensive experience in career and life shall not be eligible for the Management Board or the Supervisory Board only because of their age.

- The Supervisory Board has not established any committees (deviation from no. 5.3 of the Code). Due to the fact that the Supervisory Board only consists of three members and thus has a small size, the Company does not consider the establishment of committees necessary and, beyond this, is of the opinion that all items falling within the scope of responsibilities of the Supervisory Board should be discussed and decided by the full Supervisory Board.

- The Supervisory Board has not explicitly stipulated specific targets for its structure (deviation from no. 5.4.1 para. 2 and 3 of the Code). As recommended in no. 5.4.1 para. 2 of the Code, the Supervisory Board certainly takes the Company's situation, its international business activity, possible conflicts of interest and the number of independent Supervisory Board members within the meaning of no. 5.4.2 of the Code into consideration when it comes to its current and future structure. The Company has furthermore an open mind about female Supervisory Board members. At the moment and considering the small size of the Supervisory Board with only three members, the Company is of the opinion, however, that it is more appropriate to select candidates for the Supervisory Board according to the targets mentioned above but on a case-by-case basis instead of stipulating explicit regulations for the structure of the Supervisory Board in written form. The Company is of the opinion that the implementation of such regulations and continuous compliance with them would mean an inappropriately high effort at this point.

- When proposing a person for election as supervisory board member to the Annual General Meeting, the Supervisory Board does not intend to disclose the private and business relationships of such a candidate with the Company, its representative bodies and any significant shareholder structure (deviation from no. 5.4.1 paras. 4 to 6 of the Code). In the Company's opinion, the recommendation of the Code does not specify clearly which relationships of a candidate to what extent must be disclosed in order to comply with the recommendation. In the interests of legal certainty with respect to future elections to the Supervisory Board, the Management Board and Supervisory Board have decided to declare a deviation from the recommendation. The Company is of the opinion that the disclosure requirements of the German Stock Corporation Act are sufficient to meet the informational needs of the shareholders.

- Apart from regularly assessing the efficiency, the Supervisory Board does not carry out any other additional efficiency assessments on a regular basis (deviation from no. 5.6 of the Code) as the Company is convinced of its efficiency considering the size of the Supervisory Board and the size of the Company.

- Last year, the Company has not met the deadline of 90 days after the end of the financial year for the publication of its consolidated financial statements (deviation from no. 7.1.2 s. 4 of the Code) and will not meet this deadline this year either. As a young and international company, the Company places emphasis on applying utmost care in preparing its first consolidated financial statements as a listed company. Additionally, the required translations from Chinese make the preparations of the financial statements time-consuming.

## Information on the practice of Corporate Governance: Principles of Corporate Governance and economic management

The management and governing bodies of United Power Technology AG are committed to the principles of good and responsible corporate governance. The Company's aim is to gain and maintain the trust of its shareholders, customers and employees by managing the Company in a transparent and responsible manner and through close and constructive co-operation between the Supervisory Board and Management Board. Our company serves a dual purpose of both generating substantial profits and growth and thus shareholder value and also playing a key role in the field of portable generators.

The Company's system of internal control is designed to ensure the achievement of business objectives in operations, financial reporting integrity and compliance with applicable laws and regulations. The system of internal control can only provide reasonable but not absolute assurance that the financial statements do not contain a material misstatement or loss. The Company assists the Management Board with respect to its duty to identify, evaluate, and manage the significant risks faced by the Company. The Company implements the Management Board's policies and procedures to mitigate such risks by (i) identifying and assessing the risks the Company faces and (ii) designing, operating and monitoring a system of internal controls to mitigate and control such risks.

Our employee policies are described within the management report of the annual report. As a listed company, a reputable international auditor audits our accounts and we disclose significantly more information to our shareholders than required by law. Furthermore, we are using third-party experts to additionally advise and audit other parts of the business. We are consistently working on improve all aspects of our operations, including occupational health and safety, sales and distribution and our conduct as a corporate citizen.

## Shareholders and Annual General Meeting

The shareholders exercise their rights at the Annual General Meeting where they exercise their voting rights. The Annual General Meeting takes place within the first eight months of each financial year in accordance with the German Stock Corporation Act and with the Company's Articles of Association. All shares are pari passu equal to one vote at the Annual General Meeting. Shares with multiple voting rights or preference shares as well as maximum-voting rights do not exist. Shareholders have the option of exercising their voting rights at the Annual General Meeting in person, through a representative of their choice or through the Company's proxy representative. In the invitation to the Annual General Meeting, there are particular explanations about the conditions of participation, voting rules (also for assignees) and shareholder rights. The applicable documents, including the annual financial statements and agenda, which are legally required for the Annual General Meeting, are published under www.unitedpower.de.com/en. Subsequent to the Annual General Meeting, the attendance and voting results are published there as well.

## Management Board and Supervisory Board

### Management Board

In accordance with the laws for German stock corporations, United Power Technology AG has a dual board structure consisting of the Management Board and the Supervisory Board, each possessing its own competences. The system is characterised by a personnel separation between Management and Supervisory bodies. The Management Board is in charge of self-responsibly managing the Company, whereas the Supervisory Board is responsible for supervising and advising the Management Board. A member of the Management Board cannot be a Supervisory Board member at the same time and vice versa. The two boards work closely together in the best interest of the Company.

The Management Board of United Power Technology AG currently comprises three members, Mr Xu Wu, Mr Zhong Dong Huang and Mr Oliver Kuan, who are responsible for the management of certain areas of the Company such as the Company's strategy, negotiating key agreements, coordinating the daily operations as well as financial reporting, fund raising, investor relations and financial reporting to the Supervisory Board. The Company's key activities and financial performance are regularly circulated to the management team and the Supervisory Board. In addition, the General Management meets on a regular basis to discuss and make fundamental decisions. At these meetings, Mrs Fang Yu Wang, Financial Controller and Financial Manager, Mr Jia Yang Zhong, are present as well. The working relationship between the Management Board and the Supervisory Board is described in the report of the Supervisory Board within the annual report.

United Power Technology AG presents the remuneration of the members of the Management Board individually in the remuneration report, which is part of the management report.

**Supervisory Board**
The Supervisory Board of United Power Technology AG comprises three members, Mr Wei Song, Mr Hubertus Krossa and Mr Brian Krolicki. The Supervisory Board is responsible for supervising and advising the Management Board as well as for the election of the members of the Management Board, the determination of their remuneration as well as the review and approval of the annual financial statements and consolidated financial statements. The Chairman of the Supervisory Board maintains frequent contact with the members of the Management Board to discuss issues of particular importance.

In particular, the Supervisory Board looked into the financial reporting process, the effectiveness of the internal risk management system (RMS) and internal control systems (ICS), the effectiveness of internal audit systems and the auditing process and conducted interviews with key personnel in the finance department. The close and confident working relationship between the Management Board and the Supervisory Board is described in detail in the report of the Supervisory Board within the annual report.

**Directors' dealings**
Pursuant to section 15a of the German Securities Trading Act (WpHG), members of the Management Board and the Supervisory Board, other key employees as well as related people, must immediately declare any purchase or disposal of shares in United Power Technology AG to the Federal Financial Supervisory Authority (BaFin) as long as the total consideration is larger than EUR 5,000 within one calendar year. In 2014, such a purchase or disposal of shares in the Company did not occur and, hence, where not declared to the Federal Financial Supervisory Authority.

As at the date of preparation of this report the members of the Management Board directly or indirectly hold 38.56% and taking into consideration the imputation regulations pursuant to WpHG in total 57.55% of the shares and voting rights in United Power Technology AG. At this date, the members of the Supervisory Board directly or indirectly hold in total 19.03% and taking into consideration the imputation regulations pursuant to WpHG in total 57.58% of the shares in United Power Technology AG.

**Accounting and auditing**
The annual consolidated financial statements of United Power Technology AG are prepared pursuant to the International Financial Reporting Standards (IFRS) and the individual financial statements of United Power Technology AG are prepared according to the German accounting rules and the German Commercial Code (HGB). Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft was appointed by the Annual General Meeting as auditor and has audited the consolidated and annual financial statements. The auditors attended the Supervisory Board's meeting, when the annual and consolidated financial statements were approved, and reported on the main results of their audit.

## Corporate Compliance

Compliance with the relevant statutory provisions for its operations and internal company policies (hereinafter also referred to as 'Corporate Compliance') is an essential part of United Power Technology AG's corporate governance and it is one of the key duties of all business areas to ensure the compliance with the prevailing policies in the individual areas of responsibility.

The Company has adopted a code of business conduct and ethics (the "Code of Conduct"), which provides guidance about doing business with integrity and professionalism. The Code of Conduct addresses issues that include fraud, conflicts of interest, corporate opportunities, protection of intellectual property, transactions in the Company's securities, use of the Company's assets, and relationships with customers and third parties. Any violation of the Code of Conduct is reported to the management team, which will subsequently report such violation to the Audit Committee.

In addition to the Code of Conduct, the Company has employee manuals/policies, which are communicated to all employees. All employees are required to sign an agreement on compliance with the Group's Code of Conduct and ethics when they join the Group. Departures from the Group's approved policies and procedures are prohibited and sanction will be imposed for non-compliance.

All business activities in China are carried out in strict compliance with Chinese laws and international conventions.

## Risk Management

United Power Technology AG's risk management policies are described in detail in the chapter 'Risk Report'. They are designed in accordance with statutory provisions to detect significant risks early, so that appropriate measures can be taken in order to minimise, diversify, transfer or avoid risks thus ensuring the continuity of the Group. The risk management process is supported through the controlling and auditing functions.

### Avoiding conflicts of interest

In the year under review, conflicts of interest of Management Board members or Supervisory Board members were not reported to the Supervisory Board, which is responsible in this case.

## Transparency

Shareholders and other interested parties can obtain information about United Power Technology AG's standing and business development through financial reports (annual and interim reports), press conferences on financial statements, analyst and press interviews, press releases and/or ad hoc announcements and through attending the Annual General Meeting. Current information is permanently available and may be obtained from the Company's webpage under www.unitedpower.de.com/en, providing all relevant information both in German and English. Apart from extensive information about the United Power Technology AG Group and regarding the United Power Technology AG share, the webpage contains the Company calendar providing an overview about all-important events.

Eschborn, 6 May 2015

United Power Technology AG

Supervisory Board Management Board

# Group Management Report

GROUP MANAGEMENT REPORT

# Management Report

## Group structure and business operations

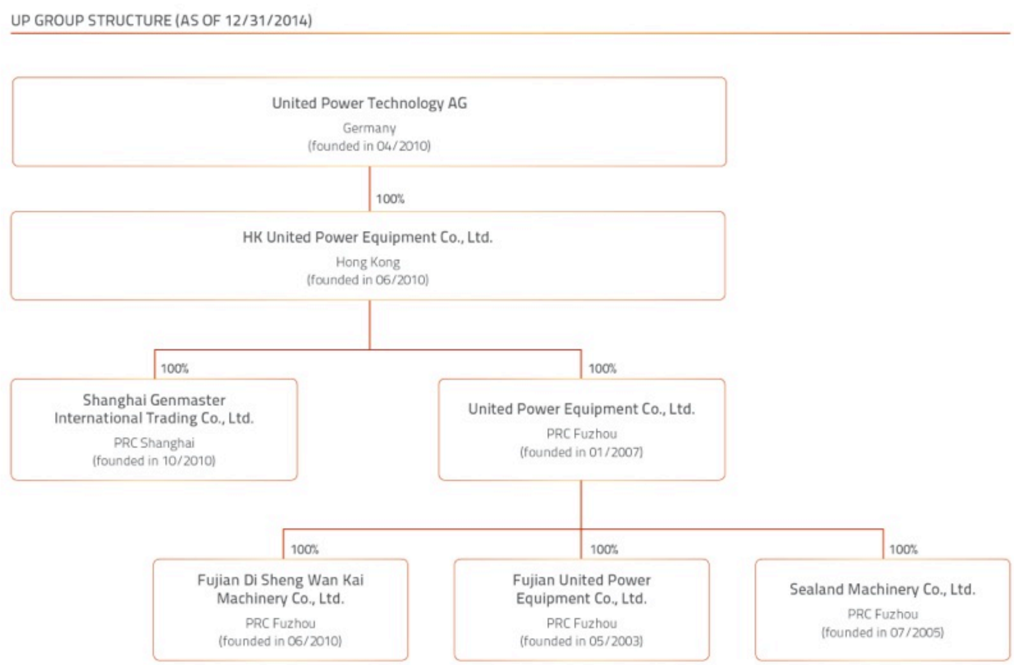
### Legal group structure

United Power Technology AG is the ultimate holding company of United Power Technology Group. The economic development of the holding is to a large degree depended on the development of the respective subsidiaries abroad. The holding company and all subsidiaries are included in the consolidated financial statements where United Power Technology AG has direct or indirect control. United Power Technology AG is a public limited company under German law. The Company is registered with the Commercial Register of Frankfurt/Main, Germany under HRB 88245. The Company has been listed on the regulated market of the Frankfurt Stock Exchange since 10 June 2011.

The intermediate holding company United Power Equipment Co., Ltd. ("UP HK-Holding") is located in Hong Kong. The operating companies, United Power Equipment Co., Ltd. ("UPEC"), Fujian United Power Equipment Co., Ltd. ("FUPEC"), Sealand Machinery Co., Ltd. ("SMC"), Fujian Di Sheng Wan Kai Machinery Co., Ltd. ("DWC"), Shanghai Genmaster International Trading Co., Ltd. ("Genmaster Shanghai"), are located in Fuzhou and Shanghai. In 2014 UPEC acquired the remaining 49% stake in DWC. All companies are subsidiaries and are included in the consolidated financial statements of United Power Technology AG.

The number of consolidated companies has changed compared with last year. The wholly owned subsidiary companies Hua Tong Zhong Chuang, Co. Ltd underneath Fujian United Power Equipment Co., Ltd. and United Power France SASU which had been dormant were both closed due to rationalisation. None of these subsidiaries contributed a significant part of revenues or earning to the group.

### UP Group structure



## Business segments and organisational structure

United Power Technology Group designs, develops, manufactures and sells an extensive range of engine-driven power equipment, including generators, outdoor power equipment and components such as engines. Business segments can be divided into portable generators, outdoor power equipment and components. Business segments are supported by the holding function of United Power Technology AG. The production facilities of the Group are located in Fuzhou, China. Our major products comprise residential as well as commercial generators, which are currently delivered to our customers in more than 70 countries around the world. Our main markets are the “home” market (China) and overseas markets, in particular North America and Europe. Furthermore we sell our products to other overseas markets.

In selected markets such as China, Africa (Kenya, Libya, South Africa), Malaysia, Philippines, Papua New Guinea or Russia we sell our own branded products. In the other markets our products are usually developed and manufactured by United Power and branded by third parties. United Power is a leading Original Design Manufacturer (ODM) which develops and produces its products for leading Original Equipment Manufacturers (OEMs), wholesalers and retailers such as Lowe’s, GMC and B&Q.

## Internal control system

We have developed an internal control system, which combines strategic planning with value-based management geared towards sustainable profitable growth in the medium to long term. Our goal is to achieve continuous improvement relative to the market and our competitors. Our key performance indicators are of financial and quantitative nature and support the management decision-making processes. We define revenue growth and profitability as our main performance indicators.

We see the development of our revenue growth as an essential indicator for measuring United Power’s success. For purpose of measuring, monthly revenue performance is segmented by products, geographies we operate in and branded versus ODM sales.

Our key profitability performance indicators include both gross profit as well as EBIT margin on group level. The gross profit margin was added in 2013 as an additional key profitability indicator to have more granularity in our analysis. Gross profit margins are reviewed and analyzed on a regular monthly basis according to the same segmentations as the ones listed above. Gross margins include all direct cost of goods sold such as raw materials, labour, fixed asset depreciation factory level overheads etc. and are therefore useful indicators of each of the segment’s absolute as well as performance relative to each other and overtime. As our overhead costs are comparatively low our EBIT margins are reviewed and analyzed on at least a quarterly basis. Overhead costs are in any case subject to close on-going scrutiny. Also on at least a quarterly basis we review other financial and qualitative metrics such as liquidity, working capital as well as productivity figures. In addition our sales department provides regular rolling sales projections, which are being reviewed and analyzed by the finance department and senior management. The purpose is to analyse deviations from the estimate of the previous quarter as well as from the overall plan, and to take corrective action if needed.

Our Company is managed through regular discussions by the Management Board and by the managers of the business segments. The Management Board is informed on a monthly basis as to the development of key financial ratios and early operating indicators for both the Group and the business segments, with the primary focus on revenue, costs, earnings, personnel, investment and other key ratios.

Key elements of our internal control system comprise the following measures:

- Annual strategic planning meetings to decide on investment and innovation targets
- Regular meetings of the Management Board to review strategic goals and performance
- Monthly reporting of the business segments
- Regular review of key financial performance indicators by management
- Risk and opportunity management
- Regular reporting to the Supervisory Board

The continuous involvement of all business segments in risk management and the internal control system guarantees the fast response to changes in all areas and at all decision levels of United Power Group. Management and the Management Board are notified immediately of any significant changes that are relevant to earnings within an individual area of the business.

# Research and development

Our aim is to become a leading manufacturer of engine-driven power equipment globally. Therefore we are continuously spending substantial efforts to improving and enhancing our existing product range as well as developing new products to meet the diverse requirements of the global market place. One of our key pillars for future growth is the continuous development and the strengthening of our Research and Development (R&D) capabilities. We therefore are seeking to allocate more resources towards this goal. This has also been reflected in a higher R&D budget for 2015. For the full year 2014 we invested EUR 1.21 million (2013: EUR 1.06 million). This is a year-on-year increase of 14%.

We have a strong in-house R&D team currently consisting of 57 members. They are dedicated to quality improvements and innovation. In addition we are closely cooperating with the Fuzhou Institute of Technology and Tianjin Internal Combustion Engine Research Institute especially in design and patent issues.

Our R&D department worked on 15 new products in 2014 most of which have completed the testing phase and some entered mass production. The new products span all our four segments.

In the segments of residential and commercial generators, our R&D team completed the development and/or testing of six new generator types. This includes a new 3KW inverter generator aimed at the mid and high end market; the newly designed, user friendly high-end SX7150 generator with improved performance stability; a 12KW diesel generator one of our pioneering models into the market of larger generators; a new 10KW ultra silent 2 cylinder diesel generator; the low cost VENSH type generator mainly aimed at the Russian market. We also completed the pilot run of the new T Generator with Automatic Voltage Regulator (AVR) technology to maintain a constant waveform more similar to the ones produced by city power which is mainly aimed at the US market.

In the segment of outdoor power equipment, we developed and/or tested each two models of water pumps and two models of high-pressure washers. Both water pumps feature design improvements and one features an expanded fuel tank for prolonged usage. The two high-pressure washers include the horizontal axis 1600 PSI model with a 1.5 GPM flow rate and one 4200 PSI model with 4.5 GPM.

In addition, we strengthened our core engine competency by developing four new engines. The new engines are an improvement over existing models due to their higher efficiency, lower cost and/or compliance to new environmental or other quality standards and requirements to meet the high standards of North America and Europe. They include a new engine for the T-type generator; the lightweight 14KW/3600 RPM diesel engine; the high durability UP170 engine as well as an engine for usage with our high pressure pumps.

# Economical report

## Economic and business environment

### Economic environment

In 2014 the global economy grew at a stable rate compared to the previous year. The International Monetary Fund (IMF) determined a global growth rate of 3.3% for 2014 (2013: 3.0%). However, the individual economies developed quite differently. The industrialized countries reached a growth of 1.8% (2013: 1.4%). At the same time the emerging economies have shown a growth of 4.4 %, which represents a year-on-year decline of 0.3 percentage points (2013: 4.7 %). The main reasons for the decline were the on-going geopolitical crises in Syria, in Iraq and the Ukraine and the economic uncertainties resulting from them. In contrast the sharp decline of the global oil price especially in the second half of 2014 influenced the economic development positively.

China's economic growth in 2014 was 7.4 % and therefore slightly weaker than in the previous year (2013: 7.7%). This was to some extent caused by a decline in exports due to higher prices for consumer goods and by lower government investments to support the domestic economy. China's growth rate of 7.4 %, was however still considerable higher than the average growth rate of the emerging market countries.

According to the IMF the GDP growth in Europe was 0.8 % in 2014 and therefore substantially improved compared to the previous year (2013: –0.4%). However, the major European economies also showed a somewhat diverse development. While France remained relatively stable with a growth of 0.4% (2013: 0.3%), Spain grew by 1.3%, showing a substantial improvement (2013: –1.2%). At the same time Italy's economy represented itself stabilized compared to the previous year with a decline of only –0.2% (2013: –1.9%).

Within the European context the German economy displayed a relatively strong growth of 1.4% (2013: 0.5%). The economy in Germany notably benefited from strong domestic demand due to low interest rates on savings as well as from a high level of employment due to strong exports mainly caused by the weakened euro and the sharp decline of the oil price.

