

# ZhongDe Waste Technology AG Annual Report 2007



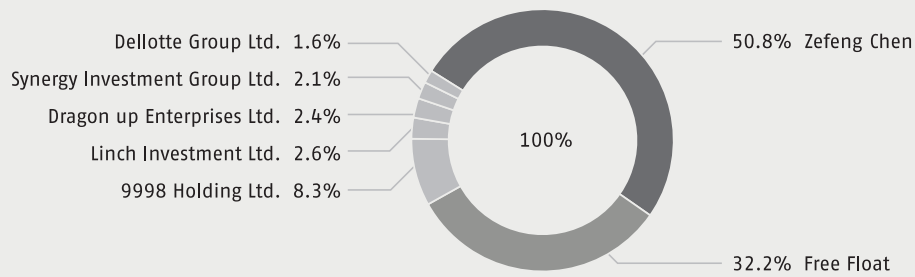


# Key financial highlights

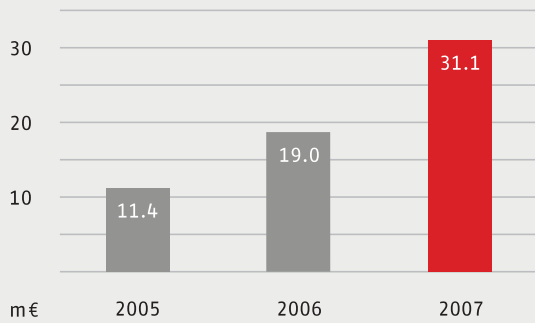
Amounts in k€	2007	2006	Change %
Operational data			
Order intake	44.351	23.385	90
Order backlog	20.494	7.573	171
Revenues	31.133	18.995	64
Gross profit	21.637	13.383	62
Gross profit margin	69%	70%	-
Cost of sales	9.496	5.611	69
EBITDA	18.685	11.942	56
EBITDA margin	60%	63%	-
EBIT	18.612	11.903	56
EBIT margin	60%	63%	-
Net profit	19.058	8.022	138
Net profit margin	61%	42%	-
Earnings per share *	€1.47	€0.62	-
Cash flow data			
Cash flow from operating activities	13.874	6.188	124
Cash flow from investing activities	(2.954)	(110)	2.414
Free cash flow before financing	11.185	6.081	84
Balance sheet data			
Total assets	104.536	16.817	522
Property, plant, equipment	887	306	190
Net working capital	95.182	8.390	1.034
Cash and cash equivalents	83.827	9.198	811
Debt	0	681	(100)
Net cash	83.827	9.198	811
Shareholders' equity	98.629	8.823	1.018
Headcount (as at 31 December 2007)	260	182	43

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

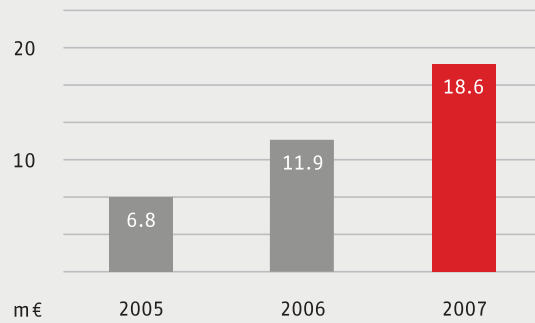
## SHAREHOLDER STRUCTURE



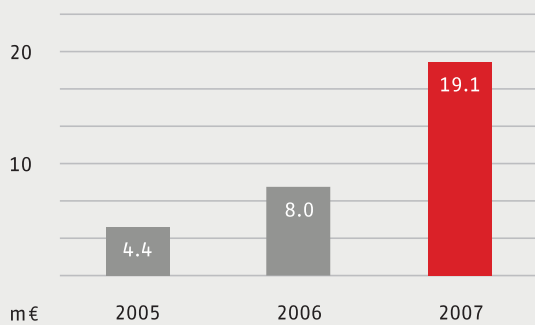
## REVENUES



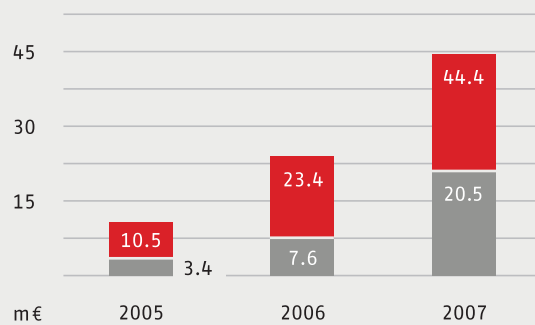
## EBIT



## NET PROFIT



## ORDER BACKLOG ■ ORDER INTAKE ■



# Advanced technology for a cleaner environment

THE ZHONGDE GROUP IS ONE OF THE LEADING SUPPLIERS OF SMALL AND MEDIUM-SIZE WASTE INCINERATORS IN CHINA. WE DESIGN, MANUFACTURE AND INSTALL PYROLYTIC, GRATE AND ROTARY KILN WASTE INCINERATORS FOR THE DISPOSAL OF SOLID MEDICAL, MUNICIPAL AND INDUSTRIAL WASTE.





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# Letter to our shareholders

## Dear shareholders,

2007 has been a tremendous year for the ZhongDe Group. We can look back at our successful listing on the German Stock Exchange, record breaking revenue figures and the opportunities created by the Chinese government's commitment to Green GDP with a real sense of achievement.

Central to our success this year was the company listing on the German Prime Standard. As the first Chinese company to be listed, this sparked investors' attention not only shining the spotlight on the ZhongDe Group but also highlighting the Chinese market, the waste management industry and its green credentials as well as environmental factors in business development in China.

Funds raised through the IPO allowed us to finance our expansion plans. Importantly, the IPO also helped us to establish ZhongDe Group as an international brand, strengthening our corporate image in the Chinese waste incinerator market.

In 2007 we achieved €31.1 million in revenue and €19.1 million in net profit, compared to €19 million (revenues) and €8 million (net profit) in 2006, with gross margins remaining stable at 69%. The increased revenue can largely be attributed to increased sales of municipal waste incinerators.

The shift in the sales mix from 82% medical waste in 2006 to 70% municipal waste in 2007 is in line with our strategy to grow business in the municipal waste sector, focusing on small to medium-size incinerators.

This puts us in a strong position to realise our long-term plan: larger scale incinerators with capacities of more than 1,000 tonnes per day.

The ZhongDe Group is a strong player in a market brimming with opportunity. The Chinese government supports environmental protection and renewable energy and many municipalities are now looking to improve their existing waste management facilities. Landfill, the traditional waste treatment method in China, is becoming prohibitively expensive as the cost of land increases. With this in mind, demand for waste incineration facilities is rising and we see this as the beginning of the growth in this market.



Zefeng Chen  
Chairman of the  
Management Board (CEO)



Na Lin  
CFO





# Supervisory Board Report

Dear shareholders,

The first financial year of ZhongDe Waste Technology AG after its formation and successful initial public offering ended on 31 December 2007. For the Company, it was marked by the IPO (initial public offering) of ZhongDe Waste Technology AG at the Prime Standard of the Frankfurt Stock Exchange. This made the company the first Chinese undertaking ever admitted on the German Prime Standard. Apart from the IPO, in the last financial year the Company devoted itself to strengthening its position in the municipal incinerator markets, entering waste disposal plant operation through the signing of two BOT agreements, acquiring land usage rights to build a new production facility to support expansion plans, continuing its R&D activities and formalising internal business processes.

## **SUPERVISION OF THE MANAGEMENT BOARD**

In accordance with statutory law, the Articles of Association, the Rules of Procedure and the German Corporate Governance Code, the Supervisory Board has supervised and advised the Management Board during the first financial year on a regular basis. The Management Board informed us regularly, extensively and in a timely manner at the Supervisory Board meetings as well as with verbal and written reports. The reports of the Management Board were in compliance with the guidelines according to section 90 of the German Stock Corporation Act (AktG). We were provided with information on the Company's business policy, business and financial position, profitability and business planning, including finance, investment and personnel planning as well as all major decisions and

transactions. The Supervisory Board was involved in all decisions of fundamental importance at an early stage.

Furthermore, the Chairman of the Supervisory Board communicated regularly with the Management Board. Both shared information and opinions. Additionally, the Supervisory Board was kept informed about the current business situation, major business transactions and all decisions of the Management Board as well as business volume development and business results.

## **MEETINGS OF THE SUPERVISORY BOARD**

The members of the Supervisory Board convened at two ordinary face-to-face meetings on 21 July 2007 in Fuzhou, China, and on 20 November 2007 in Hamburg. The Supervisory Board also held six extraordinary telephone conferences on 8 May 2007, 16 June 2007, 18 June 2007, 20 June 2007, 28 June 2007 and 4 July 2007.

All members of the Supervisory Board attended all meetings. Since the Supervisory Board comprised only three members at the time, it did not constitute any committees.

The ordinary meetings of the Supervisory Board explored current business development, the business's risk factors and the Company's strategic direction as well as the reports presented to the Supervisory Board in depth. The investment and divestments and its strategic effects during the reporting period were deliberated.

The discussion covered:

- business strategy, planning, business development and the economic situation
- preparation of the annual general shareholders' meeting 2008
- approval of the
  - half-year financial report and the management report
  - report for the third quarter and the management report
  - business transactions of the Management Board which required the approval of the Supervisory Board
  - the financial calendar
  - the strategy regarding clinical and municipal solid waste as well as BOT projects.

The extraordinary meetings of the Supervisory Board covered the following with regard to the formation of the Company in 2007 and the IPO:

- election of a chairman and a deputy chairman of the Supervisory Board
- election of the members of the Management Board
- approval of the IPO and the underwriting agreement
- adoption of the Rules of Procedure for the Supervisory Board and the Management Board
- approval of a resolution of the Management Board regarding the authorised capital increase and adoption of amended wording of the articles of association in keeping with changes made
- determination of the price range.

All business transactions which required the approval of the Supervisory Board were closely reviewed. The Rules of Procedure of the Management Board and of the Supervisory Board provide a framework

for the Supervisory Board to approve all decisions of the Management Board with a crucial bearing on the Company's financial status, profitability and risk situation, or any issues not relating to usual business operations. The business transactions which required the approval of the Supervisory Board were presented to the Supervisory Board and, in most instances, considered in the presence of the Management Board. The members of the Management Board were available for further enquiries and all submissions were approved. No objections were raised regarding the conduct of the Management Board.

As well as sharing opinions on business development and the status of the Company, extensive discussions were held on the planning of finances, investments and personnel. There were also opportunities to discuss conflicts of interests although the Supervisory Board is not aware of any such conflicts.

## **CORPORATE GOVERNANCE**

The "Corporate Governance" of the ZhongDe Group is reported in a separate chapter of this annual report. ZongDe Waste Technology AG will complete its declaration of compliance by 6 July 2008.

## **PERSONNEL ISSUES**

At close of business on 17 June 2007, Mr. Simon Eckersley, Mr. Liao Kaizhan and Ms. Li Lu – the initial members of the Supervisory Board – resigned from their office in writing. On 18 June 2007, the General Shareholders' Meeting elected Mr. Hans-Joachim Zwarg (Chairman), Mr. Joachim Ronge (Deputy Chairman) and Mr. Quan Hao to the office of Members

# We are proud to play a part in the development of the ZhongDe business – to guide the Management Board and ensure the best for our shareholders.

Hans-Joachim Zwarg, Chairman of the Supervisory Board

of the Supervisory Board until the expiration of the General Shareholders' Meeting which will then ratify the Management Board and the Supervisory Board for the financial year 2007. On the same date Mr. Zwarg was elected Chairman and Mr. Ronge Deputy Chairman of the Supervisory Board.

## FINANCIAL STATEMENTS 2007

The (individual) financial statements of the ZhongDe Group were prepared in accordance with the German GAAP as provided for in the German Commercial Code (HGB). The consolidated financial statements of the ZhongDe Group were prepared in accordance with International Financial Reporting Standards (IFRSs). The individual financial statements and the consolidated financial statements including the combined group management report were audited by BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft and certified without qualification. During the audit, the following topics received close attention:

- completeness of accruals, provisions and liabilities
- assets not to be overvalued and liabilities, accruals and provisions not to be undervalued
- cut-off at year end
- compliance of the notes to the financial statements with HGB or IFRS
- properness of consolidation
- fair presentation of the combined group management report
- risk management

The individual and consolidated financial statements, the combined group management report, the proposal of the management board regarding the appropriation of retained earnings and the auditor's reports were submitted to the Supervisory Board in a timely manner.

The Supervisory Board was also provided with the report prepared by the Management Board in accordance with section 312 of the German Stock Corporation Act (AktG). The aforementioned financial documents were examined in detail at the annual financial statements meeting and were discussed in the presence of the auditor who reported on the material results of the audit. The auditor was also available for questions and could provide additional information as far as necessary. The Supervisory Board approved the results of the audit which contained no objections from the auditor.

Pursuant to section 171 German Stock Corporation Act (AktG), the Supervisory Board has audited the individual and consolidated financial statements and the combined group management report set up by the Management Board while accounting for the advantages offered by the accounting policy. Following the outcome of the audit, the Supervisory Board did not raise any objections. The Supervisory Board is in complete agreement with the evaluation by the Management Board contained in the financial statements and the combined group management report and, as a result, adopted the individual and the consolidated financial statements. Additionally, the Supervisory Board examined and approved the Management Board's proposal regarding the appropriation of retained earnings.

The ZhongDe Waste Technology AG's individual financial statement reveals profits and retained earnings for the 2007 business year of €3.5 million. The Supervisory Board seconds the proposal of the Management Board to distribute €1.95 million to shareholders.

The Supervisory Board would like to pay tribute to the efforts of the Board of Management and all employees that contributed to the strong results in 2007.

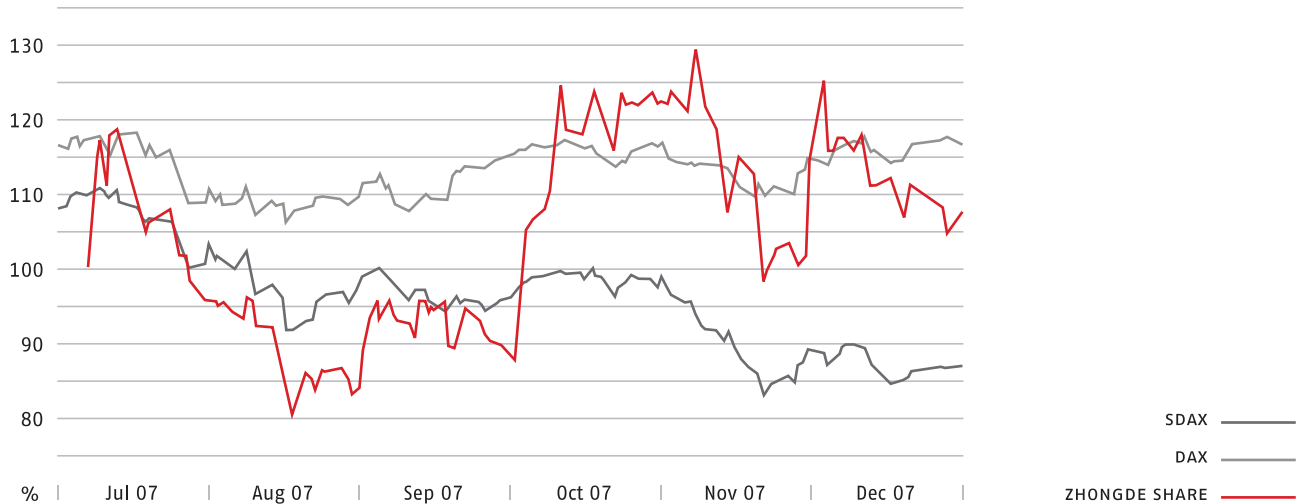
Hamburg, 28 April 2008

sgd.

