

Clean **Technology** *for the* *Future*

ZhongDe Waste Technology AG
Annual Report 2016



ZhongDe Waste Technology AG



OVERVIEW FINANCIAL HIGHLIGHTS

in k€	2016	2015	Change
Operational data			
Order intake ¹⁾	0	0	0.0%
Order backlog ²⁾	64,850	135,583	-52.2%
Revenues	71,295	38,238	+86.5%
Gross result	-639	-1,739	-63.2%
Gross profit margin	-1%	-5%	+4 pp
Cost of sales	-71,934	-39,977	-79.9%
EBITDA adjusted	707	-11,238	>+100.0%
EBITDA adjusted margin	1%	-29%	+30 pp
EBITDA	61,169	-11,238	>+100.0%
EBITDA margin	86%	-29%	+115 pp
EBIT	67,901	-13,220	>+100.0%
EBIT margin	95%	-35%	+130 pp
Profit (+) / loss (-) after income taxes	64,566	-16,141	>+100.0%
Net income margin	91%	-42%	+133 pp
Earning (PY: Loss) per share (in EUR)	5.12	-1.28	>+100.0%
Cash flow data			
Cash flow used in / from operating activities	-164,161	-27,875	<-100.0%
Cash flow from investing activities	60,801	-70	>+100.0%
Cash flow from financing activities	32,702	54,795	-40.3%
Balance sheet data			
Total assets	152,477	285,667	-46.6%
Property, plant and equipment	20	412	-95.1%
Net working capital ³⁾	126,256	44,788	>+100.0%
Cash and cash equivalents	1,324	75,842	-98.3%
Long-term liabilities	0	82,277	-100.0%
Shareholder's Equity	125,276	104,554	19.8%
Headcount (as at 31 December)	50	370	<-100.0%

¹⁾ Average exchange rate for the period used for translation.

²⁾ Exchange rate as of 31 Dec 2016 and 31 Dec 2015 used for translation.

³⁾ Current Asset – Current Liabilities

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SUPERVISORY BOARD REPORT

Dear Shareholders,

In the fiscal year 2016, ZhongDe Waste Technology AG and its affiliated entities (the "**ZhongDe-Group**"), firstly continued to focus on the current BOT- and EPC-projects. Especially the BOT-project in Lanzhou has made huge progress. In the middle of the year it was possible to start the experimental phase to generate electricity. The progress of other BOT-projects unfortunately developed less positive – which mainly resulted from outstanding governmental approvals and from the fact that too less waste was available for the incineration. Another focus of the work of the Supervisory Board was the consulting of the Executive Board in connection with the sale of the shares in Chung Hua Environment Protection Assets (Holding) Group Ltd., Hong Kong ("**Chung Hua**"), an 100% subsidiary of ZhongDe Waste Technology AG. Chung Hua is the intermediate holding company of the ZhongDe-Group, which holds the shares in the majority of the operating companies, carrying out the BOT-projects in China. On 28 December 2016, the sale of Chung Hua was completed. The negotiations with the purchaser, Capital Yield Group Limited, Hong Kong, were extensively consulted with the Executive Board during the selling process. Upon the effectiveness of the Chung Hua sale, the Company is for the time being not engaged in any BOT-projects.

With regard to the EPC-projects remaining with the Company, good progress has been made during 2016. Both the project in Wuhai and the project in Dingzhou have restarted with construction during the course of the year.

In the year 2016 personnel changes in the Supervisory Board occurred. The former Chairman of the Supervisory Board Mr. Gerrit Kaufhold, as well as the Deputy Chairman, Prof. Dr. Bernd Neukirchen, resigned from their office as members of the Supervisory Board with effect from the end of 30 September 2016. The former member of the Supervisory Board Mr. Feng-Chang Chang resigned from his office with effect as of 15 October 2016. By decision of the local court of Frankfurt/Main dated 24 October 2016, Prof. Chuantong Li, Mr. Triomphe Zheng Lin and Ms. Li Zhuang were appointed as members of the Supervisory Board with immediate effect until the end of the next general shareholders' meeting.

Further details on the Supervisory Board's work during the fiscal year 2016 are set forth in the following.

Supervision of and Cooperation with the Executive Board

The Supervisory Board carried out its supervisory, monitoring and advisory functions assigned to it by statutory law, the Articles of Association of ZhongDe Waste Technology AG, the rules of procedure (*Geschäftsordnung*) for both the Executive Board and the Supervisory Board and the German Corporate Governance Code with great care during the reporting period. The

Supervisory Board always critically and constructively accompanied the Executive Board during the financial year 2016 and was involved in decisions of significant importance.

The Executive Board regularly provided the Supervisory Board with the reports required by law and/or the articles of association during the reporting period. The reports particularly covered the business development – including, where applicable, explanations on deviations of the actual business development from business plans –, the planning, strategy, profitability, cash flow, the progress of major projects as well as potential new projects, new economic and legal developments, compliance and the risk situation as well as the risk management. As far as further questions arose from the reports, the Supervisory Board addressed these questions and worked towards – oral or written – follow up reports.

To supervise the project management, the real development of the projects and the project quality some members of the Supervisory Board visited project locations.

The Supervisory Board thoroughly discussed and agreed upon the strategy of ZhongDe-Group with the Executive Board. All events and developments with major significance for ZhongDe-Group were discussed with the Executive Board. Furthermore, a particular focus of the Supervisory Board's work during the reporting period was the enhancement of ZhongDe's cash position.

The former and current Chairman of the Supervisory Board were in regular contact with the Executive Board to exchange actual information, particularly with respect to current business developments and major events for the ZhongDe-Group.

Supervisory Board Meetings

During the fiscal year 2016, the Supervisory Board held in total nine meetings, seven of them by means of conference call and two of them as real, physical meetings. These meetings were attended by all members of the Supervisory Board. The majority of the meetings was attended by all members of the Executive Board, as well. The huge number of meetings was due to the personal changes and designed to make the new Supervisory Board members swiftly familiar with the Company's affairs.

No conflicts of interests of members of the Supervisory Board occurred during the reporting period.

The main topics at each Supervisory Board meeting were the financial and economic condition of the Company and ZhongDe-Group, the development of several current BOT- and EPC-projects, the business policy and business strategy as well as the profitability. In this context, the respective quarterly numbers as well as any deviations from the business plans are discussed. Furthermore, the Executive Board and the Supervisory Board regularly discuss the

short- and mid-term strategy of ZhongDe-Group. The Supervisory Board also regularly uses the meetings to advise on the economic development and the strategy of the Company with the Executive Board. Transactions requiring prior approval also form a standard agenda item of the Supervisory Board meetings.

Apart from the aforesaid general topics, the central topics of the meetings of the Company's Supervisory Board that have been held in the financial year 2016 can be summarised as follows:

In the first Supervisory Board meeting held on **16 March 2016**, the Supervisory Board dealt with the status and the development of the projects of the Company, particularly the projects in Wuhai, Lanzhou and Dingzhou. The progress of the projects was dealt with, and the reasons for the delay of the projects were intensively discussed with the Executive Board.

The main topics of the Supervisory Board meeting held on **27 April 2016** were the annual discussion and approval of the audited individual financial statements of the Company and the audited consolidated financial statements of ZhongDe-Group as of 31 December 2015. The auditor and – at the same time – the group auditor as well as the members of the Executive Board were present at the meeting. The auditor and the group auditor reported on the main results of the audit. These were thoroughly discussed between the Executive Board and the auditor and group auditor. In this context, the Supervisory Board discussed in particular the auditor's observations and the potential enhancements of the accounting, the project controlling, the financing plan and the risk early detection system.

Thereafter, based on its own review and based on the results of the Supervisory Board meeting, the Supervisory Board approved the individual financial statements and the consolidated financial statements as of 31 December 2015. In the following, the status of the preparation of the general shareholders' meeting of the Company as well as the status of the Lanzhou-project were discussed.

The topics of the extraordinary Supervisory Board meeting held on **9 June 2016** were the resignation of Mr. William Jiu Hua Wang from his office as Chief Financial Officer of the Company, the current situation of the Company, including the cash position, and the status of the project in Lanzhou.

The Supervisory Board meeting held on **27 June 2016** in connection with the general shareholder's meeting, dealt in particular with the actual business development and the outlook for the fiscal year 2016. In this context Mr. Chen gave detailed account of the current projects. Further, the audit of the liquidity positions of the ZhongDe-Group during the year was discussed. Further topic of this Supervisory Board meeting was the search for a qualified candidate as successor of Mr. Wang as Chief Financial Officer.

The last Supervisory Board meeting in its former composition held on **26 September 2016** primarily focussed on the further business development and the outlook until 31 December 2016. In this context several projects and their status as well as the reasons for any delays and the lack of the utilization of some projects due to lacking waste volume were discussed in detail. Afterwards, the negotiations with a potential buyer for the shares in the Company's subsidiary Chung Hua Environment Protection Assets (Holding) Group Ltd., Hong Kong were dealt with intensively. At the end of the discussion the Supervisory Board approved both to progress with the negotiations and the sale under certain conditions.

The Supervisory Board members appointed by the court held a constitutive meeting on **25 October 2016** in which Prof. Chuantong Li was appointed as Chairman of the Supervisory Board and Mr. Triomphe Zheng Lin as his Deputy.

In the Supervisory Board meeting held on **28 October 2016** the Supervisory Board discussed the business development in China and subsequently approved the capital increase in the 100% subsidiary ZhongDe (China) Environmental Protection Co., Ltd. of up to EUR 128 million. The purpose is to set up a wholly-owned subsidiary carrying out commodities trading.

Supervisory Board Committees

The Supervisory Board of ZhongDe Waste Technology has not established any committees. In order to constitute a quorum, Supervisory Board committees require at least three members. As the Supervisory Board of the Company comprises only three members, the establishment of committees does not promise any advantages.

Corporate Governance

Executive Board and Supervisory Board avow themselves being committed to good corporate governance that is considered as a central part of the Company's management in order to achieve sustainable growth of the Company. Consequently, during the fiscal year 2016 – like in previous years – the Supervisory Board regularly dealt with compliance with corporate governance standards within the Company and ZhongDe-Group. Further information about corporate governance within ZhongDe-Group can be found in the Declaration of Corporate Governance pursuant to sec. 289f of the German Commercial Code, which also contains the Corporate Governance Report pursuant to sec. 3.10 of the German Corporate Governance Code and which is reproduced on pages 14 et seqq. of this annual report. The annual compliance statement pursuant to sec. 161 German Stock Corporation Act was jointly adopted by the Executive Board and the Supervisory Board and was published on ZhongDe-Group's website on 17 May 2018.

Individual and Group Financial Statements 2016

The individual financial statements of ZhongDe Waste Technology AG (*Einzelabschluss*) have been prepared in accordance with the German generally accepted accounting principles. The consolidated financial statements of ZhongDe-Group were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union (EU).

The general shareholders' meeting of the Company held on 28 June 2016 has elected Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft as auditor of the Company and ZhongDe-Group. The Supervisory Board has satisfied itself of the auditor's (and at the same time group auditor's) independence and thereupon awarded the audit order in accordance with the requirements of statutory law and the recommendations of the German Corporate Governance Code.

The auditor and at the same time group auditor examined the individual and the consolidated financial statements as of 31 December 2016, the status report and the group status report as well as the report of the Executive Board on the relations to affiliated entities and issued a disclaimer of opinion.

The aforesaid documents, including the report of the auditor, were distributed to all Supervisory Board members. The Supervisory Board comprehensively reviewed the documents in its meeting on 18 May 2018 in the presence of the Executive Board and the auditor and group auditor. The auditor and group auditor reported on the main results of the audit and on the scope, focal points and costs of the audit. The Executive Board explained the financial statements in the meeting. Both the Executive Board and the auditor and group auditor were available for questions and additional information. On the basis of its own examination and discussion of the aforesaid documents, the Supervisory Board came to the conclusion that despite the disclaimer of opinion by the auditor and at the same time group auditor no objections are to be raised with respect to the reports. The Supervisory Board therefore approved the individual and consolidated financial statements. The individual financial statements of ZhongDe Waste Technology AG for the time period from 1 January until 31 December 2016 are thereby adopted.

The Supervisory Board also agrees with the deliberations of the Executive Board in the status report and the group status report, particularly with regard to the further business development.

Dependency Report

In its meeting on 18 May 2018, the Supervisory Board further reviewed the report prepared by the Executive Board on the Company's relations to affiliated entities in accordance with section 312 of the German Stock Corporation Act as well as the related audit report prepared by the auditor. According to the report of the Executive Board, the Company has received

adequate consideration for all transactions entered into with the controlling enterprise or caused by the controlling enterprise and has not suffered any other disadvantages at the instigation of the controlling enterprise. The auditor and at the same time group auditor examined the report prepared by the Executive Board on the Company's relations to affiliated entities and furnished it with a disclaimer of opinion.

The auditor attended the deliberations of the Supervisory Board on 18 May 2018 and explained the main results of the audit. On the basis of its own examination and discussion of the dependency report, the Supervisory Board came to the conclusion that despite the disclaimer of opinion by the auditor and at the same time group auditor no objections are to be raised with respect to the report prepared by the Executive Board on the Company's relations to affiliated entities and the statements of the Executive Board at the end of the report.

Proposal for the Appropriation of Net Profits

In light of the current circumstances, particularly with regard to the net profit in the amount of EUR 64,565,861 reported in the consolidated financial statements for the fiscal year 2016, the Supervisory Board further agrees with the proposal of the Executive Board not to distribute the balance sheet profit for the fiscal year 2016 in the amount of EUR 43,393,579 to the shareholders but to carry forward the entire profit for new account. Executive Board and Supervisory Board agree that for the time being it is more important to maintain the solid capital position of the Company and ZhongDe-Group.

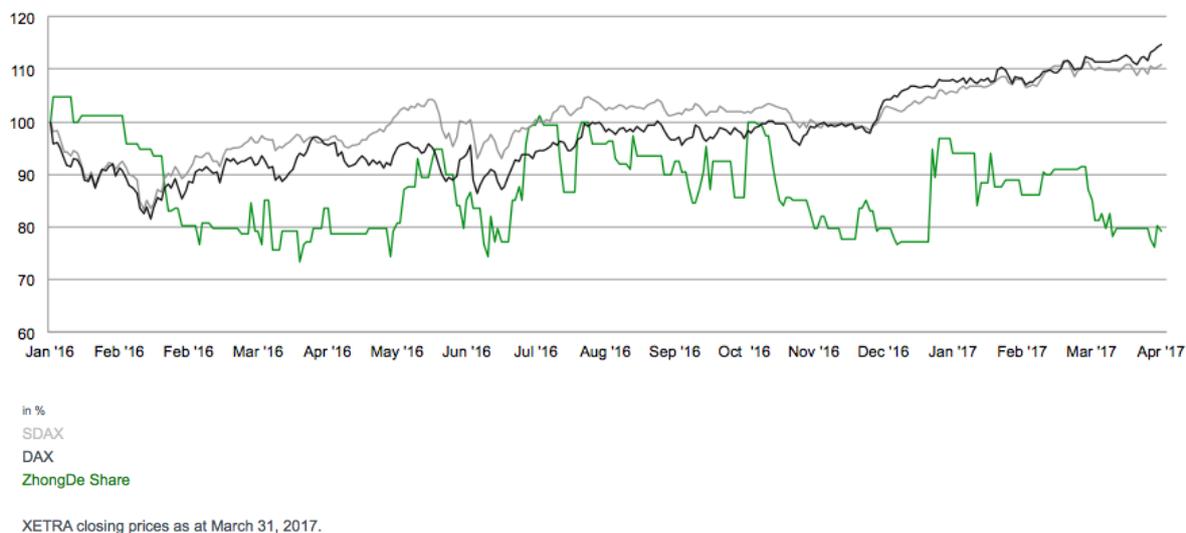
Acknowledgements

The Supervisory Board would like to thank the employees of ZhongDe-Group and the Executive Board of the Company for their commitment during the past year.

Frankfurt/Main, Mai 2018

The Supervisory Board
Professor Chuantong Li
Chairman of the Supervisory Board

ZHONGDE SHARE



German stock market asserts itself in volatile environment

Over the last year, the German capital market developed positively despite some turbulences. The drastic political developments like the U.S. presidential election, the Brexit vote and the Italian government crisis caused partly less fluctuations than expected. Furthermore, the ongoing weak economy in China and the decline in the oil price had a negative impact in the stock markets. The main positive factors for the overall positive development were the expansionary monetary policy of the central banks, the low interest rate environment and the positive economic outlook.

The price of the german share index developed accordingly volatile, but nevertheless positively with a plus of 7%. The DAX in 2016 could not reach its record record of more than 12,000 points. After starting with 10,743 points into the year, the fear regarding the global economy drove the price at the beginning of February to the annual low of 8,752 points. It was not until the end of the year that he recovered and reached a peak of 11,481 points on 30 December 2016. In the first quarter of 2017, the DAX closed at 12,312 on 31 March and therefore rose by around 8%.

SDAX developed in parallel. Overall it scored slightly worse than the DAX with an increase of 4%. After a year's high of 9,535 points the SDAX closed at 9,519 points as of 30 December 2016. Until 31 March 2017 the SDAX increased by 6% to 10,092 points.

Share price of ZhongDe continued to decline

The ZhongDe's share developed less negative than in the previous year and overall decreased by 11%. The ZhongDe share could not hold its year's high of € 1.96 on 4 January 2016 and

achieved a year-low of €1.38 on 14 April. During the rest of the year, changes in management, such as the resignation of the Chief Financial Officer, the Chairman of the Supervisory Board and his deputy, led to further price fluctuations. On 30 December 2016 the ZhongDe share was trading at €1,68. The 2017 year has not shown any improvement for the ZhongDe share price and amounted to EUR 1.49 on 31 March 2017 representing a decline of 10%.

Continuous information for shareholders

With our Investor Relations activities we would like to increase the awareness level of ZhongDe Group within the financial community and provide investors and interested parties with a transparent picture of business development. To this end, we actively seek dialogue with analysts and investors and have conducted individual discussions and telephone conferences on our business figures. Further information relevant to the capital market can be found on our website: www.zhongde-ag.com.

Basic data

ISIN	DE000ZDWT018
WKN	ZDWT01
Symbol	ZEF
Sector	Industrial
Share class	No-par values bearer shares
Share capital	13,000,000 shares
Stock market segment	Prime Standard, Frankfurt Stock Exchange

Key share indicators 2016 in EUR

Share price	
Year-end price	1.68
High	1.97
Low	1.38
Earnings per share	-0.74
Dividend per share (proposed)	0.00
Market capitalisation (as at 31 March 2017)	18,99 million

DECLARATION ON CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE REPORT

ZhongDe Waste Technology AG is committed to the principles of good and responsible Corporate Governance. Corporate Governance at ZhongDe is focused on responsible long-term value creation and is based on the German Corporate Governance Code (*Deutscher Corporate Governance Kodex*). Since its implementation in 2002, the German Corporate Governance Code, along with the statutory provisions of law, proved itself as benchmark for good Corporate Governance in Germany. Executive Board and Supervisory Board of ZhongDe Waste Technology AG therefore explicitly support the German Corporate Governance Code and its objectives.

The following Executive Board's declaration on corporate governance pursuant to section 289f of the German Commercial Code (*HGB*) forms part of the combined management report. In accordance with section 3.10 of the German Corporate Governance Code, the declaration on corporate governance also contains the corporate governance report.

Information on Corporate Governance Practice

Shareholders and General Shareholders' Meeting

The shareholders exercise their rights and voting rights at the general shareholders' meeting (*Hauptversammlung*).

Each share grants one vote in the general shareholders' meeting. Shares conferring multiple voting rights or limited voting rights or preferred shares do not exist. The shareholders are entitled to exercise their voting rights in the general shareholders' meetings in person or by proxy, for which they can authorise a representative of their choice or a company-nominated proxy acting on their instructions.

The invitation for the general shareholders' meetings includes explanations on the provisions on the attendance, the procedure pertaining to the exercise of voting rights (in person or by proxy) as well as the rights of the shareholders. All reports and documents which are required by law to be made available for general shareholders' meetings, including the annual report, will be published on the Company's website at www.zhongde-ag.com/investor_relations/hauptversammlung.html together with the agenda. After completion of the general shareholders' meeting, the actual quorum and the voting results will also be published on said website.

Responsibilities and Composition of the Executive Board and the Supervisory Board

In accordance with statutory requirements, ZhongDe Waste Technology AG has a so-called two-tier governance system which is characterised by the Executive Board and the Supervisory Board being two separate and independent governing bodies. The Executive Board and the Supervisory Board work closely together in the interest of the Company. Their common goal is to ensure the continued existence of the Company and its sustainable growth.

The members of the Executive Board are appointed by the Supervisory Board, which also determines the number of the members of the Executive Board. Currently, the Executive Board of ZhongDe Waste Technology AG consists of one member, Mr. Zefeng Chen (Chief Executive Officer) after the Chief Financial Officer Mr. William Jiuhua Wang resigned from his office in June 2016.

The Supervisory Board is composed in accordance with sections 95 and 96 of the German Stock Corporation Act (*Aktiengesetz*) and consists of three members. The current members of the Supervisory Board are Mr. Prof. Chuantong Li (Chairman), Mr. Triomphe Zheng Lin (Deputy Chairman) and Ms. Li Zhuang. All of them were appointed as members of the Supervisory Board with immediate effect by decision of the regional court of Frankfurt/Main dated 24 October 2016. The members appointed by the court will be proposed to be duly appointed as members of the Supervisory Board by the next general shareholders' meeting.

Executive Board

The Executive Board is responsible for managing the Company, developing the Company's strategy, agreeing this strategy with the Supervisory Board and implementing it. This includes the steering of the group, the management and investment policy pertaining to the financial resources, the development of personnel strategy, the recruitment of key employees and the presentation of ZhongDe Group to the capital market and the public domain. The Executive Board is obliged to inform the Supervisory Board continuously, timely and comprehensively on all matters which are relevant for ZhongDe Group. In urgent cases, it has to immediately inform the chairman of the Supervisory Board. For certain business transactions and measures as more specifically set forth in the by-laws for the Executive Board, the Executive Board requires the Supervisory Board's prior approval. The members of the Executive Board are obliged to disclose conflicts of interest to the Supervisory Board. The Supervisory Board has to report on any conflicts of interest to the shareholders. In the financial year 2016, no conflicts of interest that would have had to be disclosed and/or reported to the Supervisory Board occurred.

By resolution dated 8 September 2015, the Executive Board has determined objectives for the composition of the senior management team at the Company. Pursuant to these objectives, the Executive Board has set the objective that 30% of the Company's senior management team shall be women.

Supervisory Board

The main task of the Supervisory Board is to control and advise the Executive Board, the decision on the approval of business transactions requiring the Supervisory Board's prior approval as well as the review and approval of the annual financial statements of the Company. The Supervisory Board is furthermore responsible for the appointment of the members of the Executive Board and the determination of their remuneration. The Executive Board provides the Supervisory Board with regular reports and updates on business policy and all issues of relevance for the ZhongDe Group relating to the strategy, planning, business development, the risk situation and the risk management system. The reports of the Executive Board also include the subject of compliance, i.e. the implemented means through which adherence to statutory provisions and ZhongDe Group's internal statutes is ensured. The members of the Supervisory Board are obliged to disclose conflicts of interest to the Supervisory Board. The Supervisory Board has to report on any conflicts of interest to the shareholders. In the financial year 2016, no conflicts of interest that would have had to be disclosed and/or reported occurred.

Pursuant to section 5.4.1 of the German Corporate Governance Code, the Supervisory Board has to be composed of members being in command of all required skills, qualifications and experience required for the performance of its duties. The Supervisory Board believes to be composed in accordance with these requirements. Its chairman as professor in science and engineering is experienced in the areas waste management and waste industry, especially in China, as well as in the field of new and renewable energy technologies. Therefore, he is qualified to advise and supervise the Executive Board in all matters relating to the Company's technology. Mr. Triomphe Zheng Lin is financial adviser and accountant and is qualified and experienced in the area of business financing as well as risk management, international accounting and consulting. Furthermore, Mr. Lin's particular expertise is with Chinese companies. Ms. Li Zhuang due to her educational background and her professional experience is particularly qualified in marketing and leading operation departments.

According to section 5.4.1 para. 2 of the German Corporate Governance Code, the Supervisory Board shall specify concrete objectives regarding its composition and shall prepare a profile of skills and expertise for the entire Board. For its composition it shall consider appropriately the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interests and independence of its members, an age limit to be specified for the members of the Supervisory Board and diversity. These concrete objectives shall, in particular, stipulate an appropriate degree of female representation. The Supervisory Board thoroughly dealt with these recommendations. It complies with the requirement regarding the representation

of women, and is of the opinion that it also complies with the requirements concerning independence and potential conflicts of interest. Potential conflicts of interests are prevented by the fact that all members of the Supervisory Board are independent within the meaning of section 5.4.2 of the German Corporate Governance Code. The international operations of the Company primarily comprise Germany and China. Accordingly, the members of the Supervisory Board are of Chinese origin and due to the Australian citizenship of one member of the Supervisory Board, the internationality is taken into account adequately. In addition, one member of the Supervisory Board has outstanding knowledge of German. The Supervisory Board intends – while securing the qualification and experience of its board members – to secure this diversity and independence of its members in the future. On 7 September 2015 the Supervisory Board unanimously adopted a resolution by which it has determined that after the next election of the members of the Supervisory Board the Supervisory Board shall be composed of at least one female member. To achieve this objective Ms. Zhuang will be proposed to be appointed by the general shareholders' meetings. Respectively, the Supervisory Board has decided that by 30 June 2017 also the Executive Board should be composed by one female member out of at most totally three members. The Supervisory Board is still seeking for qualified candidates for the Executive Board, particularly to substitute the former Chief Financial Officer Mr. Wang who resigned from his office.

Committees

Neither the Executive Board nor the Supervisory Board has established any committees. Both bodies are with one (Executive Board) and three members (Supervisory Board), respectively, dimensioned in a manner that warrants efficient discussions and work. Therefore, the establishment of committees – at least at the moment – does not promise any advantages.

Remuneration of Executive Board and Supervisory Board

In accordance with the recommendations of the German Corporate Governance Code, the remuneration of the members of the Executive Board and the Supervisory Board are disclosed on an individual basis. The general rules of the remuneration system and the remuneration itself are more specifically referred to in the Remuneration Report which forms part of the management report (pages 65 et seq).

Compliance Statement

In the financial year 2016 and until the date of this report, the Executive Board and the Supervisory Board dealt with Corporate Governance issues at several occasions. On 17 May 2018, the Executive Board and the Supervisory Board jointly issued the annual Compliance Statement (*Entsprechenserklärung*) in accordance with section 161 of the German Stock Corporation Act.

The Executive Board and the Supervisory Board herewith declare that the Company has complied and will comply with the recommendations of the German Corporate Governance Code ("Code") in the version dated 7 February 2017, except for the following deviations:

Contrary to section 3.10 of the Code, the Executive Board and the Supervisory Board did not report on Corporate Governance in 2017, as the annual report in which the declaration on corporate governance containing this report is published will be published delayed in the year 2018. With regard to the financial year 2016, the Company is therefore complying with this recommendation delayed.

According to section 4.1.3 sentence 2 of the Code the Executive Board shall implement a Compliance Management System whose main features shall be published. Section 4.1.3 sentence 3 of the Code recommends to grant to employees the possibility to notify protectedly infringements of law in the Company. Due to the fact that this recommendation became just recently effective, the Company does not comply with this recommendation yet but will implement respective measures in the future.

