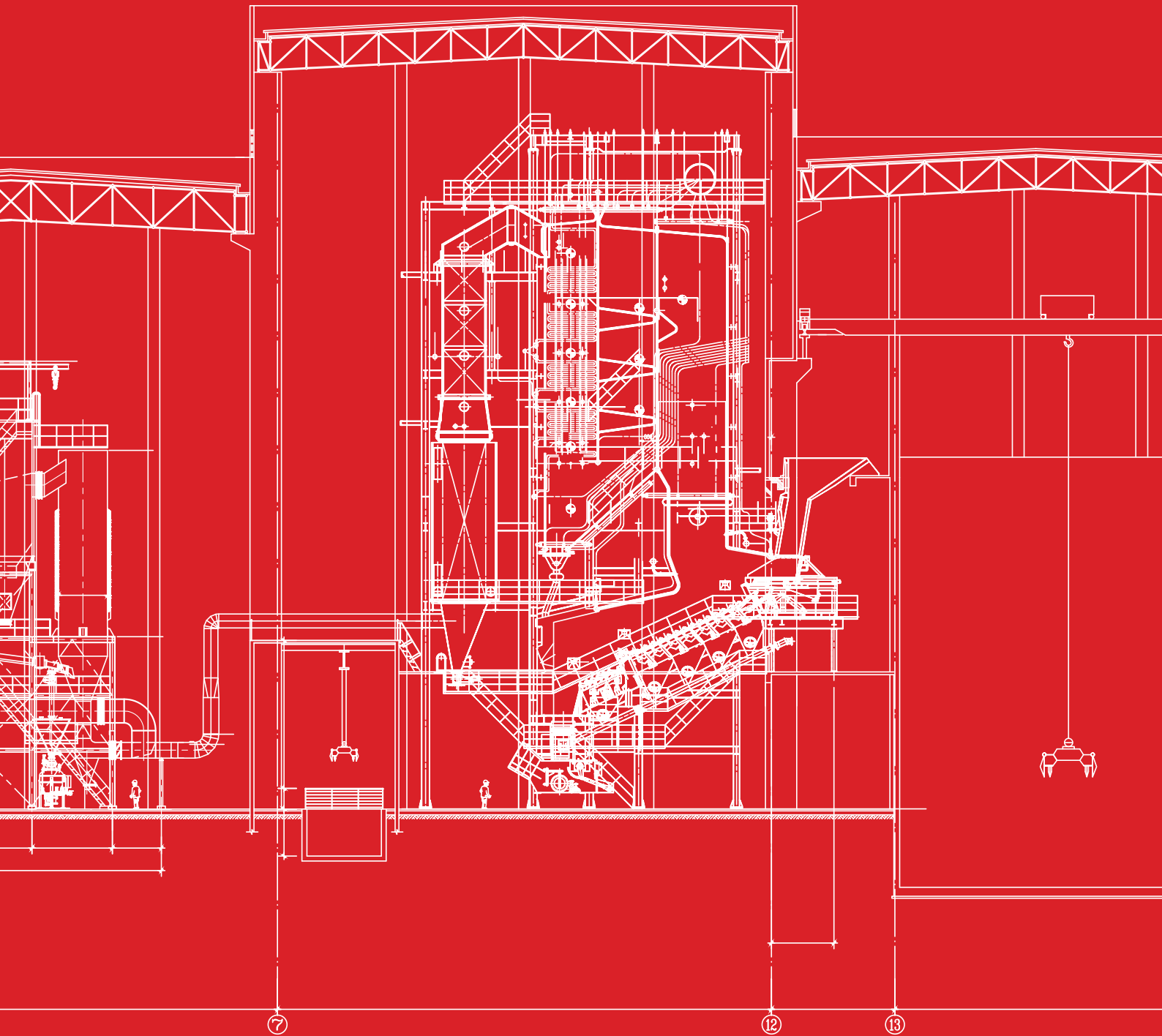


ZhongDe Waste Technology AG

Annual Report 2009



Clean Technology for the Future



Key financial highlights

in k€	2009	2008	Change %
Operational data			
Order intake ¹	109,312	84,491	29.4
Order backlog ²	151,156	81,660	85.1
Revenues	40,199	49,530	-18.8
Gross profit	15,033	27,967	-46.2
Gross profit margin	37%	56%	-33.8
Cost of sales	25,166	21,563	16.7
EBITDA	8,379	21,567	-61.1
EBITDA margin	21%	44%	-52.1
EBIT	8,018	21,303	-62.4
EBIT margin	20%	43%	-53.6
Net profit	5,713	23,112	-75.3
Net profit margin	14%	47%	-69.5
Earnings per share	0.44	1.78	-75.2
Cash flow data			
Cash flow from operating activities	16,440	21,447	-23.3
Cash flow from investing activities	(21,231)	(2,728)	678.4
Cash flow from financing activities	(4,358)	(1,950)	123.5
Balance sheet data			
Total assets	142,178	141,009	0.8
Property, plant and equipment	1,387	1,298	6.9
Net working capital	116,374	119,783	-2.8
Cash and cash equivalents	111,899	105,740	5.8
Long-term liabilities	593	396	49.7
Shareholders' equity	125,094	128,340	-2.5
Headcount (as at 31 December 2009)	375	360	4.3

¹ Average exchange rate 2009 used for translation

² Exchange rate as of 31 Dec. 2009 used for translation

Company profile

The ZhongDe Group is one of the leading players in the field of waste-to-energy EPC and BOT projects and a manufacturer of mass burn units in China. As a general contractor of EPC projects, we are responsible for the design, procurement, construction and installation of pyrolytic, grate and rotary kiln waste incinerators. As an investor in BOT projects, we also operate waste-to-energy plants.

Table of contents

2	ZhongDe at a glance	31	Risk report