The Supervisory Board  
Hans-Joachim Zwarg  
Chairman



# ZhongDe Waste Technology AG share performance



The ZhongDe Group enjoyed a strong start to trading on the Prime Standard segment of the Frankfurt Stock Exchange on 4 July 2007. Shares were approximately 13.5 times oversubscribed and 15% higher than the initial offer price. 95.4% of the shares were purchased by institutional investors in Germany, neighbouring countries, Great Britain and Hong Kong, with 4.6% going to private investors.

Following on from this, we have established a robust price performance for the trading period as a whole. Despite the volatility of global markets in October and a general share price downturn in this market segment, the ZhongDe Group outperformed others in this sector. Overall we were able to ride above market uncertainties partly due to strong results in the third quarter.

Our strong price performance was reinforced at the end of September with the announcement of two major BOT projects. As part of these projects, the ZhongDe Group will deliver equipment, sales and operational income by working in close partnership with the provincial government.

Backed by a positive outlook for the financial year 2008, ZhongDe Group stock continues to move in line with the market, thus putting company shares in a solid position to profit from future market recovery.

# Highlights 2007

## STRONG RESULTS

The ZhongDe Group put in a strong performance in 2007. By focusing on the municipal waste incineration market and recruiting key members to the team, the company leveraged its position in solid waste management in China. Sales continued to increase in a market experiencing huge growth in demand due to the Chinese government's environmental policies. Revenue rose 64%, up from €19 million in 2006 to €31.1 million in 2007. Growth can mainly be attributed to the rise in municipal waste incinerator sales. Also during 2007, we received orders worth €44.4 million, an increase of 90% on the previous year. The growth in orders and the associated order backlog can be attributed to our strategy to focus on municipal waste incinerators

## THE MOVE TOWARDS MUNICIPAL MARKETS

Small to medium-size incinerators, with capacities of between 50 and 300 tonnes still accounted for the lion's share of the revenue for the ZhongDe Group in 2007, with most sales going to towns and cities

within China. In 2007, the municipal waste treatment sector developed at a much faster pace than in previous years. To take advantage of this, we have expanded the ZhongDe Group business rapidly, particularly in our sales and marketing department and the project engineering team, to meet the increase in order enquiries. We successfully completed and delivered eleven orders for municipal waste incinerators during 2007, mostly for second-tier cities in China including Xiamen, Fuzhou and Guangxi. These cities introduced waste incineration projects to gradually replace the landfill in their local waste management systems. As we continue to expand our sales forces to establish stronger relationships with regional business partners in more provinces and cities in coastal areas and we employ additional human resources to cover inland areas, we expect to win more contracts in major Chinese cities establishing ZhongDe Group as the market leader in this sector.

Leveraging our dominant position in the small to medium-size incinerator markets placed the ZhongDe Group in a strong position to capitalise on the growth in the large scale, municipal waste incinerator business.



We are 100% committed to creating shareholder value with a business strategy that focuses on the burgeoning municipal incinerator segment and continues to develop our green credentials.

Zefeng Chen, CEO

Apart from Beijing, Shanghai and Shenzhen, more cities with a sizeable and growing population are looking to include the installation of scalable incinerators (with power generating capacity) in their city development planning, as well as seeking new methods for alternative power sources, particularly given high (and rising) oil and coal prices. This forms part of our strategy to move to larger incinerators with capacities of more than 1,000 tonnes per day and is in line with the Chinese government's Green GDP plans.

#### **ENTERING THE BOT BUSINESS AND THE SIGNING OF TWO BOT AGREEMENTS**

2007 saw the ZhongDe Group take its first steps towards the successful achievement of its business strategy in the longer term with the signing of its first two BOT (build-operate-transfer) contract agreements.

The two BOT projects are located in Shandong Feicheng and Xihua Henan with capacities of 160 tonnes and 500 tonnes respectively. They will begin operation and contribute revenue to the group in the second half of 2008 and early 2009.

Once the contracts were signed, we opened satellite offices to oversee initial development. Work being carried out to establish the two projects is well on track and strategically the set-up of these BOT projects can act as a showcase for ZhongDe Group to demonstrate our one-stop solutions and capabilities – from design, provision of technology, manufacturing and construction of incinerators to managing operation. The projects not only highlight and promote our project management experience, they also provide reassurance to our customers and, importantly, will significantly ease efforts in sealing future orders.



The size and scale of BOT projects create a stable cash flow for the ZhongDe Group but require a substantial initial investment with projects lasting an average of 30 years. BOT projects mean we receive a waste disposal fee from the government and are also able to sell the by-products such as steam hot water and bricks and even generating power to supply local electricity plants in the future.

#### **EXPANDING PRODUCTION CAPACITY**

The ZhongDe Group acquired new land use rights close to Beijing in 2007. The land covers approximately 76,000 square metres and we hold the rights to the area for at least 50 years. This will allow us to build a new production facility and expand production capacity so that we can realise our strategic goals of moving into larger municipal waste incinerators, as well as strengthening sales coverage in northern China. The Beijing plant is expected to begin operations in August of 2008 and is forecasted to contribute revenue in 2009.



#### **A SUCCESSFUL IPO GAINING BRAND RECOGNITION AND CREATING COOPERATION OPPORTUNITIES**

Another premiere for the ZhongDe Group: in 2007 we were the first Chinese company to be listed on the German Prime Standard at the Frankfurt Stock Exchange. The IPO raised funds that allowed us to finance our plans for growth. It also strengthened our corporate image in the Chinese waste incinerator market and highlighted the commitment to the environment in the Chinese government's business development plans. In the run up to the IPO, ZhongDe Group gained significant media coverage and exposure at various conferences which placed the company firmly on the international map. The future looks bright as we received enquiries from more than 20 leading international companies for potential projects not only in China but also in other countries. We are excited by these opportunities and will tread carefully to ensure that we are well prepared to accept the challenges posed by international expansion.



### WELCOMING NEW EMPLOYEES – OUR KEY ASSETS TO SUCCESS

Some of the funds raised by the IPO also allowed us to recruit 78 more employees to the ZhongDe Group in 2007. The new members of our team are skilled, experienced people working across all areas of the business. Ultimately, it is our people who will really enable the ZhongDe Group to achieve its long-term business goals and we recognise the importance of their role and the contribution each of our employees to the success of the business.



### BREAKTHROUGHS IN R&D

Our R&D team made some tangible breakthroughs in 2007. We are particularly proud of our achievements with the Fujian Department of Science and Technology to develop a selective catalytic reduction flue gas purification device. Other noteworthy achievements include our new catalytic oxidation degradation process, technical advances in handling hazardous waste with rotary kilns and the development of more efficient incineration processes.

ZhongDe Group took a number of strides forward in 2007, with every step moving the business closer to achieving its long-term strategic goals. We can look back with pride on a year in which we have grown the business while endeavouring to develop breakthrough technology to help create a cleaner environment.

2007 was an exceptional year for ZhongDe. We will continue to develop our plans, our technology and our green capabilities to meet increasing demand in the future.

## MANAGEMENT REPORT →

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# Organisational and legal structure

In 2007, the ZhongDe Group's focus was firmly fixed on two main business segments – incinerators for municipal solid waste and medical waste.

We saw substantial growth in the municipal waste incinerator business during the year, so much so that this segment brought in 70% of our revenue for 2007. This amounts to €21,7 million which represents eleven manufactured and shipped orders, compared to €3,4 million or three orders in 2006. With Chinese government plans requiring towns and cities to incorporate incineration in their waste management policies, this generated a range of new enquiries about our products and services in 2007. As a result, we are confident that the ZhongDe Group is well placed to capitalise on growth in this market.

Our major source of revenue in 2007 were small to medium-size incinerators with waste disposal capacities of between 50 and 200 tonnes. Our flexible, innovative way of working means that we constantly review our technology and products helping us to grow this segment of the business and develop products for large incinerator projects. This places us in a prime position to expand our business and capitalise on government growth plans in municipal and environmentally-minded waste management targets.

The medical waste incinerator business was the focus of our second main segment, accounting for 30% of revenue in 2007. In terms of sales this is attributable to 21 orders totalling €9,4 million in 2007, as compared to 34 orders with a total turnover of €15,5 million in 2006. The decline in medical incinerator sales in 2007 was in line with our long-term strategy to gradually withdraw from this segment. Although the medical waste management market remains stable, our decision to move away from this sector in the future is grounded

in our own research, which indicates that this business sector is becoming saturated.

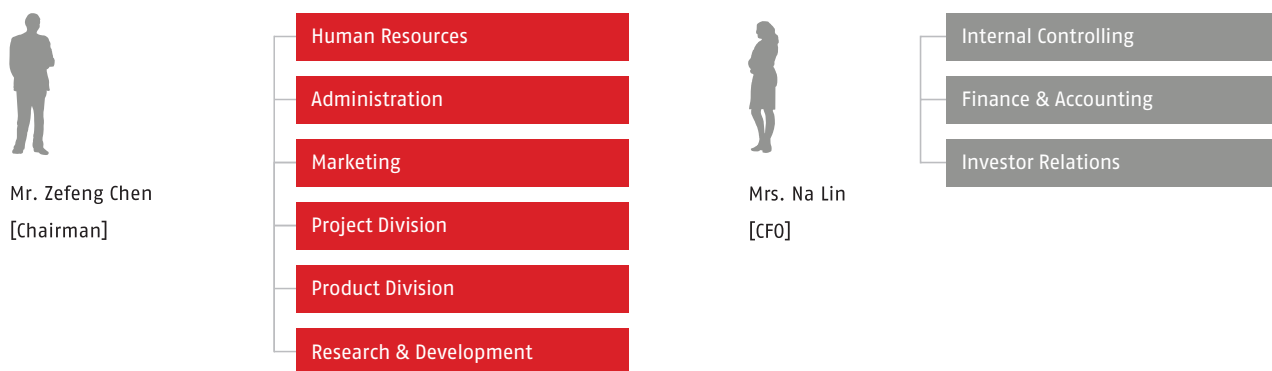
In the long term, we are looking to bring a number of BOT (build-operate-transfer) projects to fruition. In 2007 we signed two BOT project agreements and set up satellite offices to oversee the initial design and construction. Teams at these offices will keep an eye on the progress of the projects once they are up and running. Other long-term plans include focusing on specialised incinerator products for fields such as the aviation industry and we hope to receive our first order in 2008.

We will add to our manufacturing base in Fujian, southern China, a new facility in Beijing in October 2008. This takes care of orders in northern China. In 2007 our administrative and support teams were all based in Fujian where we also placed an emphasis on growing the sales and marketing team. Four of the teams focused on the municipal waste segment, one on international sales and one on medical markets along with the development of specialised business segments such as aviation.

The ZhongDe Group is structured as a German holding group and consists of three consolidated companies. Following the IPO re-organisation, the capital stock of the ZhongDe Group amounts to €13 million divided into 13 million no par bearer shares with a par value of €1 each. The Hong Kong-based, wholly owned subsidiary, Chung Hua Environmental Protection Assets (Holdings) Group Ltd., was acquired during the year. For further detail please refer to the notes to the financial statements.



## ORGANISATIONAL STRUCTURE



## LEGAL STRUCTURE



Our CEO Mr. Zefeng Chen heads up the following divisions: Human Resources, Administration, Marketing, Projects, Products and Research & Development. The marketing division is responsible for municipal and medical incinerator sales and investment in BOT projects. The division is divided into six subdivisions, four of which are responsible for sales and investments in different

regions in China, another has responsibility for international sales and the last is responsible for medical and aviation sales.

Mrs. Na Lin, the Company’s CFO, is responsible for Internal Controlling, Finance and Accounting and Investor Relations

# Economic environment

The Chinese economy continued to forge ahead with rapid growth in 2007. Hand in hand with this, the infrastructure in China continued to gain strength bringing with it improved levels of efficiency. The standard of living also continued its upward trend.

Preliminary estimates indicate that Chinese GDP for 2007 increased by 11.4% – the fifth successive year the economy has achieved growth of more than 10%. Value-added in primary industry increased 3.7%, in the secondary industry by 13.4% and the tertiary industry by 11.4%. The growth of our business reflects these positive figures with total sales increasing by 64% and a substantial increase in the number of enquiries as a result of the government's environmental plans.

Production in industrial businesses increased rapidly, generating a huge improvement on economic returns. Value-added was up 18.5% on forecast in this area. This had a particular impact on shareholder enterprises, which saw an increase of 20.6%, as well as businesses backed by foreign investors, which rose by 17.5%. In line with this, sales were up 98.1% on forecast. Investments in fixed assets also grew rapidly with year-on-year growth of 24.8%. Total investment in real estate development grew by 30.2%.

Foreign investment growth continued in 2007, rising by 13.6%, and foreign trade also saw a rapid increase with growth of 23.5%. By the end of 2007 Chinese foreign exchange reserves were up more than 43.3% on the previous year.

Per capita disposable income increased in 2007, rising by 17.2% within the urban population and 15.4% in rural communities. Around 200,000 more people were employed in urban areas than in 2006 which saw unemployment decrease to 4%. Total retail sales increased by 16.8% in 2007 and the CPI grew by 4.8%. Higher prices for food and housing were the main drivers behind the increase in overall levels.

All in all, 2007 was a good year for the Chinese economy and also a good year for the ZhongDe Group. Economic factors point to continued overall growth in the economy and our plans for developing the ZhongDe Group business leave us confident of success in the coming years.

# Business environment

The environmental protection industry is emerging as one of the principle elements of China's economy. And the government sees its development as a priority.

The industry is growing at a rapid pace, approximately 10% per year. At the end of 2001 the annual production value of the environmental protection industry had reached RMB 108 billion, with annual manufacturing capacity and production equipment, or product, value reaching RMB 30 billion. In 2005 the gross output reached RMB 200 billion, including RMB 55 billion from products, RMB 95 billion thanks to the efficient use of all available resources, and RMB 50 billion from environmental services. (Source: Municipal Waste Disposal Planning and Development Report)

2008 looks to be a critical year, with the Chinese government investing an estimated RMB 1,400 billion in environmental protection. Investments in the industry are increasing at a rate of 18% per year and in the mid-term the annual output value of China's environmental protection industry is expected to exceed RMB 880 billion.

