



Interim Report

Third Quarter 2008



ZhongDe Waste Technology AG

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Key Figures

Operational data

Amounts in k€	Q3 2008	Q3 2007	Change %	Q1-3 2008	Q1-3 2007	Change %
Order intake	8,455	10,809	-22	53,013	29,754	78
Order backlog	36,264	11,515	215	36,264	11,515	215
Revenues	15,563	8,541	82	35,655	23,558	51
Gross profit	7,865	6,058	30	21,718	16,115	35
Gross profit margin	51%	71%	-	61%	68%	-
Cost of sales	7,698	2,483	210	13,937	7,443	87
EBITDA	6,388	5,190	23	17,363	13,978	24
EBITDA margin	41%	61%	-	49%	59%	-
EBIT	6,317	5,175	22	17,179	13,939	23
EBIT margin	41%	61%	-	48%	59%	-
Net profit	6,515	5,547	17	18,737	14,356	31
Net profit margin	42%	65%	-	53%	61%	-
Earnings per share *	0.50	0.43	17	1.44	1.10	31

* based on 13,000,000 shares

Cash flow data

Amounts in k€	Q3 2008	Q3 2007	Change %	Q1-3 2008	Q1-3 2007	Change %
Cash flow from operating activities	183	3,683	-95	13,618	7,374	85
Cash flow from investing activities	236	(117)	-	(2,083)	(165)	-
Free cash flow before financing	419	3,566	-88	11,535	7,209	60

Balance sheet data

Amounts in k€	30 September 2008	31 December 2007	Change %
Total assets	132,158	104,536	26
Tangible and intangible fixed assets	7,613	3,086	147
Working capital	26,410	17,255	53
Cash and cash equivalents	97,607	83,827	16
Debt	9,198	5,908	56
Net cash	97,607	83,827	16
Shareholders equity	122,960	98,628	25
Headcount	357	260	37

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Highlights Third Quarter 2008

- **Revenues:** Company revenues in the third quarter of 2008 grew by € 7.1 million (from € 8.5 million to € 15.6 million) representing an increase of 82% versus the same period in 2007. Growth was driven primarily by a rise in municipal incinerator sales plus the partial recognition of the large-scale Datong EPC (Engineering, Procurement and Construction) project in this quarter. The proportion of medical waste incinerator sales continued to decline following the successful restructuring of the product mix in line with expectations. The sales development remains in line with the Company's long-term strategy to focus on the municipal incinerator segment.

- **Operating results:** The upward trend in the municipal solid waste incinerator segment continues, seeing operating results rise in the third quarter of 2008. In total, three municipal solid waste incinerators were sold in Q3 2008, compared to four in Q3 2007. ZhongDe Group aims to focus on manufacturing larger scale incinerators to maximize the production efficiency of the factory. There was also a solid rise in earnings per share (EPS) amounting to € 0.50 in Q3 2008, up from € 0.43 in Q3 2007. While the gross margin declined as a result of the gradual recognition of profits from the Datong EPC project, the increase in order sizes compensated for the lower margin. And the net profit of the Company continues to surge with orders for larger projects.

- **Order intake and order backlog:** During the period under review the Company received orders for contracts worth € 8.5 million compared to € 10.8 million in the same period last year. The Olympic Games played a part in influencing this slowdown as the extended effects of the Games saw the government delay involvement in the negotiating process for new orders. With the Olympics drawing to a close in the third quarter, projects are expected to rapidly resume in Q4 2008 and Q1 2009.

- **Beijing – Second Production Facility:** The construction of new production facilities are underway in Beijing as part of the Company's long-term capacity expansion programme. This programme is funded primarily by the Company's successful listing on the Frankfurt Stock Exchange in July 2007. As with many companies in Beijing, construction was suspended for three months to accommodate the 2008 Olympic Games. Although construction had not resumed as at the end of Q3 2008, it is expected to begin swiftly in October with completion anticipated before the end of Q2 2009. While the completion date has been postponed further, this will not affect ZhongDe's ability to fulfill orders: the Fuzhou plant has been reorganised to increase productivity and some of the non-core production parts will be subcontracted before the Beijing factory is completed. By this time, the Company will have built up sufficient capacity for a further three years of expansion. It will also be in an ideal position to exploit market growth, especially for the large-scale incinerators, as anticipated in the strategic plan.

