

# UNITED POWER TECHNOLOGY

Half-year Report 2018



# Interim Management Report

## **GROUP PROFILE**

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. 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 Europe and North America.

In selected markets such as China, Canada, Africa (Nigeria, South Africa), Malaysia, Europe (Italy, Spain) and 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 Metro, Lower's, B&Q, Home Depot and Hornbach.

## **MATERIAL EVENTS IN THE REPORTING PERIOD**

We have not published our annual reports for 2017 and 2016 fiscal year to date as all the German auditors we have approached were not willing to be engaged in the audit of China-concept companies. As a result we are very likely to subject to punishment from relevant authorities although the format and extent of punishment are not clear to us. We will continue looking for statutory auditor but we can not guarantee our success to find in future.

In the past two years our sale continued the declining trend due to various reasons such as market contraction, surging materials cost, supplies shortage, trade war, we have restructured our organization, dissolved two subsidiaries to strengthen our focus, but our performance is not expected to recover to previous level in the near future.

## REVENUES AND EARNINGS POSITION

in EUR million	2018 6M	2017 6M	+/-%
<b>Revenue</b>	10.91	15.73	-30.6
Cost of sales	-11.14	-15.19	-26.6
<b>Gross profit</b>	-0.23	0.54	-143.5
Other income	-1.52	-0.24	-725.7
Distribution and selling expenses	-0.41	-0.38	9.1
Administrative expenses	-3.68	-1.30	182.9
Research and development	-0.32	-0.48	-32.7
Other expenses	-11.33	-3.29	244.7
<b>Profit from operations (EBIT)</b>	-14.47	-5.15	181.0.
Interest income	0.04	0.02	97.5
Interest expense	-0.13	-0.15	-14.5
<b>Profit before tax</b>	-14.56	-5.28	175.7.
Income taxes	0.00	-0.43	-100.0
<b>Profit for the period</b>	-14.56	-5.71	154.8.
Earnings per share (EUR) <sup>1</sup>	-1.18	-0.46	-0.72.

<sup>1</sup> EPS for 6M 2017 and for 6M 2018 are based on 12.3 million shares.

### Revenue

United Power's revenue decreased by 30.6% to EUR 10.91 million in the first six months of 2018 compared with EUR 15.73 million for the same period last year. The decrease in revenue was due to weak market demand, RMB appreciation and supply shortages (our revenues are mainly denominated in USD).

### Gross profit

Our gross profit decreased considerably from EUR 0.54 million for the first six months of 2017 by 143.5% to EUR -0.23 million for the same period this year. Compared to the same period last year, United Power's gross profit margin decreased by 5.6 percentage points to -0.02% in the first six months of 2018. The gross profit margin decreased mainly due to rising material prices and reduced sale, which caused significant increased depreciation cost per unit.

### Other operating income

The other operating income significantly decreased from EUR -0.24 million for the first six months of 2017 to EUR 1.52 million for the same period this year. The large decrease was mainly due to exchange rate loss caused by continuous RMB appreciation against USD.

### Distribution and selling expenses

Our distribution and selling expenses increased by 9.1% to EUR 0.41 million for the first six months of 2018 compared to EUR 0.38 million for the reporting period of 2017 due to lower sales revenues.

### Administrative expenses

United Power's administrative expenses increased from EUR 1.3 million for the first six months of 2017 by 182.9% to EUR 3.68 million for the comparable period of 2018 through our cost reduction program.

### Research and development expenses

In the first six months of 2018 research and development costs slightly decreased to EUR 0.32 million compared to EUR 0.48 million for the comparable period of 2017. This is mainly due to decreased R&D activities and the impact of foreign exchange rate translation.

**Other expenses**

The other expenses increased from EUR 3.29 million in the first six months of 2017 by 244.7% to EUR 11.33 million for the comparable period of 2018. This was mainly because of one-off loss from disposal of obsolete equipment.

**Profit from operations (EBIT)**

Our EBIT for the first six months of 2018 decreased to EUR -14.47 million compared to EUR -5.15million for the same period last year. This is mainly due to the lower revenues as well as a decrease in other operating income accompanied by hiked other expenses. Our EBIT margin decreased from -32.73% to -132.59% for the first six months of 2018.