A vast country, with a population of 1.3 billion, China has more than 880 cities with a population more than 600,000. The accumulated waste from these cities is approximately 6 billion tonnes with domestic waste increasing at a rate of 8-10% a year. And municipal waste disposal facilities are unable to keep up with this pace.

There are four options for disposing of waste: exposed stacking, sanitary landfill, thermophilic composting and incineration. Of these, incineration is the most viable option with the smallest footprint. It maximises waste reduction and most efficiently leverages the resources that the process needs. The Chinese government and

local governments invest RMB 30 billion a year in waste disposal, 50% of which goes towards the construction of new incineration plants.

By encouraging the generation of power and heat as by-products of waste incineration and landfill gases China has made great strides in disposing of municipal and rural waste in an environmentally friendly way. In addition, the Chinese government offers business income tax deductions and exemption policies for energy-saving projects, environmental protection projects and investments in special equipment. It has also improved the preferential tax policies for businesses using all the resources available to them to efficiently dispose of waste and old materials, as well as supported companies developing new and renewable energies. All of these efforts will play a key role in the growth of waste disposal enterprises.

The Chinese government has stated that 31 provincial hazardous waste centres and 300 municipal medical waste centres need to be built. Over the next ten years, around 800 refuse disposal plants will be built in coastal cities and towns with a daily processing capacity of between 50 and 200 tonnes. The State Environmental Protection Administration also plans to build between seven and nine large hazardous waste plants across the country. Efforts will be focused on developing large scale municipal waste equipment while for large or medium-size municipal waste incinerators the BOT approach can be adopted to bring municipal waste disposal to the market.

This all points to promising market conditions for the waste incineration industry. It is estimated that by 2010 the turnover of China's waste disposal industry will reach RMB 250 billion as environmental and economic policies continue to develop hand in hand.



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As a reflection of these policies and forecasts, demand for technology that lays eco-friendly groundwork for ways to dispose of solid waste is set to grow. And this places ZhongDe in an excellent position to react positively to these plans and expand and develop our business.

This is reflected in our 2007 sales figures. Sales totalled €31.1 million in 2007, an increase of 64% on the previous year. The increase in sales is largely attributable to the Chinese government's emphasis on environmental and energy saving issues, tasking provincial and city authorities to improve energy saving and environmental procedures and setting benchmarks for improvement.

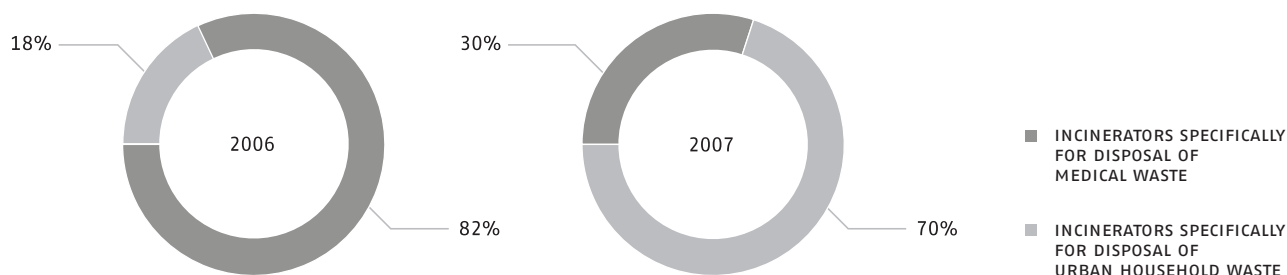
The number and type of orders our customers placed with us in 2007 illustrate that we are building a strong business and give us great confidence in our plans for the future. Our order book for 2007 included orders worth more than €44.4 million, an increase of 90% compared to 2006, with an increasing number of orders from municipal waste customers.

These plans are the probable main drivers behind the increasing amount of enquiries we received this year. This is good news for our business and our plans: it indicates that demand for our products will continue to grow and strengthens support for our strategy to develop larger scale incinerators. Moreover, it gives our R&D plans an extra boost to galvanise our technical expertise and produce products that help to create a cleaner environment.

# Financial development

## INCOME OF WASTE INCINERATORS SOLD BY SEGMENTS

Amounts in k€	2007	2006	Change %
<b>Medical waste incinerator</b>			
Units sold	21	24	(13)
Revenues	9,441	15,543	(39)
Gross profit	7,326	11,267	(35)
<b>Municipal solid waste incinerator</b>			
Units sold	11	3	267
Revenues	21,692	3,452	528
Gross profit	14,309	2,117	576



Against the backdrop of Chinese GDP growth, the market for incinerators continued to boom. ZhongDe Group sales rose strongly in the year under review. Sales revenues increased by €12.1 million or 64% in 2007 to €31.1 million. This revenue growth was a direct reflection of our shift in emphasis internally to focus on the rising demand for municipal waste incinerators which accounted for 70% of sales in 2007.

### MEDICAL WASTE INCINERATORS

Demand in the medical waste incinerators sector is still considered to be stable in 2007, notwithstanding the limited potential for huge growth in this market. However, in 2007, the income from medical waste incinerators sold in this sector declined from €15.5 million to €9.4 million.



This is to address the ZhongDe Group's strategy to capture the municipal waste incinerators market and more of our current production capacity. We also assigned technicians involved in project engineering to develop future orders of municipal waste incinerators.

During the year, the medical waste incinerators that were sold still focused on a daily processing capacity of 3 to 8 tonnes. Their average selling prices remained stable when compared to the previous year.

## MUNICIPAL SOLID WASTE INCINERATORS

Strong demand in this sector is fuelled by the government's policy of gradually charging a waste collection fee to citizens in certain cities as well as introducing local and foreign investors to BOT projects constructing municipal waste disposal plants. The ZhongDe Group has expanded the sales and marketing team rapidly and divided into four departments in order to respond to four major groups of Chinese provinces. We adopt a more detailed approach in providing the government and the operator a one-stop solution from analysing the waste content to designing functions and technical feasibility studies, planning construction, estimating capacity and building equipment and structures.

Thanks to our service and product quality, sales of municipal waste incinerators in 2007 represented the majority of the Company's revenue sources. Sales of this sector increased from a ratio of 18% in 2006 to 70% in 2007. In absolute value, sales of this sector increased by more than five times, and daily production capacities mainly lie between 50 and 200 tonnes. The ZhongDe Group is very optimistic about the development of this sector. Continuing to build our sales network while taking advantage of our Germany listing position as

well as our technology, we hope to reap the benefit of growing momentum in the market and ultimately outperform market growth.

## ORDER INTAKE AND BACKLOG REFLECT A STRONG MARKET DEMAND

In the financial year 2007, order intake was at our highest ever at €44.4 million. This was a substantial rise of €21 million versus 2006, or 90%, directly linked to our strategic plan, focusing on municipal waste incinerators, especially models LCH-200, LCH 150 and LCH 100 which have higher disposal capacities. Revenues from the municipal sector rose by 528% to €21.7 million, and the corresponding profit for municipal incinerators went up by 576%.

During the same period, revenues from medical incinerators, which has a much lower average selling price per unit when compared to municipal incinerators, went down in line with our strategy to move away from this segment, to €9.4 million, or by 39%.

As of 31 December 2007, the ZhongDe Group's backlog amounted to €20.5 million, exceeding the figure for 2006 by €12.9 million or 171%. This is in line with our expectations and reflects the surge in interest for advanced incinerator technology which can be attributed to the Chinese government's commitment to its environmental policies. As a result of these plans, we expect interest to continue into 2008 and beyond.

Amounts in k€	2007	2006	Change %
Order intake	44,351	23,385	90
Ordner backlog	20,494	7,573	171

## EARNING DEVELOPMENT

Gross profits in 2007 increased substantially, by €8.3 million or 62% to €21.6 million. This was reflected in EBITDA which rose 56% in 2007 to €18.7 million versus €11.9 million in 2006 and EBIT which also rose by 56% to €18.6 million, a margin of 60%. The increase in revenue, gross margin and EBITDA and EBIT show the same trend which demonstrated two things: it showed that the company healthily expanded its top line through market exploration and that the capital expenditure and expense level have been kept well in check. Annual net profit increased to €19.1 million in 2007 (2006: €8 million) – more than doubling the profit for the period (change: 138%). The net profit margin rose by 19% from 42% in 2006 to 61% in 2007. The increased and high net profit margin is a result of the full tax exempt status granted by the China government for our Chinese main operating subsidiary. Last year, the company was still subject to a PRC profit tax of 33%.

## PROFITABILITY

In 2007, our group gross margin remained strong at 69% (2006: 70%). The increase in percentage of sales in municipal waste incinerators, which is considered to be a lower margin sector between the two areas, did not drop significantly overall because we were able to bargain for a higher margin in municipal waste sectors.

The gross margin of medical incinerators has also seen an increase – achieving an average of 78% while for municipal waste incinerators 66% were achieved. Notwithstanding the fact that an increasing focus on municipal waste incinerators may lower the ZhongDe Group's margin, we should make every effort to commit to this market and capture the growing momentum for the company.

Both the EBITDA and EBIT margins of the company slightly declined from 63% in 2006 to 60% in 2007. The reduction is mainly attributable to certain IPO expenses, such as travelling and accommodation, incurred during the second half of 2007. Aside from the above, our selling, distribution, administrative and R&D expenses all grew at the same level when compared to the previous year.

The net profit margin rose by 19 percentage points from 42% in 2006 to 61% in 2007. The increased and high net profit margin is a result of the full tax exempt status granted by the China government for our Chinese subsidiaries. Last year, the company was still subject to a PRC profit tax of 33%.



Amounts in k€	2007	2006	Change %
<b>Sales</b>	<b>31,133</b>	<b>18,995</b>	<b>64</b>
Costs of goods sold	9,496	5,611	69
<b>Gross profit</b>	<b>21,637</b>	<b>13,383</b>	<b>62</b>
Selling and distribution expenses	1,238	735	68
Administrative expenses	680	377	80
Research and development expenses	266	203	31
Other operating expense/(Income)	841	165	409
<b>Profit from operations</b>	<b>18,612</b>	<b>11,903</b>	<b>56</b>
Finance income	933	16	5,648
Finance expenses	29	50	1,754
<b>Profit before income tax</b>	<b>19,517</b>	<b>11,869</b>	<b>64</b>
Income tax	458	3,847	(88)
<b>Net profit</b>	<b>19,058</b>	<b>8,022</b>	<b>138</b>

## INTEREST INCOME

The ZhongDe Group saw a significant increase in income of k€933.1 in 2007 (compared to k€16.2 in 2006). The increase is mainly attributed to greater funds raised from our IPO – most of which are still deposited in the bank and in the name of our holding company and in our PRC subsidiary. Funds are also still awaiting transfer to the projects (such as Beijing plants and BOT projects) upon the final set up procedures at the beginning of 2008.

## SUMMARY OF PROFIT EARNING DEVELOPMENT

The ZhongDe Group successfully launched its strategy to focus on municipal waste incinerator sales in 2007 which generated a record revenue for the group with high and stable margin, notwithstanding a decrease in

medical sector sales. The overall expenses are stable with more of other operating expense-related to the IPO; yet most of these effects were cancelled out by additional interest income of IPO proceeds. Additionally, the PRC subsidiary was granted tax exemption in 2007 which ultimately benefited the overall net profit margin.

## EQUIPMENT, CONSTRUCTION IN PROGRESS AND INTANGIBLE ASSETS

In keeping with the growth in business and the increased order backlog in 2007, equipment and construction in progress rose to €1 million. Assets relating to plant, property and equipment rose 105% in 2007 to k€887. Construction in progress for the planned subsidiary in Beijing accounts for k€149 of this.

The increase in intangible assets represents the purchase of the land use right for the Beijing plants. This land use right provides our Beijing plant with a 50-year term of operation. With our Beijing subsidiary already established, the plant will start to speed up its construction at the beginning of 2008.

The Beijing plant is considered to be one of our most important strategic and valuable assets, to support future planning to strengthen our exposure to the northern part of China. After setting up this plant, our incinerators' production capacity will be considered one of the biggest in China. And since the Beijing plant has already reserved surplus land for our second phase of expansion, management is very confident that the company can leverage this capacity to cover both the Chinese and international markets.

## **CURRENT ASSETS AND CASH POSITION**

The 64% increase in our revenue enlarged our production scales and also our inventories level (€2.6 million in 2007, compared to €770 in 2006), in particular the finished goods. Inventories represent raw materials such as steel and electrical components as well as work-in-progress of semi-produced equipment and finished goods of undelivered equipment.

The rise in trade receivables to €14.2 million also reflects how highly the revenue level has risen. The great increase in the trade receivable level was triggered by several large size contracts delivered in the last quarter. We consider all of our current trade receivables to be current. Next year – as the company will be accelerating production and cash receipts with higher sales volume – we expect to improve our debtor turnover to a reasonable level, one comparable to the

industrial benchmark. In short, the growth spurts of the debtor level do not matter; our management is still considered a 'low risk' of doubtful debt collection since most of our equipment operates as public facilities under government contract from the operators and, based on management experience, they have an excellent credit record.

The company banked €83.8 million in cash at the year's end (2006: €9.2 million). The IPO managed to raise €75 million for the ZhongDe Group and these proceeds will be used – in keeping with the IPO plans – for various purposes: nearly €13 million for setting up the Beijing plant, nearly €41 million to enter six BOT projects, and the remainder for setting up the R&D centre and financing the working capital of expanded operation scales.

## **CURRENT LIABILITIES AND OTHER PAYABLES AND ACCRUALS**

Short term loans and amounts due to related parties were paid back in the year under review with minor remainders. Overall current liabilities were down from €8 million in 2006 (47.5%) to €5.9 million in 2007, or 5.7%. Current liabilities mainly represent the other payables which included the advance from customers and accrued expense which are increased in line with the expansion of the operation.

## CASH FLOW

Almost all accounts receivable overdue had been paid by 31 December 2007. Cash flow from operating activities rose by 107% to €13.2 million. There was strong growth in cash and cash equivalents in 2007, mainly due to net cash flow from operating and financing activities. The IPO process generated net capital of €68.7 million, taking into account charges of €6.3 million.

Cash flow from investment activities mainly represented the acquisition of the land for our Beijing plant and further investment will be incurred on the construction site in the coming months. More equipment will be purchased to establish the Beijing plant in order to ensure this will be ready to use by the end of this year. Cash equivalents rose to €83.8 million in 2007, with capital/statutory reserves standing at €73.1 million.

Total net assets on 31 December 2007 stood at €104.5 million, a rise of 522%.

## FINANCE MANAGEMENT

Having raised funds during the IPO, the Company repaid all of the outstanding bank loans near the close of 2007. The ZhongDe Group is debt-free as of the balance sheet's date. Current internal funding is expected to meet next year's normal operation requirement. If additional funding is required, the company may turn to the bank for financing. Since environmental protection is a highly supported industry in China (and although no dedicated banking facilities exist at the moment), the company has been approached by several major banks in China for potential cooperation. Management believes debt financing will be a preferable option to strengthen our fund base to invest additional capital expenditure and in potential BOT projects further down the road.