- **Datong project:** The Company has completed the design stage for the waste disposal and electricity generation project in Datong, and the development of the infrastructure is now well underway. The general contracts were signed in Q1, and ZhongDe Group has been commissioned to design, manufacture and construct a waste incinerator plant with a maximum capacity of 1,500 tonnes per day with 30 MW electricity generators. With the total contract amounting to approximately € 30 million, the project is expected to end in 2009 and has already contributed 20% of its contract revenue up to Q3 2008.

- **Production efficiency:** Upgrading and improving manufacturing equipment has greatly improved production capacity, leading to more efficient production. And manufacturing techniques for cylinder, deduster, tube plate hole and baiting have been improved, saving on raw materials and controlling production costs. The manufacturing techniques and workflow, together with manufacturing controls, are gradually improving to maximize productivity and meet the market change from small and medium sized to larger incinerators. Procedures for controlling material consumption have been standardised and specified control of the warehouse material and production costs implemented to reduce overall costs.

- **International Marketing:** As demand for waste disposal rapidly gathers pace in developing countries, the Company is in an ideal position to capture the potential growth in markets such as Turkey, Vietnam, Malaysia and Nigeria where initial projects are under negotiation.

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Share Performance

for the period from 6 July 2007 to 30 September 2008



Global stock markets continued to weaken during the third quarter of 2008. The ZhongDe share price developed in line with the general capital market in Germany, with the share price reaching a high in August before gradually returning to a lower level following the global stock market crash. The management believes that share price recovery will commence as confidence in the market returns, together with more of the Chinese government's policies related to environmental issues being released to market. These elements will expose more investors to both this industry and the value of the Company.

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Political Environment and Impact on Business Development

Political Environment

The regulatory standard of pollutants in landfill for municipal solid waste was revised by the Chinese Environmental Protection Department on 15 July 2008. This aligns the construction and operation of municipal solid waste landfill with the requirements of energy conservation and environmentally friendly living.

At the Fourth Session of the 11th Standing Committee of the NPC in August 2008, the Chinese government voted to pass the Recycling Economy Promotion Law of the People's Republic of China. Key elements of the law include:

- Establishing systems to regulate energy use and pollutant emission
- Diverting capital into environmentally friendly industries
- Allocating special funds for supporting technological research, key projects and capacity building

In September 2008, the Ministry of Environmental Protection (MEP) issued the »Circular on Further Strengthening EIA Management of Biomass Power Generation Project«. According to the updated regulations, provincial environmental protection authorities, rather than central government, can now assess the approval of the environmental impact of waste incineration power generation projects.

The premier of the State Council, Wen Jiabao, publicly stated on 1 July 2008 that energy saving and emission reduction is important for economic restructuring. During a teleconference for the »Special Campaigns of Environmental Protection« in 2008, the minister for the MEP, Zhou Shengxian, stressed that further efforts should be made in environmental law enforcement to ensure public environmental rights and interests. The Vice-Chairman of the NPC Standing Committee, Zhou Tienong, indicated that environmental impact assessment is the key to achieving coordinated development of the economy and environmental resources.

Impact on Business Development

The Chinese government has reaffirmed its commitment to environmental protection and intends to establish a growth structure for Chinese industry that is both energy and resource efficient. 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 government's environmental protection policies. The issue and implementation of the Recycling Economy Promotion Law of the PRC will bring a tremendous opportunity for the Company.

The updated regulations regarding the environmental impact assessment of biomass power generation projects, including waste incineration power generation projects, is likely to accelerate the process of building new waste to power plants in China. And ZhongDe will benefit from this.

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Management Report

Results of Operations

Amounts in k€	Q3 2008	Q3 2007	Change %	Q1-3 2008	Q1-3 2007	Change %
Sales	15,563	8,541	82	35,655	23,558	51
Costs of sales	(7,698)	(2,483)	-310	(13,937)	(7,443)	-187
Gross profit	7,865	6,058	30	21,718	16,115	35
Other operating income	30	3	-	59	6	-
Selling and distribution expenses	(462)	(133)	247	(1,417)	(659)	115
Administrative expenses	(533)	(514)	4	(1,488)	(1,075)	38
Research and development expenses	(111)	(51)	118	(280)	(151)	85
Other operating expenses	(472)	(188)	155	(1,413)	(297)	386
Profit from operations	6,317	5,175	22	17,179	13,939	23
Finance income	808	414	95	2,149	481	347
Finance costs	(675)	(10)	6,650	(717)	(38)	1,787
Profit before income tax	6,450	5,579	16	18,611	14,382	29
Income tax	65	(32)	-	126	(26)	-
Net profit for the period	6,515	5,547	17	18,737	14,356	31

