

# ZhongDe Waste Technology AG

Annual Report 2008



Committed to the  
environment



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# Company Profile

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ZhongDe Group designs, manufactures and installs pyrolytic, grate and rotary kiln waste incinerators for the disposal of solid medical, municipal (mixed household refuse) and industrial (including hazardous) waste. This involves a variety of incineration techniques: grate, pyrolytic and rotary kiln incineration. Founded in 1996, the ZhongDe Group has sold more than 180 waste incinerators to clients in 13 provinces throughout China, 120 of these in the last three financial years alone.

ZhongDe Group waste incinerators are sold primarily to dedicated operators responsible for the disposal of medical waste created by hospitals and the health industry, and also to small and medium-sized municipalities in developed areas of the People's Republic. The ZhongDe Group is one of China's leading providers of small and medium-sized waste incineration equipment. 

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# Mission Statement

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## Advanced technology for a cleaner environment

The ZhongDe Group is one of the leading suppliers of small and medium-size waste incinerators in China. We design, manufacture and install pyrolytic, grate and rotary kiln waste incinerators for the disposal of solid medical, municipal and industrial waste.

Our focus lies firmly in the development of high quality technology that fits perfectly with the Chinese market and the Chinese government's commitment to protecting the environment. Our links to German industry through our listing on the German Stock Exchange are reflected in our company name: Zhong – one of the Chinese words for China and De – the abbreviation for Germany. Ours is a fusion not just in name: we marry the high standards of German engineering with Chinese commitment and in-depth knowledge of the Chinese market.

Thanks to our innovative approach, we remain flexible enough to react rapidly to market demands. We are the only sizeable manufacturer in China with the funding and technology to undertake build-operate-transfer (BOT) projects and develop solutions tailored to the Chinese market. As a result, we do not rely on the import of equipment or technology.

This technical expertise is instrumental in allowing us to fulfill our responsibilities to the environment – responsibilities we take very seriously. Green GDP plays an important role in business development in China, combining the nation's enormous growth and business potential with the government's staunch support for sustainability. This includes government backing of incineration as a means of tackling environmental pollution and promoting renewable energy. We are meeting these demands with our groundbreaking projects, our research and development efforts and our knowledge and expertise in the market.

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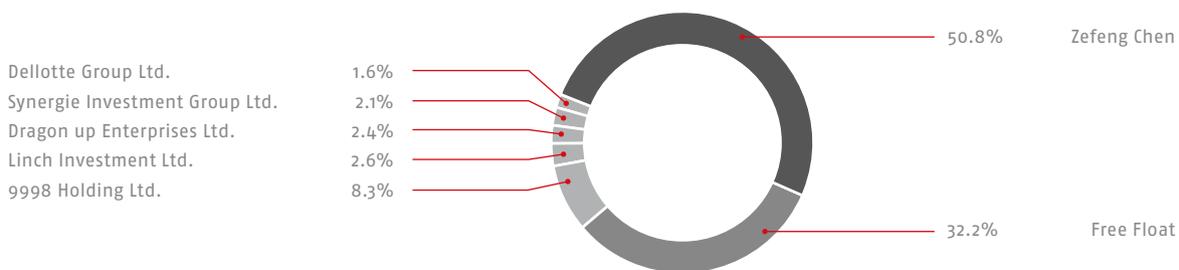
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# Key Financial Highlights

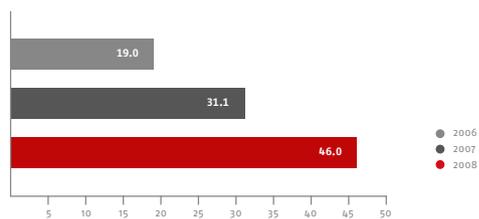
Amounts in k€	2008	2007	Change %
<b>Operational data</b>			
Order intake	58,758	44,351	32
Order backlog	28,355	20,494	38
Revenues	46,007	31,133	48
Gross profit	27,093	21,637	25
Gross profit margin	59%	69%	-14
Cost of sales	18,914	9,496	99
EBITDA	20,693	18,685	11
EBITDA margin	45%	60%	-25
EBIT	20,429	18,612	10
EBIT margin	44%	60%	-27
Net profit	22,430	19,059	18
Net profit margin	49%	61%	-20
Earnings per share*	€1.73	€1.47	18
<b>Cash flow data</b>			
Cash flow from operating activities	24,098	13,155	83
Cash flow from investing activities	(5,379)	(7,954)	32
Free cash flow before financing	(1,950)	66,001	-
<b>Balance sheet data</b>			
Total assets	140,068	104,536	34
Property, plant, equipment	1,298	887	46
Net working capital	115,988	95,182	22
Cash and cash equivalents	105,740	83,827	26
Debt	189	0	-
Shareholders' equity	127,606	98,628	29
Headcount (as at 31 December 2008)	360	260	38

\* computed for comparable purposes only on the basis of 13,000,000 shares

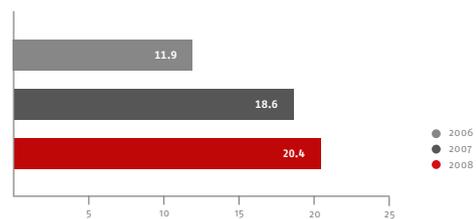
Shareholder structure



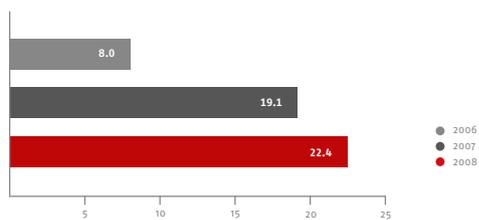
Revenues in € million



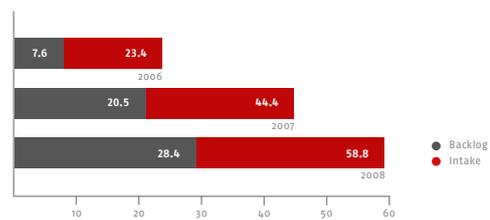
EBIT in € million



Net profit in € million



Orders in € million





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# Letter to Shareholders

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## Dear Shareholders,

in its fiscal year 2008, ZhongDe Group made significant progress toward achieving its long-term strategic objectives. Despite the challenges posed by the earthquake in China and global turmoil in the financial markets, we succeeded in strengthening the company's competitiveness, while maintaining our high standards of quality and efficiency, and making key investments which will lead to strong growth in future.

Group revenues, operating earnings and order intake grew significantly during the year under review. Group revenue increased by 47.8% to €46.0 million in fiscal 2008, compared with the previous year. Gross profit in fiscal 2008 climbed 25.2% to €27.1 million, while net profit improved by 17.7% to €20.4 million. Hence, the net profit margin remains at a very high level of 49%. We propose to distribute a stable dividend of €0.15 per share to our shareholders, subject to approval at the forthcoming Annual General Meeting in June 2009.

The upgrade and improvement of manufacturing equipment greatly improved our production capacity. Our company successfully applied for several international patents for waste-incineration technology, such as double-loop pyrolysis and power generation from municipal waste gasification. The establishment of a postdoctoral research station and collaboration with other leading institutions will serve as an important stepping stone to enhance our technological capabilities and maintain a strong strategic focus on sustained growth. Several senior engineers in waste incineration technology will join our team to improve its capability in research & development and thus maintain its technological leadership.

The rapid progress in technology since our IPO has enabled ZhongDe to not only manufacture large scale incinerators, but also build complete incineration plants with electricity generation.

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Zefeng Chen, Chairman



Na Lin, CFO

This is a milestone in the development of ZhongDe's technology and products.

In 2008 we shifted our strategic focus on the large and mid-sized waste incinerator market and intend to expand our position in this area. To that end, ZhongDe has entered into four concrete contracts and two non-binding letters of intent with Chinese municipalities for larger scale BOT – Build, Operate and Transfer – projects. Also, we signed a cooperation agreement with Veolia Environmental Services China that covers management and operation of incineration projects with electricity generation. The agreement is a further milestone to reach our goal of further extending the value chain to generate long term and stable cash flows.

Entering 2009, the market is clearly challenging and ZhongDe is not isolated from the economic downturn. But we are very

confident to be able to maintain our high and profitable growth. Demand for waste disposal is growing rapidly in China as well as in other developing countries. ZhongDe is in an ideal position to capture this market potential.

A blue ink signature of Zefeng Chen, written in a stylized cursive script.

Zefeng Chen  
Chairman

A blue ink signature of Na Lin, written in a stylized cursive script.

Na Lin  
CFO

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# Supervisory Board Report

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Dear Shareholders,

in accordance with the statutory law, the Articles of Association, the by-laws and the German Corporate Governance Code, the Supervisory Board has intensely supervised and advised the Management Board during the financial year 2008.

In the business year 2008, the Supervisory Board convened four ordinary meetings in China and Germany. All members of the Supervisory Board attended these meetings. The Management Board reported to the Supervisory Board each time about the intended business policy and on basic issues of the corporate planning as well as on the profitability of the Company and on projects which are of major importance for the profitability of the Company. During the Supervisory Board meetings the Management Board reported on the business and financial status of the Company within the current business year and described his prognosis of the further economic development. Furthermore, the Management Board discussed with the Supervisory Board the short and mid-term strategy of the Company. They discussed in particular the business policy, the financial management, the risks and the risk management and the reaction to the worldwide economical development and its importance for the economic development in the People's Republic of China. The Supervisory Board used the meetings to ask the Management Board further questions and to advise. Business dealings, which require the prior consent of the Supervisory Board, were exactly approved by the Supervisory Board. Members of the Management Board were hereby available for further questions.

Furthermore, the Chairman of the Supervisory Board communicated regularly with the Management Board. Both exchanged information and opinions between each other and the Supervisory Board was kept informed about the current business situation, major business transactions, the current economic policy in China and all decisions of the Management Board as well as of the development of the business volume and the business results.

## Meetings of the Supervisory Board

The **Supervisory Board meeting on 16 April 2008** dealt with the discussions of the draft of the individual and consolidated financial statement of ZhongDe Waste Technology AG as of 31 December 2007. The Supervisory Board approved the individual and consolidated financial statement of the Company, which remained unmodified compared to its draft and which received an unqualified certificate by the independent auditor, by resolution on 28 April 2008. Furthermore, the Supervisory Board approved the business plan for the year 2008 and the Management Board and the Supervisory Board discussed the mid-term business plans for the years 2009 to 2012 with regard to Build-Operate-Transfer (BOT) projects. In addition the risks of possible exchange losses were discussed.

At the **Supervisory Board meeting on 20 July 2008**, the Management Board reported on the present business development of the current business year. The Management Board and the Supervisory Board discussed intensively how to deal with the BOT projects and its financing as well as the quality of the risk management system. The Supervisory Board requested monthly reports on the risk management.

At the third meeting of the **Supervisory Board on 23 September 2008**, the Management Board reported on the current business development and the prognosis until the end of the business year. The Management Board and the Supervisory Board discussed the report of the Management Board on the risks of the Company in the current business year and possible counteractive measures. Furthermore, the business backlog was discussed as well as the current status of the BOT projects.

At the **Supervisory Board meeting on 9 December 2008**, the effects of the economic developments in China on public and

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private investments as well as the short and mid-term business planning with regard to profits, assets, investments and finance for the business years 2009 to 2012 were discussed. The Management Board reported on the current business developments as well as the current status of the investments including the appropriation of the IPO proceeds. The Supervisory Board asked with respect to the economical development in China for a report on the development of the accounts receivable of the Company. Finally possible exchange losses and counteractive measures were discussed again.

As the Supervisory Board comprised only of three members in the business year 2008, no committees were constituted.

## Corporate Governance

The Management Board and the Supervisory Board are committed to good Corporate Governance as a central integral part of the management of the Company in terms of a sustainable increase of the value of the Company. The report of the Management Board and the Supervisory Board in relation to the Company's Corporate Governance is the subject of a separate chapter of this annual report.

## Personnel Matters

There was a change in the composition of the Supervisory Board at the end of the business year 2008. Mr. Joachim Ronge resigned as a member of the Supervisory Board with effect from 31 December 2008. The local court in Hamburg appointed Prof. Dr. Ing. Bernd Neukirchen by decision dated 5 January 2009 as a substitute for Mr. Ronge until the next ordinary annual shareholders' meeting of ZhongDe Waste Technology AG. The Supervisory Board elected Prof. Dr. Ing. Neukirchen as deputy Chairman by resolution dated 9 January 2009. The Supervisory



The Supervisory Board, Hans Joachim Zwarg, Chairman

Board, also on behalf of the Management Board, would like to take the opportunity to thank Mr. Ronge for his excellent work as a member of the Supervisory Board and his commitment to the interests of the Company.

## Financial Statements 2008

The (individual) financial statements of ZhongDe Waste Technology AG were prepared in accordance with the German generally accepted accounting principles as provided for in the German Commercial Code (Handelsgesetzbuch/HGB). The consolidated financial statements of ZhongDe Waste Technology AG were prepared in accordance with International Financial Reporting Standards (IFRS). The Company dispensed pursuant to section 315a HGB with the preparation of annual consolidated financial statements in accordance with the HGB.

The individual and the consolidated financial statements as at 31 December 2008, the combined status report as well as the report of the Management Board on the relations with affiliated enterprises were examined in detail by the auditor appointed by the annual shareholders' meeting, BDO Deutsche Waren-treuhand AG Wirtschaftsprüfungsgesellschaft, Hamburg, and approved with an unqualified certificate. Each member of the Supervisory Board was provided with these annual accounting documents including the auditor's report. They were examined in detail at the annual financial statements meeting on 27 April 2009 and were discussed in the presence of the auditor who reported on the material results of the audit and was available for questions and the provision of supplementary information.

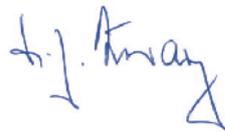
The Supervisory Board has audited the individual and consolidated financial statements and the status reports taking into account the convenience of the accounting policy. The Supervisory Board did not raise any objections to the individual financial statements. The audit report was examined and approved by the Supervisory Board.

The Supervisory Board approved the audited financial statements. The financial statements of ZhongDe Waste Technology AG were thus established. The Supervisory Board approved the status report and in particular the assessment of the further development of the Company. The financial statements of ZhongDe Waste Technology AG account for an annual net profit of €5.017 million for the year 2008. As at 31 December 2008, together with the retained earnings this results in a net profit of €6.553 million. The Supervisory Board agreed with the suggestion to distribute €1.950 million of the net profit to the shareholders.

The Supervisory Board was provided with the report regarding the Company's relations to affiliated companies prepared by the Management Board in accordance with section 312 German Stock Corporation Act (Aktengesetz / AktG). The Supervisory Board considered the report thoroughly. The auditor confirmed that the disclosures in the report of the Management Board concerning the relations to affiliated companies are correct and that the compensation paid by the Company concerning transactions mentioned in the report has not been unduly high. The Supervisory Board approved the audit by the appointed auditor. There are no objections to the statements of the Management Board regarding the Company's relation to affiliated companies at the end of the report.

The Supervisory Board would like to take the opportunity to thank the Management Board and all employees for their commitment, which contributed to the good results in 2008.

Hamburg, 27 April 2009



The Supervisory Board  
Hans Joachim Zwarg  
Chairman

## Share Performance



The ZhongDe stock moved in line with the market over the first nine months 2008, but the subprime mortgage crisis in the United States began to alarm the capital market and drove the share price down to a low of €8.32 in October. The sharp fall starting mid-September followed the collapse of the investment bank Lehman Brothers. This had a significant effect on the mood of investors and the sudden contraction of market funds resulted in a more conservative approach to small cap companies. Company fundamentals, such as profitability and potential growth in the industry, were all subordinated to the liquidity of the stock. After September, the market became more rational and the ZhongDe stock was able to recover somewhat towards the end of the year. The ZhongDe stock grew by over 60% from its lowest point in October to its peak in December. It once again followed the general market trend from the beginning of 2009.

We have been maintaining ongoing and active communication with the financial markets since our IPO in July 2007. Our aim is to ensure transparency for investors regarding company developments, our strategy and our markets. During the period under review, the Investor Relations team attended several international capital market conferences and held more than 80 meetings with shareholders and research analysts.

The importance of the Internet in providing timely information to the capital markets has grown tremendously. Shareholders and analysts can use our website [www.zhongdetech.de](http://www.zhongdetech.de) to obtain comprehensive information.

ZhongDe is now operating and expanding in China's environmental protection industry. This has been named as one of the Chinese government's focus areas and a considerable budget has already been assigned to the industry. According to an analysis of the Group's fundamentals and its outlook for 2009, and comparing it with others companies in the industry in different countries, the intrinsic value of ZhongDe is considerably underestimated by the market. We are confident that once the financial crisis is behind us – and China is expected to be one of the fastest recovering countries – the value of the ZhongDe stock should soon be restored and adequately reflected in a fair and reasonable share price.

Basic	
ISIN	DE000ZDWT018
WKN	ZDWT01
Trading Symbol	ZEF
Sector	Industrial
Stock category	Individual non-par-value nominal shares
Share capital	13,000,000 shares
Stock market segment	(Prime Standard) Frankfurt Stock Exchange

Key share indicators 2008 in €	
<b>Share</b>	
Year-end price	13.81
High	34.50
Low	8.32
Earnings per share	1.73
Dividend per share (proposed)	0.15
Market capitalization (Dec 31)	179.5 million

# Corporate Governance Report

## Report of the Management Board and Supervisory Board on the Company's Corporate Governance

ZhongDe Waste Technology AG is committed to the principles of a good and responsible corporate governance.

We merit the trust of our shareholders, clients and employees by a close and constructive cooperation between Supervisory Board and Management Board. This close cooperation is denoted by open corporate communication and intensive customer care as well as due care in relation to accounting and audit.

### Management Board

The Management Board of ZhongDe Waste Technology AG comprises two members who are jointly responsible for the management of the company. The members of the Management Board inform the Supervisory Board frequently, expeditiously and comprehensively on the company's strategy, planning, -business development and risk management. Likewise, the Chairmen of the Management and Supervisory Boards maintain frequent contact. For certain business transactions and measures as more specifically set forth in the By-laws for the Management Board, the Management Board must obtain the Supervisory Board's prior consent. Members of the Management Board are Mr. Zefeng Chen (Chairman) and Ms. Na Lin.