# R&D development

At the ZhongDe Group we place great emphasis on our R&D activities, important for maintaining the edge on the competition. Passionate about innovation and the environment, we throw our full weight behind the development of new technology that helps to create a cleaner environment. We are already leading the way in dioxin emission standards.

More than 10% of our employees are busy working in our R&D department to create new products that answer our demanding needs. Our researchers and developers share our passions. 2007 was a fruitful year for the team and one we can all be justifiably proud of.

We are supported in our research into purification technology for flue gas generated by incinerators by the Department of Science and Technology of the province of Fujian. This key project was included in the government's sustainability plans and we were delighted to play a part in it. As a result of this work, we developed a selective catalytic reduction flue gas purification device. Its application in the waste management process has been a huge success, strengthening our technological prowess in treating flue gas generated by incinerators. The ZhongDe Group is the owner of the intellectual property for this innovative new device.

We invested a considerable amount of resource in researching new processes for medical waste to meet the new requirements laid down by the Chinese government. This also applies to aviation waste, a business segment which falls into our longer term plans. And in response to the issue of dioxin emissions from waste incinerators, we developed a catalytic oxidation degradation process by creating a matching dioxin catalyst based on our own research and pre-existing national patents.

Our technology department carried out comprehensive analysis and computer simulations to develop a rationalised and optimised parameter system to enhance the efficiency of waste management systems. This research will help the technical development of the ability of rotary kilns' to handle dangerous waste, such as oxygen content and mixing gas and solid waste.

We also upgraded the technical specifications of our small and medium-size domestic waste incinerators. As well as creating a more efficient incineration process, new processes and equipment led to a cleaner process that is better at controlling the release of polluting dioxins into the environment.

Of prime importance to us is our ongoing research into methods for gauging and reducing the adverse effect of incinerators on the environment. Not only do our products comply with Chinese national emissions thresholds, they actually outperform them. Performance also matches with current European standards. The current threshold value for dioxin emission in China are higher than in Europe by a factor of five to one, but China is obliged to match European standards by 2010. This is no cause for concern for the ZhongDe Group.









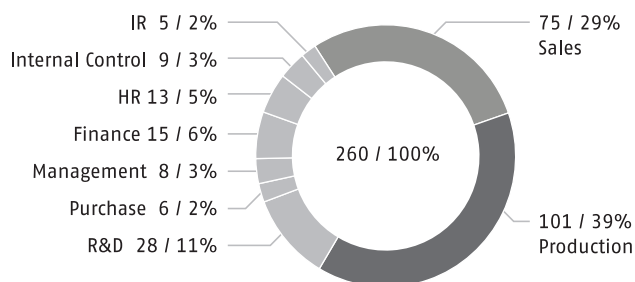
# Employees

We were extremely pleased to be able to use some of the funds generated by the IPO in July 2007 to welcome 78 new employees to the ZhongDe Group, increasing the company headcount by 40%. Our new recruits play an important part in our plans for developing the sales, technology and project construction areas of our business.

Topping our list of skills and experience to bring on board in 2007 were experts in technology and project construction, R&D specialists, production and project construction people, senior sales and marketing managers and experienced salespeople.

Using an open recruitment process, we successfully attracted the members of staff we required to meet these needs, specifically in our sales and marketing teams and the technical and engineering side of our business. 80% of people we recruited in 2007 hold a university degree with more than one third of those people joining our sales and marketing teams.

We were delighted to welcome some key players to the ZhongDe Group in 2007 who will have a particular influence on the positive development of business. This includes Mr. Chun Yang Jin who heads up our R&D and technology business. Mr. Jin's role as CTO will have a particular bearing on how we develop our products and their efficiency, and achieve our environmental and renewable energy goals. Mr. Jin, an expert in environmental engineering with more than ten years of experience in incinerator technology and waste treatment in China, joined us from the China Environmental Protection Bureau.



Employees by function  
(as at 31 December 2007)

All in all, we were also pleased to welcome 27 new members of staff to sales and marketing and 16 highly skilled people to engineering and construction. In welcoming all the new members of our team to the ZhongDe Group in 2007, we have gained a tremendous amount of knowledge, talent and expertise which will help us to move our business forward and proactively address developments in the economic and business environment. We recognise the efforts of all of our employees and the critical role each one makes to our business by placing a real emphasis on supporting our people.

We do this by

- ensuring our teams are up to date with the latest industry knowledge and technical expertise
- organising regular internal training sessions and offering opportunities to attend external training sessions
- paying pension premiums, medical insurance, housing funds, unemployment insurance, work-related injury insurance and maternity cover

# Risk management

General economic risks: the major risks to which the ZhongDe Group may be exposed in conjunction with its main Chinese business activities are:

## **ASSOCIATED AND BUSINESS RISKS**

Reductions in Chinese spending on waste management would pose a risk to sales. This could result from reductions in subsidies granted by the PRC government to customers served by the ZhongDe Group as subsidy levels influence the propensity to buy medical waste incinerators. Potential risks also include government bodies favouring domestically-owned suppliers. Risk-reducing activities to counteract any such moves include maintaining already strong ties with public bodies.

## **REGULATORY AND LICENSING RISKS AND OPPORTUNITIES**

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

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

The ZhongDe Group's right to use intellectual property could expire or be subject to infringement claims.

The PRC legal system and local taxation laws contain inherent uncertainties and inconsistencies; the tax status of the ZhongDe Group or tax legislation or its interpretation might change.

## **SALES AND PURCHASING RISKS AND OPPORTUNITIES**

The continued strong sales growth of the Group depends on its ability to secure new orders for the construction of solid waste incinerators. The level of competition could intensify if new domestic or international suppliers enter the market. We reduce the risk of losing contracts to competitors through the recruitment of professional sales and marketing staff and reducing long-term dependence on the Chinese market by building a dedicated international sales team.

Rises in purchasing costs or a decline in prices would pose a threat to the ZhongDe Group's profitability. The construction of solid waste incinerators necessitates strong relationships with the suppliers of specialist components and materials and we regularly evaluate our dependence on each source and the merits of alternative suppliers.

## **FINANCIAL RISKS AND OTHER RISKS AND OPPORTUNITIES**

The future strategy to focus on BOT projects exposes the ZhongDe Group to additional finance and operational risks.

ZhongDe Group revenues are generated primarily in RMB and shifts in foreign currency exchange rates could pose financial disadvantages with a resulting





negative impact on dividends. As a holding company, our liquidity depends on maintaining immediate access to liquid funds at the operating subsidiary in China.

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

Undetected product defects may lead to increased costs, exposure to liability claims and a negative impact on the market acceptance of ZhongDe Group products and technologies. The recruitment of skilled and experienced people in all areas of the business will remain central to our ongoing measures to enhance quality and standards. Nevertheless, human resource risks could arise from a loss of expertise caused by a fluctuation of qualified personnel, or from insufficiently qualified employees with a lack of commitment to service.

Most of the risks mentioned above relate to the general business environment in China. We are fully conscious of these risks, and will continue to observe developments in order to react immediately to any indications of changes that may affect future ZhongDe Group business.

In view of the long-term developments and expectations regarding incinerator production, sales, high profit margins and the strong demand in China for incineration plants to answer waste and pollution requirements, we regard the current level of risk facing the ZhongDe Group as low. Our incinerators already enjoy a strong reputation due to the well adapted, uncomplex technology involved. Most of our customers are city government-related bodies who demonstrate a low risk of defaulting

on payment. Following the IPO, ZhongDe Group equity levels have been high. Our high levels of liquidity provide a solid basis for expanding into the construction of complete waste incineration plants either in conjunction with BT projects (build-transfer) or BOT projects (build-own-transfer, whereby the ZhongDe Group also operates the plant). For the time being, our operating activities only cover mainland China.

## **RISK AND OPPORTUNITY MANAGEMENT**

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

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

As well as investing in BT and BOT projects, we are currently constructing new production facilities just outside Beijing. The ZhongDe Group remains conscious of the fact that these investments will require more detailed return of investment calculations and project management. To answer these requirements, we are recruiting additional personnel and highly qualified managers. We will also build an internal audit department to support the necessary processes. Furthermore, we are in the process of establishing

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

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

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

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

# Outlook

Government reforms have turned the Chinese economy around in recent years, helping to turn China into the world's fourth largest economy based on GDP.

Industries across the board saw a rise in productivity in 2007, from agriculture to manufacturing, pointing to a continued buoyant economy in China over the coming years. Higher employment rates, an improved standard of living and more disposable income means many consumers have more money in their pockets, so retail spending has increased on everything from cars to cosmetics, electronics to sports equipment.

Pushing ahead with its Green GDP plans, the Chinese government is placing an emphasis on developing waste incineration that also has the ability to generate electricity and supply heat, along with a focus on ways to utilise landfill gas to generate electricity. With the long-term aim of increasing the proportion of renewable energy from 1% in 2007 to 16% in 2016, these measures are bound to have a positive impact on the waste technology industry. And this in turn creates huge potential for us to develop and grow the ZhongDe Group.

We continually strive to build on our expertise, advance our technology and improve the effects of waste disposal on the environment. New developments in our technology and product range go hand in hand with government plans as we begin to build our first plant that combines waste incineration and renewable energy at Datong in 2008.

As well as its emphasis on the development of waste incineration methods, the government is introducing preferential tax policies for companies working on new energy resources and renewable energy. The aim: to actively encourage research and development

in these areas. The government is also creating corporate income tax credits for companies that invest in energy conservation and environmental protection projects. The program also includes VAT credits for companies investing in equipment that helps to reduce emissions. Again, the potential for the ZhongDe Group is enormous.

Our plans for the future also include the establishment of a research institute, the aim of which is to develop and support our technology, recruit and train skilled, experienced staff, establish partnerships and collaborations with other leading institutions and develop our competitive strengths. We expect to start work on the institute in 2008 and it should be up and running within three to six years.

These plans will help us build our core competencies and underpin the long-term development of the ZhongDe Group. Institute projects will help us replace our current products and finalise new product designs according to international standards – in particular core technologies for developing large incinerators. They will also promote work with professional design and engineering construction companies on the development of independent design capabilities.

In terms of financial development, we expect revenues from the financial year 2008 will achieve €50 million with a net profit margin above 45%. With the expected contribution of revenue from selling larger equipment (such as the Datong project) and the further strategic objective to focus on larger projects, the gross margin of the Company is expected to come in slightly lower, at 55%. Though the actual development of our 2008 results is depending on production and delivery scheduling and may vary from our forecasts we are still optimistic of our overall future revenue growth in the

- 
- ZHONGDE HEADQUARTERS
  - ZHONGDE INCINERATORS
  - ▨ FUTURE GROWTH FOCUS

next two years. For 2009 we expect the ZhongDe Group to enjoy the same encouraging pace of growth with the production of larger orders being gradually completed and delivered to generate income. With the full tax exemption the Company receives in 2008, the net profit margin will maintain a reasonable level of around 45%. With a new tax level of 50% coming into play in 2009, for three years, this is likely to have some impact on the net profit margin.

We understand the future will be challenging and our success strongly relies on our risk awareness and – more importantly – how the company should change the way it addresses the rapidly changing business environment. Though the ZhongDe Group has yet to establish a solid brand in the Chinese market, by tapping into our expertise in our local marketing team and extensive sales network, we see plenty of opportu-

nities in China to develop the environmental protection business. And our management is driven to transform the ZhongDe Group, a key player of this sector in China.

We are perfectly placed to leverage the opportunities created by the Green GDP plans. They lay the foundations for our expansion strategy as well as our research and development work. This will centre on new technology and the continued quest for greener products as the economy continues to flourish.

Once again: our success will rely on the support of every party involved in our business and this is especially important to our shareholders. We aim at continuing the success and growth of the ZhongDe Group and would also like to reward our shareholders through a reasonable and appealing dividend policy. We are working hard to realise this aim with promising returns in the coming years.

# Events subsequent to reporting date

We are extremely positive about what lies beyond the horizon for the ZhongDe Group. The Chinese government's emphasis on environmental protection is a perfect fit for our business strategy as we develop our plans for larger scale, cleaner municipal waste technology.

Our plans include a new waste disposal project in Datong, China. The signing of the general contracts for the Datong waste disposal and electricity generation project has been announced for 11 March 2008. What makes this project particularly exciting for us is that it is our first major project to also include electricity generation on a large scale. Datong, a city of approximately 3.1 million people has commissioned the ZhongDe Group to design, manufacture and construct a waste incinerator plant with a maximum capacity of 1,500 tonnes per day with 30 MW electricity generators.

The aim is for the plant to treat an average of 1,000 tonnes of waste per day bringing the annual total for treatment to 316,600 tonnes. Our plan: to install two 15 MW turbine generators. Used partly to produce super-heated steam to drive the air-cooling turbo-generator units, some of the electricity generated by these turbines will also be diverted to the urban power grid.

In the beginning of April 2008 we signed binding agreements for another BOT project in Xinjiang Shanxi with a daily waste disposal capacity of 100 tonnes. With this contract we replace the initially planned Changzhi project due to negotiated better terms: compared with the Changzhi project, the concession period has been extended from 20 to 30 years. Xinjiang is a city with approx. 400,000 inhabitants located in the south of Shanxi province. The waste disposal fee, which amounts to RMB 70 per tonne will be paid on a monthly basis directly by the local municipalities in charge and adjusted to the inflation index annually. After the contracted operating time, the City of Xinjiang will take over the plant. The estimated total investment cost amounts to approximately €1.82 million. Further negotiations about the three additional BOT projects in Guilin, Jian'ou and Wuxiang are underway and on schedule.

These are just some of the plans we have in the pipeline to develop our technology and help to create a cleaner environment. With economic factors continuing to look good, we are confident to bring these, and other plans to bear and ensure the long-term success of the ZhongDe Group business.



# Additional disclosures

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

## SUBSCRIBED CAPITAL

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

## RESTRICTIONS REGARDING VOTING RIGHTS AND THE RIGHT TO TRANSFER SHARES

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

## DIRECT OR INDIRECT PARTICIPATION IN SHARES

At the time the management report was issued, Mr. Zefeng Chen held 50.79% of the shares in ZhongDe Waste Technology AG.

## APPOINTMENT AND DISMISSAL OF MANAGEMENT BOARD MEMBERS

The Management Board of ZhongDe Waste Technology AG currently comprises two members appointed by the Supervisory Board pursuant to section 84 of the German Stock Corporation Act (AktG) for a period not exceeding five years in each case. Any extension of the term of office requires a Supervisory Board resolution and may be adopted no earlier than one year prior to expiry of the current term of office. In urgent cases, the

Local Court may appoint a person to an open and required Management Board member seat upon application by anyone with interests meriting protection (such as other Management Board members) (section 85 AktG). This office would, however, then be terminated as soon as the deficiency could be rectified, in other words, as soon as the Supervisory Board has appointed someone to the open Management Board member position. Dismissal of a Management Board member is permissible only with good cause (section 84 section 3 sentences 1 and 3 AktG). Good cause includes gross negligence of duties, inability to duly perform duties or revocation of confidence by the Annual General Meeting, unless confidence was revoked for obvious and subjective reasons. Pursuant to article 8 (2) of the Articles of Association of ZhongDe Waste Technology AG, the Supervisory Board may appoint a Chair as well as a Deputy Chair of the Management Board. ZhongDe Waste Technology AG currently has a Chair and a Deputy Chair of the Management Board.