Sales rose by 82% to € 15.6 million in Q3 2008. In the nine months to 30 September 2008, sales increased by 51% compared with the same period in 2007, taking them from € 23.6 million in 2007 to € 35.7 million in 2008. This growth was mainly due to larger average order sizes and the beginnings of revenue from the Datong project. During the period under review, the Company sold three municipal waste incinerators, which is lower than the four units sold in the same period last year. And during Q3 2008 only two medical waste incinerators were sold. Although this product sector is expected to experience weak long-term growth, it is a sharp fall compared to Q3 2007 when the Company sold six medical waste incinerators. The Company managed to shift its focus to the municipal waste incinerator sector, with an emphasis on large orders.

The gross profit margin dropped from 71% in Q3 2007 to 51% in Q3 2008. This marked decrease was mainly due to developing large orders including the Datong project and an EPC (Engineering, Procurement and Construction) project which is thought to have lower margins of 40-45%. The gross profit margin for the nine months to 30 September 2008 only came down slightly, to 61% from 68% for the same period in 2007. Gross profits increased by 30% to € 7.9 million in Q3 2008. The overall gross profit for the three quarters rose satisfactorily by 35%, from € 16.1 million in 2007 to € 21.7 million in 2008.

Selling and distribution expenses increased to k€ 462 in Q3 2008 compared to k€ 133 for the same period in 2007. This reflects the growth in commission on sales revenues, higher salary costs associated with the recruitment drive in international sales and marketing, and the expected rise in travel and entertainment expenses associated with this increased level of activity.

The increase in other operating expenses, from k€ 188 in Q3 2007 to k€ 472 in Q3 2008, was mainly the result of recurring listing expenses sustained by the German head office. Compared to Q3 2007, administrative expenses rose by 4% from k€ 514 to k€ 533 in Q3 2008. This rise was mainly due to the additional costs associated with ZhongDe Group's expanded business operations and the additional costs incurred in preparing the second production plant in Beijing. The Company has also recruited more administrative staff to prepare BOT projects.

The net cash position at 30 September 2008 was € 97.6 million compared to € 83.8 million as at 31 December 2007. The Company retained most of the funding from IPO proceeds and is planning to use these funds to establish the Beijing plant and support various BOT projects scheduled to begin in the last quarter of 2008 and early 2009. The status of BOT projects are as follows:

Project	Status
Xihua	Under Construction. Completion expected: May 2009.
Feicheng	Under Construction. Completion expected: June 2009.
Xinjiang	Under Construction. Completion expected Oct 2009. The project replaces Changzhi in the prospectus.
Lianshui	Planning stage completed and construction preparation is in progress. The project replaces Jianou in the prospectus.
Other two BOT projects	In the final negotiation stage. Signing expected in Q4 2008.

Net profit increased from € 5.5 million in Q3 2007 to € 6.5 million in Q3 2008, a rise of 17%. For the first nine months of 2008 net profit increased by 31% to € 18.7 million compared to € 14.4 million in the same period of 2007. The number of employees grew from 285 in Q2 2008 to 309 in Q3 2008. This growth is mainly attributable to additional staff in the administration office in Beijing as well as in the sales and the production team. The move equips the ZhongDe Group to meet growing demand in the municipal waste sector.

Order development

Order intake amounted to € 8.5 million in Q3 2008, compared to € 10.8 million in the same period last year. The Olympic Games played a part in influencing this slowdown as the extended effects of the Games saw the government delay involvement in the negotiating process for new orders. During the period under review, the market is still actively engaged in talks and planning for the new environmental infrastructure projects. With the Olympics drawing to a close in the third quarter, projects are expected to rapidly resume in Q4 of 2008 and Q1 of 2009. While the order backlog for the first nine months increased from € 11.5 million in 2007 to € 36.3 million in 2008, these figures also benefit from the appreciation of RMB against the euro during the third quarter of 2008, contributing to the growth in order backlog.