### Supervisory Board

The Supervisory Board of ZhongDe Waste Technology comprises three members. The task of the Supervisory Board is above all to control and advise the Management

Board. It is furthermore responsible 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 of the company. Members of the Supervisory Board are Mr. Hans-Joachim Zwarg (Chairman), Prof. Dr. Ing. Bernd Neukirchen (deputy Chairman) and Mr. Hao Quan. Mr. Joachim Ronge resigned as a member of the Supervisory Board with effect from 31 December 2008. The local court in Hamburg appointed Prof. Dr. Ing. Bernd Neukirchen by decision on 5 January 2009 as a substitute for Mr. Ronge until the next ordinary annual shareholders' meeting of ZhongDe Waste Technology AG.

## Remuneration of Management Board and Supervisory Board

The Management Board of ZhongDe Waste Technology AG is being remunerated by the company's subsidiary Fujian FengQuan Environmental Protection Equipment Ltd. and does not receive any remuneration from ZhongDe Waste Technology AG.

In 2008 the members of the Management Board received the following remuneration:

in k€	
Mr. Zefeng Chen	17
Ms. Na Lin	13

On 22 July 2008 the annual shareholders' meeting resolved upon the following remuneration for the members of the Supervisory Board:

For every complete calendar year the members of the Supervisory Board receive a basic remuneration of €15,000. For less than a calendar year, the remuneration shall be paid pro rata temporis.

The Chairman of the Supervisory Board receives four times the basic remuneration and the deputy Chairman three times the basic remuneration. Every member of the supervisory board receives an annual performance related remuneration in the sum of €100 per Cent of the in the respective annual consolidated financial statement of ZhongDe Waste Technology AG reported profit per share in addition to the basic remuneration, provided the profit exceeds €2.00. The cap for the performance related remuneration is €3.50 profit per share. For less than a calendar year the performance related remuneration will be paid pro rata temporis.

In 2008 the members of the Supervisory Board received the following remuneration:

in k€	
Mr. Hans-Joachim Zwarg (Chairman)	71
Mr. Joachim Ronge (Deputy Chairman)	46
Mr. Hao Quan	20

## General Shareholders' Meeting

Our shareholders exercise their basic rights they are entitled to by law at the annual general shareholders' meeting. They have the opportunity to speak to all agenda items and to ask questions to all matters of the company. Every share of ZhongDe Waste Technology AG is entitled to one vote.

## Shareholdings of the Management Board and the Supervisory Board

The members of the Management Board directly or indirectly hold 50% of the shares in ZhongDe Waste Technology AG.

The members of the Supervisory Board do not hold any shares in ZhongDe Waste Technology AG.

## Financial Reporting and Annual Audit

The annual consolidated financial statements of ZhongDe Waste Technology AG-Group are prepared pursuant to the International Financial Reporting Standards (IFRS) and the individual financial statements are prepared according to the German accounting rules as of the German Commercial Code (HGB). BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft has been appointed by the general shareholders' meeting as auditor and has audited the consolidated and individual financial statements. The auditors attended the Supervisory Board's meeting on the individual and consolidated financial statements and reported on the main results of their audit.

## Transparency

Shareholders, analysts, investors and the general public are informed by ZhongDe Waste Technology AG regularly and currently of the main business changes.

The website of ZhongDe Waste Technology AG at [www.zhongdetech.de](http://www.zhongdetech.de) is the main communication medium. In addition to the articles of association and the information released by the Management Board and Supervisory Board there are

documents available regarding the general shareholders' meeting, financial reports and details of the business activities. Insider-information is published as ad-hoc announcement, as long as the company is not released from this duty in particular cases. As soon as the company becomes aware that a shareholder has reached, exceeded or fallen below the threshold of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the voting rights of the company, the Management Board releases this fact immediately. The due dates for the publication of the regular financial reporting are published on the company website.

The legal requirements for the release of announcements as well as the obligation for the transmission of information and documents to the Federal Financial Supervisory Authority (BaFin) and the public registers are being complied with.

## Directors' Dealings

The following directors' dealings were disclosed to the company:

On 29 July 2008 the Chairman of the Management Board of ZhongDe Waste Technology AG, Mr. Chen Zefeng, bought 9,120 shares in ZhongDe Waste Technology AG at the price of €22,92 per share.

On 18 September 2008 Mr. Zefeng Chen entered into a securities lending agreement for 112,319 shares of ZhongDe Waste Technology AG.

On 17 March 2009 Mr. Chen annulled the securities lending agreement as of 18 September 2008 for the 112,319 shares in ZhongDe Waste Technology AG.

## Compliance Statement

ZhongDe Waste Technology AG complies with the recommendations of the German Corporate Governance Code as amended on 6 June 2008 except the following deviations:

The recommendations in Clause 4.2.2 and Clause 4.2.3 of the German Corporate Governance Code do not apply, as the members of the Management Board of ZhongDe Waste Technology AG merely entered into service agreements with the Chinese subsidiary Fujian FengQuan Environmental Protection Equipment Ltd., but not with ZhongDe Waste Technology AG.

There is currently no stock option plan and no pension promise for the benefit of the members of the Management Board. Therefore the recommendations in accordance with Clause 4.2.5 para. 2 of the German Corporate Governance Codex do not apply.

The company has not introduced an age limit for the members of the Management Board and therefore deviates from the recommendation in Clause 5.1.2 para. 3, sentence 3 of the German Corporate Governance Codex.

The recommendations of Clause 5.2 para. 2 and Clause 5.3 do not apply, as the Supervisory Board only consists of three members and there are therefore no committees.

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The company deviates from the recommendation of clause 5.4.1, sentence 2 of the German Corporate Governance Codex as there is no age limit for members of the Supervisory Board.

The D&O insurance policies do not provide for an excess for members of the Management Board and the Supervisory Board. The company deviates insofar from the recommendation in Clause 3.8 para 2 of the German Corporate Governance Codex.

The company will presumably not exactly meet the 45 day time line for the publication of the interim reports as recommended under clause 7.1.2 sentence 2 of the German Corporate Governance Code.

The company has not met the 90 day time line for the publication of the consolidated financial statements as recommended under clause 7.1.2 sentence 2 of the German Corporate Governance Code. However, the company is aiming at achieving such time line in near future.

The Compliance statement 2009 of ZhongDe Waste Technology AG was released on the company's website.

Hamburg, 6 April 2009

Management Board  
Supervisory Board  
ZhongDe Waste Technology AG

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## Group Management Report

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# Group Management Report

## About ZhongDe Waste Technology AG



### Organizational Structure

The consolidated ZhongDe Group consists of the German holding company (ZhongDe Waste Technology AG) and seven subsidiaries.

Chung Hua Environmental Protection Assets (Holdings) Group Ltd. is a limited liability company under the laws of Hong Kong (“Chung Hua Holding”) and is a wholly-owned subsidiary of ZhongDe Waste Technology AG.

Fujian FengQuan Environmental Protection Holdings Co., Ltd. (“FengQuan”) is registered as a wholly foreign-owned enterprise in the PRC. The sole shareholder of FengQuan is Chung Hua Environmental Protection Assets (Holdings) Group Ltd.

FengQuan has established five subsidiaries with the following purposes:

- Zhoukou FengQuan Environmental Protection Electric Power Co. Ltd.: BOT Investment
- Feicheng FengQuan Waste Disposal Co., Ltd.: BOT Investment
- Beijing ZhongDe Environmental Protection Technology Co. Ltd.: Establishment and Operating of Beijing Manufacturing Plants
- Xinjiang FengQuan Waste Disposal Co., Ltd.: BOT Investment
- Lianshui FengQuan Waste Disposal Co., Ltd.: BOT Investment

The operating business of the ZhongDe Group is performed exclusively by FengQuan. The subsidiaries located at Zhoukou, Feicheng, Beijing, Xinjiang and Lianshui have not become operational yet.

## Business Segments

The ZhongDe Group's operations are divided into three separate business segments:

- the medical waste incinerator business,
- the municipal waste incinerator business and
- the engineering, procurement & construction (“EPC”) project.

### Medical Waste Incinerator Business

Incinerators manufactured for this business segment use pyrolytic incineration techniques and can currently process between 1 and 32 tons of waste per day. Medical waste incinerators with a wide range of applications can help eliminate various kinds of viruses and bacteria and dramatically reduce the volume of waste. The dioxin emissions of medical waste incinerators comply with Chinese environmental standards.

### Municipal Waste Incinerator Business

The ZhongDe Group's municipal waste incinerator business produces pyrolytic, grate and rotary kiln incinerators. Municipal waste incinerators are suitable for a wide range of applications and dramatically reduce the volume of waste. The ZhongDe Group expects that revenues, especially from the Municipal Waste Incinerator business, will grow significantly as the ZhongDe Group targets smaller cities in China between 100,000 and 200,000 inhabitants as well as mid-sized cities with 200,000 to 750,000 inhabitants. Both target groups have a growing need for incinerators for municipal waste as the general acceptance of waste incineration in China has been growing. As a result of increasing and continuing urbanization and improved ave-

rage household incomes, there is substantial growth in municipal solid waste and thus an increased need for safe municipal waste disposal solutions.

### Engineering, Procurement & Construction (“EPC”) Projects

The EPC Project refers to an engineering, procurement and construction project. Under such projects, contractors undertake all preliminary project work, such as designing, purchasing, manufacturing, constructing up to commissioning. Contractors are also responsible for the quality assurance, in-time construction and safety of the project.

## Management and Control

ZhongDe's CEO, Mrs. Zefeng Chen, leads the development of the following divisions: Administration, Capital Investment, Marketing, Projects, Production, and Research & Development.

ZhongDe's CFO, Mrs. Na Lin, is responsible for the Human Resources, Finance and Account divisions, as well as Investor Relations.

The Marketing division generally develops sales channels for municipal and medical incinerators and seeks opportunities for capital investment in BOT projects (Build, Operate and Transfer). Its functions are well managed by six subdivisions, four of which are responsible for generating local orders and covering different regions of China. The remaining two are dedicated teams for international sales and sales of specialized industrial incinerators, including medical and aviation waste incinerators.

The Production division is responsible for the production, timely delivery, complete installation and commissioning of our incinerators.

## Organizational Structure



Mr. Zefeng Chen  
(Chairman)



Ms. Na Lin  
(CFO)



Innovation and upgrading of our products to meet the rapid changes in market demand is the main task of our R&D division. At present, the division is focusing more on technologies required for large and mid-sized municipal waste incinerators of various types.

The Project division is responsible for the construction of the BOT projects invested by ZhongDe as well as the construction of large EPC projects. It is playing an increasingly important role in ZhongDe's business as ZhongDe shifts its focus to large and mid-sized municipal waste incinerators with power generation.

Under the current management controlling procedure, every division holds internal meetings on a weekly basis supplemented by monthly management meetings.

### Products

As a direct player in the Chinese environmental protection sector, the ZhongDe Group has established itself as the domestic market leader for the production of medical and municipal

waste incinerators with advanced technologies and clear cost advantages. We also deliver our equipments and services for different kinds of projects. These include EPC projects, BOT projects and BOO projects.

As a market leader for small-sized incinerators, the ZhongDe Group intends to expand its position in the market for large and mid-sized incinerators. In addition to its core business of directly selling medical and municipal waste incinerators, ZhongDe also undertakes EPC projects because of their higher internal rate of return.

At the same time, ZhongDe also plans to enter the market of completing BOT/BOO projects. In comparison with the pure selling of incinerators, the BOT/BOO business delivers a sustainable earnings stream. ZhongDe has signed four BOT contracts and two non-binding letters of intent for BOT projects. ZhongDe will design and install incinerators for the treatment of municipal solid waste, and then operate these incineration plants on behalf of its customers for a contracted period of time.

## Key Sites

At the time of reporting, the ZhongDe Group generates all of its sales in China. The following table provides an overview of the company's key sites:

Location	Functions	Functioning Subsidiary
Fuzhou, the PRC	Fuzhou Manufacturing Plant	Fujian FengQuan Environmental Protection Holdings Co., Ltd.
Beijing, the PRC	Beijing Manufacturing Plant under construction	Beijing ZhongDe FengQuan Waste Technology Co., Ltd.
Xinjiang, the PRC	Xinjiang BOT with the daily capacity 100 tons (in projection phase)	Xinjiang FengQuan Waste Treatment Co., Ltd.
Lianshui, the PRC	Lianshui BOT with the daily capacity 200 tons (in projection phase)	Lianshui FengQuan Waste Treatment Co., Ltd.
Zhoukou, the PRC	Xihua BOT with the daily capacity 500 tons (in projection phase)	Zhoukou FengQuan Environmental Protection Power Co., Ltd.
Feicheng, the PRC	Feicheng BOT with the daily capacity 160 tons (in projection phase)	Feicheng FengQuan Waste Treatment Co., Ltd.

## Production

The recent upgrade and improvement of manufacturing equipment greatly improves our production capacity. A case in point is the pyrolysis incinerator line: Production capacity has doubled while staff and site remain unchanged.

Manufacturing techniques for cylinder, bag filter and tubeplate hole have been improved to save raw materials and control production costs.

Manufacturing techniques, manufacturing control, and workflow consistently improved in 2008 in order to maximize productivity and be able to flexibly respond to a changing market.

The revised division of tasks and the specialization of our production helped to improve product quality and lower overhead costs. We have standardized the monitoring of material consumption and implemented cost controls on inventory and production.

A total of 19 waste incinerators were manufactured during 2008, including the three contingency waste incinerators for the Sichuan earthquake disaster relief effort. We also planned an extension of our production equipment in order to significantly enhance capacity at the Fuzhou headquarters.

## Corporate Strategy

The ZhongDe Group intends to focus on the large and mid-sized waste incinerator market and to expand its position and technology in this area. The Company also intends to operate waste incineration plants for and with municipalities and, as by-products, to produce and market its own steam, hot water, bricks and electricity through the operation of such plants. The ZhongDe Group's overall strategic objective is to maintain strong and profitable business growth in order to create superior shareholder value through the following strategic steps:

### Strengthen Our Position in the Small and Mid-Sized Municipal Waste Incinerator Market in Small and Mid-Sized Cities

The ZhongDe Group has built a strong position in the municipal waste incinerator market in small and mid-sized cities in China. It intends to expand its focus on small and mid-sized incinerators for municipal waste with a disposal capacity of between 50 and 300 tons per day. Target customers are small and mid-sized Chinese cities with a population of 100,000 to 750,000 inhabitants. More than 500 Chinese cities are small or mid-sized and most do not have appropriate waste disposal facilities. The ZhongDe Group believes that the lack of an appropriate waste disposal infrastructure for municipal waste in small and mid-sized Chinese cities, together with growing urbanization and its strong product and technology offering, will present it with increasing opportunities in the near future.

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### Extend the Current Business into the Operation of BOT Projects with Recurring Revenues

The ZhongDe Group intends to expand into the operation of BOT projects which would provide the ZhongDe Group with recurring revenues from operating fees and the sale of by-products produced during the incineration process. To that end, the ZhongDe Group has entered into four contracts and two non-binding letters of intent with Chinese municipalities for BOT projects following detailed feasibility studies by external research institutes.

The municipalities will be soliciting bids worth approximately €41 million. The ZhongDe Group believes that it will be able to capture a substantial share of this new business. It expects to complete the respective projects within the next one to three years. Based on its market position as well as the technology and experience gathered from its core business, the ZhongDe Group believes that it has the ability to profitably construct and operate such mid-sized and larger waste incineration plants.

### Expand Production Capacity and Establish a Second Production Facility in Northern China

New production facilities are under construction in Beijing as part of the Company's long-term expansion program and should be finished by the end of the third quarter of 2009. Like the headquarters in Fuzhou, Beijing will have the capability to produce both medical and municipal solid-waste incinerators. The Beijing production plant will also increase ZhongDe's geographical coverage, leading to faster delivery and lower logistics costs. Increase in production capacity and greater geographical coverage will enable ZhongDe to fully benefit from China's growing waste market and to continue to generate outstanding growth.

### Expand Internationally into Other Markets

As a mid- to long-term strategy, the ZhongDe Group will explore the possibility of expanding with its existing products into markets in Southeast Asia such as Thailand, Indonesia and the Philippines and, in a second step, into new markets in Africa and Eastern Europe.

### Focus on Large-Scale Incinerators in Partnership with Foreign Companies

The company has signed a cooperation agreement with Veolia Environmental Services China, Ltd. The cooperation covers bidding, management, and operation of incineration projects with electricity generation with a focus on BOT projects. This cooperation agreement with an internationally operating, renowned brand is a further milestone on our way to implementing our long-term strategy of extending the value chain to generate stable revenues and cash flows. By doing so, we will also expand our business model to the larger incinerator segment.

With the rapid progress in technology since its IPO, ZhongDe is now capable of not only manufacturing large-scale incinerators, but also of building complete cogeneration plants. The Datong waste-disposal and electricity-generation project with a disposal capacity of 1,000 tons per day is the first project in which ZhongDe will install cogeneration plants on a larger scale. This achievement represents a milestone in the development of ZhongDe's technology and products. By signing these contracts, we have started to implement ZhongDe's key strategy of expanding into the large-scale incineration market. Our objective is to strengthen our position in the municipal waste disposal sector.

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## Human Resources

Our new recruits play an important role in the positive development of our business. In 2008, our Company carried out an open recruitment process through different channels in order to meet the demands of various departments. In 2008, the total number of employees rose to approximately 360.

Our new employees play an important part in developing sales, technology and project construction. These highly experienced people will improve our capability in research and development and provide a solid basis to move our business forward. We believe that the Company will continue to grow sales and earnings with the joint dedication and commitment of all employees.

We appreciate the efforts and the critical contribution of our whole team. Every team member is given the opportunity to develop themselves. We organize regular internal training to update our staff with the latest industry knowledge and technical expertise. Excellent staff are also provided with chances to attend external training sessions.

## Research & Development

Our Company places great emphasis on new product research, project design, and product innovation. Patents are pending for several new products. A new R&D center has been built to serve our efforts in this field.