3	Mission statement	34	Corporate strategy
4	Highlights 2009	34	Management and control
7	To our shareholders	34	Remuneration report
8	Letter to our shareholders	35	Statements and report pursuant to Section 289 para. 4, 315 para. 4 HGB (German Commercial Code)
10	Supervisory Board report	36	Subsequent events
14	Share performance	37	Outlook
17	Group management report	39	Financial statements
18	Market environment	40	Consolidated balance sheet
18	Financial performance	42	Consolidated statement of cash flow
19	Operational performance	44	Consolidated statement of income and expenses
20	Order status	44	Statement of comprehensive income
23	Balance sheet overview	45	Consolidated statement of changes in equity
23	Financial position and cash flow	46	Notes to the consolidated financial statements
24	Summary of the current economic position	94	Additional information
24	Human resources	94	Glossary
25	Research & development	96	Contact information
25	Principles and objectives of financial management	96	Imprint
26	Corporate Governance Declaration	97	Financial calendar
30	Description of the main features of the internal control and risk management system relating to the financial reporting process pursuant to Section 289 para. 5, 315 para. 2 (5) HGB (German Commercial Code)		



ZhongDe at a glance

Shareholder structure

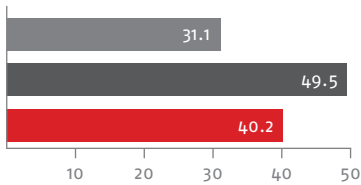


- 50.8% Zefeng Chen
- 30.9% Free float
- 8.3% 9998 Holding Ltd.
- 4.3% Hunter Hall Asset Management Ltd.*
- 3.1% Fortis Investment Management Netherlands N.V.*
- 2.6% Own shares (treasury stock)**

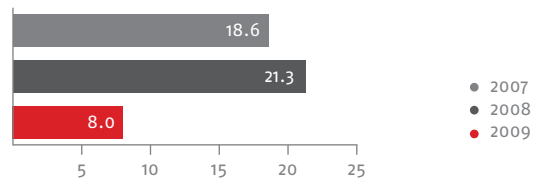
* According to the latest voting rights notifications presented to the Company