Business Segments Overview

Amounts in k€	Q3 2008	Q3 2007	Change %	Q1-3 2008	Q1-3 2007	Change %
Medical Waste Incinerators						
Units sold	2	6	-67	3	19	-84
Revenues	1,677	2,710	-38	2,136	8,421	-75
Gross Profit	1,371	2,130	-36	1,731	6,520	-73
Municipal Solid Waste Incinerators						
Units sold	3	4	-25	10	9	11
Revenues	7,826	5,831	34	27,459	15,137	81
Gross Profit	5,536	3,928	41	19,029	9,595	98
EPC Project						
PoC Datong revenues	6,060	0	-	6,060	0	-
PoC Datong gross profit	958	0	-	958	0	-
Total Revenues	15,563	8,541	82	35,655	23,558	51
Total Gross Profit	7,865	6,058	30	21,718	16,115	35

Medical Waste Incinerators

Two medical waste incinerators were sold in Q3 2008. The Company continues to anticipate lower demand for medical waste incinerators, a trend that began in 2008. The focus will remain on generating municipal waste incinerator orders and shifting production to this more promising sector. As the unit selling price of medical waste incinerators is low compared to municipal waste incinerators, the Company will aim to focus exclusively on high margin specialised medical waste incinerators or high margin small incinerators for export.

Municipal Solid Waste Incinerators

The Company sold three municipal waste incinerators in the third quarter of 2008. Total capacity was more than 400 tonnes: two incinerators with a 100 tonne capacity and one with a 200 tonne capacity. With revenue in municipal waste incinerator sales rising from € 5.8 million in Q3 2007 to € 7.8 million in Q3 2008, this corresponds to an increase of 34% despite a lower number of units sold. Gross profits rose by 41% in the third quarter of 2008, from € 3.9 million in Q3 2007 to € 5.5 million in Q3 2008. The more specific municipal waste incineration policies recently introduced by the Chinese government have provided a much clearer picture of future geographical distribution and demand for waste incineration projects. This allows the Company to focus on these targets proactively.

Engineering, Procurement and Construction Project (EPC Project)

The Company signed the Datong Project during 2008 and the overall construction period will last for 18 months. The »percentage of completion« method is being used for this major contract, which means that the Datong project will contribute to 2008 revenues and earnings. In the third quarter of 2008, the Company started to recognise 20% of revenue for the Datong project. Recognition was based on the percentage of the cost the Company incurred installing the project. Based on current progress, approximately 50% of the project is expected to be completed before the end of this year.

Net Worth

Amounts in k€	30 September 2008	31 December 2007
Non-current assets	8,126	3,446
Current assets	124,032	101,090
Equity	122,960	98,628
Liabilities	9,198	5,908
Balance sheet total	132,158	104,536

The balance sheet total on 30 September 2008 amounted to € 132.2 million. The increase in non-current assets is primarily due to an increase in fixed assets as construction in progress rose by nearly € 4.0 million, being mainly attributable to the construction of the Beijing plant. Current assets rose from € 101.1 million to € 124.0 million mainly due to an increase in trade and other receivables as well as an increase of nearly € 13.8 million in cash and cash equivalents. The latter amounts to € 97.6 million representing approximately 79% of the current assets. Equity increased by € 24.3 million to € 123.0 million and as a result the Company maintained a very strong equity ratio with no debt from the bank. The increase in working capital of 53% is mainly due to the rise in trade receivables from larger scale projects.

Financial Position

Amounts in k€	Q3 2008	Q3 2007	Change %	Q1-3 2008	Q1-3 2007	Change %
Cash flow from operating activities	183	3,683	-95	13,618	7,374	85
Cash flow from investment activities	236	(117)	-	(2,083)	(165)	-
Cash flow from financing activities	(2,625)	69,094	-	(2,667)	68,384	-

The free cash flow during the period amounted to negative € 2.2 million. In particular this is as a result of capital expenditure in the Beijing plant, decreasing working capital due to lower prepayments and a negative cash flow from financing activities due to dividends paid to shareholders.

Patent

The international patent for waste incineration technology based on double-loop pyrolysis has been granted. And the patent applications for a municipal waste gasification power generation system and distributing device for municipal waste incinerators have been submitted to the authorities.