### Industry environment

For 2014 there was no comprehensive market research covering all our market segments. However, according to a study published by the research company "Companies and Markets", the global generator market is expected to grow at a compound annual growth rate (CAGR) of 6% until 2019, reaching a total market volume of 22 billion U.S. dollars by 2019. Growth is mainly expected in the emerging markets as the GDP and accordingly the demand for electricity is growing fast in these countries. According to the study the market in India is growing from 1.2 billion U.S. dollars to 2.54 billion U.S. dollars by 2020 and in China from 2.4 billion U.S. dollars to nearly 5.5 billion U.S. dollars by 2020. The North American, the Middle East & African regions are also key markets, where power rental business are expected to create substantial growth prospects for the industry. Furthermore, the rental industry of power generators is projected to also grow at 9% CAGR from 2013–17.

Overall, the global demand is driven by factors such as supply uncertainties and disruptions due to aging grids (particularly in North America), failing grids due to natural disasters and underdeveloped grids particularly in emerging markets as well as inadequate investment in new capacities. According to the North American Electrical Reliability Council (NERC) 30% to 50% of the transmission and distribution network in the United States is 40 to 50 years old. Furthermore, over 14 million households in the U.S. have very low electric penetration. Thus, there is an increasing demand for generators for backup power in residential, commercial and industrial applications.

Compared to the North American and European market, the Chinese generator industry is more fragmented. However, similar to what has already happened in developed markets the Chinese generator industry is also undergoing an on-going consolidation process. We believe partly because of the challenging global industry environment over the last few years and the general deceleration of growth in China, the consolidation process in the Chinese generator market has continued in 2014. We have already experienced increased price competition last year as some of the less competitive players are fighting for survival. We have already evidenced that some competitors – particularly smaller and financially weaker ones – withdraw and we expect that this process will further accelerate. We believe that United Power will emerge from this as a stronger player with a reputation of quality and reliability.

In the generator market in Europe we experience continued weakness in consumer demand. The Ukraine crisis and weaker rouble will also continue to have an impact on our business as Russia in particular is an important market for us in Europe. The weaker rouble and current economic situation is translating in reduced demand from our Russian customers. Also the crisis in Syria and Iraq will bring further uncertainties for our sales region Middle East.

### Legal and economic factors impacting on the business

United Power Group has to follow different national and international statutory provisions. Apart from general statutory provisions industrial safety regulation and healthy protection are of particular relevance for the Group.

Land ownership in China, our country of origin, is basically reserved for the government. Therefore United Power is operating its business on property leased over the long term.

Due to foreign exchange control, in China the RMB is not completely freely convertible. In many cases payments to foreign countries must be approved by the authorities.

In terms of economic influencing factors, energy and raw material costs as well as the development of the RMB, EUR US Dollar exchange rate is of particular importance. While energy and raw material costs have been relatively stable during 2014, we have seen the exchange rates impacting on our performance. Appreciation of the RMB against the USD put pressure on the margins of our products, which are sold in USD as our cost base is predominately RMB based. Also, we saw a weakening of the EUR against the RMB particularly in the latter half of 2014. A persistently weaker EUR is expected to lead to lower demand for our products from Europe in the medium and longer term, in the short term a weaker EUR means that our revenues which are earned in RMB and USD amount to more in EUR terms.

### Statement of the Management Board on business development in 2014

Against the background of a continued challenging industry environment, our revenues decreased by 7.79% in 2014 compared with 2013. In total, United Power Group generated revenue of EUR 95.59 million in the reporting period. This weakness is due to a variety of factors including deceleration of the Chinese economy and related continuous consolidation in our industry in China, the Ukraine crisis and rapidly depreciating rouble which affected sales in Russia which is an important sales market for us as well as the quiet hurricane season in North America. The ongoing economic recovery in the developed markets did not compensate for the factors which had a detrimental impact on our sales mentioned above. During 2014, United Power focused on laying the foundations for further profitable growth once our industry environment improves again.

For most part, the United Power Group has no long-term agreements on fixed pricing and quantities. Disclosure of the order levels for United Power Group and its business areas is therefore not a relevant key performance indicator for evaluating short and medium-term earnings potential.

Our EBIT decreased by 34.51% to EUR 9.09 million and the EBIT margin decreased from 13.39% in 2013 to 9.51% in 2014. The decrease in margin was due to a variety of factors including price adjustment and resulting decrease of the gross profit margin, provision for bad debt and a larger R&D budget.

In 2014 we invested EUR 17.96 million, mainly into capacity expansion, namely the new third phase factory buildings as well as an additional dormitory building. The total number of staff was 589 as at 31 December 2014. A year-on-year decrease of 7.7% compared to the previous year. This was mainly due to adjustments of our production personnel and administrative personnel as a result of streamlining and continued automation.

## Comparison of actual business development versus guidance

### Revenue guidance

Our guidance in our 2013 annual report was a slight year-on-year decrease of our revenues for 2014 compared to 2013. This compares to actual revenues of EUR 95.59 million constituting a 7.79% decrease from 2013. While the drop in revenues exceeded our expected revenue at the beginning of 2014 it is in line with our revised guidance communicated with our half-year results announcement in August 2014. Then we revised our previous revenue guidance from a slight year-on-year decrease of our revenues to a decline in revenues in an amount possibly exceeding the percentage decrease for the first half of 2014 (–5.5%). On a segment level we expected for 2014 that both our commercial generator segment and the residential generator segment would decline. In line with the group development, revenue in the commercial generators segment fell by 9.02% to EUR 49.34 million and the residential generators segment decreased by 1.57% to EUR 42.67 million. Despite the fact that our commercial generator segment remained the largest segment, we could not achieve our expected performance. We were also not able to grow our outdoor power equipment segment, which decreased to EUR 3.13 million. Our North American business suffered from the quiet hurricane season last year (5.75% decrease in revenue compared to last year). In our “home” market in China sales decreased by 17.58% due to the industry consolidation and intense competition. Our direct sales to Europe, of which Russia and Ukraine are part of, increased despite the on-going conflict in the Ukraine and the weak rouble. We also made some further progress in penetrating other regions including Africa and the Middle East where we were able to increase our sales.

### Gross Profit and EBIT guidance

In our 2013 annual report we expected somewhat lower gross profit and EBIT margins compared to 2013. In 2014 we achieved Gross Profit and EBIT margins of 17.12% and 9.51% respectively. This means a decrease of 2.82 and 3.88 percentage points respectively in 2014 versus 2013. While this somewhat exceeded the decrease of our margins expected at the beginning of 2014 it is exceeding our revised Gross Profit guidance and is in line with our EBIT guidance communicated with our interim report. There we anticipated a decrease in gross profit and EBIT margins of similar magnitude as the percentage decline of EBIT margins for the first half of 2014 (–3.9pp). We were thus able to achieve a better than expected gross margin while our EBIT margin is roughly in line with our guidance. The discrepancy in margin deterioration of gross profit and EBIT margin is largely due to a significant impairment provision for overdue receivables.

## Revenues and earnings position

The table below shows the consolidated income statement for the 2014 compared to 2013.

| in EUR million | 2014 | 2013 | +/–% |
|---|---|---|---|
| **Revenue** | **95.59** | **103.67** | **–7.79** |
| Cost of sales | –79.23 | –83.00 | –4.54 |
| **Gross profit** | **16.36** | **20.67** | **–20.85** |
| Other income | 1.73 | 1.23 | +40.65 |
| Distribution and selling expenses | –1.38 | –1.30 | +6.15 |
| Administrative expenses | –3.67 | –3.75 | –2.13 |
| Research and development | –1.21 | –1.06 | +14.15 |
| Other expenses | –2.74 | –1.91 | +43.46 |
| **Profit from operations (EBIT)** | **9.09** | **13.88** | **–34.51** |
| Interest income | 0.67 | 0.47 | +42.55 |
| Interest expense | –1.24 | –0.25 | +396.00 |
| **Profit before tax** | **8.52** | **14.10** | **–39.58** |
| Income taxes | –3.08 | –4.10 | –24.87 |
| **Profit for the period** | **5.44** | **10.00** | **–45.60** |
| Earnings per share* (EUR) | 0.44 | 0.82 | –46.34 |

* EPS for 12 months 2013 and 2014 is based on the weighted average of 12.30 m shares.

### Revenue

United Power's revenue decreased by 7.79% to EUR 95.59 million in 2014 compared with EUR 103.67 million for 2013. The revenue decline has to be seen in the context of a continued challenging industry environment which started to significantly affect us in the second half 2013. This weakness is due to a variety of factors including a period of intense price competition in our domestic market, which we believe is temporary and related to continuous consolidation in our industry in China, the quiet hurricane season as well as weaker than expected global growth.

Revenues in our domestic market China declined due to a price adjustment which brought the RMB prices more closely in line with the USD prices and generally due to the challenging economic and industry environment in China. Our European business of which Russia is a considerable was affected partly due to the Ukraine crisis and weakened rouble. On the positive side, the new technical requirements, which impeded our sales in Europe have meanwhile to a large extent been addressed. Overall our European business has increased by invoicing customer as we were able to sell more of our products directly to our European customers rather than through intermediaries in China. Our business in North America declined compared to the same period last year which is mainly due to the quieter hurricane season for the last two years which continued to impact sales due to reduced need for restocking by our North American customers. Revenues from other regions have increased mainly due to increased direct sales rather than through intermediaries in China.

### Cost of sales

Our cost of sales decreased from EUR 83.00 million for 2013 by 4.54% to EUR 79.23 million for the comparable period of 2014. This was mainly due to lower sales. Cost of sales constitutes materials (e. g. copper, aluminium, steel), parts, factory level overheads and labour costs as well as fixed asset depreciation and is therefore affected by currency appreciation, investment as well as domestic wage inflation and commodities prices.

### Gross profit

Gross profit decreased from EUR 20.67 million in 2013 by 20.85% to EUR 16.36 million in 2014.

Compared to the same period last year, United Power's gross profit margin decreased by 2.82 percentage points to 17.12% in 2014. The gross profit margin decreased mainly due to the RMB appreciation against the USD and resulting RMB price adjustment. The gross margin is affected by a number of factors such as product mix, capacity utilization and exchange rates and fixed asset depreciation.

### Other income

Other operating income increased from EUR 1.23 million for 2013 by 40.65% to EUR 1.73 million for 2014. It mainly consists of exchange gains and government grants. The increase was mainly caused by significant exchange rate gains (EUR 1.06 million).

### Distribution and selling expenses

Our distribution and selling expenses were relatively stable at EUR 1.38 million for 2014 compared to EUR 1.30 million for 2013.

As a percentage of revenues, distribution and selling expenses increased to 1.44% in 2014 from 1.26% in 2013. The increase is mainly due to higher distribution and transportation costs as well as changes to the incentive system for sales staff.

### Administrative expenses

United Power's administrative expenses were stable with EUR 3.67 million in 2014 compared to EUR 3.75 million in 2013. As a percentage of revenues, administrative expenses increased to 3.84% in 2014 compared with 3.62% in 2013.

### Research and development expenses

In 2014 research and development expenses increased by approx. 14.15% to EUR 1.21 million compared to EUR 1.06 million for 2013.

As percentage of revenues, research and development expenses have increased from 1.02% in 2013 to 1.27% in 2014. The increase in research and development expenses was due to intensified R&D activities in 2014 compared to 2013. United Power's Management Board together with the Supervisory Board have decided to strategically strengthen our R&D effort and have significantly increased the budget for such activities.

### Other expenses

Other expenses increased from EUR 1.91 million in 2013 by 43.46% to EUR 2.74 million for 2014. The increase was caused in particular by provision for bad debt in relation to overdue receivables of EUR 1.07 million and amortisation of long-term assets EUR 1.08 million. As a percentage of revenues, other expenses have increased from 1.84% in 2013 to 2.87% in 2014. Other expenses include various government taxes and levies and bank charges.

### Profit from operations (EBIT)

Our EBIT for 2014 decreased by 34.51% to EUR 9.09 million year-on-year mainly due to the lower revenues and decreased gross profit margin as well as increased other expenses and to a lesser degree due to increased R&D and administrative expenses.

As a percentage of revenues, EBIT decreased from 13.38% in 2013 to 9.51% in 2014.

### Interest income

Interest income increased due to higher cash balances and improved cash management from EUR 0.47 million in 2013 to EUR 0.67 million in 2014.

As a percentage of revenues, interest income in the reporting period 2014 amounted to 0.70%.

### Interest expense

Interest expense of United Power significantly increased from EUR 0.25 million in 2013 to EUR 1.24 million in 2014 due to increased borrowings.

As a percentage of revenues, interest expenses increased from 0.24% in 2013 to 1.30% in 2014.

**Income taxes**
In 2014 income taxes decreased from EUR 4.10 million for 2013 by 24.87% to EUR 3.08 million.

We are currently discussing with the tax authorities whether our main PRC operating company UPEC (which accounts for approximately 90% of group revenues) will continue to enjoy a favourable corporate tax rate of 15% for high technology companies in China. We expect final resolution on this issue by May 2015. In 2014 and until the issue is clarified we assume and pay the standard corporate tax rate of 25%. Our group level tax rate typically exceeds our nominal corporate tax rate due to non-tax-deductible expenses incurred outside the PRC.

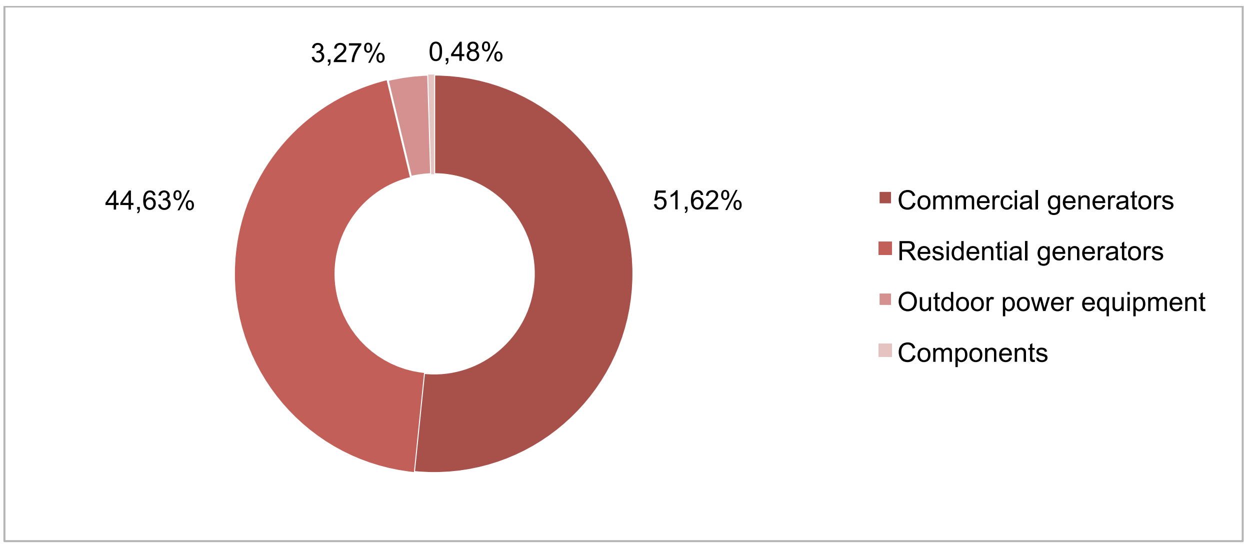
**Profit for the period and EPS**
United Power's profit for the period decreased from EUR 10.00 million in 2013 by 45.60 % to EUR 5.44 million in the comparable period of 2014.

As a percentage of revenues, profit for the period decreased from 9.65% in 2013 to 5.69 % in 2014.

The earnings per share (EPS) in 2014 were EUR 0.44, a decrease of 46.34% year-on-year. The reason for the decrease in profit and EPS was mainly due to lower revenues, lower gross profit and EBIT margins as well as the higher income tax rate.

## Segment information

**Revenue by business segment**




**Residential generators**
Revenue for residential generators declined by 1.57% in 2014 mainly due to weakness in our home market China, the European market as well as a quiet hurricane season in the US. Both of these geographies are key sales areas for our residential generators. Total segment revenue for 2014 was EUR 42.67 million compared to EUR 43.35 million last year.

**Commercial generators**
Revenues in our largest segment Commercial generators decreased by 9.02% from EUR 54.23 million for 2013 to EUR 49.34 million for 2014. This is mainly due to austerity measures in our home market and resulting reduced spending on construction activity as well as temporary price competition and consolidation in our home market. As United Power is building a brand, which stands for quality and reliability, we have refrained from seeking to lower prices to unsustainable levels.

**Outdoor power equipment**
The outdoor power equipment segment comprises industrial equipment such as water pumps as well as landscaping machines such as high-pressure washers. Revenue generated from this segment for 2014 was EUR 3.13 million, a decrease compared to last year's comparable period of EUR 4.42 million. Our customers in the outdoor power equipment tend to be fewer in number but with relatively large order sizes. As such revenues in the outdoor power equipment sector tend to be lumpier. The reason for the decline in 2014 is mainly due to the fact that one of our large customers' order in this sector did not materialize as previously expected.

### Components

The components segment composes of engine as well as other parts. The components sector is currently not a strategic sector for the Company, but rather taking advantage of opportunities in the market place. This segment represents a small part of the Company's total revenue. The component segment had a decrease of 72.46% from EUR 1.67 million for 2013 to EUR 0.46 for 2014.This segment represents 0.48% (2013: 1.6%) of the Company's total revenue.

## Assets and liabilities position

The following table shows the consolidated balance sheet as at 31 December 2014 compared to the consolidated balance sheet as at 31 December 2013.

| in EUR million | 31 Dec 2014 | 31 Dec 2013 |
|---|---|---|
| Current assets | 72.07 | 61.57 |
| Non-current assets | 89.27 | 68.12 |
| **Total assets** | **161.34** | **129.69** |
| Current Liabilities | 36.13 | 18.46 |
| Non-current liabilities | 1.82 | 1.74 |
| **Total liabilities** | **37.95** | **20.20** |
| **Total equity** | **123.39** | **109.49** |
| **Total liabilities and equity** | **161.34** | **129.69** |

## Current Assets

### Inventories

Inventories include raw materials, work in progress and finished goods. Inventories increased by 21.49% from EUR 5.05 million as at 31 December 2013 to EUR 6.13 million as at 31 December 2014. The increase is mainly due to the fact that during 2014 the risk of non-performance of payment has increased particular in areas where the currency has depreciated significantly (e.g. Russia). As a consequence the company has taken greater caution in terms of shipment and delivery of goods.

The average volatility on basis of cost of sale corresponds to 28 days in 2014 compared with 22 days in the previous year.

### Trade and other receivables

Trade and other receivables slightly increased from EUR 13.58 million at year-end 2013 to EUR 14.06 million as at 31 December 2014 mainly due to longer average receivables days. Trade receivable days increased from 48 days for the full year 2013 to 53 days for the same period in 2014.

### Receivables due from related parties

Receivables due from related parties was EUR 0.00 million as at 31 December 2014 (2013: EUR 0.59 million).

### Cash and cash equivalents

Cash and cash equivalents amounted to EUR 50.17 million as at 31 December 2014 which represented an increase of 29.30% from EUR 38.80 million as at 31 December 2013. The net cash and cash equivalents were primarily increased by cash generated from operations (EUR 16.90 million) and new short-term borrowings (EUR 30.87 million), which more than offset the cash used for investment (EUR -17.29 million).

Cash and cash equivalents comprise bank balances mainly held in RMB at international commercial banks in China with some balances in Hong Kong and Germany.

## Non-current assets

### Property, plant and equipment

Property, plant and equipment increased by 34.19% from EUR 58.97 million as at 31 December 2013 to EUR 79.13 million as at 31 December 2014. Property, plant and equipment is mainly located in Fuzhou, China and comprises buildings (EUR 55.99 million), plant and equipment (EUR 22.61 million), motor vehicles and office equipment (EUR 0.45 million) and construction in progress (EUR 0.08 million). The asset depreciation rate in 2014 is 7.50% (2013: 8.32%).

### Other non-current assets

As at 31 December 2014, other non-current assets increased by 11.08% from EUR 7.67 million in the previous year to EUR 8.52 million primarily due to lease prepayments made for the land on which the third factory will be built.

## Liabilities

### Trade and other payables

Trade and other payables increased by 34.33% from EUR 9.32 million as at 31 December 2013 to EUR 12.52 million as at 31 December 2014. Account payable days increased from 40 days for the full year 2013 to 56 days for the comparable period in 2014. The payable days increase is mainly due to higher purchasing activity over the last months of 2014 compared to the same period of the previous year.