Section 4.2.1 sentence 1 of the Code recommends that the executive board shall be comprised of several persons. Since the former Chief Financial Officer, Mr. William Jiu Hua Wang, resigned from his office on 9 June 2016, the Executive Board is only composed of the chairman Mr. Zefeng Chen. The Supervisory Board is looking for a qualified candidate for the position as CFO since the resignation of Mr. Wang, but has not succeeded so far. One candidate already worked for three months for the Company, but his performance did not meet the expectations of the Company. Thus, the Executive Board is temporarily composed of only one person. Another person, a woman, is specifically envisaged, but has not been appointed yet.

Sections 4.2.2 and 4.2.3 of the Code contain recommendations on the remuneration of members of the executive board granted by the company. Since Mr. Zefeng Chen has only signed a service agreement with a Chinese subsidiary, but not with the stock corporation itself, and since the service agreement only contains a fixed remuneration, the recommendations set forth in sections 4.2.2 and 4.2.3 of the Code do not apply insofar. The Supervisory Board is of the opinion that Mr. Chen already has a strong interest in a sustainable growth of the Company due to his significant shareholding in the Company, so that there is no need for further monetary incentives.

From June 2014 until his resignation in June 2016 a service agreement with Mr. William Jiu Hua Wang existed which contained a fixed remuneration and a variable remuneration component in the form of an annual bonus, the granting and amount (up to a contractually defined cap) of which is in the sole and free discretion of the Supervisory Board. The remuneration of Mr. Wang is generally in line with the recommendations set forth in sections 4.2.2 and 4.2.3 of the Code. The variable remuneration in the form of a discretionary bonus does however, insofar deviate from the recommendations set forth in section 4.2.3 para. 2 sentences 7 and 8 of the

Code as the parameters or targets, respectively, are not defined in advance. The Supervisory Board is of the opinion that the variable remuneration in the form of a discretionary bonus was advantageous for the Company as it allowed the Supervisory Board to judge the performance of Mr. Wang holistically from an ex post perspective and further allowed to take into account other developments such as the general standing of the Company.

Section 5.1.2 para. 2 sentence 3 and section 5.4.1 para. 2 sentence 1 of the Code recommend to determine age limits for the members of the Executive Board and the Supervisory Board. The Company has not determined such age limit and so maintains the option to appoint members of the Executive Board or the Supervisory Board that have already crossed a certain age limit on a case by case basis. The Company believes that the determination of an age limit is not useful as a general rule but rather prefers the qualification and experience of its board members as criteria.

Section 5.3 of the Code recommends the formation of committees of the Supervisory Board. The Company did not establish any Supervisory Board committees. The Supervisory Board of the Company is only composed of three members. According to the regulations for German Stock Corporations a committee of the Supervisory Board needs to consist of at least three members to constitute a quorum. Therefore, the establishment of committees does at the moment not promise any advantages.

According to section 5.4.1 para. 2, sentence 1 of the Code, the Supervisory Board shall prepare a profile of skills and expertise for the composition of the entire Supervisory Board. Due to the fact that this recommendation was included in the Code and became valid recently, a competence profile has not yet been prepared, but will be prepared by the Supervisory Board soon.

According to section 5.4.1 para. 2 of the Code, the supervisory board shall take into account a general time limit for an engagement in the Supervisory Board. Although the Supervisory Board will generally take into account the recommendations of the Code when discussing proposals for engagement of new members or proposals for re-election they are of the opinion that Supervisory Board members should be allowed to continue their work for the group, if this serves best for the progress of ZhongDe and therefore refuses to determine a maximum time period for a membership in the Supervisory Board.

Section 5.4.1 para. 5 of the Code recommends to attach the CVs of the candidate for Supervisory Board elections to the proposal of the Supervisory Board, which inform about relevant knowledge, skills and experiences and which – complemented by an overview of the main working activities of the Supervisory Board members besides their office in the Company – will be updated every year on the website of the Company. With regard to the coming election of Supervisory Board members at the annual general meeting this year the

Company will attach the required CVs to the proposals for the election. In the future the Company will publish the complemented and yearly updated CVs on its website.

According to section 5.4.6 para. 1 of the Code, the remuneration of the supervisory board members shall take into account the chairmanship and deputy chairmanship in the supervisory board as well as the chairmanship and membership in supervisory board committees. The current regulations on the remuneration of the Supervisory Board members only take into account the chairmanship in the Supervisory Board. In the view of the Company, an increased remuneration for the deputy chairman is not indicated as the tasks are primarily fulfilled by the chairman of the Supervisory Board. Supervisory Board committees have not been established due to the small size of the Supervisory Board so that the membership or chairmanship in committees are not to be considered for the determination of the remuneration.

According to section 5.4.6 para. 2 of the Code, in case the supervisory board remuneration contains a variable component, such variable component shall be directed towards a sustainable development of the company. The variable remuneration of the Company's Supervisory Board is based on the annual profit per share, which in the view of the Company is generally a reasonable indicator for the Company's – and thus also the Supervisory Board's – performance. However, the variable component is not specifically based on a long-term indicator and thus, the variable remuneration may not meet the recommendation set forth in the revised section 5.4.6. para. 2 of the Code.

According to section 6.2 of the Code the corporation shall disclose in a “financial calendar” on its website, giving sufficient advance notice, the publication dates of the annual reports and interim financial information as well as the dates of the general meeting. Due to time-consuming discussions with the auditors about the annual financial statement 2016 it was unclear for a long time at which time the annual financial statement would be completed and published, the dates of publication of the annual report 2016 and the interim financial reports based on the 2016 annual financial statements were not published sufficiently in advance. The same applies to the date of the upcoming general meeting. In the future, the Company will again announce such dates on its website giving sufficient advance notice.

Section 7.1.2 of the Code recommends the annual consolidated financial statement and the group management report to be made available to the public domain within 90 days from the end of the financial year, and to make available the interim financial information within 45 days after the end of the respective reporting period. By now, the Company has missed these timelines. The reason is that due to its international holding structure and higher translation efforts to be made in respect of the preparation of the financial reports, the Company has put and will put more emphasis on accurate financial statements rather than to exactly meet the recommended timelines.

The annual Compliance Statement (*Entsprechenserklärung*) is made permanently available to the public on the Company's website under

http://zhongde-ag.de/investor_relations/corporate_governance.html.

Directors' Dealings

Pursuant to Art. 19 Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (MAR) (and until 2 July 2016 pursuant to section 15a of the German Securities' Trading Act (*Wertpapierhandelsgesetz*)), the members of the Executive Board and the Supervisory Board and/or persons closely related to them are obliged to disclose the purchase and sale of ZhongDe Waste Technology AG shares and related financial instruments without undue delay to the Company and the German Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin*) whenever the value of such transactions exceeds EUR 5,000.00 or more within a calendar year. In the financial year 2016, ZhongDe Waste Technology AG has not received any such notifications.

The members of the Executive Board directly or indirectly hold in total 50.86% of the shares in ZhongDe Waste Technology AG. The members of the Supervisory Board do not hold any shares in ZhongDe Waste Technology AG.

Accounting and Audit

The annual consolidated financial statements (*Konzernabschluss*) as well as all quarterly financial statements of ZhongDe Waste Technology AG are prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS) as applicable in the European Union. The individual annual financial statements (*Einzelabschluss*) are prepared in accordance with the German generally accepted accounting principles and the statutory provisions of the German Commercial Code (*Handelsgesetzbuch*). The sole basis for the profit distribution is the individual annual financial statements prepared under the German Commercial Code.

The individual and consolidated financial statements are prepared by the Executive Board. The audit of the individual and consolidated annual financial statements is devoted to the auditor elected by the general shareholders' meeting. For the financial year 2016, the general shareholders' meeting of the Company held on 28 June 2016 has elected Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Dusseldorf, as auditor of the Company and the group. The individual and consolidated financial statements as prepared by the Executive Board and audited by the Company's auditor are reviewed and approved by the Supervisory Board.

Corporate Compliance

At ZhongDe Waste Technology AG compliance, i.e. measures to ensure adherence to statutory provisions, internal statutes and Company policies, is a key management duty. The Company

has developed internal rules as well as a code of conduct through which all individual employees of the Company and its affiliated entities are obliged to comply with all statutory provisions and the rules set forth in these internal guidelines. The Company puts great emphasis to fully comply with both German and Chinese statutory legal provisions and conventions.

Risk Management

Good Corporate Governance includes dealing responsibly with risks. The Executive Board keeps the Supervisory Board timely and duly informed about existing risks and their development. The Supervisory Board regularly deals with monitoring of the accounting process, the effectiveness of internal control, risk management and internal auditing systems as well as monitoring the auditing of the financial statements. The internal control, risk management and internal auditing systems are continuously evolved in order to meet the changing conditions. More details of our risk management system can be found in the management report.

Transparency

Our investors and shareholders as well as the interested public domain are provided with information on ZhongDe Waste Technology AG and ZhongDe Group as well as on major business events particularly through financial reports (annual reports and quarterly reports), balance sheet press conferences, analyst meetings and press conferences, press releases, ad hoc notifications as well as other notifications required by law. All this information is published in German and English. In addition, our shareholders are provided with respective information at general shareholders' meetings. The financial statements, ad hoc releases and notifications on directors' dealings as well as press releases can also be viewed on the Company's website at http://www.zhongde-ag.com/investor_relations/. All shareholders and interested parties can subscribe to an electronic e-mail alert on our website or directly get in touch with us.

COMBINED MANAGEMENT REPORT OF THE GROUP AND ZHONGDE WASTE TECHNOLOGY AG for the period ended 31 December 2016

1 General information

1.1 Foundation and Structure of ZhongDe Waste Technology AG and the Group

ZhongDe Waste Technology AG is a German stock corporation operating under German law whose financial year is the calendar year (i.e. 1 January through 31 December). The Company's shares are traded on the Prime Standard, a segment of the regulated market ("Regulierter Markt") of the Frankfurt Stock Exchange. ZhongDe Waste Technology AG acts as a holding for the Chinese entities. As a holding company without an own operational business, ZhongDe Waste Technology AG is only slightly influenced by the macro-economic situation in Germany, but depends heavily on the ability of the Chinese entities to pay dividends to their shareholders.

The structure of ZhongDe Group with ZhongDe Waste Technology AG as parent company by year end is as follows:

After the disposal of the intermediate holding company Chung Hua Environmental Protection Assets (Holdings) Group Ltd. ("Chung Hua") with effective date 28 December 2016 the operational business of the ZhongDe Group is carried out by ZhongDe China Environmental Protection Co. Ltd., Beijing, a limited liability company formed under the laws of the PRC. The subsidiary is under direct control of ZhongDe Waste Technology AG and accordingly fully consolidated as wholly owned subsidiary under IFRS 10:



ZhongDe (China) Environmental Protection Co., Ltd, Beijing, PR China

ZhongDe Group with its parent company ZhongDe Waste Technology AG has been publicly listed since 2007 at the Frankfurt Stock Exchange. The registered office of ZhongDe Waste Technology AG is located in Frankfurt, Germany and the operating headquarter is located in Beijing, China.

Until the end of December ZhongDe Group has been structured in three businesses:

As general contractor of EPC (“Engineering, Procurement and Construction projects”) projects ZhongDe Group is responsible for the design, procurement, construction and installation of waste-to-energy plants applying different technologies.

ZhongDe has also been investor in BOT (“Build-Operate-Transfer projects”) projects and also built and operated waste-to-energy plants for a contractually agreed period before transferring the plant.

Finally ZhongDe produced and sold incinerators. Due to the changes in the customer demand in China this segment had no material impact in the last years on the Group’s sales and profit situation.

Chung Hua Environmental Protection Assets (Holdings) Group Ltd. and its subsidiary Fujian FengQuan Environmental Protection Holding Ltd. (“Feng Quan”) were intermediate holding companies and held all the shares of five operating companies carrying out BOT projects (all together “Chung Hua subgroup”). Feng Quan was additionally the operational entity for ZhongDe’s working and construction force. Beside this, the company ran the EPC project in Zhucheng and performed the incinerator business of ZhongDe Group. These two companies held the shares of the companies in Xianning, Zhoukou, Kunming, Lanzhou and Feicheng which were project companies, each building and operating one BOT project. The investment in Chung Hua and all its subsidiaries has been sold by the share purchase and transfer agreement dated 14 October 2016 and the amendment agreement to the share purchase and transfer agreement signed as at 8 December 2016. The transfer was legally effective as at 28 December 2016.

After the transfer of shares of the Chung Hua Subgroup ZhongDe Waste Technology AG still holds 100% of the shares in ZhongDe (China) Environmental Protection Co. Ltd. (“ZhongDe China”). ZhongDe China, which was established in 2010, is mainly responsible for handling project acquisition, project planning and other administrative duties at the site in Beijing. Furthermore the current EPC-projects in Dingzhou and in Wuhai are operated in this subsidiary.

1.2 Business Modell

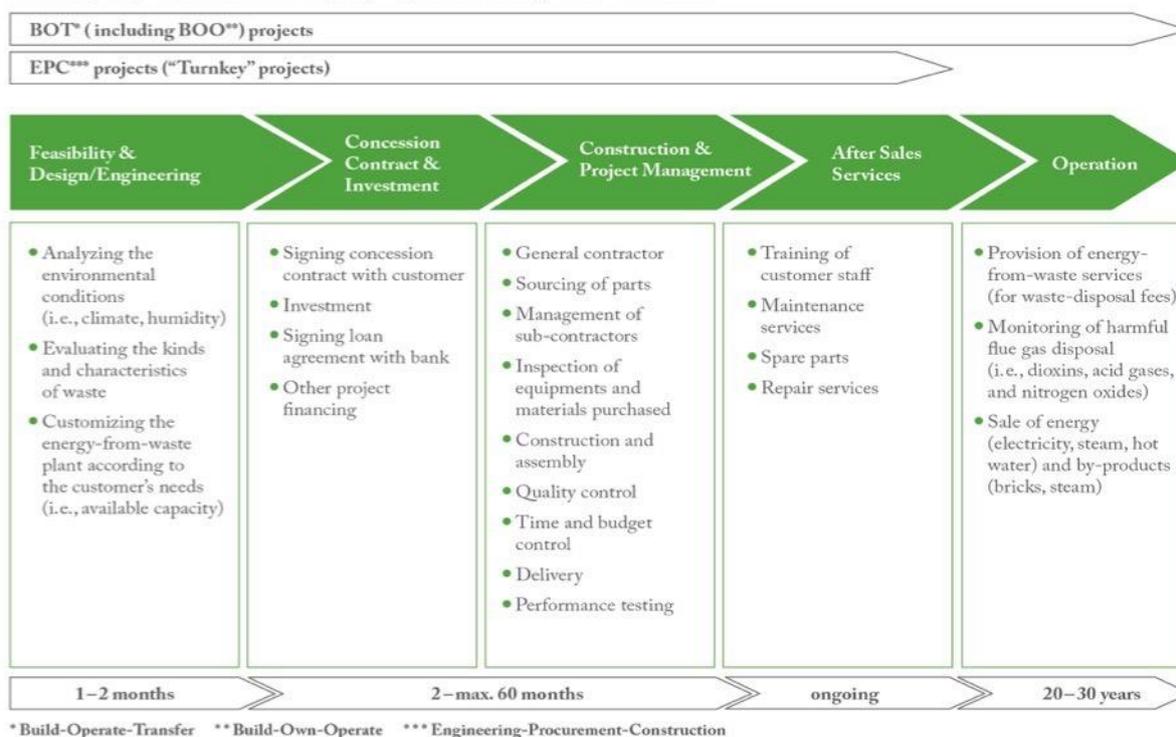
ZhongDe group is one of the first professional companies for building and operating waste-to-energy projects in the PRC. As above mentioned, the company built and operated five waste-to-energy BOT projects in China, including the Lanzhou waste-to-energy project, which used to be the largest project in China and has started its operation in 2016. In 2016 the business model comprehends the segments BOT projects, EPC projects and other (including

incinerators). The segments BOT projects and other are disposed with the sale of Chung Hua subgroup by the end of 2016.

The business model presented below, which is effective until the sale of BOT operations was completed, illustrates that ZhongDe covered the entire value chain in the field of waste-to-energy in its standard business-model. BOT projects can be separated into five parts of the entire value chain. EPC projects are handled quite similarly, but cover only four parts of the value chain as the operation phase is not included. EPC-projects are transferred to the owner when the construction of the plant is finished. After the sale of the Chung Hua subgroup, ZhongDe is planning to focus on EPC projects.

ZhongDe's Business Model

Investor (BOT) / General Contractor (EPC) / Operator of Energy-from-Waste Plants



The first phase: Feasibility and design/engineering

This phase lasts for one to two months, during which time the ZhongDe team analyses the environmental conditions (i.e., climate, humidity) and evaluates the types and characteristics of the waste, etc., in order to customize the design of the waste-to-energy plant according to the customer's needs (i.e. available capacity of waste disposal).

The second phase: Concession contract and investment

After detailed discussions and negotiation, ZhongDe signs a concession contract with the customer and invests its equity in its project company. Meanwhile, ZhongDe cooperates with a commercial bank to secure a long-term project financing loan.

The third phase: Construction and project management

ZhongDe acts as a general contractor and outsources most parts of the construction to subcontractors. During the construction ZhongDe manages the subcontractors and inspects equipment and materials purchased from the subcontractors to ensure the quality required. Besides quality control, the project management includes time and budget control and performance testing. The second and third phases last ideally about 24 to 60 months depending on the project progress.

The fourth phase: After-sales service

This includes training the customer's staff as well as providing maintenance and repair services, including provision of spare parts.

The fifth (BOT only) phase: Operation

After the site is completed, ZhongDe operates the plant by receiving and processing waste in exchange for waste disposal fees, monitoring and purifying harmful flue gases. ZhongDe receives further revenues from energy such as electricity, steam or hot water, generated as the by-product of waste combustion as well as from the potential sale of other by-products such as bricks or tiles. The payments guaranteed by the customer for the remaining service concession period increase the cash of the group and reduce the receivables built up during the construction. The operation period lasts 20 to 30 years, depending on the concession agreement in question. Ownership of the waste-to-energy plant is then transferred to the municipal government.

1.3 Objectives and Strategies

ZhongDe Group's main objective is to strengthen its position in the Chinese waste-to-energy industry with advanced waste-to-energy technology and to return to strong and profitable business growth in order to create shareholder value. This objective is pointed out in the Group's mission statement "Clean the future with technology". Within this strategy the Group was focussed on large-scale waste-to-energy projects in the past.

The waste-to-energy industry currently has gained strong support from the Chinese Government. As one of the five main principles of the 13th Five-Year-Plan for the years 2016 to 2020 of the Chinese Government is "Green Development"

The customers of ZhongDe are mainly towns, cities or other related governmental organizations seeking to improve the treatment of waste and the availability of electrical power in the referring area by building a waste-to-energy plant.

After the disposal of all BOT operations in December 2016, ZhongDe Group focusses on EPC projects. The EPC projects generate revenue and positive gross profit quicker compared to the long-term BOT projects on which the zero-profit method is currently applied.

In the future, ZhongDe intends to sign more EPC contracts for waste-to-energy projects not only in China, but also in other parts of Asia and the world considering global competition. This will be done however on the basis of an improved project management and more experience gained from the current waste-to-energy projects only.

As a reaction to the high competitiveness of the Chinese market for large scale waste-to-energy plants, ZhongDe decided to concentrate on the construction of small scale plants with a capacity of 150 – 300 tons/day in the future. Following the research performed there are 40,000 townships and nearly 600,000 administrative villages, of which the population is more than 650 million. There are about 300,000 tons waste every day in these areas. In addition, 150,000 tons of waste are produced daily by the population of 155 million living in the counties. The waste in these regions is still dumped and stacked in a disordered state and small scale waste-to-energy plants are urgently needed to solve the current waste disposal problems. The management of ZhongDe is confident that the company will benefit from this market due to the less competitive and strong demand.

Accordingly the company focusses on its R&D for the technology applied to the small scale EPC projects. Meanwhile, it is planning to cooperate with European companies in order to further improve the incineration technology for small scale waste to energy plants.

In addition, the company is looking for the new investment opportunities in environmental protection industry, which is continuously highlighted and encouraged by Chinese central government.

1.4 Management and Control-System

The responsibilities within Management are separated as follows:

ZhongDe's CEO, Mr. Zefeng Chen, leads the following divisions: Project Management, Research & Development, Capital Investment, Marketing, Production, Human Resources and Administration. After the resignation of the former CFO, Mr William Jiu Hua Wang, he is also responsible for the Finance and Accounting division, as well as Investor Relations.

The project management division is responsible for the implementation of EPC-projects. Therefore it plays an important role in ZhongDe's business.

The marketing division generally seeks opportunities for new EPC projects and other potential projects in the environmental protection industry.

According to the current management and control structure, every division holds internal meetings on a weekly basis, supplemented by monthly management meetings.

In weekly department and the monthly top management meetings the progress of each department tasks, the related problems, risks and corresponding measures are discussed. The major contracts, budgets, forecasts, problems and risks are discussed by the top management Board and are – in certain cases – subject to an approval by the Supervisory Board.

The Internal Control and Risk Management Department of ZhongDe is located in the headquarter in Beijing. The current operations of the internal control and risks management system is monitored by the management and the system is continuously improved. The department is responsible to ensure that risks are identified, assessed and managed risks by the internal control and risk management system.

The management mainly uses order status including order intake and order backlog as well as the contracting ability as key performance indicators for monitoring and managing the project business.

Beside these indicators, EBITDA and EBIT are used as additional financial key performance indicator for the steering and supervision of the Group. Non-financial key performance indicators are the experience and know-how of the employees especially in project management and research and development.

1.5 Research & Development

ZhongDe has access to the most comprehensive incineration technologies in the solid waste treatment industry in China, including grate furnace incineration technology, circulating fluidized bed incineration technology, vertical double-loop pyrolysis incineration technology, rotary kiln incineration technology, etc.

ZhongDe successfully developed the first Chinese-medical-waste incinerator in China with technology innovation, achieving a breakthrough in environmental protection industry. This composite incineration technology filled in the blank in the field of domestic drug residue incineration technology. This not only greatly improved ZhongDe's core competitiveness, but also strengthened ZhongDe's position in waste-to-energy industry.

In 2016 and 2017 ZhongDe's main focus was on the completion of current projects. Meanwhile, the research for improvements of the technology especially for small scale waste to energy plants has been conducted in 2017, which is led by the R&D department of the company.

2 Economic Report

2.1 Macroeconomic and Market Environment

2.1.1 Macroeconomic Environment

The disclosure of macroeconomic environment is limited to those key figures and information, which have impact on ZhongDe's business. In order to compare the information with the recent publications by the Chinese government all amounts on macroeconomic data are given in the functional currency RMB rather than converted into Euro:

In 2016, China's economy was within a proper range with improved quality and efficiency and the Green Development sector was influenced by a series of positive developments. The gross domestic product (GDP) of China was RMB 74,412.7 billion in 2016, an increase of 6.7 percent compared to 2015. The central government introduced a number of policies to support the environmental protection industry, which have accelerated the need to construct a comprehensive ecological civilization system generating large amounts of investment and growth potential for the environmental restoration market.

According to the International Monetary Fund (IMF), by application of purchase power price method the economy of China is considered as the largest economy in the world since 2014. Although China's GDP growth slowed down in 2016, China kept its position as the engine of the world economy with its huge GDP amount and the relative fast growth. China also kept its position as biggest exporter and keeps the largest foreign reserve in the world.

2.1.2 Market Environment

As China shifts to a consumption-led economy, the government has signaled a long-term commitment to environmental reform, both through its leading role at the UN Climate Change Conference in Paris and by making clean energy financing a key part of the agenda at the G20 Summit in 2016. China has pressed a reset button to make reducing emissions the highest priority.

New energy industry, as well as for energy saving and environment-friendly industry are listed as strategic emerging industry in the 13th Five Year Plan. The central government has been very proactive with regard to pushing its development. Value added for strategic emerging industry will account for 15% of GDP by 2020.

According to Renewable Energy Development 13th Five Year Plan issued by National Development and Reform Committee in December of 2016, Chinese Government will accelerate the development for the biomass energy; push the biomass power generation with a steady pace, especially municipal waste incineration with power generation. It is expected that the power generation capacity for municipal waste incineration will reach 750 GW by 2020.

2.2 General Statement on Business Development

On 14 October 2016 ZhongDe Waste Technology AG and CAPITAL YIELD GROUP LIMITED, British Virgin Islands, have entered into an agreement on the sale of all shares in its wholly owned subsidiary Chung Hua Environment Protection (Holding) Group Ltd., Hong Kong (“Chung Hua”). Chung Hua and its subsidiaries are the entities where the BOT projects in China were managed. The agreed sales price was RMB 900,000,000.00 (about € 121.6 million at the exchange rate of the day the agreement was signed) originally payable in five tranches payable to ZhongDe Waste Technology AG. After ZhongDe Waste Technology AG received the first tranche of the purchase price amounting to RMB 90,000,000 (about € 11.9 million) the parties entered into an amendment to the initial purchase agreement signed as at 8 December 2016. As stated by this agreement, the remaining purchase price amounting to RMB 810,000,000 should be paid to the bank account of ZhongDe China Environmental Protection Co. Ltd., Beijing (“ZhongDe China”). According to the contractual arrangements of the amendment the transfer of title has been effective on 28 December 2016 when the selling price was paid to Zhongde China.

Chung Hua and its subsidiaries built the BOT projects in Lanzhou, Zhoukou, Xianning and Kunming and the EPC project in Zhucheng, which accordingly have been sold to the buyer as well as the BOT project in Feicheng which is already in operation. After the transfer of title, all these projects have been transferred to the customer. The profit from the sale of Chung Hua subgroup amounts to € 60.5 million.

Compared by annual figures, revenue increased by 86.5% from € 38.2 million in 2015 to € 71.3 million in 2016 mainly due to the progress of the BOT project in Lanzhou which contributed € 67.4 million to Zhongde Group’s revenues.

Revenues on BOT projects are accounted for under the zero-profit method since the beginning of the second quarter of 2013 and therefore do not include a profit margin. The construction of the BOT project in Lanzhou progressed in 2016 much better than planned.

It started even trial run operation in the last quarter of 2016. Besides that the three other BOT projects in Zhoukou, Xianning und Kunming have entered into trial run operation.

Gross result increased from prior year’s loss amounting to € -1.7 million to a loss of € -0.6 million.

Lanzhou and the other three BOT projects, Zhoukou, Xianning and Kunming operated in trial run and generated income of € 8.1 million accordingly. Trial run revenue is set-off against the related cost. Trial run revenue exceeding the referring cost are presented as other operating income.

With its EPC projects ZhongDe realized revenues in a total of € 3.7 million (2015: € 6.1 million) and € 0.4 million (2015: € 2.5 million) of gross profit mainly from the EPC project in Wuhai where the construction work has started in the last quarter of 2016. The EPC project in Dingzhou has been temporarily suspended since the second quarter of 2015. The work has been resumed by the end of March 2017. The EPC project in Zhucheng which generated only small revenues in 2016, has been sold by the end of December 2016.

EBITDA adjusted (EBITDA without the special effects from the sale of Chung Hua subgroup; for definition please refer to 2.3.1.) increased from € -11.2 million to € 0.7 million. This is mainly due to increased trial run income from BOT projects (+€ 5.0 million), reversals of bad debt provisions (+€ 3.0 million) and decreased write-offs of advanced payments to subcontractors (+€ 3.2 million).