Partnerships

In accordance with the Contract Law of the People's Republic of China, ZhongDe Group signed a contract with the Environmental Science and Engineering College at Nankai University to develop technology for a dioxin decomposition technique through catalytic oxidation for waste incinerators. The working partnership began during the period under review and Nankai University has embarked on small experiments of dioxin-like and dioxin as gas components to test and evaluate the properties of the catalyst.

Postdoctoral Scientific Research Station

With comprehensive regulations and workflows for the Postdoctoral Scientific Research Station now formulated, research subjects are being drawn up within related departments. The Company is striving to become a demonstration unit for the Environmentally Sustainable Management of Medical Waste project in China, and has collected, collated and prepared the relevant information.

Production

Upgrading and improving manufacturing equipment has greatly improved production capacity. For example, the waste pyrolysis incinerator production line: production capacity has doubled as a result of the relevant site and staff remaining unchanged.

Manufacturing techniques for cylinder, deduster, tube plate hole and baiting have been improved, saving on raw material and controlling production costs.

The manufacturing technique and workflow, together with manufacturing control, are gradually improving to maximize productivity and to meet the needs of changing markets. Dividing the work into specific areas and bringing together the specialist elements of the production process helps to improve the product quality and lower the overall costs. In doing so, a number of advantages can be seen, from helping to strengthen technological processes so they become more focused on key procedures, to ensuring a more efficient production management process.

Material consumption controlling procedures have been standardised and specified control of the warehouse material and production costs control implemented to reduce costs.

International Marketing

As demand for waste disposal rapidly gathers pace in developing countries, the Company is in an ideal position to capture the potential growth in this market. It has been actively exploring overseas markets and seeking business cooperation models. Several overseas waste disposal projects, with capacity ranging from 10–1000 tonnes, are at the negotiation and preparation stages, such as projects in Turkey, Vietnam, Malaysia and Nigeria.

Outlook

In the period under review, the Company made important progress in the market for large-scale incinerators with power generation. This was fuelled by the Chinese government's ongoing policies favouring a reduction in pollution and its support for enterprises involved in renewable and sustainable energy, along with the Company's ability to successfully consolidate its strong performance in the small and midsize incinerator market.

Furthermore, the Company is making excellent progress in implementing its key strategy to expand the value chain into waste incineration plant operations, thereby generating recurring revenues and manifesting its market position in this segment. Of the six BOT projects subject to a letter of intent at the time of the IPO, four have already been confirmed. The remaining two are at an advanced stage of negotiation. Both projects are expected to be signed in Q4 2008.

The construction of the second production plant at Beijing and the development of the infrastructure for the waste disposal and electricity generation project in Datong (total contract volume of approximately € 30 million) are well underway. It is expected that the Datong project will be completed in 2009 and will already contribute to 2008 revenues and earnings on a »percentage of completion« basis.

Several senior engineers in waste incineration technology development – an expert from Germany among them – will join the Company in the fourth quarter of 2008 to further improve its research and development capability and thus maintain its technological leadership.

The Company continues to adhere to its initial forecast that revenues for the full financial year 2008 will amount to € 50 million with a net profit margin above 45%.

ZhongDe Group's business is successfully progressing through its long-term growth strategy untouched by the general turbulence of the financial markets. The Company is confident that it can continue to take advantage of the huge potential offered by the Chinese waste incineration market and deliver the results its shareholders expect. All projects are well on track and the Company reiterates its belief that shareholders will see pleasing results at the end of 2008.

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Financial Statements – ZhongDe Waste Technology AG

06.1 Interim consolidated balance sheet

for the period from 1 January to 30 September 2008

Amounts in k€	30 September 2008	31 December 2007
ASSETS		
Non-current assets		
Equipment	1,224	887
Construction in progress	4,148	149
Intangible assets	2,241	2,050
Deferred tax assets	513	360
	8,126	3,446
Current assets		
Inventories	3,959	2,613
Trade receivables	20,079	14,160
Other receivables and prepayments	2,372	482
Amounts due from related parties	15	8
Cash and cash equivalents	97,607	83,827
	124,032	101,090
Total assets	132,158	104,536
LIABILITIES AND EQUITY		
Capital and reserves		
Share capital	13,000	13,000
Capital reserves	69,422	69,422
Statutory reserves	3,657	3,657
Retained earnings	31,000	14,213
Foreign exchange difference	5,881	(1,664)
	122,960	98,628
Liabilities		
Trade payables	2,017	1,235
Other payables and accruals	6,167	3,903
Provisions	801	655
Amounts due to related parties	169	75
Income tax payable	44	40
	9,198	5,908
Total liabilities and equity	132,158	104,536