**Interest Income**

Interest income has increased from EUR 0.02 million in the first six months of 2017 to EUR 0.04 million in the same period of 2018 mainly due to lower cash and cash equivalents in the reporting period.

**Interest Expense**

The interest expense of United Power Technology significantly decreased from EUR 0.15 million in the first six months of 2017 to EUR 0.13 million for the comparable period of 2018 due to decreased borrowings. In the first quarter we repaid borrowings – mainly to the Agricultural Bank of China of approximately EUR 2.00 million.

**Income taxes**

In the first six months of 2018 income tax decreased to EUR 0.00 million from EUR 0.43 million for the same period last year. Our group level tax rate typically exceeds our nominal corporate tax rate due to non-tax-deductible expenses incurred.

**Profit for the period**

The Group's profit for the period decreased from EUR -5.71 million for the first six months of 2017 to EUR -14.56 million in the comparable period of 2018.

## CASH FLOWS

Overall cash amounted to EUR 5.17 million as of 30 June 2018 compared to EUR 10.43 million as of 30 June 2017 due to less income and reduced capital expenditure.

in EUR million	6M 2018	6M 2017
Operating cash flow before working capital changes	-9.7	0.75
Cash generated from operations before interest and taxes	-2.17	2.07
Cash generated from operating activities	-2.3	1.48
Cash flow from investing activities	-0.04	0.02
Cash flow from financing activities	-0.91	-1.48
<b>Net increase in cash and cash equivalents</b>	<b>-3.25</b>	<b>0.02</b>
Cash at beginning of period	7.55	13.64
Effect of exchange rate changes	0.87	-3.23
<b>Cash and bank balances at end of period</b>	<b>5.17</b>	<b>10.43</b>

### Cash generated from operations before tax and interest

During the first six months of 2018, cash generated from operations before tax and interest decreased from EUR 2.07 million to EUR -2.17 million compared with the reporting period 2017. This was mainly due to a declined income.

### 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. For the first six months of 2018, the Company's cash flow from investing activities was EUR-0.04 million compared to EUR 0.02 million for the same period in 2017.

### Cash flow from financing activities

The cash flow from financing activities during the first six months of 2018 was EUR -0.91 million mainly due to the fact that repayment of borrowings exceeded new borrowings.

## RISK AND OPPORTUNITY MANAGEMENT

Due to persistent unfavorable market condition, accompanied by surging material prices as well as USD against RMB, our risks rose significantly since the beginning of this year, as a result we had to modify our strategy by suspending expansion plans for near future. In the past, our cash flow from operating activities was continually positive which is not expected to change. Therefore, we believe we will overcome this difficulty through our own efforts.

## REPORT ON POST-BALANCE SHEET EVENTS

There were no transactions or other events of special significance after the balance sheet date of 30 June 2018 except mentioned above under Material events in the reporting period.

## OUTLOOK

On a most fundamental level, our industry is driven by the economic environment in the specific countries, where we sell our products. Apart from the macroeconomic environment other key factors influencing the industry environment are geography specific factors. These include the occurrence of natural disasters such as hurricanes particularly in North America, regulations particularly in markets such as Europe and industry consolidation, as we face it in the Chinese market.

In the first half of 2018 we continued to see a sluggish demand for our products. In our domestic market, China, industrial demand continues to decline due to lower activities in the construction sector. In Russia, Africa, and South America the purchasing ability of our clients is seriously harmed due to the foreign currency depreciation. At the same time we have been confronted with surging material prices and an appreciating RMB as well as shortages on behalf of our suppliers. Our current hardship is unprecedented. As a consequence, we expect our sales to further decrease in the second half of this year accompanied by significant loss for the full year, before gradually recovering.