Accordingly the development of revenue and EBITDA corresponds to expected figures as discussed in the Outlook section of the Management Report for the year ended 2015 while the gross profit increased but is still lower than expected and remains negative.

According to the forecast 2015, management expected to enter into new customer contracts in 2016 but pointed out the existing uncertainties. As management's focus was on the progress of current projects, negotiations with customers on new projects were not finished by year-end. As a result of the disposal of all BOT operations and one EPC project, there was a remaining € 64.9 million order backlog at the end of 2016 which refers to the projects in Dingzhou and Wuhai.

Especially due to the on-schedule progress in Lanzhou and the starting project in Wuhai, ZhongDe has performed well and shown positive development throughout the fiscal year. The continuing delays regarding the projects in Zhucheng and Dingzhou as well as outstanding acceptances at the projects in Zhoukou and Xianning had a negative impact on the revenues and income. Due to the sale of the Chung Hua subgroup, all BOT projects and the EPC project in Zhucheng were assumed by the acquirer. Furthermore, the realized income from selling the Chung Hua subgroup for € 60.5 million had a significant positive impact on the overall income.

Please refer to the following explanations of the results of operations, financial position and net assets.

2.3 Key financial figures, Results of Operations, Financial Position and Net Assets of ZhongDe Group

2.3.1 Key financial figures

The following tables present an overview of the key financial figures:

in k€	2016	2015	Change
Revenues	71,295	38,238	+86.5%
Gross result	-639	-1,739	+63.2%
EBITDA adjusted	707	-11,238	>+100.0%
EBITDA	61,169	-11,238	>+100.0%
EBIT	67,901	-13,220	>+100.0%
Profit (+) / loss (-) after income taxes	64,566	-16,141	>+100.0%
Earnings per share (in €) (diluted and undiluted)	5.12	-1.28	>+100.0%
Current liquidity ratio ¹⁾	5.8	1.5	>+100.0%
Equity ratio ²⁾	83%	37%	+46 PP
Current assets	152,427	143,624	+6.1%
Order backlog	64,850	135,583	-52.2%
Headcount (as at 31 December)	50	370	-86.5%

¹⁾ Current assets/current liabilities

²⁾ Equity/total assets

EBITDA includes earnings before interest, depreciation and amortization and accordingly excludes the effects regarding impairments or appreciations of service concession arrangements. The adjusted EBITDA presents earnings before interests, depreciation and amortization without the special effects from the sale of a subsidiary to reveal the Group's economic performance.

The increase of EBITDA is mainly attributable to trial run income from BOT projects, reversals of bad debt provisions and decreased write-offs of advanced payments to subcontractors. The reconciliation from EBITDA to EBIT is presented below:

in k€	2016	2015	Change
EBITDA adjusted	707	-11,238	>+100.0%
Profits from sales of subsidiary	60,462	0	>+100.0%
EBITDA	61,169	-11,238	>+100.0%
Depreciation	102	131	-22.1%
Amortization	33	90	-63.3%
Impairment (+) / Appreciation (-)	-6,867	1,761	<-100.0%
EBIT	67,901	-13,220	>+100.0%
Finance income	4,914	2,925	68.0%
Finance expense	-7,346	-4,286	-71.4%
Profit (+) / loss (-) before income tax	65,469	-14,581	>+100.0%
Income tax expenses	-903	-1,560	42.1%
Profit (+) / loss (-) after income tax	64,566	-16,141	>+100.0%

2.3.2 Results of Operations

The average EUR/RMB exchange rate amounted to 7.3522 compared to 6.9733 in prior year. Accordingly exchange differences did not have a major impact on the results of operations for 2016. The sale of the Chung Hua subgroup refers mainly to the BOT projects which are presented under discontinued operations below whereas the continuing operations refer exclusively to the EPC projects in Wuhai and Dingzhou. The following tables present an overview of the income statement divided by continuing and discontinued operations.:

in k€	2016 from continuing and discontinued operations	2016 from discontinued operations	2016 from continuing operations	2015 from continuing and discontinued operations	2015 from discontinued operations	2015 from continuing operations
Revenues	71,295	67,573	3,721	38,238	37,575	663
Cost of sales	-71,934	-68,636	-3,298	-39,977	-39,445	-532
Gross result	-639	-1,063	423	-1,739	-1,870	131
Other operating income	18,782	15,923	2,859	3,096	3,092	4
Selling and distribution expenses	-4,333	-4,333	0	-7,809	-4,796	-3,013
Administrative expenses	-3,934	-2,709	-1,225	-3,680	-2,512	-1,168
Research and development expenses	-354	-354	0	-157	-157	0
Other operating expenses	-2,083	-919	-1,164	-2,931	-1,812	-1,119
Profit (+) / loss (-) from operations	7,439	6,545	893	-13,220	-8,055	-5,165
Gain on the disposal of discontinued operation	60,462	60,462	0	0	0	0
Finance income	4,914	4,914	0	2,925	2,909	16
Finance expense	-7,346	-6,832	-513	-4,286	-4,285	-1
Profit (+) / loss (-) before income tax	65,469	65,089	380	-14,581	-9,431	-5,150
Income tax expenses	-903	-1,567	664	-1,560	-863	-697
Profit (+) / loss (-) after income tax	64,566	63,522	1,044	-16,141	-10,294	-5,847

2.3.2.1 Revenues and Segment Reporting

Total revenues from continued and discontinued operations amounted to € 71.3 million in the financial year 2016, compared to € 38.2 million in the financial year 2015, representing an increase of € 33.1 million (or 86.5%). In 2016 thereof € 71.2 million have been accounted for under the PoC-method (2015: € 36.9 million).

Since the beginning of the second quarter 2013 revenues from BOT projects have been accounted for under the zero-profit method as it became obvious that the BOT projects do not show a sufficiently predictable development. Under this method revenues have presented according to the stage of completion without including a profit margin.

An analysis of the progress of all projects is disclosed below in more detail. The stage of completion is estimated on the basis of the cost-to-cost method. The completion rate of BOT projects presented below bears the uncertainty that the costs to complete cannot be reliably estimated.

in k€	31.12.2016			31.12.2015			Change
	from continuing and discontinued operations	from discontinued operations	from continuing operations	from continuing and discontinued operations	from discontinued operations	from continuing operations	
BOT							
% of completion	93%	93%	0%	64%	64%	0%	+30 pp
Revenues	67,560	67,560	0	30,865	30,865	0	>+100.0%
Gross profit	-706	-706	0	-3,034	-3,034	0	+76.7%
EPC							
% of completion	39%	89%	23%	67%	89%	49%	-28 pp
Revenues	3,735	14	3,721	6,129	5,466	663	-39.1%
Gross profit	428	5	423	2,476	2,345	131	-82.7%
Small and medium sized incinerators							
Units sold to third party	0	0	0	1	1	0	-100.0%
Revenues	0	0	0	1,244	1,244	0	-100.0%
Gross profit	-361	-361	0	-1,181	-1,181	0	+69.4%
Total							
Revenues	71,295	67,574	3,721	38,238	37,575	663	+86.5%
Gross profit	-639	-1,062	423	-1,739	-1,870	131	+63.3%

The revenue from BOT projects increased by € 36.7 million. The gross profit for BOT projects in 2016 amounts to € -0.7 million (2015: € -3.0 million) and increased accordingly from -9.8% to -1.0%. The increase is mainly due to an increase of the calculated total costs for the Kunming project which was adjusted in 2015.

Due to the construction start of the Wuhai project the average percentage-of-completion rate in the EPC segment decreased by 28 percentage points. The overall gross profit for EPC projects in 2016 amounts to € 0.4 million (2015: € 2.5 million). The decrease is caused by the fact that the start of the Wuhai project has been delayed until the fourth quarter of 2016 and the construction at Dingzhou is on hold since April 2015. Further details on the development of the continuing EPC projects are presented below.

The incinerator business has also been sold in the context of the disposal of Chung Hua. There were no sales in this segment during 2016. The negative margin relates to the write down of the remaining incinerator to the amount of the prepayments received from customers.

Current project status on EPC projects (continuing operations)

The following table shows the development of the two continuing EPC projects within financial year 2016 and the current status at year end, the EPC project in Zhucheng has been disposed in the context of the sale of Chung Hua and is therefore not disclosed in detail anymore:

EPC Projects under Construction	Dingzhou	Wuhai
Daily capacity (tons / day)	600	1,000
PoC as of 31 December 2016	48.8%	7.5%
PoC as of 31 December 2015	48.8%	0.0%
Estimated time of completion	2018	2018

The development and the status of these projects are explained in further detail as follows:

Dingzhou EPC Project

At the end of Q4 2016, the percentage of completion of the project in Dingzhou remains at 48.8%. Since April 2015 the construction at Dingzhou is on hold. The project in Dingzhou is stopped by the customer, since infrastructural works performed by governmental authorities are required first. Due to further delays, the customer revised his former expectation regarding the resumption of works from the third quarter 2016 to January 2017. By the end of March 2017, the work has been resumed. Until May 2018, 76% of the project has been completed, only the power access system and the secondary electrical wiring work have not yet been finalized. The Dingzhou project is supposed to enter normal operation in June 2018.

Wuhai EPC Project

In June 2013 ZhongDe Group signed a contract with an electricity company on the construction of a new waste-to-energy plant located in Wuhai City in Inner Mongolia with a total contract gross amount of about € 54.6 million. The planned large scale EPC project in Wuhai should have a daily waste disposal capacity of 1,000 tons. Although some preparatory works have been finished already, the construction work in Wuhai has not started until 31 December 2015 and it was unclear when the work on the project will be resumed. Based on these facts and circumstances the management of ZhongDe decided to remove the project from the order backlog by the end of 2015. Finally in October 2016 construction works have been started and the project has been taken back on the order backlog again.

At the end of 2016, the percentage of completion of the project in Wuhai amounted to 7.5%. In May 2018, the percentage of completion amounts to 22%, all civil works for the main plant, the office building, the complex building and the other key units have been done. Over 80% of the secondary structure, masonry and plastering work of the main building and the attached house have been completed. The equipment has completely ordered and partly been installed. The project is expected to enter trial operation and to be completed by the end of 2018.

2.3.2.2 Cost of Sales

Cost of sales mainly comprise costs of sub-contractor services. In line with the increase of revenues, costs of sales increased from € 40.0 million in 2015 by € 31.9 million, or 79.9%, to € 71.9 million in 2016 mainly driven by the project progress of the BOT project in Lanzhou.

2.3.2.3 Other operating income

Other operating income amounts to € 18.8 million (2015: € 3.1 million) and mainly relates to income from trial runs (€ 8.1 million; 2015: € 3.1 million) regarding discontinued BOT-projects, which reflects trial run revenues less the referring directly related expenses. In addition, the reversal of impairments of prior years (€ 7.7 million; 2015: € 0.0 million) and a release of bad

debt provision for prepayments to subcontractors (€ 3.0 million) mainly contribute to the increased amount.

Considering the purchase price for the Chung Hua subgroup, the impairment of service concession rights accounted for in prior years relating to the BOT project in Zhoukou (€ 11.1 million) and Xianning (€ 5.8 million), had to be partly reversed by an amount of € 7.7 million (of which € 4.1 million relate to Zhoukou and € 3.6 million to Xianning). All these entries refer to discontinued operations.

For the Wuhai EPC project, which refers to continuing operations, ZhongDe made prepayments to subcontractors for the equipment and installation of in total € 3.0 million. As the project had been postponed to an uncertain point of time, it was questionable whether the prepayment will be refunded. Accordingly the receivable from the prepayment to the subcontractors had been fully written-off in the financial statements as of December 31, 2015. Following to the construction start, prepayments, which had been made to the subcontractors, were used up completely and the related write-off has been reversed accordingly.

2.3.2.4 Selling and distribution expenses

Selling and distribution expense decreased from € 7.8 million in 2015 by € 3.5 million to € 4.3 million in 2016. This position includes mainly bad debt expenses and personnel expenses. In 2015 advance payments to subcontractors for the projects in Lanzhou and Wuhai amounting to in total € 7.2 million have been written off, whereas in 2016 advance payments to subcontractors for the Lanzhou project in the amount of € 4.0 million had to be written off. In Lanzhou ZhongDe made prepayments to a subcontractor for the construction work as part of this project of in total € 8.3 million. As the subcontractor proved to be incapable to perform the work contractually agreed upon and the receivable from the repayment is overdue for more than one year it had been written-off at 50% in 2015 following the policy of the Group. In 2016 the remaining 50% had to be written-off. All selling expenses of the year refer to discontinued operations.

2.3.2.5 Administrative expenses

Administrative expenses slightly increased compared to 2015 amounting to € 3.9 million (2015: € 3.7 million). This position includes mainly personnel expenses, depreciation and amortization, rent, office expenses, entertainment and travel expenses. A large portion of the administrative expense relates to discontinued operations (€ 2.7 million, 2015: € 2,5 million)

Administrative expenses from continuing operations remained almost unchanged in comparison to the prior year amounting to € 1.2 million.

2.3.2.6 Research and development expenses

Research and development expense increased in comparison to 2015 amounting to € 0.4 million (2015: € 0.2 million) and refer to discontinued operations.

2.3.2.7 Other operating expenses

Other operating expenses decreased from € 2.9 million in 2015 by € 0.8 million to € 2.1 million in 2016. This position includes mainly impairments, audit costs, supervisory board costs and consulting costs. The 2015 figures included mainly impairments of intangible assets from service concession arrangements amounting to € 1.8 million relating to the plants in Zhoukou and Xianning compared to € 0.9 million in 2016. These two projects were part of the sale of Chung Hua in 2016. The operating expense of continuing operations remained relatively stable with € 1.2 million (prio year: € 1.1 million).

2.3.2.8 Gain on the disposal of discontinued operations

The gain on disposal of the Chung Hua Subgroup as at 28 December 2016 amounts to € 60.5 million. We refer Note 13 (J) in the Notes to the financial statements.

2.3.2.9 Finance income/Finance expense

Finance income increased from € 2.9 million in 2015 to € 4.9 million in 2016. It mainly contains finance income from accrued interests for financial assets relating to BOT projects (€ 3.8 million) as well as interest income from loans to customers (€ 0.9 million). The increase is mainly driven by the progress of BOT projects and refers to discontinued operations.

Finance expense increased by € 3.0 million, or 71%, and amount to € 7.3 million (€ 4.3 million in 2015) in the financial year 2016. The increase mainly relates to the new bank loans granted to ZhongDe in the second half of 2015. The major part of bank loans refer to the BOT projects and was disposed as part of the sale of Chung Hua. Most of the finance expense relate to discontinued BOT-project, continuing operations contributed only € 0.5 million to finance expense.

2.3.2.10 Income tax expenses

Income tax expenses decreased from € 1.6 million in 2015 to € 0.9 million in 2016. The taxes consist of current income tax expenses of € 0.2 million (2015: € 0.5 million) and deferred income tax expense of € 0.7 million (2015: € 1.1 million). Deferred taxes arise primarily from temporary differences relating to the EPC projects.

2.3.3 Financial Position

Principles and Objectives of Financial Management

ZhongDe's management monitors the liquidity to ensure the adequate funding for the operation.

The Company will raise the liquidity through various channels, such as accelerating the pace to collect the trade receivables and raising funds from other financial institution for the projects. The primary goal of financial management is to safeguard liquidity. The type and volume of transactions are in line with the Group's basic operating and financial business. Cash flow planning is used to establish liquidity requirements.

Cash Position

The following table is extracted from the cash flow data of the Group, which was derived from the Group's consolidated financial statements for 2016. It includes the cashflow data from continuing and from discontinued operation:

in k€	2016			2015		
	from continuing and discontinued operations	from discontinued operations	from continuing operations	from continuing and discontinued operations	from discontinued operations	from continuing operations
Net cash used in operating activities	-164,163	-42,843	-121,320	-71,639	-71,753	114
Cash flow / generated from (+) / used in (-) investing activities	60,801	-21	60,822	-70	-70	0
Cash flow generated from financing activities	32,702	32,702	0	54,265	54,265	0
Net decrease in cash and cash equivalents	-70,660	-10,162	-60,498	-17,444	-17,558	114
Cash and cash equivalents at beginning of year	75,842	75,695	147	87,205	87,171	34
Foreign exchange differences	-3,858	-2,018	-1,840	6,081	6,082	-1
Cash and cash equivalents at end of period	1,324	0	1,324	75,842	75,695	147

Net cash used in operating activities

Net cash used in operating activities decreased from € -71.6 million in 2015 by € 92.6 million to € -164.2 million in 2016 mainly due to prepayments to suppliers for the commodity trading amounting to € 121 million and the increase of project progress, causing more cash outflows for construction compared to prior year.

Cash flow generated from/used in investing activities

Cash flow generated from/used in investing activities increased from k€ -70.0 in 2015 to € 60,8 million in 2016 due to the payment of the purchase price for the sale of Chung Hua. The cash from investing activities referring to discontinued operations is composed of the sales price of € 124.3 million minus the the bank account at Feng Quan amounting to € 63.5 million.

Cash flow generated from in financing activities

The Cash flow generated from financing activities amounts to € 32.7 million and relates to bank loans granted for the BOT project in Lanzhou (€ 44.8 million) and payments received on financial assets from BOT projects (€ 1.3 million) off-set by repayments of bank loans (€ 13.4 million). Based on year-to-year comparison cash flow generated from financing activities decreased from € 54.3 million in 2015 by € 21.6 million to € 32.7 million in 2016.

Disregarding the change of the EUR/RMB exchange rate at year end, cash and cash equivalents decreased by € 70.7 million compared to year end 2015. Solvency has been assured during the whole financial year. Any cash transfers from China are in so far restricted as they require a formal approval from the State Administration of Foreign Exchange (“SAFE”). The cash per share, which show the ratio of the cash available at year end at ZhongDe Group divided by the number of ordinary shares issued, amounts to € 0.10 by 31 December 2016 and € 5.83 by 31 December 2015.

Financing

As of 31 December 2016, the company’s loans in Euro-terms amounted to € 0.0 million compared to € 126.5 million as of 31 December 2015. The decrease is caused by the sale of Chung Hua and its subsidiaries whereas all loans were granted by the various financial institutions to finance the BOT projects.

2.3.4 Net Asset

As the Group’s operating activities are all denominated in RMB as the functional currency while the Group’s reporting currency is Euro, the analysis of the net asset position must always be seen in connection with the changes in the EURO/RMB exchange rates at year end. The yearend exchange rate as at 31 December 2016 has decreased by 3.7% in comparison to the year end rate as at 31 December 2015. Any analysis given below, is influenced by this change in the foreign exchange rate.

The statement of financial position of the Group shows a total equity of € 126.3 million and almost no remaining non-current assets. Current liabilities amount to € 26.2 million and are fully covered by current assets of € 152.4 million. The EUR/RMB exchange rate increased from 7.0608 at the beginning of 2015 to 7.3202 at year end. This effect is also mirrored in the development of net assets.

in k€	31.12.2016	31.12.2015
Assets		
<i>Non-current assets</i>		
Intangible assets	0	35,340
Property, plant and equipment	20	412
Receivables from BOT	0	106,291
	20	142,043
<i>Current assets</i>		
Inventories	0	437
Trade receivables	3,738	6,923
Other receivables and prepayments	130,980	60,192
Amounts due from related parties and companies	0	15
Other financial assets	16,385	215
Cash and cash equivalents	1,324	75,842
	152,427	143,624
Total assets	152,447	285,667
Liabilities and equity		
<i>Capital and Reserves</i>		
Issued capital	13,000	13,000
Own shares	-4,608	-4,608
Capital reserves	62,914	62,914
Chinese statutory reserves	0	8,459
Retained earnings	56,773	-16,252
Foreign currency translation reserve	-1,803	41,041
Total equity	126,276	104,554
Liabilities		
<i>Long-term liabilities</i>		
Long-term loans	0	80,623
Deferred tax liabilities	0	1,654
	0	82,277
<i>Current liabilities</i>		
Trade payables	5,273	25,719
Other payables and prepayments	20,591	22,668
Provisions	307	4,286
Amounts due to related parties and companies	0	122
Tax liabilities	0	168
Other financial liabilities	0	45,873
	26,171	98,836
Total liabilities	26,171	181,113
Total liabilities and equity	152,447	285,667

Non-Current Assets

The Group's non-current assets amount to € 0.0 million (2015: € 142.0 million): The receivables from BOT as well as intangible assets have been disposed as part of the sale of Chung Hua and its subsidiaries.

Current Assets

Current assets increased from € 143.6 million in 2015 by € 8.8 million to € 152.4 million in 2016. The increase mainly relates to other receivables and prepayments which increased by € 70.8 million mainly due to increased advances to subcontractors relating to planned commodity trading. Although receiving a purchase price for the sale of Chung Hua subgroup amounting to € 124.3 million cash and cash equivalents decreased by € 74.5 million as the total amount received has been transferred as prepayment to suppliers relating to planned commodity trading and € 63.5 million cash have been transferred as part of the sale of Chung Hua subgroup.

Long-term Liabilities

The Group's non-current liabilities amount to € 0.0 million (2015: € 82.3 million), because they have been disposed as part of the sale of Chung Hua subgroup. The long-term debt ratio consequently amounts to 0.0% (2015: 28.8%).

Current Liabilities

Total current liabilities decreased significantly from € 98.8 million in 2015 to € 26.2 million in 2016. The decrease by € 72.6 million mainly relates to other financial liabilities which consisted of short-term loans and have been disposed following the sale of Chung Hua subgroup. Other payables and prepayments amounting to € 20.6 million mainly relate to prepayments made by the customer of the EPC project in Wuhai (€ 18.3 million).

Equity

Improved by the net profit for the financial year 2016 amounting to € 64.6 million (2015: net loss of € 16.1 million) equity increased significantly from € 104.6 million by € 21.7 million to € 126.3 million year-on-year. This effect was partly compensated by the decrease of the foreign currency translation reserve by € 42.8 million mainly due to the sale of Chung Hua subgroup. Disregarding the foreign currency effect the equity was materially impacted by the positive result, which was mainly due to the sale of Chung Hua and its subsidiaries.

2.4 Financial Position, Results of Operations and Cash Flow Statement of ZhongDe Waste Technology AG

ZhongDe Waste Technology AG is the German holding company of the ZhongDe Group. The Key Financial Figures of the ZhongDe Waste Technology AG are as follows:

2.4.1 Financial Position of the statutory Financial Statements

in k€	31.12.2016	31.12.2015
Assets		
Tangible Assets	1	1
Investments in affiliated company	11,002	85,100
Non-current assets	11,003	85,101
Receivables due from affiliated companies	110,653	2,932
Other receivables	1,870	14
Prepaid expenses	11	23
Cash and cash equivalents	771	142
Current assets	113,305	3,111
Balance sheet total	124,308	88,212
Equity and liabilities		
Capital subscribed	13,000	13,000
Additional paid-in capital	67,392	67,392
Retained earnings	43,394	6,977
Equity	123,786	87,369
Trade payables	100	239
Tax provision	0	84
Other provision	400	482
Other payables and accruals	22	38
Current liabilities	522	843
Balance sheet total	124,308	88,212

The statement of financial position of ZhongDe Waste Technology AG shows a net equity of € 123.8 million (2015: € 87.4 million), which equals an equity ratio of 99.6%. The equity covers the non-current assets of € 11.0 million (2015: € 85.1 million). The current liabilities amount to € 0.5 million (2015: € 0.8 million) and are covered by current assets of € 113.3 million (2015: € 3.1 million).

The investment in affiliated companies amounts to € 11.0 million (2015: € 85.1 million) and refers to the investment in ZhongDe (China) Environmental Protection Co. Ltd., Beijing.

The investment in ZhongDe China had been completely written down in prior years (€ 10.5 million). After having received a tranche of the proceeds from the sale of Chung Hua in November 2016, this has been used to increase the capital of ZhongDe China in an amount of € 11.0 million by returning the Cash inflow to the Chinese subsidiary in December 2016. The investment in Chung Hua Environmental Protection Assets (Holding) Group Ltd., Hong Kong, (Chung Hua) amounting to € 85.1 million has been sold in December 2016.

Receivables due from affiliated companies of € 110.7 million (2015: € 2.9 million) relate to the outstanding purchase price from the sale of the subsidiary Chung Hua amounting to RMB 810,000,000, which was paid to ZhongDe China according to an amendment to the

original contract. Other receivables and prepaid expenses mainly relate to receivables due from the former subsidiary Chung Hua as a result of interest on the clearing account with this company. Cash and cash equivalents comprise liquid funds on current bank accounts.

Other provisions decreased from € 0.5 million at 31 December 2015 to € 0.4 million at 31 December 2016. The provisions refer to expenses relating to the preparing, reporting and audit of the annual financial statements and consolidated financial statements, accounting and legal services.

2.4.2 Result of Operations

in k€	2016	2015
Other operating income	39,240	8
Interest income	109	1,406
Personnel expenses	130	131
Other operating expenses	2,842	1,121
Interest expenses	0	1
EBT	36,377	161
Income taxes	-40	91
Profit for the period	36,417	70

In the financial year 2016, the company realized a profit of € 36.4 million, which is caused by the profit relating the sale of the investment in Chung Hua (€ 39.2 million).

Interest income less current operating costs typical for a stock listed holding company comprise the remaining income and expense.

Interest income amounts to € 0.1 million and relates to the interest from the clearing account with the formerly affiliated company Chung Hua.

Other operating expense relate to current business expenses, mainly expense for the preparation, review and audit of quarterly reports and annual financial statements, for investor relations and media services and fees for lawyers and other advisers. The valuation of the receivables due from ZhongDe China at balance sheet date resulted in a loss from foreign exchange differences amounting to € 1.8 million disclosed as other operating expense.

The EBIT of € 36.4 million (2015: € 0.2 million) is only slightly charged with income taxes due to tax losses carried back (2015: tax expenses amounting to € 0.1 million).

2.4.3 Cash Flow Statement of the statutory Financial Statements

in k€	2016	2015
Profit for the period	36,417	70
Gain (-)/Loss (+) on disposal of previously consolidated companies	-39,237	0
Decrease in provisions and accruals	-166	-179
Cash flow	-2,986	-109
Increase / decrease in receivables from and payables to affiliated companies	4,737	198
Increase in other assets and prepaid expenses	-1,844	-14
Decrease (-) / increase (+) in trade payables and other liabilities	-155	58
Cash flow from operating activities	-248	133
Proceeds from disposal of affiliated companies	11,879	0
Capital increase of affiliated companies	-11,002	0
Cash flow from investing activities	877	0
Changes in cash and cash equivalents	629	133
Cash and cash equivalents at the start of the reporting period	142	9
Cash and cash equivalents at the end of the reporting period	771	142

2.5 Financial and Non-Financial Key Performance Indicators

After the disposal of all BOT-projects and one EPC-project in the context of the sale of the investment in Chung Hua, the Group's financial and non-financial key performance indicators mainly relate to the order status including order intake and order backlog for the EPC business, the contracting ability and human resources as well as EBIT and EBITDA. The indicators are further explained in detail:

Order Intake and Order backlog

The key figures of the order status and the order backlog are:

in k€	2016	2015	Change
Order intake	0	0	0.0%
Order backlog	64,850	135,583	-52.2%

In 2016 no new customer contracts were obtained.