06.2 Interim consolidated statement of income and expenses

for the period from 1 January to 30 September 2008

Amounts in k€	Q3 2008	Q3 2007	Q1-3 2008	Q1-3 2007
Sales	15,563	8,541	35,655	23,558
Cost of sales	(7,698)	(2,483)	(13,937)	(7,443)
Gross profit	7,865	6,058	21,718	16,115
Other operating income	30	3	59	6
Selling and distribution expenses	(462)	(133)	(1,417)	(659)
Administrative expenses	(533)	(514)	(1,488)	(1,075)
Research and development expenses	(111)	(51)	(280)	(151)
Other operating expenses	(472)	(188)	(1,413)	(297)
Profit from operations	6,317	5,175	17,179	13,939
Finance income	808	414	2,149	481
Finance costs	(675)	(10)	(717)	(38)
Profit before income tax	6,450	5,579	18,611	14,382
Income tax	65	(32)	126	(26)
Profit for the period	6,515	5,547	18,737	14,356
Earnings per share	0.50	0.43	1.44	1.10

06.3 Interim consolidated statement of changes in equity

for the period from 1 January to 30 September 2008

Amounts in k€	Share capital AG	Capital reserves/ other reserves	Retained earnings	Foreign exchange differences	Total equity
Balance as at 1 January 2008	13,000	73,079	14,213	(1,664)	98,628
Net profit for the period	–	–	18,737	–	18,737
Dividend paid for the year 2007	0	0	(1,950)	0	(1,950)
Foreign exchange differences	–	–	–	7,545	7,545
Balance as at 30 September 2008	13,000	73,079	31,000	5,881	122,960

06.4 Interim consolidated statement of cash flow

for the period from 1 January to 30 September 2008

Amounts in k€	Q3 2008	Q3 2007	Q1-3 2008	Q1-3 2007
Profit before income tax	6,450	5,579	18,611	14,382
Adjustments for				
Amortization of intangible assets	11	0	32	0
Allowance for doubtful trade debts	(3)	148	71	455
Provision for warranty	18	(72)	82	80
Depreciation of property, plant and equipment	60	15	152	39
Gains/losses PPE	5	0	5	0
Interest income	(808)	(415)	(2,149)	(481)
Interest expense	675	10	717	38
Operating cash flows before working capital changes	6,408	5,265	17,521	14,513
Working capital changes				
(Increase) / decrease in				
Inventories	(1,172)	161	(1,345)	(538)
Trade receivables	(2,900)	(2,517)	(5,991)	(9,472)
Other receivables and prepayments	1,936	5,475	(1,890)	(297)
Amounts due from related parties	(1)	235	(7)	1,416
Increase / (decrease) in:				
Trade payables	748	264	783	795
Other payables, provisions and accruals	(5,686)	(5,195)	2,328	1,434
Amounts due to related parties	66	(474)	94	(244)
Cash generated from / (used in) operations	(601)	3,214	11,493	7,607
Interest received	808	415	2,149	481
Income tax paid	(24)	54	(24)	(714)
Net cash generated from operating activities	183	3,683	13,618	7,374
Cash flow from investing activities				
Payments in connection with the short-term financial management of cash investments	(3,000)	0	(8,200)	0
Receipts in connection with the short-term financial management of cash investments	5,200	0	10,200	0
Purchase property, plant, equipment, intangible assets, land use rights	(1,964)	(117)	(4,083)	(165)
Cash flow used in investing activities	236	(117)	(2,083)	(165)
Cash flow from financing activities				
Proceeds from IPO, gross	0	75,000	0	75,000
IPO-costs (charged to equity)	0	(5,897)	0	(5,897)
Short-term bank loans	0	1	0	(681)
Interest paid	(675)	(10)	(717)	(38)
Dividends paid to shareholders	(1,950)	0	(1,950)	0
Cash flow from financing activities	(2,625)	69,094	(2,667)	68,384
Net increase in cash and cash equivalents	(2,206)	72,660	8,868	75,593
Cash at beginning of year	89,521	11,652	78,827	9,198
Foreign exchange differences	7,292	1,647	6,912	1,168
Cash at end of period	94,607	85,959	94,607	85,959