### Borrowings and amount due to shareholders

Borrowings at the end of 2014 increased to EUR 20.71 million from EUR 7.02 million as of 31 December 2013 representing an increase of 195.01%. This was due to several new short-term borrowing facilities from China Merchants Bank and Agricultural Bank of China with maximum one-year maturity and interest rate ranging from about 2.4% to 6.9%. The borrowing is used to fund working capital.

There are no unutilised lines of credit at the balance sheet date.

### Equity to total assets ratio

The total equity increased from EUR 109.49 million by 12.70% to EUR 123.39 million as at 31 December 2014 mainly due to the consolidated profit for the period and currency translation.

Non-current assets are completely covered by equity capital.

The equity to total assets ratio decreased from 84.42% as at 31 December 2013 to 76.48% as at 31 December 2014 mainly due to higher borrowings.

## Liquidity and capital resources

### Cash flows

Overall cash amounted to EUR 50.17 million as at 31 December 2014 compared to the figure from 31 December 2013 of EUR 38.80 million. Overall, the cash generated from our operations and net borrowing exceeded the cash flow from investing activities thereby increasing our overall cash position.

| **in EUR million** | **2014** | **2013** |
|---|---|---|
| Operating cash flow before working capital changes | 15.98 | 19.92 |
| Cash generated from operations before interest and taxes | 20.83 | 20.97 |
| Cash generated from operating activities | 16.90 | 17.86 |
| Cash flow from investing activities | -17.29 | -14.56 |
| Cash flow from financing activities | 8.50 | 4.59 |
| **Net increase in cash and cash equivalents** | **8.11** | **7.89** |
| Cash at beginning of year | 38.80 | 30.94 |
| Effect of exchange rate changes | 3.26 | -0.03 |
| **Cash and bank balances at end of the period** | **50.17** | **38.80** |

### Cash generated from operations before tax and interest

Cash generated from operations decreased by EUR 0.14 million to EUR 20.83 million at the end of the reporting period 2014.

### Cash flow from investing activities

The investment of the company in property, plant and equipment for capacity and production expansion is reflected in the cash flow from investing activities. In 2014, the Company's cash flow from investing activities was EUR -17.29 million. This mainly due to the preparation and construction of the land and buildings and structures for our third phase expansion as well as our EUR 2.24 million acquisition of the remaining 49% share of our die casting subsidiary Fujian Di Sheng Wan Kai Machinery Co. Ltd.

Our production capacity is about 1,200,000 units (residential generator equivalents) per year.

### Cash flow from financing activities

Cash from financing activities for 2014 was EUR 8.50 million, after EUR 4.59 million in the prior period. This is due to new short-term borrowings at China Merchant Bank and Agricultural Bank of China. United Power engages in the borrowing activities for several reasons including to establish a favourable credit track record and due to other benefits such as favourable banking fees. As borrowing is typically hard to obtain for small to medium sized private companies, short-term borrowings are also a sign of confidence by the banks in the company's prospects. Building up a track record in borrowing is also expected to facilitate future borrowings particular when the financing requirement are large (e.g. for our continued third phase expansion).

Cash at end of period
As at 31 December 2014, overall cash increased to EUR 50.17 million compared to EUR 38.80 million at the end of 2013, a plus of 29.30%. For further information, please see item cash and cash equivalents.

Off-balance-sheet finance transactions
As at 31 December 2014 there are no off-balance-sheet finance transactions.

Based on the solid financial position, at the time at which this report is being drawn up the Management Board does not see any risks arising from funding of the group.

## Human resources

United Power's total number of employees decreased from 638 as at the end of 2013 to 589 as at 31 December 2014. While key areas such as management, R&D, sales and marketing were strengthened through upgrading and in the area of sales and marketing through additional hiring of qualified staff, overall employees decreased. This was mainly due to adjustments of our production personnel as a result of streamlining and continued automation and increased usage of temporary labour for peak periods. The streamlining is a result of continuous internal improvements of processes and optimization of responsibilities and resource allocation. The average number of employees was 610 over the course of 2014 (2013: 654 employees). The employee split by function as at 31 December is shown in the table below:

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Management | 28 | 30 |
| R&D | 57 | 57 |
| Sales & Marketing | 38 | 37 |
| Administration | 87 | 85 |
| Production | 379 | 429 |
| **Total** | **589** | **638** |

United Power continues to strengthen its company through further upgrading and recruitment of qualified staff. In sales and marketing the number of employees increased and in R&D the number remained stable at a high level. The majority of the employees have a university degree.

A reduced work force is the result of our continuous efforts to increase overall productivity through further automation and management improvements.

## Statement and report pursuant to section 315 paragraph 4 HGB (German Commercial Code)

### Subscribed capital

The subscribed capital (share capital) of United Power Technology AG amounts to EUR 12,300,000 and is divided into 12,300,000 no par value bearer shares with a notional value of EUR 1.00 each.

### Restrictions regarding voting rights and the right to transfer shares

There are no restrictions on the transferability of shares and there are no restrictions on voting rights for shares under the Articles of Association of United Power Technology AG.

Between Mr Xu Wu, Mr Wei Song and Mr Zhong Dong Huang exists an agreement to coordinate the exercise of voting rights associated with their shares in United Power Technology AG, which can be regarded as restriction in the sense of section 315 para. 4 no. 2 of the German Commercial Code.

In addition, legal restrictions on voting rights may exist, for example in the sense of section 136 of the German Stock Corporation Act.

### Direct or indirect participation in shares with more than 10% of the voting rights

As at 31 December 2014, the following shareholders hold more than 10% of the shares in United Power Technology AG:

20.14% are held by Fortune Sunrise Investments Limited, Road Town, Tortola, British Virgin Islands, (indirectly held by Mr Xu Wu) with a corresponding amount of voting rights;

18.99% are held by Fortune Great Investments Limited, Road Town, Tortola, British Virgin Islands, (indirectly held by Mr Wei Song) with a corresponding amount of voting rights;

18.42% are held by High Advance Investments Limited, Road Town, Tortola, British Virgin Islands, (indirectly held by Mr Zhong Dong Huang) with a corresponding amount of voting rights;

21.93% are held by Orchid Asia IV L.P., Cayman Islands (indirectly held by Mr Gabriel Li, Hong Kong), with a corresponding amount of voting rights.

### Shares with special rights

There are no shares with special control powers.

### Voting rights of employees

The employees, who hold shares, exercise their unrestricted (voting) rights directly.

### Appointment and dismissal of Management Board members. Amendments to the Articles of Association

According to section 7 of the Articles of Association, the Management Board of United Power Technology AG consists of one or more persons. The Supervisory Board determines the number of members of the Management Board. The Management Board of United Power Technology AG consists of three members.

The Supervisory Board elects the Management Board members in accordance with section 84 AktG for a term not exceeding five years. Any extension of the term requires a Supervisory Board decision and cannot be decided earlier than a year before the end of the current contract period. In special cases, the district court can appoint a replacement for a member of the Management Board at the request of any person who has legitimate interest (for example other Board Members) (section 85 AktG). Such an appointment would be terminated immediately when, for example, the Supervisory Board appointed a member of the Management Board.

The dismissal of members of the Management Board can only be for important reasons (section 84 paragraph 3 sentences 1 and 2 AktG). Important reasons are for example, general neglect of duties, inability to properly exercise the duties or the loss of confidence by the Annual General Meeting.

The Articles of Association of the Company can be changed by the Annual General Meeting and the changes will take effect once they are registered with the Commercial Register (*Handelsregister*). If the Annual General Meeting decides to change the Company's Articles, according to section 133 paragraph 1 AktG a simple majority of the votes cast is required and according to section 179 paragraph 2 AktG a majority of at least three fourths of the share capital represented at the passing of the resolution is required, unless a simple majority of the capital represented is sufficient according to section 18 paragraph 4 of the Articles of Association. According to section 10 paragraph 3 of the Articles of Association, the Supervisory Board is entitled to amend the Articles of Association, provided that such amendments affect only the wording.

### Authorized Capital

On 12 June 2012, the Annual General Meeting authorised the Management Board, with the approval of the Supervisory Board, to increase the share capital of United Power Technology AG until 11 June 2017, once or several times by up to a total of EUR 6,150,000.00 by issuing a total of 6,150,000 no par value bearer shares in consideration of contribution in cash or in kind (Authorised Capital 2012/I). On principle, shareholders are to be offered subscription rights; the statutory subscription rights may also be offered in such a way that the new shares are taken over by a bank or a syndicate of banks with the obligation to offer them to the Company's shareholders for subscription. The Management Board is authorised, in each case with the approval of the Supervisory Board, to exclude the subscription rights of the shareholders. An exclusion of the subscription right, however, shall only be admissible in the following cases:

a) in order to exclude fractional amounts from the subscription right;

b) in the case of a capital increase against cash contributions, if the entire proportional amount of the share capital that relates to the new shares for which the subscription right is excluded does not exceed 10% of the share capital, in fact neither at the point when it becomes valid nor at the point when the authorization is exercised, and if the amount of issue of the new shares is not considerably lower than the stock market price of shares of the same type and with the same features that are already traded at the stock market when the final issue price is stipulated. When calculating the 10% of the share capital, the proportional amount of the share capital that relates to the shares that were sold or issued or are to be issued under exclusion of the subscription right during the term of this authorization due to other authorizations that apply directly or indirectly mutatis mutandis section 186 subsection 3 sentence 4 AktG shall be offset; or

c) in the case of a capital increase against contributions in kind, particularly for the purpose of acquiring companies, parts of companies or interests in companies, in the frame of mergers and/or for the purpose of acquiring other assets including rights and claims.

The Management Board shall decide, with the approval of the Supervisory Board, on the additional content of the rights to shares and the conditions of issuance of the shares.

After utilisation of authorised capital or the lapse of the period for the utilisation of authorised capital, the Supervisory Board is authorised to amend the Articles of Association.

The authorised capital has not yet been utilized and is thus available at a volume of 6,150,000 shares at 31 December 2014.

### Conditional Capital

On 12 June 2012, the Annual General Meeting conditionally increased United Power Technology AG's share capital by up to EUR 246,000.00 by means of issuing up to 246,000 no-par value bearer shares (Conditional Capital 2012/I). The Conditional Capital 2012/I is exclusively for the purpose of servicing subscription rights to shares of United Power Technology AG, which are issued, based on the Stock Option Plan 2012 to members of the Management Board or to selected executive employees of the United Power Technology AG and its domestic and international group subsidiaries. The conditional capital increase shall only be carried out insofar as subscription rights are issued and their owners exercise their subscription right for shares of United Power Technology AG and United Power Technology AG does not grant own shares in fulfilment of the subscription rights. The Supervisory Board is authorized to adjust the wording of the Articles of Association in accordance with the respective use of the Conditional Capital 2012/I.

As at 31 December 2014, a total of 172,200(previous year: 86,100) subscription rights were issued to members of Management Board and 73,800 (previous year: 36,900) were issued to executive officers.

### Authorization to acquire and use own shares

On 11 June 2013, the Annual General Meeting authorized the Management Board to acquire own shares. The shares acquired and other own shares in possession of or to be attributed to the Company pursuant to secs. 71 et seq. of the AktG may altogether at no time exceed 10% of the Company's share capital. At the Management Board's discretion, an acquisition may be conducted via a stock exchange or by means of a public purchase offer directed at all shareholders or by means of a public invitation to submit sale offers directed at the Company's shareholders. These authorizations may be exercised by the Company in full or in part on one or several occasions, but also by affiliated companies or by third parties acting for the account of either the Company or affiliated companies.

The Management Board is authorized to sell own shares acquired on the basis of the above-mentioned authorization via the stock exchange or by means of an offer directed at all shareholders. Shareholders' subscription rights for any fractional amounts shall be excluded in the case of an offer directed at all shareholders. The Management Board is further authorized to use these shares for any purpose permissible by law and, in particular, as follows:

(1) to be sold in return for cash payment excluding shareholders' subscription rights, provided that such shares do not in total exceed 10% of the company's share capital,

(2) to be sold in return for payment in kind excluding shareholders' subscription rights,

(3) to be issued to employees of the Company and affiliated companies or Management Board members of the Company excluding shareholders' subscription rights,

(4) to be cancelled, without such cancellation or its implementation requiring an additional resolution by the General Meeting.

These authorizations may be exercised on one or several occasions, in full or in part, individually or collectively, while those set out under (1) to (3) may also be exercised by affiliated companies or by third parties acting for the account of either the Company or affiliated companies.

### Change of control provisions

There are no agreements with United Power Technology AG, which are subject to the condition of a change of control due to takeover offer.

### Agreement on compensation in the event of a takeover offer

There are no agreements between the members of the Management Board or employees and United Power Technology AG, which provide for compensation in the event of a change of control due to a takeover offer.

## Statement pursuant to section 289 a of the German Commercial Code (HGB)

On 6 May 2015, the Management Board and Supervisory Board issued the statement pursuant to section 289a of the German Commercial Code (HGB). The declaration, along with the gorporate governance report, is permanently available on the website of the Company under www.unitedpower.de.com/en.

## Remuneration report

### Management Board remuneration

According to section 87 para. 1 and section 107 para. 3, sentence 3 of the German Stock Corporation Act, the Supervisory Board is responsible for determining the Management Board's remuneration. The remuneration for the Company's Management Board is based both on the size and the area of activity as well as on the financial status of United Power Technology AG. The remuneration for the Management Board contains both fixed components as well as performance-related components.

- Fixed remuneration

  The fixed remuneration comprises a fixed salary plus fringe benefits in the form of insurance premiums and housing fund. The fixed salary is paid monthly in twelve equal instalments and is not dependent on certain targets being reached.

- Performance-related remuneration

  The performance-related remuneration is dependent on the achievement of certain targets. It is divided into an annual bonus and a component with a long-term incentive effect.

The annual bonus as a short-term variable remuneration component is based on a certain increase of the adjusted EBIT.

In 2014, in order to create incentives for positive performance of United Power Technology AG in the long term, the Management Board member Oliver Kuan has been granted 86,100options to purchase 86,100shares in United Power Technology AG. The granting of such stock options and the subsequent granting of shares are subject to the subscription conditions which have been adopted by the Supervisory Board on the basis of the Stock Option Plan 2012 which had been passed by the 2012 Annual General Meeting. In particular, the subscription conditions of the Stock Option Plan 2012 adopted by the Supervisory Board provide that

- stock options may only be issued to members of the Management Board of the Company, if they hold less than 5% in the share capital of United Power Technology AG;
- of a maximum amount of 172,000 stock options which may be granted to members of the Management Board, 20% may be granted in 2012, 30% may be granted in 2013 and 50% may be granted in 2014;
- stock options may only be issued in certain periods of issuance, which shall be four weeks and shall begin after the publication of an annual financial report, an interim financial report of and a quarterly report and an interim announcement of United Power Technology AG;
- the term of the stock options shall be six years;
- stock options may only be exercised after a waiting period of four years;
- stock options may only be exercised in certain exercise periods, which shall be four weeks and shall begin after the publication of an annual financial report, an interim financial report and a quarterly report and an interim announcement of United Power Technology AG;

- the exercise price per share corresponds to the stock market price of United Power Technology AG's share ascertained at the opening auction on the day of issuance of the respective stock option in the XETRA trading of Frankfurt Stock Exchange or in a subsequent system replacing the XETRA system, however being at least EUR 1.00 per share;
- stock options may only be exercised if United Power Technology AG's adjusted EBIT has increased on average by at least 5% per financial year since the day of issuance of the respective stock option.

The Management Board members have not been promised any benefits in the event of the regular termination of their activity.

The Management Board members have received the following remuneration:

| In EUR | | Fixed | Bonus | Insurance Pension Fund | Total |
|---|---|---|---|---|---|
| Xu Wu | 2014 | 82,755.00 | 0.00 | 660.60 | **83,415.60** |
| | 2013 | 80,000.00 | 0.00 | 741.10 | **80,741.10** |
| Zhong Dong Huang | 2014 | 82,755.00 | 0.00 | 660.60 | **83,415.60** |
| | 2013 | 80,000.00 | 0.00 | 741.10 | **80,741.10** |
| Oliver Kuan | 2014 | 123,069.00 | 0.00 | 0.00 | **123,069.00** |
| | 2013 | 121,365.00 | 0.00 | 0.00 | **121,365.00** |
| **Total** | **2014** | **288,579.00** | **0.00** | **1,321.20** | **289,900.20** |
| | **2013** | **281,365.00** | **0.00** | **1,482.20** | **282,847.20** |

## Supervisory Board remuneration

Remuneration of the Supervisory Board shall be set at the Annual General Meeting and regulated in the Articles of Association of United Power Technology AG. On 11 June 2013, the Annual General Meeting resolved that each member of the Supervisory Board shall receive a fixed annual remuneration of EUR 40,000.00 and the chairman of the Supervisory Board shall receive an additional EUR 20,000.00 per year for financial years starting after 1 January 2012. Furthermore, each member of the Supervisory Board shall receive a maximum annual bonus of EUR 13,000.00 dependent on the extent to which the company's budgeted EBIT for the respective financial year is achieved.

Members who have not served on the Supervisory Board for the entire year shall receive a prorated remuneration. The members of the Supervisory Board are further reimbursed for expenses and for any VAT applicable to their remuneration and expenses.

The retroactive increase in remuneration to the Supervisory Board passed by resolution of the Annual General Meeting on 11 June 2013 was recognised in the 2013 financial year accordingly under other liabilities vis-à-vis the Supervisory Board.

The Supervisory Board members have received the following remuneration:

| in EUR | 2014 | 2013 |
|---|---|---|
| Mr Wei Song (Chairman of the Supervisory Board) | 60,000.00 | 60,000.00 |
| Mr Hubertus Krossa (Vice Chairman of the Supervisory Board) | 40,000.00 | 40,000.00 |
| Mr Brian Krolicki | 40,000.00 | 40,000.00 |
| **Total** | **140,000.00** | **140,000.00** |

# Risk Report

## Risk policy

United Power Technology AG devotes itself to securing the development of the company to increase shareholder value. The risk management system in United Power Technology encompasses a number of elements that together facilitate an effective and efficient operation, which supports the achievement of the company. Our Board of Directors bears overall responsibility for effective risk and opportunity management, which is an integral part of corporate management. Within the Board of Directors, the CEO takes primary responsibility for the risk and opportunity management function.

## Opportunity management

Opportunity and risk management are closely interlinked within the United Power Technology Group. We seek to achieve an appropriate balance between risk and opportunities, and continue to build and enhance our risk management capabilities that assist in delivering our business development plans in a controlled environment. Especially our core market, China, is highly regulated with regard to export provisions and currency restrictions. In China as well as in all other sales markets there are different technical standards and requirements for our products, which create opportunities and risks.

Direct responsibility for the early and regular identification, analysis and utilisation of opportunities rests with the operational management of our group. Opportunity management is an integral part of the Group wide planning and controlling systems We occupy ourselves intensively with market and competition analyses, relevant cost elements and key success factors, including those in the economic, political and regulatory environment in which the group operates. This serves as the basis for identifying concrete opportunity potentials that are specific to business segments and corresponding targets, which are discussed and then defined between the Board of Directors and the managers responsible for the business segments. Selected opportunity potentials for the United Power Technology Group are discussed in the “Opportunities” section of the forecast report.

## Risk management system

In order to ensure that adequate risk management, internal control and external systems are in place United Power Technology AG set a risk management framework and define the terms of reference, analyze all entities and all business processes for potential risk which could threaten the existence of the group companies, identify and evaluate risks according to impact and likelihood, identify early-warning indicators which monitor the development of relevant risks, design appropriate responses and measures (including communication of risk relevant information to the appropriate addressees within the organization) and undertake periodic evaluations to continuously improve the risk management system. While we seek to make continuous incremental improvements to our Risk Management System its design and mechanics have remained largely unchanged from last year.

Risk management is therefore seen as the systematic and regular process to identify, asses and analyse all unexpected or unplanned events of material nature for their potential impact on the business of United Power Technology AG and its subsidiaries, financial situation and processes at an early stage. Furthermore to identify and evaluate potential risks, which could have a negative impact on our reputation and to avoid risks that could jeopardise the continued existence of the subsidiaries.

The risk management system coordinates and economically applies the group’s resources to minimize, monitor and control the probability and/or impact of the mentioned events. Our risk management system does not explicitly include opportunities for the company. Although, any risks brought to attention to management are then being evaluated for its implications on the group including possible opportunities arising there from Management may in future however evaluate the possibility to explicitly include opportunities into the risk management report.

### Organisation and tools of the risk management system

The risk management is implemented at all levels within the group, from the board down through the organisation to each responsible person of every business section. The CEO together with the risk management officer has defined group wide guidelines principles and rules of behaviour as well as guidelines for systematic and effective risk management of the United Power Group. The Group wide risk management consists of the following elements:

- The guideline on the risk management structure
- The person responsible for risk management
- Regular risk reporting
- Immediate reporting in urgent cases

The United Power Group continues to focus significant attention on the implement of the whole risk management system. Our internal audit department provide an independent assessment of the adequacy and effectiveness of the overall risk management structure, and reports are presented to the Supervisory Board on quarterly basis.