Order backlog relates to the sum of existing orders at the end of 2016, which – under the current contracted order volume – will be realized in the future. The movements in order backlog can be allocated to the business segments of ZhongDe Group as follows:

Type	BOT	EPC	Incinerator	Total
Order Backlog as at 1 January 2016	110,342	23,582	1,659	135,583
Order intake	0	0	0	0
Revenues	67,470	3,735	0	71,205
Adjustments	0	50,471	0	50,471
Disposal	-38,499	-4,816	-1,593	-44,908
Currency translation differences	-4,373	-653	-66	-5,091
Order Backlog as at 31 December 2016	0	64,850	0	64,850

At the beginning of 2016, the order backlog amounted to € 135.6 million. Within 2016 the order backlog decreased by revenues realized (€ 71.2 million), the disposal of four BOT projects and one EPC project in the context with the sale of Chung Hua (€ 44.9 million) and currency translation differences (€ 5.1 million) less adjustments (€ 50.5 million). These movements are further analysed as follows:

In 2016 the revenues mainly relate to the BOT project in Lanzhou (€ 67.4 million) and the EPC project in Wuhai (€ 3.7 million). The disposal of the BOT projects in Lanzhou, Zhoukou, Xianning and Kunming as well as the EPC project in Zhucheng lead to a decrease of order backlog amounting to € 44.9 million.

The adjustment relates to the reversal of the elimination of the EPC project in Wuhai from the order backlog which took place at the end of 2015, due to the resumption of the project in the last quarter of 2016.

After currency translation differences of € 5.1 million, the total order backlog amounts to € 64.9 million (2015: € 135.6 million) by 31 December 2016 containing only EPC projects from now on.

Contracting abilities

Despite the fact that ZhongDe did not succeed to enter into new contracts with customers in 2016, due to long term customer relationships, trust in the technology of ZhongDe and its market position in China combined with the personal effort of the CEO, ZhongDe is confident to acquire new projects in the future.

Human Resources

The experience and know-how of the employees, especially in project management and research and development, is a key indicator for the ongoing success of ZhongDe Group. The average number of employees is in the current and in the prior year as follows:

	2016	2015
Average number of employees of the Group		
Management and administration	112	109
Research and development	6	9
BOT operation and manufacturing	174	235
Sales and distribution	4	17
Total	296	370

In 2016 ZhongDe Group had an average number of 296 employees (2015: 370), with a personnel structure nearly unchanged compared to prior year. In the financial year 2016 minor movements within the divisions arose from the focus on project management. As a result of the sale of Chung Hua, the number of employees has decreased to 50 as at December 31, 2016.

EBIT and EBITDA

EBITDA (adjusted for special effects from the sale of a subsidiary if necessary) reflects the project progress and the operational result of the Group. The EBIT includes all further effects such as appreciations and impairments. Whether appreciations and impairments have to be considered in the next years, depends on various factors. The incidence of these factors can only partly be influenced by ZhongDe and therefore is subject of noticeable uncertainties. Consequently only EBITDA is described in the forecast report. Please refer to section 2.3.1.

3 Subsequent Events

The EPC project in Dingzhou has been restarted at the end of March 2017. As of end of May 2018, the progress of the EPC project in Dingzhou has been 76%, the EPC project in Wuhai is 22% completed. The Dingzhou project is planned to start normal operation in June 2018 and Wuhai project is planned to be completed at the end of 2018.

Additionally, ZhongDe decided to focus the EPC business on small scale waste-to-energy-plants with a capacity of 150 – 300 tons/days whereas the related market is less competitive than the market for large scale plants and the demand for such smaller plants is very high in smaller cities and especially in the countryside.

The receivables against the acquirer of Chung Hua group resulting from the transfer of clearing accounts amounting to in total € 16.4 million at 31 December 2016 have only been repaid at an amount of € 0.7 million until the date of this report. Management assumes that it is reasonably certain that the cash will be received in short notice.

Prepayments to suppliers relating to commodity trading of in total € 130.0 million have not been repaid until the date of this report. Management assumes that it is reasonably certain that the cash will be received in short notice.

4 Report on Forecast, Opportunities and Risks of ZhongDe Group and ZhongDe Waste Technology AG

4.1 Forecast Report

4.1.1 Economic Development in China and of the Business Environment

Looking ahead to 2018 and 2019, we expect to further benefit from the increasingly favourable political and economic environment for eco-friendly waste disposal, as well as from the growing demand for our waste-to-energy plants, both in China and throughout Asia. Especially the high demand for small scaled plants is expected to have a positive impact on our future business.

In general the Chinese economic growth cooled down in comparison to the strong growth rates in the past. Since 2016 the new five year plan sets a growth rate of 6.5% as a target. In general temporarily the demand is below expectations and the high indebtedness of many companies continues to have a negative impact on the general development.

As planned by the Chinese central government, more than 50% of the municipal solid waste will be disposed through incineration till 2020 and it will create a new market size with further 100 billion RMB in the next five years (2017 – 2022). Thus the management believes that the governmental support on the waste-to-energy industry will remain or is extended.

4.1.2 Economic Development of ZhongDe Group

In the financial year 2016, ZhongDe realized rapid revenue growth mainly driven by the progress of the BOT project in Lanzhou which has now been disposed.

The sale of the Chung Hua Subgroup in December 2016 has contributed an extraordinary profit and had a significant positive effect on ZhongDe's result in 2016. The BOT projects in Lanzhou, Zhoukou, Xianning, Kunming and Feicheng as well as the EPC project in Zhucheng have been transferred to the buyer.

Management decided to continue with building EPC projects in the future. The EPC project in Dingzhou and Wuhai continued their construction progress and contributed to revenues of € 15.4 million and gross profit of € 2.4 million for the company in 2017 and will contribute continuously during 2018 and 2019.

The management is seeking to contract new small scaled EPC projects and is confident that more EPC contracts will be concluded in 2018. Nevertheless the final closing of new contracts always depends on conditions which are not within the sole decision of the management and therefore cannot be forecasted with absolute certainty.

In short, 2017 was a period in which ZhongDe succeeded in making noticeable progress with the existing EPC projects. Due to the small number of projects, a decrease in revenues from progress of projects resulted. However, it shall be assumed that the gross profit is still on a good level in comparison to 2016 considering the one-off effect from the sale of Chung Hua group. Accordingly, the EBITDA for the period followed this positive trend, also the net result remained positive. Noticeable effects on the financial statements due to changes of interest rates, exchange rates, price increases or any other effects, that are difficult to calculate, did not arise. The outcome of the actual figures was strongly influenced by the project development of the two existing EPC projects, which depended on the performance of the project team and the subcontractors as well as the pace of the required authorizations and acceptances.

The projects in Dingzhou and Wuhai progressed as planned. The figures budgeted for 2017 have been achieved. The further economic development of ZhongDe from 2018 onwards is dependent on new projects and the financing of these projects. Due to the uncertainty relating to delays, the availability of suppliers, the fluctuation of the RMB/Euro exchange rate as well as the success in the new business area, all forecasts contain some uncertainty.

As a non-financial key performance indicator, the total number of employees has increased slightly within 2017 and management expects a further increase during 2018. The technical research department will have an increasing number of employees while in other departments the number of employees will remain stable or be reduced slightly in accordance with cost saving measures. Due to the project progress the order backlog, which is another key performance indicator, decreased in 2017 and is expected to further decrease in 2018 if no new contracts are signed.

After the transfer of the waste-to-energy BOT projects in 2016, the long-term assets ratio has declined. Hence, we are now able to continue our business without the usage of non-current outside capital and to build a solid foundation for its future development.

In summary, we expect that the next year will be a period in which ZhongDe will focus on the completion of existing EPC projects. Furthermore, we especially plan to conclude new contracts for small scale EPC projects in 2018.

For 2018 management expects a solid increase of revenue and gross result from the completion of the EPC project and is confident to sign new EPC contracts.

EBIT and EBITDA are accordingly expected to increase noticeably as well.

4.1.3 Economic Development of ZhongDe Waste Technology AG

As ZhongDe Waste Technology AG is a holding company for ZhongDe Group with major business in the PRC, the future perspective of ZhongDe Waste Technology AG highly depends on the economic development in China, especially the ongoing urbanization and the increase in municipal solid waste to be treated and expectations and perspectives of the operational entity in PRC as discussed above. Without considering dividend payments from its subsidiary, ZhongDe Waste Technology AG expects two years of losses in 2017 and 2018 with a marginally negative operating cash flow. In 2016, ZhongDe Waste Technology AG realised a net profit with a positive operating cash flow as predicted in prior years management report.

As ZhongDe Waste Technology AG has no own streams of income, it is – in the event of unexpected cash outflows at the level of ZhongDe Waste Technology AG – dependent on receiving cash from the subsidiary ZhongDe China either by payment of existing receivables (€ 110.6 million) and/or by paying dividends in order to be able to continue with business operations. Based on management's assessment, the subsidiary ZhongDe China will be able to transfer sufficient cash to sustain the business operation of ZhongD Waste Technology AG.

4.2 Opportunities and Risks Report

4.2.1 Risk Policy

ZhongDe Group operates a risk management system which also serves as ZhongDe Waste Technology AG's risk early detection system as promulgated by Sec. 91 of the German Stock Corporation Law. As the ZhongDe Group is still relatively small, the Management Board as well as the members at top management level are directly involved in all major projects and important day-to-day activities. Risks are defined as the possible occurrence of internal and external events which may adversely affect the achievement of short-term or strategic goals. Being able to recognise risks early and to consider opportunities, analyse them and reduce risks with appropriate strategies is an important element of the operating activities of ZhongDe's management team. Therefore, 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. Accordingly, a structured risk management process is a major task for the Management Board as well as for the risk process owners defined for each field of responsibility. But even operating an appropriate and well-functioning risk management system cannot fully guarantee absolute safety.

4.2.2 Risks Management System

The methods used for risk survey extend from analyses of markets through close contacts with customers, subcontractors and suppliers as well as other parties who are of interest to the Group to observing risk indicators in the economic and socio-political environment. Risks will be

assessed particularly with regards to the level of threat for the Group or its development. If deemed necessary, potential loss levels are calculated. The possible non-recurring or recurring impact on Group's objectives will then be processed in preparation for the adoption of decisions. ZhongDe will thus endeavour to systematically counter risks and consistently take opportunities. The Management Board has defined Group-wide principles as well as guidelines for its risk management.

Risk management has been structured in such ways that direct responsibility for early detection, analysis, control and communication of risks is dealt by the referring risk managers and any results are reported to the Management Board. The Supervisory Board will be briefed by the Management Board on a regular and timely basis on significant risks. In accordance with a Group-wide rule, transactions and measures of particular importance and scope require the approval of the Management Board and, in special cases, of the Supervisory Board, too.

Step by step, ZhongDe is improving its internal control and risk management system. From 2015 on ZhongDe has assigned a risk manager in each department, who identifies, analyses and manages the risks in its field. ZhongDe generates a risk report on a quarterly basis. Beside this the management plans to combine the risk management system with a new project construction controlling software.

In order to cope with the risk position, our company established a framework of risk management, strengthened the controlling functions for administration center, risk management center, as well as for enterprise management and audit center. In order to centralize processing and monitoring treasury trading, financial and management report, HR, enterprise service, law and network technology system, the company clarified the spectrum of duties and appropriate authorization system for the relevant departments to ensure recognizing any major transactions, activities, procedures, misconduct or violations. We will also conduct internal audit regularly, in order to check if each department carry out the work in accordance with the internal control system and to ensure detecting the violations during the working process and take actions for perfection timely.

4.2.3 Opportunities management

Within the ZhongDe Group, opportunity and risk management are closely interlinked. ZhongDe essentially derives its opportunity management from its goals and strategies and ensures an appropriate balance between opportunity and risk. Responsibility for the early and regular identification, analysis and management of opportunities rests with the Management Board. The Management Board occupies itself intensively with analyses of the political and legal development in China, especially with respect to changes in environment protection and related laws, potential implications on the market development and ZhongDe's competition, relevant cost drivers and critical success factors, including those related to project management and the usage of subcontractors. In decision-making, the Management Board of ZhongDe relies on an

opportunity-oriented approach, but does not neglect risks. Selected potential opportunities for the ZhongDe Group are discussed in the forecast report.

4.2.4 Major Risks and Opportunities

Management in general assesses and quantifies risks and chances related to the likelihood of occurrence in connection with the potential impact on the business of the group following the scheme disclosed below.

		Probability				
		≤20%	21%–40%	41%–70%	71%–90%	>90%
Impact	Minor	low	low	low	low	low
	Moderate	low	low	moderate	moderate	moderate
	Significant	low	moderate	moderate	high	high
	Critical	moderate	moderate	high	high	critical

Management assessed that the following risk and opportunities are relevant for the Group:

4.2.4.1 Risk report

4.2.4.1.1 Risks and opportunities related to Engineering and Construction phase

Every project is managed by a separate team led by an experienced and qualified project manager in order to clearly define the allocation of responsibilities. Project planning documentation and corresponding project budgets are drawn up for the purpose of managing the projects. Generally this team is in charge of solving difficulties with such projects as otherwise the tasks on hand cannot be dealt with satisfactorily, potentially resulting in delays in project completion and/or budget overruns affecting ZhongDe's profitability.

To remain close to business developments, management within the scope of project management regularly conducts gross margin analyses, detailed project accounting, order-entry controls, and monitor the progress of accounts receivable. The monthly PoC reports, quarterly financial statements and operation reports are core tools in the management of our business. However there is a high risk that miscalculations relating to the project costs and the estimated project duration lead to budget overruns and penalty payments. The management considers an insufficient project management as high risk.

In addition, the ZhongDe Group's right to use intellectual property could expire or be subject to infringement claims.

The ZhongDe Group's profitability could be adversely affected by rising procurement costs or falling prices. Close ties with suppliers of special components and materials are necessary for

the construction of EPC projects. Foreign exchange risks in connection with the procurement chain do not exist, as the majority of the suppliers are located in the PRC and charge their services in RMB currency. ZhongDe is exposed to the risk of dependency on suppliers. Therefore, the management regularly analyses the dependency on individual suppliers and pursue avenues to forge links with alternative suppliers. A database of suppliers was prepared in order to safeguard supplies and quality while simultaneously reducing costs. Consequently management of ZhongDe considers the risk of rising procurement costs as moderate.

The ZhongDe Group's experienced engineers are responsible for quality control. Risks can present themselves insofar as quality control is implemented insufficiently or not at all. The management endeavours to minimise these risks through employee selection and with the help of suitable standardised procedures and internal control measures. As defective quality controls can lead to significant effects, the management of ZhongDe considers the related risk as high level risk.

Risks can arise from the delay or the refusal of approvals to be issued by local authorities on various technical and legal requirements on ZhongDe waste-to-energy projects. Fines might arise if deadlines are not met. Based on the experiences with the delays of BOT and EPC projects the management considers that the risk of delayed or refused approvals might have a material effect on the results of the ZhongDe Group.

The related opportunities are that ZhongDe has several years of experience communicating with local authorities and of engineering and construction of BOT and EPC projects. It allows ZhongDe to have better chances to win new EPC projects compared with to other new players in the waste-to-energy industry.

4.2.4.1.2 Warranty risks

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

To keep warranty risks relating to EPC projects to an absolute minimum, the ZhongDe Group endeavours to achieve congruence between the warranties offered to clients and the warranties given by suppliers. We also endeavour to minimise potential warranty risks by means of quality assurance measures. The management of ZhongDe considers the risk being moderate.

4.2.4.1.3 Risks from increasing market competition

Due to the increasing importance of the waste-to-energy technology for the future development in China, more and more municipal government will shift from waste landfill to waste-to-energy technology. However, the Chinese government bodies might be favouring domestically owned suppliers, especially the state-owned companies, which have long-standing relationship with the government bodies. In China, the state-owned companies have the advantages of being granted the opportunity to sign concession agreements of waste-to-energy projects and to receive various related support from the government. As the number of state-owned companies in this business is increasing, ZhongDe is facing stronger competition than before especially for large scale plants.

To counteract any such moves, the Management Board continues maintaining already strong ties with such Chinese government bodies. The Management Board also attends waste-to-energy summit meetings; accepts various interviews by national economy network and all kind of media to improve the market presence, the related influence and the image of ZhongDe.

Based on expectations of a sustained growth in demand for waste-to-energy plants and public works projects, which are expected to play an important role in solving China's waste and environmental problems, the management currently considers the market risk for ZhongDe Group to be low. As the focus of management in 2016 and 2017 was on the progress of the current projects, ZhongDe expects to sign new orders in financial year 2018.

The increasing business might also lead to an increasing attraction of the Chinese waste-to-energy market to foreign competitors. Such foreign competitors might be able to offer more advanced technology to the market or might have better access to equity or debt financing which enables such competitors to explore more project opportunities and allow benefiting from additional economies of scale both internally and by gaining better conditions from subcontractors.

As the Group's sales growth depends on its ability to secure new orders for new EPC contracts for waste-to-energy projects, it will be important being prepared for such intensified level of competition, if new domestic or international suppliers entered the relevant Chinese market. ZhongDe Group therefore maintains and enlarges its sales and marketing capacities to monitor market developments in China, further improve ZhongDe's market presence in China and ensure that ZhongDe will participate in all public tenders for expected profitable waste-to-energy projects. As a reaction to the increased competition on the market for large scale waste-to-energy-plans market, ZhongDe decided to switch its strategical focus to small scale plants with a daily capacity of 150 – 300 tons. The management of ZhongDe considers the risk as moderate.

4.2.4.1.4 Financial risks

Liquidity

For the two upcoming years negative cash flows from operating activities are expected as a result of the completion of EPC projects in progress at reporting date. A decrease of cash and cash equivalents is expected within the planning period.

The going concern of the group as a whole is therefore highly dependent on payments received from the buyer of Chung Hua group as settlement for the outstanding receivables and notably on the repayment for the prepayments to the suppliers of commodity trading. Management assumes that it is reasonably certain that sufficient cash will be available to ensure the continuous operation of the group.

Consequently, Management believes that even in the case of additional unplanned funding requirements, ZhongDe Group and ZhongDe Waste Technology AG have the ability to settle their obligations at any time. The management of ZhongDe considers the risk as moderate.

Future financing structure at ZhongDe and its suppliers

As ZhongDe is financing EPC projects by means of customer prepayments, it is not dependent on external credit facilities.

A general credit tightening in China may however affect ZhongDe's subcontractors or suppliers. This could lead to an increased need for working capital within the ZhongDe Group and also possible supply disruption caused by subcontractors or suppliers with insufficient capital to support their own business activities. Therefore, ZhongDe is monitoring its existing subcontractors or suppliers closely and continues exploring alternative sources in order to avoid dependency on a limited number of subcontractors or suppliers. The same issue, however, would also affect ZhongDe's competitors on the Chinese market, which may lead to less liquid competitors being forced into bankruptcy or becoming target of acquisition or being consolidated. Considering its favourable financial structure, such a development may have beneficial consequences for ZhongDe Group. The management of ZhongDe considers the risk as low.

Default and collection risk of receivables

With respect to its receivables and other assets representing future cash flows due from its customers, a low risk of default is considered. This is because the overwhelming majority of its customers for such existing projects are Chinese government bodies. However, governmental bodies in China only pay their obligations if money is available. Therefore payments could be delayed. The management of ZhongDe considers the risk as moderate.

Default and collection risk for subcontractor prepayments

ZhongDe is providing noticeable funding as prepayments to subcontractors for work to be performed and as prepayments for commodity trading. In case of delays or cancellations of the construction projects, these amounts might become uncollectable. Although ZhongDe is continuously monitoring the ability of its subcontractors to fulfil the contracts as well as the liquidity of such subcontractors and taking adequate countermeasures, there is a substantial risk that the subcontractors might get in default with noticeable amounts. The management of ZhongDe considers the risk as moderate.

Further financial risks

In addition, ZhongDe believes that its cash management is a high priority within the Group as a whole and within the individual group companies. However, considering the fact that the banks being used for cash management by ZhongDe are owned by the Chinese government, the risk of a failure of such banks endangering ZhongDe's cash is considered to be low. In addition, due to the prevailing interest rates on the Chinese market, the exposure to interest rate changes for the Group's funds deposited with such banks is to be considered immaterial. The regulations issued by the State Administration of Foreign Exchange relating to offshore investments by PRC residents or passport holders may adversely affect the ZhongDe Group's business operations and financing alternatives.

For the time being, our activities cover only mainland China. As long as our business centres are in mainland China, there should be no currency effects on our operating business. As and when ZhongDe Waste Technology AG engages in further financing, management always considers the impact of currency effects when devising any intercompany agreement. The management of ZhongDe considers the risk as low.

4.2.4.1.5 Risks affecting the consolidated results of the Group

Based on the fact that most of the Group's assets are denominated in RMB, there is a risk that an unfavourable change of Euro/RMB foreign exchange rate will lead to a noticeable change of the Euro value of assets of the group. This risk is mitigated by the fact that also most of the liabilities of the company are denominated also in RMB. However, there is a risk that foreign exchange effects will negatively affect the Group's net equity in Euro. The management of ZhongDe considers the risk as moderate.

4.2.4.1.6 Risks and Opportunities in Human Resources

ZhongDe's Management remains conscious of the fact, that its business operations require a high standard project management to control operation risk.

The recruitment of skilled and experienced people in all areas of the business, especially the qualified project managers of waste-to-energy EPC projects, will remain central to the on-going

measures to enhance quality and standards. Experienced and qualified project managers are a crucial to the success of ZhongDe Group's projects. Nevertheless, human resource risks could arise from a loss of expertise caused by a fluctuation in qualified personnel, from insufficiently qualified employees with a lack of commitment to their work or from ZhongDe's inability to obtain such highly skilled professionals in a sufficient number to maintain its on-going operations and/or to support its future growth.

Increasing high level education in China ensures the well educated professional to be engaged to Chinese companies. To take this opportunity and to counter the personnel risk disclosed before, ZhongDe Group has relocated its Chinese headquarters from Fuzhou to Beijing which helps the company to have better access to skilled and experienced human resources. With more qualified professionals, it could turn the personnel risk into opportunity with enough experienced managers and staff, compared with the competitors, which set up their headquarters in second-tier or third-tier cities in China. The management of ZhongDe considers the risk as moderate.

4.2.4.1.7 Risks from dependency on governmental approvals and licenses

Risks to ZhongDe's ability to continue its business operations in connection with governmental approvals decreased in comparison to prior years, since as an EPC contractor ZhongDe requires much less approvals and licenses from the government compared to BOT projects. Nevertheless, the company will still depend strongly on the governmental approval to win new EPC projects, as the local governments are mostly the project owners. Accordingly, ZhongDe will continue to invest in research and development as part of the Group's ongoing commitment to offer high-quality waste-to-energy plants. As ZhongDe applies and will continue to apply state-of-the-art technology in its applications, the risk of losing the business licenses is assessed as low.

4.2.4.2 Opportunities Report

4.2.4.2.1 Opportunities due to China's economic situation

In 2017, the economy of China has kept stable growth with an average growth rate of 6.9%. Such a GDP rate and the related taxation increase should ensure the government having the financial capacity to realize its ambitious objective of "Beautiful China" through huge investments in the environment protection industries. This creates a tremendous opportunity for the waste-to-energy industry in which ZhongDe Group operates. Having proven its competence in this sector, the management expects to participate in this development by signing more contracts with governmental authorities.

Considering the rapid urbanization development, it is expected that huge masses of people will keep on flowing into cities in the next decades. Generally speaking, a person living in a city

generates much more municipal waste than a person living in the rural area. The enormous volume of municipal waste caused the phenomena of “cities surrounded by waste” due to the landfill waste disposal. In order to solve the serious waste problem, the government has to decide to invest in further waste-to-energy projects. EPC contractors will definitely benefit from these huge opportunities.

The rapid growth of the Chinese economy has stimulated the equally rapid emergence of the middle class. The influence of the middle class has been magnified by the Internet and its eco-friendly opinions, which has enhanced the public’s understanding of the necessity of waste-to-energy projects. The management considers these being promising opportunities.

4.2.4.2.2 Market and branding opportunities

The increasing demand for waste-to-energy plants has generally created huge potential opportunities in China for ZhongDe Group and its competitors. ZhongDe’s waste-to-energy plants enjoy a very good reputation in the Chinese market due to the successful completion of the Datong waste-to-energy project. As most of our customers are city government-related bodies, the completion of projects in the timeframe agreed upon and with operational key performance indicators of our waste-to-energy plants fulfilled is important to ZhongDe Group’s ability to gain future business from such city government-related bodies. Accordingly, quality control will remain a high priority for all activities within our business model to maintain our solid reputation within the Chinese market.

In addition, ZhongDe Group’s standing in China was further greatly improved by beginning to build the largest waste-to-energy plant in Lanzhou with a total investment of about € 125 million which progressed according to plan. This strengthened ZhongDe’s competitiveness on the market and although the Lanzhou project has been disposed in the context of the sale of Chung Hua, the management expects that more contracts will be signed within the next years. Thus, the management considers the resulting opportunities especially for small scale waste-to-energy-plant being promising.

4.2.4.3 Specific risks and opportunities related to ZhongDe Waste Technology AG

ZhongDe Waste Technology AG is a holding company without any operating business of its own. ZhongDe Waste Technology AG’s assets are largely located in China. Accordingly, ZhongDe Waste Technology AG is facing risks related to the political, social and legal environment of the PRC. Those risks include inherent uncertainties and inconsistencies in the country’s legal system including national taxation laws, a potential destabilization of the political and/or economic system and PRC regulations pertaining to loans and capital investments by offshore parent companies delaying or preventing ZhongDe Group from using proceeds for investments in the PRC.

Current PRC regulations allow the payment of dividends only out of accumulated profits determined in accordance with Chinese accounting standards and regulations. In addition, a subsidiary of the company, is required to set aside at least 10% of its after-tax profits each year to fund a statutory reserve fund until such reserves in aggregate reach 50% of its registered capital. Furthermore, foreign-invested entities may be required to set aside a portion of their after-tax profits to fund an employee welfare fund in an amount which lies within the discretion of the subsidiary's board. These reserves are not distributable as cash dividends.

Under PRC foreign exchange rules and regulations, payments of current account items, including profit distributions and operating-related expenditures, may be made in foreign currencies without prior approval but are subject to procedural requirements. Strict foreign exchange controls continue to apply to capital account transactions. These transactions must be approved by and/or registered with the State Administration of Foreign Exchange or its local counterparts, and repayment of loan principal, distribution of return on direct capital investment and investments in negotiable instruments are also subject to restrictions.

Should the PRC subsidiaries of ZhongDe Waste Technology AG be, or become, restricted and/or legally prohibited from and/or unable to pay dividends or other distributions outside of China, this could have material adverse effects on ZhongDe Waste Technology AG's financial condition.

As ZhongDe Waste Technology AG has no own streams of income, it is dependent on receiving cash from the subsidiary ZhongDe China from payment of dividends or the service fee in order to keep the business sustainable. Management is confident to receive sufficient cash from ZhongDe China.

The management of ZhongDe considers the risk as moderate.

Risk of default and uncollectability of receivables

From the sale of the Chung Hua subgroup ZhongDe Waste Technology AG shows substantial receivables against ZhongDe China, its subsidiary. If the amount cannot be transferred, the receivables have to be written down. The management of ZhongDe considers the risk as moderate.

Although the economic environment appears fine, the economic development of China might lead to new challenges and risks for the operating PRC entities. This could have a material adverse effect on business, financial condition and results of operations limiting the operating PRC entities' ability to paying dividends to ZhongDe Waste Technology AG.