The Company is striving to become a demonstration unit for the Environmentally Sustainable Management of Medical Wastes project in China and has collected, collated and prepared all relevant information.

Our Company collaborated with Nankai University, Tianjin, China to improve SCR dioxin emission technology of which focus has been put to the research on 100t/d×2 (2 lines) vertical type municipal-waste incinerator automatic controlling system. Our Company has set out to perform research on sludge incineration technology. Based on its appraisal, the company decided to adopt techniques which matched the small and medium-sized municipal-waste incineration project. Waste heat from incinerators and boiler steam were utilized to dry sludge, which then went into incinerators for disposal together with municipal waste. The Company has applied for a state patent on the vertical incinerator-discharge distributor, municipal-waste pyrolysis gasification, and power generation.

In 2008, R&D expenses amounted to € 0.5 million, an increase of 85.7%. This represents 1.1% of revenues.

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## General Market Conditions

### Macroeconomic Environment

Despite the earthquake and global financial turmoil, the Chinese economy maintained rapid and steady growth in 2008. China's National Bureau of Statistics reported that the country's gross domestic product (GDP) in 2008 rose by 9.0% to €3.166 trillion.

Preliminary estimates indicate that value added in primary industry increased 5.5%, in secondary industry by 9.3% and in tertiary industry by 9.5%. Total retail sales of consumer goods increased by 21.6% in 2008 and the consumer price index (CPI) grew by 5.9%. Urban per capita annual disposable income amounted to €1,662, with an annual growth rate of 14.5%. Capital investment hit €1.8144 trillion, up 25.5% year-to-year, and even higher than the growth in GDP and the CPI.

The net value of Chinese imports and exports in 2008 amounted to €1,840 billion, representing 17.8% growth year-on-year. Of this figure, exports rose by 17.2% to €1.03 trillion while imports were up 18.5% at €814.1 billion. By the end of 2008, Chinese foreign exchange reserves amounted to €1.401 trillion, while the trade surplus increased to €212.3 billion.

### Sector Trends

Environmental protection is a fundamental policy of our country as it is crucial to the existence and development of the Chinese nation. China began to focus on environmental issues in the 1980s. Over the years, environmental protection has occupied an ever more prominent place on the government agenda in view of the issues that have come to light as China's economy continues to boom.

The environmental protection industry continued to grow rapidly in 2008, as its profitability gradually rose. We estimate that Chinese environmental protection will continue to grow at a fast pace over the next 15 to 20 years. The compound annual growth rate is expected to reach 15% to 20%. During the 11<sup>th</sup> Five-Year Plan, investment in environmental protection will reach €147.44 billion, representing growth of 100% year-to-year and accounting for 1.5% of GDP over the same period. The State Environmental Protection Administration (SEPA) has predicted that the annual output of municipal waste will reach 152 million tons in 2010, and 179 million tons and 210 million tons in 2015 and 2020, respectively. The experts also stated that direct incineration will basically meet the demands placed by municipal waste in large and medium-size cities in 2010.

According to the 11<sup>th</sup> Five-Year Plan on the Construction of Municipal Waste Hazard-Free Treatment Facilities, cities with strong economies, a suitable caloric value of municipal waste, and a lack of land resources could stimulate demand for incineration disposal technology. An estimated 479 hazard-free treatment facilities for municipal waste need to be updated. Among them are 82 waste incineration plants with a daily capacity of 810 tons each, accounting for 17.1%. According to the 11<sup>th</sup> Five-Year Plan, it is estimated that the hazard-free treatment rate of municipal waste will reach 70%, and €6.2 billion will be invested in the construction of municipal waste hazard-free treatment facilities. Total investment in the 10<sup>th</sup> Five-Year Plan period amounted to €2.1 billion. Comparatively speaking, investment growth in municipal waste hazard-free treatment facilities witnessed a dramatic rise.

Putting environmental issues firmly at the heart of government plans, the Chinese government has reaffirmed its commitment to environmental protection by issuing a series of policies. The State Environmental Protection Administration (SEPA) was

granted a new status as a ministry at the beginning of the year. In view of the environmental and pollution challenges facing the Chinese government both now and in future, the new ministry has been charged with drafting and implementing environmental programs, environmental protection policies and standards, working out environmental functions in each region of China, supervising the prevention and treatment of pollution and tackling other major environmental issues. The government views this move as a positive step in its continued efforts to create a cleaner environment.

According to the “Circular for Preventing and Controlling the Credit Risk of Energy and Pollution Intensive Industries” and the “Guidelines for Energy Saving and Discharge Reduction Credit Granting Works”, all banking institutions should work alongside the environmental protection department to enforce the government’s environmental policies. Banks are entitled to restrict or turn down loan applications from projects which do not comply with government environmental policies. Projects marked as “restricted” will not receive loans until they comply with regulations.

The Recycling Economy Promotion Law of the People’s Republic of China was passed at the Fourth Session of the 11<sup>th</sup> Standing Committee of the NPC (the National People’s Congress). Key elements of the law include: establishing systems to regulate energy use and pollutant emission; diverting capital into environmentally friendly industries; allocating special funds to support technological research; key projects, and, capacity building. The passage and implementation of the Recycling Economy Promotion Law of the PRC (People’s Republic of China) will present a tremendous opportunity to the Company.

In September 2008, the Ministry of Environmental Protection (MEP) issued the “Circular on Further Strengthening Environmental Impact Assessment (EIA) Management of Biomass Power

Generation Projects”. According to the updated regulations, provincial environmental protection authorities, rather than the central government, can now assess the environmental impact of waste incineration power generation projects. The updated regulations, including waste incineration/power generation projects, are likely to accelerate the process of building new waste-to-power plants in China.

As one of China’s leading providers of small and medium-sized waste incinerator equipment, ZhongDe is in a prime position to benefit from the Chinese government’s environmental protection policies. Given the promotion of environmental protection regulations and the special fund granted by the Chinese government, we are confident that the market for waste incineration treatment will continue to grow steadily. Growth is expected to reach over 18% in 2010. Based on the current situation in the market, the BOT approach to building incineration plants will become the main trend in the years to come. The waste incineration industry is expecting a “golden age” from 2008 to 2015.

## Business Development

Fiscal 2008 was an extraordinary year for the global economy as well as for ZhongDe. Despite the fact that our business was somewhat affected by the economic recession, ZhongDe posted strong growth in 2008. Revenue increased to €46.0 million, up 47.8% year-on-year. We continued to expand our business with waste incinerators for large and medium-sized industrial enterprises and municipal use, and we actively participated in a number of environmental projects. Revenue from municipal waste incinerators contributed 75.8% of total revenue. BOT and EPC projects are well under way and made satisfactory progress in the year under review.

## Datong Project

ZhongDe signed general contracts for the Datong waste disposal and electricity generation project in the first quarter of 2008. The Datong project contracts comprised designing, purchasing, manufacturing, constructing and commissioning a 1,000-ton per day waste incinerator plant with 30 MW electricity generating capacity. The total contract amounts to approximately €32 million.

Infrastructure development in Datong was proceeding swiftly according to plan. The main structures for the factory, chimney, office building, and apartment building are nearly completed. Three furnace grates, the core component of the incinerator, have been installed on site. After delays especially due to the Sichuan earthquake, the Datong project is expected to be finished before the end of the third quarter of 2009.

The Datong project was named one of the most important environmental projects in the Shanxi province. The project has been visited and reviewed by the senior provincial mayor and was identified as one of the region's most efficient and encouraging projects, setting an example for forthcoming waste incineration projects.

## Xihua Project

The Xihua project is one of the BOT projects with electricity generation in which ZhongDe is investing. The total contract amounts to approximately €18.4 million. The daily waste disposal capacity is 500 tons and the concession period is 30 years. The project is in the construction stage, and the main factory, chimney and building complex are basically completed. It is expected to complete construction and start operation by the end of 2009.

## Feicheng Project

The Feicheng project is one of the BOT projects in which ZhongDe invested. The total contract amounts to approximately €3.9 million. The daily waste disposal capacity is 160 tons and the concession period has been extended indefinitely (BOO project). The Feicheng project passed the environmental impact assessment and the incineration plants and building complex are in the construction stage. It is expected to complete construction and start operation by the end of 2009.

## Xinjiang Project and Lianshui Project

The daily waste disposal capacity of the Xinjiang project is 100 tons. The Lianshui project can handle 200 tons. Both are small facilities and as such cannot generate power. Since the sale of power to the Chinese government is a stable and reliable source of income, particularly in a time when many enterprises are being impacted by the global financial crisis, the Company will devote more resources to large-scale incineration projects featuring power generation. The two projects will therefore be discontinued but replaced by other larger-scale waste-to-energy projects that offer better investment returns for the Company.

## Beijing Plant

New production facilities are under construction in Beijing as part of the Company's long-term capacity expansion program. This project is funded primarily by proceeds from our initial public offering on the German Stock Exchange in Frankfurt in July 2007. The basic construction work has been successfully completed, as expected. At the moment, the project is in the planning stage on internal construction of the building, which will need to be tailored to the technology the Company will adopt for the production of large scale incinerators. The production plant is expected to be completed and fully operational in the third quarter of 2009. The Beijing plant will be completed one quarter later than originally planned due to the extra time needed for suitable interior finishing and fitments. The delay of one quarter of Beijing plant will not affect our production schedule since Fuzhou plant can fulfill the production.

## Overall Development

The ZhongDe Group has established its strong position in China by networking in the market. The Group owes its competence in handling highly customized orders to a capable marketing team supported by an experienced engineering department. Our solid foundation in manufacturing small to medium-size incinerators gives us a leading edge in the production and assembly of low-cost machinery. At the new factory in Beijing, we will apply the same principles to ensure that the large incinerators we produce there offer the same cost advantages. The Group's growing prestige in the waste incineration market in China has made it possible for us to secure more major orders. We need to continue to strengthen certain areas of the Company in order to meet the challenges that await us in the future. The Group will need to ensure that enough project engineers are available to fill orders since there is currently a serious shortage in the industry of well-trained and experienced project managers for the construction of large-scale incinerator projects. We will also need to focus more effort on improving existing technology and applying new technology in the parts and components sector to maintain the outstanding efficiency of our products at very low cost. This will help us build international strategic partnerships and increase our partnerships with overseas and local research and development institutions, giving us more options to find the most appropriate solutions for our customers.

## Financial Performance

in k€	2008	2007
Sales	46,007	31,133
Gross profit	27,093	21,637
EBIT	20,429	18,611
Net profit	22,430	19,059
Return on equity	18%	19%
Return on capital employed	16%	18%
Current liquidity ratio	1,045%	1,711%
Equity ratio	91%	94%
Working capital	128,260	101,090
Earnings per share (diluted and undiluted)	1.73	1.47

### Revenues

Revenue in 2008 reached €46.0 million, with an increase of 47.8% year-on-year. The full-year top line was €4 million less than budget, due to the influence of the financial and economic turmoil and the Sichuan earthquake. Following the Sichuan earthquake, construction workers from Sichuan went back home to rebuild their family houses. This affected the progress of site construction and delayed the overall Datong project schedule. Up to the end of 2008, the Datong project, entered in the balance sheet in accordance with the percentage-of-completion-method, contributed only a revenue of €8.9 million, which was significantly lower than our forecast.

### Earnings

Net profit in 2008 amounted to €22.4 million, an increase of 17.7% year-on-year. The net profit margin hit 48.8% in 2008, more than the previous guidance of 45%. Gross profits in 2008 increased substantially by €5.5 million or 25.2% to €27.1 million.

This was reflected in EBITDA, which rose 10.7% in 2008 to €20.7 million versus €18.7 million in 2007. The gross profit margin remained at the high level of 58.9% in 2008.

In k€	2008	2007	% change
Order intake	58,758	44,351	32.5
Order backlog	28,355	20,494	38.4

Total order intake for the year 2008 rose to €58.8 million, a substantial increase of 32.5% compared with the 2007 figure of €44.4 million. Municipal waste incinerators accounted for 49% and large-scale turnkey EPC contracts accounted for 47% of the order intake.

The order backlog as at 31 December 2008 amounted to €28.4 million, exceeding the figure for 2007 by €7.9 million, or 38.4%.

#### Waste incinerator sales by segments

In k€	2008	2007	% change
<b>Medical waste incinerator</b>			
Units sold	3	21	(85.7)
Revenues	2,221	9,441	(76.5)
Gross profit	1,800	7,326	(75.4)
<b>Municipal solid waste incinerators</b>			
Units sold	13	11	18.2
Revenues	34,885	21,692	60.8
Gross profit	23,886	14,309	66.9
<b>Large-size facilities EPC</b>			
% of completion	32%		
Revenues	8,901		
Gross profit	1,406		

The adjustment of our strategy resulted in a change in our sales mix.

The Company's core business is the sale of municipal waste incinerators, where the total sales volume increased by 60.8% year-on-year to €34.9 million. Sales of municipal waste incinerators accounted for 75.8% of total sales volume in 2008. During the reporting period, the company sold 13 municipal waste incinerators. With the improvement of living standards, the increase in municipal waste and the growth of environmental protection awareness, municipal waste incinerators will enjoy a buoyant market. Daily waste treatment capacity of municipal waste incinerators for each grate under our production has been expanded to 300 tons, thanks to the efforts of our R&D team on new innovations in incineration technology. The new SSR series of municipal incinerators which started selling in this year can greatly reduce both operating and production costs.

As a new product segment, large-scale EPC facilities contributed €8.9 million or 19.3% of total sales. In 2008, all of the revenue in this segment came from the Datong waste-to-energy project, which is the first large-scale EPC project for the company. By shifting our focus to large-scale waste-to-energy projects, large-scale EPC facilities will begin to contribute a larger share of total sales. The Company secured another large-scale EPC contract for approximately €30 million in January 2009.

Three medical waste incinerators were sold in 2008 and contributed a total revenue of €2.2 million, a decrease of 76.5% compared with that of last year. Notwithstanding this decrease in the number of units sold, the capability per unit of incinerators produced has been greatly enlarged, highlighting the company's intention of retaining business in specialized waste incineration sectors with a preference for larger-scale incinerators only.

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## Interest Income

As a consequence of our systematic and improved fund allocation planning, ZhongDe managed to allocate surplus funds to fixed bank deposits and succeeded in raising interest income to €2.7 million in 2008 (up from €0.9 million in 2007). As of the reporting date, most of the available funds were still invested in the bank of our PRC subsidiary pending investment in BOT projects and the completion of the Beijing factory. It is expected that interest income will return to lower levels in the coming years with the increase in the level of BOT investments.

## Expenses

### Distribution expenses

Distribution expenses climbed from €1.2 million in 2007 to €1.9 million in 2008. The increase reflects the rise in employee expenses as a result of 21 new hires. Additionally, the average salary rose by 20%, and sales commissions were also higher. Finally, the fact that more of the orders we completed in the year under review were scattered across different provinces pushed up the costs of delivering machinery.

### Administrative expenses

Administrative expenses rose from k€681 in 2007 to €1.5 million. The change was mainly due to the increase in employees and in the average salary since we employed more highly educated specialists to implement the new internal control system. In the course of the year, we also saw an increase in the cost of meetings with more visitors coming to study ZhongDe's operations and discuss potential orders. Following its successful listing on the Prime Standard segment of the Frankfurt Stock Exchange in July 2007, ZhongDe consolidated its business in response to increasing demand. The expenses incurred over the course of fiscal year 2008 reflect the development of the Group into a solid corporate structure.

## Research and development expenses

Research and development expenses increased from k€266 in 2007 to k€494 in 2008. The majority of these costs arose in connection with a research and development partnership for waste technology with an overseas institution and the associated administrative expenses.

## Other operating expenses

Other operating expenses rose from k€844 in 2007 to €2.8 million in 2008. The increase reflects corporate governance expenses and consulting fees incurred by ZhongDe Waste Technology AG in Germany.

In the reporting year, we also made progress towards streamlining costs by appointing Taiwan ChengTai Accounting to improve our internal controlling system.

## Taxes

The Group currently carries out its principal operations through Fujian FengQuan Environmental Protection Holdings Co., Ltd. This subsidiary is a foreign-owned enterprise and as such enjoyed full tax exemption in 2007 and 2008. From 2009 to 2011, it will be entitled to a half exemption tax rate of 12.5% (full exemption tax rate 25%). Accordingly, in the future the net profit margin will be offset by the effect of income tax. The Group continuously monitors the latest tax policies and will continue to apply for tax relief on the basis of its involvement in the environmental protection industry.

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## Financial Position and Cash Flow

### Principles and objectives of Financial Management

ZhongDe strives to maximize the wealth of our stakeholders through sound and efficient financial planning and management. In the current period of financial crisis, enterprises face the continuous shrinking of the credit market as a consequence of problems in the global banking system.

In China, the government has adopted a flexible monetary policy involving interest rate cuts, while the central bank has removed mandatory restrictions on commercial bank loan plans. The commercial sector is eager to offer finance, with the government encouraging industry with stable income and sound growth. Waste management and incinerator construction fall under this promotion category and this sector is welcomed by banks when applying for finance.

At present, the Company's funds may not be sufficient to cover the financing needed in 2010 to complete the Beijing plant and the BOT projects, with more potentially larger size projects in the negotiation process. It is therefore necessary for the Company to consider applying for bank loans. Since the environmental protection industry has received strong support from central government, the Company is negotiating with various major banks to explore partnership potential in China. Management considers debt financing a feasible option which can help the Company leverage its capital with lower borrowing costs to maximize the return of shareholders.

### Financing

Up to the reporting date, the Company and its subsidiaries had not obtained any credit facilities and do not have any outstanding bank borrowing. However, with the expansion of the Group in BOT investments and operations in larger-scale incinerators, the Group may be obliged to apply for bank borrowing in 2009 in order to meet capital requirement when seeking projects offering good returns.

### Capital Expenditure

The Group delayed the pace of capital expenditure in 2008, due in part to the slowdown in construction of our Beijing manufacturing plant caused by the Olympic Games. Total capital expenditure of the Group in year 2008 amounted to €7.4 million (compared to €3.0 million in 2007). We believe capital expenditure will peak in 2009 with a series of budgets planned for the completion of our Beijing plants and the signed BOT projects. There will also be a significant amount of the budget that we may need to assign to future larger-size EMC projects – a focused direction of the Group in 2009.