### Risk identification

Independent and objective oversight of risks is in place at all levels throughout the group. We monitored all aspects of the business. The process of assessing, evaluating and measuring risk is on-going and is integrated into the day-to-day activities of the business. The methods used for risk determination range from analyses of markets and competition through close contacts with customers, suppliers and institutions to observing risk indicators in an economic environment.

### Risk assessment and quantification

Risks should be analyzed considering likelihood and impact as a basis for determining the appropriate risk measures/response.

### Risk control

Risk management controls aim to reduce the likelihood and/or (financial) impact of a risk. Control activities usually involve two elements:

- a policy establishing what should be done and
- a range of activities and procedures (e.g. approvals, authorizations, verifications, reviews, etc.) to execute the policy.

### Risk reporting

In order to ensure the proper functioning of the risk management system, relevant information has to be collected reliably (complete and free from errors) and timely (up-to-date) and distributed to the responsible positions. All activities of the risk management must be documented. The documentation of risk inventory is carried out based on the reporting template, which is provided by the risk officer. A risk and control matrix (RCM), which visualized the identified risks, implemented measures and early warning indicators, are then created. On a quarterly basis, the Board of Directors receives an overview of the current risk situation via a standardized reporting system. Material risks that arise in the short term are, if urgent, immediately communicated directly to the Board of Directors outside customary reporting channels. The Supervisory Board is briefed by the Board of Directors in just as regular and timely a manner and, if urgent, immediately.

### Risk management in relation to financial instruments

The United Power Group essentially holds financial instruments of the “Loans and Receivables” category as well as cash and cash equivalents and financial liabilities.

The financial objective of United Power Technology AG is to limit financial risks (e.g. currency exchange risks, interest, default and liquidity risks) through systematic financial management. The risks arising from cash flow fluctuations based on our financial liabilities are subject to variable interest rates should not be considered material. For the most part, cash equivalents in accounts with renowned banks, towards which we have no doubts with regard to their creditworthiness.

As part of its financial management, the United Power Group controls its capital structure and makes adjustments if necessary, taking into account the economic framework structure. It can take out bank loans at any time due the comparatively high ratio of equity capital.

The primary objective of the Group is to ensure the future ability to repay liabilities and to maintain an adequate equity ratio.

**Description of the key features of the internal control and risk management system with regard to the Group accounting process (Sec. 315 Para. 2 No. 5 of the German Commercial Code – HGB)**
The internal control system of United Power Group encompasses of the principles, procedures and measures designed to ensure the effectiveness, economy and adequacy of accounting procedures as well as the compliance with the relevant regulations.

The guideline for accounting and reporting of the United Power Group in accordance with IFRS stipulate the uniform accounting and valuation principles for the German and foreign companies included in the consolidated financial statements.

New provisions and amendments to existing regulations for the accounting are analysed on a timely basis for their effects and are, if these are relevant to us, implemented into guidelines and accounting processes.

An adequate ERM systemis is used for the consolidated entities and reported to the holding company in consolidated manner. An external expert performs the consolidation of the United Power Holding HK to the United Power Technology AG. In individual cases, such as the evaluation of the stock option an external expert also carries out plans. External experts are selected based on their qualifications, reputation and our experience in working with them. Their suitability is monitored by way of critical reviews and discussions on the results of their work.

An adequate and complete elimination of internal group transaction actions is ensured by formalized inquiries of consolidation relevant information.

All consolidation processes for preparation of the consolidated financial statements are carried out and documented in a consolidation sheet.

The annual financial statements of companies subject to mandatory audit and the consolidated financial statements are audited by independent auditors.The audit results by process-independent organizations provide us with information regarding the appropriateness of our consolidated accounting and they provide a support tool for the Management Board and the Supervisory Board in monitoring internal financial reporting processes.

**Overview of corporate risks**
The United Power Technology Group's approach to risk management is based on well established governance processes and relies on both individual responsibility and collective oversight, supported by comprehensive reporting. This approach balances strong corporate oversight at group level, with proactive participation by the executive team and heads of every business unit. The group has developed a set of risk governance standards for each major risk type to which it is exposed. Risks material to the group are described in the following section. The assessment of the likelihood of a risk materializing is based on the criteria

- Very low (likelihood of materializing < 5%)
- Low (likelihood of materializing 5 – 30%)
- Medium (likelihood of materializing 30 – 60%)
- High (likelihood of materializing 60 – 90%)
- Very High (likelihood of materializing > 90%)

The assessment of the possible financial impact

- Extreme (Negative impact on EBIT > 50%)
- High (Negative impact on 30% > EBIT< 50%)
- Medium (Negative impact on 10% > EBIT< 30%)
- Low (Negative impact on 5% > EBIT< 10%)
- Very low (Negative impact on 0% > EBIT< 5%)

The table below provides an overview of risks that are material to the United Power Group, their likelihood and their possible financial impacts.

| | Likelihood of materialization | Possible financial impact |
|---|---|---|
| **Strategic Risks** | | |
| Risk arising from market dependency | Low | High |
| Risk arising from customer/demand dependency | Low | High |
| **Environmental Risks** | | |
| Effects of the macroeconomics | Low | Medium |
| **Market Risks** | | |
| Risk arising from lack of long term contracts | High | Medium |
| Risk arising from increased commodity prices and component prices | Medium | Medium |
| **Financial Risks** | | |
| Risk arising from customers default | Low | Medium |
| Risk arising from currency translation | Medium | Low |
| **Operational Risks** | | |
| Personnel Risks | Low | High |

## Strategic risks

### Risk arising from market dependency

As an international Group, United Power is dependent on the individual sales markets. The Company counters market risks through among other things a diverse customer base, close customer contact and market research. In addition to external measures United Power reacts to sales risks with a diversification of their products (e.g. establishing an own brand and exploring additional markets)

### Risk arising from fluctuation in demand and consumer behaviour

Our products may face significant fluctuations in demand and in consumer behaviour. As a result of external influences, whose occurrences and non-occurrences we cannot normally influence, the demand for our products may decline in the relevant markets and may lead to pressure on the price level. These factors include but are not limited to the swings of the economic cycle, decreasing global prices, the market entry of new competitors, concentration on the demand side as well as deliberate buying restraints on the part of the customers.

## Market risks

### Risk arising from loss of major customers

The Group has numerous customers, five of which account for a significant part of the Group's sales revenues (between 5-8% each). The Group might not be able to maintain these relationships with one or more of the major customers and thus the major customers choose products from other competitors.

The Group performs a constant monitoring of the sales to its customers and by investing in R&D to improve the quality of our products we further try to achieve the costumers' needs. Further the Company is trying to develop long-term contracts with its major customers to minimize the risk of potential customer losses.

### Risk arising from increased commodity and component prices

As a manufacture for power equipment we are exposed to numerous risks arising from increased commodity and component prices. We are building strong relationships with our suppliers and source of alternative sources to prevent ourselves from the risk of increased commodity and component prices. Further we try to counter the pressure on our margins by passing the increased costs to our customers through higher product prices. In order to be able to do this we require greater pricing power in the market, which we seek to achieve through the measures, mentioned i.e. expanding market share, improving quality and establishing own or licensed brands. Improving product quality is achieved through a number of measures including better processes and controls, increased R&D efficiency and activity as well as increased automation. Increased automation in particular is also a measure by which we address the risks arising from rising labour costs and high fluctuation of workers, indirectly through less reliance on labour and thereby controlling the unit labour costs. Furthermore, United Power intends to increase sales of our own branded goods and evaluate opportunities for licensed brands in order to cover the above-mentioned risks

## Environmental Risk

### Effects of the macroeconomic environment

The behaviour of demand for power equipment of United Power is considerably influenced by general economic growth as well as the economic trends and the associated improving living standards in relevant markets.

In particular the unresolved and worsening national debt crisis in some major countries of the euro zone and the slowdown in growth in emerging countries such as China and Russia have resulted in concern with regard to the global economy's growth prospects for 2014 and 2015.A worsening of the national debt crisis in Europe and the associated further uncertainty in capital and financial markets and among businesses and consumers might have a negative impact on the global economy and the demand for products produced by the Untied Power Group.

## Financial Risks

### Risk arising from foreign exchange rates

Most of the revenues and expenses of United Power are generated in RMB and USD, thus the changes to the exchange rate could have a negative impact on the consolidated results of United Power. Our products are almost exclusively produced in China. Fluctuations in the exchange rates are reflected in corresponding changes in sales prices, as long as the nature of our sales market allows. We do not conduct any currency or interest rate hedging transactions.

### Risk arising from customers default

The default of a customer should be understood as a customer not to fulfil his contractual obligation in full or partially. This default could lead to a loss to us.

We perform intensive credit checks of our customers before entering into new arrangement. Further we perform credit checks with existing customers on a regular basis. Further we implemented credit limits to our customers to minimize the potential risk exposure. We normally require that new customers pay in advance.

## Operational risks

### Personnel risks

Healthy and committed employees and managers are the key to United Power's success. There is a risk that key members of the management will leave the Company due to health issues.

We perform regular health checks on all levels and have a formal safe and health policy implemented and a process to enforce the adherence to the requirements of the policy.

## Overall risk

United Power has taken sufficient precautions against normal business risks, which might have a negative impact on the development of the United Power Group. As of the end of the year under review there were no identifiable risks for the United Power AG and the United Power Group, which might represent a threat to their existence.

# Opportunities and outlook

## Economic and industry outlook

According to the World Economic Outlook of the International Monetary Fund (IMF) the global growth in 2015 is projected to be around 3.8%, and therefore slightly higher than in 2014 (3.3%).

In the United States growth is expected to be 3.1% in 2015, representing an increase of 1.1%. According to the IMF the growth is mainly due to strong domestic demand supported by lower oil prices, more moderate fiscal adjustment and continued support from an accommodative monetary policy stance.

With regard to the euro zone the IMF expects an economic growth rate of 1.3% and therefore a slightly better development than in 2014. This development is supported by lower oil prices and the expansionary monetary policy of the ECB. However, these stimulating effects will be largely offset by on-going overall weak economic growth in most of the countries in the euro zone.

For our “home” market China the IMF expects a growth rate of 7.1% in 2015 and therefore a further deceleration of the economy – albeit at a relatively high level.

On a most fundamental level our industry is driven by the economic environment in the geographies we sell our products. While we sell on a global basis our key markets continue to be Europe, our domestic market in China and North America and hence the industry environment in these markets are of particular importance to us. Apart from the macroeconomic environment other key factors influencing each geography’s industry environment are geography specific factors. These include occurrence of natural disasters such as hurricanes particularly in North America, regulations particularly in markets such as Europe and industry consolidation, particularly in the China market. Some of these factors are further discussed in the section below.

## Opportunities

In 2014 we have successfully continued to widen our international customer base by acquiring more than 20 new customers around the world and adding one additional country we sell to, bringing our total number of customers close to 300 in more than 70 countries.

In 2015, United Power Technology Group will continue its pursuit of the three-pronged strategy, which comprises further geographic expansion and penetration, broadening the range of engine-powered products and scaling up the size of its products in order to further expand the customer base and applications of its products. We will also significantly increase our budgets for both sales and distribution as well as R&D, which we believe, are core areas which will bring us back on a path to growth and increasing profitability.

While the global macroeconomic environment and our industry situation over the last two years was challenging, we remain confident in our growth prospects and existence of multitude of opportunities for our business. These opportunities include in particular:

- Continued stabilization and strengthening of the global economy as the North America’s recovery gathers pace and Europe’s economies are expected to gradually improve fuelled by accommodative monetary policy;
- Industry consolidation in our “home” market China; while the consolidation process continues to lead to volatility as some of our struggling domestic competitors may seek to sell at unsustainably low prices, we believe that we will emerge from this consolidation process as one of the leading quality players which will strengthen our market position and pricing power;
- Increased sales into other developing geographies in particular South-East Asia, the Middle East as well as Latin America through deeper penetration of these markets and focus on brand building; while this also requires a stepped-up sales effort we believe these markets provide us with significant opportunities;
- Expansion of our outdoor power equipment segment; there is growing demand for engine driven power equipment’s such as pumps, tillers, and high pressure washers in both developed as well as developing countries. In addition, we are currently exploring feasibility to enter into the market for lawn mowers;
- Continuous improvement of our product mix towards high margin products; in particular strong focus on the acceleration of development of larger generators as well as on inverter generators and branded products;
- M&A opportunities which may strengthen our brands, sales and distribution in key focus geographies and/or our technical capabilities;

- Further establishing our own or licensed brands in new markets and enhancing them in existing sales markets; we seek to further strengthen our reputation of reliability and to enhance brand awareness. It is intended to achieve strengthening of the Group's brands by enhancing marketing efforts such as participating in industrial trade fairs or exhibitions in local markets, media, internet and outdoor advertisement campaigns as well as through promotional campaigns, which can be launched together with local partners.

- Further productivity gains due to continuous and relentless efforts to maintain and improve manufacturing excellence as well as upgrading and optimizing our sales and marketing and research and development capabilities.

### Investments

In 2014 we completed the construction of the buildings and structures for the third phase expansion of our newest factory, Gaoqi Industrial Park. We have added four new four-story factory buildings with a total useable factory space of 45,000 sqm and one new dormitory to the current factory space. Due to on-going adverse market conditions we have not yet equipped the new factory space with new production lines. Our investment budget for this in 2015 is up to around RMB 100 million (approx. EUR 15 million), based on a currency rate of RMB:EUR of 6.7:1 about 70% of which is designated for property, plant and equipment and the remaining funds for R&D as well as sales, marketing and brand building as well as working capital requirements. For our investment decision and pacing of investment we will continue to carefully monitor prevailing market and conditions and capacity utilization. The Group is in the position to finance upcoming investments from the cash flow from current operating activities and existing cash equivalents. However, some of the planned investments are expected to be debt-financed.

### Financial Outlook

We believe that investments in our capacity expansion will start bearing fruit after the completion of our new production lines in 2015. In the meantime, we will focus on laying the foundation for further profitable growth through general strengthening of our company in particular the sales, distribution and brand building as well as our research and development efforts. While the overall economic environment is expected to improve, our sales still depend to some degree on factors such as the occurrence of hard to predict natural disasters, regulatory issues such as technical requirements as well as local industry consolidation. We believe that the temporary weakness in our industry environment which started to affect us in the second half of 2013 will gradually improve and that we will face more benign trading conditions going forward.

However, given all the aforementioned factors we expect the financial results in full year 2015 to be weaker than in 2014. While in 2015 we expect to halt the downward trend of group revenues in 2015 (assuming a stable RMB:EUR exchange rate of approximately 6.7:1), we expect further gross margin and EBIT margin deterioration. We expect similar or higher revenues from our commercial generator segment, residential generator segment as well as outdoor power equipment segment compared to 2014. We may even see first revenues from our new industrial generator segment later this year. The components sector continues to be a less strategic sector, which will be driven by opportunities presenting themselves in the market place. As far as our profitability is concerned we expect gross profit and EBIT margins to decrease by 2 to 5 percentage points compared to 2014 due to further price adjustments, higher fixed asset depreciation as well as a significantly step up in sales, brand building and distribution and research and development budget. Our guidance assumes a stable RMB:EUR exchange rate of approximately 6.7:1 and generally stable or improving trading conditions. All in all, we remain confident about our continuing profitable growth prospects particularly over the medium to long term.

Eschborn, 6 May 2015

United Power Technology AG
Management Board

| Xu Wu | Zhong Dong Huang | Oliver Kuan |
|---|---|---|

# Consolidated Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS

# Consolidated Statement of Financial Position

as at 31 December

| in EUR thousand | Notes | 2014 | 2013 |
|---|---|---|---|
| **Non–current assets** | | | |
| Property, plant and equipment | 18 | 79,125 | 58,975 |
| Intangible assets | 17 | 852 | 894 |
| Other non-current assets | 19 | 8,515 | 7,667 |
| Deferred tax assets | 20 | 779 | 586 |
| | | **89,271** | **68,122** |
| **Current assets** | | | |
| Inventories | 21 | 6,134 | 5,049 |
| Trade and other receivables | 22 | 14,056 | 13,584 |
| Receivables due from related parties | 33 | 0 | 594 |
| Current recoverable income taxes | | 7 | 7 |
| Other current financial assets | 23 | 1,665 | 3,474 |
| Other current assets | 19 | 37 | 54 |
| Cash and cash equivalents | 23 | 50,170 | 38,802 |
| | | **72,069** | **61,564** |
| **Total assets** | | **161,340** | **129,686** |
| **Capital and reserves** | | | |
| Share capital | 24 | 12,300 | 12,300 |
| Additional paid-in capital | 24 | 55,883 | 55,883 |
| Currency translation difference | 24 | 16,822 | 5,141 |
| Retained earnings including net earnings | 24 | 38,381 | 35,115 |
| Equity attributable to owners of the parent | 24 | 123,386 | 108,439 |
| Non-controlling interests | 24 | 0 | 1,046 |
| **Total equity** | | **123,386** | **109,485** |
| | | | |
| **Non-current liabilities** | | | |
| Other liabilities | | 1,735 | 1,651 |
| Deferred tax liabilities | 20 | 90 | 94 |
| | | **1,825** | **1,745** |
| **Current liabilities** | | | |
| Borrowings | 25 | 20,709 | 7,023 |
| Trade and other payables | 26 | 12,520 | 9,317 |
| Other provisions | 27 | 166 | 80 |
| Current tax liabilities | | 2,734 | 2,036 |
| | | **36,129** | **18,455** |
| **Total liabilities** | | **37,954** | **20,201** |
| **Total liabilities and equity** | | **161,340** | **129,686** |

# Consolidated Statement of Income

for the period from 1 January to 31 December
in EUR thousand

| | Notes | 2014 | 2013 |
|---|---|---|---|
| Revenue | 6 | 95,594 | 103,665 |
| Cost of sales | 8 | –79,226 | –82,997 |
| Gross profit | | 16,368 | 20,668 |
| Other income | 9 | 1,730 | 1,230 |
| Distribution and selling expenses | | –1,377 | –1,302 |
| Administrative expenses | | –3,673 | –3,752 |
| Research and development expenses | | –1,212 | –1,055 |
| Other expenses | 10 | –2,740 | –1,914 |
| Profit from operations (EBIT) | | 9,096 | 13,875 |
| Interest income | | 670 | 467 |
| Interest expense | | –1,243 | –254 |
| Financial result | 13 | –573 | 213 |
| Profit before taxes | | 8,523 | 14,089 |
| Income taxes | 14 | –3,080 | –4,103 |
| Profit for the period | 15 | 5,443 | 9,986 |
| Attributable to: | | | |
| Owners of the Company | | 5,443 | 10,106 |
| Non-controlling interests | | 0 | –120 |
| | | 5,443 | 9,986 |
| **Earnings per share in EUR (diluted – basic)** | **16** | **0.44** | **0.82** |

# Statement of other Comprehensive Income

for the period from 1 January to 31 December

| in EUR thousand | **2014** | **2013** |
|---|---|---|
| **Profit for the period** | **5,443** | **9,986** |
| Items that will be recognized in the profit and loss in the future | | |
| Currency translation difference | 11,681 | –2,036 |
| Reserve for available-for-sale (AFS) financial assets | 0 | 1 |
| **Other comprehensive income (expense) for the period** | **11,681** | **–2,035** |
| | | |
| **Total comprehensive income for the period** | **17,124** | **7,951** |
| Total comprehensive income (expense) attributable to: | | |
| Owners of the Company | 17,124 | 7,961 |
| Non-controlling interests | 0 | –10 |
| | **17,124** | **7,951** |

# Consolidated Statement of Changes in Equity

for the period from 1 January to 31 December 2013

| in EUR thousand | Share capital | Capital reserves | Revaluation reserve | Foreign currency translation reserve | Retained earnings | Attributable to owners of the Company | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2013** | **12,300** | **55,883** | **–1** | **7,288** | **25,009** | **100,479** | **1,056** | **101,535** |
| Profit for the period | | | | | 10,106 | 10,106 | –120 | **9,986** |
| Other comprehensive income (expense) for the year | | | 1 | –2,147 | 0 | –2,146 | 111 | **–2,035** |
| **Total comprehensive income for the period** | **0** | **0** | **1** | **–2,147** | **10,106** | **7,961** | **–10** | **7,951** |
| **Balance as at 31 December 2013** | **12,300** | **55,883** | **0** | **5,141** | **35,115** | **108,439** | **1,046** | **109,485** |

for the period from 1 January to 31 December 2014

| in EUR thousand | Share capital | Capital reserves | Revaluation reserve | Foreign currency translation reserve | Retained earnings | Attributable to owners of the Company | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 Jan 2014** | **12,300** | **55,883** | **0** | **5,141** | **35,115** | **108,439** | **1,046** | **109,485** |
| Profit for the period | | | | | 5,443 | 5,443 | | **5,443** |
| Other comprehensive income (expense) for the year | | | | 11,681 | | 11,681 | | **11,681** |
| **Total comprehensive income for the period** | | | | **11,681** | **5,443** | **17,124** | | **17,124** |
| **Effects arising on the acquisition of non-controlling interest in Fujian Di Sheng Wan Kai Industries Co., Ltd.** | | | | | **1,193** | **-1,193** | **-1,046** | **-2,239** |
| **Payment of dividends** | | | | | **-984** | **-984** | | **-984** |
| **Balance as at 31 December 2014** | **12,300** | **55,883** | **0** | **16,822** | **38,381** | **123,386** | **0** | **123,386** |

# Consolidated Statement of Cash Flow

for the period from 1 January to 31 December

| in EUR thousand | **2014** | **2013** |
|---|---|---|
| Profit before tax | 8,523 | 14,089 |
| Adjustments for: | | |
| Impairment of non-current financial assets | 0 | 682 |
| Depreciation on intangible assets and property, plants and equipment | 6,094 | 5,035 |
| Depreciation of prepaid lease payments | 145 | 59 |
| Other non-cash (income) expense | 114 | 88 |
| Financial result | 573 | –213 |
| (Gain) loss from the disposal of intangible assets and property, plant and equipment | 528 | 176 |
| (Increase)/decrease in current assets | 3,205 | 4,649 |
| Increase/(decrease) in current liabilities | 1,646 | –3,593 |
| | **20,828** | **20,972** |
| Interest paid | -1,243 | –254 |
| Income taxes paid | -2,687 | –2,852 |
| **Cash generated from operating activities** | **16,898** | **17,866** |
| Payments for acquisition of: | | |
| Intangibles | 0 | –6 |
| Property, plant and equipment | -17,961 | –9,404 |
| Acquisition of prepaid lease payments | 0 | –5,618 |
| Interest income | 670 | 467 |
| **Cash flow from investing activities** | **-17,291** | **–14,561** |
| Repayment of borrowings | -19,142 | –2,427 |
| New borrowings raised | 30,868 | 7,175 |
| Cash payments to shareholders | -984 | –161 |
| Non-controlling interest | -2,238 | 0 |
| **Cash flow from financing activities** | **8,504** | **4,587** |
| **Net increase (decrease) in cash and bank balances** | **8,112** | **7,892** |
| **Cash and bank balances at beginning of year** | **38,802** | **30,936** |
| Effect of exchange rate changes | 3,257 | –26 |
| **Cash and bank balances at end of period** | **50,170** | **38,802** |

# Notes to the Consolidated Financial Statements

for the period from 1 January to 31 December 2014

## 1. General information

United Power Technology AG, Eschborn, Germany, (“United Power” or “the Company”) is registered under the firm United Power Technology AG with the commercial register of the local court of Frankfurt am Main (HRB 88245). The address of the Company’s registered office is: Mergenthalerallee 10–12, 65760 Eschborn, Germany.