4.2.5 Overall Risk Situation

The overall risk is assessed on the basis of the risk management system in conjunction with the planning, management and control systems used. The main potential risks to the future development of the ZhongDe Waste Technology Group are posed in particular by risks arising from the development of environmental protection and related laws, the ability to finalise the projects according to the plan by suitable project management and ZhongDe's ability to collect its receivables and to pay its advance payments.

Taking into account all the circumstances of which ZhongDe is aware of to date, there is no group or industry-specific risk that could individually or in conjunction with other risks have a lasting and material adverse influence on the net assets, financial position and results of operations of ZhongDe Group. Despite a small number of existing risks, the opportunities are being predominant; in particular in consideration of the huge potential of Chinese market.

Future opportunities were considered in assessing the overall risk. In terms of organisation, all the conditions for being able to recognise possible opportunities and risks in good time have been fulfilled.

5 Description of the Key Features of the Internal Control and Risk Management System with regard to the Group Accounting Process (Sec. 315 Para. 2 No. 5 of the German Commercial Code – HGB)

ZhongDe has an internal control system in place. In addition, ZhongDe has a risk management system under which appropriate structures and processes for (Group) accounting and financial reporting are defined and implemented throughout the organisation. This system is designed to guarantee a timely, uniform and accurate accounting for all business processes and transactions. It ensures compliance with statutory regulations, accounting and financial reporting standards, which is binding upon all the companies included in the consolidated financial statements. The relevance and consequences for the consolidated financial statements of any amendments to laws, accounting for financial reporting standards or other pronouncements are continually analysed.

Apart from defined control mechanisms such as system-based and manual reconciliation processes, the fundamental principles of the internal control system include the separation of functions and compliance with directives and operating procedures. The accounting and financial reporting process for ZhongDe is managed by the Accounting Department of ZhongDe with the assistance of an external German service provider to prepare the IFRS-based financial reporting.

The Group companies prepare their financial statements locally and transmit them with the aid of a data model that is standardised throughout the Group. The Group companies are responsible for their compliance with the directives and procedures applicable throughout the

Group and for the proper and timely operation of their accounting-related processes and systems. The employees involved in the accounting and financial reporting process receive regular training, and the Group companies are supported by an external service provider. As part of the process, measures are implemented that are designed to ensure the regulatory compliance of the consolidated financial statements. These measures serve to identify and evaluate risks, and to limit and monitor any risks that may be identified. For example, new contractual relationships for projects are systematically tracked and analysed.

The consolidated financial statements are prepared in co-operation with a German external service provider on the basis of the data submitted from the included subsidiaries. The consolidation, certain reconciliation operations from local Chinese GAAP to Group policies and monitoring of the related time schedules and procedures are performed by the accounting department of ZhongDe and the German external service provider. System-based controls are monitored by personnel and supplemented by manual inspection. Defined approval procedures must be observed at all stages in the accounting process to ensure segregation of duties.

6 Statements pursuant to Sections 289 para. 4, 315 para. 4 German Commercial Code (Handelsgesetzbuch)

6.1 Subscribed Share Capital

The share capital of ZhongDe Waste Technology AG amounts to EUR 13,000,000.00 and is divided into 13,000,000 no par value bearer shares with a notional amount of the share capital of EUR 1.00 each.

6.2 Restrictions regarding Voting Rights and/or the Right to Transfer Shares

According to the Company's Articles of Association (*Satzung*) each share confers one vote. The Company's Articles of Association do not provide for restrictions on the transfer of shares. As of the date of this report, ZhongDe Waste Technology AG holds 400,000 shares in treasury (*eigene Aktien*). Pursuant to section 71b of the German Stock Corporation Act (*AktG*), the Company is not entitled to exercise any voting or other rights with respect to these treasury shares. The Executive Board is not aware of any other restrictions regarding voting rights and the right to transfer shares in ZhongDe Waste Technology AG.

6.3 Direct or Indirect Participation in Shares Exceeding 10% of the Voting Rights

The Company's chief executive officer, Mr. Zefeng Chen, holds 50.9% of the shares and voting rights in ZhongDe Waste Technology AG. The Company has no knowledge of other shareholders having shares in excess of 10% of the share capital.

6.4 Shares with Exclusive Rights

There are no shares with exclusive rights which grant control rights.

6.5 Exercise of Voting Rights by Employees

Employees who are shareholders in ZhongDe Waste Technology AG exercise their voting rights at their own discretion and are not subject to control of voting rights.

6.6 Appointment and Dismissal of Management Board Members and Amendments of the Articles of Association

Pursuant to section 84 German Stock Corporation Act (AktG), the Supervisory Board appoints the members of the Executive Board 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 executive board member upon application by any person with interests meriting protection (e.g. other executive board members) (section 85 German Stock Corporation Act (AktG)). This office would, however, be terminated as soon as the deficiency is rectified, e.g. as soon as the supervisory board has appointed a missing executive board member. Dismissal of an executive board member is permissible only for good cause (section 84 para. 3 sentences 1 and 3 German Stock Corporation Act (AktG)). Good causes include, inter alia, serious breaches of duties, inability to duly perform duties or revocation of confidence by the Annual General Shareholders' Meeting.

Pursuant to section 8 para. 1 of the Articles of Association of ZhongDe Waste Technology AG, the Executive Board consists of one or more persons. The number of the members of the Executive Board is determined by the Supervisory Board. Currently, the Executive Board of ZhongDe Waste Technology AG consist of one member. Pursuant to section 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 Executive Board if the Executive Board consists of more than one person.

Pursuant to section 179 German Stock Corporation Act (AktG), the Articles of Association can be amended by a resolution of the General Shareholders' Meeting. Pursuant to section 179 para. 2 German Stock Corporation Act (AktG), an amendment of the articles of association requires a majority of three fourths of the share capital represented at the passing of the resolution. The articles of association may, in principle, provide for a different majority. The Articles of Association of ZhongDe Waste Technology AG make use of this option. Pursuant to section 26. para. 1 of the Articles of Association of the Company, resolutions of the General Shareholders' Meeting shall require a simple majority of the votes cast and, in the event a

capital majority is required, a simple majority of the share capital represented at the passing of the resolution, unless otherwise prescribed by mandatory law or the Articles of Association. The requirement of a simple majority shall also apply – to the extent permitted by law – to amendments of the Articles of Association or capital measures. Beside this the Supervisory Board is, pursuant to section 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.

6.7 Authority of the Management Board to Issue and Repurchase Shares

The Executive Board is authorised to increase the share capital of the Company with the consent of the Supervisory Board until 27 June 2018 once or several times by up to EUR 6,500,000.00 by issuance of up to 6,500,000 new no par value bearer shares against contributions in cash or in kind (Authorised Capital 2013). In each case ordinary shares and/or preference shares may be issued. The Executive Board is further, in certain cases and with the consent of the Supervisory Board, authorised to exclude the subscription rights of the shareholders.

The Executive Board was authorised by the Annual General Shareholders' Meeting held on 28 June 2013 to issue bearer and/or nominal (i) convertible bonds and/or (ii) optional bonds and/or (iii) convertible participating rights and/or (iv) optional participating rights and/or (v) participating rights and/or (vi) participating bonds (or a combination of these instruments) ((i) to (iv) jointly referred to hereinafter as **“financial instruments”** and (i) to (vi) jointly **“instruments”**) one or more times until 27 June 2018 in a total nominal amount of up to EUR 100,000,000.00 with a term of no more than 15 years and to grant the bearers or creditors of financial instruments conversion rights or options on new bearer shares of the Company for up to 6,000,000 new no par value bearer shares in the Company with a pro rata share of the subscribed capital totalling up to EUR 6,000,000.00 in accordance with the detailed provisions of the convertible and warrant bond conditions or convertible and participating right conditions. Shareholders are generally entitled to subscription rights on the instruments. However, the Executive Board is authorised, subject to Supervisory Board approval, to exclude the shareholders' subscription rights in certain cases. The terms of the instruments may also provide for anti-dilution protection in favour of the creditors of the bonds.

In order to serve the instruments, a conditional capital in an amount of EUR 6,000,000.00 by issuance of up to 6,000,000 new no par value bearer shares was created (Conditional Capital 2013). The sole purpose of the Conditional Capital 2013 is to grant stock rights to the bearers or creditors of financial instruments issued in accordance with the authorisation dated 28 June 2013 by the Company until 27 June 2018. The increase in conditional capital in accordance with the provisions of the convertible bond or convertible participating right conditions also serves for the issuance of shares to bearers or creditors of convertible bonds that come with a conversion obligation. The increase in conditional capital may only be carried out insofar as these rights are exercised or the bearers or creditors obliged to convert meet

this conversion obligation and provided that no treasury shares or shares created otherwise are provided to satisfy these rights or obligations.

The Executive Board was further authorised by the General Shareholders' Meeting held on 28 June 2013 to repurchase treasury shares with an aggregate notional amount of the share capital of up to 10% of the share capital existing at the time of the annual general meeting until the expiration of 27 June 2018. The authorisation may be exercised once or several times for one or several purposes. The acquisition of the Company's treasury shares can either be carried out via the stock exchange or by means of a public offer or by equity derivatives. If the Company shares are purchased via the stock exchange, the nominal value per share may not fall below or exceed the opening price of the Xetra trading system by more than 10% on the day of the purchase. If the Company's treasury shares are purchased by way of public offer, the price granted may not fall below or exceed the average closing price of the Xetra trading system on the 4th and 10th day before the publication of the price granted by more than 20%.

Besides offering the shares on the open market or by means of a public offer, the Executive Board was authorised, subject to the approval of the Supervisory Board, to use the treasury shares acquired under the above-mentioned authorisation of the Annual General Meeting, in each case once or several times and in each case while excluding the shareholders' subscription rights by (i) offering the shares to third parties as consideration within the scope of acquisitions of participations or companies, (ii) selling the shares against cash consideration that is not significantly lower than the stock market price of the shares at the time of the sale, (iii) discharging conversion or subscription rights or conversion privileges in respect of convertible bonds, convertible profit participation rights as well as bonds with warrants or profit participation rights with warrants or conversion obligations under convertible bonds, (iv) offering the treasury shares for acquisition to individuals employed by the Company or its subsidiaries or (v) redeeming the shares while decreasing the share capital.

6.8 Change of Control Provisions

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

6.9 Agreements on Compensation in Case of a Takeover Offer

There are no agreements between the members of the Executive Board or employees and ZhongDe Waste Technology AG which provide for compensation in case of a change of control due to a takeover offer.

7 Statements pursuant to Sections 312 para. 3 German Companies Act (Aktiengesetz) Concluding Declaration of the Management Board

ZhongDe Waste Technology AG received an appropriate compensation for each transaction listed in the report on the relations of the company to affiliated enterprises and was not disadvantaged by the encountered or omitted measures referred to in the report. This assessment is based on circumstances known at the time of the reportable transactions.

8 Remuneration Report

8.1 Remuneration of the Executive Board

The remuneration of the Executive Board is determined by the Supervisory Board in accordance with the requirements set forth in section 87 German Stock Corporation Act. When determining the remuneration of the Executive Board, the Supervisory Board particularly takes into account the size of the enterprise, the responsibilities of the executive board member, the economic and financial situation of ZhongDe Waste Technology AG and the overall goal of a sustainable development of the Company.

The service agreement with the chief executive officer Chen Zefeng was not entered into with ZhongDe Waste Technology AG but with its Chinese operating subsidiary ZhongDe (China) Environmental Protection Co., Ltd, Beijing, PR China . The service agreement provides for a mere fixed remuneration.

With the former executive director Mr. William Jiu-hua Wang a service agreement existed which provided for a fixed remuneration and a variable remuneration component in the form of an annual bonus, the granting and amount of which is (up to a contractually defined cap) in the sole and free discretion of the Supervisory Board. In case of a withdrawal from office during the year the contract provides for a remuneration on a pro rata basis. Until his resignation Mr. Wang received a fixed remuneration in the amount of k€ 21 in 2016.

In the fiscal year 2016, the members of the Executive Board of the ZhongDe Waste Technology AG have received the following remuneration:

Remuneration granted in k€	Zefeng Chen Chairman / CEO				Jiuhua Wang Executive Director / CFO			
	2016	2015	2016 (min)	2016 (max)	2016	2015	2016 (min)	2016 (max)
	Fixed salary	34	35	34	34	21	78	21
Additional benefits	0	0	0	0	0	0	0	0
Total	34	35	34	34	21	78	21	21
One-year variable compensation	0	0	0	0	0	0	0	0
Multi-year variable compensation	0	0	0	0	0	0	0	0
Other remuneration	0	0	0	0	0	0	0	0
Total variable compensation	0	0	0	0	0	0	0	0
Retirement benefit contributions	0	0	0	0	0	0	0	0
Total Remuneration	34	35	34	34	21	78	21	21

Remuneration paid in k€	Zefeng Chen Chairman / CEO		Jiuhua Wang Executive Director / CFO	
	2016	2015	2016	2015
Fixed salary	34	35	21	78
Additional benefits	0	0	0	0
Total	34	35	21	78
One-year variable compensation	0	0	0	0
Multi-year variable compensation	0	0	0	0
Other remuneration	0	0	0	0
Total variable compensation	0	0	0	0
Retirement benefit contributions	0	0	0	0
Total Remuneration	34	35	21	78

8.2 Remuneration of the Supervisory Board

According to section 20 of the Articles of Association, each member of the Supervisory Board receives a compensation to be determined by the general shareholders' meeting. On 28 June 2011, the ordinary general shareholders' meeting has resolved on the following remuneration for the Supervisory Board:

Following the above mentioned shareholder resolution in general the chairman of the Supervisory Board receives a basic remuneration of EUR 60,000.00 per calendar year. The other members of the Supervisory Board receive a basic remuneration of EUR 45,000.00 per calendar year. In addition to the basic remuneration, members of the Supervisory Board receive an annual performance related remuneration of EUR 100.00 per each cent of the profit per share (as shown in the respective consolidated financial statements) exceeding EUR 2.00. The performance related remuneration is capped at an amount of earnings per share of EUR 3.50. If a person is a member of the Supervisory Board for a certain part of a financial year only, the fixed remuneration as well as the performance related remuneration are paid on a pro rata basis. Furthermore, the members of the Supervisory Board receive reimbursements

for expenses with regard to their office as member of the Supervisory Board as well as the amount of VAT due on their remuneration, if applicable.

The new members of the Supervisory Board appointed by the court waived by agreement with the Company part of their fixed remuneration as well as the potentially performance related remuneration to be paid to them.

In the financial year 2016, the members of the Supervisory Board have received the following remuneration:

in k€	31.12.2016	31.12.2015
Prof. Chuantong Li (Chairman of Supervisory Board) (from 24 October 2016)	5	0
Triomphe Zheng Lin (Vice Chairman of Supervisory Board) (from 24 October 2016)	4	0
Li Zhuang (from 24 October 2016)	3	0
Gerrit Kaufhold (Chairman of Supervisory Board) (until 30 September 2016)	45	60
Prof. Dr. Bernd Neukirchen (Vice Chairman of Supervisory Board) (until 30 September 2016)	34	45
Feng-Chang Chang (until 15 October 2016)	36	45
Total	127	150

9 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 17 May 2018 respectively. They also declared which of the recommendations were not or are not followed. The declaration is permanently accessible to shareholders on the Company's website at www.zhongde-ag.com/investor_relations/corporate_governance.html.

Frankfurt/Main, 18 May 2018

Zefeng Chen

Chairman of the Executive Board (CEO)

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Profit and Loss and Other Comprehensive Income of ZhongDe Waste Technology AG for the period from 1 January to 31 December 2016

in k€	Notes	2016	2015
Revenues	4	3,721	663
Cost of sales	5	-3,298	-532
Gross result		423	131
Other operating income	6	2,859	4
Selling and distribution expenses	7	0	-3,013
Administrative expenses	8	-1,225	-1,168
Other operating expenses	9	-1,164	-1,119
Profit (+) / loss (-) from operations		893	-5,165
Finance income		0	16
Finance expense	11	-513	-1
Profit (+) / loss (-) before income tax		380	-5,150
Income tax expenses	12	664	-697
Profit (+) / loss (-) from continuing operation after income taxes		1,044	-5,847
Profit (+) / loss (-) from discontinued operation after income taxes	13	63,522	-10,294
Profit (+) / loss (-) after income taxes		64,566	-16,141
Items that might be reclassified subsequently to profit or loss:			
Foreign exchange differences		-3,547	7,865 ¹⁾
Reclassified to profit or loss	13	-39,002	
Items that will not be reclassified subsequently to profit or loss:			
Foreign exchange differences		-295	-69 ¹⁾
Other comprehensive income		-42,844	7,796
Total comprehensive income		21,722	-8,345
income from continuing operations attributable to owners of the parent		1,044	-5,847
income from discontinued operations attributable to owners of the parent		63,522	-10,294
Profit (PY: loss) attributable to owners of the parent		64,566	-16,141
Total comprehensive income attributable to owners of the parent		21,722	-8,345
Earnings per share (in €) (diluted and undiluted) from continuing operations	14	0.08	-0.46
Weighted average shares outstanding (diluted and undiluted)		12,600,000	12,600,000

1) Amended

Consolidated Statement of Financial Position of ZhongDe Waste Technology AG as of 31 December 2016

in k€	Notes	31.12.2016	31.12.2015
Assets			
<i>Non-current assets</i>			
Intangible assets	15	0	35,340
Property, plant and equipment	16	20	412
Receivables from BOT	17	0	106,291
		20	142,043
<i>Current assets</i>			
Inventories	18	0	437
Trade receivables	19	3,738	6,923
Other receivables and prepayments	19	130,980	60,192
Amounts due from related parties and companies	28.2b)	0	15
Other financial assets	19	16,385	215
Cash and cash equivalents	20	1,324	75,842
		152,427	143,624
Total assets		152,447	285,667
Liabilities and equity			
<i>Capital and Reserves</i>			
Issued capital	21.1	13,000	13,000
Own shares	21.2	-4,608	-4,608
Capital reserves	21.3a)	62,914	62,914
Chinese statutory reserves	21.3b)	0	8,459
Retained earnings	21.3c)	56,773	-16,252
Foreign currency translation reserve	21.4	-1,803	41,041
Total equity		126,276	104,554
Liabilities			
<i>Long-term liabilities</i>			
Long-term loans	22	0	80,623
Deferred tax liabilities	23	0	1,654
		0	82,277
<i>Current liabilities</i>			
Trade payables	24	5,273	25,719
Other payables and prepayments	24	20,591	22,668
Provisions	25	307	4,286
Amounts due to related parties and companies	28.2b)	0	122
Tax liabilities		0	168
Other financial liabilities	24	0	45,873
		26,171	98,836
Total liabilities		26,171	181,113
Total liabilities and equity		152,447	285,667

Consolidated Statement of Cash Flow of ZhongDe Waste Technology AG for the period from 1 January to 31 December 2016

in k€	2016	2015
Profit (PY: Loss) before income tax	65,469	-14,581
<i>Adjustments for:</i>		
Profit (PY: Loss) before income tax from discontinued operations	-65,089	9,432
Allowance for doubtful trade and other receivables	-2,858	3,013
Depreciation of property, plant and equipment	12	43
Interest income / exchange gains	0	-16
Interest expense / exchange losses	514	1
Operating cash flows before working capital changes	-1,952	-2,108
Working capital changes:		
<i>Increase (-) / decrease (+) in:</i>		
Inventories	39	0
Trade receivables	-3,722	0
Other receivables and prepayments and other financial assets	-118,287	283
Amounts due from related parties	-165	2,172
<i>Increase (+) / decrease (-) in :</i>		
Trade payables	2,005	927
Other payables and prepayments, provisions and other financial liabilities	1,276	-1,089
Interest received	0	16
Interest paid	-514	0
Income tax paid	0	-87
Cash flow used in (-) / generated from (+) operating activities from continuing operations	-121,320	114
Net cash used in operating activities from discontinued operations	-42,843	-71,753
Cash flow used in operating activities	-164,163	-71,639
Proceeds from disposal of consolidated companies	60,822	0
Cash flow generated from investing activities from continuing operations	60,822	0
Cash flow used in investing activities from discontinued operations	-21	-70
Cash flow generated from investing activities	60,801	-70
Cash flow generated from financing activities from continuing operations	0	0
Cash flow generated from financing activities from discontinued operations	32,702	54,265
Cash flow generated from financing activities	32,702	54,265
Net decrease in cash and cash equivalents	-70,660	-17,444
Cash and cash equivalents at beginning of year	75,842	87,205
Foreign exchange differences	-3,858	6,081
Cash and cash equivalents at end of period (Note 20)	1,324	75,842

Please refer to note 31 for explanations on the Consolidated Statement of Cashflow.

Consolidated Statement of Changes in Equity of ZhongDe Waste Technology AG for the period from 1 January to 31 December 2016

in k€	Number of shares outstanding	Share capital AG	Own shares	Capital reserves	Chinese statutory reserves	Retained earnings	Foreign currency translation reserve (other comprehensive income)	Total equity
Notes	21.1	21.1	21.2	21.3a)	21.3b)	21.3c)	21.4	
Balance as at 1 January 2015	12,600,000	13,000	-4,608	62,914	8,459	-111	33,245	112,899
Total comprehensive income	0	0	0	0	0	-16,141	7,796	-8,345
Balance as at 1 January 2016	12,600,000	13,000	-4,608	62,914	8,459	-16,252	104,554	104,554
Total comprehensive income	0	0	0	0	0	64,566	-42,844	21,722
Reclassification	0	0	0	0	-8,459	8,459	0	0
Balance as at 31 December 2016	12,600,000	13,000	-4,608	62,914	0	56,773	-1,803	126,276

All amounts are attributable to the shareholders of the parent company.

Notes to the financial statements of ZhongDe Waste Technology AG as of 31 December 2016

1 Background and Basis of Preparation

1.1 The Company

Formation, business name, registered office, financial year and duration of the Company

ZhongDe Waste Technology AG (“the Company” or “ZhongDe AG”) is the parent company of the ZhongDe Group and was formed by means of a notarial deed of incorporation, dated 4 May 2007. The Company is registered as a German listed stock corporation under the registration number HRB 97838 at the local court in Frankfurt am Main. The legal domicile of the Company is located at Messeturm 25. Etage, Friedrich-Ebert-Anlage 49, Frankfurt am Main, Germany. The principal place of business is located in Beijing, Peoples Republic of China (“PRC”). The Company’s financial year is the calendar year (1 January to 31 December). The duration of the Company is unlimited. ZhongDe AG’s shares are traded on the Prime Standard, a special segment of the regulated market (Regulierter Markt) of the Frankfurt Stock Exchange.

Business purpose of the Company

The Company’s purpose 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. The scope of the company’s operations furthermore includes research and development of environmental installations, installation, manufacture and further ongoing maintenance of OEM equipment and auxiliary components, manufacture of and trading in own products (including incinerators), investment in and operation of environmental project (including ecologically motivated improvements to plants), provision of technical consultancy services, implementation of ecological measures, development of mines and power-generating plants, recycling of renewable resources as well as import and export (also in the capacity of a middleman) of technological solutions and products of any type, especially energy-conserving and environmentally friendly devices and auxiliary products. 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.

Business of the ZhongDe Group

The ZhongDe Group designs, manufactures and installs 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 as well as fluidized bed combustion.

In the past until the disposal of this business in December 2016, the ZhongDe Group was primarily responsible for the design, engineering, procurement, construction, installation and operation of waste incinerators with a power generation with the above mentioned techniques (waste-to-energy) as a general contractor of BOT projects.

In addition to the above mentioned former BOT-role, the ZhongDe Group also produces the waste-to-energy plants as an investor of EPC projects without later operation of the facility. The work and services required in connection with EPC and BOT projects are not carried out by the ZhongDe Group itself but by subcontractors.

Group structure

The operational business of the ZhongDe Group is carried out by the one remaining operating subsidiary, ZhongDe China Environmental Protection Co. Ltd., Beijing, being a limited liability company formed under the laws of the PRC. This company is under direct control of ZhongDe Waste Technology AG and accordingly fully consolidated as wholly owned subsidiary under IFRS 10.

The number of consolidated entities has significantly decreased following the disposal of the shares in the intermediate holding company Chung Hua with effective date 28 December 2016. Regarding the impact of the disposal, we refer to Note 13.

in k€	Interest (direct / indirect)	Equity 31.12.2016	Results 2016	Equity 31.12.2015	Results 2015
ZhongDe China Environmental Protection Co. Ltd., Beijing, PRC	Direct 100%	10,622	-884	4,000	-910
Chung Hua Environmental Protection Assets (Holdings) Group Ltd., Hongkong	Direct 100% (until 28.12.2016)	Disposed of in 2016		86,540	475
Fujian FengQuan Environmental Protection Holding Ltd., Fuzhou, VRC	Indirect 100% (until 28.12.2016)	Disposed of in 2016		89,363	1,905
Zhoukou FengQuan Environmental Protection Electric Power Co., Ltd., Zhoukou, VRC	Indirect 100% (until 28.12.2016)	Disposed of in 2016		2,593	-23
Feicheng FengQuan Waste Disposal Co., Ltd., Feicheng, VRC	Indirect 100% (until 28.12.2016)	Disposed of in 2016		569	-75
Xianning ZhongDe Environmental Protection Electric Power Co., Ltd., Xinjiang, VRC	Indirect 100% (until 28.12.2016)	Disposed of in 2016		15,221	-3,078
Kunming FengDe Environmental Protection Electric Power Co., Ltd., Kunming, VRC	Indirect 100% (until 28.12.2016)	Disposed of in 2016		1,769	-64
Lanzhou FengQuan Environmental Electric Power Co., Ltd., Lanzhou, VRC	Indirect 100% (until 28.12.2016)	Disposed of in 2016		9,927	-1,613
Zhoukou Fulin Environmental Engineering Construction Co., Ltd., Zhoukou, VRC	Indirect 100% (until 28.12.2016)	Founded and disposed of in 2016		-	-

Chung Hua Environmental Protection Assets (Holdings) Group Ltd. and its subsidiary, the Fujian Feng Quan Environmental Protection Holding Ltd., were intermediate holding companies and held all the shares of the former five operating companies carrying out BOT projects and another subsidiary founded in 2016, which had not yet commenced operations in 2016. Both investments have been sold based on the contract of 14 October 2016 with legal effectiveness of 28 December 2016.

ZhongDe Waste Technology AG still holds 100% of the shares in ZhongDe (China) Environmental Protection Co. Ltd. ("ZhongDe China"), which was established in 2010. This subsidiary is mainly responsible for handling project acquisition, project planning and other administrative duties at the site in Beijing. Furthermore, the EPC-project in Dingzhou and the EPC-project in Wuhai are operated in this subsidiary.

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 require a formal approval from the State Administration of Foreign Exchange ("SAFE").

1.2 Basis of preparation of the consolidated financial statements

The Consolidated Financial Statements of the ZhongDe Waste Technology AG for the reporting period ending 31 December 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards

Board (IASB), London, United Kingdom, and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRSIC), in so far as these have been adopted by the European Union (EU) in effect at the closing date. Sec. 315a Para. 1 of the German Commercial Code has been considered.

The Consolidated Financial Statements of ZhongDe Group are drawn up in Euros. Amounts are stated in thousands of Euros (k€) except where otherwise indicated. Because the calculations of the individual items included are based on the full figures, rounding differences may occur where amounts are shown in thousands of Euros. The financial statements of the consolidated individual companies are prepared as of the closing date for the Group financial statements and are based on uniform accounting policies used for all consolidated group companies.

The Consolidated Financial Statements for the reporting period ended 31 December 2016 (including comparative information relating to the accounting year 2015) were approved and authorised for issue by the Management Board as at 18 May 2018.