06.5 Selected notes to the interim consolidated financial statements

for the period ending 30 September 2008

General

The interim consolidated financial statements for the period 1 January to 30 September comprise all subsidiaries of ZhongDe Waste Technology AG. These subsidiaries are located in the People's Republic of China (PRC) except for the interim holding company Chung Hua Environmental Protection Assets (Holdings) Group Ltd., Hong Kong. Fujian FengQuan Environmental Protection Equipment Ltd., Fuzhou, incorporated four subsidiaries to settle four BOT projects. In 2008, these subsidiaries were consolidated for the first time, which does not have any effect on the interim consolidated financial statements.

Basis of preparation

The interim consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU at the balance sheet date, and the additional requirements of German commercial law pursuant to sec. 315a (1) »Handelsgesetzbuch «; the German Commercial Code (HGB). The interim consolidated financial statements comply with all IFRSs that had to be adopted by the balance sheet date.

With regard to the preparation of the interim consolidated financial statements, in accordance with IAS 34 »Interim Financial Reporting«, the Management Board is required to make estimates and judgements which influence the application of accounting policies within the Company, and the reporting of assets and liabilities as well as income and expenses. Actual amounts can differ from these estimates.

Significant accounting policies

The accounting policies applied by the Group in the interim consolidated financial statements generally correspond to the methods applied by ZhongDe Waste Technology AG in its consolidated financial statements for the year ending 31 December 2007. For further details please refer to the consolidated financial statements available on the Company's website: www.zhongdetech.com.

Income that may have been recorded during the reporting period for seasonal reasons, whether due to cyclical developments or occasional developments, is not cut off in the interim consolidated financial statements. Expenses that are incurred irregularly during the reporting period have been cut off in those cases where they would also be cut off at year-end.

In the third quarter of 2008, construction contracts were reported using the percentage-of-completion-method (POC method) for the first time. The stage of completion is determined by the ratio of costs incurred compared to the expected total cost (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€ 35,655 include an order income of k€ 6,060 from ongoing production orders identified with the POC method. The accumulated costs of sales for these orders are k€ 5,102, the accumulated gross profit is k€ 958.

Since the payments (k€ 10,047) exceed the »receivables from POC« (k€ 6,060), the resulting amount of k€ 3,987 is disclosed under other payables and accruals.

Segment analysis and information

→ A. Business segments

The Group's operating businesses are organised into two business segments: municipal waste incinerators and medical waste incinerators. In 2008, the development of the business segments was finalised with the addition of the construction contract business (complete sets of incineration plants with electricity generation). Although there are currently no sales, the percentage of completion accounting method is applied.

→ B. Geographical business

The Group is principally engaged in the design and manufacture of various incinerators in the PRC, where all of its customers are based. In addition, all identifiable assets of the Group are principally located in the PRC. Therefore no geographical segment analysis is presented.

→ C. Allocation basis

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

Inter-segment sales are eliminated on consolidation.

The following table presents revenue and results information regarding the Group's business segments for the first nine months of 2008:

Amounts in k€	Q3 2008	Q3 2007	Q1-3 2008	Q1-3 2007
Sales to external customers				
Medical waste incinerators	1,677	2,710	2,136	8,421
Municipal solid waste incinerators	7,826	5,831	27,459	15,137
Sale of construction contract (EPC Project)	6,060	0	6,060	0
	15,563	8,541	35,655	23,558
Results				
Medical waste incinerators	1,371	2,130	1,731	6,520
Municipal solid waste incinerators	5,536	3,928	19,029	9,595
Sale of construction contract	958	0	958	0
Unallocated income / expenses	(1,415)	(479)	(3,107)	(1,733)
Profit from operations before tax	6,450	5,579	18,611	14,382
Income tax expenses	65	(32)	126	(26)
Profit for the year	6,515	5,547	18,737	14,356

Functional and Presentation Currency

	30 September 2008	30 September 2007
Exchange rate RMB/€ at the end of the period	9.7954	10.6429
Average exchange rate RMB/€ for the first three quarters	10.6304	10.0100

The functional currency of the Company is RMB.

Income tax

The interim consolidated financial statements reflect only minor income taxes due to the status of the main operating company (Fujian FengQuan Environmental Protection Equipment Co., Ltd) as a »Foreign owned entity« company. Because of its tax status FengQuan is exempt from income taxes for 2007 and 2008.