The Company and its subsidiaries (collectively “the Group”) produce in China and sell generators and related equipment globally.

The shares of the Company have been admitted to trading on the regulated market of the Frankfurt Stock Exchange. On 10 June 2011 the Company issued 2,300,000 no-par-value shares with a value of the share capital of EUR 1.00 per share for an initial share price of EUR 9.00 per share.

The consolidated financial statements were prepared by the Management Board on 6 May 2015 and authorized by the Supervisory Board.

The consolidated financial statements are presented in Euros. Amounts are stated in thousands of Euros (kEUR) except where otherwise indicated.

The currency of the primary economic environment in which the Company and its subsidiaries operate is Renminbi (“RMB”) (the functional currency of the Company and its subsidiaries).

The figures mentioned in the consolidated financial statements were subject to rounding adjustments that were carried out according to established commercial standards. As a result, the figures stated in a table may not exactly add up to the total values that may also be stated in the table.

### Dividends and foreign exchange restrictions

Dividends to be paid by the operating Chinese subsidiaries generally have to be approved by Chinese government bodies. In addition, dividends are only payable if Chinese statutory reserves satisfy the related legal requirements.

Cash transfers from China to foreign countries or to the special administrative regions of Hong Kong and Macao require special approval by the “State Administration of Foreign Exchange” (“SAFE”).

## 2. Basis of preparation

The consolidated financial statements of United Power were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and pursuant to section 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB) under commercial law.

In the 2014 financial year, the following accounting standards and interpretations were adopted for the first time:

- IFRS 10 – Consolidated Financial Statements (Effective for annual periods beginning on or after 1 January 2014)
- Amendments to IFRS 10 – Consolidated Financial Statements, IFRS 12 – Disclosure of Interests in Other Entities and IAS 27 – Separate Financial Statements, Amendments relating to the Consolidation of Investment Companies (Effective for annual periods beginning on or after 1 January 2014)
- IFRS 11 – Joint Arrangements (Effective for annual periods beginning on or after 1 January 2014)
- IFRS 12 – Disclosure of Interests in Other Entities (Effective for annual periods beginning on or after 1 January 2014)
- Transition Guidance, Amendments to IFRS 10, IFRS 11 and IFRS 12 (Effective for annual periods beginning on or after 1 January 2014)
- IAS 27R – Separate Financial Statements (Effective for annual periods beginning on or after 1 January 2014)

- IAS 28R – Investments in Associates and Joint Ventures (Effective for annual periods beginning on or after 1 January 2014)
- Amendments to IAS 32 – Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities (Effective for annual periods beginning on or after 1 January 2014)
- Amendments to IAS 39 – Financial Instruments: Recognition and Measurement: Amendments relating to the Novation of Derivatives and Continuation of Hedge Accounting (Effective for annual periods beginning on or after 1 January 2014)
- Amendments to IAS 36 – Impairment of Assets: Clarification regarding the Recoverable Amount Disclosures for Non-financial Assets (Effective for annual periods beginning on or after 1 January 2014)
- Amendments to IFRS 10, IFRS 12 and IAS 27 - Investrment Entities (Effective for annual periods beginning on or after 1 January 2014)

The first-time adoption of these standards and interpretations did not have any significant impact on the presentation of net assets, financial and earnings position or notes on the consolidated financial statements of United Power Technology AG.

The following new and revised standards and interpretations already adopted by the IASB, but not yet mandatory for the financial year 2014, have not been taken into account in the consolidated financial statements as at 31 December 2014:

- Amendments to IAS 19 – Employee Benefits Defined Benefit Obligations: Employee Contributions (Effective for annual periods beginning on or after 1 February 2015).
- Amendments to IFRS 11 – Acquisition of an Interest in a Joint Operation (Effective for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation (Effective for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 16 and IAS 41- Bearer Plants (Effective for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 27- Equity Method in Separate Financial Statements (Effective for annual periods beginning on or after 1 January 2016)
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Effective for annual periods beginning on or after 1 January 2016)
- Annual improvements to the IFRS 2012–2014 Cycle for IFRS 5, IFRS 7, IAS 19 and IAS 34 (Effective for annual periods beginning on or after 1 February 2016).
- IAS 1 – Presentation of Financial Statements - Disclosure Initiative (Effective for annual periods beginning on or after 1 January 2016)
- Amendmentes to IFRS 10, IFRS 12, IAS 28 – Applying the Consolidation Exception (Effective for annual periods beginning on or after 1 January 2016)
- IFRS 9 – Financial Instruments (Effective for annual periods beginning on or after 1 January 2018)
- IFRS 15 – Revenue from Contracts with Customers (Effective for annual periods beginning on or after 1 January 2017)
- IFRIC 21 – Levies (Effective for annual periods beginning on or after 17 June 2015)
- Annual improvements to the IFRS 2010–2012 Cycle for IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38 (Effective for annual periods beginning on or after 1 February 2015).
- Annual improvements to the IFRS 2011–2013 Cycle for IFRS 1, IFRS 3, IFRS 13 and IAS 40 (Effective for annual periods beginning on or after 1 January 2015)
- IFRS 14 – Regulatory Deferral Accounts (Effective for annual periods beginning on or after 1 January 2016)

Management anticipates that the application of these standards and interpretations will have no significant impact on the presentation of net assets or the financial position and results of the consolidated income statement.

The balance sheet differentiates between current and non-current assets and liabilities. The consolidated income statement is presented using the cost of sales method.

Expenses are allocated to the functional areas of manufacturing, sales and general administration.

## 3. Consolidated Group

All subsidiaries are included in the consolidated financial statements.

Subsidiaries are companies that are directly or indirectly controlled by United Power and are fully consolidated. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity is controlled.

**Consolidation Group**

| Name registered office of the Company | Share capital (in EUR thousand) | Equity interest (in %) |
|---|---|---|
| United Power Equipment Co. Ltd. Mongkok, Hong Kong (UP HK-Holding) | 40,502 | 100.0 |
| United Power Equipment Co. Ltd. Fuzhou, People's Republic China (UPEC) | 101,610 | 100.0 |
| Fujian United Power Equipment Co. Ltd. Fuzhou, People's Republic China (FUPEC) | 3,007 | 100.0* |
| Sealand Machinery Co. Ltd. Fuzhou, People's Republic China | 1,264 | 100.0* |
| Fujian Disheng WanKai Machinery Co. Ltd. Fuzhou, People's Republic of China (DWC) [1)] | 1,679 | 100.0* |
| Shanghai Genmaster International Trading Co. Ltd. Shanghai, People's Republic of China (Genmaster) | -381 | 100.0 |

[1)] In financial year 2014 the Group acquired 49% of shares from Mr. Wei Gao Xin. As at 31 December 2014 the Group holds 100% of shares in DWC

*Indirect

The number of consolidated companies has changed compared with last year. The wholly owned subsidiary companies Hua Tong Zhong Chuang, Co. Ltd underneath Fujian United Power Equipment Co., Ltd. and United Power France SASU which had been dormant were both closed due to rationalisation.

The percentage of equity interests in the previously existing subsidiaries attributable to the Group did not change during the Track Record Period, except the shares in DWC. In 2014 the Goup acquired 49% of shares from Mr. Wei Gao Xin and owns now 100% of shares in DWC.

## 4. Significant accounting policies

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, as explained below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The material principles on recognition and measurement outlined below were applied uniformly.

### Consolidation Group

The consolidated financial statements incorporated include in the financial statements of the parent company and entities controlled by the Company. According to IFRS 10 control is achieved where the Company has the power to govern the financial and operating policies of an entity so as obtain benefits from its activities. Control of a subsidiary is exists according to IFRS 10 if the company has the power to decide on the material business of the company and can use this power to influence the variable return of the participation.

The financial statements of United Power Technology AG and its subsidiaries are consolidated in accordance with IFRS under consideration of the Group accounting policies. The financial statements of the subsidiaries are prepared on the same reporting-date as the parent. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

The intra-group receivables and liabilities as well as income and expenses were eliminated.

Total comprehensive income and expense of a subsidiary 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.

Since United Power Technology AG and United Power Equipment Co., Ltd, were jointly managed, IFRS 3 does not apply for the corporate merger executed in 2010. In light of this fact, in accordance with IAS 8.10 ff, acquisition of the subgroup of United Power Equipment Co, Ltd, was dealt with according to the book value method under application of IDW RS HFA 2. Assets and liabilities carried forward are accordingly posted at their consolidated carrying value at the time they were included in the basis of consolidation for the first time. The differential amount between the consideration granted and the sum of consolidated carrying values of assets carried forward less assumed liabilities was offset against capital reserves. The initial consolidation was posted again under the subsequent consolidation.

### Intangible assets

#### Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

An intangible asset is derecognised at its disposal or when no further economic benefit is expected from its use or its disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

#### Internally generated intangible assets

Expenditures on research activities is recognised as an expense in the period incurred. An internally generated intangible asset arising from development is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and the resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period incurred. In the reporting period and the previous reporting periods, all expenses related to development costs do not fulfil the described requirements and are therefore included in the income statement.

#### Impairment of tangible and intangible assets, except Goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows 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 estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating item) is estimated to be less than its carrying amount, the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### Property, plant and equipment

Property, plant and equipment are carried at cost and depreciated over the estimated useful life. As at the reporting date, the book values are reviewed for impairment in regard of their recoverability and necessary revaluations and values are adjusted if necessary.

Construction in progress for use in production, sales or administration is carried at cost less any recognised impairment loss. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are added to the cost of those assets according to Group accounting policies. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets commences when the assets are ready for their intended use.

The production costs of internally generated property, plant and equipment include directly attributable production costs, pro-rated production overhead costs as well as interest on borrowed capital attributable to the period of production.

Property, plant and equipment (excluding property or facilities under construction) less their residual value are depreciated using the straight-line method over their expected useful economic life.

| | |
|---|---|
| Machinery and equipment | 10 years |
| Motor vehicles | 5 years |
| Buildings | 20 years |
| Office equipment | 5 years |

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

### Inventories

Inventories are stated at the lower of cost and net realisable value. The production costs of finished goods and work in progress include all costs for product development, raw materials and supplies, direct personnel costs, other direct costs and indirect costs attributable to production (based on a normal operating capacity). Acquisition costs of raw materials and supplies are measured at weighted average.

The net realisable value is the estimated sales price minus the estimated costs until completion and the estimated necessary cost of distribution, in normal course of business.

The details of inventories are disclosed in Note 21 of the notes.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

### Revenue recognition

Sales are measured by the fair value of the received or expected compensation and diminished by rebates and similar deductions.

Revenues from the sale of goods are record if the following conditions have been met:

- the Group has transferred all significant risks and opportunities associated with ownership of the goods to the buyer,
- the Group does not retain either a right of disposal, which is usually associated with ownership, or any effective control over the goods and products sold,
- the amount of revenue can be accurately determined
- the Group will probably benefit commercially from the sales transaction and
- the costs incurred or to be incurred in connection with the sale can be accurately determined.

Interest income from financial assets is accrued on a pro rata basis according to the outstanding principal at the applicable effective interest rate. The effective interest rate is the interest rate at which estimated future cash flows are discounted over the expected term of the financial asset to arrive at the net carrying amount of this asset derived from its initial measurement.

Dividend income from investments is recognised when the rights to receive payment have been established.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee (finance lease). All other leases are classified as operating leases. The Group has not entered into finance leases in the reporting period and in preceding periods.

#### The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

#### The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

#### Prepaid lease payments

Upfront prepayments made for the land use rights are initially recognised on the combined statement of financial position as other assets and are charged to the profit or loss as expenses over the periods of the respective lease.

### Foreign currencies

The management has determined the currency of the primary economic environment in which the Group operates, to be Renminbi as the currency of the primary economic environment. Fluctuations in RMB primarily influence revenue and also the major cost for the supply of goods and major operating expenses. RMB is the functional currency of the Chinese Group companies. The presentation currency of the Group is EUR, being the presentation currency of its German domiciled legal parent and holding company, and therefore the financial information has been translated from RMB to EUR.

Preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the exchange rates prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purpose of presenting the combined financial statements, the assets and liabilities of the Group are translated to EUR as its presentation currency using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates prevailing at the dates of the transactions are used.

Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the foreign currency translation reserve).

The following key exchange rates have applied:

| | | 2014 | 2013 |
|---|---|---|---|
| Balance sheet date 31 December | 1 EUR = RMB | 7.4556 | 8.4189 |
| Average | 1 EUR = RMB | 8.1255 | 8.2396 |
| Balance sheet date 31 December | 1 HKD = RMB | 0.7889 | 0.7862 |
| Average | 1 HKD = RMB | 0.7924 | 0.7979 |
| Balance sheet date 31 December | 1 EUR = USD | 1.2184 | 1.3791 |
| Average | 1 EUR = USD | 1.3222 | 1.3281 |

### Government grants

Government grants are not recognised as profit until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Concretely, government grants that have purchasing, building or otheracquisition of non-current assets as their main condition, are recognised as deferred income in the balance sheet and recognised in profit or loss over the useful life of the corresponding asset.

Government grants that are realisable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become realisable.

### Retirement benefit costs

Contributions to statutory retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions. These are defined contribution plans.

The Company has no direct and indirect pension obligations, which would be classified as defined, benefit obligation.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the combined statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the combined financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, 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.

Deferred tax assets and liabilities are presented net if an enforceable legal title for offsetting exists and if the deferred tax assets and liabilities are related to income taxes which are raised by the same tax authority for either the same taxpayer or different taxpayers which intend to achieve the settlement on a net basis.

The carrying amount of deferred tax assets is reviewed at the end of a reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity, respectively. Where current or deferred tax arises from initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

#### Financial instruments

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

### Financial assets

Financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss’ (FVTPL), ‘held-to-maturity’ investments, ‘available-for-sale’ (AFS) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

At the end of the reporting period the Group holds solely financial assets classified as “loans and receivables”. In the previous year the Group also had the category “assets available for sale”. assets and loans and receivables.

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of financial assets and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, trans-action costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, or neither (a) loans and receivables (b) nor held-to-maturity investments or (c) nor financial assets which are measured at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in revaluation reserve until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain and loss previously accumulated in the revaluation reserve is reclassified to profit or loss.

#### Loans and receivables (including cash and cash equivalents)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, amount due from a director) are measured at amortised cost using the effective interest method, less any impairment losses.

Interest income is recognised on basis of the effective interest method except of short-term receivables for which the interest effect would be immaterial.

#### Impairments of financial assets

Financial assets, except for those, which are recognised at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been affected.

For financial assets or a group of assets, objective evidence of impairment could include observable data on following loss events which become known:

- significant financial difficulty of the issuer or counter-party; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation; or
- that the active market for this financial asset disappears because of financial problems

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the assets is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in revaluation reserve.

Cash and cash equivalents include cash-accounts and short-term cash deposits at banks are measured at amortised cost.

### Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Financial liabilities are categorised as either financial liabilities measured at fair value through profit or loss or other financial liabilities.

The Groups financial liabilities are solely belonging to the category "liabilities valued at acquisition costs carried forward".

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments including all fees and other considerations that are part of the effective interest rate, as well as transaction costs and all other premiums or discounts through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.
Interest expense is recognised on an effective interest basis.

#### Financial liabilities

Financial liabilities including trade and other payables, amounts due to related parties and other borrowings are subsequently measured at amortised cost using the effective interest method.

#### Equity instruments

Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

### Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise collateralised borrowings for the proceeds received.

When a financial asset is fully derecognised, the difference between the carrying amount and the sum received from considerations received including each new asset attained less any new liability assumed plus all accumulated gains or losses that were recognised in other comprehensive income is recognised in profit or loss.

A financial liability is derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

## 5. Key sources of estimation uncertainty discretionary decisions

The presentation of financial position and consolidated statement of income is dependent upon accounting policies, assumptions and estimates. The actual amounts may differ from those estimates insofar as each assumption and estimate has inherent uncertainty.

The consolidated financial statements include the following described material estimates and assumptions.

The valuation of assets on initial recognition as well as the determination of the market value at the balance sheet date is connected with estimations of fair value. The determination of fair value is based on appraisals of the management.

The assumptions and estimates are reviewed on a regular basis. The impact of amendments in the assumptions and estimates are recorded in the reporting period in which they are identified. In the event that amendments are related to other reporting periods, they are recorded in the appropriate period.

The following assumptions and estimates are related to future reporting periods and may have material impacts on assets and liabilities in the following financial year.

### Impairment of trade and other receivables

The trade and other receivables are impaired when possible losses in regard of the realisation of the receivables become apparent. In doing so, the book value is compared to expect future cash flow. The carrying amounts of trade and other receivables as at 31 December 2014 were kEUR 14,056 (2013: kEUR 13,584). As at 31 December 2014 kEUR 1,168 (2013: kEUR 3) valuation allowances were recorded.

### Depreciation and impairment of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account their estimated residual value. The Company assesses annually the residual value and the useful life and adjusts the carrying amount if necessary. This may cause future amendments in the valuation. The amounts of depreciation and impairment are shown under note 18.

There are no other relevant judgements made by management in regards to the consolidated financial statements except for the judgements made by management in regards to use of estimates that are described above.

## 6. Revenue

Revenue represents revenue arising from sales of goods.
An analysis of the Group's revenue as follows:

| in EUR thousand | **2014** | **2013** |
|---|---|---|
| Portable generators | 92,001 | 97,575 |
| Outdoor power equipment | 3,129 | 4,424 |
| Components | 464 | 1,666 |
| | **95,594** | **103,665** |

## 7. Segment Information

The Company has adopted IFRS 8 to report segment information. Segments are defined according to products. The operative business unit prepares these on the basis of internal information, which is regularly reviewed by the management and supervisory board.

The information is also used for internal assessment of performance.

Information reported to the chief operating decision maker (management and supervisory board) for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered or provided. The Group's reportable segments under IFRS 8 are therefore as follows.

United Power has three major reportable segments: Portable generators, outdoor power equipment and components. The portable generators segment is further separated into residential use units and commercial units. The portable generators segment produces portable generators for remote power and back up assistance. The outdoor power equipment segment produces industrial equipment (e.g. high-pressure washers) and landscaping machines (e.g. water pumps). The components segment produces engines to be used by other generator manufacturers and also to be used as spare parts.