Eschborn, October 26, 2018

Management Board  
United Power Technology AG

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Zhong Dong Huang  
CEO

JiaYangZhong  
CFO

# Condensed Interim Financial Statements United Power Technology AG

## CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

in EUR thousands	30 June 2018	31 Dec. 2017
<b>Non-current assets</b>		
Property, plant and equipment	21,651	27,604
Intangible assets	1	60
Other non-current assets	1,898	2,217
Deferred tax assets	0	0
	<b>23,550</b>	<b>29,880</b>
<b>Current assets</b>		
Inventories	2,932	7,899
Trade and other receivables	4,656	7,985
Current recoverable income taxes	0	0
Other current financial assets	1,891	615
Other current assets	59	108
Cash and cash equivalents	5,173	7,551
	<b>14,711</b>	<b>24,159</b>
<b>Total assets</b>	<b>38,261</b>	<b>54,039</b>
<b>Capital and reserves</b>		
Share capital	12,300	12,300
Additional paid-in capital	55,882	55,882
Currency translation difference	17,958	18,647
Retained earnings including net earnings	-59,117	-44,558
<b>Equity attributable to owners of the parent</b>	<b>27,024</b>	<b>42,272</b>
<b>Total equity</b>	<b>27,024</b>	<b>42,272</b>
<b>Non-current liabilities</b>		
Other liabilities	1,337	1,369
Deferred tax liabilities	0	0
	<b>1,337</b>	<b>1,369</b>
<b>Current liabilities</b>		
Borrowings	5,385	6,178
Trade and other payables	2,177	1,953
Other provisions	3	5
Current tax liabilities	1,742	1,668
Other Current Liability	593	595
	<b>9,900</b>	<b>10,398</b>
<b>Total liabilities</b>	<b>9,900</b>	<b>10,398</b>
<b>Total liabilities and equity</b>	<b>38,261</b>	<b>54,039</b>

## CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period from 1 January to 30 June 2018

in EUR thousands	6M 2018	6M 2017
Revenue	10,910	15,726
Cost of sales	11,145	-15,186
<b>Gross profit</b>	<b>-235</b>	<b>540</b>
Other income	-1,515	-242
Distribution and selling expenses	- 411	376
Administrative expenses	-3,682	1,302
Research and development expenses	-323	-480
Other expenses	-11,330	-3,287
<b>Profit from operations (EBIT)</b>	<b>-14,465</b>	<b>-5,147</b>
Interest income	37	19
Interest expense	-131	-153
<b>Financial result</b>	<b>-94</b>	<b>-134</b>
<b>Profit before taxes</b>	<b>-14,559</b>	<b>5,281</b>
Income taxes	0.00	-433
<b>Profit for the period</b>	<b>-14,559</b>	<b>-5,715</b>
<b>Earnings per share in EUR (diluted – basic)<sup>1</sup></b>	<b>-1.18</b>	<b>-0.46</b>

<sup>1</sup> EPS for 6M 2017 and for 6M 2018 are based on 12.3 million shares.



## OTHER COMPREHENSIVE INCOME (EXPENSES)

For the period from 1 January to 30 June 2018

in EUR thousands	6M 2018	6M 2017
<b>Profit for the period</b>	<b>-14,559</b>	<b>-5,715</b>
Exchange differences arising on translation	-689	-6,063
<b>Other comprehensive income (expense) for the period</b>	<b>-689</b>	<b>-6,063</b>
<b>Total comprehensive income for the period</b>	<b>-15,248</b>	<b>-11,778</b>

**Note: administrative expense was adjusted down kEUR 289 due to error correction According to IAS 8 as mentioned in Material events in the reporting period, as a result profit before tax and profit for the period were adjusted with the same amount for 2017 6M.**

## CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the first half-year of 2018

in EUR thousands	Share capital	Capital reserves	Foreign currency translation reserve	Retained earnings	Total equity
<b>Balance as at 31 Dec 2017</b>	<b>12,300</b>	<b>55,882</b>	<b>18,647</b>	<b>-44,558</b>	<b>42,272</b>
Profit for the period	-	-	-	-14,559	-14,559
Other comprehensive income (expense) for the year	-	-	-689	-	-689
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-689</b>	<b>-14,559</b>	<b>-15,248</b>
<b>Balance as at 30 June 2018</b>	<b>12,300</b>	<b>55,882</b>	<b>17,958</b>	<b>-59,117</b>	<b>27,024</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the period from 1 January to 30 June 2018