### Liquidity

#### Cash position

Cash and cash equivalents amounted to €105.7 million in 2008, an increase of 26% from 2007. These funds will be invested in budgeted projects such as R&D, the expansion of production capacities, and investment in BOT projects at the plants in Beijing, Zhoukou, Feicheng, and other locations.

#### Cash flow

Net cash from operating activities increased by €10.9 million to €24.1 million in 2008, further confirming that ZhongDe's cash flow is very stable and continuing its strong growth.

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Net cash used for investment activities amounted to €5.4 million and represents the Company's continued investment in the Beijing plant and other BOT projects, including the projects to be completed and put into operation in 2009.

ZhongDe generated negative cash flow from financing activities of €2.0 million due to a dividend payout of €1.95 million. The cash flow from financing activities was positive in 2007 at €66.0 million, predominantly as a result of the proceeds from the IPO.

## Asset Position

### Property, plant and equipment, work in progress, and intangible assets

As a consequence of the expansion of business and production beginning in 2008, the Company's non-current assets amounted to €11.8 million which represents an increase of 243% compared to 2007.

To support the expansion of business, ZhongDe purchased management software in order to improve its overall management processes. This led to a 13% rise in intangible assets to €2.3 million in 2008.

The construction of the Beijing plant and the BOT projects in Zhoukou, Feicheng, Xinjiang, and Lianshui are well under way. We are continuously increasing the volume of construction in progress. In 2008, construction in progress rose to €7.5 million.

### Current assets

The sales volume increased by 47.8% year-on-year. Production and inventories rose at the same time, with inventories 57% higher at €4.1 million.

Accounts receivable rose from €14.2 million in 2007 to €15.4 million in 2008, an increase of 9%. Accounts receivable increased in proportion to the growth in income from sales. The Company collected receivables from customers in strict accordance with the terms stipulated in the contract. The accounts receivable recorded at year-end therefore conformed with expectations.

### Liabilities

Non-current liabilities represent the deferred tax liabilities derived from the recognition of profits from the Datong project, which are calculated according to the percentage-of-completion method.

Total current liabilities rose from €5.9 million in 2007 to €12.3 million in 2008. Current liabilities largely include trade and other payables and accruals. Other payables contain increased advances from customers, VAT payable and other. The accruals mainly represent the payroll payables.

### Equity

Equity increased from €98.6 million to €127.6 million year-on-year, predominantly as a result of the net profit of €22.4 million. Further, during the year, the renminbi gained against the euro. Since most of the Group's assets and operations are located and conducted in China, this resulted in a €8.1 million increase in the foreign currency adjustment item.

### Comments on acquisition and disposal of companies

No acquisitions or disposals were undertaken during the year under review. However, to invest and implement the construction of BOT projects, the company established four subsidiary companies in the PRC.

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## Summary of the Current Economic Position

The ZhongDe Group successfully launched its strategy to focus on municipal waste incinerator sales in 2008, which generated record revenues for the Group with high and stable margins, notwithstanding a decrease in medical sector sales. Overhead expenses were stable, and the increase in other operating expenses related to our status as a public company on the Prime Standard segment of the German Stock Exchange. However, most of these effects were offset by additional interest income from our IPO proceeds. With cash and cash equivalents of €105.7 million and an equity ratio of 91%, ZhongDe has a strong economic position.

## Compensation Report

For the fiscal year 2008, the members of the Management Board received the following fixed remuneration in excess of which they are not entitled to receive any further, particularly performance-based, remuneration:

in k€	
Mr. Zefeng Chen	17
Mrs. Na Lin	13

At the annual shareholders' meeting on July 22, 2008, the following remuneration was adopted for the members of the Supervisory Board:

For each complete calendar year the members of the Supervisory Board receive a basic remuneration of k€15. For less than a calendar year, the remuneration is paid pro rata temporis. The Chairman of the Supervisory Board receives four times the basic remuneration and the Deputy Chairman three times the basic remuneration. Each member of the Supervisory Board

receives an annual performance-related remuneration in the sum of €100 per cent of the profit per share reported in the respective annual consolidated financial statement of ZhongDe Waste Technology AG in addition to the basic remuneration, provided the profit per share exceeds €2.00. The cap for the performance-related remuneration is a profit per share of €3.50. For less than a calendar year, the performance-related remuneration is paid pro rata temporis.

In 2008, the members of the Supervisory Board received the following remuneration:

in k€	
Mr. Hans-Joachim Zwarg (Chairman)	71
Mr. Joachim Ronge (Deputy Chairman)	46
Mr. Hao Quan	20

## Risk Management

### Risk and Opportunity Management

Risks to the business of both an internal and external nature are identified regularly as part of risk management procedures with the aim of taking appropriate countermeasures as soon as possible.

Our business relies on solid experience, high product quality, and solid relationships with existing and potential clients. As the ZhongDe Group is still relatively small, top management is involved directly in all major projects and activities. To remain close to business developments, we regularly conduct gross margin analyses, detailed project accounting, order-entry controls, and monitor the progression of accounts receivable. Monthly financial reporting is a core tool in the management of our business.

As well as investing in BT and BOT projects, we are currently constructing new production facilities just outside Beijing. The ZhongDe Group remains conscious of the fact that these investments will require more detailed return-on-investment calculations and project management. To meet these requirements, we are recruiting additional personnel and highly qualified managers. An internal audit department has already been set up and has been working to support the necessary processes to create and safeguard shareholder values.

Furthermore, we have finished the process of establishing internal control systems and implementing improvements. As the ZhongDe Group has enjoyed sustained business growth from year to year, cash management will remain a high priority within the Group as a whole, and within individual companies. We are also currently developing an enhanced cash-forecasting system.

We will continue to invest in R&D as part of our ongoing commitment to manufacture state-of-the-art incinerators. Quality control will remain a high priority to guarantee our solid reputation.

As long as our business centers are on mainland China, there should be no currency effects on our operating business. However, as the ZhongDe Group will finance its activities in the near future, we will remain vigilant of currency effects when transferring money from Germany to China. Currency effects will have an impact on balance sheet translation differences rather than on the profit and loss statement.

During the IPO process, we conducted a detailed assessment of existing and potential risks to the ZhongDe Group, as outlined above. We are committed to communicating these risks openly within the Group, updating our assessment of developments and constantly improving planning and control systems to safeguard the high degree of transparency relating to all internal and external risks.

## General Economic Risks

The major risks to which the ZhongDe Group may be exposed in conjunction with its main Chinese business activities, include:

### Associated and Business Risks

Reductions in Chinese spending on waste management would pose a risk to sales. This could result from reductions in subsidies granted by the PRC government to customers served by the ZhongDe Group, since subsidy levels influence the propensity to buy medical-waste incinerators. Potential risks also include government bodies favoring domestically-owned suppliers. Risk-reducing activities to counteract any such moves include maintaining already strong ties with public bodies. We regularly communicate with various levels of government in China to improve the acceptance of our Company and products. In addition, we cultivate relations with key ministries in the central government, in particular the Ministry of Environmental Protection, the Ministry of Construction, and the National Development and Reform Commission. This raises their appreciation of our efforts to create a cleaner environment for China.

### Regulatory and Licensing Risks and Opportunities

Risks could arise if the ZhongDe Group were not able to maintain and/or obtain the necessary approvals and licenses from PRC authorities to carry out our business. It therefore remains essential to keep abreast of statutory developments, as an inability to cope with future legislation on environmental protection and solid-waste disposal could adversely affect the Group's business.

Our customers are also subject to environmental laws and regulations and this could pose risks if they demand recourse or compensation in the event of breaches of such laws or regulations.

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We have been communicating with key ministries in the central Chinese government as well as various levels of municipal governments. The government is highly appreciative of our products, innovations, and efforts to create a cleaner environment for China. We will continue to promote active relations with the government, and we are confident that it will provide increasing support since there is a growing trend towards environmental protection in China.

The ZhongDe Group's right to use intellectual property could expire or be subject to infringement claims. The PRC legal system and local taxation laws contain inherent uncertainties and inconsistencies; the tax status of the ZhongDe Group or tax legislation or its interpretation might change.

The Chinese legal system and tax laws are changing in favor of environmentally friendly companies. As an important enterprise in the environmental protection industry, our Company will continue to benefit from favorable tax policies in the future. We are in regular contact with the tax authorities to ensure that we maintain our favorable status.

#### Sales and Purchasing Risks and Opportunities

The Group's continued strong sales growth depends on its ability to secure new orders for the construction of solid-waste incinerators. The level of competition could intensify if new domestic or international suppliers enter the market.

We reduce the risk of losing contracts to competitors through the recruitment of professional sales and marketing staff, by reducing our long-term dependence on the Chinese market, and by building a dedicated international sales team.

Rises in purchasing costs or a decline in prices would pose a threat to the ZhongDe Group's profitability. The construction of solid-waste incinerators necessitates strong relationships with the suppliers of specialized components and materials.

We regularly evaluate our dependence on each source and the merits of alternative suppliers to maintain a solid and efficient supplier system while reducing costs.

#### Financial Risks and Other Risks and Opportunities

The strategy of implementing BOT projects exposes the ZhongDe Group to additional financial and operational risks.

ZhongDe Group revenues are generated primarily in RMB. Shifts in foreign currency exchange rates could pose financial disadvantages with a resulting negative impact on dividends. As a holding company, our liquidity depends on maintaining immediate access to liquid funds at the operating subsidiary in China. We will continue to pay close attention to currency effects when transferring money from Germany to China. Currency effects have an impact on balance sheet translation differences rather than on the income statement.

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SAFE (State Administration of Foreign Exchange) regulations relating to offshore investments by PRC residents or passport holders may adversely affect the ZhongDe Group's business operations and financing alternatives.

Undetected product defects may lead to increased costs, exposure to liability claims, and a negative impact on the market's acceptance of ZhongDe Group products and technologies.

The recruitment of skilled and experienced people in all areas of the business will remain central to our ongoing measures to enhance quality and standards. Nevertheless, human resource risks could arise from a loss of expertise caused by a fluctuation in qualified personnel, or from insufficiently qualified employees with a lack of commitment to service.

The establishment of the internal control system also helps us enhance quality and reduce defects. We will continue to improve the production control system in the interest of more efficient production and better products.

As the influence of the international financial crisis on the Chinese economy becomes increasingly clear, the Chinese government is likely to suspend or withdraw waste-incineration project construction due to the reduction in tax revenue, which will inevitably entail the risk of order reduction to ZhongDe.

Nevertheless, the Chinese government has launched an economic stimulus plan to counteract the negative effect of the global financial crisis. The stimulus plan includes huge investments in large and medium-size waste-to-energy plants, and our Company is shifting from small and medium-size incinerators to large and medium-size incinerators to take advantage of this opportunity. The progress of the construction of the waste-to-energy plant in Datong proves our competence in the production of large incinerators.

Most of the risks mentioned above relate to the general business environment in China. We are fully aware of these risks and will continue to observe developments in order to react immediately to any indications of changes that may affect future ZhongDe Group business. In view of long-term developments and expectations regarding incinerator production, sales, high profit margins and the strong demand in China for incineration plants in response to waste and pollution requirements, we regard the current level of risk facing the ZhongDe Group as low. Our incinerators already enjoy a good reputation due to the well-adapted, straightforward technology involved. Most of our customers are city-government related bodies who demonstrate a low risk of default. Following its IPO, the ZhongDe Group's equity levels have been high. Our high levels of liquidity provide a solid basis for expanding into the construction of complete waste incineration plants, either in conjunction with BT projects (build-transfer) or BOT projects (build-own-transfer, whereby the ZhongDe Group also operates the plant).

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## Subsequent Events

On 23 January, 2009, the ZhongDe Group signed a contract with Zhucheng Baoyuan New Energy Power Generation Co., Ltd. for the construction of a 500 tons / day waste incinerator plant with electricity generation. The total contract volume amounts to approximately €30 million. ZhongDe expects to complete the project by the end of 2010. This contract is accounted for using the percentage-of-completion method, which means that the Zhucheng project will contribute to the revenues and earnings of 2009 and 2010. This is another large engineering, procurement and construction project (EPC project) after the Datong project.

On 3 February, 2009, the ZhongDe Group signed a strategic cooperation agreement with Genesis Energy Holdings Limited. This agreement will be valid for three years. Genesis Energy Holdings Limited, as the investor and operator, is in charge of investing in and financing waste-to-energy projects. ZhongDe, as the general contractor, is responsible for the design, procurement, installation and construction of these projects. Both parties will work together and will use their resources in an optimum way to analyze and implement projects during their strategic cooperation. ZhongDe will use this strategic cooperation to open further doors for generating new project business.

On 17 March, 2009, Mr. Zefeng Chen terminated the securities lending agreement and recovered the 112,319 shares of ZhongDe Waste Technology AG issued on September 18, 2008.

On 20 April 2009, ZhongDe Group has signed two binding agreements for two BOT projects (Build, Operate, Transfer) in Kunming, Yunnan province of PRC, and Xianning, Hubei province of PRC. The daily waste disposal capacity of Kunming project is 700 tons in its first phase and 1,050 tons in the second phase. The Xianning project has a daily waste disposal capacity of 500 tons in its first and 1,000 tons in the second phase. Both

Kunming and Xianning project guarantee stable cash inflows from electricity sales.

Kunming is the capital city of Yunnan province with approximately 6.02 million inhabitants, Xianning is a city with 2.86 million inhabitants located in the southeast of Hubei province. Both project agreements comprise the construction and operation of a large-size municipal waste incinerator with electric power generation, adopting the grate furnace incineration technology. After the contracted operating time, the Cities of Kunming and Xianning will take over the plants. The investment volume for each project amounts to approximately RMB 400 million (€44.50 million, €1 = 8.9884 RMB), and the concession period is 30 years. 50% – 70% of the total investment will be debt financed from banks.

The Kunming waste disposal fee is RMB 81 (€9.01, €1 = RMB 8.9884) per ton, the waste disposal fee of Xianning project is RMB 65 (€7.23, €1 = RMB 8.9884) per ton. Fees will be paid on a monthly basis by the respective local municipalities in charge and adjusted to the inflation index on an annual basis. With these two agreements, ZhongDe will replace the previous Xinjiang project and Lianshui project due to better returns on investment.

## Outlook

With the promotion and enforcement of a waste treatment improvement policy, we foresee a surge in demand for large and medium sized incinerators. In order to defend our market position, ZhongDe will utilize the advantage of its own technology and gradually shift its focus to large and medium-sized incinerators with electricity generation. The new plant in

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Beijing will increase ZhongDe's production capacity and enable ZhongDe to fully benefit from China's growing waste market and to continue to generate outstanding growth.

With its ongoing progress in technology, ZhongDe is now capable of not only manufacturing large scale incinerators but also of building complete incineration plants with electricity generation. After the Datong project, ZhongDe signed another large engineering, procurement and construction project (EPC project) in Zhucheng at the beginning of 2009. ZhongDe expects that the Zhucheng project will contribute to the revenues and earnings of 2009 and 2010. This is a milestone in the development of ZhongDe's technology and products.

The upgrade and improvement of manufacturing equipment greatly improves our production capacity. The company has successfully applied for several international patents for waste incineration technology, such as double-loop pyrolysis and the municipal waste-gasification / power-generation system.

The establishment of a postdoctoral research station within the company and collaboration with other leading institutions will serve as an important stepping stone to enhance technological capabilities and maintain a strong strategic focus on sustained growth. Several senior engineers in waste incineration technology development will join the Company to improve its capability in Research & Development and thus maintain its technological leadership.

As demand for waste disposal grows rapidly in developing countries, the company is in an ideal position to capture potential growth in this market. The company has been exploring overseas markets actively and is seeking various business cooperation models. Several overseas waste disposal projects with capacity ranging from 10 to 1,000 tons are in the negotiation and

preparation stage. They include projects in Turkey, Vietnam, Malaysia, and Nigeria.

The global financial crisis started affect China in 2008. The slowing of the economy limited the investment activities of businesses in China. It also impacted Chinese banks, putting even greater pressure on the credit market as a whole. The Olympic Games in the second half of 2008 nearly brought the conclusion of infrastructure projects to a standstill in the first three quarters of the year. All of these factors led to the postponement or reduction of investments in waste incineration projects. Finally, in the last quarter of 2008, when the Chinese government took measures to promote bank borrowing and direct investments in the environmental protection industry, activities related to sizeable waste incineration projects resumed and reached a record high level.

For 2009 and 2010 we are confident that we will receive more orders for scalable municipal waste incinerators in various provinces in China. Although these orders may take time to conclude and it will take more than a year to feel their effect, we still have ambitious targets for the future. We expect that the orders received in 2009 will yield impressive results in the years to come. To fulfill our goal of becoming one of the largest waste incinerator developers in China within the next few years, we need to expand our focus to include both small incinerators and power generating incinerators. Our strategic shift to larger projects will significantly contribute to company growth, but will also have a negative impact on the gross margin. We realize that the future has plenty of risks and challenges in store, that plans might have to be adjusted and that the current market environment makes reliable forecasts very difficult. However, we believe that our strong R&D team, sales network, and strong brand will make us leaders in the Chinese waste incineration market.

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## Statements and report pursuant to sec. 289 para 4, 315 para 4 HGB (German Commercial Code)

### Subscribed capital

The share capital of the ZhongDe Waste Technology AG amounts to €13,000,000.00 and is divided into 13,000,000 no par value bearer shares with a notional amount of €1,00 each.

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

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

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

Pursuant to section 15a of the German Securities Trading Act (WpHG), the members of the Company's Management Board and Supervisory Board shall immediately report to the Company any purchase or sale of shares in ZhongDe Waste Technology AG by members of these boards. Mr. Zefeng Chen, Fuzhou, Fujian, PRC, in accordance with section 21 para 1a WpHG announced to us that his share of voting rights in the Company amounted to 52.33% or 6,803,200 shares as of 5 July, 2007, the day of initial listing of the shares. As of 12 July, 2007 Mr. Zefeng Chen sold 200,000 shares, bringing his share of voting rights to 50.79% or 6,603,200 shares. On 29 July, 2008, he purchased on the Frankfurt Stock Exchange 9,120 shares at a price of €22.92 and

on September 18, 2009 loaned 112,319 shares in a securities lending agreement. As of 31 December, 2008, Mr. Chen holds 50.00% of the voting rights or 6,500,001 shares.