### Portable generators

- residential use unit
- commercial unit

### Outdoor power equipment

Deferring from the previous year the segment "outdoor power equipment is not divided into "industrial equipment" and "landscaping machines" since landscaping machines negligible.

### Components

- engines
- parts
- other

**Revenue by segments**

| in EUR thousand | **2014** | **2013** |
|---|---|---|
| **Portable generators** | | |
| Residential use unit | 42,666 | 43,348 |
| Commercial use unit | 49,335 | 54,227 |
| **Outdoor power equipment** | 3,129 | 4,423 |
| **Components** | | |
| Engines | 302 | 691 |
| Parts | 2,980 | 4,059 |
| Other | 460 | 745 |
| **Total segment revenue** | **98,872** | **107,494** |
| Inter-segment revenue elimination | -3,272 | -3,828 |
| Other adjustments [1)] | -6 | -1 |
| | **95,594** | **103,665** |

[1)] Other adjustments are related to freight expenses and sales tax surcharge included in the revenue.

Intercompany sales only apply to the segment components.

The Company is not providing a breakdown of depreciations and impairments of tax expense and tax income as well as of sales costs according to segment.

**Results by segments**

| in EUR thousand | **2014** | **2013** |
|---|---|---|
| **Portable generators** | | |
| Residential use unit | 5,260 | 5,862 |
| Commercial use unit | 10,522 | 13,816 |
| **Outdoor power equipment** | 544 | 864 |
| **Components** | | |
| Engines | 47 | 148 |
| Parts | -22 | -151 |
| Other | 92 | 130 |
| Total segment result | **16,443** | **20,669** |
| Other adjustments [1)] | -75 | -1 |
| **Consolidated gross profit** | **16,368** | **20,668** |
| **Unallocated items:** | | |
| Other operating income | 1,730 | 1,230 |
| Distribution and selling expenses | -1,377 | -1,302 |
| Administrative expenses | -3,673 | -3,752 |
| Research and development expenses | -1,212 | -1,055 |
| Other expenses | -2,740 | -1,914 |
| Interest income | 670 | 467 |
| Interest expenses | -1,243 | -254 |
| **Consolidated profit before tax** | **8,523** | **14,089** |

[1)] Other adjustments are related to freight expenses included and sales tax surcharge in the revenue.

The accounting and valuation methods of the operating segments are based on the accounting requirements applicable to the PRC entities of the Group (“PRC GAAP”), Segment profit represents the gross profit earned by each segment prepared under PRC GAAP, Differences between accounting and valuation methods under PRC GAAP and IFRS are immaterial, insofar as it is not necessary to prepare reconciliations and explanations. Since information about assets and liabilities of different operating divisions is not regularly provided to the chief operating decision maker for the purpose of assessing performance and resource allocation, segment assets and segment liabilities are not presented.

The basis of segmentation and the basis of measurement of segment results have not been changed for the full year 2014.

The Company beneficiaries are primarily located in the People’s Republic of China. In considering beneficiaries it must be taken into account that in addition to the end consumer, our buyers are also dealers that resell the products to end customers in third countries. The geographic breakdown of sales revenue according to beneficiary is shown as follows:

## Geographical breakdown

The following table shows the geographical breakdown based on revenue:

| in EUR thousand | **2014** | **2013** |
|---|---|---|
| People’s Republic of China | 55,035 | 66,771 |
| North America | 15,327 | 16,262 |
| Europe | 17,617 | 14,865 |
| Africa & Middle East | 2,581 | 775 |
| Other foreign countries | 5,034 | 4,992 |
| | **95,594** | **103,665** |

The geographical breakdown based on the Group’s main sales markets was adjusted in 2013.

The following overview shows the geographical breakdown of non-current assets (excluding financial assets):

| in EUR thousand | **2014** | **2013** |
|---|---|---|
| People's Republic of China | 79,978 | 59,869 |
| | **79,978** | **59,869** |

Revenues with one customer amounting to more than 10% of the total revenues did not take place in financial year 2014.

## 8. Cost of sales

| in EUR thousand | **2014** | **2013** |
|---|---|---|
| Material | 73,559 | 77,355 |
| Overhead | 4,601 | 4,504 |
| Labour | 1,066 | 1,138 |
| | **79,226** | **82,997** |

## 9. Other income

Other income is mainly related to exchange gains, rental income, gains on the disposal of fixed assets and Government grants.

| in EUR thousand | **2014** | **2013** |
|---|---|---|
| Exchange gains | 1,065 | 0 |
| Gains on disposals of fixed assets | 46 | 0 |
| Government grants | 298 | 1,066 |
| Reversal of provisions | 1 | 22 |
| Rental income | 0 | 142 |
| Non-operating income | 173 | 0 |
| Income from investments other income | 148 | 0 |
| | **1,730** | **1,230** |

Government grants represent the incentive subsidies granted by the PRC local government authorities to the Group's subsidiaries as incentives mainly for three purposes:

(1) For grants relating to product research and development activities, the grant income is recognised as related research and development expenses that have been charged to profit or loss.

(2) For grants relating to capital expenditure the grant income is recognised on a systematic basis, which matches the depreciation of the related assets.

(3) For grants that are incentive payments to provide immediate financial support to the Group, the grants are recognised as income when they are received.

The grants were unconditional, non-recurring and had already been received by the Group's subsidiaries.

## 10. Other expenses

| in EUR thousand | **2014** | **2013** |
|---|---|---|
| Provision of bad debt | 1,069 | 0 |
| Non-operating expenses | 78 | 0 |
| Impairment of property, plant and equipment | 0 | 682 |
| Exchange rate differences | 0 | 405 |
| Amortisation of long-term assets | 1,083 | 0 |
| Fees for the listing | 0 | 236 |
| Other taxes | 342 | 217 |
| Disposals of fixed assets | 0 | 153 |
| Provision of inventory | 79 | 132 |
| Bank charges | 90 | 89 |
| Other expenses | 77 | 0 |
| | **2,740** | **1,914** |

## 11. Headcount and payroll expenses

Total personnel costs compared to the previous year were:

| in EUR thousand | 2014 | 2013 |
|---|---|---|
| Wages and salaries | 3,317 | 3,220 |
| Social security costs | 252 | 212 |
| | **3,569** | **3,432** |

Employer contributions to statutory pension insurance in China amounted to kEUR 252 (2013: kEUR 212).

For financial year 2015 expenditures is expected to be similar to that in financial year 2014.

The Group employed an annual average of 610 (2013: 654) employees based on continued activities. The employees were acting in the following functions:

| Employees (annual average) | 2014 | 2013 |
|---|---|---|
| Production and services | 409 | 451 |
| Administration | 144 | 146 |
| Research and development | 57 | 57 |
| | **610** | **654** |

## 12. Depreciation and amortization expenses

Depreciation and amortization expenses compared to the previous period are as follows:

| In EUR thousand | 2014 | 2013 |
|---|---|---|
| Depreciation of property, plant and equipment | 5,934 | 4,909 |
| Amortization of intangible assets (included in administration expenses) | 158 | 166 |
| Impairments on property, plant and equipment (Included under other expenses) | 0 | 682 |
| Impairments on inventories (included in other expenses) | 79 | 132 |
| **Total depreciation and amortization expenses** | **6,171** | **5,889** |

## 13. Financial result

The financial result during the reporting period is as follows:

| In EUR thousand | 2014 | 2013 |
|---|---|---|
| Interest from banks | 670 | 467 |
| **Interest income** | **670** | **467** |
| Interest to banks | –1,243 | –254 |
| **Interest expense** | **–1,243** | **–254** |
| **Finance result** | **-573** | **213** |

## 14. Income tax expense

Income tax recognized in the profit and loss statement:

| In EUR thousand | 2014 | 2013 |
|---|---|---|
| Current Tax | | |
| - in Germany | 0 | 0 |
| - in China | 3,047 | 2,531 |
| Withholding tax | | |
| - in Germany | 0 | 0 |
| - in China | 0 | 1,578 |
| Deferred Tax | | |
| - in Germany | 4 | 69 |
| - in China | 29 | –75 |
| - of which from loss carry forwards | 4 | 69 |
| **Taxes on income** | **3,080** | **4,103** |

The following tax rates were used as the basis for the tax calculation:

| | 2014 | 2013 |
|---|---|---|
| Hong Kong | 16.5% | 16.5% |
| People’s Republic of China | 25.0% | 15.0% |
| Germany | 25.6% | 25.6% |

The effective tax can be reconciled as follows:

| in EUR thousand | **2014** | **2013** |
|---|---|---|
| Profit before tax | 8,523 | 14,089 |
| Expected income tax expenses at tax rate of 25% (China)* | 2,131 | 3,522 |
| Effect of tax benefit granted to a subsidiary | 0 | –1,350 |
| Effect of tax losses not recognised | -30 | 721 |
| Tax effect of loss-carry forwards | 27 | -356 |
| Tax effect of expenses that are not deductible | 47 | 17 |
| Non-eligible withholding taxes | 0 | 1,578 |
| Tax effect of income not taxable | 905 | –29 |
| | **3,080** | **4,103** |

*The national tax rate in China is 25%. The national tax rate of China is the most appropriate tax rate for the effective tax reconciliation, because most of the taxable activities of the Group are located in China.

The average effective tax rate increased in the 2014 financial year from 29.1% to 36.1%. By not counting the effects from non-eligible withholding taxes in previous year, this results in an average effective tax rate of 17.92% in the previous year.

## 15. Profit for the year

Profit for the year has been calculated after charging/(crediting):

| in EUR thousand | **2014** | **2013** |
|---|---|---|
| Cost of inventories recognised as an expense | 79,226 | 82,997 |

## 16. Earnings per share

The income and the weighted average of shares and employee share options which is the basis for the income per share are as follows:

| in EUR | **2014** | **2013** |
|---|---|---|
| Income attributable to owners of the parent in EUR at | 5,442,686 | 10,106,279 |
| Income for calculation of the basic income per share in EUR at | 5,442,686 | 10,106,279 |
| Weighted average number of shares for the calculation of the basic income per share | 12,300,000 | 12,300,000 |
| Earnings per share | 0.44 | 0.82 |

The weighted average number of shares and employee share options for the calculation of basic earnings per share is equivalent to the calculation of the diluted earnings per share.

## 17. Intangible assets

Intangible assets are related to computer software.

| in EUR thousand | **2014** | **2013** |
|---|---|---|
| **Cost:** | | |
| As at 1 January | 1,429 | 1,398 |
| Additions | 0 | 48 |
| Currency translation adjustments | 185 | –17 |
| **As at 31 December** | **1,614** | **1,429** |
| **Accumulated amortisation:** | | |
| As at 1 January | 535 | 373 |
| Additions | 158 | 166 |
| Currency translation adjustments | 69 | –4 |
| **As at 31 December** | **762** | **535** |
| **Carrying amounts:** | | |
| As at 1 January | 894 | 1,025 |
| **As at 31 December** | **852** | **894** |

The intangible assets primarily consist of accounting and management software. Office administration computer software has finite useful life and is amortised over its estimated useful life of ten years. Accounting computer software has finite useful life and is amortised over its estimated useful life of two years.

## 18. Property, plant and equipment

Property, plant and equipment changed in the reporting period 2013 and 2014 as follows:

| in EUR thousand | Buildings on leased land | Plant & equipment | Motor vehicles | Office equipment | Deposits and construction in progress | Total |
|---|---|---|---|---|---|---|
| Acquisition and production cost: | | | | | | |
| **As at 1 January 2013** | **32,782** | **28,270** | **1,333** | **676** | **644** | **63,704** |
| Additions | 7,847 | 890 | 0 | 19 | 448 | 9,204 |
| Disposals | 0 | -296 | 0 | -5 | 0 | -301 |
| Currency translation | -395 | -340 | -16 | -8 | -8 | -767 |
| **As at 31 December 2013** | **40,234** | **28,524** | **1,317** | **681** | **1,084** | **71,840** |
| Accumulated depreciation: | | | | | | |
| As at 1 January 2013 | 3,595 | 3,012 | 557 | 449 | 0 | 7,614 |
| Additions | 2,076 | 2,487 | 244 | 102 | 0 | 4,909 |
| Disposals | 0 | -126 | 0 | -2 | 0 | -128 |
| Currency translation | 0 | 682 | 0 | 0 | 0 | 682 |
| Depreciation | -86 | -104 | -12 | -8 | 0 | -210 |
| **As at 31 December 2013** | **5,585** | **5,951** | **790** | **540** | **0** | **12,865** |
| Book values as at 1 January 2013 | 29,187 | 25,258 | 776 | 227 | 644 | 56,090 |
| **Book values as at 31 December 2013** | **34,649** | **22,573** | **527** | **141** | **1,084** | **58,975** |

| in EUR thousand | Buildings on leased land | Plant & equipm ent | Motor-vehicles | Office equipment | Deposits and construction in progress | Total |
|---|---|---|---|---|---|---|
| Acquisition and production cost: | | | | | | |
| **As at 1 January 2014** | **40,234** | **28,524** | **1,317** | **681** | **1,084** | **71,840** |
| Additions | 0 | 441 | 12 | 3 | 20,179 | 20,635 |
| Disposals | -1,240 | -1,698 | 0 | -1 | 0 | -2,939 |
| Transfer | 20,813 | 0 | 0 | 0 | -21,319 | -506 |
| Currency translation | 5,198 | 3,685 | 171 | 88 | 140 | 9,282 |
| **As at 31 December 2014** | **65,005** | **30,952** | **1,500** | **771** | **84** | **98,312** |
| Accumulated depreciation: | | | | | | |
| As at 1 January 2014 | 5,585 | 5,951 | 790 | 540 | 0 | 12,865 |
| Additions | 2,878 | 2,761 | 244 | 51 | 0 | 5,934 |
| Disposals | -423 | -1,323 | 0 | 0 | 0 | -1,746 |
| Currency translation | 980 | 955 | 124 | 74 | 0 | 2,133 |
| Depreciation | | | | | | |
| **As at 31 December 2014** | **9,020** | **8,344** | **1,158** | **665** | **0** | **19,186** |
| Book values as at 1. January 2014 | 34,649 | 22,573 | 527 | 141 | 1,084 | 58,975 |
| **Book values as at31. December 2014** | **55,985** | **22,608** | **342** | **106** | **84** | **79,125** |

Property ownership in China is basically reserved for the government. Buildings on leased land in Fuzhou, the People's Republic of China, were therefore built on land for which land use rights for 50 years exist by way of leasing contracts that will expire in 2057 and 2058. Commercial ownership of the buildings is a result of the fact that the use period of the buildings is shorter than the lease contracts.

The depreciation rates are 5% on buildings, 10% on plant and equipment and 20% on motor vehicles and office equipment.

The Group pledged buildings with carrying amounts of kEUR 53,313 (2013: kEUR 0) to secure borrowings of the Group (see also note 25). The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

## 19. Other assets

Other assets increased by kEUR 831 to kEUR 8,552 (other current and non-current assets). The other assets include:

| in EUR thousand | **2014** | **2013** |
|---|---|---|
| Prepaid lease payments | 0 | 42 |
| Others | 37 | 12 |
| **Other current assets** | **37** | **54** |
| | | |
| Prepaid lease payments | 8,308 | 7,484 |
| Others | 207 | 183 |
| **Other non-current assets** | **8,515** | **7,667** |
| | **8,552** | **7,721** |

Other assets mainly include prepaid lease payments. On 31 December 2014 the Company had capitalised a total kEUR 8,308 for prepaid lease payments, of which kEUR 0 is recorded as current assets and kEUR 8,308 is recorded as non-current assets;

| in EUR thousand | **2014** |
|---|---|
| **Cost:** | |
| As at 1 January 2014 | 7,711 |
| Disposal | -18 |
| Currency translation adjustments | 996 |
| | 8,690 |
| **Amortisation:** | |
| As at 1 January 2014 | 185 |
| Addition | 174 |
| Disposal | -2 |
| Currency translation adjustments | 24 |
| | 382 |
| **Carrying amounts:** | |
| As at 1 January 2014 | 7,526 |
| **As at 31 December 2014** | **8,308** |

The Group has pledged prepaid lease payments of kEUR 8,308 (2013: kEUR 0) in order to secure liabilities of the Group (see note 25).

## 20. Deferred Taxes

Deferred taxes are recognised in the consolidated financial statements as follows:

| in EUR thousand | **31.12.2014** | **31.12.2013** |
|---|---|---|
| Deferred tax assets | 779 | 586 |
| Deferred tax liabilities | -90 | -94 |
| | | |
| | **689** | **492** |

Deferred tax assets have resulted from tax effects on deferred government grants kEUR 387 (2013: kEUR 420), allowance for doubtful debts kEUR 291 (2013: kEUR 0), provision for inventory kEUR 39 (2013: kEUR 0), loss carry-forwards kEUR 62 (2013: kEUR 66) and impairment of fixed assets kEUR 0 (2013: kEUR 100). Deferred tax liabilities have resulted primarily from the tax effects on the capitalisation of borrowing costs.

There exist outside basis differences in 2014 of kEUR 68,748 (2013: kEUR 62,746). Deferred tax liabilities from these existing outside basis differences of kEUR 6,875 (2013: kEUR 6,275) are not recognised, since the Group can influence when these deferred taxes are realized.

Deferred taxes are calculated at the tax rates that are expected to apply in the period when the deferred tax assets or liabilities are realised. The tax rates are as follows:

| Percentage | **2014** | **2013** |
|---|---|---|
| Germany | 25.6% | 25.6% |
| People's Republic of China | 25.0% | 25.0% |

## 21. Inventories

| in EUR and | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Raw material | 1,240 | 2,050 |
| Work in progress | 1,639 | 1,032 |
| Finished goods | 3,255 | 1,967 |
| | **6,134** | **5,049** |

The cost of inventories recognized as an expense during the year was kEUR 79,226 (prior year: kEUR 82,997).

In the 2014 financial year, provision of inventory was carried out in the amount of kEUR 79 (2013: kEUR 132).

## 22. Trade and other receivables

| in EUR thousand | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Trade receivables | 12,677 | 11,184 |
| Allowance for doubtful debts (Trade receivables) | -494 | –3 |
| Deposits | 1,291 | 1,144 |
| Advance payments to suppliers | 33 | 305 |
| Other receivables | 1,223 | 954 |
| Allowance for doubtful debts (Other receivables) | -674 | 0 |
| | **14,056** | **13,584** |

Period on sales of goods generally ranges from 30 to 60 days. No interest is charged on trade receivables for the overdue balance. Allowances for doubtful debts are recognised based on historical experience.

Before accepting any new customer, the Group obtains the background and financial information and performs an assessment on the potential customer's credit quality and defines credit limits for the customer. As at 31 December 2014 86,3% of trade receivables were neither past due nor impaired.

Included in the Group's trade receivable balance and presented in the table below are trade receivables past due at the end of the reporting period which the Group has not recognised an allowance because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right to offset against any amounts owed by the Group to the counterparties. In the financial year additions to adjustments for doubtful trade receivables have been made in the amount of kEUR 491 (2013: kEUR 3).

The following analysis shows the overdue but not impaired receivables.

| in EUR thousand | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Past due 1 – 30 days | 550 | 635 |
| Past due 31 – 60 days | 263 | 372 |
| Past due 61 – 180 days | 389 | 248 |
| Past due over 180 days | 35 | 281 |
| | **1,237** | **1,536** |

## 23. Cash and cash equivalents and other current assets

In addition to cash and cash equivalents in the amount of kEUR 50,170 (2013: kEUR 38,802), kEUR 1,665 (2013: kEUR 3,474) of bank deposits were used to secure short-term lines of credit. They are shown under the other financial assets.

For purposes of consolidated statements of cash flows, cash and cash equivalents include cash balances and bank notes with financial institutions.

Bank balances carry interest rates of 0.35% per annum and the pledged bank deposits carry interest rates of 2.8% per annum.

Cash and cash equivalents:

| in EUR thousand | **31.12.2014** | **31.12.2013** |
|---|---|---|
| Cash and cash equivalents | 50,170 | 38,802 |
| | **50,170** | **38,802** |

Other financial assets:

| in EUR thousand | **31.12.2014** | **31.12.2013** |
|---|---|---|
| Pledged bank deposits | 1,665 | 3,474 |
| | **1,665** | **3,474** |

Of the cash and cash equivalents available as at 31 December 2014 kEUR 49,830 (previous year: kEUR 38,270) was in Mainland China and kEUR 274 (previous year: kEUR 496) in the Special Administrative Region of Hong Kong. Cash transfers from Mainland China to other countries or to the Special Administrative Zones require special approval by the “State Administration of Foreign Exchange” (“SAFE”). Accordingly, the Group does not have unlimited access to these cash and cash equivalents.