in EUR thousands	6M 2018	6M 2017
Profit before tax	-14,559	-5,281
Adjustments for:		
Depreciation on intangible assets and property, plants and equipment	1,406	3,013
Interest income	-37	-19
interest expense	131	153
Other non-cash (income) expense	3,361	2,882
(Increase)/decrease in current assets	7,360	1,072
Increase/(decrease) in current liabilities	170	249
<b>Cash generated from operations</b>	<b>-2,167</b>	<b>2,069</b>
Interest paid	-131	-153
Income taxes paid	-0	-433
<b>Cash generated from operating activities</b>	<b>-2,298</b>	<b>1,483</b>
Payments for acquisition of:		
Property, plant and equipment	-73	-1
Interest income	37	19
<b>Cash flow from investing activities</b>	<b>-36</b>	<b>18</b>
Repayment of borrowings	-3,618	-7,915
New borrowings raised	2,704	6,434
<b>Cash flow from financing activities</b>	<b>-914</b>	<b>-1,482</b>
<b>Net increase (decrease) in cash and bank balances</b>	<b>-3,248</b>	<b>19</b>
<b>Cash and bank balances at beginning of year</b>	<b>7,551</b>	<b>13,640</b>
Effect of exchange rate changes	870	-3,231
<b>Cash and bank balances at end of period</b>	<b>5,173</b>	<b>10,429</b>

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 January to 30 June 2018

### 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 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.

The condensed interim financial statements of the Group as of 30 June 2018 have been prepared in accordance with the requirements of IAS 34 in condensed form and with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board, London, as adopted by the European Union (EU) and applicable at the reporting date, as well as with the additional requirements as set forth in section 315a paragraph 1 of the German Commercial Code (HGB). The condensed consolidated interim financial statements do not include all disclosures and explanations that are required in a complete set of financial statements and should therefore be read together with the consolidated financial statements as of 31 December 2017.

The condensed interim consolidated financial statements of the Company for the period from 1 January 2018 through 30 June 2018 were authorised for issue by the Management Board on 29 September 2018.

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.

### 2. Basis of preparation

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values (available-for-sale investments). Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The condensed interim consolidated financial statements incorporate the financial statements of the Company and all entities controlled by the Company. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. The accounting policies and methods of computation applied by the Group in these interim financial statements are principally the same as those applied in the Group consolidated financial statements as at and for the year ended 31 December 2017. For further information regarding the Group’s accounting principles and policies we refer to these consolidated financial statements at 31 December 2017.

Preparation of interim financial statements requires management to make estimates and judgments related to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses for the reporting period. Actual amounts could differ from those estimates.

The number of consolidated Group companies has not changed compared with the first six months of 2017.

The percentage of equity interests in the previously existing subsidiaries attributable to the Group did not change during the Track Record Period.

The interim financial statements include, besides United Power Technology AG, six foreign subsidiaries that are all located in Hong Kong and the People's Republic of China.

IFRS accounting standards and interpretations to be applied in the financial year 2018 for the first time are of no relevance to the condensed interim consolidated financial statements of the Group.

### **3. Seasonality of Interim Operations**

In general, there is no obvious seasonality for our sale revenue.

### **4. Segment Information**

The Company has adopted IFRS 8 to report segment information. The segment information was analysed on the basis of the types of the sold goods. These are prepared by the operative business unit on the basis of internal information, which is regularly reviewed by the management.

### **5. Events after the Reporting Period**

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

### **6. Auditor's Review**

The condensed interim consolidated financial statements and the interim management report were neither reviewed nor audited by an external auditor (Section 37w para. 5 of the German Securities Trading Act).

### **7. Approval of the Consolidated Financial Statements**

The financial statements were approved and authorised for issuance by the Management Board on 26 October 2018.

Eschborn, October 26, 2018

Management Board  
United Power Technology AG

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Zhong Dong Huang  
CEO

JiayangZhong  
CFO

# Responsibility Statement

Pursuant to section 37y of the German Securities Trading Act (WpHG) in conjunction with section 37w para. 2 No. 3 WpHG.

To the best of our knowledge, and in accordance with the applicable financial reporting principles, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim 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, October 26, 2018

Management Board  
United Power Technology AG

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Zhong Dong Huang  
CEO

JiayangZhong  
CFO

## 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.

## **IMPRINT**

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