** As of 12 February 2010

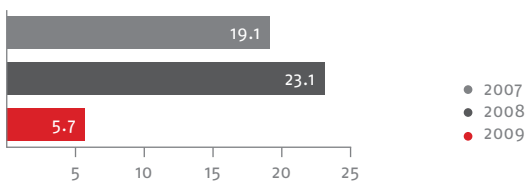
Revenues in € million



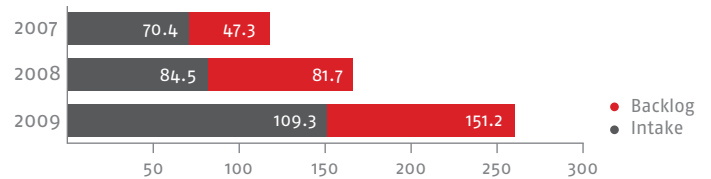
EBIT in € million



Net profit in € million



Orders in € million





Mission statement

Clean Technology for the Future

The ZhongDe Group is one of the leading players in the field of waste-to-energy EPC and BOT projects and a manufacturer of mass burn units in China.

Our link to Germany through our listing on the German Stock Exchange is reflected in the Company's name: "Zhong" – one of the Chinese words for China and "De" – the abbreviation for Germany. But our mission is not only reflected in the Company's name: ZhongDe should combine the high standards of German engineering with Chinese cost advantages. This reflects ZhongDe's character: "German technology, Chinese price, global service".

Thanks to our innovative approach and deep understanding of the Chinese market, we remain flexible enough to react rapidly to changing market demands. We have successfully completed a strategy transition from a manufacturer of small to medium-sized incinerators to a general contractor of large-scale waste-to-energy EPC and BOT projects.

Our excellent management and technical expertise enables us to meet our responsibilities with regard to the environment – responsibilities which we take very seriously. Green Gross Domestic Product (Green GDP) plays an important role in China's business development, combining the nation's enormous growth and business potential with the government's staunch support for sustainability. This includes government backing of incineration as a means of tackling environmental pollution and promoting renewable energy. We are meeting these demands with our groundbreaking projects, our research and development efforts and our knowledge and expertise in this market sector.

RMB 24.8 million

500 tons

4 waste-to-energy EPC projects

ZhongDe's first large-scale waste-to-energy project – the **Datong EPC project** – was completed at the end of 2009. The plant with electricity generation is operating smoothly and the owner of the project is very pleased with the win-win cooperation. Datong is a critical milestone for ZhongDe in the fields of technology, project management, contractual capacity, business strategy and profitability. The ZhongDe Group has signed a supplementary agreement with Datong Fuqiao Waste-to-Power Co., Ltd. to increase the contract amount of the Datong EPC project by RMB 24.8 million (€2.6 million). The additional contract amount contributed to earnings in 2009.

The **Zhucheng project** comprises the construction of a 500 tons-per-day waste incinerator plant with electricity generation. The project is worth RMB 268 million (€27.3 million) and is expected to be completed by the end of 2010. The "percentage of completion" method is used for this contract, which means that the Zhucheng project will contribute to revenues and earnings of 2010.

ZhongDe Waste Technology AG has signed a letter of intent with **ThyssenKrupp Xervon Energy GmbH** in order to enhance ZhongDe's expertise in the field of advanced incineration technologies. The cooperation with ThyssenKrupp Xervon Energy will broaden ZhongDe's capability in conducting large-scale waste-to-energy projects and enhance its competitiveness in the international market.

Highlights 2009

The ZhongDe Group focused successfully on large waste-to-energy plants: EPC and BOT large-scale waste-to-energy (WTE) projects were the two main business segments of ZhongDe Waste Technology AG in 2009, accounting for more than 70% of revenues. A selection of the project highlights illustrate ZhongDe's successful strategic shift impressively.