## AMENDMENTS OF THE ARTICLES OF ASSOCIATION

The Articles of Association can only be amended by a resolution of the general shareholders' meeting according to section 179 of the German Stock Corporation Act (AktG). Additionally, the Supervisory Board – pursuant to article 18 (3) of the Articles of Association – is entitled to amend the Articles of Association, provided that these changes only concern the wording or form.

## **AUTHORISED CAPITAL**

According to article 4 (4) of the Articles of Association, the Management Board, subject to the approval of the Supervisory Board, is authorised to increase the company's share capital once or several times by up to €5 million by issuing up to 5 million new no par value bearer shares in consideration of contributions in cash or in kind (authorised Capital 2007).

An amount of €3 million of such authorised Capital 2007 has been used. Thus, the current authorised capital of the company amounts to €2 million.

## **REPORT BY THE MANAGEMENT BOARD REGARDING DEALINGS AMONG GROUP COMPANIES**

In accordance with section 312 of the German Stock Corporation Act (AktG), the Management Board has issued a report regarding dealings among group companies which includes the following concluding declaration: "According to the circumstances known to us at the time the transactions were executed, or measures were implemented or omitted, ZhongDe Waste Technology AG received appropriate consideration for every transaction and has not been disadvantaged by the implementation or omission of any measures."



# Report on ZhongDe Waste Technology AG

## GERMAN LOCAL FINANCIAL STATEMENTS ACCORDING TO GERMAN COMMERCIAL CODE (HGB)

ZhongDe Waste Technology AG is the ultimate parent company of the ZhongDe Group and acts mainly as a holding.

The net profit of €3.5 million for 2007 can largely be attributed to the accrued dividend for 2007 paid by Chung Hua Environmental Protection Assets (Holding) Group Ltd. (€8.5 million) as well as interest yields (€0.8 million) less expenses in connection with the IPO (€6.3 million).

As of 31 December 2007 the company holds total assets of €91.8 million of which €25 million represent a 100% stake in Chung Hua Environmental Protection Assets (Holding) Group Ltd. and €30 million represent a loan to the same company designated for funding investments of its subsidiary Fujian FengQuan Environmental Protection Equipment Co. Ltd.

The total equity position of ZhongDe Waste Technology AG as of 31 December 2007 is €91.5 million.

Hamburg, 28 April 2008  
The Management Board

The Prime Standard has the most stringent transparency standards in Germany. Our listing in this segment reinforces our ongoing commitment to comply with these conventions across all areas of our business.

## CORPORATE GOVERNANCE →

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[048] Corporate Governance Report

[051] Compensation Report

# Corporate Governance Report

## REPORT OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD ON THE COMPANY'S CORPORATE GOVERNANCE

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

We have earned the trust of our shareholders, clients and employees thanks to the Supervisory Board and Management Board working together closely and constructively. The hallmarks of this working arrangement: open corporate communications, dedicated customer service and due diligence in accounting and auditing.

### MANAGEMENT BOARD

The Management Board of ZhongDe Waste Technology AG comprises two members and is jointly responsible for the management of the company. The members of the Management Board provide the Supervisory Board with frequent, timely and comprehensive information on the Company's strategy, planning, business development and risk management. The Chairs of the Management and Supervisory Boards are also in touch regularly. For certain business transactions and measures which are set forth in greater detail in its Rules of Procedure, the Management Board must obtain the Supervisory Board's prior consent.

### SUPERVISORY BOARD

The Supervisory Board is comprised of three members and is charged with, above all, monitoring and advising the Management Board. It is also responsible for electing members of the Management Board,

determining their remuneration and reviewing and approving the annual financial statements of the Company.

### COMPENSATION OF MANAGEMENT BOARD AND SUPERVISORY BOARD

The remuneration of the Management Board and the Supervisory Board is reported in the compensation report, which is part of the management report.

### ANNUAL GENERAL MEETING

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

### FINANCIAL REPORTING AND ANNUAL AUDIT

The consolidated financial statements of ZhongDe Waste Technology AG are prepared pursuant to International Financial Reporting Standards (IFRS) and the individual financial statements are prepared according to the German accounting rules as per the German Commercial Code (HGB). BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft has audited the consolidated and individual financial statements. The auditors attended the Supervisory Board's meeting on the separate and consolidated financial statements and reported on the key results of their audit.

## TRANSPARENCY

Shareholders, analysts, investors and the general public are kept regularly up to date on main changes in the business by ZhongDe Waste Technology AG.

The website of ZhongDe Waste Technology AG at [www.zhongdetech.de](http://www.zhongdetech.de) acts as the main channel of communicating information. In addition to the Articles of Association as well as information put out by Management Board and Supervisory Board, documents are available regarding the general shareholders' meeting, financial reports and details of the business activities. Insider information is published as announcements at short notice unless there are certain circumstances in which the Company is released from this duty. As soon as the company is aware that a shareholder has reached, exceeded or fallen below the threshold of 3, 5, 10, 15, 20, 25, 30, 50 or 75% of the voting rights of the Company, the Management Board reports this fact immediately. The due dates for regularly-scheduled financial reporting are published on the Company's website.

The legal requirements for the release of announcements have been complied with, and the obligation for the transmission of information and documents to the Federal Financial Supervisory Authority (BaFin) and the public registers have been fulfilled.

## DIRECTORS' DEALINGS

The following directors' dealings were disclosed to the company:

On 12 July 2007 Mr. Zefeng Chen, Chairman of the Management Board of ZhongDe Waste Technology AG, sold 200,000 shares in ZhongDe Waste Technology AG off-exchange at the price of €26.00 per share. This was in accordance with the Green Shoe option agreed in the Underwriting Agreement as part of the IPO.

## COMPLIANCE STATEMENT

ZhongDe Waste Technology AG complies with the recommendations of the German Corporate Governance Code as amended on 14 June 2007 with the following variations:

- As the members of the Management Board of ZhongDe Waste Technology AG have service agreements solely with the Chinese operational Company Fujian FengQuan Environmental Protection Equipment Ltd. but no service agreements with the company, the recommendations under clause 4.2.2 and 4.2.3 of the German Corporate Governance Code do not apply.
- As there exists no stock option plan with the company, the recommendation under clause 4.2.5 (2) sentence 1 of the German Corporate Governance Code does not apply.
- As the Company's supervisory board comprises only three members and no committees exist, the recommendations under clauses 5.2 (2) sentence 1, 5.3.1 sentence 1, 5.3.2 (1) sentence 1 and 5.3.2 (2) do not apply.

→ As the Company's Supervisory Board now only receives a fixed compensation, the Company deviates from the recommendation under clause 5.4.7 (2) sentence 1 of the German Corporate Governance Code.

→ As the D&O insurance contracts for the members of the Management Board and the Supervisory Board of the company do not provide for a deductible, the company deviates from the recommendation under clause 3.8 (2) of the German Corporate Governance Code.

→ In its first fiscal year after the Company's IPO, the Company will presumably not precisely meet the 45 day timeline as recommended under clause 7.1.2 sentence 2 of the German Corporate Governance Code. However, the Company aims to meet this deadline in the near future.

The ZhongDe Waste Technology AG compliance statement for 2008 will be published on the Company's website by 6 July 2008.

Hamburg, 28 April 2008

ZhongDe Waste Technology AG  
Management Board  
Supervisory Board

# Compensation Report

This report is based on the recommendations of the German Corporate Governance Code. In accordance with the requirements of German commercial law and the Act on the Disclosure of Management Board Compensation (VorstOG), this report contains information that is an integral part of the notes pursuant to section 314 German Commercial Code (HGB) and of the management report pursuant to section 315 HGB (see reporting pursuant to section 315 para. 2 no 4 and section 4 HGB). For this reason, no additional details are provided in the notes and management report.

## COMPENSATION OF THE MANAGEMENT BOARD

The Management Board is compensated by Fujian FengQuan Environmental Protection Equipment Ltd. and does not receive any compensation by ZhongDe Waste Technology AG:

Amounts in k€	Fix salary
Zefeng Chen	17
Na Lin	12

## COMPENSATION OF THE SUPERVISORY BOARD

The general shareholders' meeting of 18 June 2007 resolved that the members of the Supervisory Board should receive a fixed compensation in the amount of €12,500 per annum and an additional attendance fee of €2,500 for each meeting of the Supervisory Board, with the Chairman receiving four times the amount and the Deputy Chairman receiving twice the amount of the fixed compensation.

For financial year 2007 the following fixed remunerations have been paid to the members of the Supervisory Board:

Amounts in k€	Fix salary
Hans-Joachim Zwarg	* 39
Joachim Ronge	* 21
Hao Quan	9

\* incl. 19% VAT



At €44 million our order intake in 2007 was at its highest ever – an increase of 90% that can be directly linked to our strategy to focus on the municipal waste segment.

## FINANCIAL STATEMENTS →

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# Consolidated balance sheet

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## OF THE ZHONGDE GROUP FOR THE YEAR ENDING 31 DECEMBER 2007

Amounts in €	Notes	2007	2006
<b>Assets</b>			
<i>Non-current assets</i>			
Equipment	2.2, 2.4, 7	887,299	306,254
Construction in progress	8	148,990	0
Intangible assets	2.5, 9	2,050,378	3,145
Deferred tax assets	2.17	360,000	122,879
		<b>3,446,666</b>	<b>432,278</b>
<i>Current assets</i>			
Inventories	2.9, 10	2,612,911	770,029
Trade receivables	2.2, 2.8, 11, 20	14,159,429	4,923,209
Other receivables and prepayments	11, 20	482,089	77,193
Amounts due from related parties	11, 19, 20	7,919	1,415,544
Cash and cash equivalents	2.7, 12, 20	83,827,323	9,198,384
		<b>101,089,671</b>	<b>16,384,359</b>
<b>Total assets</b>		<b>104,536,337</b>	<b>16,816,637</b>
<b>Liabilities</b>			
<i>Capital and reserves</i>			
Share capital	1, 13	13,000,000	2,774,525
Capital reserve	13	69,422,049	0
Statutory reserve	13	3,656,832	1,765,356
Retained earnings	13	14,213,551	4,272,133
Foreign exchange difference	2.3	(1,663,724)	10,644
<b>Total equity</b>		<b>98,628,708</b>	<b>8,822,658</b>
<i>Current liabilities</i>			
Short-term loans	2.10, 14, 20	0	680,980
Trade payables	2.10, 15, 20	1,234,507	443,566
Other payables and accruals	2.2, 2.10, 15, 20	3,903,470	734,718
Provisions	2.11, 15, 20	654,980	209,879
Amounts due to related parties	19, 20	74,741	5,115,013
Income tax payable	2.17, 15, 16, 20	39,931	809,823
<b>Total liabilities</b>		<b>5,907,629</b>	<b>7,993,979</b>
<b>Total liabilities and equity</b>		<b>104,536,337</b>	<b>16,816,637</b>

# Consolidated statement of income and expenses

## OF THE ZHONGDE GROUP FOR THE YEAR ENDING 31 DECEMBER 2007

Amounts in €	Notes	2007	2006
Sales	2.13	31,133,286	18,994,565
Cost of sales		9,496,311	5,611,216
<b>Gross profit</b>		<b>21,636,974</b>	<b>13,383,349</b>
Other operating income		2,683	14
Selling and distribution expenses		1,237,941	734,766
Administrative expenses		680,699	377,224
Research and development expenses	2.5	265,507	203,461
Other operating expenses		843,600	165,323
<b>Profit from operations</b>		<b>18,611,910</b>	<b>11,902,589</b>
Finance income	2.13	933,073	16,231
Finance costs	2.15, 6	28,186	50,318
<b>Profit before income tax</b>		<b>19,516,797</b>	<b>11,868,502</b>
Income tax	2.17, 16	458,428	3,846,620
<b>Profit for the period</b>		<b>19,058,369</b>	<b>8,021,882</b>
<b>Earnings per share *</b>		<b>1.47</b>	<b>0.62</b>

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

# Consolidated Statement of Change in Equity

## OF THE ZHONGDE GROUP FOR THE YEAR ENDING 31 DECEMBER 2007

Amounts in €	Share capital AG	Share capital HK Holding	Share capital FengQuan	Capital reserve/ Statutory reserve	Retained earnings	Foreign exchange differences	Total equity
<b>Balance as at 1 January 2006</b>	-	-	<b>2,774,084</b>	<b>971,545</b>	<b>3,726,563</b>	<b>472,928</b>	<b>7,945,120</b>
Capital injection	-	441	-	-	-	-	441
Dividend paid for the year 2005	-	-	-	-	(3,350,700)	-	(3,350,700)
Transfers	-	-	-	793,811	(793,811)	-	0
Net profit for the year	-	-	-	-	8,021,882	-	8,021,882
Advance dividend paid for the year 2006	-	-	-	-	(3,331,801)	-	(3,331,801)
Foreign exchange difference	-	-	-	-	-	(462,284)	(462,284)
<b>Balance as at 1 January 2007 (combined consolidated)</b>	<b>0</b>	<b>441</b>	<b>2,774,084</b>	<b>1,765,356</b>	<b>4,272,133</b>	<b>10,644</b>	<b>8,822,658</b>
Reclassification	10,000,000	(441)	(2,774,084)	-	(7,225,475)	-	0
Capital injection at parent company	3,000,000	-	-	-	-	-	3,000,000
Capital injection at subsidiary	-	15,000,000	15,000,000	-	-	-	30,000,000
Consolidation	-	(15,000,000)	(15,000,000)	-	-	-	(30,000,000)
Net profit for the period	-	-	-	-	19,058,369	-	19,058,369
Appropriations of current year's income	-	-	-	1,891,476	(1,891,476)	-	0
Proceeds from IPO, gross	-	-	-	75,000,000	-	-	75,000,000
Charging IPO costs directly to equity	-	-	-	(6,277,951)	-	-	(6,277,951)
Deferred taxes on IPO expenses	-	-	-	700,000	-	-	700,000
Foreign exchange differences	-	-	-	-	-	(1,674,368)	(1,674,368)
<b>Balance as at 31 December 2007</b>	<b>13,000,000</b>	<b>0</b>	<b>0</b>	<b>73,078,881</b>	<b>14,213,551</b>	<b>(1,663,724)</b>	<b>98,628,708</b>