The consolidated financial statements were generally prepared using the historical cost convention. Exceptions exist for construction contracts where the percentage of completion method is used. The balance sheet is divided into non-current and current assets and liabilities in accordance with IAS 1. Assets and liabilities which are due within one year are classified as current. In accordance with IAS 12, deferred tax assets/deferred tax liabilities are presented as non-current assets or liabilities. The Consolidated Statement of Profit and Loss and Other Comprehensive Income was prepared using the cost of sales method. The items presented are disclosed and explained separately in the notes. Income and expense resulting from the discontinued operations disposed in December 2016 are further explained in Note 13.

The Consolidated Financial Statements have been prepared in accordance with the accounting policies adopted in the Consolidated Financial Statements for the year ended 31 December 2015 except for those changes required by the mandatory first time application of new or amended accounting standards.

The significant accounting policies and measurement bases that have been applied in the preparation of these Consolidated Financial Statements as of 31 December 2016 are summarised below.

1.3 Standards, Interpretations and Amendments to Standards applicable for the first time in the 2016 financial year

The Group has applied the following standards and interpretations of the IASB as well as its changes or revisions for the first time in the 2016 reporting period:

Title	Content	Material effect on ZhongDe Group
Amendments to IAS 16 und IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	Interdiction to use a revenue based depreciation method for PP&E. Rebuttable presumption that revenue is not an appropriate basis for amortization of intangible assets	none
Amendments to IAS 16 und IAS 41: Bearer Plants	Bearer plants are included into the scope of IAS 16 instead of 41 and are accounted for as PP&E	none
Amendments to IAS 19: Employee Contributions	Clarification of the accounting for employee or third party contributions linked to defined benefit plans	none
Amendments to IAS 27: Equity Method in Separate Financial Statements	Permission to apply equity accounting for investments in subsidiaries, joint ventures and associates in separate financial statements	none
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	Clarification that principles of IFRS 3 should be applied if an acquired joint operation constitutes a business	none
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception	Clarification of application of the consolidation exception for investments entities	none
Annual Improvements to IFRSs 2010-2012 Cycle	The amendments mainly concern clarifications of ambiguous provisions in standards (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38)	none
Annual Improvements to IFRSs 2012-2014 Cycle	The amendments mainly concern clarifications of ambiguous provisions in standards (IFRS 5, IFRS 7, IFRS 1, IAS 19, IAS 34)	none
Amendments to IAS 1: Disclosure Initiative	Clarifications of disclosure requirements especially in relation to materiality	none

The initial application of the changes did not have a material effect on the consolidated financial statements of the ZhongDe Group.

1.4 Published but not yet applied Standards, Interpretations and Amendments

At the time of preparation of the Group consolidated financial statements, the following standards and interpretations of the IASB as well as their changes and revisions had either not been endorsed by the European Union or were not compulsorily applicable in the 2016 financial year, and were therefore not applied by the ZhongDe Group. The date in brackets represents the compulsory date of first time application in the European Union (for accounting periods beginning on or after this date):

Title	IASB Effective Date	Endorsed by the EU on	EU Effective Date	Expected material effect on ZhongDe Group
IFRS 9: Financial Instruments	January 1, 2018	November 22, 2016	January 1, 2018	none
IFRS 14: Regulatory Deferral Accounts	January 1, 2016	(not endorsed by the EU)	(not applicable)	none
IFRS 15: Revenue from Contracts with Customers	January 1, 2018	September 22, 2016	January 1, 2018	see explanation
IFRS 16: Leases	January 1, 2019	October 31, 2017	January 1, 2019	see explanation
Amendments to IAS 7: Disclosure Initiative	January 1, 2017	November 6, 2017)	January 1, 2017	additional note disclosures
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017	November 6, 2017)	January 1, 2017	none
Clarifications to IFRS 15: Revenue from Contracts with Customers	January 1, 2018	October 31, 2017	January 1, 2018	see explanation
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	January 1, 2018	February 26, 2018	January 1, 2018	none
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	January 1, 2018	November 3, 2017	January 1, 2018	none
Annual Improvements to IFRS 2014-2016 Cycle	January 1, 2017 / January 1, 2018	February 7, 2018	January 1, 2017 / January 1, 2018	none
IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration	January 1, 2018	March 28, 2018	January 1, 2018	none
Amendments to IAS 40: Transfers of Investment Property	January 1, 2018	March 14, 2018	January 1, 2018	none
Amendments to IFRS 9: Prepayment Features with Negative Compensation	January 1, 2019	March 22, 2018	January 1, 2019	none
IFRS 17 Insurance Contracts	January 1, 2021	(to be determined)	(to be determined)	none
IFRIC 23 Uncertainty over Income Tax Treatments	January 1, 2019	(expected in Q3 2018)	(to be determined)	none
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	January 1, 2019	(expected in 2018)	(to be determined)	none
Annual Improvements to IFRS Standards 2015-2017 Cycle	January 1, 2019	(expected in 2018)	(to be determined)	none
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	January 1, 2019	(expected in 2018)	(to be determined)	none
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020	(expected in 2019)	(to be determined)	none

The aforementioned standards and interpretations are to be applied in the Consolidated Financial Statements of the ZhongDe Group from the 2017 financial year or later. ZhongDe generally does not early adopt new standards but applies them from the compulsory application date onwards.

ZhongDe expects that the first time application of IFRS 15 will in general lead to similar accounting results as under the current rules of IAS 11 and IAS 18. The basic nature of the percentage of completion method applicable for the contracts will presumably not change.

IFRS 16 specifies the recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The application of IFRS 16 will require that ZhongDe as lessee for a couple of leasing contracts will have to capitalise value of use assets whereas the contract have formerly been treated as operating lease under IAS 17, when the lease term is longer than 12 months unless such bearers are immaterial. As a result, the fixed assets and financial liabilities will increase, other operating expense will decrease while depreciation and interest expense will increase as well. Zhongde is currently evaluating the impact the standard will have on the consolidated financial statements.

Aside from additional or modified disclosure requirements ZhongDe Group currently expects only marginal effect on the consolidated financial statements from the first-time application of the other standards, interpretations and amendments.

2 Accounting Policies

2.1 Basis of consolidation

The Group financial statements include those of the parent company and its subsidiary drawn up to 31 December 2016. Subsidiaries are all entities for which the parent company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. All subsidiaries have an annual reporting date of 31 December.

Consistent accounting and valuation policies are applied for like transactions and events in similar circumstances. The inter-group business relations are carried out at arm's length, if not stated otherwise.

All inter-group balances, transactions, income and expenses, including provisional results from inter-group transactions are fully eliminated. Insofar as allowances for the shares of subsidiaries included or intra-Group receivables were recognized in single-entity financial statements, these are reversed in the course of consolidation. Subsidiaries are fully consolidated from the date of acquisition or foundation, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases.

2.2 Functional and presentation currency

a) Functional currency

Sales and major costs of providing goods and ongoing services, including most of the operating expenses are stated and invoiced almost exclusively in RMB. Hence the functional currency for all of the Group's companies is the Renminbi (RMB).

b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currency of the combined entities and are recorded, on initial recognition, in the functional currency at the approximate exchange rates current as at their respective transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange applicable as of 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 of 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 their respective fair values are determined.

Exchange differences arising from the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in profit or loss in the Consolidated Statement of Profit or Loss and Other Comprehensive Income except for exchange differences arising on monetary items that form part of the Group's net investment in foreign subsidiaries. These are recognised initially without effect on profit and loss in the Consolidated Statement of Profit and Loss and Other Comprehensive Income and as a separate component of equity (foreign currency translation reserve) in the consolidated balance sheet. Only on disposal of the subsidiary they are recognized in profit and loss in the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

Other comprehensive income arising from foreign exchange differences was segregated in those items which might/will not be reclassified subsequently to profit or loss when specific conditions are met. The former are those relating to the translation of the subsidiaries, the latter are those relating to the retranslation of the financial statements of ZhongDe Waste Technologie AG from its functional currency RMB into the presentation currency Euro.

c) Foreign currency translation

The presentation currency of the Group is EUR as the parent company is a German Stock Corporation based in Germany. The results and statements of financial position of the combined entities are translated from RMB, the functional currency of all entities of the Group, into EUR as follows:

Development of exchange rates (€ / foreign currency rate)	ISO-Code	Average rate		Ending rate	
		2016	2015	31.12.2016	31.12.2015
Chinese Yuan	CNY	7.3522	6.9733	7.3202	7.0608

Assets and liabilities of the consolidated companies are translated at the closing rate as of the balance sheet date. Income and expenses are translated at annual average exchange rates as approximation to the exchange rates as of the date of transactions.

All resulting exchange differences are recognised without effect on profit and loss in other comprehensive income in the currency translation reserve, a separate component of equity. The EUR/RMB year end exchange rate decreased during 2016 with an overall change by 3.7% (2015: Increase of 6.3%), which had an impact on the statement of financial position.

The sales value of the Chung Hua subgroup was converted on the basis of the exchange rate of the transaction day (28 December 2016).

2.3 Service concession arrangements

The Group had entered into service concession arrangements with various grantors. Pursuant to the service concession arrangements, the Group had to design and construct waste-to-energy plants in the PRC as well as to operate and manage them for a period of 30 years. The Group had the obligation to maintain the infrastructure in good condition. For the operating period of the plant the grantors guarantee the Group minimum annual payments under the arrangements. Upon expiry of the concession periods, the infrastructure and the related facilities have to be transferred to the local government authorities (grantors) without compensation. In case of delayed payment of waste disposal fees, the business entities are entitled to receive penalties for late payments. They are obliged to pay compensation, if they do not dispose of the delivered waste in accordance with the concession arrangement.

As a result of the disposal of the shares in the intermediate holding company Chung Hua with effective date 28 December 2016, the group disposed all BOT projects with relation to service concession arrangements.

2.4 Significant accounting estimates and judgments

The preparation of financial statements in accordance with the IFRS as adopted by the EU requires management to exercise judgment in the process of applying the accounting policies. It also 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 impact on the carrying amount of assets and liabilities are disclosed below:

a) Allowance for trade receivables

Trade receivables are recorded at the invoiced amount and given their short duration 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 judgment to determine the allowance for doubtful receivables, which is 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. Receivables are fully written-off after all means of collection have been exhausted and the potential for recovery is considered remote. Actual results could differ from estimates.

In some cases allowances for trade receivables are recognized using allowance accounts. Whether a default risk is recognized via an allowance account or directly by writing off the receivable depends on the estimated probability of default and the extent to which this estimate is considered reliable.

b) Allowance for other receivables and prepayments

Other receivables and prepayments are recorded at the invoiced or paid amount and given their short duration do not bear interest. The allowance for doubtful other receivables and prepayments is the Group's best estimate of the amount of probable credit losses.

Management uses judgement to determine the allowance for doubtful receivables, which is supported by an analysis of the current project status with regards to subcontractor work as well as of the ability of the subcontractors to repay advance payments if the project is cancelled or significantly delayed.

The Group regularly reviews its allowance for doubtful other receivables and prepayments. Receivables are fully written-off after all means of collection have been exhausted and the potential for recovery is considered remote. Actual results could differ from estimates.

c) Depreciation of property, plant and equipment

Equipment used for the manufacturing process is depreciated on a straight-line basis over its estimated useful life. Management estimates the useful life of equipment to be between 5 and 10 years, which reflects the general life expectations in the engineering industry. As changes in the expected level of usage and technological developments could affect the economic useful life and the residual value of these assets, management continuously monitors the assumption and revises the useful lives if required.

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

d) Provision for warranty

Assumptions used to calculate the provision for warranties have been based on current sales levels and information currently available as well as expectations for guarantee claims during the one-year warranty period for incinerators sold. Provisions for warranties relate to the segment incinerators, which has been disposed in December 2016.

e) Provisions for contractual penalties

Assumptions used to calculate the provision for contractual penalties are based on management best estimate and information currently available. The provisions relate to potential contractual penalties for delays in connection with the remaining EPC projects in the referring segments, which may become due at any time (and are therefore current).

f) Partial revenue recognition on construction contracts

The operational entity, which is included in the segment EPC projects, conducts a major part of its business under long-term construction contracts which are accounted for using the percentage-of-completion method. This method requires accurate estimates of the progress towards completion. Depending on the methodology used to determine the project progress, the significant areas of estimate include expected total contract costs, remaining costs to completion, expected total contract revenues, contract risks and other judgements. The management continually reviews all estimates involved in such long-term construction contracts and adjusts them as necessary.

If total revenues and/or costs for projects cannot be reliably estimated and the stage of completion appears to be not reliably measurable, the zero profit-method is applied. Under the zero-profit-method revenues are only recognised to the extent costs incurred are recoverable on the referring project.

g) Calculation of the Percentage of Completion

Since past experiences proved that the stage of completion of BOT projects was not sufficiently predictable, the percentage of completion method could no longer be applied. This situation remained unchanged during 2016. Therefore, the zero profit-method has been applied for these projects until the disposal in December 2016. Under the zero-profit-method, revenues are recognised at the amount of costs incurred for the referring projects to the extent these costs are recoverable.

h) Impairment Test

The impairment test for non-financial assets requires assumptions about future cash flows during the planning period, and possibly beyond it, as well as about the discount rate to be applied, which are based on estimates about the extent and probability of occurrence of future events. As far as possible, estimates are derived from past experience. All used data is based on management's best estimate about the expected development of the Group. More detailed information on impairment tests and the assumptions used for those tests are disclosed in Note 2.8 and Note 16.

2.5 Changes in Accounting Estimates/Accounting Policies

The accounting policies are unchanged to the prior year.

Accounting policies and valuation methods

2.6 Intangible assets

a) Software

Acquired software and licences are capitalised at acquisition cost including the cost to bring it to the intended condition of use, as well as other directly attributable costs. Direct expenditure, which can enhance or extend the performance of the software or licences and which can be measured reliably, is recognised as a subsequent acquisition cost and added to the original cost of the software or licences. Maintenance cost for software are recognised as expense as incurred.

Software and licences are accounted at cost less accumulated amortisation and any impairment losses. Costs are amortised over its estimated useful life of three to ten years using a straight line method. Amortisation is charged to cost of sales and administrative/other expenses.

b) Research and development costs

Research costs are expensed in the period in which they incur. Development costs are only capitalised if all recognition criteria of IAS 38 are fulfilled on a cumulative basis, if the research phase can be clearly segregated from the development phase and if the costs arising are

directly attributable to the individual project phases. In 2016, no development costs have been capitalised because the relevant criteria of IAS 38 were not met. In particular, it is impossible to distinguish clearly between research and development activities due to multiple interdependencies (circular process).

c) Service concession rights

A service concession right was recognised as an intangible asset to the extent that the ZhongDe-Group was about to receive through a BOT contract a right to charge users of public service for providing the infrastructure or other services. At initial recognition the service concession right has been calculated by deducting the present value of the guaranteed payments from the fair value of the project.

Under the accounting-model applicable for service concession arrangements, the intangible asset (and the receivables from BOT projects) has been capitalized according to the stage of completion against revenues. Borrowing costs have been included in cost as far as they were directly attributable to the qualifying intangible asset and arise in the period of construction. Borrowing costs only relate to interest expenses.

Service concession rights have been amortised over the agreed period of use by using the straight-line method, which according to the terms of the contracts was generally 30 years. Amortization was planned to begin when the infrastructure was put into service. None of the BOT has been completed until the disposal had been agreed in October 2016. During the construction phase a capitalized intangible asset has been annually tested for impairment.

All intangible assets have a definite useful life.

2.7 Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses if any.

Depreciation is charged to amortize the costs of 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

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.

2.8 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 the 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 to be impaired and is written down to its recoverable amount.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses for an asset may no longer exist or may have decreased. If such an indication exists, the recoverable amount is recalculated. 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 has been recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised for the asset in previous years. A reversal of an impairment loss is recognised in the Consolidated Statement of Profit and Loss and Other Comprehensive Income. After such a reversal, the depreciation charge is adjusted for future periods to amortise the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2.9 Receivables from BOT projects

Receivables from BOT projects were financial assets referring to construction contracts accounted for under IFRIC 12. A financial asset was recognised to the extent that the Group had an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services and to the referring stage of completion of the project.

After initial recognition at fair value receivables from BOT were recognised at amortised cost less repayments and any amortisation in the category “loan or receivable” as defined in IFRIC 12.24 a). In subsequent periods the receivables have been accounted using the effective interest method. Following the contract dated 14 October 2016 all BOT operations have been disposed with effective date 28 December 2016.

2.10 Inventories

Inventories are recorded at the lower of acquisition and production costs or net realisable value 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 estimated distribution costs.

2.11 Financial Instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument. Initial measurement is performed as of the settlement date. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or has expired. Financial assets and financial liabilities are initially measured at fair value.

Financial assets and financial liabilities are subsequently measured as described below.

a) Financial assets

Financial assets are classified into different categories determining their subsequent measurement. The Group holds only financial assets of the category “loans and receivables” (including cash and cash equivalents).

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these assets are measured at amortised cost using the effective interest method, less provision for potential impairment. Discounting is omitted where the effect of discounting is immaterial. The Group’s cash and cash equivalents, trade receivables and most other receivables and amounts due from related parties fall into this category of financial instruments. All loans and receivables are subject to review for impairment at least at each reporting date. When there is any objective evidence

that a financial asset or a group of financial assets is impaired, the amount of the loss is determined and written off. Individually significant receivables are scrutinized for potential impairment when they are past due or when other objective evidence is received that a specific counterparty is in default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other available features of shared credit risk characteristics.

Net profit and loss from loans and receivables are based on impairment, reversal of impairment and interest income.

b) Financial Liabilities

The Group's financial liabilities include trade and other payables, accruals and amounts due to related parties.

Financial liabilities are subsequently measured at amortised cost using the effective interest method.

All interest-related charges that are reported in the Consolidated Statement of Profit and Loss and Other Comprehensive Income are included in "finance expense" or "finance income".

Net profit from financial liabilities are based on interest expense.

2.12 Trade and other receivables

Trade and other receivables which are not related to construction contracts do not bear interest. They are recognised at the original amount less an allowance for any uncollectible amounts. The allowance for doubtful receivables is the Group's best estimate of the amount of probable credit defaults in the Group's existing accounts receivable. Management uses judgement to determine the allowance for doubtful receivables which is supported by historical repayment records of the customers.

2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank deposits with a maturity of up to three months and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to only insignificant changes in value. These are carried at their nominal amount.

For the purpose of providing guarantee for the issue of bank acceptance bills ZhongDe Group is required to hold cash deposit on restricted accounts with its banks. The restrictions on bank deposits are normally removed on settlement of the underlying bank acceptance bills.

2.14 Capital and Reserves

Share capital represents the nominal value of shares that have been issued by ZhongDe Waste Technology AG.

Capital reserves include any premiums received on the issue of share capital. Any transaction costs associated with the issuing of shares have been deducted from capital reserve, net of any related income tax benefits.

Chinese statutory reserves arise from the requirement under PRC law for one subsidiary to transfer 10% of the annual net profit as reported in their PRC statutory financial statements to the statutory reserves in each year, unless these reserves have reached 50% of the company's registered capital. This statutory reserve can be used for loss compensation or for a capital increase as long as the reserve does not fall below 25% of the paid-in capital.

2.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or factual) 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 to the extent the reimbursement is virtually certain.

If the provisions are long term, they are discounted using a current pre-tax interest rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the lapse of time is recognised as a finance expense. As at 31 December 2016 all provisions are classified as current as they are within one year.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate of the amount required to settle 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.

2.16 Operating lease

Where the Group makes 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.

2.17 Order backlog

The order backlog regarding EPC projects is calculated based on the contractual amounts less any amounts of work already completed. Regarding BOT projects the order backlog has in the past been stated at the fair value of the construction of the waste-to-energy plants less the revenues currently accounted for according to the zero-profit method. The fair value of the constructions has been derived from the originally budgeted costs plus a margin derived from one project that had already been completed in the past (cost-plus method). Due to the disposal of all BOT projects and one EPC project, the order backlog figures are not comparable to those as of 31 December 2015.

2.18 Revenue recognition

Revenue is generally recognised to the extent that it is probable that economic benefits will flow to the Group and that benefit can be reliably measured. All intra-group transactions are eliminated from the revenue of the consolidated group.

a) Sales of goods

Revenue from sale of goods is recognised upon transfer of significant risk and rewards of ownership 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 recoverability of the consideration due, associated costs or the possible return of goods. Revenue from the sale of goods represents the invoiced amount of delivered goods net of discounts, returns and value added tax.

b) Rendering service

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

c) Long-term construction contract revenue

As long as revenue and/or cost for long-term construction contracts can be reliably estimated, revenue is accounted for under the percentage of completion method where revenue is recognised following the project progress. The project progress is determined based on the percentage of costs incurred to date compared to the actual total estimated cost for each contract until completion. This stage of completion determines the amount of revenue recognisable until the reporting date. The recognisable revenue refers to the contract price (incinerators and EPC-projects) or the fair value of the construction costs (BOT projects). Revenue and profits or losses in the reporting period resulting from rendering construction services according to the stage of completion in exchange for a financial asset relating to EPC-projects are disclosed in the segment reporting under Note 3.

If the revenue and/or cost cannot be estimated at all or are no longer reliably estimable, revenue for those projects is recognized under the zero-profit-method. This method has been applied for BOT projects since the second quarter of 2013.

Revenues from BOT projects have in the past been accounted for against intangible assets or financial assets respectively under the accounting model applicable for service concession arrangements (IFRIC 12). A financial asset has been recognised to the extent that ZhongDe has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. An intangible asset would have been recognised to the extent that the Group receives a right (a licence) to charge users of the public service.

Revenue and profits or losses in the reporting period resulting from rendering construction services according to the zero-profit-method in exchange for a financial or intangible asset relate to the disposed segment BOT projects are disclosed in the segment reporting under Note 3.

d) Income from trial runs

Before the projects are approved by the referring customers, trial runs have to be performed to check the operating of the plant. In doing so ZhongDe generates income from the thermal treatment of waste and the production of electricity. Trial run income is generally generated in the phase of a construction contract shortly before customer's acceptance. Whereas the supply of electricity is leading to income due to local legislation, the income from burning of waste before completion of the project is not contractually agreed. Accordingly the income from electricity is recorded when the supply to the grid is determined and the income from the the thermal treatment of waste during the trial runs when the local authorities pay for the waste disposed. Following the general practice, as these income and expense are not scheduled in the project accounting, trial run revenues exceeding trial run costs are recorded as other income. The related cost which are netted of against the revenue comprise of operating cost including labour and material.

This revenue stream is mainly independent from the recognition of revenues under the project accounting. The related revenue may arise before the project is completed as the facilities may already operational although other parts of the projects have not been completed or no revenue is recognised due to outstanding customer acceptance.

e) Interest income

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

2.19 Pension scheme

The Group participates in national pension schemes as defined by the laws of the respective judicial area. Contributions to national pension schemes are recognised as an expense in the period in which the payment is made.

2.20 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are part of the acquisition/production cost of those assets and arise in the period of construction. A qualifying asset is one which necessarily takes a substantial period of time to get ready for its intended use or sale. Borrowing costs are capitalized for intangible assets resulting from service concession arrangements.

All other borrowing costs are expensed as incurred.

2.21 Taxation

Income tax for the financial year comprises current and deferred tax. Income tax is recognised in profit or loss in the Consolidated Statement of Profit and Loss and Other Comprehensive Income except for the amount that relates to items recognised directly in equity. There were no amounts directly recognized in equity as at balance sheet date or in the previous year.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases. Deferred tax assets and liabilities are generally accounted for all taxable temporary differences to the extent they are recognisable.

Deferred tax assets and liabilities, if any, are measured at the tax rates that are expected to be applicable in the year the asset is realised or the liability is settled. Deferred tax assets and liabilities, 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 tax assets is reviewed 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 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.

A deferred tax asset is capitalized on tax deductible loss carry-forwards to the extent that the Group's tax planning proves that they will be utilisable in the near future.

2.22 Contingent Liabilities

Contingent Liabilities reflect potential obligations arising from past events and whose existence will only be confirmed by uncertain events in the future, which are beyond control of ZongDe Group. In addition, contingent liabilities may exist from present obligations where the outflow of resources is not probable or the amount cannot be reliably estimated.

3 Segment Reporting

3.1 Segment information

Operating segments are identified on the basis of the internal reporting which is regularly reviewed by the chief operating decision maker. The operating business is reported separately according to the nature of the products, with each representing a strategic business unit. The segments are managed on the basis of gross return on sales as well as by orders received and the order backlog.

a) Business segment

The Group's operating businesses are organised into three business segments.

- **BOT/BOOT projects – discontinued – (Build-Operate-Transfer/Build-Operate-Own-Transfer):** As an investor in BOT projects the ZhongDe Group has also built and operated waste incinerators which are returned to the customers after the expiry of the concession period. The work and services required to build the infrastructure have been carried out by third parties (subcontractors).
- **EPC projects – continuing – (Engineering, Procurement and Construction):** In addition the ZhongDe Group acts as general contractor on EPC projects with responsibility for the design, construction planning, procurement, construction and assembly of waste incinerators (waste-to-energy). The necessary work and services are carried out by third parties (subcontractors).
- **Incinerators (Other) – discontinued:** The ZhongDe Group developed, produced and installed incinerators in China, in particular for the disposal of medical waste and urban municipal waste (mixed household waste). The customers for the supply of waste incinerators are mostly public and private-sector Chinese companies.

After the disposal of the investment in Chung Hua on 28 December 2016 only the EPC segment remains.

b) Geographical business

The Group's contract partners and customers are all based in the People's Republic of China and all of its services to date have been provided in the PRC. In addition nearly all identifiable

assets of the Group are located in the PRC. Therefore all revenues from external customers are attributed to the PRC.

c) Allocation basis

Revenue and cost of sales are directly attributable to the segments. Not directly attributable expenses and income are recorded in offsetting and reconciliation.

All inter-segment sales took place at an arms' length and are eliminated on consolidation.

The following table presents revenue and results regarding the Group's business segments for the financial year ended 31 December 2016. The complete revenue of in total € 71.3 million (2015: € 38.2 million) is generated with external customers.

3.2 Segments

in k€	BOT-Projects		EPC-Projects		Other		Group	
	2016	2015	2016	2015	2016	2015	2016	2015
Total revenue for reportable segments	67,560	30,865	3,735	6,129	0	1,244	71,295	38,238
Total gross profit from reportable segments	-706	-3,034	428	2,476	-361	-1,181	-639	-1,739
Order intake	0	0	0	0	0	0	0	0
Order backlog	0	110,342	64,850	23,582	0	1,659	64,850	135,583

The applied accounting policies of the Group for segmental reporting under IFRS 8 are the same as those used in its financial statements. The reconciliation from gross profit for reportable segments to the loss of the year is presented below:

in k€	2016	2015
Total gross profit for reportable segments	-639	-1,739
Unallocated income and expenses of the Group	1,532	-3,426
EBIT	893	-5,165
Finance income	0	16
Finance expense	-513	-1
Profit (+) / Loss (-) before tax	380	-5,150
Income tax	664	-697
Profit (PY: loss) for the year	1,044	-5,847

The unallocated income and expenses of the Group primarily consist of income from the disposal of discontinued operations which can not be clearly allocated to the three segments, selling and distribution expenses, administrative expenses and other operating expenses.