ZhongDe Waste Technology AG has signed a letter of intent in Beijing with **Covanta Energy Asia Pacific Holdings Ltd.**, a wholly owned subsidiary of Covanta Holding Corporation, in order to cooperate in the development and operation of large-scale waste-to-energy projects. With this joint operation, ZhongDe will improve its technical and investment capabilities in the development and operation of large-scale waste-to-energy projects in both domestic and international markets.

100% technical support

ZhongDe has signed a letter of intent with **Genesis Energy Holdings Limited**. As an investor and operator, Genesis Energy Holdings Limited is in charge of investment and financing for waste-to-energy projects. ZhongDe, as the general contractor, is responsible for the design, procurement, installation and construction of these projects.

4 letters of intent

The **Feicheng project** concerns the construction and operation of a large-scale waste-to-energy incineration plant with a daily waste disposal capacity of 200 tons. In addition to waste incineration, the Company will sell the steam generated when the plant is in operation. The capital expenditure amounts to RMB 51 million (€5.2 million) and the franchise is for a period of 30 years. Approximately 49% of the work had been completed as at 31 December 2009.

49 per cent

The **Zhoukou project** concerns the construction and operation of a large-scale waste-to-energy incineration plant with a daily waste disposal capacity of 500 tons. In addition to waste incineration, the Company will sell the electricity generated when the plant is in operation. The capital expenditure amounts to RMB 228 million (€23.2 million) and the franchise is for a period of 30 years. Approximately 24% of the work had been completed as at 31 December 2009.