Cash fund

Amounts in k€	Q1-3 2008	Q1-3 2007
Cash at end of period	94,607	85,959
Short-term financial management of cash investments	3,000	0
Cash and cash equivalents (balance sheet)	97,607	85,959

Events after Balance Sheet Date

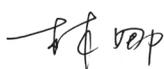
There have been no events since 30 September 2008 that would require an adjustment to the carrying amount of the assets and liabilities, or that would need to be disclosed under this heading.

Hamburg, 28 November 2008
ZhongDe Waste Technology AG

On behalf of the management



Zefeng Chen
Chairman of the
Management Board (CEO)



Na Lin
Member of the
Management Board (CFO)

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Responsibility Statement by management

»To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the shortened interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group, and the shortened interim management report of the Group includes a fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.«

Hamburg, 28 November 2008
On behalf of the management



Zefeng Chen
Chairman of the
Management Board (CEO)



Na Lin
Member of the
Management Board (CFO)

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Cautionary Note Regarding Forward-Looking Statements

This interim report contains certain forward-looking statements. These statements may be identified by words as »expects,« »looks forward to,« »anticipates,« »intends,« »plans,« »believes,« »seeks,« »estimates,« »will,« or words of similar meaning. Such statements are based on current assumptions, expectations, and forecasts on future sector trends, on future legal and commercial developments, and on the future development of ZhongDe Group. These assumptions, expectations, and forecasts are no guarantee for future performance and are subject to change at any time, and are therefore subject to certain risks and uncertainties. A variety of factors, many of which are beyond ZhongDe Group's control, affect its operations, performance, business strategy and results, and could cause the actual results, performance or achievements of ZhongDe Group to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements.

For us, particular uncertainties arise, among others, from: changes in general economic and business conditions; changes in the regulatory environment; the introduction of competing products or technologies by other companies; changes in business strategy; our analysis of the potential impact of such matters on our financial statements; as well as various other factors. More detailed information about our risk factors and key factors affecting our results and operations is contained in ZhongDe's Securities Prospectus, which is available on the ZhongDe website, www.zhongdetech.com. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement as expected, anticipated, intended, planned, believed, sought, estimated or projected. ZhongDe does not intend, or assume any obligation, to update or revise these forward-looking statements in the light of developments which differ from those anticipated as not otherwise provided by law.

The English translation of this interim report is for convenience purposes only. Exclusively binding in legal terms is the German version of this interim report.

About ZhongDe Waste Technology AG



ZhongDe Waste Technology AG is listed on the German Stock Exchange (German Securities Identification Number ZDWT01, ISIN DE000ZDWT018, ticker symbol ZEF). Correspondingly, with effect from 1 January 2005, the Company is obliged to prepare its consolidated interim reports in conformity with international accounting standards, as provided by the EU »Regulation adopting certain international accounting standards«, adopted in accordance with the procedure set forth under Article 6 (2) of the aforementioned regulation. This interim report was prepared and published pursuant to IAS³⁴ of the International Financial Reporting Standards (IFRS). The interim report's scope of consolidation comprises three fully consolidated affiliates.

ZhongDe Group designs, manufactures and installs pyrolytic, grate and rotary kiln waste incinerators for the disposal of solid municipal, industrial (including hazardous) and medical waste, as well as complete sets of incineration plants with electricity generation.

Since 1996, ZhongDe Group has installed approximately 190 waste incinerators in about 13 provinces, and more than 130 waste incinerators in the last three financial years alone. Its waste incinerators are principally constructed for small and mid-sized Chinese cities in developed areas of the People's Republic of China, as well as for operators of medical disposal centres in the hospital and healthcare industry. ZhongDe Group is one of the leading suppliers of small and mid-sized solid waste incinerators in China, supplying state-of-the-art products.

Financial Calendar

Date*	Event
30 April 2009	Annual financial statement 2008
29 May 2009	Interim Report on the first quarter 2009
31 August 2009	Interim report for the first half of 2009
November 2009	German Equity Forum of Deutsche Börse, Frankfurt/Main
30 November 2009	Interim report for the third quarter of 2009

* all dates are provisional and may be subject to change.



Contact

This interim report, recent reports, and additional information are available on the internet at:
www.zhongdetech.com and www.zhongdetech.de

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