# Consolidated statement of cash flow

## OF THE ZHONGDE GROUP FOR THE YEAR ENDING 31 DECEMBER 2007

Amounts in €	2007	2006
<b>Profit before income tax</b>	<b>19,516,797</b>	<b>11,868,502</b>
Adjustments for		
Amortization of intangible assets	7,520	380
Allowance for doubtful trade debts	69,988	138,570
Provision for warranty and welfare fund	345,750	162,149
Depreciation of property, plant and equipment	66,164	39,164
Gains/losses PPE	31	0
Interest income	(933,073)	(16,231)
Interest expense	28,186	50,318
<b>Operating cash flows before working capital changes</b>	<b>19,101,363</b>	<b>12,242,852</b>
Working capital changes <i>(Increase)/decrease in</i>		
Inventories	(1,842,882)	(201,416)
Trade receivables	(9,306,208)	(1,461,674)
Other receivables and prepayments	(404,896)	(38,442)
Amounts due from related parties	1,407,625	(551,047)
<i>Increase/(decrease) in</i>		
Trade payables	790,941	75,155
Other payables, provisions and accruals	3,268,103	296,896
Amounts due from related parties	0	(33,167)
<b>Cash generated from/(used in) operations</b>	<b>13,014,046</b>	<b>10,329,157</b>
Interest received	933,073	16,231
Income tax paid	(765,441)	(3,972,640)
<b>Net cash generated from operating activities</b>	<b>13,181,678</b>	<b>6,372,748</b>



Amounts in €	2007	2006
Cash flow from investing activities		
Purchase property, plant, equipment, intangible assets, land use rights	(2,954,182)	(109,844)
Cash deposits	(5,000,000)	0
<b>Cash flow used in investing activities</b>	<b>(7,954,182)</b>	<b>(109,844)</b>
Cash flow from financing activities		
Capital injection	3,000,000	441
Proceeds from IPO, gross	75,000,000	0
IPO-costs (charged to equity)	(6,277,951)	0
Short-term bank loans	(680,980)	260,830
Loans from related parties	(5,040,272)	5,141,648
Loans given to related parties	0	4,764,280
Interest paid	(28,186)	(50,318)
Dividends paid to shareholders	0	(6,518,742)
<b>Cash flow from financing activities</b>	<b>65,972,611</b>	<b>3,598,139</b>
<b>Net increase in cash and cash equivalents</b>	<b>71,200,107</b>	<b>9,861,043</b>
Cash at beginning of year	9,198,384	3,568
Foreign exchange differences	(1,571,168)	(666,227)
<b>Cash at end of period</b>	<b>78,827,323</b>	<b>9,198,384</b>

# Audit certificate

We have audited the consolidated financial statements prepared by ZhongDe Waste Technology AG, Hamburg, comprising the balance sheet, the income statement, the notes to the consolidated financial statements, the cash flow statement, the statement of changes in equity and the combined group management report for the business year 1 January 2007 to 31 December 2007. The preparation of the consolidated financial statements and group management report in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements of German commercial law under section 315a (1) of the German Commercial Code (HGB) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the combined group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law under section 315a(1) of the HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, 28 April 2008

BDO Deutsche Warentreuhand  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

sgd.

Dr. Zemke            zu Inn- u. Knyphausen  
Auditor             Auditor

# Notes to the financial statements

## 1. Background and basis of preparation

### 1.1 THE COMPANY

#### FORMATION, BUSINESS NAME, REGISTERED OFFICE, FINANCIAL YEAR AND TERM OF THE COMPANY

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

The consolidated financial statements represent a full financial year because of the analogously applied reverse acquisition method. From a business point of view the subsidiary Fujian FengQuan Environmental Protection Equipment Ltd. (“FengQuan”), Fuzhou, China (PRC), whose shares have been acquired, has to be regarded as the acquirer and ZhongDe Waste Technology AG as the issuing entity has to be regarded as the acquiree. FengQuan has a full business year.

#### BUSINESS PURPOSE OF THE COMPANY

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

#### GROUP STRUCTURE AND RECENT CORPORATE RESTRUCTURING OF ZHONGDE GROUP

The operational business of ZhongDe Group in 2006 and 2007 was exclusively carried out by FengQuan, a limited liability company formed under the laws of the PRC.

FengQuan is registered as a wholly foreign-owned enterprise. The sole shareholder of FengQuan is Chung Hua Environmental Protection Assets (Holdings) Group Ltd., a limited liability company being formed under the laws of Hong Kong (“Chung Hua Holding”), which is a wholly-owned subsidiary of ZhongDe Waste Technology AG (the “Company”).

FengQuan was established in 1996 under the laws of the PRC. The registered share capital of FengQuan has been increased from RMB 29 million to RMB 250 million in July 2007. The current amount the company has received is RMB 184,218,500. All shares in FengQuan are held by Chung Hua Holding, a limited liability company, formed under the laws of Hong Kong on 25 February 2004 and registered with the Registrar of Companies in Hong Kong under the registration number 884757. Currently the authorised share capital of Chung Hua Holding amounts to HKD 4,200 and is fully paid-up.

As to the acquisition of the shares in FengQuan by Chung Hua Holding, a share transfer agreement was concluded between the original shareholders and Chung Hua Holding on 28 June 2006, and further approved by the authorised PRC authorities. Upon formation of the Company, all shares in Chung Hua Holding were transferred to the Company by means of a share contribution agreement (Einbringungsvertrag) as a contribution in kind (Sacheinlage).

In 2007 FengQuan established a new subsidiary in the Beijing Area (Beijing ZhongDe Environmental Protection Equipment Co. Ltd.) to start business activities in the Beijing area. The production facilities are still under construction.

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

Amounts in k€	Share	Equity 31 Dec 2007	Results 2007
Chung Hua Environmental Protection Assets (Holdings) Group Ltd., Hong Kong	100%	19,206	9,114
Fujian FengQuan Environmental Protection Equipment Ltd., Fuzhou, PRC	100%	31,362	19,406
Beijing ZhongDe Environmental Protection Equipment Co. Ltd., Beijing, PRC	100%	2,659	(115)

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

Cash transfers from mainland China generally depend on formal approval procedures by Chinese government bodies.

#### DEVELOPMENT OF THE SHARE CAPITAL

The Company has been formed by means of contribution in kind (Sachgründung), where the founders have contributed all their shares in Chung Hua Holding against the issuance of 10 million bearer shares no par value (Stückaktien) with a nominal amount of the share capital of €1.00 each. The Company's share capital is fully paid in.

On 4 July 2007, the Management Board (Vorstand), with the consent of the Supervisory Board (Aufsichtsrat) by resolution on the same day, exercised its authority to increase the share capital (genehmigtes Kapital), as set forth in section 4 para. 4 of the Company's Articles of Association (Satzung) and resolved on the increase of the Company's share capital from €10 million by €3 million to €13 million against contributions in cash (Bareinlagen) in return of the issuance of 3 million no par value ordinary bearer shares (Inhaber-Stückaktien) with a nominal amount of the share capital of €1.00 each. The pre-emptive rights (Bezugsrechte) of the existing shareholders have been excluded. The application for registration of the resolution on that capital increase and its execution has been made public with the commercial register of the local court (Amtsgericht) of Hamburg on 4 July 2007. The registration and effectiveness of that capital increase took place on 5 July 2007.

## 1.2 BASIS OF PREPARATION

The consolidated financial information, especially with regard to 2006, has been presented as if ZhongDe Waste Technology AG (the Company) already existed over the whole period in order to have comparable figures. The acquisitions of the sub “Business Combination” of ZhongDe Waste Technology AG, which have to be regarded as transactions under common control, have been accounted in accordance with the principles of reverse acquisition accounting, on the basis that the former majority shareholders of the subsidiaries retain effective control of the Group. Consolidation measures are essentially related to equity elements in the balance sheet and do not materially effect the equity total. No goodwill arose in respect of the acquisitions.

The business is more or less totally driven by the ultimate subsidiary Fujian FengQuan Environmental Protection Equipment Co. Ltd., whereas ZhongDe Waste Technology and Chung Hua Environmental Protection Assets (Holdings) Group Ltd. assume holding functions.

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

The consolidated financial statements were generally prepared using the historical cost convention. Exceptions to this rule relate to financial instruments assigned to the “available for sale” category, which are measured at fair value where such fair value can be reliably determined. The consolidated income statement was prepared using the cost of sales method. Individual line items have been summarised in the income statement and the balance sheet to aid clarification of the presentation. These items are disclosed and explained separately in the notes.

The accounting policies correspond generally to those applied in the previous year. In addition, the Group has applied the following new or revised standards and interpretations that are relevant to the business activities of the Group and were required to be applied for the first time in the 2007 business year:

IAS 1 "Presentation of Financial Statements" – Capital Disclosures  
IFRS 7 "Financial Instruments: Disclosures"  
IFRIC 10 "Interim Financial Reporting and Impairment"

Apart from additional disclosure requirements, application of these Standards and Interpretations had no material effects on the consolidated financial statements. The following new or revised Standards and Interpretations relevant for the ZhongDe Group's business operations are published as of 31 December 2007, but not yet required to be applied for the business year then ended:

IAS 1 "Presentation of Financial Statements"  
IFRS 8 "Operating segments"

The Group did not exercise any options to apply Standards and Interpretations prior to their effective date. Apart from additional or modified disclosure requirements, no significant effects on the consolidated financial statements are expected for the first time adoption.

## 2. Significant accounting policies

### 2.1 BASIS OF CONSOLIDATION

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

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

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



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

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

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

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

## 2.2 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

#### **A. ALLOWANCE FOR TRADE RECEIVABLES**

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

Management uses judgement to determine the allowance for doubtful receivables which are supported by the historical write-off credit history of the customers and repayment records. The Group reviews its allowance for doubtful receivables at least monthly. Accounts balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Actual results could differ from estimates.

#### **B. DEPRECIATION OF EQUIPMENT**

The cost of equipment used for the manufacturing process is depreciated on a straight-line basis over its estimated useful life. The management estimates the useful life of these plants and equipment to be between 5 and 10 years, common life expectancies in the machine manufacturing industry. The carrying amount of the Group's equipment at 31 December 2007 were k€887. Changes in the expected level of usage and technological developments could affect the economic useful life and the residual value of these assets, therefore, future depreciation charges could be revised.

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

#### **C. PROVISION FOR WARRANTY**

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

## **2.3 FUNCTIONAL AND PRESENTATION CURRENCY**

#### **A. FUNCTIONAL CURRENCY**

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

#### B. FOREIGN CURRENCY TRANSACTIONS

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

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

#### C. FOREIGN CURRENCY TRANSLATION

The presentation currency of the Group is Euro. The results and financial position of the combined entities which are in measurement currency other than Euro are translated from RMB respective HK\$ into Euro as follows:

Amounts in €	2007	2006
Year end	10.7524	10.2793
Average	10.4178	10.0096

HK\$ = RMB 0.9431

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

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

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

## 2.4 EQUIPMENT

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

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

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

Machinery, equipment – 10 years

Electronic equipment, fixtures and fittings – 5 years

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

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

## 2.5 INTANGIBLE ASSETS

### A. LAND USE RIGHTS

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

### B. FINANCIAL SOFTWARE

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

Financial software is stated at cost less accumulated amortisation and any impairment losses. The costs are amortised using a straight line method over its estimated useful life of 10 years.

### C. RESEARCH AND DEVELOPMENT COSTS

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

The carrying amount of the development costs is reviewed for impairment annually if the asset is not yet in use or more frequently if an indication of impairment arises during the reporting period. Upon completion, the development costs are amortised over the estimated useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

## 2.6 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

## 2.7 CASH AND CASH EQUIVALENTS

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

## 2.8 TRADE AND OTHER RECEIVABLES

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

## 2.9 INVENTORIES

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

### RAW MATERIALS:

purchase cost on a weighted average basis

### FINISHED GOODS AND WORK IN PROGRESS:

costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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

## 2.10 FINANCIAL LIABILITIES AND EQUITY

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement entered into. Significant financial liabilities include interest-bearing short-term bank loans, trade and other payables.

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

## 2.11 PROVISIONS

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

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

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

## 2.12 OPERATING LEASE

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

## 2.13 REVENUE RECOGNITION

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

### A. SALES OF GOODS

Revenue is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, which generally coincides with delivery and acceptance



of the goods sold. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

#### **B. RENDERING SERVICE**

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

#### **C. INTEREST INCOME**

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

### **2.14 PENSION SCHEME**

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

### **2.15 INTEREST BEARING LOANS**

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

### **2.16 DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES**

#### **A. FINANCIAL ASSETS, IF ANY**

A financial asset is derecognized where:

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

## B. FINANCIAL LIABILITIES

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

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

## 2.17 TAXATION

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

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

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

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

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

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investment in subsidiaries, associated companies and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available. Temporary differences can be utilised against this.

Deferred income tax assets and liabilities, if any, are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

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

The carrying amount of deferred income tax assets is revised at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

## 3. Revenue

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

## 4. Segment analysis

### SEGMENT INFORMATION

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

#### A. BUSINESS SEGMENT

The Group's operating businesses are organised into two business segments, namely incinerators specifically for the disposal of urban municipal waste and incinerators specifically for the disposal of medical waste.

#### B. GEOGRAPHICAL BUSINESS

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

#### C. ALLOCATION BASIS

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

Inter-segment sales are eliminated on consolidation.

The following table presents revenue and results information regarding the Group's business segments for the financial year ending 31 December 2007:

## BUSINESS SEGMENT

Amounts in k€	31 Dec 2007	31 Dec 2006
Revenue		
<i>Sales to external customers</i>		
Incinerators specifically for the disposal of medical waste	9,441	15,543
Incinerators specifically for the disposal of urban household waste	21,692	3,452
	<b>31,133</b>	<b>18,995</b>
Results		
Incinerators specifically for the disposal of medical waste	7,329	11,267
Incinerators specifically for the disposal of urban household waste	14,309	2,117
Unallocated income	961	16
Unallocated expenses *	(3,082)	(1,531)
<b>Profit from operations before tax</b>	<b>19,517</b>	<b>11,869</b>
Income tax	(459)	(3,847)
<b>Profit for the year</b>	<b>19,058</b>	<b>8,022</b>

\* thereof planned depreciation

The following table presents assets, liabilities and other information regarding the Group's segments for the year ending 31 December 2007:

Amounts in €	31 Dec 2007	31 Dec 2006
Assets and liabilities		
<i>Segment assets</i>		
Incinerators specifically for the disposal of medical waste	3,741,661	2,269,644
Incinerators specifically for the disposal of urban household waste	13,030,679	5,185,074
Unallocated assets	87,763,997	9,361,919
<b>Total assets</b>	<b>104,536,337</b>	<b>16,816,637</b>
<i>Segment liabilities</i>		
Incinerators specifically for the disposal of medical waste	82,361	418,173
Incinerators specifically for the disposal of urban household waste	3,713,152	43,569
Unallocated liabilities	2,112,116	7,532,237
<b>Total liabilities</b>	<b>5,907,629</b>	<b>7,993,979</b>
Investments in fixed assets, construction in progress	833,353	109,844
Investments in intangible assets	2,120,649	–
Depreciation and amortisation	73,684	39,544

Unallocated assets mainly represent cash (€83.8 million (2006: €9.2 million)), and deferred taxes (k€360 (2006: k€123)).