### Appointment and Dismissal of Management Board Members

The Management Board of ZhongDe Waste Technology AG currently comprises two members appointed by the Supervisory Board pursuant to § 84 German Stock Corporation Act (AktG) for a period not exceeding five years in each case.

Any extension of the term of office requires a Supervisory Board resolution and may be adopted no earlier than one year prior to expiry of the current term of office. In urgent cases, the Local Court (Amtsgericht) may appoint a missing and required Management Board member upon application by any person with interests meriting protection (e.g. other Management Board members) (§ 85 AktG). This office would, however, then be terminated as soon as the deficiency could be rectified, e.g. as soon as the Supervisory Board has appointed a missing Management Board member. Dismissal of a Management Board member is permissible only with good cause (§ 84 section 3 sentences 1 and 3 AktG). Good cause includes gross negligence of duties, inability to duly perform duties or revocation of confidence by the Annual General Meeting, unless confidence was revoked for obvious unobjective reasons. Pursuant to sec. 8 para 2 of the articles of association of ZhongDe Waste Technology AG, the Supervisory Board may appoint a Chairman as well as a Deputy Chairman of the Management Board. ZhongDe Waste Technology AG currently has a Chairman and a Deputy Chairman of the Management Board.

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## Amendments of the articles of association

The articles of association can only be amended by a resolution of the general shareholders' meeting according to sec. 179 AktG (German Stock Corporation Act). Beside this the Supervisory Board is pursuant to sec. 18 para. 3 of the articles of association entitled to make changes to the articles of association, provided that these changes only concern the wording or form.

## Authority of Management Board to Issue Shares

The Management Board is authorised to increase the share capital of the Company with the consent of the supervisory board until 22 July 2013 once or several times by up to €6.500.000,00 by issue of up to 6,500,000 new bearer shares no par value in consideration of contributions in cash or in kind (Authorised Capital 2008). In each case ordinary shares and/or preference shares may be issued. The Management Board is further authorised, in each case with the consent of the supervisory board, to provide that the pre-emption-right of the shareholders is excluded.

Hamburg, 23 April 2009

The Management Board

Zefeng Chen  
Chairman

Na Lin  
CFO

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## Financial Statements

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in k€	Note	31 Dec 2008	31 Dec 2007
<b>Liabilities and Equity</b>			
<i>Capital and Reserves</i>			
Share capital	1, 15	13,000	13,000
Capital reserves	15	69,822	69,422
Statutory reserves	15	6,348	3,657
Retained earnings	15	32,002	14,213
Foreign exchange difference	2.3	6,434	(1,664)
<b>Total equity</b>		<b>127,606</b>	<b>98,628</b>
<i>Liabilities</i>			
<b>Long-term liabilities</b>			
Deferred tax liabilities		189	0
		<b>189</b>	<b>0</b>
<b>Current liabilities</b>			
Trade payables	2.10, 17, 23	4,353	1,235
Other payables and accruals	2.10, 17, 23	6,809	3,903
Provisions	2.2, 2.11, 18, 23	830	655
Amounts due to related parties	17, 22, 23	199	75
Income tax payable	2.17, 23	82	40
		<b>12,273</b>	<b>5,908</b>
<b>Total liabilities and equity</b>		<b>140,068</b>	<b>104,536</b>

# Consolidated Statement of Cash Flow

of ZhongDe Waste Technology AG as of 31 December 2008

in k€	2008	2007
<b>Profit before income tax</b>	<b>22,810</b>	<b>19,517</b>
<i>Adjustments for:</i>		
Amortization of intangible assets	45	8
Allowance for doubtful trade debts	(21)	70
Provision for warranty	40	346
Depreciation of property, plant and equipment	219	66
Gains/losses PPE	6	0
Interest income	(3,820)	(933)
Exchange difference / Interest expense	1,439	28
<b>Operating cash flows before working capital changes</b>	<b>20,718</b>	<b>19,102</b>
<i>Working capital changes:</i>		
<b>(Increase)/decrease in:</b>		
Inventories	(1,481)	(1,843)
Trade receivables	(1,222)	(9,306)
Other receivables and prepayments	(2,531)	(405)
Amounts due from related parties	(2)	1,408
<b>Increase / (decrease) in:</b>		
Trade payables	3,118	791
Other payables, provisions and accruals	3,040	3,268
Amounts due to related parties	124	0
<b>Cash generated from / (used in) operations</b>	<b>21,764</b>	<b>13,015</b>
Interest received	3,820	933
Exchange difference / Interest expense	(1,439)	(28)
Income tax paid	(47)	(765)
<b>Net cash generated from operating activities</b>	<b>24,098</b>	<b>13,155</b>
<i>Cash flow from investing activities</i>		
Payments in connection with the short-term financial management of cash investments	(8,200)	(5,000)
Receipts in connection with the short-term financial management of cash investments	10,200	0
Purchase property, plant, equipment, intangible assets, land use rights	(7,379)	(2,954)
<b>Cash flow used in investing activities</b>	<b>(5,379)</b>	<b>(7,954)</b>

in k€	2008	2007
<b>Cash flow from financing activities</b>		
Dividend paid	(1,950)	0
Capital increase	0	3,000
Proceeds from IPO, gross	0	75,000
IPO-costs (charged to equity)	0	(6,278)
Short-term bank loans	0	(681)
Loans from related parties	0	(5,040)
Loans given to related parties		
<b>Cash flow from financing activities</b>	<b>(1,950)</b>	<b>66,001</b>
<i>Net increase in cash and cash equivalents</i>	16,769	71,202
Cash at beginning of year	78,827	9,198
Exchange differences	7,144	(1,573)
<b>Cash at end of period</b>	<b>102,740</b>	<b>78,827</b>
Cash at end of period	102,740	78,827
Short-term financial management of cash investments	3,000	5,000
<b>Cash and cash equivalents (balance sheet)</b>	<b>105,740</b>	<b>83,827</b>

# Consolidated Statement of Income and Expense

for the period from 1 January to 31 December 2008

in k€	Note	2008	2007
Sales	2.13, 3	46,007	31,133
Cost of sales		18,914	9,496
<b>Gross Profit</b>		<b>27,093</b>	<b>21,637</b>
Other operating income		65	3
Selling and distribution expenses		1,938	1,238
Administrative expenses		1,479	681
Research and development expenses	2.4	494	265
Other operating expenses		2,818	844
<b>Profit from operations</b>		<b>20,429</b>	<b>18,612</b>
Finance income	2.13, 7	3,820	933
Finance costs	2.15, 8	1,439	28
<b>Profit before income tax</b>		<b>22,810</b>	<b>19,517</b>
Income tax	2.17, 19	(380)	(458)
<b>Profit for the period</b>		<b>22,430</b>	<b>19,059</b>
Earnings per share (diluted and undiluted) (in €)		1.73*	1.47*

\* Computed on the basis of 13,000,000 shares

## Statement of recognized income and expense

for the period from 1 January to 31 December 2008

in k€	2008	2007
Foreign exchange differences recognized directly in equity	8,098	(1,675)
Total changes recognized directly in equity	8,098	(1,675)
<b>Net income</b>	<b>22,430</b>	<b>19,059</b>
<b>Total recognized income and expense</b>	<b>30,528</b>	<b>17,384</b>

# Notes to the financial statements

## Consolidated Statement of Changes in Equity

for the period from 1 January to 31 December 2008

in k€	Share capital AG	Share capital HK Holding	Share capital FengQuan	Capital Reserves / Other reserves	Retained earnings	Foreign exchange differences	Total equity
Balance as of 1 January 2007	0	0	2,774	1,766	4,272	10	8,822
Reclassification	10,000	-	(2,774)	-	(7,226)	-	0
Capital injection at parent company	3,000	-	-	-	-	-	3,000
Capital injection at subsidiary	-	15,000	15,000	-	-	-	30,000
Consolidation	-	(15,000)	(15,000)	-	-	-	(30,000)
Net profit for the period	-	-	-	-	19,058	-	19,058
Appropriations of current year's income	-	-	-	1,891	(1,891)	-	0
Proceeds from IPO, gross	-	-	-	75,000	-	-	75,000
Charging IPO costs directly to equity	-	-	-	(6,278)	-	-	(6,278)
Deferred taxes on IPO expenses	-	-	-	700	-	-	700
Foreign exchange differences	-	-	-	-	-	(1,675)	(1,675)
<b>Balance as at 1 January 2008</b>	<b>13,000</b>	<b>0</b>	<b>0</b>	<b>73,078</b>	<b>14,213</b>	<b>(1,664)</b>	<b>98,628</b>
Net profit for the period	-	-	-	-	22,430	-	22,430
Appropriations of current year's income	-	-	-	2,692	(2,692)	-	0
Dividend paid for the year 2007	-	-	-	-	(1,950)	-	(1,950)
Deferred taxes on IPO expenses	-	-	-	400	-	-	400
Foreign exchange differences	-	-	-	-	-	8,098	8,099
<b>Balance as at 31 December 2008</b>	<b>13,000</b>	<b>0</b>	<b>0</b>	<b>76,170</b>	<b>32,002</b>	<b>6,434</b>	<b>127,606</b>

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## | 1 | Background and Basis of Preparation

### | 1.1 | The Company

#### Formation, Business Name, Registered Office, Financial Year and Term of the Company

ZhongDe Waste Technology AG (“the Company”) has been formed by means of a notarial deed of incorporation (Gründungsurkunde), dated 4 May 2007. The business name (Firma) of the Company is “ZhongDe Waste Technology AG”. The Company is registered under the registration number HRB 101376 in Hamburg. The legal domicile (Sitz) of the Company is Hamburg, Germany, and the Company’s business address is Stadthausbrücke 1–3, 20355 Hamburg, Germany. The Company’s financial year (Geschäftsjahr) is the calendar year (i. e. 1 January to 31 December). The duration of the Company (Dauer der Gesellschaft) is unlimited.

#### Business purpose of the Company

The Company’s purpose (Unternehmensgegenstand) is the holding, administration and disposal of direct and indirect participations of undertakings and participations in the waste disposal business, particularly waste incineration and waste management, including all transactions related thereto and services for affiliated entities. According to section 2, para. 2 of the Articles of Association, the Company is entitled to conduct all measures and business transactions which it deems necessary and useful for the implementation of the purpose of the Company. In particular, it may for this purpose establish branches in the country where it has its seat. Abroad, it may establish or acquire companies of the same or similar type, or acquire an interest in such companies, demerge parts of its business to subsidiaries and associated companies, including joint ventures with third parties, sell interests in other companies, conclude enterprise agreements, or limit itself to the management of shareholdings.

#### Group structure and recent corporate restructuring of the ZhongDe Group

The operational business of the ZhongDe Group has been mainly carried out by FengQuan, a limited liability company formed under the laws of the PRC.

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All subsidiaries of ZhongDe Waste Technology AG are consolidated. In summary:

in k€	Anteil	Equity 31 Dec 2008	Results 2008
Chung Hua Environmental Protection Assets (Holdings) Group Ltd., Hong Kong	100%	31,317	3,150
Fujian FengQuan Environmental Protection Holding Ltd., Fuzhou, VR China	100%	67,790	26,864
Beijing ZhongDe Environmental Protection Technology Co. Ltd., Beijing, VR China	100%	2,449	(522)
Lianshui FengQuan Waste Disposal Co., Ltd., Lianshui, VR China	100%	1,031	(21)
Xinjiang FengQuan Waste Disposal Co., Ltd., Xinjiang, VR China	100%	1,008	(42)
Feicheng FengQuan Waste Disposal Co., Ltd., Feicheng, VR China	100%	1,027	(25)
Zhoukou FengQuan Environmental Protection Electric Power Co., Ltd., Zhoukou, VR China	100%	6,177	(131)

The number of consolidated subsidiaries has increased compared to last year. Fujian FengQuan Environmental Protection Holding Ltd., has established four subsidiaries for the execution of BOT projects, which are included in the consolidated financial statement for the first time in 2008. However there is no effect on the consolidated financial statements.

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

Cash transfers from China to countries outside China require a formal approval from the State Administration of Foreign Exchange (“SAFE”).

## | 1.2 | Basis of Preparation

The consolidated financial information, especially with regard to the previous year, has been presented as if ZhongDe Waste Technology AG (the Company) already existed over the whole period in order to have comparable figures. The acquisitions of the sub “Business Combination” of ZhongDe Waste Technology AG, which have to be regarded as “transactions under common control”, have been accounted in accordance with the principles of reverse acquisition accounting, on the basis that the former majority shareholders of the subsidiaries retain effective control of the Group. Consolidation measures are essentially related to equity elements in the balance sheet and do not materially effect the equity total. No goodwill arose in respect of the acquisitions.

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The business is mainly driven Fujian FengQuan Environmental Protection Equipment Co. Ltd. and its subsidiaries whereas ZhongDe Waste Technology and Chung Hua Environmental Protection Assets (Holdings) Group Ltd. assume holding functions.

The present financial statements have been prepared in accordance with the provisions of the International Financial Reporting Standards (IFRSs) and /or International Accounting Standards (IAS) as adopted by the International Standards Board (IASB) and the EU along with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) with consideration to the principle of reverse acquisition.

The consolidated financial statements were generally prepared using the historical cost convention. The consolidated income statement was prepared using the cost of sales method. Individual line items have been summarised in the income statement and the balance sheet to aid clarification of the presentation. These items are disclosed and explained separately in the notes.

The accounting policies correspond generally to those applied in the previous year. The Group did not exercise any options to apply Standards and Interpretations prior to their effective date. Changes of accounting regulations or new accounting regulations which became effective 2008 do not relate to the Group or are without any material effect.

The amounts are reflected in rounded thousand Euro if not otherwise stated.

## | 2 | Significant Accounting Policies

### | 2.1 | Basis of Consolidation

A subsidiary is a company controlled by the Company. Control is achieved when the Company has the power, directly or indirectly, to govern the financial and operating policies of the company so as to acquire benefit from its activities (Control Principle). Investment in a subsidiary, if any, is stated in the Company's balance sheet at cost less any impairment losses.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The consolidation is based on the assumption that the Company oversees all reporting periods as the parent company in the previous year.

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

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All inter-group balances, transactions, income, expenses, inter-group transactions are fully eliminated. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases.

Acquisitions of subsidiaries, if any, are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus cost directly attributable to the acquisition. Identified assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest.

Any excess of the cost of the business combination over the Group's interest in the net fair value of the identified assets, liabilities and contingent liabilities represents goodwill.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of business combination, is recognised in the income statement on the date of acquisition.

## **| 2.2 | Significant Accounting Estimates and Judgements**

The preparation of financial statements in accordance with the IFRSs as adopted by EU requires management to exercise judgement in the process of applying the Group's accounting policies. And it requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period.

The following estimates, which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are disclosed below:

### **a) Allowance for trade receivables**

Trade receivables are recorded at the invoiced amount and do not bear interest. The allowance for doubtful receivables is the Group's best estimate of the amount of probable credit losses in the Group's existing accounts receivables.

Management uses judgement to determine the allowance for doubtful receivables which are supported by the historical write-off credit history of the customers and repayment records.

The Group reviews its allowance for doubtful receivables at least monthly. Accounts balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Actual results could differ from estimates.

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The carrying amount of allowance for doubtful receivables is k€ 445.

#### b) Depreciation of equipment

The cost of equipment used for the manufacturing process is depreciated on a straight-line basis over its estimated useful life. The management estimates the useful life of these plants and equipment to be between five and ten years, common life expectations in the machine manufacturing industry. The carrying amount of the Group's equipment at 31 December 2008 were k€1,298. Changes in the expected level of usage and technological developments could affect the economic useful life and the residual value of these assets, therefore, future depreciation charges could be revised.

Although these estimates are based on management's best knowledge of current events and actions, the difference between the actual results and the estimates can not be excluded.

#### c) Provision for warranty

Assumptions used to calculate the provision for warranties were based on current sales levels and current information available on returns based on the one-year warranty period for all products sold. It is expected most of these costs will be incurred one year after the balance sheet date.

The carrying amount for provisions is k€346.

Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from these estimates.

### | 2.3 | Functional and Presentation Currency

#### a) Functional currency

The directors have determined the currency of the primary economic environment in which the Group operates to be Renminbi (RMB). Sales and major costs of providing goods and services, including major operating expenses are primarily influenced by fluctuations in RMB.

#### b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the combined entities and are recorded, on initial recognition, in the functional currencies at the approximate exchange rates current as at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange current at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values are determined.

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Exchange differences arising from the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in the income statement except for exchange differences arising on monetary items that form part of the Group's net investment in foreign subsidiaries. These are recognised initially in a separate component of equity as foreign currency translation reserve in the consolidated balance sheet and recognised in the consolidated income statement on disposal of the subsidiary.

### c) Foreign currency translation

The presentation currency of the Group is Euro. The results and financial position of the combined entities which are in measurement currency other than Euro are translated from RMB (or HKD) into Euro as follows:

	2008	2007
Year end	9.4956	10.7524
Average	10.2236	10.4178

HKD 1 = RMB 0.8818 (2007: 0.9431)

The results and financial position of foreign operations are translated using the following procedures:

Assets and liabilities for each balance sheet are presented at the closing rate ruling at the balance sheet date. Income and expenses for income statements are translated at annual average exchange rates, which is approximate to the exchange rates at the date of transactions.

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

## | 2.4 | Intangible Assets

### a) Land use rights

The subsidiary in Beijing acquired land use rights in connection with the construction of new manufacturing facilities. The land use rights are amortised over the agreed period of use of 50 years.

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### b) Financial software

Acquired financial software is capitalised on the basis of cost incurred to acquire and bring it to the intended condition of use. Direct expenditure, which can enhance or extend the performance of the software and which can be measured reliably, is recognised as a capital improvement and added to the original cost of the software. Costs associated with maintaining the software are recognised as expense as incurred.

Financial software is stated at cost less accumulated amortisation and any impairment losses. The costs are amortised using a straight line method over its estimated useful life of ten years. Amortisation has been charged to cost of sales and administrative / other expenses.