3.3 Information about major customers

All of ZhongDe's revenues were earned by Group companies based in Mainland China. In the BOT segment revenues of € 67.4 million (2015: € 27.4 million) were achieved with one customer. The following table presents the total amounts of revenue from each major customer including their relevant segments:

in million €	Customer	Segment	Revenue	
			2016	2015
BOT Lanzhou	Lanzhou Shi Chengshi Guanli Zonghe Xingzheng Zifa Ju	BOT	67.4	27.4
EPC Wuhai	Wuhai Lanyi Huanbao Fadian Youxian Gongsi	EPC	3.7	0.0
EPC Dingzhou	Zhucheng Baoyuan Xinnengyuan Fadian Youxian Gongsi	EPC	0.0	5.5

Notes on the Consolidated Statement of Profit and Loss and Other Comprehensive Income

Due to the sale of the Chung Hua subgroup, the related income and expenses are summarized in the position „Profit (+) / loss (-) from discontinued operation after income taxes “. The related details are presented and explained under Note 13. All other positions affecting the Consolidated Statement of Profit and Loss refer to the continuing operation.

4 Revenue

Revenue from continuing operations amounts to € 3.7 million (2015: € 0.7 million) and has been accounted for under the PoC-method. The revenue totally results from the EPC project in Wuhai which started in the last quarter 2016.

PoC-revenues from continuing operations generated a gross profit amounting to € 0.4 million (2015: € 0.1 million) by costs incurred amounting to € 3.3 million (2015: € 0.5 million).

ZhongDe China has been granted the Construction Enterprise Qualification effecting that revenues relating to the EPC project in Dingzhou and Wuhai are realized without VAT.

5 Cost of Sales

Corresponding to the increased revenues cost of sales increased from € 0.5 million in 2015 by € 2.8 million to € 3.3 million in 2016. The gross profit margin amounts to 11.4% (2015: 19.7%). As the Group acts as General Contractor the predominant part of Cost of Sales relates to subcontractors' services.

6 Other operating income

Other operating income significantly increased from € 0.0 million in 2015 to € 2.9 million in 2016 due to the reversal of a bad debt provision for prepayments to subcontractors in 2016:

In 2014 ZhongDe made prepayments to a subcontractor commissioned for the EPC in Wuhai. Last year, as the project had been postponed to an uncertain point of time, it was questionable whether the prepayment will be refunded. Accordingly the receivable from the prepayment to the subcontractors had been fully written-off in the financial statements as of December 31, 2015. Following the project restart the prepayment is no longer questionable and the bad debt provision has been reversed in the 2016 books accordingly. Until May 2018 all related equipment has been ordered and received from the suppliers.

7 Selling and distribution expenses

Selling and distribution expenses in the prior year resulted from the write-off of the prepayment to subcontractors for the formerly suspended Wuhai project mentioned in note 6.

8 Administrative expenses

The following table shows a breakdown of administrative expenses from continuing operations for the period:

in k€	2016	2015
Personnel expenses	665	675
Entertainment expenses	109	36
Rent	104	134
Depreciation and amortization	11	43
Office expenses	70	38
Travel expenses	106	12
Vehicle use fees	46	3
Other expenses	114	226
Total Administrative expenses	1,225	1,168

Administrative expenses from continuing operations remained almost unchanged in comparison to the prior year amounting to € 1.2 million.

9 Other operating expense

The following table shows a breakdown of other operating expense from continuing operations for the period:

in k€	2016	2015
Financial statements and audit costs	488	487
Supervisory board costs	124	149
Investor relations costs	214	133
Legal and advisory costs	109	75
Others	229	274
Total Other operating expenses	1,164	1,119

Others mainly comprise of expenses for the Annual General Meeting (k€ 48; 2015: k€ 47), rent expenses for the office in Germany (k€ 55; 2015: k€ 56) and travel expenses (k€ 30; 2015: k€ 42).

10 Selected information and the nature of expenses

Due to classifying expense by function in the profit and loss statement the following table presents additional information on the nature of expenses:

in k€	2016	2015
Release /Addition of allowances of trade and other receivables and prepayments	-2,858	3,013
Staff costs	665	673
Depreciation of property, plant and equipment	12	44

11 Finance Expense

Finance expense amounting to € 0.5 million in 2016 (2015: € 0 million) relates to exchange losses.

12 Income Tax

The major components of income tax expense for continuing operations are as follows:

in k€	2016	2015
Current income tax	664	-87
Deferred income tax induced by		
- temporary differences	-99	0
- tax loss carry forwards	99	-610
	0	-610
Income taxes according to profit and loss statement	664	-697

Current income tax relate to German income tax from continuing operation.

In Germany ZhongDe Waste Technology AG is subject to corporation tax at a rate of 15% plus a 5.5% solidarity surcharge (Solidaritatzuschlag) thereon (in total 15.825%). In addition, ZhongDe Waste Technologie AG is subject to trade tax (Gewerbesteuer) with their income

subject to certain adjustments for trade tax purposes. The trade tax depends on the municipalities in which the corporation maintains permanent establishments. As at 31 December 2016, the effective trade tax rate for Frankfurt is 16.1% of the trade taxable income (Gewerbeertrag). The general Chinese tax rate amounts to 25%.

The reconciliation of tax income for continuing operations is as follows:

in k€	2016	2015
Profit before income tax	380	-5,150
Tax rate	25%	25%
Expected tax income expense	95	-1,287
Tax rate differential	-110	-85
Non-deductable expenses	22	476
Tax-exempted income	-455	-135
Not recognized deferred tax assets		
- resulting from tax losses of the period	501	331
- resulting from temporary differences	0	754
Reduction of deferred tax expense relating to		
- temporary differences of prior periods	-707	0
Write-down of deferred tax assets	0	610
Other effects	-10	33
Actual income tax expense	-664	697

The decrease of non-deductible expenses is resulting from the elimination of taxable interest income from intercompany relations. The increase in tax-exempt income is based on foreign currency exchange differences only arising in the IFRS financial statements.

The deferred tax expenses decreased due to the reversal of unrecognised temporary differences from prior periods in the amount of € 0.7 million (2015: € 0.0 million)

Deferred tax assets not recognised resulting from tax losses and changes of temporary differences of the period amounted to € 0.5 million (2015: € 1.1 million.)

13 Discontinued Operations

On 14 October 2016, ZhongDe AG signed a contract with CAPITAL YIELD GROUP LIMITED on the sale of all shares of the wholly owned subsidiary Chung Hua Environment Protection (Holding) Group Ltd., Hong Kong ("Chung Hua"). Chung Hua Environmental Protection Assets (Holdings) Group Ltd. and its subsidiary Fujian FengQuan Environmental Protection Holding Ltd. were intermediate holding companies and held all the shares of the companies Xianning, Zhoukou, Kunming, Lanzhou and Feicheng which were project companies, each building and operating one BOT project.. Feng Quan was additionally operational entity for ZhongDe's working and construction force. Beside this, the company ran the EPC project in Zhucheng and performed the incinerator business of ZhongDe Group. Following the sale of Chung Hua,

ZhongDe has disposed the complete BOT as well as the Incinerator segment and in addition the EPC project in Zhucheng.

The purchase price amounts to RMB 900,000,000 which equals approx. € 124.3 million. It was agreed that risks and rewards should be transferred after 90% of the agreed purchase price have been received by ZhongDe AG. The first tranche of the purchase price amounting to € 12.0 million was paid in November. The remaining 90% have been paid on 28 December 2016 to the subsidiary ZhongDe China Environmental Protection Co. Ltd., Beijing. Following an amendment to the initial purchase agreement, this payment should be treated a guarantee for the later payments directly to ZhongDe AG and the received cash should be retransferred to CAPITAL YIELD GROUP by ZhongDe China to the extent that ZhongDe AG has received additional purchase price payments.

The part of the Consolidated Statement of Profit and Loss referring to the discontinued operations can be explained as follows:

in k€	Reference	2016 related to discontinued operation	2015 related to discontinued operation
Revenues	A	67,573	37,575
Cost of sales	B	-68,636	-39,445
Gross result		-1,063	-1,870
Other operating income	C	15,923	3,092
Selling and distribution expenses	D	-4,333	-4,796
Administrative expenses	E	-2,709	-2,512
Research and development expenses		-354	-157
Other operating expenses	F	-919	-1,812
Finance income	G	4,914	2,909
Finance expense	H	-6,832	-4,285
Profit (+) / loss (-) from operations before income taxes		4,627	-9,431
Income tax expenses	I	-943	-863
Profit (+) / loss (-) from operations		3,684	-10,294
Gain on the disposal of discontinued operation	J	60,462	0
Income tax expenses	K	-624	0
Profit (+) / loss (-) from discontinued operation after income tax		63,522	-10,294

Revenues (A) from discontinued operations amount to € 67.6 million in the financial year 2016, compared to € 37.6 million in the financial year 2015, representing an increase of € 30.0 million (or 79.8%). Thereof € 67.5 million have been accounted for under the zero-profit-method from service concession arrangements (2015: € 36.3 million). Revenues amounting to € 67.4 million relates to the BOT project in Lanzhou, where the installation of all three incinerators has been finalized during 2016.

Cost of Sales (B) from discontinued operations are made up as follows:

	2016		2015	
	in k€	in %	in k€	in %
Subconstructors services	66,029	96.2	34,889	88.4
Personnel expenses	1,869	2.7	1,878	4.8
Cost of goods incinerators	0	0.0	1,956	5.0
Others	4	0.0	4	0.0
Stock provision	359	0.5	469	1.2
Materials	375	0.5	249	0.6
Total Cost of sales	68,636	100.0	39,445	100.0

Cost of Sales increased from € 39.4 million in 2015 by € 29.2 million to € 68.6 million in 2016. The gross profit margin amounts to -1.6% (2015: -5.0%). The increase is mainly attributable to adjustment of the total costs for the Kunming project in 2015 which had negatively impacted the prior years figure. As the companies act as a General Contractor the predominant part of Cost of Sales relates to subcontractors' services.

Other operating income (C) can be broken down as follows:

in k€	2016	2015
Net proceeds from trial run	8,060	3,077
Appreciation of intangible assets	7,725	0
Releases of allowances of trade receivables	121	0
Others	17	13
Total Other operating income	15,923	3,090

Other operating income significantly increased to € 15.9 million (2015: € 3.1 million) due to an increase of the net proceeds from trial run (€ 8.1 million; 2015: € 3.1 million) and the appreciation of intangible assets which refers to the BOT projects in Zhoukou and Xianning; please refer to Note 15.

Selling and distribution expense (D) developed as presented in the table below:

in k€	2016	2015
Addition of allowances of trade receivables and advances to subcontractors	4,236	4,234
Provisions for delay	0	323
Personnel expenses	87	200
Travel expenses	6	24
Entertainment expenses	1	8
Others	3	8
Total Selling and distribution expenses	4,333	4,796

Selling and distribution expense declined by 9.7% or € 0.5 million to € 4.3 million. In 2016 and 2015, the amount mainly comprises of write-offs of advances to subcontractors for the Lanzhou project. In 2015 expenses resulting from provisions for delays have also been included.

Administrative expense (E) of discontinued operations consist of the following:

in k€	2016	2015
Personnel expenses	974	952
Entertainment expenses	346	354
Rent	82	124
Other taxes	219	181
Depreciation and amortization	82	133
Security expenses	173	131
Office expenses	172	131
Travel expenses	93	131
Vehicle use fees	120	118
Other expenses	448	257
Total Administrative expenses	2,709	2,512

Other operating expense (F) decreased from € 1.8 million in 2015 to € 0.9 million in 2016 mainly relate to impairment losses of intangible assets from service concession rights in Zhoukou and Xianning occurred in the first nine months of 2016.

Finance income (G) is made up as follows:

in k€	2016	2015
Interest income	4,900	2,784
Exchange gains	14	125
Total Finance Income	4,914	2,909

Finance Income increased from € 2.9 million in 2015 to € 4.9 million in 2016. The increase mainly results from an increase of interest income from receivables from BOT amounting to € 3.8 million in 2016 (2015: € 2.5 million). Interest income from receivables from BOT-projects has been calculated under the effective interest method. A portion of € 1.1 million (2015: € 0.3 million) within interest income relates to interest from loans to customers as well as from cash at banks.

Finance expense (H) comprise the following positions:

in k€	2016	2015
Interest expense	6,778	4,280
Exchange loss	48	0
Bank charges	6	5
Total Finance Expense	6,832	4,285

Finance Expense increased from € 4.3 million in 2015 to € 6.8 million in 2016. In 2016 interest expense of € 9.8 million (2015: € 6.5 million) incurred. Thereof € 3.0 million (2015: € 2.2 million) were capitalized as borrowing cost and € 6.8 million (2015: € 4.3 million) were accounted for within finance expense. As financing is arranged for each individual BOT project, the actual financing costs have been capitalised in line with IFRIC 12.22 to the extent that they are incurred for an intangible asset from a service concession right.

Income tax expense (I) relating to discontinued operation consist of income tax expenses for deferred taxes of € 0.6 million (2015: € 0.5 million) and income tax expenses for current income taxes of € 0.3 million (2015: € 0.4 million).

The **gain on disposal of discontinued operations (J)** amounting to € 60.5 million can be reconciled as follows:

in k€	28 Dec 2016
Consideration	124,337
Cash disposed	-63,515
Total net assets	-39,362
Foreign currency translation reserve reclassified to profit or loss	39,002
Gain from disposal	60,462

The purchase price of RMB 900,000,000 has been converted into euro based on the foreign currency rate as at 28 December 2016. Relating to the deconsolidation of the Chung Hua subgroup an amount of € 39.0 million of the foreign currency translation reserve has been reclassified to profit.

As the profit from the disposal is predominantly tax free, the referring **income tax expenses (K)** only amount to € 0.6 million.

At the date of disposal, the carrying amounts of the assets and liabilities of the entities sold are as follows:

in k€	28 Dec 2016
Property, plant and equipment	300
Intangible assets	69,859
BOT receivables	148,580
Total non-current assets	218,739
Inventories	409
Trade receivables	10,200
Other receivables and prepayments	22,573
Amounts due from intra-group	15
Total current assets	33,197
Long term loans	-116,109
Deferred tax liabilities	-2,240
Total non-current liabilities	-118,349
Trade payables	-30,207
Other payables and accruals	-5,030
Provisions	-2,974
Amounts due to related parties	-16,576
Borrowings	-39,118
Income tax payable	-320
Total current liabilities	-94,225
Total net assets	39,362

The intangible assets mainly relate to service concession rights of the disposed BOT projects.

14 Earnings per Share

Earnings per share for 2016 amounted to € 5,12 (2015: € -1.28). Hereof, € 5.04 (2015: € -0.82) relate to the discontinued operation and € 0.08 (2015: € -0.46) relate to the continuing operation. The basis for the calculation is the profit after tax attributable to the owners of ZhongDe AG (the legal parent) as the numerator. The earnings per share are determined on the basis of the weighted average of the outstanding common stock. The number of outstanding shares used for basic earnings per share for the twelve month period ended 31 December 2016 amounted to 12,600,000 shares (31 December 2015: 12,600,000 shares). Basic and diluted earnings per share are the same.

in k€	2016	2015
Calculation of earnings per share		
from continuing operations		
Result attributable to owners of the parent	1,044	-5,847
Average number of shares	12,600,000	12,600,000
Basic and diluted earnings per share	0.08	-0.46
from discontinued operations		
Result attributable to owners of the parent	63,522	-10,294
Average number of shares	12,600,000	12,600,000
Basic and diluted earnings per share	5.04	-0.82

The management board is authorised to increase the share capital of the Company with the consent of the supervisory board until 27 June 2018 once or several times by up to € 6,500,000 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 2013). Moreover the management board was authorised by the Annual General Shareholders' Meeting on 28 June 2013 to issue convertible bonds of up to € 100,000,000 in return for option or conversion rights for the acquisition of up to 6,000,000 shares in total. Both capital measures have not been exercised to date. After exercising they will lead to a dilutive effect on earnings per share.

Notes on the Consolidated Statement of Financial Position

15 Intangible Assets

in k€	Software	Trademark, Patents	Service concession rights	Total
Cost:				
At 1 January 2016	344	75	52,406	52,825
Additions	0	0	28,501	28,501
Disposals	-335	-73	-79,567	-79,975
Reclassification	0	0	-497	-497
Exchange difference	-9	-2	-843	-854
At 31 December 2016	0	0	0	0
Accumulated amortization and impairment:				
At 1 January 2016	217	75	17,194	17,486
Amortization	33	0	0	33
Disposals	-245	-73	-9,798	-10,116
Impairment	0	0	859	859
Appreciation	0	0	-7,726	-7,726
Exchange difference	-5	-2	-529	-536
At 31 December 2016	0	0	0	0
Net carrying amount:				
At 1 January 2016	127	0	35,212	35,340
At 31 December 2016	0	0	0	0
Exchange difference	-4	0	-314	-318

in k€	Software	Trademark, Patents	Service concession rights	Total
Cost:				
At 1 January 2015	322	70	37,498	37,890
Additions	0	0	13,304	13,304
Disposals	0	0	0	0
Reclassification	0	0	-763	-763
Exchange difference	22	5	2,367	2,394
At 31 December 2015	344	75	52,406	52,825
Accumulated amortization and impairment:				
At 1 January 2015	170	21	14,481	14,672
Amortization	37	53	0	90
Impairment	0	0	1,761	1,761
Appreciation	0	0	0	0
Exchange difference	10	1	952	963
At 31 December 2015	217	75	17,194	17,486
Net carrying amount:				
At 1 January 2015	152	49	23,017	23,219
At 31 December 2015	127	0	35,212	35,340
Exchange difference	12	4	1,415	1,431

Intangible assets from service concession rights related to the sites in Xianning, Lanzhou and in Zhoukou. All of these BOT projects have been disposed.

Intangible assets from service concessions have been qualifying assets in the meaning of IAS 23 (Borrowing Costs). Accordingly on a proportionate basis borrowing costs of € 3.0 million have been capitalized in 2016 (2015: € 2.2 million). The borrowing costs were determined on the basis of interest rates between 6.8% and 8.0% (2015: between 6.9% and 7.9%).

Due to the planned sale of the Chung Hua subgroup ultimately as of 30 September 2016 all assets and liabilities related to the discontinued operation had to be measured in accordance with applicable IFRSs for the last time. Held as discontinued operations these assets have to be measured at fair value less costs of disposal under IAS 36. Considering the purchase price (Fair-Value hierarchy level 1) underlying the contractual negotiations and (ultimately also contractually agreed) as a result the impairment of service concession rights accounted for in prior years and the first nine months of 2016 relating to the BOT project in Zhoukou (€ 11.1 million) and Xianning (€ 6.6 million), which has been determined based on the value in use for 31 December 2015, had to be partly reversed by a total amount of € 7.7 million in 2016 (of which € 4.1 million relate to Zhoukou and € 3.6 million to Xianning). The total effect from impairment and appreciation is included in income from discontinued operations (Note 13).

The reclassifications related to a shift from intangible assets to BOT receivables under the IFRIC 12 model mainly due to changes in accounting estimates.

16 Property, Plant and Equipment

in k€	Machine equipment	Vehicle	Electronic equipment, fixtures and fittings	Total
Cost:				
At 1 January 2016	896	1,166	608	2,670
Additions	0	0	26	26
Disposals	-876	-934	-462	-2,272
Exchange difference	-20	-32	-16	-68
At 31 December 2016	0	200	156	356
Accumulated depreciation and impairment:				
At 1 January 2016	741	994	523	2,258
Depreciation charged for the year	42	32	27	101
Disposals	-764	-811	-391	-1,966
Exchange difference	-19	-26	-12	-57
At 31 December 2016	0	189	147	336
Net carrying amount:				
At 1 January 2016	155	172	85	412
At 31 December 2016	0	11	9	20
Exchange difference	-1	-6	-4	-11

in k€	Machine equipment	Vehicle	Electronic equipment, fixtures and fittings	Total
Cost:				
At 1 January 2015	840	1,136	555	2,531
Additions	0	60	15	75
Disposals	0	-108	0	-108
Exchange difference	56	78	38	172
At 31 December 2015	896	1,166	608	2,670
Accumulated depreciation and impairment:				
At 1 January 2015	652	985	452	2,089
Depreciation charged for the year	45	46	40	131
Disposals	0	-103	0	-103
Exchange difference	44	66	31	141
At 31 December 2015	741	994	523	2,258
Net carrying amount:				
At 1 January 2015	188	151	103	442
At 31 December 2015	155	172	85	412
Exchange difference	12	12	7	31

Most of the fixed assets have been disposed as a result of the sale of the Chung Hua subgroup in December 2016.

17 Receivables from BOT projects

in k€	Receivables from BOT
Cost:	
At 1 January 2016	106,291
Additions	45,729
Disposals	-2,025
Reclassification	497
Sale of Chung Hua	-148,580
Exchange difference	-1,912
At 31 December 2016	0

in k€	Receivables from BOT
Cost:	
At 1 January 2015	84,103
Additions	22,147
Disposals	-6,173
Reclassification	763
Exchange difference	5,451
At 31 December 2015	106,291

The additions refer to the progress of the BOT projects. Disposals relate to the disposal of the Chung Hua subgroup in December 2016. The reclassifications relate to a shift from intangible assets to BOT receivables under the IFRIC 12 model. We also refer to Note 14 and 29.

18 Inventories

in k€	31.12.2016	31.12.2015
Raw materials and consumables	0	437
Finished goods	0	1,048
Work in process	0	747
Less: Advances by customers	0	-1,328
Less: Stock provision	0	-467
Total Inventories	0	437

Inventories only relate to the segment incinerators (others). During 2016 inventories amounting to € 0.4 million were written down (2015: € 0.5 million). The remaining assets were disposed as part of the sale of the Chung Hua subgroup.

19 Trade Receivables, Other Receivables and prepayments, Other financial assets

in k€	31.12.2016	31.12.2015
Trade receivables		
Trade receivables	0	2,438
PoC asset	3,738	5,549
	3,738	7,987
Allowance for trade receivables	0	-1,064
	3,738	6,923
Other receivables and prepayments		
VAT receivable	758	8,144
Other receivables	220	599
Advances to subcontractors	130,002	58,575
	130,980	67,318
Allowance for other receivables	0	-7,126
	130,980	60,192
Other financial assets		
Loans granted to customers	0	215
Other financial assets	16,385	0
	16,385	215
	151,103	67,330

Trade Receivables

All trade receivables were non-interest bearing. They were recognised at their original invoice amounts, which represent their fair values on initial recognition. PoC assets related to EPC-projects where the amount already realized as PoC receivables exceeded the progress billings to customers. Please also refer to note 24.

PoC receivables can be explained as follows:

in k€	31.12.2016	31.12.2015
Receivables from PoC	8,051	11,014
Progress billings	-5,656	-6,856
Balance	2,395	4,157
thereof gross amount due from / to customers for contract work as a(n)		
– asset	3,738	5,549
– liability	1,342	1,392

The due dates of trade receivables are as follows:

in k€	31.12.2016	31.12.2015
Neither impaired nor due past as of balancesheet date	0	0
Overdue and not impaired	3,738	6,923
Due:		
Within 30 days	3,738	5,549
31-90 days	0	1,471
91-180 days	0	131
181-360 days	0	262
361-1080 days	0	574
More than 1080 days	0	0
	3,738	7,987

Allowance for doubtful receivables

Trade receivables are adjusted for impairment on the basis of their age. Apart from trade receivables written off on an individual basis, balances aged less than one year are written off by 2.5%, while those of age between one and three years are written off by 50%. A 100% allowance is made for all balances with an age of more than three years.

The following table shows the development of the allowance of trade receivables:

in k€	31.12.2016	31.12.2015
At 1 January	1,064	968
Additions	250	32
Releases	-121	0
Sale of Chung Hua	-1,170	0
Exchange difference	-23	64
At 31 December	0	1,064

Other receivables and prepayments

Advances to subcontractors

The increase in advances to subcontractors mainly relates to prepayments for planned commodity trading transaction. As at the end of December 2016 RMB 885.9 million received from the purchase price of Chung Hua have been transferred to suppliers as advance payments for commodities. Accordingly, advances to subcontractors increased to € 130.0 million by 31 December 2016.

Although the prepayments have not yet been repaid or used, management is based on their good knowledge of the trading partners of the opinion that the credit risk is remote and expects to receive or utilize the prepayments with reasonable likelihood on short notice.

In 2015 advances to subcontractors amounting to € 7.1 million referring to the BOT project in Lanzhou and to the EPC project in Wuhai had to be written down. Following the construction start of the EPC project in Wuhai the prepayment is no longer questionable and the bad debt provision has been released accordingly (€ 2.9 million). We refer to note 6 for further details. In Lanzhou ZhongDe made prepayments to a subcontractor for the construction work as part of this project of in total € 8.3 million. In 2015, as the subcontractor proved to be incapable to perform the work contractually agreed upon and the receivable from the repayment is overdue for more than one year it had been written-off at 50% following the policy of the Group. In 2016 the remaining 50% had to be written-off (€ 4.0 million). The corresponding allowance of advances to subcontractors are included in income from discontinued operations (Note 13 (D) Selling and distribution expense).

The following table shows the development of the bad debt allowance of other receivables and prepayments:

in k€	31.12.2016	31.12.2015
At 1 January	7,126	0
Additions	3,985	7,215
Releases	-2,858	0
Sale of Chung Hua	-8,095	
Exchange difference	-158	-89
At 31 December	0	7,126

Other financial assets

Other financial assets amounting to € 16.4 million relate to amounts due from Chung Hua Group becoming third party from ZhongDe's point of view with the sale of Chung Hua. These receivables result from former clearing accounts with entities of the Chung Hua subgroup. The receivables are free from interest. The maximum default risk of these receivables is € 16.4 million. By the reporting date, most of the receivables are still outstanding and overdue for more than one year, but not written off. Management is expecting to receive payment on short notice with reasonable likelihood.

20 Cash and Cash Equivalents

in k€	31.12.2016	31.12.2015
Cash at banks and in hand (relates to the cash fund)	1,324	75,842
Balance	1,324	75,842
thereof in Germany	771	142
thereof in China	553	75,700

The book value of cash and cash equivalents equals the fair value.

Cash amounting to € 63.5 million attributed to Chung Hua has been transferred to the buyer.

21 Equity

21.1 Issued capital

The share capital of the ZhongDe AG amounts to € 13,000,000 and is divided into fully paid 13,000,000 bearer shares of no par value with a notional amount of € 1.00 each. All shares are equally eligible to receive dividends and repayments of capital and represent one vote at the Shareholder's Meeting of ZhongDe AG. The shares issued are fully paid as at beginning of the financial year 2016. Within 2016 no movements in shares issued and fully paid in occurred.

The management board is authorised to increase the share capital of the Company with the consent of the supervisory board until 27 June 2018 once or several times by up to € 6,500,000

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 2013). 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.

The management board was authorised by the Annual General Shareholders' Meeting on 28 June 2013 to issue convertible bonds of up to € 100,000,000 in return for option or conversion rights for the acquisition of up to 6,000,000 shares in total. The issuing right has not been exercised to date.

21.2 Own Shares

As of 31 December 2016 treasury stocks of the parent company amounted to k€ 4,608 (2015: k€ 4,608) and are divided into 400,000 shares (2015: 400,000 shares) with a notional amount of € 1.00 each. The number of outstanding shares at 1 January 2016 and 31 December 2016 amounts to 12,600,000; or an average of 12,600,000 in 2016 and 2015.