## 5. Expenses

Amounts in €	2007	2006
Depreciation of property, plant and equipment	66,164	39,164
Staff costs	986,334	674,272
Amortisation of intangible assets	7,520	380
Allowance for doubtful trade debts	69,988	138,570
Costs (expenses) for raw material	9,496,311	5,611,216

## 6. Finance costs

Amounts in €	2007	2006
Interest expense on bank loan	27,680	50,228
Bank charges	506	91
	28,186	50,318

## 7. Equipment

Amounts in €	Machine equipment	Vehicle	Electronic equipment	Total
Acquisition costs				
At 31 December 2006	417,849	0	47,778	465,627
Additions	0	614,942	64,816	679,758
Disposals	0	0	402	402,00
Exchange difference	(18,385)	(19,136)	(4,057)	(41,578)
<b>At 31 December 2007</b>	<b>399,464</b>	<b>595,806</b>	<b>108,135</b>	<b>1,103,405</b>
Accumulated depreciation and impairment				
At 31 December 2006	131,767	0	27,606	159,373
Depreciation charged for the year	39,162	17,748	9,254	66,164
Disposals	0	0	371	371,00
Exchange difference	(7,016)	(552)	(1,492)	(9,060)
<b>At 31 December 2007</b>	<b>163,913</b>	<b>17,196</b>	<b>34,997</b>	<b>216,106</b>
Net carrying amount				
<b>At 31 December 2006</b>	<b>286,082</b>	<b>0</b>	<b>20,172</b>	<b>306,253</b>
<b>At 31 December 2007</b>	<b>235,551</b>	<b>578,610</b>	<b>73,138</b>	<b>887,299</b>

The plant and office buildings currently used by the Group are leased from Fujian FengQuan Environmental Protection Group Co. Ltd. Details are set out in Notes 18 and 19.

## 8. Construction in progress

Amounts in €	Construction in progress
Acquisition costs	
At 31 December 2006	0
Additions	153,775
Disposals	0
Exchange difference	(4,785)
<b>At 31 December 2007</b>	<b>148,990</b>
Accumulated depreciation and impairment	
At 31 December 2006	0
Depreciation charged for the year	0
Disposals	0
Exchange difference	0
<b>At 31 December 2007</b>	<b>0</b>
Net carrying amount	
<b>At 31 December 2006</b>	<b>0</b>
<b>At 31 December 2007</b>	<b>148,990</b>



## 9. Intangible assets

Amounts in €	Software	Trademark	Land use right	Total
Acquisition Costs				
At 31 December 2006	3,947	0	0	3,947
Additions	6,959	1,920	2,111,770	2,120,649
Exchange difference	(669)	(60)	(65,715)	(66,444)
<b>At 31 December 2007</b>	<b>10,237</b>	<b>1,860</b>	<b>2,046,055</b>	<b>2,058,152</b>
Accumulated amortisation and impairment				
At 31 December 2006	802	0	0	802
Amortisation	481	0	7,039	7,520
Exchange difference	(329)	0	(219)	(548)
<b>At 31 December 2007</b>	<b>954</b>	<b>0</b>	<b>6,820</b>	<b>7,774</b>
Net carrying amount				
<b>At 31 December 2006</b>	<b>3,145</b>	<b>0</b>	<b>0</b>	<b>3,145</b>
<b>At 31 December 2007</b>	<b>9,283</b>	<b>1,860</b>	<b>2,039,235</b>	<b>2,050,378</b>

### SIGNIFICANT INTANGIBLE ASSETS USED BY THE GROUP BUT NOT RECOGNISED AS ASSETS

All intellectual properties necessary for production are owned by Zefeng Chen. Pursuant to the agreement dated 25 July 2006, these intellectual properties have been licensed exclusively to Fujian FengQuan Environmental Protection Equipment Co. Ltd. for its development and manufacture activities.

This also applies to other intellectual properties such as the brand, which is owned by Fujian FengQuan Environmental Protection Co. Ltd. Pursuant to the agreement dated 25 July 2006, the brand is granted for use by Fujian Environmental Protection Equipment Co. Ltd. on an irrevocable and exclusive basis. The grant is valid and subsists within its legal protection period and free of any charge.

The land use rights relate to the new subsidiary in Beijing. Over a period of five years the subsidiary is obliged to invest an accumulated sum of RMB 300 million, (€27.9 million) to generate an annual turnover of RMB 1,200 million (€111.6 million) with annual income tax expenses of RMB 100 million (€9.3 million). If these targets are not met, the ZhongDe Group has to pay fines of kRMB 110 (k€10).

## 10. Inventory

Amounts in €	2007	2006
Raw materials and consumables	203,317	172,225
Finished goods	2,090,432	519,420
Work in progress	319,162	78,384
	<b>2,612,911</b>	<b>770,029</b>

## 11. Trade and other receivables

Amounts in €	2007	2006
Trade receivables		
Trade receivables	14,530,364	5,199,763
Allowance for trade receivables	(370,935)	(276,554)
	<b>14,159,429</b>	<b>4,923,209</b>
Other receivables		
Other receivables	279,846	52,708
Prepayments	202,243	24,485
	<b>482,089</b>	<b>77,193</b>
Allowance for other receivables	0	0
	<b>482,089</b>	<b>77,193</b>
Related parties		
Amount due from related parties trade	0	1,484,926
Amount due from related parties non trade	7,919	4,864
Allowance for amount due from related parties	0	(74,246)
	<b>7,919</b>	<b>1,415,544</b>
	<b>14,649,437</b>	<b>6,415,946</b>

All amounts are due by one year.

**TRADE RECEIVABLES**

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

Amounts in €	2007	2006
Within 30 days	3,261,232	2,426,767
31–90 days	4,291,581	2,241,723
91–180 days	5,404,936	1,397,070
181–360 days	1,562,799	597,124
361–1080 days	9,816	22,005
	<b>14,530,364</b>	<b>6,684,689</b>

**ALLOWANCE FOR DOUBTFUL RECEIVABLES**

For each financial period, the following amounts of impairment loss are recognised in the income statement.

Amounts in €	2007	2006
Provision for trade receivables	35,570	134,935
Provision for other receivables	0	0
	<b>35,570</b>	<b>134,935</b>

## 12. Cash and cash equivalents

Amounts in €	2007	2006
Cash at banks and in hand	71,627,323	4,820,654
Short-term deposits (duration up to 3 months)	7,200,000	4,377,730
<b>Cash fund</b>	<b>78,827,323</b>	<b>9,198,384</b>
Short-term deposits (duration over 3 months)	5,000,000	0
	<b>83,827,323</b>	<b>9,198,384</b>
Thereof in Germany	28,030,637	0
Thereof in China	55,796,686	9,198,384

Cash at banks earns interest at an annual rate of up to 0.72%. The short-term deposit is made for a varying period between one day and six months depending on the immediate cash requirements of the Group, and earns interest at an annual rate of up to 5.09%.

## 13. Equity

### 13.1 PAID-IN CAPITAL

The share capital of the parent company amounts to €13 million and is divided into 13 million bearer shares of no par value. Reference is made in the notes under 1.1. According to article 4 (4) of the Company's Articles of Association (Satzung), the Management Board (Vorstand) of the Company is, upon consent of the Supervisory Board (Aufsichtsrat), authorised to increase the Company's share capital one time or several times by an amount up to €5 million in the aggregate against contributions in cash or in kind in return of up to 5 million no par value ordinary bearer shares (Inhaber-Stückaktien) with a nominal amount of the share capital of €1 each (genehmigtes Kapital). The Management Board is, upon consent of the Supervisory Board, also entitled to exclude the pre-emptive rights (Bezugsrechte) of the shareholders existing at the time of the resolution on the capital increase.

The authorised share capital now amounts to €2 million after the share capital increase by €3 million in 2007.

### 13.2 RESERVES AND RETAINED EARNINGS

#### A. CAPITAL RESERVE

As reflected in the statement of changes of equity the Company realised proceeds from the IPO of €75 million. IPO expenses totalling €6.3 million have been directly charged to capital reserves and netted. Deferred income taxes of k€700 (thereof k€360 reflected as deferred tax asset) have been set-off. The net total charged to capital reserves consequently amounts to €69.4 million.

#### B. STATUTORY RESERVE

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

#### C. RETAINED EARNINGS

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

## 14. Interest bearing loans and borrowings

Amounts in €	Note	2007	2006
Current bank loan			
#1	a	0	291,849
#2	b	0	389,132
		<b>0</b>	<b>680,980</b>

a) The one-year bank loan facility #1 was required to be repaid on 20 November 2007. Interest was charged at 7.254% per annum. The bank loan was collateralised by third party.

b) The one-year bank loan facility #2 was required to be repaid on 28 June 2007. Interest was charged at 7.605% per annum. The bank loan was not collateralised.

## 15. Trade and other payables

Amounts in €	2007	2006
Current liabilities		
Advance from customers	2,748,881	14,550
Accrued expenses and provisions	1,005,470	457,272
VAT payable	422,187	148,434
Other tax payables	6,361	2,186
Other payables	450,292	5,437,167
	<b>4,633,191</b>	<b>6,059,610</b>
Trade payables	1,234,507	443,566
Income tax payable	39,931	809,823
	<b>5,907,629</b>	<b>7,312,999</b>

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

The amount due to related parties is non-trade (31 December 2007 k€74.7).

### PROVISIONS

Amounts in €	Maintenance/ warranties	Staff bonus and welfare	Other	Total
At 31 December 2006	157,895	51,984	0	209,879
Additions	238,035	189,148	160,000	587,183
Utilised	(86,306)	(51,984)	0	(138,290)
Exchange differences	(3,792)	0	0	(3,792)
<b>At 31 December 2007</b>	<b>305,832</b>	<b>189,148</b>	<b>160,000</b>	<b>654,980</b>

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

Staff bonus and welfare fund: in 2007, the subsidiary company converted to become a Foreign Investment Company. Pursuant to the Foreign Investment Company Laws of the the PRC and decisions of the Board of Directors of the subsidiary company, 1% of the profit after tax was accrued as a the staff bonus and welfare fund. The fund can only be used for staff public welfare.

## 16. Income tax

### MAJOR COMPONENTS OF INCOME TAX EXPENSES

The major components of income tax expenses are as follows:

Amounts in €	2007	2006
Current income tax	340,000	3,898,536
Deferred income tax induced by time difference	0	(72,173)
Deferred income tax induced by tax rate reduction	118,428	20,257
Income tax recognised in profit and loss	458,428	3,846,620

The reconciliation of tax expenses is as follows:

Amounts in €	2007	2006
<b>Earnings before taxes</b>	<b>19,516,797</b>	<b>11,868,502</b>
Average overall tax rate	40.0%	33.0%
Expected income tax	7,806,719	3,916,606
Foreign tax rate differential	(7,436,784)	0
Reconition and measurement of deferred tax assets	118,428	0
Other terms	(29,934)	(69,986)
<b>Actual total tax expense</b>	<b>458,428</b>	<b>3,846,620</b>
<b>Group tax rate</b>	<b>2.3%</b>	<b>32.4%</b>

Deferred income tax relates to the following:

Amounts in €	2007	2006
Allowance for bad and doubtful debts	0	84,192
Provision for warranty	0	38,687
Losses carried forward	360,000	0
	<b>360,000</b>	<b>122,879</b>

## APPLICABLE TAX RATE

In 2007 the applicable group tax rate is based on the German Tax Laws for a corporate entity. The tax rate amounts to 40%. Because of ZhongDe AG's foundation in 2007 in the prior year the lower tax rate at 33% resulting from the local Chinese tax regulations had been applicable.

## 17. Employee benefits

Average number of employees of the Group

	2007	2006
Management and administration	45	29
Research and development	22	19
Manufacture	92	85
Sales	52	39
	<b>211</b>	<b>172</b>

The payroll costs of these employees are as follows:

Amounts in €	2007	2006
Wages and salaries	665,699	550,044
Social security costs	69,260	37,329
Welfare	62,227	34,914
Additions to employee welfare and bonus fund	189,148	51,984
	<b>986,334</b>	<b>674,272</b>

All remunerations paid to researchers are expensed when incurred.



## 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 payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the scheme is to make the specified contributions.

# 18. Commitments and contingencies

## OPERATING LEASE COMMITMENTS

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

Amounts in €	2007	2006
Lease payment recognised as expense	91,380	87,201

Future minimum lease payments payable under non-cancellable operation leases as at 31 December 2007 are as follows:

Amounts in €	2007	2006
Not later than one year	21,987	92,437
Later than one year but not later than five years	280,282	49,035
Later than five years	0	0
	302,269	141,472

## CONTINGENT LIABILITIES

At 31 December 2007 and the previous year the Group did not have any significant contingent liabilities.

## 19. Related party disclosures

An entity or individual is considered a related party of the Group for the purposes of the financial statements if it possesses the ability, directly or indirectly, to control or exercise significant influence over the operating and financial decision of the Group, or vice versa, if it is subject to common control or common significant influence.

### A. RELATED PARTY INFORMATION

Name of related party	Relationship
Zefeng Chen	CEO, majority shareholder
Fujian FengQuan Environmental Protection Limited	Company attributable to Zefeng Chen
Fujian Development Zone Kaijie Environmental Protection Equipment Installation Limited	Company attributable to Zefeng Chen
Fujian FengQuan Environmental Protection Investment Holding Limited	Company attributable to Zefeng Chen
Beijing Zhongfukang Environmental Protection Technology Limited	Company attributable to Zefeng Chen
Zhuji Fengquan Lipu Solid Waste Disposal Limited	Company attributable to Zefeng Chen
Fujian Fengquan Boiler Limited	Company attributable to Zefeng Chen

### B. SALES AND PURCHASE OF GOODS

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

Amounts in €	2007	2006
Sales of finished goods to a related party	0	2,397,698
Rental fee paid to a related party	81,904	95,606

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

## C. DUE FROM/TO RELATED PARTIES

Amounts in €	2007	2006
Due from related parties		
trade	0	1,484,926
non-trade	7,919	4,864
	<b>7,919</b>	<b>1,489,790</b>
Allowance for doubtful trade debts	0	(74,246)
	<b>7,919</b>	<b>1,415,544</b>
Due to related parties		
trade	0	0
non-trade	74,741	5,115,013
	<b>74,741</b>	<b>5,115,013</b>

## 20. Disclosure of financial instruments

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

Disclosures IFRS 7:

Carrying amounts, amounts recognised, and fair values by category:

Amounts in €	Category in accordance with IAS 39	Carrying amount 31 Dec 2007	Amounts recognised in balance sheet according to IAS 39 at amortised cost	Carrying amount 31 Dec 2006	Amounts recognised in balance sheet according to IAS 39 at amortised cost
Trade receivables	LaR	14,159,429	14,159,429	4,923,209	4,923,209
Other receivables and prepayments	LaR	482,090	482,090	77,193	77,193
Amounts due from related parties	LaR	7,919	7,919	1,415,544	1,415,544
Cash and cash equivalents	LaR	83,827,323	83,827,323	9,198,384	9,198,384
Short-term loans	FIAC	0	0	680,980	680,980
Trade payables	FIAC	1,234,507	1,234,507	443,566	443,566
Other payables	FIAC	450,292	450,292	322,154	322,154
Amounts due to related parties	FIAC	74,741	74,741	5,115,013	5,115,013

Of which: aggregated by category in accordance with IAS 39

Cash and receivables	LaR	98,476,761	98,476,761	15,614,330	15,614,330
Financial liabilities measured at amortized cost	FLAC	1,759,540	1,759,540	6,561,713	6,561,713

Cash and cash equivalents, trade and other receivables as well as amounts due from related parties have short times to maturity (within 1 year). For this reason, their carrying amounts at the reporting date approximate the fair values.