## 24. Equity

| **Subscribed Capital** | **Number of shares** | **Share capital (EUR)** |
|---|---|---|
| **1 January 2014** | **12,300,000** | **12,300,000** |
| Issuance of new shares | 0 | 0 |
| **31 December 2014** | **12,300,000** | **12,300,000** |

The subscribed capital of the parent is 12,300,000 and is divided into no-par value bearer shares with a computed value of the participation in the share capital of EUR 1.00. The Company has no treasury shares.

Fully paid no-par value bearer shares with a computed value of EUR 1.00 carry one vote per share and carry a right to dividends.

### Authorised Capital

On 12 June 2012, the Annual General Meeting authorised the Management Board, with the approval of the Supervisory Board, to increase the share capital of United Power Technology AG until 11 June 2017, once or several times by up to a total of EUR 6,150,000.00 by issuing a total of 6,150,000 no par value bearer shares in consideration of contribution in cash or in kind (Authorised Capital 2012/I). On principle, shareholders are to be offered subscription rights; the statutory subscription rights may also be offered in such a way that the new shares are taken over by a bank or a syndicate of banks with the obligation to offer them to the Company’s shareholders for subscription. The Management Board is authorised, in each case with the approval of the Supervisory Board, to exclude the subscription rights of the shareholders. An exclusion of the subscription right, however, shall only be admissible in the following cases:

a) in order to exclude fractional amounts from the subscription right;

b) in the case of a capital increase against cash contributions, if the entire proportional amount of the share capital that relates to the new shares for which the subscription right is excluded does not exceed 10% of the share capital, in fact neither at the point when it becomes valid nor at the point when the authorization is exercised, and if the amount of issue of the new shares is not considerably lower than the stock market price of shares of the same type and with the same features that are already traded at the stock market when the final issue price is stipulated. When calculating the 10% of the share capital, the proportional amount of the share capital that relates to the shares that were sold or issued or are to be issued under exclusion of the subscription right during the term of this authorization due to other authorizations that apply directly or indirectly with the necessary changes section 186 subsection 3 sentence 4 AktG shall be offset; or

c) in the case of a capital increase against contributions in kind, particularly for the purpose of acquiring companies, parts of companies or interests in companies, in the frame of mergers and/or for the purpose of acquiring other assets including rights and claims.

The Management Board shall decide, with the approval of the Supervisory Board, on the additional content of the rights to shares and the conditions of issuance of the shares.

After utilisation of authorised capital or the lapse of the period for the utilisation of authorised capital, the Supervisory Board is authorised to amend the Articles of Association.

The authorised capital has not yet been utilized and is thus available at a volume of 6,150,000 shares at 31 December 2014

### Conditional Capital

On 12 June 2012, the Annual General Meeting conditionally increased United Power Technology AG's share capital by up to EUR 246,000.00 by means of issuing up to 246,000 no-par value bearer shares (Conditional Capital 2012/I). The Conditional Capital 2012/I is exclusively for the purpose of servicing subscription rights to shares of United Power Technology AG, which are issued, based on the Stock Option Plan 2012 to members of the Management Board or to selected executive employees of the United Power Technology AG and its domestic and international group subsidiaries. The conditional capital increase shall only be carried out insofar as subscription rights are issued and their owners exercise their subscription right for shares of United Power Technology AG and United Power Technology AG does not grant own shares in fulfilment of the subscription rights. The Supervisory Board is authorized to adjust the wording of the Articles of Association in accordance with the respective use of the Conditional Capital 2012/I.

As of 31 December 2014, a total of 172,200 (previous year: 86,100) subscription rights were issued to members of the Management Board and 73,800 (previous year: 36,900) subscription rights were issued to executive officers. Subscription rights were issued on 10 December 2012, 29 November 2013 and 16 December 2014. The waiting period is 4 years. Exercising a subscription right is contingent upon consolidated EBIT, adjusted for extraordinary effects, having increased by an average of 5% as at issuance of subscription rights.

| in EUR thousand | **31.12.2014** | **31.12.2013** |
|---|---|---|
| **Reserves** | | |
| Additional paid-in capital | 55,883 | 55,883 |
| | | |
| Foreign currency translation reserve | 16,882 | 5,141 |
| Retained earnings including net earnings | 38,381 | 35,115 |
| | **111,086** | **96,139** |

The amount of the capital reserve is kEUR 55,883 (2013: kEUR 55,883) reflects the received share premium from the issuance of no-par value bearer shares with a computed value of EUR 1.00 after deduction of expenses that are directly attributable to the issuance of new shares.

The difference from currency translation of foreign operations amounts to kEUR 16,822 (2013: kEUR 5,141) Differences from the translation of functional currencies of foreign operations are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. Translation differences from foreign currency translation are reclassified to profit or loss on the disposal of the foreign operation.

The profit for the period allocated to the owners of the parent (kEUR 5,443) is recognised in retained earnings.

Retained earnings include a reserve of kEUR 8,421 (2013: kEUR 7,687) required by statutory provisions applicable in the People's Republic of China. Any company located in China must retain 10% of its annual result in reserves every year until the reserves equal 50% of the share capital. These reserves can be used to offset losses or for a capital increase as long as the reserves do not equal less than 25% of the share capital. Reserves created for the Chinese subsidiaries are not available for distribution to the parent company and the parent company's shareholders.

In the financial year 2014 the effects of the purchase of non-controlling interests in Fujian Di Sheng Wan Kai Industries Co. Ltd. amounting to kEUR -1.193 are included in retained earnings.

In the financial year 2014 a dividend was paid for the financial year 2013 in the amount of EUR 0.08 per share.

**Own Shares**

On 11 June 2013, the Annual General Meeting authorized the Management Board and the Supervisory Board to acquire and use own shares pursuant to sec. 71 ss. 1 no. 8 of the AktG (Aktiengesetz - German Stock Corporation Act) and to exclude subscription rights and tender rights.

a) The Management Board and the Supervisory Board is authorized to acquire own shares up to a maximum of 10% of the share capital. The combined total of the shares acquired as a result of this authorization and own shares acquired for any other reasons which are either owned by the company or are attributable to it pursuant to secs. 71 et seq. of the AktG, may at no time exceed 10% of the company's share capital.

b) This authorization may be exercised by the company either in full or in part on one or several occasions, but also by companies controlled or majority-owned by the company or by third parties acting for the account of either the former or the latter. The authorization to acquire own shares shall be valid until 10 June 2018.

c) The Management Board may elect to purchase the shares (1) via the stock exchange or (2) on the basis of a public purchase offer directed at all shareholders or a public invitation to submit sale offers directed at the company's shareholders.

   (1) If the shares are purchased via the stock exchange, the purchase price per share paid by the company (excluding ancillary acquisition costs) may neither exceed nor undercut the average value of the closing prices for the company's share in Xetra trading (or in a comparable successor system) on the Frankfurt stock exchange during the last five trading days before the company shares are acquired by more than 10%. The Management Board of the company shall determine the further details of the acquisition.

   (2) In the case of a public purchase offer to all shareholders or a public invitation to submit sale offers directed at the company's shareholders, the purchase and/ or sale price offered or the threshold values of the offered purchase and/ or sale price range per share (excluding ancillary acquisition costs in each case) may not fall short of, or exceed, the average value of the closing prices for the company's share in Xetra trading (or in a comparable successor system) on the Frankfurt stock exchange during the last five trading days preceding the day of publication of the offer by more than 10%. If, after the publication of the company's offer and/ or after a formal invitation to submit sale offers, there are substantial price deviations from the offered purchase and/ or sale price or the threshold values of the offered purchase and/ or sale price range, the offer, or invitation to submit sale offers may be adjusted. In such a case, the relevant amount is determined on the basis of the corresponding price on the last trading day prior to the publication of the adjustment; the 10% threshold that the shares may not fall short of or exceed is to be applied to this amount. The volume of the offer and/ or invitation to submit offers can be limited. If the overall acceptance of the offer and/ or the shareholder offers submitted as part of an invitation to submit offers exceeds this volume, the acquisition and/ or acceptance shall be made under partial exclusion of any shareholder rights of tender in relation to the shares offered in each case. A preferred acquisition and/ or preferred acceptance of smaller numbers of shares up to 100 per shareholder in order to acquire the offered own shares may be stipulated. These amounts may furthermore be subject to standard rounding in order to eliminate arithmetical fractions of shares. The Management Board of the company shall determine the further details of the offer and/ or a public invitation to submit sale offers directed at the company's shareholders.

d) The Management Board is authorized to sell own shares acquired on the basis of this authorization via the stock exchange or by means of an offer directed at all shareholders. Shareholders' subscription rights for any fractional amounts shall be excluded in the case of an offer directed at all shareholders. The Management Board is further authorized to use own shares acquired on the basis of this authorization for any purpose permissible by law and, in particular, for the following purposes:

   (1) They may be sold in return for payment in kind, in particular as (partial) counter-performance for the purpose of mergers or acquisitions, to acquire companies, equity interests in companies or parts of companies, or to acquire other assets. In such cases, shareholders' subscription rights shall be excluded.

   (2) They may be issued to employees of the company as well as to employees of affiliated companies of the company within the meaning of secs. 15 et seq. of the AktG. They may also be used for the issue to the

members of the company's Management Board and selected employees in managerial positions of the company and its domestic and foreign affiliates within the meaning of the stock option plan 2012. In each of the cases under this number (2), shareholders' subscription rights shall be excluded.

(3) They may also be sold under the exclusion of shareholders' subscription rights in a manner other than via the stock exchange or by means of an offer to shareholders if the shares are sold in return for cash payment at a price that does not fall substantially short of the stock market price of the company's shares. This authorization is, however, subject to the provision that the shares sold under the exclusion of shareholders' subscription rights pursuant to sec. 71 ss. 1 no. 8 s. 5 in conjunction with sec. 186 ss. 3 s. 4 of the AktG do not in total exceed 10% of the company's share capital neither at the point in time at which the authorization comes into effect nor at the time at which it is exercised. All shares issued from authorized capital under the exclusion of shareholders' subscription rights in accordance with sec. 186 ss. 3 s. 4 of the AktG during the period in which this authorization is in force until the time at which it is exercised shall be included in the calculation of this limit.

(4) They may be cancelled without a further resolution by general meeting being required either for the cancellation of shares or the implementation of such cancellation. The cancellation can be limited to a certain proportion of the acquired shares. The cancellation results in a capital reduction. The cancellation, however, may also be performed by means of a simplified procedure without a capital reduction by adjusting the proportion of the share capital attributable to the remaining shares in accordance with sec. 8 ss. 3 of the AktG. In such cases, the Management Board is authorized to correspondingly amend the number of shares specified in the articles of association.

e) The authorizations set out under d) may be exercised on one or several occasions, in full or in part, individually or collectively, while those set out under d) (1) to (3) may also be exercised by companies which are controlled or majority-owned by the company or by third parties acting for the account of either the controlled or majority-owned companies or the company.

## 25. Borrowings

The borrowings are related to secured bank borrowings. The average effective interest rates are approximately 7.13% per year (2013: 5.98% per year).

| in EUR thousand | **31.12.2014** | **31.12.2013** |
|---|---|---|
| Secured bank borrowings | 20,039 | 3,385 |
| Unsecured bank borrowings | 670 | 3,638 |
| | **20,709** | **7,023** |

The following carrying amounts have been pledged to secure bank borrowings:

| in EUR thousand | **31.12.2014** | **31.12.2013** |
|---|---|---|
| Buildings | 53,313 | 0 |
| Prepaid lease payments | 8,308 | 0 |
| Bank deposits | 0 | 1,662 |
| | **61,621** | **1,662** |

## 26. Trade and other payables

| in EUR thousand | **31.12.2014** | **31.12.2013** |
|---|---|---|
| Trade payables | 8,398 | 6,002 |
| Notes payable | 49 | 259 |
| Advance payments | 1,626 | 1,262 |
| Others | 2,447 | 1,794 |
| | **12,520** | **9,317** |

The maturity of trade payables is as follows:

| in EUR thousand | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Short-term | 8,372 | 5,904 |
| Overdue (0 to 60 days) | 7 | 65 |
| Overdue over 60 days | 19 | 33 |
| | **8,398** | **6,002** |

Other payables are due within one year.

## 27. Other provisions

| in EUR thousand | Audit cost |
|---|---|
| Balance 1 January 2014 | 80 |
| Reductions arising from payments | -60 |
| Additional provisions recognised | 146 |
| **Balance 31 December 2014** | **166** |

The expected outflow of the other provisions is within one year.

## 28. Government grants

Government grants, which were made in connection with the acquisition of property, plant, and equipment are accordingly recognised as deferred income under the other payables.

During the year ended 31 December 2014, the Group received government subsidies of kEUR 298 (2013: kEUR 1,066) to compensate for the building cost of a plant. The amounts have been deferred and are to be released to income over the useful lives of related assets once the assets are ready for their intended use by the management and depreciation commences. During the year ended 31 December 2014, kEUR 130 (2012: kEUR 118) was released to income.

## 29. Non-cash transactions

Material non-cash transactions did not take place in the period from 1 January to 31 December 2014.

## 30. Capital management

The Group's capital management area provides services to the business areas. It also monitors and controls the financial risks associated with the Group's business areas through internal risk reporting, which analyses risk according to the level and extent of the risks. These risks encompass the market risk (including exchange risk, interest risk, and price risk), credit risk and the liquidity risk.

The Group is not obliged to compile with any externally imposed capital requirements.

The primary goal of the Group is to ensure the future ability to repay liabilities and to maintain financial substance.

A key indicator in capital management is gearing, which shows the relationship between net debt and equity according to the consolidated financial statements of financial position. United Power uses net debt as a key indicator for investors and analysts. As this indicator is not covered by the IFRS accounting rules, the way in which it is defined and calculated may differ from practice at other companies. On 31 December 2014 the Company's gearing was minus 23.88% (prior year: minus 29.03%).

Further the financial substance is mainly measured with the equity-to-assets ratio. Part of this financial ratio is the balance sheet total of the Groups consolidated financial statements and the equity shown in the Groups consolidated financial statements.

The gearing ratio (ratio of net assets and equity at the end of the reporting period) was as follows:

| in EUR thousand | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Debt (i) | 20,709 | 7,023 |
| Cash and Cash equivalents | 50,170 | 38,802 |
| Net debt | -29,461 | –31,779 |
| Equity (ii) | 123,386 | 109,485 |
| Net debt to equity ratio | -23.88% | –29.03% |
| Equity-to-assets ratio | 76.48% | 84.42% |

(i) Debt is defined as long- and short-term borrowings (excluding derivatives and financial guarantee contracts), as described in note 25.
(ii) Equity includes all capital and reserves of the Group that are managed as capital.

## 31. Financial Instruments

To present the market risk, sensitivity analysis are required according to IFRS 7, which indicates how hypothetical changes of relevant risk variables would have affected our annual net income or other value changes recognized in equity. In this connection the Group is mainly affected by currency risks. The impacts are evaluated by hypothetical changes in risk variables on the portfolio of the financial instruments.

As at 31 December 2014 the financial instruments were recorded at the following book values and fair values:

| EUR thousand | Book values | Total book values within scope of IFRS 7 | Valuation category according to IAS 39 | Fair Value | of which Fair Value Level 1 | of which Fair Value Level 2 | of which Fair Value Level 3 |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 50,170 | 50,170 | Loans and receivables | 50,170 | 50,170 | - | - |
| Receivables from trade accounts and other receivables | 14,056 | 14,023 | Loans and receivables | 14,023 | - | 14,023 | - |
| Other financial assets | 1,665 | 1,665 | Loans and receivables | 1,665 | - | 1,665 | - |
| **Total assets** | **65,891** | **65,858** | | **65,858** | **50,170** | **15,688** | **-** |
| Payables from trade accounts and other liabilities | 12,520 | 10,894 | Financial liabilities | 10,894 | - | 10,894 | - |
| Borrowings | 20,709 | 20,709 | Financial liabilities | 20,709 | - | 20,709 | - |
| **Total liabilities** | **33,229** | **31,603** | | **31,603** | **-** | **31,603** | **-** |

The carrying amounts and fair values of financial instruments as of 31 December 2013 are as follows:

| EUR thousand | Book values | Total book values within scope of IFRS 7 | Valuation category according to IAS 39 | Fair Value | of which Fair Value Level 1 | of which Fair Value Level 2 | of which Fair Value Level 3 |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 38,802 | 38,802 | Loans and receivables | 38,802 | 38,802 | - | - |
| Receivables from trade accounts and other receivables | 13,584 | 13,280 | Loans and receivables | 13,280 | - | 13,280 | - |
| Receivables from related companies | 594 | 594 | Loans and receivables | 594 | - | 594 | - |
| Other financial assets | 3,474 | 3,474 | Loans and receivables | 3,474 | . | 3,474 | - |
| **Total financial assets** | **56,454** | **56,150** | | **56,150** | **38,802** | **17,348** | **-** |
| Payables from trade accounts and other liabilities | 9,317 | 8,055 | Financial liabilities | 8,055 | - | 8,055 | - |
| Borrowings | 7,023 | 7,023 | Financial liabilities | 7,023 | - | 7,023 | - |
| **Total liabilities** | **16,340** | **15,078** | | **15,078** | **-** | **15,078** | **-** |

### Market risk

#### Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings. The Group's cash flow interest rate risk relates primarily to its variable-rate bank balances and pledged bank deposits.

The management performs sensitivity analyses on a periodic basis by evaluating increases or decreases in interest rates.

During the reporting period, an increase or decrease of 25 basis points in interest rates would increase or decrease the Group's post-tax profit and herwith also the equity by approximately +/– kEUR 105 (2013: +/– kEUR 105).

#### Currency risk

Certain Group transactions are denominated in foreign currencies, thereby creating risks due to exchange rate fluctuations. The Group's operating transactions are performed in RMB, HKD, USD and EUR. No hedging transactions will be made.

The Group has material amounts of foreign currency monetary assets in USD (kEUR 80) and HKD (kEUR 106) as at the balance sheet date.

The sensitivity analysis of the management regarding the increase or decrease in currency rate leads to the result that an increase or decrease of exchange rates of RMB, USD or HKD to the Euro of 5% would result in a profit of approximately +/– kEUR 3 (2013: kEUR 88).

### Other price risk

The management believes that the Group does not have significant exposure to price risk. Therefore, no sensitivity analysis has been performed.

### Credit risk

The management has taken measures in order to minimise credit risk. These measures include determining credit limits, diligent credit approvals and regularly monitoring accounts receivables. As a rule, new customers are required to pay in advance.

Trade receivables have the following aging structure:

| in EUR thousand | **2014** | **2013** |
|---|---|---|
| Not due, not individually impaired | 10,946 | 9,645 |
| 1 – 30 days past due | 550 | 635 |
| 31 – 60 days past due | 263 | 372 |
| 61 – 180 days past due | 389 | 248 |
| More than 180 days past due | 35 | 281 |
| **Total past due, but not individually impaired trade receivables** | **1,237** | **1,536** |
| Individually impaired | 494 | 3 |
| **Net carrying amount** | **12,677** | **11,184** |

The value of the specific allowance for bad debts is determined on the assessment of the individual risk for each individual receivable. Due to the fact that no United Power customer accounts for more than 10% (2013: 10%), the liability and credit risk for the Group are negligible. No collateral has been received and there are no other credit enhancements.

The carrying amounts of financial assets correspond to the maximal default risk.

### Liquidity risk

In order to reduce liquidity risk, the Group maintains a sufficient amount of liquidity. The Group did not have unutilised bank facilities as at 31 December 2014.

The following tables detail the Group's remaining contractual maturity for its financial liabilities as at 31 December 2013 and 2014 based on agreed repayment terms. The tables have been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows:

| **Financial liabilities** | **Weighted average interest rate** | **< 3 months** | **3–6 months** | **6–12 months** | **Total undiscounted cash outflows** | **Carrying amounts as at 31 December 2014** |
|---|---|---|---|---|---|---|
| | % | kEUR | kEUR | kEUR | kEUR | **kEUR** |
| Trade payables and other liabilities | | 12,520 | 0 | 0 | 12,520 | **12,520** |
| Borrowings from banks | 7.13 | 11,514 | 8,671 | 942 | 21,127 | **20,709** |

| **Financial liabilities** | **Weighted average interest rate** | **< 3 months** | **3–6 months** | **6–12 months** | **Total undiscounted cash outflows** | **Carrying amounts as at 31 December 2013** |
|---|---|---|---|---|---|---|
| | % | kEUR | kEUR | kEUR | kEUR | **kEUR** |
| Trade payables and other liabilities | | 9,317 | 0 | 0 | 9,317 | **9,317** |
| Borrowings from banks | 5.98 | 1,905 | 663 | 4,605 | 7,173 | **7,023** |

### Fair value

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

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets is determined with reference to quoted market bid prices; and
- The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions.

The management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost approximate their fair values.