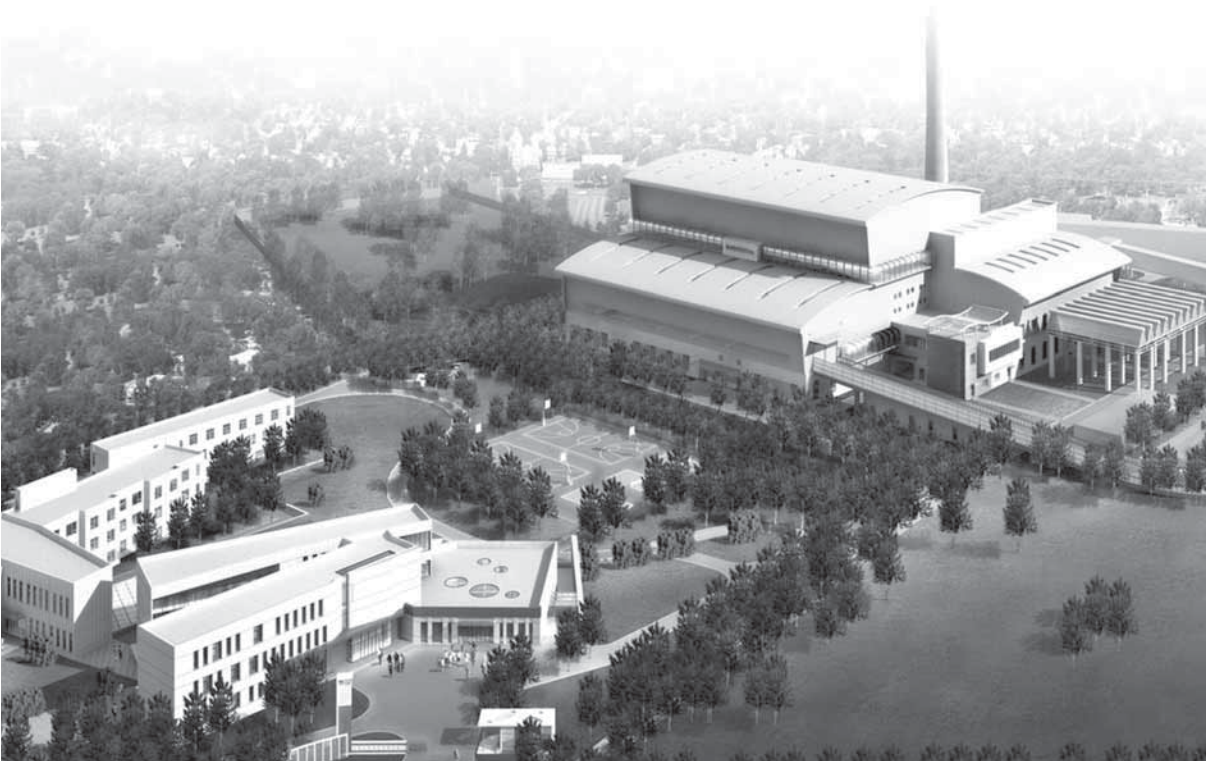
30 years

Datong EPC project

The Datong project is ZhongDe's first large-scale waste-to-energy EPC (Engineering, Procurement and Construction) project.

The project went into operation and was connected with the power grid for the sale of electricity in November 2009. Datong is operating smoothly and has already met specified standards during the first months of operation.

The maximum daily waste disposal capacity of Datong is 1,500 tons on the basis of 7,600 hours of equipment utilisation per year. The annual maximum treatment capacity is 360,000 tons.



To our shareholders

- 8 Letter to our shareholders
- 10 Supervisory Board report
- 14 Share performance

Letter to our shareholders

Dear shareholders,

In fiscal year 2009, the ZhongDe Group realised a successful strategic transition and is now acting as one of the leading players of large-scale waste-to-energy EPC and BOT projects in China. Despite the challenges posed by the global turmoil in financial markets and the fall in Chinese local government tax revenue, we succeeded in strengthening the Company's competitiveness. We entered into several letters of intent for joint operations with renowned international companies and signed several large-scale waste-to-energy EPC contracts as well as letters of intent for further waste-to-energy plants. This progress represents the basis for strong growth in the future.

The Group's order backlog grew significantly to €155.2 million during the year under review. Group revenue decreased slightly by 18.8% to €40.2 million in fiscal 2009, compared with the previous financial year. Gross profit amounted to €15 million, while net profit reached €5.7 million. Although gross profit and

net profit declined year on year, the net profit margin remains at a high level of 19%. We propose to distribute a dividend of €0.15 per share to our shareholders, subject to approval at the Annual General Meeting in June 2010.

In 2009, ZhongDe completed its first large-scale waste-to-energy project in Datong. This plant treats an average of 1,000 tons of municipal waste per day with a maximum daily capacity of 1,500 tons on the basis of 7,600 hours of equipment utilisation per year. The owner of the Datong project is satisfied with ZhongDe's professional capabilities and the excellent performance of the waste-to-energy plant. In 2009, the Datong project realised not only €24 million of revenues, but also reached about 25% gross profit margin. The smooth operation and win-win result of the Datong project is a strategic milestone and will accelerate ZhongDe's entry into the large-scale waste-to-energy market.



Zefeng Chen, Chairman of the Management Board (CEO)



William Jiu-hua Wang, Executive Director of the Management Board (CFO)

In the past year, ZhongDe won three new EPC contracts with Chinese municipalities and signed a non-binding letter of intent with the Jinlin Province government. Furthermore, ZhongDe signed letters of intent for cooperations with ThyssenKrupp Xervon Energy GmbH and Covanta Energy Asia Pacific Holdings Ltd. regarding technology, development and the operation of incineration projects with electricity generation. These contracts and letters of intent are further milestones, which will improve ZhongDe's capability of conducting large-scale waste-to-energy projects, and enhance the Company's competitiveness on international markets.

At the beginning of 2010, market conditions remain challenging. However, demand for large-scale waste-to-energy projects is growing rapidly in China, as well as in other developing nations. With our high technological and engineering expertise and competitive cost structure, we are in an ideal position to capture this global market potential.

Hamburg, 28 April 2010

Zefeng Chen
Chairman of the
Management Board (CEO)

William Jiu-hua Wang
Executive Director of
the Management Board
(CFO)

Supervisory Board report

Dear shareholders,

In this report the Supervisory Board accounts for its work in the financial year 2009. Central topics of the discussions with the Management Board were the effects of the global financial and economic crisis on the Chinese economy and the ZhongDe Group which operates mainly in China, as well as the change of the ZhongDe Group's strategy and major investment projects.