### c) Research and development costs

Research costs, if any, are expensed in the period in which they incur. An intangible asset arising from development expenditure on an individual project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell off the asset, how the asset will generate future economic benefits, the ability of resources to complete and the ability to reliably measure the expenditure during the development.

## | 2.5 | Equipment

Equipment is recorded at historic cost, less accumulated depreciation and any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying amount.

Equipment in the course of construction for production or administrative purposes is carried at cost, less any recognised impairment loss. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the costs of the assets over their estimated useful lives, using the straight-line method, as follows:

Machinery, equipment	10 years
Cars	5 years
Electronic equipment, fixtures and fittings	5 – 10 years

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The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The gain or loss arising from the disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

## | 2.6 | Impairment of Non-financial Assets

At each reporting date the Group assesses whether there is an indication that an asset may be impaired. If any such indication exists, or an annual impairment test for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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 risk specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

As assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses recognised for an asset other than goodwill may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss is recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount can not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in previous years. Reversal of an impairment loss is recognised in the income statement. After such a reversal, the depreciation charge is adjusted for future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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## | 2.7 | Cash and Cash Equivalents

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

## | 2.8 | Trade and Other Receivables

Trade and other receivables are recognised and carried at the original amount less an allowance for any uncollectible amounts. Bad debts are written off when identified.

## | 2.9 | Inventories

Inventories are valued at acquisition and production costs or the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition is accounted for as follows:

Raw materials	Purchase cost on a weighted average basis
Finished goods and work-in-process	Costs of direct materials and labor and a proportion of manufacture overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

## | 2.10 | Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement entered into. Significant financial liabilities include trade and other payables and advanced payments.

Trade, other payables, as well as advanced payments are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received. Gains and losses are recognised in the income statement when the payment of the liabilities is identified as needless. All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

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## | 2.11 | Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

If the provisions are long term related, they are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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

## | 2.12 | Operating Lease

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

## | 2.13 | Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

### a) Sales of goods

Revenue is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, which generally coincides with delivery and acceptance of the goods sold. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

### b) Rendering service

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

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### c) Interest income

Interest income is accrued on a time proportionate basis, by reference to the principal outstanding and at the interest rate applicable, on an effective yield basis.

### | 2.14 | Pension Scheme

The Group participates in national pension schemes as defined by the laws of the country in which it has operations. Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

### | 2.15 | Interest Bearing Loans

If any loan and borrowing are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

### | 2.16 | Derecognition of Financial Assets and Liabilities

#### a) Financial assets, if any

A financial asset is derecognized where:

- the contractual rights to receive cash flows from the assets have expired;
- the Group retains the contractual rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

#### b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

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

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## | 2.17 | Taxation

Income tax for the financial year comprises current and deferred tax. Income tax is recognised in the income statement except for the extent that relates to items recognised directly in equity.

Current tax assets and liabilities for the current and prior period are measured by the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to calculate the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is accounted for using the liability method. This is based on temporary differences, as at the balance sheet date, between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes.

Deferred tax liabilities, if any, are recognized for taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associated companies and interests in joint ventures, where the timing of the reverse of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carried forward unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carried-forward unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
  - in respect of deductible temporary differences associated with investment in subsidiaries, associated companies and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.
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Deferred income tax assets and liabilities, if any, are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities, if any, are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to income taxes levied by the same tax authority.

The carrying amount of deferred income tax assets is revised at each balance sheet date 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 deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

### | 3 | Revenues

Sale of goods represents the invoiced amount of delivered goods net of discounts, returns and valued added tax. All intra-group transactions are excluded from the revenue of the consolidated group.

### | 4 | Percentage-of-Completion

In 2008, construction contracts were reported using the percentage of completion method (PoC-method) for the first time. The stage of completion is determinate by the ratio of costs incurred compared to the expected total costs (cost-to-cost-method). The contracts are disclosed under receivables from PoC or in the case of anticipated losses under payables from PoC. If payments exceed the cumulative contract output, the construction contract is disclosed under payables.

Sales of k€46,007 include an order income of k€8,901 from ongoing production orders identified with the PoC-method. The accumulated costs of sales for these orders are k€7,495, the accumulated gross profit is k€1,406.

Since the advanced payments of k€11,482 exceed the receivables from PoC k€9,584, the resulting amount of k€1,898 is disclosed under other payables and accruals.

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The receivables from PoC (k€9,584) differ from the revenues from PoC (k€8,901) in the amount of k€ 682 due to different translation of assets and revenues from the functional currency RMB into the reporting currency EUR. The difference is charged to equity (foreign exchange difference) and does not effect profit and loss.

## | 5 | Segment Analysis

### Segment Information

The primary segment reporting format is determined to be business segment as the Group's risks and rates of return are affected predominantly by differences in the products. The operating business is reported separately according to the nature of the products, with each representing a strategic business unit that offers different products.

#### a) Business segment

The Group's operating businesses are organized into three business segments, namely incinerator special for disposal of urban municipal waste, incinerator special for disposal of medical waste and EPC-projects (Engineering Procurement and Construction).

#### b) Geographical business

The Group is principally engaged in design and manufacture of various incinerators in People's Republic of China ("PRC") and all of its customers are based in PRC. In addition, all identifiable assets of the Group are principally located in the PRC. Accordingly, no geographical segment analysis is presented.

#### c) Allocation basis

Revenue and cost of sales are directly attributable to the segments. Other operating expenses and income are allocated to the segments on a reasonable basis.

Segment assets, liabilities and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly the items which can not be allocated reasonably.

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Inter-segment sales are eliminated on consolidation.

The following table presents revenue and results information regarding the Group's business segments for the financial year end 31 December 2008:

### Business Segments

Revenue in k€	2008	2007
<b>Unallocated expenses</b>		
Incinerator special for disposal of medical waste	2,221	9,441
Incinerator special for disposal of urban household waste	34,885	21,692
EPC project business	8,901	0
	46,007	31,133
<b>Results</b>		
Incinerator special for disposal of medical waste	1,800	7,329
Incinerator special for disposal of urban household waste	23,886	14,309
EPC project business	1,406	0
Unallocated income	3,885	961
Unallocated expenses	(8,168)	(3,082)
<b>Profit from operations before tax</b>	<b>22,810</b>	<b>19,517</b>
Income tax	(380)	(458)
<b>Profit for the year</b>	<b>22,430</b>	<b>19,059</b>

The following table presents certain assets, liabilities and other information regarding the Group's segments for the year ended 31 December 2008:

Assets and liabilities in k€	31 Dec 2008	31 Dec 2007
<b>Segment assets</b>		
Incinerator special for disposal of urban household waste	16,714	13,031
Incinerator special for disposal of medical waste	1,713	3,742
EPC Project	1,578	0
Unallocated assets	120,063	87,764
<b>Total assets</b>	<b>140,068</b>	<b>104,536</b>
<b>Segment liabilities</b>		
Incinerator special for disposal of urban household waste	2,033	3,713
Incinerator special for disposal of medical waste	0	82
EPC Project	3,420	0
Unallocated liabilities	7,009	2,113
<b>Total liabilities</b>	<b>12,462</b>	<b>5,908</b>
Investments in fixed assets	7,341	833
Investments in intangible assets	38	2,121
Depreciation and amortisation	264	74

Unallocated assets mainly represent cash (k€105,740 (2007: k€83,827)), and deferred taxes (k€659 (2007: k€360)).

## | 6 | Expenses

in k€	2008	2007
Depreciation of property plant and equipment	219	66
Staff costs	1,680	986
Amortization of intangible assets	45	8
Allowance for doubtful trade debts	(21)	36
Costs of sales	18,914	9,496

## |7| Finance Income

in k€	2008	2007
Interest income	2,739	933
Exchange gains	1,081	0
	<b>3,820</b>	<b>933</b>

## |8| Finance Costs

in k€	2008	2007
Bank charges	2	1
Exchange losses	1,375	0
Interest expense	62	27
	<b>1,439</b>	<b>28</b>

## |9| Intangible Assets

in k€	Software	Trademark	Land use right	Total
<b>Costs</b>				
31 December 2007	10	2	2,046	2,058
Additions	23	15	0	38
Exchange difference	3	1	271	275
<b>31 December 2008</b>	<b>36</b>	<b>18</b>	<b>2,317</b>	<b>2,371</b>
<b>Accumulated amortization and impairment</b>				
31 December 2007	1	0	7	8
Amortization	2	0	43	45
Exchange difference	0	0	4	4
<b>31 December 2008</b>	<b>3</b>	<b>0</b>	<b>54</b>	<b>57</b>
<b>Net carrying amount</b>				
31 December 2007	9	2	2,039	2,050
<b>31 December 2008</b>	<b>33</b>	<b>18</b>	<b>2,263</b>	<b>2,314</b>
Exchange difference	3	1	267	271

in k€	Software	Trademark	Land use right	Total
<b>Costs</b>				
at 31 December 2006	4	0	0	4
Additions	7	2	2,112	2,121
Exchange difference	(1)	(0)	(66)	(67)
<b>at 31 December 2007</b>	<b>10</b>	<b>2</b>	<b>2,046</b>	<b>2,058</b>
<b>Accumulated amortization and impairment</b>				
at 31 December 2006	1	0	0	1
Amortization	0	0	7	7
Exchange difference	0	0	0	(0)
<b>at 31 December 2007</b>	<b>1</b>	<b>0</b>	<b>7</b>	<b>8</b>
<b>Net carrying amount</b>				
at 31 December 2007	9	2	2,039	2,050
Exchange difference	(1)	0	(66)	(66)

The following important intangible assets are being used by the Group free of charge and were not disclosed on the consolidated balance sheet:

- Mr. Zefeng Chen is owner of the entire intellectual property rights necessary for production. These intellectual property rights have been exclusively licensed to Fujian FengQuan Environmental Protection Equipment Co., Ltd. for research and production purposes in an agreement dated 25 July 2006.
- This also applies to the brand of which Fujian FengQuan Environmental Protection Group Co., Ltd. is the economic owner. By way of an agreement dated 25 July 2006, Mr. Chen irrevocably and free of charge grants Fujian FengQuan Environmental Protection Group Co., Ltd. the exclusive right of use of the brand for the entire protection period of the intellectual property rights.

The land use rights refer to the Beijing subsidiary which is obligated to invest, over a time period of five years, a total sum of RMB 300 million (€31.6 million) in non-current assets in order to achieve total annual sales of RMB 1.2 billion (€126.4 million) and an annual income tax volume of RMB 100 million (€10.5 million). If these targets are not met, the ZhongDe Group is obligated to pay a penalty of up to TRMB 110 (k€11.6).

## |10| Equipment

in k€	Machine equipment	Vehicle	Electronic equipment	Total
<b>Costs</b>				
at 31 December 2007	399	596	108	1,103
Additions	97	286	115	498
Disposals	12	0	1	13
Exchange difference	59	101	23	183
<b>at 31 December 2008</b>	<b>543</b>	<b>983</b>	<b>245</b>	<b>1,771</b>
<b>Accumulated depreciation</b>				
at 31 December 2007	164	17	35	216
Depreciation changed for the year	43	144	32	219
Disposals	7	0	0	7
Exchange difference	24	13	8	45
<b>at 31 December 2008</b>	<b>224</b>	<b>174</b>	<b>75</b>	<b>473</b>
<b>Net carrying amount</b>				
at 31 December 2007	235	579	73	887
<b>at 31 December 2008</b>	<b>319</b>	<b>809</b>	<b>170</b>	<b>1,298</b>
Exchange difference	35	88	15	138

in k€	Machine equipment	Vehicle	Electronic equipment	<b>Total</b>
<b>Costs</b>				
at 31 December 2006	418	0	48	466
Additions	0	615	65	680
Disposals	0	0	0	0
Exchange difference	(19)	(19)	(5)	(43)
<b>at 31 December 2007</b>	<b>399</b>	<b>596</b>	<b>108</b>	<b>1,103</b>
<b>Accumulated depreciation</b>				
at 31 December 2006	132	0	28	160
Depreciation charged for the year	39	18	9	66
Disposals	0	0	0	0
Exchange difference	(7)	(1)	(2)	(10)
<b>at 31 December 2007</b>	<b>164</b>	<b>17</b>	<b>35</b>	<b>216</b>
<b>Net carrying amount</b>				
at 31 December 2006	286	0	20	306
<b>at 31 December 2007</b>	<b>235</b>	<b>579</b>	<b>73</b>	<b>887</b>
<b>Exchange difference</b>	<b>(12)</b>	<b>(18)</b>	<b>(3)</b>	<b>(33)</b>

The land and buildings currently being used by the Group for operation and administration purposes are leased by Fujian FengQuan Environmental Protection Group Co., Ltd. Please refer to notes 21 and 22 for further details.

## | 11 | Construction in Progress

in k€	
<b>Costs</b>	
at 31 December 2007	149
Additions	6,844
Disposals	0
Exchange difference	544
<b>at 31 December 2008</b>	<b>7,537</b>
<b>Accumulated depreciation</b>	
at 31 December 2007	0
Depreciation changed for the year	0
Disposals	0
Exchange difference	0
<b>at 31 December 2008</b>	<b>0</b>
<b>Net carrying amount</b>	
at 31 December 2007	149
<b>at 31 December 2008</b>	<b>7,537</b>
Exchange difference	544

in k€	Construction in progress
<b>Costs</b>	
at 31 December 2006	0
Additions	154
Disposals	0
Exchange difference	(5)
<b>at 31 December 2007</b>	<b>149</b>
<b>Depreciation charged for the year</b>	
at 31 December 2006	0
Depreciation charged for the year	0
Disposals	0
Exchange difference	0
<b>at 31 December 2007</b>	<b>0</b>
<b>Net carrying amount</b>	
at 31 December 2007	149
Exchange difference	(5)

## | 12 | Inventories

in k€	2008	2007
Raw materials and consumables	1,312	203
Finished goods	2,679	2,091
Work in process	103	319
	<b>4,094</b>	<b>2,613</b>

## |13| Trade and Other Receivables

in k€	2008	2007
<b>Trade receivables</b>		
Trade receivables	15,848	14,531
Allowance for trade receivables	(445)	(371)
	<b>15,403</b>	<b>14,160</b>
<b>Other receivables</b>		
Other receivables	836	280
Advance to customers	2,165	0
<b>Prepayments</b>	<b>12</b>	<b>202</b>
	3,013	482
Allowance for other receivables	-	-
	<b>3,013</b>	<b>482</b>
<b>Related parties</b>		
Amount due from related parties-trade	0	0
Amount due from related parties-non-trade	10	8
	<b>10</b>	<b>8</b>
	<b>18,426</b>	<b>14,650</b>

All trade receivables are non-interest bearing. They are recognized at their original invoice amounts which represents their fair values on initial recognition. The aging is as follows:

in €	2008	2007
Within 30 days	3,338	3,261
31 – 90 days	2,473	4,292
91 – 180 days	7,424	5,405
181 – 360 days	2,585	1,563
361 – 1080 days	28	10
	<b>15,848</b>	<b>14,531</b>

## Allowance for doubtful Receivables

For each financial period, the following amounts of impairment loss are recognized in the income statement:

in k€	2008	2007
Provision for trade receivables	(21)	36
Provision for other receivables	0	0
	<b>(21)</b>	<b>36</b>

## | 14 | Cash and Cash Equivalents

in k€	2008	2007
Cash at bank and in hand	102,740	71,627
Short term deposits (duration up to 3 month)	0	7,200
<b>Cash fund</b>	<b>102,740</b>	<b>78,827</b>
Kurzfristige Einlagen (duration over to 3 month)	3,000	5,000
	<b>105,740</b>	<b>83,827</b>
Thereof in Germany	4,276	28,030
Thereof in China	101,464	55,797

Cash at banks earns interest at an annual rate of up to 0.72%. The short term deposit is made for a varying period between one and six months depending on the immediate cash requirements of the Group and earns interest up to 5.66% annual rate.

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## | 15 | Equity

### | 15.1 | Paid-in Capital

The share capital of the Parent Company amounts to k€13,000 and is divided into 13,000,000 bearer shares of no par value. Reference is made to the notes under 1.1.

The Management Board (Vorstand) of the Company is authorised to increase the share capital of the Company with the consent of the Supervisory Board until 22 July 2013, once or several times by up to a total of k€6,500 issuing up to a total of 6,500,000 new bearer shares no par value in consideration of contributions in cash or in kind representing €1.00 of the share capital (“Authorised Capital 2008”).

### | 15.2 | Reserves and Retained Earnings

#### a) Capital reserves

The capital reserves changed compared to last year by k€ 400 due to altered appreciation in tax deductibility of IPO expenses. The amounts reflected in the balance sheet mainly relate to the proceeds from the IPO in 2007.

#### b) Statutory reserves

The statutory reserve relates to the subsidiary FengQuan. According to the legal regulations of PRC China a corporate enterprise has to allocate at least 10% of its earnings to the statutory reserve until this amounts to at least 50% of the paid-in capital. The statutory reserve can be used for a loss compensation or for a capital increase as long as the reserve does not fall below 25% of the paid-in capital.

#### c) Retained earnings

The retained earnings reserve comprises the cumulative net gains and losses recognised in the consolidated income statement.

In 2008 a dividend of €0.15 per share (k€ 1,950) was paid to the shareholders after the resolution of the shareholders’ meeting on 22 July 2008.

## | 16 | Deferred Tax Liabilities

The amount is based on different revenue recognition in connection with PoC-method.

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## | 17 | Trade and Other Payables

in k€	2008	2007
Current liabilities		
Trade payables	4,353	1,235
Other payables and accruals		
Advance from customers	2,839	2,749
Accrued expenses	708	350
VAT payable	2,082	422
Other tax payables	353	6
Other payables	827	376
	6,809	3,903
Related parties:		
Amounts due to shareholders	55	0
Amounts due to AG	0	0
Amounts due to other related parties	144	75
	199	75
Income tax payable	82	40
	11,443	5,253

All trade payables are non-interest bearing. The fair value of trade and other payables has not been disclosed as, due to their short duration, management considers the carrying amounts recognized in the balance sheet to be reasonable approximation of their fair value.

k€ 55 of the amount due to related parties are non-trade (2007: k€ 75).