### Fair value measurements recognised in the combined statement of financial position

The financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 32. Stock-based compensation

The Company has a share option scheme for executives and senior employees of the Company and its subsidiaries. In accordance with the terms of the plan, as approved by shareholders at the annual general meeting on 12 June 2012, members of the management board owning less than 5% of shares in the Company (Group 1) and selected executives of the Group companies in which United Power Technology AG has an interest in more than 50% (Group 2) may be granted options to purchase ordinary shares.

Each employee share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient of the option. The options carry neither rights to dividend nor voting rights.

According to the Company's stock option plan the volume of a maximum amount of 246,000 stock options on new shares shall be allocated to the Groups of entitled parties as follows:

(1) Entitled parties of group 1: in total a maximum amount of 172,200 subscription rights

(2) Entitled parties of Group 2: in total a maximum of 73,800 subscription rights.

The period of issuance begins with the entry of the Conditional Capital 2012/I and ends as at 9 July 2015. Within this period each group shall be granted stock options only in three annual tranches as follows:

(1) 2012: 20%;

(2) 2013: 30%;

(3) 2014: 50%.

The first tranche of stock options was issued on 10 December 2012. The second tranche was issued on 29 November 2013 and the third tranche on 16 November 2014

| Options series | Number | Grant date | Expiry date | Exercise date | Fair value at grant date EUR |
|---|---|---|---|---|---|
| Granted on 10 December 2012 | 49,200 | 10/12/12 | 10/12/16 | 10/12/18 | 0.96 |
| Granted on 29 November 2013 | 73,800 | 29/11/13 | 29/11/17 | 29/11/19 | 0.37 |
| Granted on 16 November 2014 | 123,000 | 16/11/14 | 16/11/18 | 16/11/20 | 0.43 |

The waiting period for the stock options is four years beginning with the date of issuance.

### Fair value of share options granted in the year

The weighted average fair value of the share options granted during the financial year is EUR 53,382 (2013: EUR 54,095). Options were priced using a binomial option-pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effect of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility of the period from the IPO until balance sheet date and the historical share prices volatility of the shares in three comparable companies of a period of six years before the balance sheet date.

The following parameters are used as the starting point of the calculation:

| **First tranche** | |
|---|---|
| Grant date: | 10 December 2012 |
| Expected volatility | 47.6% |
| Expected return on dividends | 6.92% |
| Risk-free interest rate | 0.54% |
| Option's term | 6 years |
| Holding period | 4 years |
| Exercise price | EUR 3.90 |

Expenses for the first tranche of the stock option programme are distributed over 6 years and in 2012 amounted to EUR 1 thousand on a pro rata basis.

| **Second tranche** | |
|---|---|
| Grant date: | 29 November 2013 |
| Expected volatility | 47.6% |
| Expected return on dividends | 6.92% |
| Risk-free interest rate | 0.91% |
| Option's term | 6 years |
| Holding period | 4 years |
| Exercise price | EUR 3.44 |

No expenses were recognised in 2013 and the reserve created in 2012 for the amount of kEUR 1 was retransferred with an effect on net income, since the Management Board considered it unlikely that the EBIT-based performance targets would be met.

| **Third tranche** | |
|---|---|
| Grant date: | 16 November 2014 |
| Expected volatility | 38.2% |
| Expected return on dividends | 1.88% |
| Risk-free interest rate | 0.21% |
| Option's term | 6 years |
| Holding period | 4 years |
| Exercise price | EUR 1.65 |

No expenses were recognized in 2014, since the Management Board considers it unlikely that the EBIT-based performance targets will be met.

## 33. Disclosures to related parties

Balances and transactions between the Company and its subsidiaries, which are closely related companies and persons, were eliminated in the course of consolidation and are not mentioned in the details of the notes. Details on transactions between the Group and other closely related companies and persons are mentioned below.

Nature of relationship with related parties:

| **Name** | **Relationship to the company** |
|---|---|
| Fu Jian Wan Kai SuJiao MuJu Co., Ltd. | Mr. Wei Gao Xin, who was simutaneously a DWC shareholder is 100% shareholder in the Company. |
| Fuzhou Wankai Machinery Co. Ltd. ("Wankai") | Mr. Wei Gao Xin, who was simutaneously a DWC shareholder is 100% shareholder in the Company. |

## Related parties

### Trading transactions

Transactions executed by consolidated companies with closely related companies are as follows:

| In EUR thousand | 31.12.2014 | 31.12.2013 |
|---|---|---|
| **Pre-financing of future purchases** | | |
| Fuzhou Wankai Machinery Co. Ltd. ("Wankai") | 0 | 594 |

Mr Wei Gaoxin, a former DWC minority shareholder, controls Wankai.

The receivables are unsecured and interest-free.

## Related persons

### Management Board and key management personnel

The following persons are members of the Management Board:

- Mr Xu Wu
  Chairman of the Management Board,
  Co–CEO, Fuzhou/China
  Responsible for government and key domestic accounts relationships as well as Group strategy

- Mr Zhong Dong Huang,
  Vice Chairman of the Management Board,
  Co–CEO, Fuzhou/China
  Responsible for strategy and general management of the Group

- Mr Oliver Kuan,
  CFO, Fuzhou/China
  Responsible for finance function of the Group

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

| in EUR thousand | | Fixed salary | Bonus | Insurance Pension fund | Total |
|---|---|---|---|---|---|
| **Mr Xu Wu** | 2014 | 83 | 0 | 1 | 84 |
| | 2013 | 80 | 0 | 1 | 81 |
| **Mr Zhong Dong Huang** | 2014 | 83 | 0 | 1 | 84 |
| | 2013 | 80 | 0 | 1 | 81 |
| **Mr Oliver Kuan** | 2014 | 123 | 0 | 0 | 123 |
| | 2013 | 121 | 0 | 0 | 121 |
| **Total** | **2014** | **289** | **0** | **2** | **291** |
| **Total** | **2013** | **281** | **0** | **2** | **283** |

Furthermore members of the Management Board hold indirectly shares in the Company as follows:

- Mr Wu Xu (20.14%)
- Mr Zhong Dong Huang (18.42%)

### Supervisory Board

Members of the Supervisory Board include the following persons:

- Mr Wei Song, General Manager of Fortune Great Investments Limited, Tortola, British Virgin Islands, Chairman of the Supervisory Board, Fuzhou/China

- Mr Hubertus Krossa, self-employed Master of Business Administration (Diplom-Kaufmann), Vice-chairman of the Supervisory Board, Wiesbaden/Germany. Mr Hubertus Krossa is also Chairman of the Supervisory Board of Eckelmann AG, Wiesbaden/Germany, of Balfour Beatty Rail GmbH, Munich/Germanyas well as member of the Supervisory Board ALNO AG, Pfullendorf/Germany.

- Mr Brian K. Krolicki, Politician and businessman, Lieutenant Governor of the US state of Nevada, Zephyr Cove/USA (until 5 January 2015) and member of the Intergovernmental Policy Advisory Committee for the United States.

Expenses recognized in the consolidated financial statements for remuneration of the Supervisory Board are as follows:

| in EUR thousand | **2014** | **2013** |
|---|---|---|
| Mr Wei Song<br>(Chairman of the Supervisory Board) | 60 | 60 |
| Mr. Hubertus Krossa<br>(Deputy Chairman of the Supervisory Board) | 40 | 40 |
| Mr Brian Krolicki | 40 | 40 |
| **Total** | **140** | **140** |

The Group had the following liabilities due to the Supervisory Board:

| in EUR thousand | **31.12.2014** | **31.12.2013** |
|---|---|---|
| Liabilities due to the Remuneration of Supervisory Board | 321 | 264 |

Remuneration for the Supervisory Board is determined by the Annual General Meeting and regulated by the Articles of Association of United Power Technology AG. On 11 June 2013 the Annual General Meeting resolved that each member of the Supervisory Board shall receive a fixed annual salary of 40,000.00 Euros plus statutory calue-added-tax, effective retroactively as of 1 January 2012. The Chairman of the Supervisory Board shall receive an additional amount of 20,000.00 Euros per year. In addition, each member of the Supervisory Board will receive a maximum annual bonus of 13,000.00 Euros depending on the degree to which the Company's budgeted EBIT was achieved for the respective financial year. The retroactive increase of the Supervisory Board's remuneration was recognized in the balance sheet of the 2013 financial year.

### Shareholders

The liabilities due to majority shareholders amount to EUR 0 (as at 31 December 2013: EUR 0).

## 34. Remuneration report

The information in the remuneration report is part of the Group management report. An additional description of the information reported in the remuneration report has been therefore omitted.

## 35. Operating lease arrangements

Operating leases relate to the property owned by the Group with lease terms of 2 and 5 years. The leases do not contain an option to purchase the property. The rental income earned by the Group from its property, amounted to kEUR 148 in the financial year (2013: kEUR 185).

| in EUR thousand | **31.12.2014** | **31.12.2013** |
|---|---|---|
| Within one year | 148 | 174 |
| From two – four years | 191 | 341 |
| | **339** | **515** |

## 36. Contingent liabilities

The total amount of the order commitments for tangible and intangible assets was kEUR 0 as of 31 December 2014 (31 December 2013: kEUR 0).

## 37. Audit fees

Deloitte & Touche GmbH ("Deloitte") was appointed as the auditor for United Power Technology AG and the Group for financial business year 2014. Total fees paid to Deloitte of kEUR 119 (2013: kEUR 105) are related to auditing with kEUR 119 (2013: kEUR 105).

## 38. 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. The declaration was published on the Company's website at www.unitedpower.de.com/en.

## 39. Shareholdings in United Power Technology AG

**Management Board**

Mr Wu Xu owns indirectly 20.14% shares in United Power Technology AG (2,477,454 voting rights) as at 31 December 2014.

Mr Zhong Dong Huang owns indirectly 18.42% shares in United Power Technology AG (2,265,272 voting rights) as at 31 December 2014.

**Supervisory Board**

Mr Wei Song owns indirectly 18.99% shares in United Power Technology AG (2,336,000 voting rights) as at 31 December 2014.

Mr Hubertus Krossa owns directly 0.03% shares in United Power Technology AG (4.086 voting rights) as at 31 December 2014.

### Shareholdings

1. On 1 July 2011, pursuant to article 21, section 1 of the Wertpapierhandelsgesetz (German Securities trading Act ("WpHG"), Mr Wei Song, People's Republic of China, informed us that, as of 28 June 2011, its voting rights in our Company exceeded 50% and was 68.59% (8,436,533 voting rights) at that date. Of these, 22.63% (2,784,053 voting rights) were attributable to him through Fortune Great Investments Limited, Road Town, Tortola, British Virgin Islands, pursuant to section 22 paragraph 1 sentence 1 No. 1 WpHG, and 45.96% (5,652,480 voting rights) through Fortune Sunrise Investments Limited, Road Town, Tortola, British Virgin Islands, and High Advance Investments Limited, Road Town, Tortola, British Virgin Islands, pursuant to section 22 paragraph 2 sentence 1 WpHG.

2. On 1 July 2011, pursuant to article 21, section 1 of the Wertpapierhandelsgesetz (German Securities trading Act ("WpHG"), Mr Xu Wu, People's Republic of China, informed us that, as of 28 June 2011, its voting rights in our Company exceeded 50% was 68.59% (8,436,533 voting rights) at that date. Of these, 24.01% (2,952,802 voting rights) were attributable to him through Fortune Sunrise Investments Limited, Road Town, Tortola, British Virgin Islands, pursuant to section 22 paragraph 1 sentence 1 No. 1 WpHG, and 44.58% (5,483,731 voting rights) through Fortune Great Investments Limited, Road Town, Tortola, British Virgin Islands, and High Advance Investments Limited, Road Town, Tortola, British Virgin Islands, pursuant to section 22 paragraph 2 sentence 1 WpHG.

3. On 1 July 2011, pursuant to article 21, section 1 of the Wertpapierhandelsgesetz (German Securities trading Act ("WpHG"), Mr Zhong Dong Huang, People's Republic of China, informed us that, as of 28 June 2011, its voting rights in our Company exceeded 50% and was 68.59% (8,436,533 voting rights) at that date. Of these, 21.95 (2,699,678 voting rights) were attributable to him through High Advance Investments Limited, Road Town, Tortola, British Virgin Islands, pursuant to section 22 paragraph 1 sentence 1 No. 1 WpHG, and 46.64% (5,736,855 voting rights) through Fortune Sunrise Investments Limited, Road Town, Tortola, British Virgin Islands, and Fortune Great Investments Limited, Road Town, Tortola, British Virgin Islands, pursuant to section 22 paragraph 2 sentence 1 WpHG.

4. On 13 April 2012, pursuant to section 21 para. 1 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), High Advance Investments Limited, British Virgin Islands, informed us that its voting rights in United Power Technology AG have fallen below the 20% threshold on 05 April and on that day amounted to 18.40% (2,262,963 voting rights).

5. On 13 April 2012, pursuant to section 21 para. 1 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), Fortune Great Investments Limited, British Virgin Islands, informed us that its voting rights in United Power Technology AG have fallen below the 20% threshold on 05 April and on that day amounted to 18.97% (2,333,690 voting rights).

6. On 13 April 2012, pursuant to section 21 para. 1 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), Orchid Asia IV L.P., Cayman Islands, informed us that its voting rights in United Power Technology AG have exceeded the 20% threshold on 10 April and on that day amounted to 22.12% (2,720,556 voting rights).

7. On 13 April 2012, pursuant to section 21 para. 1 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), OAIV Holdings L.P., Cayman Islands, informed us that its voting rights in United Power Technology AG have exceeded the 20% threshold on 10 April and on that day amounted to 22.12% (2,720,556 voting rights). Thereof 22.12% (2,720,556 voting rights) were attributable pursuant to section 22 para. 1 s. 1 no. 1 WpHG through Orchid Asia IV L.P., Cayman Islands.

8. On 13 April 2012, pursuant to section 21 para. 1 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), Orchid Asia IV Group Management Limited, Cayman Islands, informed us that its voting rights in United Power Technology AG have exceeded the 20% threshold on 10 April and on that day amounted to 22.12% (2,720,556 voting rights). Thereof 22.12% (2,720,556 voting rights) were attributable pursuant to section 22 para. 1 s. 1 no. 1 WpHG through OAIV Holdings L.P., Cayman Islands, and Orchid Asia IV L.P., Cayman Islands. 22.12 % (2,720,556 voting rights) were attributable pursuant to section 22 para. 1 s. 1 no. 6 WpHG through Orchid Asia IV L.P., Cayman Islands.

9. On 13 April 2012, pursuant to section 21 para. 1 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), Orchid Asia IV Group Limited, Cayman Islands, informed us that its voting rights in United Power Technology AG have exceeded the 20% threshold on 10 April and on that day amounted to 22.12% (2,720,556 voting rights). Thereof 22.12% (2,720,556 voting rights) were attributable pursuant to section 22 para. 1 s. 1 no. 1 WpHG through Orchid Asia IV Group Management Limited, Cayman Islands, OAIV Holdings L.P., Cayman Islands, and Orchid Asia IV L.P., Cayman Islands. 22.12% (2,720,556 voting rights) were attributable pursuant to section 22 para. 1 s. 1 no. 6 s. 2 WpHG through Orchid Asia IV L.P., Cayman Islands.

10. On 13 April 2012, pursuant to section 21 para. 1 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), Orchid Asia IV Investment Limited, British Virgin Islands, informed us that its voting rights in United Power Technology AG have exceeded the 20% threshold on 10 April and on that day amounted to 22.12% (2,720,556 voting rights). Thereof 22.12% (2,720,556 voting rights) were attributable pursuant to section 22 para. 1 s. 1 no. 1 WpHG through Orchid Asia IV Group Limited, Cayman Islands, Orchid Asia IV Group Management Limited, Cayman Islands, OAIV Holdings L.P., Cayman Islands, and Orchid Asia IV L.P., Cayman Islands. 22.12% (2,720,556 voting rights) were attributable pursuant to section 22 para. 1 s. 1 no. 6 s. 2 WpHG through Orchid Asia IV L.P., Cayman Islands.

11. On 13 April 2012, pursuant to section 21 para. 1 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), YM Investment Limited, British Virgin Islands, informed us that its voting rights in United Power Technology AG have exceeded the 20% threshold on 10 April and on that day amounted to 22.57% (2,775,874 voting rights). Thereof 22.12% (2,720,556 voting rights) were attributable pursuant to section 22 para. 1 s. 1 no. 1 WpHG through Orchid Asia IV Investment Limited, British Virgin Islands, Orchid Asia IV Group Limited, Cayman Islands, Orchid Asia IV Group Management Limited, Cayman Islands, OAIV Holdings L.P., Cayman Islands, and Orchid Asia IV L.P., Cayman Islands. 0.45% (55,318 voting rights) were attributable pursuant to section 22 para. 1 s. 1 no. 1 WpHG through Orchid Asia IV Co-Investment Limited, Cayman Islands. 22.12% (2,720,556 voting rights) were attributable pursuant to section 22 para. 1 s. 1 no. 6 s. 2 WpHG through Orchid Asia IV L.P., Cayman Islands.

12. On 13 April 2012, pursuant to section 21 para. 1 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), The Li Family Trust 2007, British Virgin Islands, informed us that its voting rights in United Power Technology AG have exceeded the 20% threshold on 10 April and on that day amounted to 22.57% (2,775,874 voting rights). Thereof 22.12% (2,720,556 voting rights) were attributable pursuant to section 22 para. 1 s. 1 no. 1 WpHG through YM Investment Limited, British Virgin Islands, Orchid Asia IV Investment Limited, British Virgin Islands, Orchid Asia IV Group Limited, Cayman Islands, Orchid Asia IV Group Management Limited, Cayman Islands, OAIV Holdings L.P., Cayman Islands, and Orchid Asia IV L.P., Cayman Islands. 0.45% (55,318 voting rights) were attributable pursuant to section 22 para. 1 s. 1 no. 1 WpHG through YM Investment Limited, British Virgin Islands, and Orchid Asia IV Co-Investment Limited, Cayman Islands. 22.12% (2,720,556 voting rights) were attributable pursuant to section 22 para. 1 s. 1 no. 6 s. 2 WpHG through Orchid Asia IV L.P., Cayman Islands.

13. On 13 April 2012, pursuant to section 21 para. 1 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), Mr Gabriel Li, Hong Kong, informed us that his voting rights in United Power Technology AG have exceeded the 20% threshold on 10 April and on that day

amounted to 22.57% (2,775,874 voting rights). Thereof 22.12% (2,720,556 voting rights) were attributable pursuant to section 22 para. 1 s. 1 no. 1 WpHG through The Li Family Trust 2007, British Virgin Islands, YM Investment Limited, British Virgin Islands, Orchid Asia IV Investment Limited, British Virgin Islands, Orchid Asia IV Group Limited, Cayman Islands, Orchid Asia IV Group Management Limited, Cayman Islands, OAIV Holdings L.P., Cayman Islands, and Orchid Asia IV L.P., Cayman Islands. 0.45% (55,318 voting rights) were attributable pursuant to section 22 para. 1 s. 1 no. 1 WpHG through The Li Family Trust 2007, British Virgin Islands, YM Investment Limited, British Virgin Islands, and Orchid Asia IV Co-Investment Limited, Cayman Islands. 22.12% (2,720,556 voting rights) were attributable pursuant to section 22 para. 1 s. 1 no. 6 s. 2 WpHG through Orchid Asia IV L.P., Cayman Islands

## 40. Events after the reporting period

No material events between the end of the reporting period and the date of the approval and authorization for issuance of the financial statements have occurred.

## 41. Approval of the Consolidated Financial Statements

The financial statements were prepared by the Management Board on 6 May 2015 and authorised for issuance to the Supervisory Board.

Eschborn, 6 May 2015
The Management Board

| | | |
|---|---|---|
| Xu Wu<br>CO-CEO | Zhong Dong Huang<br>CO-CEO | Oliver Kuan<br>CFO |

# Independent Auditor's Report

We have audited the consolidated financial statements prepared by the United Power Technology AG, Eschborn, – comprising the income statement and statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements – and the group management report for the business year from January 1 to December 31, 2014. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB („German Commercial Code") are the responsibility of the parent Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Frankfurt, 6 May 2015

Deloitte & Touche GmbH

Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| (Lüdke) | (Rühl) |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| [German Public Auditor] | [German Public Auditor] |

# Responsibility Statement

To the best of our knowledge, and in accordance with the applicable financial 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 management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Eschborn, 6 May 2015

Management Board
United Power Technology AG

| Xu Wu | Zhong Dong Huang | Oliver Kuan |
|---|---|---|
| CO-CEO | CO-CEO | CFO |

# Financial Calendar

| | |
|---|---|
| Interim Report 3 Months 2015 | 13 May 2015 |
| Half-year Report 2015 | 20 August 2015 |
| Annual General Meeting 2015 | 26 August 2015 |
| Interim Report 9 Months 2015 | 18 November 2015 |

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

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