Supervision of and cooperation with the Management Board

In accordance with the statutory law, the Company's Articles of Association, the by-laws and the German Corporate Governance Code, the Supervisory Board continued to perform with great care the monitoring and advisory function and, therefore, intensely supervised and advised the Management Board during the financial year 2009.

On a regular basis, the Supervisory Board rendered advice to the Management Board and continuously observed and supervised the management conduct of business. The Supervisory Board was furnished by the Management Board with written and verbal reports and regular, up-to-date and comprehensive information on all aspects relevant to the ZhongDe Group. The Management Board discussed the ZhongDe Group's main strategy with the Supervisory Board. Further, all events of major importance to the Company were discussed in detail by the Supervisory Board on the basis of the reports provided by the Management Board. The Supervisory Board was also in regular contact with the Management Board outside the Supervisory Board meetings.

By means of written reports, the Management Board informed the Supervisory Board, in due time and comprehensively, about particular events of major importance. Based on detailed documents, the Management Board timely presented information on transactions requiring the prior approval of the Supervisory Board.

Meetings of the Supervisory Board

In the financial year 2009, the Supervisory Board convened four ordinary meetings, two of them in China, one in Germany and one in Dubai. All members of the Supervisory Board attended these ordinary meetings. At each meeting, the Management Board reported to the Supervisory Board about the financial and economic condition of the Company, the recent development, the intended business policy and on basic issues of the corporate planning, as well as on the profitability of the Company and on projects of major importance for the Company's profitability. At the Supervisory Board meetings, the Management Board described its forecast for the further economic development. Furthermore, the Management Board and the Supervisory Board discussed on a regular basis the short- and mid-term strategy of the Company. As topics of particular importance the Management Board and the Supervisory Board discussed the business policy, the financial and cash management, the risks and the risk management and the reaction to the global financial and economic crisis and its impact on the economic development in the People's Republic of China and the ZhongDe Group. The Supervisory Board used the meetings to question intensely the Management Board members on the Company's strategy and development and rendered advice to the Management Board. In case of business transactions requiring the prior approval of the Supervisory Board, all members of the Management Board were available for further questions and explanations.

Apart from these four regular ordinary board meetings, the Supervisory Board held one extraordinary meeting on 27 April 2009, in Hamburg, which was attended by all the Supervisory Board members in person as well as the Chairman of the Management Board, Mr Chen, via telephone.

In addition to the Supervisory Board meetings, the Chairman of the Supervisory Board was in regular contact with the Management Board. Both the Chairman of the Supervisory Board, on the one side, and the members of the Management Board, on the other, exchanged information and opinions about the perspective of the ZhongDe Group's business. All Supervisory Board members were kept informed about major developments and the current business situation, major business transactions, the current economic policy in China and all important decisions of the Management Board, as well as of the development of the business volume and the business results.

Central topics of the four regular Supervisory Board meetings which were held in the last financial year 2009 on a quarterly basis were as follows:

At the **Supervisory Board meeting on 6 April 2009**, the discussion of the draft individual and consolidated financial statements of the ZhongDe Group as of 31 December 2008, as well as the draft auditor's report on the audit of said financial statements, formed the focus. The auditor for the individual and consolidated financial statements attended the Supervisory Board meeting on 6 April 2009. The auditor reported on the major results of the audit and was available for questions and comments. In addition, the next Annual General Meeting was discussed and the Corporate Governance Compliance Statement was approved. Finally, procedures to ensure compliance with corporate governance requirements and legal provisions were discussed.