## |18| Provisions

in k€	Maintance / warranties	Staff bonus and welfare	Other	Total
At 31 December 2006	158	52	0	210
Additions	238	189	160	587
Utilised	(86)	(52)	(0)	(138)
Exchange differences	(4)	0	0	(4)
<b>At 31 December 2007</b>	<b>306</b>	<b>189</b>	<b>160</b>	<b>655</b>
Additions	104	250	0	354
Utilised	(104)	(0)	(160)	(264)
Exchange differences	40	45	0	85
<b>At 31 December 2008</b>	<b>346</b>	<b>484</b>	<b>0</b>	<b>830</b>

### Warranty

A provision is recognised for expected warranty claims on products sold during the last one year, based on past experience of the level of repairs and returns. It is expected that most of these costs will be incurred after one year from the balance sheet date. Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns based on the one-year warranty period for all products sold.

### Staff Bonus and Welfare Fund

In 2008, the subsidiary company converted to be a Foreign Investment Company. Pursuant to the Foreign Investment Company Laws of PRC and Decisions of the Board of Directors of the subsidiary company, 1% of the profit after tax was accrued as staff bonus and welfare fund. The fund can only be used for staff public welfare.

## |19| Income Tax

The major components of income tax expense are as follows:

in k€	2008	2007
Current income tax	(71)	0
Deferred income tax induced by		
- tax rate changes	0	(118)
- temporary differences	(92)	0
- tax loss carry forwards	(217)	(340)
	(309)	(458)
<b>Income taxes according to profit and loss statement</b>	<b>(380)</b>	<b>(458)</b>

The reconciliation of tax expenses is as follows:

in k€	2008	2007
Profit before income tax	22,810	19,517
Tax rate	25%	25%
Expected tax income expense	5,703	4,879
Foreign tax rate differential (tax rate 2008 in China: 0%)	(5,380)	(4,789)
Domestic tax rate differential (tax rate 2008 in Germany: 32.275%; 2007: 40.38%)	94	56
Non deductible expenses	89	184
Recognition and measurement of deferred tax assets and liabilities	(122)	118
Other terms	(4)	10
	(380)	(458)
<b>Group tax rate</b>	<b>1.7%</b>	<b>2.3%</b>

Applicable tax rate: The mainland China (PRC) operating subsidiary Fujian FengQuan Environmental Protection Equipment Co., Ltd., actually does not pay any income taxes due to its status as Foreign owned entity status (FOE). The normal Chinese tax rate amounts to 25%. The subsidiary has been entitled to a full tax exemption from Enterprise Income Tax for 2007 and 2008 and a 50% reduction for the next three years, commencing 2009.

The amount of tax loss carry forwards on which deferred tax assets have not been accounted for amount to about k€ 2,200. In 2008 ZhongDe Waste Technology AG used k€1.333 of its losses carried forward from 2007.

Deferred income tax relates to the following:

in k€	31 Dec 2008		31 Dec 2007	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Trade receivables	56	0	0	0
Provisions	43	0	0	0
Other liabilities and payments on account	0	189	0	0
Losses carried forward	560	0	360	0
	<b>659</b>	<b>189</b>	<b>360</b>	<b>0</b>

## | 20 | Employee Benefits

	2008	2007
<b>Average number of employees of the Group</b>		
Management and administration	128	45
Research and development	39	22
Manufacture	126	92
Sales	76	52
	<b>369</b>	<b>211</b>

in k€	2008	2007
<b>The average payroll costs of these employees</b>		
Wages and salaries	1,216	666
Social security costs	176	69
Welfare	38	62
Appropriation of welfare and bonus fund	250	189
	<b>1,680</b>	<b>986</b>

## Retirement Benefit Plans

The eligible employees of the Group, who are citizens of the PRC, are members of a state-managed retirement benefit scheme operated by the local government. The Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

## | 21 | Commitments and Contingencies

### Operating Lease Commitments

The Group leases various factories and offices under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. There are no restrictions placed upon the Group by entering into these leases. The operating lease payment recognized as expense in the income statement in every financial year is as follows:

in k€	2008	2007
Lease payment recognized as expense	142	91

Future minimum lease payments payable under non-cancellable operation leases as at December 31, 2008 are as follows:

in k€	2008	2007
Not later than one year	189	22
Later than one year but not later than five years	392	280
Later than five years	739	0
	<b>1,320</b>	<b>302</b>

### Contingent Liabilities

At 31 December 2008 and prior year the Group did not have any significant contingent liabilities.

## | 22 | Related Party Disclosures

An entity or individual is considered a related party of the Group for the purposes of the financial statements if

- it possesses the ability, directly or indirectly, to control or exercise significant influence over the operating and financial decision of the Group or vice versa; or
- it is subject to common control or common significant influence.

### a) Related party information

Name of related party	Relationship
Chen Zefeng	CEO, majority shareholder
Fujian FengQuan Environmental Protection Group Co., Ltd,	Company attributable to Chen Zefeng
Fujian FengQuan Guotou Environmental Protection Co., Ltd,	Company attributable to Chen Zefeng
Fujian Fuquan Boiler Co., Ltd,	Company attributable to Chen Zefeng
Fujian FengQuan Culture Propagation Co., Ltd,	Company attributable to Chen Zefeng
Quanzhou Qingmeng Water Treatment Co., Ltd,	Company attributable to Chen Zefeng
Zhuji FengQuan Lipu Solid Waste Disposal Limited	Company attributable to Chen Zefeng
Xinjiang Hutubi FengQuan Sewage Treatment Co., Ltd,	Company attributable to Chen Zefeng

### b) Sales and purchase of goods

The following transactions took place between the Group and related party during the financial year:

in k€	2008	2007
<b>Related parties</b>		
Rental, water and electricity fee with related party	259	82
Purchase goods from a related party	321	0

Both the sales of goods and rental of plant transactions with related party were based on market price.

## c) Due from / to related parties

in k€	2008	2007
Due from related parties		
Non-trade	10	8
	10	8
Allowance for doubtful trade debts	-	-
	10	8
Due to related parties		
Trade	144	-
Non-trade	55	75
	<b>199</b>	<b>75</b>

## d) Key management remuneration

in k€	2008	2007
Key management of the Group	117	82

**| 23 | Disclosure of Financial Instruments**

The Group's financial instruments at the closing-day comprise cash and liquid resources, some short term debtors and creditors, together with normal trade debtors and creditors. The main risks which arise from these financial instruments relate to liquidity, interest and exchange rates.

## Disclosures IFRS 7

Carrying amounts, amounts recognized, and fair values by category in k€	Category in accordance with IAS 39	Carrying amount Dec 31, 2008	Amounts recognized in balance sheet according to IAS 39 at amortized cost	Carrying amount Dec 31, 2007	Amounts recognized in balance sheet according to IAS 39 at amortized cost
Trade receivables	LaR	15,403	15,403	14,160	14,160
Other receivables and prepayments	LaR	3,013	3,013	482	482
Amounts due from related parties	LaR	10	10	8	8
Cash and cash equivalents	LaR	105,740	105,740	83,827	83,827
Trade payables	FLAC	4,353	4,374	1,235	1,235
Other payables	FLAC	4,374	4,374	3,475	3,475
Amounts due to related parties	FLAC	199	199	75	75
<b>Of which: aggregated by category in accordance with IAS 39</b>					
Cash and receivables (loans and receivables, LaR)		124,166	124,166	98,477	98,477
Financial liabilities measured at amortized cost (FLAC)		8,926	8,926	4,758	4,758

Cash and cash equivalents, trade and other receivables as well as amounts due from related parties mainly have short times to maturity. For this reason, their carrying amounts at the reporting date approximate the fair values.

Trade and other financial liabilities generally have short times to maturity; the values approximate the fair values.

Net gain/loss by category in k€	From interest	Net gain (loss)	
		2008	2007
Cash and receivables	2,739	2,739	933
Financial liabilities measured at mortized cost	0	0	28
	<b>2,739</b>	<b>2,739</b>	<b>905</b>

Interes from financial instruments is recognized in finance income and costs.

The allowances for financial instruments have openly been set-off at accounts receivables and other receivables. They developed as follows:

in k€	2008	2007
Am 31 December 2007	371	277
Additions	0	36
Releases	21	0
Exchange difference	95	58
<b>At 31 December 2008</b>	<b>445</b>	<b>371</b>

## | 24 | Financial Risk Management Objectives and Policies

The Group is exposed to interest rate and other market risks arising in the normal course of business. The Group does not hold or issue derivative financial instruments for trading purposes or to hedge against fluctuations, if any, in interest rates and foreign exchange rates.

### a) Credit Risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in a loss to the Group. The Group has adopted the policy of only dealing with creditworthy counter parties and monitors their balances.

The Group's credit risk is primarily attributable to its trade and other receivables. Cash is placed with creditworthy financial institutions. The trade and other receivables presented in the balance sheet are net of an allowance for doubtful receivables, estimated by management based on current economic conditions.

The carrying amount of financial assets recorded in the financial statements net of any allowance for doubtful receivables, represents the Group's maximum exposure to credit risk.

### b) Interest Rate Risk

Interest rate risk arises from the potential changes in interest rates that may have an adverse effect on the Group in the current reporting period and in future years.

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Other than the bank deposits and borrowings, the Group has no other significant interest-bearing assets and liabilities. Its interest-bearing assets are mainly current bank deposits. The majority of the Group's income and operating cash flows is independent of changes in market interest rates. The Group's policy is to secure all to its borrowings at fixed borrowing rates.

#### c) Foreign Currency Risk

Foreign exchange risk refers to the risk that movement in foreign currency exchange rates against the Group's functional or reporting currency will affect the Group's financial results and cash flows. The majority of the Group's transactions are in RMB, and all of the Group's interest bearing financial assets and liabilities are in RMB.

#### d) Liquidity Risk

Liquidity risk arises from the possibility that the Group is unable to meet its obligations towards other counter parties. The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

#### e) Fair Values

The carrying amounts of the financial assets and financial liabilities in the financial statements approximate their fair values.

### | 25 | Additional Comments on Capital Management

The capital management of ZhongDe Group is based on monitoring equity and liabilities and the investments based on its current high liquidity.

In order to have a sound basis to do so the management has initiated the IPO in mid 2007 to raise the necessary funds. ZhongDe Group intends to concentrate on the small and mid-sized waste incinerator market and expand its position in the market and technology in this area. ZhongDe Group also intends to operate waste incinerator plants for and with municipalities and as by-products to produce and market its own steam, hot water, bricks as well as electricity through the operation of such plants (so called BT/BOT projects). Thus, the target of the investment policy is to maintain the strong and profitable growth path in the business in order to create shareholder value. The investments are based on relating return on investment computations which are updated in certain intervals.

The current liquidity not yet used for such investments are kept in well-known banks and should yield a high interest rate as long as this money has not yet been invested.

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## | 26 | Members of the Executive and Supervisory Boards

### Executive Board

Mr. Chen Zefeng	CEO, Fuzhou, PRC, merchant
Mrs. Lin Na	CFO, Fuzhou, PRC, merchant

### Supervisory Board

Mr. Hans-Joachim Zwarg (Chairman)	merchant, Sierksdorf, Germany
Mr. Joachim Ronge (Deputy Chairman)	merchant, Münster, Germany, (until December 31, 2008)
Mr. Prof. Dr. Bernd Neukirchen (Deputy Chairman)	consultant, Essen, Germany, beginning January 1, 2009
Mr. Dr. Quan Hao	scientist and engineer for environmental technology, Beijing, PRC

Mr. Zwarg is member of the supervisory boards of

- Hanse Yachts AG, Greifswald, Germany
- Asian Bamboo AG, Hamburg, Germany (Chairman)
- ELBE PARTNERS Industries AG, Hamburg, Germany (Chairman)

## | 27 | Remuneration of the Executive and Supervisory Boards

### Executive board

For the fiscal year 2008, the members of the Management Board received the following fixed remuneration in excess of which they are not entitled to receive any further, particularly performance-based, remuneration:

in k€	
Zefeng Chen	17
Na Lin	13

## Supervisory Board (Fixed Remunerations)

in k€	
Hans-Joachim Zwarg	71
Joachim Ronge	46
Dr Hao Quan	20

## | 28 | Declaration of Compliance with the German Corporate Governance Code

The Executive Board and the Supervisory Board submitted their Declaration of Compliance with the recommendations of the Government Commission on the German Corporate Governance Code in accordance with section 161 Aktiengesetz (German Stock Corporation Act) on 4 July 2008, and made this declaration permanently accessible to shareholders on the Company's website at [www.zhongdetech.com/investor\\_relations/corporate\\_governance.html](http://www.zhongdetech.com/investor_relations/corporate_governance.html).

## | 29 | Shareholdings in ZhongDe Waste Technology AG

In accordance with the provisions of the Wertpapierhandelsgesetz (German Securities Trading Act, WpHG), ZhongDe Waste Technology AG received the following notifications by shareholders of the Company by the date of the preparation of the balance sheet:

Mr. Zefeng Chen, Fuzhou, Fujian, PRC, gave us notice pursuant to section 21 para 1a WpHG that his voting rights in ZhongDe Waste Technology AG as of 12 July 2007 amounted to 50.79% (= 6,603,200 shares). On 29 July 2008 Mr. Zefeng Chen bought 9,120 shares at €22.92 each at the stock market of Frankfurt. On 18 September 2008 Mr. Zefeng Chen gave away 112,319 shares on a loan basis outside of the stockmarket (OTC). On December 31, 2008 Mr. Zefeng Chen hold 6,500.001 shares (= 50,00%).

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### 10 July 2007:

9998 Holding Ltd., Apia Samoa, China, gave us notice pursuant to section 21 para. 1 WpHG that their voting rights in ZhongDe Waste Technology AG as at 10 July 2007 fell short of the threshold of 10% and at this date amounted to 8.24% (1,072,284 voting rights).

Hao Capital China Fund LP; George Town, Grand Cayman, Cayman Islands, gave us notice pursuant to section 21 Para. 1 WpHG that their voting rights in ZhongDe Waste Technology AG as at 10 July 2007 fell short of the threshold of 10% and at this date amounted to 8.24% (1,072,284 voting rights). 8.24% of the voting rights (1,072,284 voting rights) were attributable to them in accordance with section 22 para. 1 sent. 1 no. 1 of WpHG.

The attributed voting rights were attributed by 9998 Holding Ltd., Apia, Samoa, China, the voting rights of which exceed directly 3%.

### 27 February 2008:

- Noonday Capital Partners, L.L.C., Wilmington, United States of America gave us notice pursuant to Section 21 Para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany as at 16 January 2008 exceeded the threshold of 3% of the voting rights. The aforementioned person had at that date 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technologie AG; this equals a share of 3.06% of all voting rights. 3.01% of the voting rights (391,719 voting rights) are attributed to them pursuant to Sec. 22 para 2 WpHG.
  - Farallon Capital Offshore Investors II, L.P., George Town, British West Indies gave us notice pursuant to Section 21 Para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany as at January 16, 2008 exceeded the threshold of 3% of the voting rights. The aforementioned person held at that date 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 3.06% of all voting rights. 2.42% of the voting rights (314,319 voting rights) are attributed to them pursuant to Sec. 22 para 2 WpHG.
  - Tincum Partners, L.P., Albany, United States of America gave us notice pursuant to Section 21 Para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany as at January 16, 2008 exceeded the threshold of 3% of the voting rights. The aforementioned person held at that date 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 3.06% of all voting rights. 3.05% of the voting rights (396,219 voting rights) are attributed to them pursuant to Sec. 22 para 2 WpHG.
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- Farallon Capital Institutional Partners III, L.P., Wilmington, United States of America gave us notice pursuant to Section 21 Para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany as at 16 January 2008 exceeded the threshold of 3% of the voting rights. The aforementioned person held at that date 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 3.06% of all voting rights. 3.04% of the voting rights (395,519 voting rights) are attributed to them pursuant to Sec. 22 para 2 WpHG.
  - Farallon Capital Institutional Partners II, L.P., Sacramento, United States of America gave us notice pursuant to Section 21 Para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany as at 16 January 2008 exceeded the threshold of 3% of the voting rights. The aforementioned person held at that date 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 3.06% of all voting rights. 3.02% of the voting rights (393,519 voting rights) are attributed to them pursuant to Sec. 22 para 2 WpHG.
  - Farallon Capital Institutional Partners, L.P., Sacramento, United States of America gave us notice pursuant to Section 21 Para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany as at 16 January 2008 exceeded the threshold of 3% of the voting rights. The aforementioned person held at that date 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 3.06% of all voting rights. 2.74% of the voting rights (356,019 voting rights) are attributed to them pursuant to Sec. 22 para 2 WpHG.
  - Farallon Capital Partners, L.P., Sacramento, United States of America gave us notice pursuant to Section 21 Para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany as at 16 January 2008 exceeded the threshold of 3% of the voting rights. The aforementioned person held at that date 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 3.06% of all voting rights. 2.66% of the voting rights (346,319 voting rights) are attributed to them pursuant to Sec. 22 para 2 WpHG.
  - Noonday Offshore Inc., George Town, British West Indies gave us notice pursuant to Section 21 Para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany as at 16 January 2008 exceeded the threshold of 3% of the voting rights. The aforementioned person held at that date 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 3.06% of all voting rights. 2.84% of the voting rights (368,919 voting rights) are attributed to them pursuant to Sec. 22 para 2 WpHG.
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- Farallon Capital Offshore Investors, Inc., Tortola, British Virgin Islands gave us notice pursuant to Section 21 Para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany as at 16 January 2008 exceeded the threshold of 3% of the voting rights. The aforementioned person held at that date 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 3.06% of all voting rights. 1.71% of the voting rights (222,400 voting rights) are attributed to them pursuant to Sec. 22 para 2 WpHG.
  - The following persons gave us notice pursuant to Section 21 Para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany as at January 16, 2008 exceeded the threshold of 3% of the voting rights:
    - Thomas F. Steyer, United States of America;
    - Nooday Capital L.L.C., Wilmington, United States of America;
    - Nooday Asset Management L.P. Wilmington, United States of America;
    - Nooday Asset Management Asia Pte. Ltd., Singapore, Singapore;
    - Nooday Global Management, Ltd., George Town, British West Indies;
    - Farallon Capital Management, L.L.C., Wilmington, United States of America; and
    - Farallon Partners, L.L.C., Wilmington, United States of America.
  - On 16 January 2008, the Reporting Persons under (1) to (7) held 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG, Hamburg, Germany; this equals a share of 3.06% of all voting rights.
  - 3.06% of these voting rights (398,119 voting rights) are attributed to Thomas F. Steyer pursuant to Sec. 22 para 2 WpHG; thereof 1.49% (193,200 voting rights) are also attributed pursuant to Sec. 22 para 1 Sentence 1 No. 1 WpHG and 1.58% (204,919 voting rights) also pursuant to Sec. 22 para 1 sentence 1 No. 6 WpHG in connection with Sec. 22 para 1 Sentence 2 WpHG. 3.06% of the voting rights (398,119 voting rights) are attributed to Nooday Capital L.L.C. pursuant to Sec. 22 para 1 Sentence 1 No. 6 WpHG in connection with Sec. 22 para 1 Sentence 2 WpHG. 3.06% of the voting rights (398,119 voting rights) are attributed to Nooday Asset Management L.P. pursuant to Sec. 22 para 1 Sentence 1 No. 6 WpHG in connection with Sec. 22 para 1 Sentence 2 WpHG. 3.06% of the voting rights (398,119 voting rights) are attributed to Nooday Asset Management Asia Pte. Ltd. pursuant to Sec. 22 para 1 Sentence 1 No. 6 WpHG. 3.06% of the voting rights (398,119 voting rights) are attributed to Nooday Global Management, Ltd. pursuant to Sec. 22 para 1 Sentence 1 No. 6 WpHG. 1.58% (204,919 voting rights) are attributed to Farallon Capital Management, L.L.C. pursuant to Sec. 22 para 1 Sentence 1 No. 6 WpHG and 1.49% of the voting rights (193,200 voting rights) are attributed pursuant to Sec. 22 para 2 WpHG. 3.06% of the voting rights (398,119 voting rights) are attributed to Farallon Partners, L.L.C. pursuant to Sec. 22 para 2 WpHG and 1.49% of the voting rights (193,200 voting rights) are also attributed pursuant to Sec. 22 para 1 Sentence 1 No. 1 WpHG as well as pursuant to Sec. 22 para 1 Sentence 1 No. 6 WpHG.
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### 13 June 2008:

- Noonday Capital Partners, L.L.C., Wilmington, United States of America gave us notice pursuant to Section 21 para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG as at 4 June 2008 fell below the threshold of 3% of the voting rights. The aforementioned person had at that date 332,104 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technologie AG; this equals a share of 2.555% of all voting rights. 2.513% of the voting rights (326,696 voting rights) are attributed to them pursuant to Sec. 22 para 2 WpHG.
  - Farallon Capital Offshore Investors II, L.P., George Town, British West Indies gave us notice pursuant to Section 21 Para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG as at 4 June 2008 fell below the threshold of 3% of the voting rights. The aforementioned person held at that date 332,104 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 2.555% of all voting rights. 2.019% of the voting rights (262,418 voting rights) are attributed to them pursuant to Sec. 22 para 2 WpHG.
  - Tincum Partners, L.P., Albany, United States of America gave us notice pursuant to Section 21 Para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG as at 13 May 2008 fell below the threshold of 3% of the voting rights. The aforementioned person held at that date 0 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 0% of all voting rights.
  - Farallon Capital Institutional Partners III, L.P., Wilmington, United States of America gave us notice pursuant to Section 21 Para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG as at 4 June 2008 fell below the threshold of 3% of the voting rights. The aforementioned person held at that date 332,104 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 2.555% of all voting rights. 2.538% of the voting rights (329,957 voting rights) are attributed to them pursuant to Sec. 22 para 2 WpHG.
  - Farallon Capital Institutional Partners II, L.P., Sacramento, United States of America gave us notice pursuant to Section 21 Para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG as at 4 June 2008 fell below the threshold of 3% of the voting rights. The aforementioned person held at that date 332,104 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 2.555% of all voting rights. 2.526% of the voting rights (328,432 voting rights) are attributed to them pursuant to Sec. 22 para 2 WpHG.
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- Farallon Capital Institutional Partners, L.P., Sacramento, United States of America gave us notice pursuant to Section 21 Para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG as at 4 June 2008 fell below the threshold of 3% of the voting rights. The aforementioned person held at that date 332,104 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 2.555% of all voting rights. 2.271% of the voting rights (295,199 voting rights) are attributed to them pursuant to Sec. 22 para 2 WpHG.
  - Farallon Capital Partners, L.P., Sacramento, United States of America gave us notice pursuant to Section 21 Para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG as at 4 June 2008 fell below the threshold of 3% of the voting rights. The aforementioned person held at that date 332,104 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 2.555% of all voting rights. 2.218% of the voting rights (288,332 voting rights) are attributed to them pursuant to Sec. 22 para 2 WpHG.
  - Noonday Offshore Inc., George Town, British West Indies gave us notice pursuant to Section 21 Para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG as at 4 June 2008 fell below the threshold of 3% of the voting rights. The aforementioned person held at that date 332,104 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 2.555% of all voting rights. 2.364% of the voting rights (307,371 voting rights) are attributed to them pursuant to Sec. 22 para 2 WpHG.
  - Farallon Capital Offshore Investors, Inc., Tortola, British Virgin Islands gave us notice pursuant to Section 21 Para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG as at 4 June 2008 fell below the threshold of 3% of the voting rights. The aforementioned person held at that date 332,104 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 2.555% of all voting rights. 1.433% of the voting rights (186,323 voting rights) are attributed to them pursuant to Sec. 22 para 2 WpHG.
  - The following persons gave us notice pursuant to Section 21 Para 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG as at 4 June 2008 fell below the threshold of 3% of the voting rights:
    - Thomas F. Steyer, United States of America;
    - Noonday Capital L.L.C., Wilmington, United States of America;
    - Noonday Asset Management L.P. Wilmington, United States of America;
    - Noonday Asset Management Asia Pte. Ltd., Singapore, Singapore;
    - Noonday Global Management, Ltd., George Town, British West Indies;
    - Farallon Capital Management, L.L.C., Wilmington, United States of America; and
    - Farallon Partners, L.L.C., Wilmington, United States of America (the “Reporting Persons” under (1) to (7)).
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On 4 June 2008, the Reporting Persons under (1) to (7) held 332,104 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 2.555% of all voting rights.

2.555% of these voting rights (332,104 voting rights) are attributed to the Reporting Person under 1 pursuant to Sec. 22 para 2 WpHG; thereof 1.243% (161,590 voting rights) are also attributed pursuant to Sec. 22 para 1 Sentence 1 No. 1 WpHG and 1.312% (170,514 voting rights) also pursuant to Sec. 22 para 1 sentence 1 No. 6 WpHG in connection with Sec. 22 para 1 Sentence 2 WpHG. 2.555% of the voting rights (332,104 voting rights) are attributed to the Reporting Person under 2 pursuant to Sec. 22 para 1 Sentence 1 No. 6 WpHG in connection with Sec. 22 para 1 Sentence 2 WpHG. 2.555% of the voting rights (332,104 voting rights) are attributed to the Reporting Person under 3 pursuant to Sec. 22 para 1 Sentence 1 No. 6 WpHG in connection with Sec. 22 para 1 Sentence 2 WpHG. 2.555% of the voting rights (332,104 voting rights) are attributed to the Reporting Person under 4 pursuant to Sec. 22 para 1 Sentence 1 No. 6 WpHG. 2.555% of the voting rights (332,104 voting rights) are attributed to the Reporting Person under 5 pursuant to Sec. 22 para 1 Sentence 1 No. 6 WpHG. 1.312% (170,514 voting rights) are attributed to the Reporting Person under 6 pursuant to Sec. 22 para 1 Sentence 1 No. 6 WpHG and 1.243% of the voting rights (161,590 voting rights) are attributed pursuant to Sec. 22 para 2 WpHG. 2.555% of the voting rights (332,104 voting rights) are attributed to the Reporting Person under 7 pursuant to Sec. 22 para 2 WpHG and 1.243% of the voting rights (161,590 voting rights) are also attributed pursuant to Sec. 22 para 1 Sentence 1 No. 1 WpHG as well as pursuant to Sec. 22 para 1 Sentence 1 No. 6 WpHG.

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## | 30 | Audit

BDO Deutsche Warentreuhand AG (“BDO”) has been elected as the auditors of Zhongde Waste Technology AG and the Group for fiscal year 2008. The following table gives an overview of the fees recognized as expenses (including out of pocket expenses and VAT, if any) in the business year:

in k€	
Audit	234
Other assurance services	99

## | 31 | Proposal on the Utilization of ZhongDe Waste Technology AG's Net Retained Profits

At the Annual General Meeting, the Executive Board and Supervisory Board will propose that based on the retained earnings of k€6,553 of ZhongDe Waste Technology AG as reflected in the German statements k€1,950 (€0.15 per share) will be distributed and k€ 4,603 will be carried forward to 2009.

## | 32 | Notes to the Cash Flow Statement

The cash flow statement has been prepared in accordance with IAS 7 and is classified into net cash flows from operating, investing and financing activities. Net cash flow from operating activities is presented using the indirect method, while net cash flows from investing and financing activities are presented using the direct method. Cash funds are composed of cash and cash equivalents, such as short-term deposits.

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### | 33 | Authorization of Financial Statements

These Financial Statements will be approved for publication by the Supervisory Board on 27 April 2009.

### | 34 | Events after Balance Sheet Date

Today, the ZhongDe Group signed a contract with Zhucheng Baoyuan New Energy Power Generation Co., Ltd for the construction of a 500 tons/day waste incinerator plant with electricity generation. The total contract volume amounts to approximately €30 million. ZhongDe expects to complete the project by the end of 2010. This contract is accounted for using the “percentage of completion” method, which means that the Zhucheng project will contribute to the revenues and earnings of 2009 and 2010. This is another large engineering, procurement and construction project (EPC project) after the Datong project.

On 3 February 2009, the ZhongDe Group signed a strategic cooperation agreement with Genesis Energy Holdings Limited. This agreement will be valid for three years. Genesis Energy Holdings Limited, as the investor and operator, is in charge of investing in and financing waste-to-energy projects. ZhongDe, as the general contractor, is responsible for the design, procurement, installation and construction of these projects. Both parties will work together and will use their resources in an optimum way to analyze and implement projects during their strategic cooperation. ZhongDe will use this strategic cooperation to open further doors for generating new project business.

On 6 April 2009, the ZhongDe Group entered into a non-binding letter of intent with the Jilin provincial government concerning potential investments in the construction and operation of waste incineration and biomass renewable energy projects for power generation in Jilin. The projected maximum of the total investment is RMB 5 billion in the course of the next five years. J.P. Morgan will commit to provide the related financing, financial advisory, and investment banking services for this long-term project.

On 20 April 2009, ZhongDe Group has signed two binding agreements for two BOT projects (Build, Operate, Transfer) in Kunming, Yunnan province of PRC, and Xianning, Hubei province of PRC. The daily waste disposal capacity of Kunming project is 700 tons in its first phase and 1,050 tons in the second phase. The Xianning project has a daily waste disposal capacity of 500 tons in its first and 1,000 tons in the second phase. Both Kunming and Xianning project guarantee stable cash inflows from electricity sales.

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Kunming is the capital city of Yunnan province with approximately 6.02 million inhabitants, Xianning is a city with 2.86 million inhabitants located in the southeast of Hubei province. Both project agreements comprise the construction and operation of a large-size municipal waste incinerator with electric power generation, adopting the grate furnace incineration technology. After the contracted operating time, the Cities of Kunming and Xianning will take over the plants. The investment volume for each project amounts to approximately RMB 400 million (€44.50 million, €1=8.9884 RMB), and the concession period is 30 years. 50% – 70% of the total investment will be debt financed from banks.

The Kunming waste disposal fee is RMB 81 (€9.01, €1 = RMB 8.9884) per ton, the waste disposal fee of Xianning project is RMB 65 (€7.23, €1 = RMB 8.9884) per ton. Fees will be paid on a monthly basis by the respective local municipalities in charge and adjusted to the inflation index on an annual basis. With these two agreements, ZhongDe will replace the previous Xinjiang project and Lianshui project due to better returns on investment.

Hamburg, 23 April 2009

The Management Board

Zefeng Chen  
Chairman

Na Lin  
CFO

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# Responsibility Statement

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To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with its expected development.

Hamburg, 23 April 2009



Zefeng Chen  
Chairman



Na Lin  
CFO

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# Auditors' Report

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We have audited the consolidated financial statements prepared by ZhongDe Waste Technology AG, Hamburg, comprising the balance sheet, the income statement, statement of recognised income and expense, the cash flow statement, the notes to the consolidated financial statements and the group management report for the business year from 1. Januar 2008 to 31. Dezember 2008. The preparation of the consolidated financial statements and group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law under section 315a (1) of the Handelsgesetzbuch (German Commercial Code, HGB) 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 section 317 of the HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting 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 the consolidated financial statements, 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 comply with IFRSs as adopted by the EU and the additional requirements of German commercial law under section 315a (1) of the 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.

Hamburg, 24 April 2009

BDO Deutsche Warentreuhand Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Dr. Zemke  
Wirtschaftsprüfer

Dr. Rolff  
Wirtschaftsprüferin

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## Glossary

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**B00:**

“build-own-operate”. The government entitles the contractor the concession right to build and operate the project for an unlimited operating time, and the project will not be taken over by the government.

**BOT:**

“build-operate-transfer”. The government entitles the contractor the concession right to build and operate the project for a contracted period of time. And the project will be taken over by the government after the concession period.

**BT project:**

“build, transfer”. The contractor with concession right is in charge of the project construction. Once completed, the government will take over the project.

**Consumer price index (CPI):**

a statistical measure of a weighted average of prices of a specified set of goods and services purchased by wage earners in urban areas.

**Catalytic oxidation:**

a kind of chemical reaction. Catalyst is used to oxidize organic pollutants.

**Contingency waste incinerators:**

Once emergency occurs, the incinerators are used to treat the contingency waste

**Double-loop pyrolysis technology:**

specially designed for the municipal wastes with low heating value and high water content

**Bag filter tubeplate hole:**

used for fixing the bag and its keel

**EIA:**

“Environmental Impact Assessment”

**EPC:**

“Engineering Procurement Construction”. The contractor should undertake all preliminary works for project, such as design, purchase, manufacture, construction and commission. Contractor is also responsible for the quality, in-time construction and safety of the project.

**Five-Year Planning:**

national economy development plan. The Chinese government has been working out the economy development plan every five year since 1953.

**Fluidized bed waste incinerator:**

a widely-used incinerator in the industry. It takes advantage of the sand characteristic (level heat transmission and accumulation) to realize the 100% combustion.

**Grate incinerator:**

The waste is incinerated on the grate. The grate incinerators are subdivided into fixed grate incinerators and movable grate incinerators.

**IPO:**

Initial Public Offering

**MEP:**

Ministry of Environmental Protection

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**Municipal waste gasification power generation:**

Combustible gas from organic component gasification of municipal waste is utilized to generate power.

**MW:**

1MW = 1000Kw

**NPC:**

the National People's Congress

**PRC:**

People's Republic of China

**Primary industry:**

Agricultural industry

**Pyrolytic incinerator:**

The waste is pyrolyzed in the state of oxygen deficiency to produce combustible gas.

**RMB:**

Chinese currency

**Rotary kiln incinerator:**

It is widely used for the industry liquid and solid waste incineration. The kiln body is a horizontal type and rotatable cylinder and there is double combustion room at the bottom of the kiln

**SCR:**

Selective Catalytic Reduction, a kind of technology to control the dioxin emission

**Secondary industry:**

Manufacturing industry

**SEPA:**

State Environmental Protection Administration

**Sludge incineration technology:**

sludge incineration to make the treatment harmless, reduced and recycled

**Tertiary industry:**

Service industry and other industry

**Vertical type municipal waste incinerator automatic controlling system:**

automatically control the normal operation for municipal waste incineration system

**Vertical incinerator:**

It is a kind of upright incinerator made of fire-proof steel vessel with advantage of little location and wide adaptability.

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## Contact Information

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### ZhongDe Waste Technology AG

Cornelia Dieker

Administration Manager

Stadthausbrücke 1–3

D-20355 Hamburg

Phone +49 (40) 37644 745

Fax +49 (40) 37644 500

Email: [cornelia.dieker@zhongdetech.de](mailto:cornelia.dieker@zhongdetech.de)

[www.zhongdetech.de](http://www.zhongdetech.de)

### Kirchhoff Consult AG

(Investor & Public Relations Agentur)

Herrengraben 1

20459 Hamburg

Phone +49 (40) 6091860

Fax +49 (40) 60918660

Email: [ir@zhongdetech.de](mailto:ir@zhongdetech.de)

[www.kirchhoff.de](http://www.kirchhoff.de)

### ZhongDe Waste Technology AG

Li Zhong

Investor Relations Manager

Stadthausbrücke 1–3

D-20355 Hamburg

Phone +49 (40) 37644 756

Fax +49 (40) 37644 500

Email: [zhong.li@zhongdetech.de](mailto:zhong.li@zhongdetech.de)

[www.zhongdetech.de](http://www.zhongdetech.de)

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## Imprint

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ZhongDe Waste Technology AG

D-20355 Hamburg

Phone +49 (0) 40 37644 745

Fax +49 (0) 40 37644 500

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# Financial Calendar

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**30 April 2009**

Annual financial statement 2008

**29 May 2009**

Interim report on the first quarter 2009

**29 June 2009**

Annual General Meeting

**31 August 2009**

Interim report on the first half of 2009

**November 2009**

German Equity Forum of Deutsche Börse, Frankfurt/Main

**30 November 2009**

Interim report on the third quarter 2009

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ZhongDe Waste Technology AG

Stadthausbrücke 1–3

D-20355 Hamburg

Phone +49 (0) 40 37644 745

Fax +49 (0) 40 37644 500

[www.zhongdetech.de](http://www.zhongdetech.de)