Trade and other financial liabilities generally have short times to maturity (within 1 year); the values approximate the fair values.

Net gain/loss by category:

Amounts in €	From interest	2007	2006
Cash and receivables	933,073	933,073	16,231
Financial liabilities measured at amortised cost	28,186	28,186	50,318
	<b>904,887</b>	<b>904,887</b>	<b>(34,087)</b>

Interest from financial instruments is recognised in finance income and costs.

## 21. Financial risks 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.

### I. CREDIT RISK

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

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

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

### II. 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.

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

### **III. FOREIGN CURRENCY RISK**

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

### **IV. LIQUIDITY RISK**

Liquidity risk arises from the possibility that the Group is unable to meet its obligations towards other counterparties. 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.

### **V. FAIR VALUES**

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

## **22. Additional comments on capital management**

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

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

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

## 23. Members of the Management and Supervisory Board

### MANAGEMENT BOARD OF THE PARENT COMPANY

Mr. Zefeng Chen, CEO

Merchant, Fuzhou (PRC), initially appointed on 14 June 2007

Mrs. Na Lin, CFO

Merchant, Fuzhou (PRC), initially appointed on 14 June 2007

### SUPERVISORY BOARD OF THE PARENT COMPANY

Mr. Hans-Joachim Zwarg, Chairman

Merchant, Sierksdorf, Germany, initially appointed on 18 June 2007

Mr. Joachim Ronge, Deputy Chairman

Merchant, Münster, Germany, initially appointed on 18 June 2007

Mr. Dr Hao Quan

Scientist and engineer for environmental technology, Beijing (PRC), initially appointed on 18 June 2007

Mr. Simon James Eckersley

Merchant, Beijing (PRC), resignation on 17 June 2007

Mrs. Lu Li

Merchant, Shanghai (PRC), resignation on 17 June 2007

Mr. Kaizhan Liao

Merchant, Shangjie, Fuzhou (PRC), resignation on 17 June 2007

Mr. Hans-Joachim Zwarg is a member of the supervisory boards of

- HanseYachts AG, Greifswald, Germany, and
- Asian Bamboo AG, Hamburg, Germany (Chairman)

## 24. Remuneration of the Management and Supervisory Board

### MANAGEMENT BOARD

The following remunerations have been paid: k€17 to Zefeng Chen (fixed salary). He was not entitled to any other benefits especially with regard to the performance of the Company.

Mrs. Na Lin was paid k€12.

### SUPERVISORY BOARD (FIXED REMUNERATIONS)

Hans-Joachim Zwarg: k€39 (incl. 19% VAT)

Joachim Ronge: k€21 (incl. 19% VAT)

Hao Quan: k€9

## 25. Declaration of compliance with the German Corporate Governance Code

The Company intends to largely comply with the obligation, which arises upon commencement of its stock exchange listing, to issue and publish a declaration in compliance with section 161 German Stock Corporation Act (AktG), and to make it available to the shareholders at all times. The Management Board and Supervisory Board of the Company identify with the goals of the Code to foster responsible and transparent corporate management and control, oriented to a sustained increase in company value. The Company, therefore, intends to document in its declaration



pursuant to section 161 German Stock Corporation Act (AktG) that it is largely following the recommendations and suggestions of the Code. Details will be agreed between the Management Board and the Supervisory Board. However, the Company does not intend to follow the noncompetition obligation for the members of the Management Board stated in No. 4.3.1 of the Code. In accordance with section 88 para. 1 of German Stock Corporation Act (AktG) the Supervisory Board has granted its approval to Mr. Zefeng Chen to remain in his position as chairman and non-executive director of Fujian FengQuan Environmental Protection Co. Ltd. and as major shareholder of Fujian FengQuan Environmental Protection Co. Ltd.

ZhongDe Waste Technology AG will complete its declaration of compliance by 6 July 2008.

## 26. Shareholdings in ZhongDe Waste Technology AG

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

### 5 JULY 2007

Mr. Zefeng Chen, Fuzhou, Fujian, China gave us notice pursuant to section 21 para. 1a WpHG that his voting rights in ZhongDe Waste Technology AG as at 5 July 2007 (date of the first admission of the shares/Datum der erstmaligen Zulassung der Aktien) amounted to 52.33% (6,803,200 voting rights).

As at 12 July 2007, Mr. Zefeng Chen sold 200,000 shares. Therefore his stake since then is 50.79 % (= 6,603,200 shares).

## 10 JULY 2007

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

Hao Capital China Fund LP, George Town, Grand Cayman, Cayman Islands, gave us notice pursuant to section 21 Para. 1 WpHG that their voting rights in ZhongDe Waste Technology AG as at 10 July 2007 fell short of the threshold of 10% and at this date amounted to 8.24% (1,072,284 voting rights).

8.24% of the voting rights (1,072,284 voting rights) were attributable to them in accordance with section 22 para. 1 sent. 1 no. 1 of the WpHG.

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

Dragonup Enterprises Ltd., Road Town, Tortola, British Virgin Islands, gave us notice pursuant to section 21 para. 1 WpHG that their voting rights in ZhongDe Waste Technology AG as at 10 July 2007 fell short of the threshold of 3% and at this date amounted to 2.39% (311,309 voting rights).

Kohei Watanabe, Fuzhou, China, gave us notice pursuant to section 21 para. 1 WpHG that his voting rights in ZhongDe Waste Technology AG as at 10 July 2007 fell short of the threshold of 3% and at this date amounted to 2.39% (311,309 voting rights).

2.39% of the voting rights (311,309 voting rights) were attributable to him in accordance with section 22 para. 1 sent. 1 no. 1 of the WpHG.

The attributed voting rights were attributed by Dragonup Enterprises Ltd., Road Town, Tortola, British Virgin Islands.

Linch Investments Ltd., Road Town, Tortola, British Virgin Islands, gave notice pursuant to section 21 para. 1 WpHG that their voting rights in ZhongDe Waste Technology AG as at 10 July 2007 fell short of the threshold of 3% and at this date amounted to 2.64% (343,685 voting rights).

Synergy Investment Group Ltd., Road Town, Tortola, British Virgin Islands, gave us notice pursuant to section 21 para. 1 WpHG that their voting rights in ZhongDe Waste Technology AG as at 10 July 2007 fell short of the threshold of 3% and at this date amounted to 2.12% (276,716 voting rights).

Li Lu, China, gave us notice pursuant to section 21 para. 1 WpHG that her voting rights in ZhongDe Waste Technology AG as at 10 July 2007 fell short of the threshold of 3% and at this date amounted to 2.12% (276,716 voting rights).

2.12% of the voting rights (276,716 voting rights) were attributable to her in accordance with section 22 para. 1 sent. 1 no. 1 of the WpHG.

The attributed voting rights are attributed by Synergy Investment Group Ltd., Road Town, Tortola, British Virgin Islands.”

Noonday Capital Partners, L.L.C., Wilmington, United States of America gave us notice pursuant to section 21 para. 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany, as at 16 January 2008 exceeded the threshold of 3% of the voting rights. The aforementioned person had at that date 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 3.06% of all voting rights.

3.01% of the voting rights (391,719 voting rights) are attributed to them pursuant to section 22 para. 2 WpHG.

Farallon Capital Offshore Investors II, L.P., George Town, British West Indies gave us notice pursuant to section 21 para. 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany, as at 16 January 2008 exceeded the threshold of 3% of the voting rights. The aforementioned person held at that date 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 3.06% of all voting rights.

2.42% of the voting rights (314,319 voting rights) are attributed to them pursuant to section 22 para. 2 WpHG.

Tinicum Partners, L.P., Albany, United States of America gave us notice pursuant to section 21 para. 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany, as at 16 January 2008 exceeded the threshold of 3% of the voting rights. The aforementioned person held at that date 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 3.06% of all voting rights.

3.05% of the voting rights (396,219 voting rights) are attributed to them pursuant to section 22 para. 2 WpHG.

Farallon Capital Institutional Partners III, L.P., Wilmington, United States of America gave us notice pursuant to section 21 para. 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany, as at 16 January 2008 exceeded the threshold of 3% of the voting rights. The aforementioned person held at that date 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 3.06% of all voting rights.

3.04% of the voting rights (395,519 voting rights) are attributed to them pursuant to section 22 para. 2 WpHG.

Farallon Capital Institutional Partners II, L.P., Sacramento, United States of America gave us notice pursuant to section 21 para. 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany, as at 16 January 2008 exceeded the threshold of 3% of the voting rights. The aforementioned person held at that date 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 3.06% of all voting rights.

3.02% of the voting rights (393,519 voting rights) are attributed to them pursuant to section 22 para. 2 WpHG.

Farallon Capital Institutional Partners, L.P., Sacramento, United States of America gave us notice pursuant to section 21 para. 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany, as at 16 January 2008 exceeded the threshold of 3% of the voting rights.

The aforementioned person held at that date 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 3.06% of all voting rights.

2.74% of the voting rights (356,019 voting rights) are attributed to them pursuant to section 22 para. 2 WpHG.

Farallon Capital Partners, L.P., Sacramento, United States of America gave us notice pursuant to section 21 para. 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany, as at 16 January 2008 exceeded the threshold of 3% of the voting rights. The aforementioned person held at that date 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 3.06% of all voting rights.

2.66% of the voting rights (346,319 voting rights) are attributed to them pursuant to section 22 para. 2 WpHG.

Noonday Offshore Inc., George Town, British West Indies gave us notice pursuant to section 21 para. 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany, as at 16 January 2008 exceeded the threshold of 3% of the voting rights. The aforementioned person held at that date 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 3.06% of all voting rights.

2.84% of the voting rights (368,919 voting rights) are attributed to them pursuant to section 22 para. 2 WpHG.

Farallon Capital Offshore Investors, Inc., Tortola, British Virgin Islands gave us notice pursuant to section 21 para. 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany as at 16 January 2008 exceeded the threshold of 3% of the voting rights. The aforementioned person held at that date 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG; this equals a share of 3.06% of all voting rights.

1.71% of the voting rights (222,400 voting rights) are attributed to them pursuant to section 22 para. 2 WpHG.

The following persons gave us notice pursuant to section 21 para. 1 of the German Securities Trading Act (WpHG) that their voting rights in ZhongDe Waste Technology AG, Hamburg, Germany, as at 16 January 2008 exceeded the threshold of 3% of the voting rights:

1. Thomas F. Steyer, United States of America
2. Noonday Capital L.L.C., Wilmington, United States of America
3. Noonday Asset Management L.P. Wilmington, United States of America
4. Noonday Asset Management Asia Pte. Ltd., Singapore, Singapore
5. Noonday Global Management Ltd., George Town, British West Indies
6. Farallon Capital Management L.L.C., Wilmington, United States of America, and
7. Farallon Partners L.L.C., Wilmington, United States of America.

On 16 January 2008, the Reporting Persons held 398,119 voting rights of the total of 13,000,000 voting rights in ZhongDe Waste Technology AG, Hamburg, Germany; this equals a share of 3.06% of all voting rights.

3.06% of these voting rights (398,119 voting rights) are attributed to Thomas F. Steyer pursuant to section 22 para. 2 WpHG; thereof 1.49 % (193,200 voting rights) are also attributed pursuant to section 22 para. 1 sentence 1 no. 1 WpHG and 1.58% (204,919 voting rights) also pursuant to section 22 para 1 sentence 1 no. 6 WpHG in connection with section. 22 para. 1 sentence 2 WpHG.

3.06% of the voting rights (398,119 voting rights) are attributed to Noonday Capital L.L.C. pursuant to section 22 para. 1 sentence 1 no. 6 WpHG in connection with section 22 para. 1 sentence 2 WpHG.

3.06% of the voting rights (398,119 voting rights) are attributed to Noonday Asset Management L.P. pursuant to section 22 para. 1 sentence 1 no. 6 WpHG in connection with section 22 para. 1 sentence 2 WpHG.

3.06% of the voting rights (398,119 voting rights) are attributed to Noonday Asset Management Asia Pte. Ltd. pursuant to section 22 para. 1 sentence 1 no. 6 WpHG.

3.06% of the voting rights (398,119 voting rights) are attributed to Noonday Global Management Ltd. pursuant to section 22 para. 1 sentence 1 no. 6 WpHG.

1.58% (204,919 voting rights) are attributed to Farallon Capital Management L.L.C. pursuant to section 22 para. 1 sentence 1 no. 6 WpHG and 1.49% of the voting rights (193,200 voting rights) are attributed pursuant to section 22 para. 2 WpHG.

3.06% of the voting rights (398,119 voting rights) are attributed to Farallon Partners L.L.C. pursuant to section 22 para. 2 WpHG and 1.49% of the voting rights (193,200 voting rights) are also attributed pursuant to section 22 para. 1 sentence 1 no. 1 WpHG as well as pursuant to section 22 para. 1 sentence 1 no. 6 WpHG.

## 27. Audit

BDO Deutsche Warentreuhand AG has been elected as the auditors of ZhongDe Waste Technology AG and the Group for the fiscal year 2007. The following table gives an overview of the fees of the Group auditors, BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft, recognised as expenses (including out of pocket expenses and VAT, if any) in the business year:

Amounts in k€	
Audit 2007	100
Other assurance services	312
Other services (mainly due diligence and related reimbursement of insurances)	323

## 28. Proposal on the utilisation of net retained profits

At the Annual General Meeting, the Management Board and Supervisory Board will propose that, based on the net profit of €3,486,204.03 of ZhongDe Waste Technology AG as reflected in the German statements, €1,950,000.00 (€0.15 per share) will be distributed and €1,536,204.03 will be carried forward to 2008.

## 29. Notes to the cash flow statement

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

## 30. Authorisation of financial statements

These financial statements were authorised for issuance in accordance with a resolution of the Board of Directors of the Group dated on 28 April 2008.

## 31. Events after balance sheet date

There have been no events between 31 December 2007 and 28 April 2008 that would require an adjustment to the carrying amount of the assets and liabilities or that would need to be disclosed under this heading.

Hamburg, 28 April 2008

On behalf of the Management Board

Zefeng Chen  
Chairman of the  
Management Board (CEO)

Na Lin  
CFO



# Responsibility statement

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

Hamburg, 28 April 2008  
The Management Board



Zefeng Chen  
Chairman of the  
Management Board (CEO)



Na Lin  
CFO



## ADDITIONAL INFORMATION →

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- [110] Financial calendar
- [111] Contact information
- [115] Imprint (cover)

# Financial calendar

**29 APRIL 2008**

Annual financial statement 2007

**30 MAI 2008**

Interim report on the first quarter 2008

**22 JULY 2008**

Annual General Meeting

**30 AUGUST 2008**

Interim report on the first half of 2008

**10 TO 12 NOVEMBER 2008**

German Equity Forum of Deutsche Börse, Frankfurt/Main

**30 NOVEMBER 2008**

Interim report on the third quarter 2008

# Contact information

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