At the **extraordinary board meeting on 27 April 2009**, the Supervisory Board discussed the final audited individual and consolidated financial statements of ZhongDe Waste Technology AG for the financial year ending on 31 Decem-



Hans-Joachim Zwarg, Chairman of the Supervisory Board

ber 2008. The auditor was again present at this extraordinary board meeting and available for questions and comments. The Supervisory Board approved the individual and consolidated financial statements of ZhongDe Waste Technology AG for the financial year ending on 31 December 2008. Furthermore, the Supervisory Board approved the Management Board's proposal on the utilisation of the Company's profits and also approved the business plan for the year 2009.

As former member of the Management Board and former Chief Financial Officer, Ms Na Lin had resigned from her office with effect as of the expiration of 30 June 2009, her successor as new Chief Financial Officer and member of the Management Board, Mr William Jihua Wang, was appointed with effect as of 1 July 2009. The respective resolution on the appointment of Mr William Jihua Wang was adopted via written circular proceeding.

The agenda for the Annual General Meeting 2009 was approved by the Supervisory Board by means of resolution on 17 June 2009, which was adopted by means of written circular proceeding.

The **Supervisory Board meeting on 30 July 2009** dealt with the discussion of the ZhongDe Group's business development in the current business year as reported by the Management Board. This discussion included the impact of the global financial and economic crisis on the ZhongDe Group, namely on the business of small and mid-sized waste incineration projects, on the one side, and the Group's strategic swift to focus on larger Waste-to-Energy plants, on the other. In the context of the business development and outlook new projects were intensely discussed. In addition, the ZhongDe Group's cash management formed another focus of this board meeting.

At the **Supervisory Board meeting on 19 September 2009**, the Management Board reported to the Supervisory Board on the current business development and the forecast until the end of the financial year. This report included a description of the order entry and the status of various engineering procurement and construction projects.

The **Supervisory Board meeting on 12 December 2009** mainly dealt with the business plan for the financial year 2010 as well as the mid-term business planning with regard to profits, assets, investments and finance for the financial years 2011 to 2013.

All business transactions requiring the approval of the Supervisory Board were presented timely by the Management Board including comprehensive information. In all cases, the required approvals were granted by the Supervisory Board.

As the Supervisory Board comprised only of three members in the financial year 2009, no committees were constituted.

Corporate governance

The Supervisory Board again continuously monitored the development of corporate governance standards with the Company in the financial year 2009. The Management Board and the Supervisory Board are committed to good corporate governance as a central and integral part of the Company's management in terms of a sustainable increase of the value of the Company. The Management Board – also on behalf of the Supervisory Board – reports on corporate governance with the ZhongDe Group in the corporate governance report on pages 26 ff. in accordance with Section 3.10 of the German Corporate Governance Code. The Supervisory Board and the Management Board discussed the implementation of the applicable and amended provisions of the Corporate Governance Code in the Supervisory Board meeting on 24 March 2010 (tbc). The Supervisory Board also dealt with the compensation system for the Management Board to ensure the compliance of the remuneration system with the new legal requirements which were enacted last summer.

On 23 April 2010, the Management Board and the Supervisory Board jointly issued an updated compliance declaration in accordance with Section 161 of the German Stock Corporation Act (Aktengesetz/AktG) and made it permanently available to the shareholders on the Company's website.

Personnel matters

At the end of the financial year 2008, the resigning Supervisory Board member Mr Joachim Ronge was replaced by Prof. Dr. Ing. Bernd Neukirchen who was appointed as new member of the Supervisory Board by the local court of Hamburg on 5 January 2009. At the last Annual General Meeting on 31 July 2009, Prof. Dr. Ing. Bernd Neukirchen was elected as member of the Supervisory Board until the expiration of the General Meeting where ratification for the business year 2012 is granted. On 31 July 2009, the Supervisory Board re-elected Mr Hans-Joachim Zwarg as Chairman and Prof. Dr. Ing. Bernd Neukirchen as Deputy Chairman.

Financial Statements 2009

The (individual) financial statements of ZhongDe Waste Technology AG were prepared in accordance with the German generally accepted accounting principles as provided for in the German Commercial Code (Handelsgesetzbuch/HGB). The consolidated financial statements of ZhongDe Waste Technology AG were prepared in accordance with the International Financial Reporting Standards (IFRS). Pursuant to Section 315a HGB, the Company is released from the obligation to prepare annual consolidated financial statements in accordance with the provisions of HGB.