21.3 Reserves and retained earnings

a) Capital reserves

The amount reflected in the balance sheet relates to the proceeds from the IPO in 2007 less a withdrawal made in 2011 to compensate an annual deficit in the parent company's financial statements in accordance with sec. 150 para. 4 (2) of the German Stock Corporation Act (AktG).

b) Chinese statutory reserves

This statutory reserve amount to k€ 0 (2015: k€ 8,459) In the prior year, the amount related to the former subsidiary Fujian FengQuan Environmental Protection Holding Ltd. According to the legal regulations of the PRC, a corporate enterprise has to allocate at least 10% of its annual net profit to the statutory reserve until this amount to at least 50% of the paid-in capital. The Chinese statutory reserve can be used for loss compensation or for a capital increase as long as the reserve does not fall below 25% of the paid-in capital. Following the sale of Chung Hua subgroup the Chinese statutory reserve was reclassified to the retained earnings.

c) Retained earnings

Retained earnings comprise the cumulative net gains and losses recognised in the consolidated statement of profit and loss and other comprehensive income and amount to k€ 56,773 (2015: k€ -16,252). In accordance with the resolution of the shareholders' meeting on 28 June 2016, no dividend was paid for 2015. The distributable accumulated profits of ZhongDe AG as at 31 December 2016 amount to k€ 43,394.

21.4 Currency Translation Reserve

The foreign currency translation reserve represents the foreign currency translation differences arising from the translation of the functional currency RMB in the reporting currency Euro. Following the sale of the Chung Hua subgroup an amount of € 39.0 million was reclassified to profit or loss.

22 Long Term Loans

All long term loans have passed over to the buyer following the sale of Chung Hua in December 2016.

23 Deferred Taxes

Deferred taxes arising from temporary differences and unused tax losses can be summarised as follows:

in k€	31.12.2016		31.12.2015	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Service concession rights	0	0	0	7,483
Other intangible assets	0	0	57	0
Property, plant and equipment	0	0	1,326	0
Construction in progress	0	0	33,805	0
Receivables from BOT	0	0	0	25,154
Inventories	1,808	0	2,159	0
Trade receivables	0	0	22	1,473
Trade and other payables	28	2,013	14	5,145
Provisions	78	0	218	0
Losses carried forward	99	0	0	0
Total	2,013	2,013	37,601	39,255
Netting	-2,013	-2,013	-37,601	-37,601
	0	0	0	1,654

For deductible temporary differences of € 0,0 million (2015: € 20.7 million) deferred tax assets have not been recognized.

As at 31 December 2016 on foreign tax losses carried forward of EUR 5.3 million (2015: € 11.9 million) deferred tax assets have not been recognized. The tax losses can be carried forward for a limited period of one to five years. For domestic corporate tax losses carried forward in the amount of € 0.6 million (2015: € 0.0 million) and trade tax losses carried forward in the amount of € 0.8 million (2015: € 0.0 million) no deferred taxes have been capitalised as well. These tax losses carried forward do not expire.

For taxable temporary differences associated with investments in subsidiaries of € 0.0 million (2015: € 0.8 million) deferred tax liabilities have not been set up, as a reversal of these outside basis differences is not expected in the foreseeable future.

24 Trade payables, Other payables and prepayments, Other financial liabilities

in k€	31.12.2016	31.12.2015
Trade payables	5,273	25,719
Other payables and prepayments		
PoC liability	1,342	1,392
Advances from customers	18,287	17,609
Accrued payroll expenses	100	366
VAT payable	8	0
Other tax payables	6	1,074
Other payables	848	2,227
	20,591	22,668
Other financial liabilities		
Current portion of long-term loans	0	45,873
	0	45,873
	20,591	68,541

All trade payables are non-interest bearing. As in prior year trade and other payables and prepayments have not been discounted due to their short duration. Management considers the carrying amounts recognised in the balance sheet to be a reasonable approximation of their fair value. Trade payables include retentions amounting to € 0.0 million (2015: € 0.7 million).

Advances from customers mainly related to prepayments made by the customer of the EPC project in Wuhai (€ 18.3 million; 2015: € 17.6 million). Although the project has been relaunched in the last quarter of 2016, no progress billings have been invoiced to the customer in 2016.

PoC liabilities relate to EPC projects where the progress billings to customers exceed the amount of referring PoC receivables. Receivables from PoC and the progress billings are further discusses in Note 19.

25 Provisions

in k€	Penalties	Staff bonus and welfare	Maintenance / warranties	Total
At 1 January 2015	2,828	861	20	3,709
Additions	323	0	30	353
Utilised	0	0	-21	-21
Exchange differences	186	58	1	245
At 1 January 2016	3,337	919	30	4,286
Additions	0	0	0	0
Utilised	0	0	-29	-29
Sale of Chung Hua	-2,944	-896	0	-3,840
Exchange differences	-86	-23	-1	-110
At 31 December 2016	307	0	0	307

25.1 Penalties

The provision relates to potential contractual penalties for delays in connection with BOT and EPC projects, which may become due at any time (and are therefore current).

25.2 Staff bonus and welfare fund

In 2007, the subsidiary company Fujian FengQuan Environmental Protection Holding Ltd., Fuzhou, was converted into a Foreign Investment Company. Pursuant to the Foreign Investment Company Laws of the PRC and the decisions of the Board of Directors of the subsidiary company, 1% of the profit after tax was allocated as a staff bonus and to the welfare fund in accordance with Chinese law. The fund can only be used for staff public welfare and may become due at any time (and is therefore current). The welfare fund was transferred to the buyer following the sale of the Chung Hua subgroup in December 2016.

26 Employee Benefits

26.1 Number of Employees

	2016	2015
Average number of employees of the Group		
Management and administration	112	109
Research and development	6	9
BOT operation and manufacturing	174	235
Sales and distribution	4	17
	296	370

in k€	2016	2015
The average payroll costs of these employees		
Wages and salaries	2,821	2,889
Social security costs	615	674
Welfare	248	274
	3,684	3,837

As part of the sale of the Chung Hua subgroup 343 employees have left ZhongDe Group by the end of December 2016.

26.2 Retirement benefit plans

The eligible employees of the Group, who are citizens of the PRC, are members of a state managed retirement benefit scheme operated by the local government. The Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. The amount of the Group's obligation is limited. It is therefore a defined-contribution commitment. Expenses of € 0.3 million were recognized in 2016 (€ 0.3 million in 2015).

27 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 overall operating lease payments recognised as expense in the Consolidated Statement of Profit and Loss and Other Comprehensive Income in financial years 2015 and 2016 are as follows:

in k€	2016	2015
Lease payment recognized as expense	192	287

Future minimum lease payments payable under non-cancellable operation leases as at 31 December 2016 are as follows:

in k€	2016	2015
Not later than one year	0	161
Later than one year but not later than five years	0	642
Later than five years	0	442
	0	1,245

From 2017 onwards, no obligations from leasing contracts exist, as they have fully been transferred to the buyer following the disposal of Chung Hua and its subsidiaries.

28 Related Party and Company 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,
- or the company is controlled by an individual who belongs to the Company's key management personnel or is jointly managed by a company in which this person holds a stake.

28.1 Related party information

Name of related party	City, Province, Contry
Key Management of the Group	
Zefeng Chen	Fuzhou, Fujian, China
Jiuhua Wang (resigned 9 June 2016)	Beijing, China
Jijin Zeng	Fuzhou, Fujian, China
Members of the Supervisory Board	
Prof. Chuantong Li (since 24 October 2016)	Nanjing, China
Triomphezheng Lin (since 24 October 2016)	Fujian, China
Li Zhuang (since 24 October 2016)	Tsinghua, China
Gerrit Kaufhold (resigned 30 September 2016)	Hamburg, Germany
Prof. Dr. Bernd Neukirchen (resigned 30 September 2016)	Essen, Germany
Feng-Chang Chang (resigned 15 October 2016)	Taichung City, Taiwan
Companies attributable to Zefeng Chen	
China Environmental Protection Industry (Holding) Group Co., Ltd. (Hong Kong)	Hong Kong, China
China Fengquan Group Co., Ltd. (Hong Kong)	Hong Kong, China
Fujian FengQuan Culture Propagation Co., Ltd.	Fuzhou, Fujian, China
Fujian FengQuan Environmental Protection Group Co., Ltd.	Fuzhou, Fujian, China
Fujian FengQuan Environmental Protection Holding Co., Ltd.	Fuzhou, Fujian, China
Fujian Fuquan Boiler Co., Ltd.	Fuzhou, Fujian, China
Singapore Jinsheng Fruit & Vegetable Co., Ltd.	Singapore
ZhongHua Environmental Protection Industry (Holding) Group Co., Ltd. (Hong Kong)	Hong Kong, China
Zhuji FengQuan Lipu Solid Waste Disposal Ltd.	Lipu, Zhejiang, China
Companies attributable to Jiuhua Wang	
Beijing Weilian Jinrui Investment Consulting Co., Ltd.	Beijing, China
Beijing Yiyou Jiulong Technology Co., Ltd.	Beijing, China

28.2 Transactions with related party

a) Sales and purchase of goods

The following transactions took place between the Group and the above-listed related parties during the financial year:

in k€	31.12.2016	31.12.2015
Related parties		
Rental, water and electricity fee	151	175

These transactions relate to companies attributable to Zefeng Chen and were based on market prices.

b) Due from/to related parties

in k€	31.12.2016	31.12.2015
Due from related parties		
Other receivables	0	15
	0	15
Due to related parties		
Trade payables	0	122
	0	122

This table shows receivables and liabilities, which mainly relate to the key management of the Group.

c) Key management remuneration

in k€	31.12.2016	31.12.2015
Key management of the Group	64	153
in k€	31.12.2016	31.12.2015
Supervisory board	127	150

As in the prior year the remuneration paid to executives and key management personnel consists solely of fixed compensation and are completely short-term employee benefits. No variable remuneration was paid in 2016 or 2015. For more information on remuneration, please refer to the remuneration report included in the combined management report.

29 Disclosure of Financial Instruments

The Group's financial instruments on the closing day comprise cash and liquid resources, some short-term debtors and creditors, as well as 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 recognised, and fair values by category in k€	Category in accordance with IAS 39	Carrying amount 31 Dec. 2016	Amounts recognised in balance sheet according to IAS 39 at amortized cost	Carrying amount 31 Dec. 2015	Amounts recognised in balance sheet according to IAS 39 at amortized cost
Trade receivables	LaR ¹⁾	3,738	3,738	6,923	6,923
Receivables from BOT	LaR ¹⁾	0	0	106,291	106,291
Other financial assets	LaR ¹⁾	16,385	16,385	215	215
Amounts due from related parties and companies	LaR ¹⁾	0	0	15	15
Cash and cash equivalents	LaR ¹⁾	1,324	1,324	75,842	75,842
Long-term loans	FLAC ²⁾	0	0	80,623	80,623
Trade payables	FLAC ²⁾	5,273	5,273	25,719	25,719
Other payables	FLAC ²⁾	848	848	2,250	2,250
Amounts due to related parties and companies	FLAC ²⁾	0	0	122	122
Other financial liabilities: short-term portion of long-term loans of which: aggregated by category in accordance with IAS 39	FLAC ²⁾	0	0	45,873	45,873
Total Loans and receivables	LaR ¹⁾	21,447	21,447	189,286	189,286
Total Financial liabilities measured at amortized cost	FLAC ²⁾	6,121	6,121	154,587	154,587

¹⁾ LaR = Loans and Receivables

As current financial assets and liabilities from continuing operation have short residual terms their carrying amounts correspond to market value as of the balance sheet date. Their maximum exposure to credit risk at the end of the reporting period agrees with their carrying amounts.

Net gain/loss by category: in k€	From interest	Net gain (+) / loss (-)	
		31.12.2016	31.12.2015
Loans and receivables			
- interest income using the effective interest method	0	0	2,482
- other interest income	0	0	302
- impairment loss (-) / reversal of impairment loss (+)		2,978	-7,247
	0	2,978	-4,463
Financial liabilities measured at amortized cost			
- interest expense using the effective interest method	0	0	-4,280
	0	0	-4,280

Interest from financial instruments from continuing operation is recognised in finance income and costs. Gains and losses from financial instruments from continuing operation are presented under other operating income and selling and distribution expenses respectively.

30 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. The Group is exposed to various risks in relation to financial instruments. The main types of risks are market risks, credit risks and liquidity risks arising in the normal course of business. The Group established a risk management system which allows identifying risk concentrations timely. Risk concentrations relate to the structure of ZhongDe's customers consisting of mainly local governmental organisations.

The concentration of risk is being permanently monitored based on the knowledge of the Chinese market and the market participants. Adequate countermeasures are taken if ZhongDe becomes aware of such concentration, which might for example be of a geographic or general political nature. There are certain areas, where potential changes might result in significant effects on the situation of ZhongDe like for example political changes or changes of the exchange rate.

a) Credit risk (default 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 as well as other financial assets. Cash is placed with creditworthy financial institutions. Trade receivables, other receivables and other financial assets presented in the financial position 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. The carrying amount of financial assets as of 31 December 2016 is € 21.4 million (2015: € 189.3 million). Most of material financial assets as of 31 December 2016 are due from former related parties (2015: from Chinese public contract partners).

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.

The Group has no significant interest-bearing assets and liabilities exposed to interest rate risks. 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.

c) Foreign currency risk

Foreign exchange risk refers to the risk that movement in foreign currency exchange rates against the Group's functional currency will affect the Group's financial results and cash flows. The majority of the Group's transactions are in RMB. For this reason, foreign currency changes that affect the financial results and cash flows are classified as insignificant.

Significant foreign currency risks only result from the translation of the consolidated financial statements into the reporting currency Euro. Impacts from foreign currency changes are entered into the accounts without affecting consolidated earnings.

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in the foreign exchange rate of the Chinese RMB versus the Euro +/- 10%. These changes are considered to be reasonably possible based on observation of current market conditions and experiences from the past. The analysis is based on the current year consolidated financial statements taking into account those assets, liabilities, income and expense that are sensitive to changes in the exchange rate of the Chinese RMB versus the Euro. All other variables are held constant.

in k€	Profit (PY: loss) of the year		Equity	
	10%	-10%	10%	-10%
31.12.2016	-5,870	7,174	-11,480	14,031
31.12.2015	1,477	-1,797	-9,495	11,614

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.

The liquidity risk is generally managed by negotiating sufficient bank lines and long term bank loan facilities before entering into new contracts. All financial assets are due in short term.

All project related long term bank loans have been transferred to the buyer following the sale of Chung Hua in December 2016.

31 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. The cash flow from operating activities is presented using the indirect method, while the 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 with a fixed term of no more than three months.

Dividends to be paid by the Chinese subsidiary 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 require a formal approval from the State Administration of Foreign Exchange (“SAFE”).

Cash inflows and cash outflow from discontinued operations are as follows:

in k€	2016	2015
Profit (PY: Loss) before income tax	4,627	-9,431
Adjustments for:		
Appreciation of intangible assets	33	90
Amortization/Impairment of intangible assets	-6,867	1,761
Write-off of inventories	803	469
Allowance for doubtful trade and other receivables	4,115	4,234
Depreciation of property, plant and equipment	90	88
Interest income / exchange gains	-4,914	-2,909
Interest expense / exchange losses	6,832	4,285
Operating cash flows before working capital changes	4,719	-1,413
Working capital changes:		
Increase (-) / decrease (+) in:		
Inventories	-825	2,844
Trade receivables	-3,524	-5,154
Other receivables and prepayments and other financial assets	22,438	-12,535
PoC Receivables from BOT projects	-66,805	-30,335
Increase (+) / decrease (-) in :		
Trade payables	8,285	-9,221
Other payables and prepayments, provisions and other financial liabilities	1,590	-6,920
Amounts due to related parties	48	-2,057
Interest received	1,146	427
Interest paid	-9,823	-6,485
Income tax paid	-92	-904
Cash flow used in operating activities from discontinued operations	-42,843	-71,753
Cash flow from investing activities		
Purchase of property, plant, equipment and intangible assets	-26	-75
Proceeds from disposal of property, plant and equipment	5	5
Cash flow used in investing activities from discontinued operations	-21	-70
Cash flow from financing activities		
Increase of borrowings	44,787	54,494
Repayments of loans	-13,445	-5,965
Cash repayments of financial assets (BOT projects)	1,360	5,736
Cash flow generated from financing activities from discontinued operations	32,702	54,265
Net decrease in cash and cash equivalents	-10,162	-17,558
Cash and cash equivalents at beginning of year	75,695	87,171
Foreign exchange differences	-2,018	6,082
Cash and cash equivalents at date of deconsolidation (PY: end of period)	63,515	75,695

32 Comments on Capital Management

ZhongDe Group fundamentally pursues the goal of securing its shareholders' equity base for the long term and of achieving a suitable return on its capital. A high level of shareholders' equity is also aimed at because it supports the independence and competitiveness of the company. The ZhongDe Group's capital management also aims to ensure that the operating companies will continue to operate and to finance organic and external growth. This will be achieved by new projects as well as the continuous improvement of our project controlling. In mid-term we are planning to perform capital measures such as capital increases or convertible bonds.

As of 31 December 2016, the shareholders' equity amounts to € 126.3 million (2015 € 104.6 million) and the equity rate of the ZhongDe Group was 83% (2015: 37%). The return on shareholders' equity – the ratio of the share of consolidated net earning of the ZhongDe Group's shareholders and the shareholders' equity on the report date – amounted to 51.1% and -15.4% in the 2016 and 2015 financial years respectively.

33 Members of the Executive and Supervisory Boards

Executive Board

Mr Zefeng Chen, CEO, Fuzhou, PRC, merchant

Mr Jiuhua Wang, CFO, Beijing, PRC, merchant (resigned 9 June 2016)

Supervisory Board

Mr Prof. Chuantong Li, Chairman, former professor at the Nanjing Normal University in the department of power engineering and mechanical engineering, (since 24 October 2016)

Mr Triomphe Zheng Lin, Deputy Chairman, founding partner and certified auditor (CPA) at Moore Stephens Dahua in Fujian, China, (since 24 October 2016)

Ms Li Zhuang, associate Director at Tsinghua University School of Economics and Management, (since 24 October 2016)

Mr Gerrit Kaufhold, Chairman, Public Auditor, Hamburg, Germany, member of the Supervisory Board (Vice Chairman of the Supervisory Board) of Kinghero AG, Munich, and member of the Supervisory Board of Youbisheng AG, Cologne, Germany, (resigned 30 September 2016)

Prof. Dr. Bernd Neukirchen, process engineer and freelance consultant, Deputy Chairman, Essen, Germany, (resigned 30 September 2016)

Mr Feng-Chang Chang, business consultant and CPA, Taiwan: Non-executive director of: Yamada Green Resources Ltd., Singapore, (resigned 15 October 2016)

34 Remuneration of the Executive and Supervisory Boards

Management Board

In the fiscal year 2016, the members of the Management Board received the following fixed remuneration in excess of which they are not entitled to receive any further performance-based remuneration:

in k€	31.12.2016	31.12.2015
Zefeng Chen	34	35
Jiuhua Wang	21	78
	55	113

Supervisory Board (only Fixed Remunerations)

in k€	31.12.2016	31.12.2015
Prof. Chuantong Li (Chairman of Supervisory Board) (since 24 October 2016)	5	0
Triomphe Zheng Lin (Vice Chairman of Supervisory Board) (since 24 October 2016)	4	0
Li Zhuang (since 24 October 2016)	3	0
Gerrit Kaufhold (Chairman of Supervisory Board) (resigned 30 September 2016)	45	60
Prof. Dr. Bernd Neukirchen (Vice Chairman of Supervisory Board) (resigned 30 September 2016)	34	45
Feng-Chang Chang (resigned 15 October 2016)	36	45
	127	150

35 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 17 May 2018. They also declared which of the recommendations were not or are not followed. The declaration is permanently accessible to shareholders on the Company's website at www.zhongde-ag.com/investor_relations/corporate_governance.html.

36 Auditor

Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Hamburg, has been elected as the auditors of ZhongDe Waste Technology AG and the Group for fiscal year 2016. The following table gives an overview of the fees for the auditor charged (including out-of-pocket expenses but excluding VAT, if any) for the business year:

in k€	31.12.2016	31.12.2015
Audit services	317	376
thereof related to prior year	-29	19
Other services	0	10

37 Proposal on the Utilisation of ZhongDe Waste Technology AG's Net Result

At the Annual General Meeting, the Executive Board and Supervisory Board will propose that no dividends will be paid out for the 2016 financial year.

38 Events after the Balance Sheet Date

No adjusting or significant non-adjusting events have occurred after balance sheet date.

Frankfurt/Main, 18 May 2018

Zefeng Chen
Chairman of the Executive Board (CEO)

Disclaimer of Auditor's Opinion:

We have been assigned to audit the consolidated financial statements prepared by ZhongDe Waste Technology AG, Frankfurt am Main, – comprising a consolidated statement of financial position, the consolidated statement of profit or loss and other comprehensive income for the period, consolidated statement of cash flows, consolidated statement of changes in equity, and notes to the consolidated financial statements – and the combined management report of the Group and ZhongDe Waste Technology AG for the financial year from 1 January to 31 December 2016 (hereinafter: combined management report). The preparation of the consolidated financial statements and the combined management report in accordance with IFRS, as adopted by the EU, and with the additional requirements of the German commercial law pursuant to section 315a paragraph 1 HGB as applicable in the financial year 2016 are the responsibility of the parent company's management. As result of our audit we declare, that after having exhausted all appropriate possibilities to clarify the facts and circumstances due to the following reason we were not able to issue an audit opinion:

The sale of ChungHua Environmental Protection Assets (Holdings) Ltd., Hong Kong and its seven subsidiaries operating in the Peoples' Republic of China is presented in the consolidated financial statements of ZhongDe Waste Technology AG and in this context a deconsolidation profit of EUR 60.5 million has been recorded. After this deconsolidation, receivables against ChungHua Environmental Protection Assets (Holdings) Group amounting to EUR 16.4 million are outstanding. Immediately after the cash inflow the payments received in the context of the sales contract by the remaining subsidiary of ZhongDe Waste Technology AG, ZhongDe (China) Environmental Protection Co. Ltd., have been used for prepayments to commodity-suppliers with a book value of EUR 130.0 million as at 31 December 2016. Due to the cash flows in the context of the sale of the subsidiary ChungHua Environmental Protection Assets (Holdings) Ltd. we could not finally assess, whether the purchase price has been paid irrevocably and in full by the purchaser. Accordingly we could not conclusively assess whether the complete disposal of the assets and liabilities of ChungHua Environmental Protection Assets (Holdings) Ltd. together with its seven subsidiaries in the Peoples' Republic of China is correct and whether the deconsolidation gain of EUR 60.5 million resulting from the sale actually incurred. Also we could not conclusively assess whether the receivables against ChungHua Environmental Protection Assets (Holdings) Group amounting to EUR 16.4 million are recoverable. Also we could not conclusively assess whether prepayments made by ZhongDe (China) Environmental Protection Co. Ltd. to commodity-suppliers in an amount of EUR 130.0 million are recoverable. The prepayments to commodity-suppliers and the remaining receivables against ChungHua Environmental Protection Assets (Holdings) Group relate to nearly 96% of total assets of the consolidated financial statements of ZhongDe Waste Technology AG as at 31 December 2016. If ChungHua Environmental Protection Assets (Holdings) Ltd., Hong Kong and its seven subsidiaries operating in the Peoples' Republic of China would have been consolidated as at 31 December 2016, this would have had a material

impact on numerous balance sheet items and other notes in the consolidated financial statements attached.

Due to the importance of this scope limitation we issued a disclaimer of opinion.

Statements, whether the consolidated financial statements comply with IFRS, as adopted by the EU and with the additional legal requirements pursuant to section 315a paragraph 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with German principles of proper accounting including the German principles of proper accounting are not possible due to the scope limitations presented. Also we cannot assess, whether the combined management report is consistent with the annual financial statements, complies with the legal requirements, and as a whole provides a suitable view of the company's position and suitably presents the opportunities and risks of future development.

Additionally we refer to the explanations in the combined management report. There it is stated in section 4.1.3 that the going concern of ZhongDe Waste Technology AG in case of unexpected cash outflows is dependent on future cash inflows from receivables due from ZhongDe (China) Environmental Protection Co. Ltd. or by dividends from ZhongDe (China) Environmental Protection Co. Ltd., respectively.

Hamburg, 18 May 2018.

Warth & Klein Grant Thornton AG
Wirtschaftsprüfungsgesellschaft

Clemens
Wirtschaftsprüfer
[German Public Auditor]

von Oertzen
Wirtschaftsprüfer
[German Public Auditor]

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principals, 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.

Frankfurt/Main, 18 May 2018

Zefeng Chen
Chairman of the Executive Board (CEO)

Glossary and Abbreviations

AktG

Aktiengesetz (German Stock Corporation Act).

Bage filter tubeplate hole

Used for fixing the bag and its keel.

Beijing ZhongDe

Beijing ZhongDe Environmental Protection Technology Co. Ltd., Beijing, People's Republic of China.

BOO

"Build-own-operate". The government awards the contractor a license to build and operate the project for an unlimited operating time, and the project will not be taken over by the government.

BOOT

"Build-operate-own-transfer": The government awards the contractor a license to build and operate the project for the operating time, and the project will be transferred to the grantor after the expiry of the concession period.

BOT

"Build-operate-transfer". The government awards the contractor a license to build and operate the project for a contracted period of time. The project is then taken over by the government after the concession period.

BT project

"Build-transfer". The contractor has a license and is in charge of project construction. Once completed, the government will take over the project.

Catalytic oxidation

A kind of chemical reaction. Catalysts are used to oxidise organic pollutants.

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.

Contingency waste incinerators

If an emergency occurs, the incinerators are used to treat the contingency waste.

Double-loop pyrolysis technology

Specially designed for municipal waste with low heating values and high water content.

EIA

"Environmental Impact Assessment".

EPC

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

Five-Year Planning

National economic development plan. The Chinese government has developed an economic development plan every five year since 1953.

Fluidised bed waste incinerator

A widely-used incinerator in the industry. It uses the advantage of sand characteristics (level heat transmission and accumulation) to realise 100% combustion.

Fujian FengQuan

Fujian FengQuan Environmental Protection Holding Ltd., Fuzhou, People’s Republic of China.

Grate incinerator

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

HGB

Handelsgesetzbuch (German Commercial Code).

IASB

International Accounting Standards Board, London, United Kingdom.

IFRIC

International Financial Reporting Interpretations Committee.

IFRSIC

Interpretations of the International Financial Reporting Standards Interpretations Committee.

IPO

Initial Public Offering.

MEP

Ministry of Environmental Protection.

Municipal waste gasification power generation

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

MW

1MW=1000KW.

NPC

The National People’s Congress.

PoC

Percentage of Completion.

PRC

People's Republic of China.

Primary industry

Agricultural industry.

Pyrolytic incinerator

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

RMB

Chinese currency.

Rotary kiln incinerator

Widely used for the industry liquid and solid waste incineration. The kiln body is in the form of a horizontal revolving cylinder and there is double combustion room at the bottom of the kiln.

Secondary industry

Manufacturing industry.

SEPA

State Environmental Protection Administration.

SKR

Selective catalytic reduction; a process for suppressing dioxin emissions.

Sludge incineration technology

Sludge incineration to make treatment harmless, reduced and recycled.

Tertiary industry

Service industry and other industries.

Vertical type municipal waste incinerator automatic controlling system

Automatically controls normal operation for municipal waste incineration system.

Vertical incinerator

A kind of upright incinerator made of a fire-proof steel vessel with the advantage of a small footprint and wide adaptability.

ZDCN

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