The individual and the consolidated financial statements as at 31 December 2009, the status report as well as the report of the Management Board on the relations with affiliated entities were examined in detail by the auditor appointed by the Annual Shareholders' Meeting on 31 July 2009, BDO Deutsche Waren-treuhand AG Wirtschaftsprüfungsgesellschaft, Hamburg, and approved with an unqualified audit opinion. Each member of the Supervisory Board was provided with drafts of these annual accounting documents including the auditor's report. These documents were examined in detail and were discussed in the presence of the auditor who reported on the main results of the audit and was available for questions and supplementary information.

On the basis of its own examination and discussion of the individual and consolidated financial statements for the period from 1 January until 31 December 2009, and the management report relating to the Company and the management report relating to the Group, which remained unchanged to the previous drafts, the Supervisory Board approved the result of the audit and the individual and consolidated financial statements via telephone conference on 29 April 2010. The individual financial statements of ZhongDe Waste Technology AG for the time period from 1 January until 31 December 2009 are thus adopted.

The financial statements of ZhongDe Waste Technology AG account for a retained profit of €3,435,186.82 for the financial year that ended on 31 December 2009. The Supervisory Board

agreed with the suggestion of the Management Board to distribute €0.15 per share out of the retained profit to the shareholders and to carry forward onto new account the amount remaining after the dividend payout.

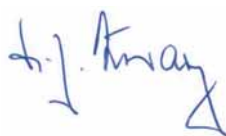
The Supervisory Board was provided with the report regarding the Company's relations to affiliated entities prepared by the Management Board in accordance with Section 312 German Stock Corporation Act (Aktengesetz/AktG). The Supervisory Board considered the report thoroughly. The auditor approved the report with the following unqualified opinion: "Based on the findings of our audit and evaluation conducted in accordance with our duties, we certify that

1. the factual information of the report is correct,
2. the company's consideration in return for goods or services has not been disproportionately high in connection with the legal transactions set forth in the report."

The Supervisory Board approved the audit by the appointed auditor. There are no objections to the statements of the Management Board regarding the Company's relation to affiliated companies.

The Supervisory Board would like to take this occasion to thank the Management Board and all employees for their performance and commitment in the last financial year 2009.

Hamburg, 29 April 2010



The Supervisory Board
Hans-Joachim Zwarg
Chairman of the Supervisory Board

Share performance

Following a stock exchange year characterised by very high volatility in 2008, this negative trend continued as a result of a massive decline in global trade at the beginning of the reporting period 2009. The German stock market also suffered from these effects: the leading share index DAX fell by more than 1,100 points to its year-low on 6 March 2009, dipping below the 4,000 points mark for the first time since October 2004.

The announcement of economic support programmes and the expansionary monetary policies of the central banks helped international trading centres to gradually return to normality at the end of the first quarter of 2009. The increasing risk propensity of investors was also reflected in share prices – in December the DAX passed the threshold of 6,000 points and was up 24% on the year as a whole. The SDAX increased until 30 December 2009 to 3,549 points and thus recorded an increase of 26%.

At first, the ZhongDe share followed the general downside trend until mid April 2009, but then it performed very positively and recorded temporary share price rises of up to 23%, compared to the closing price of the previous year. On 28 May 2009 Xetra closing price was at €16.99. However, the share could not benefit from the subsequent optimistic market mood and fell to €10.50 at the beginning of August. At the end of the third quarter, the share had settled at a stable level. On the last trading day of 2009, the closing price of the ZhongDe share amounted to €12.05 and was thus below the prior-year figure. Since January 2010, the share price has performed much more strongly compared to the SDAX, DAX and the DAX subsector index “Industrial Products and Services”, to which the ZhongDe share belongs. It closed on 8 April 2010 at €17.68 (+46.7%).

During the reporting period, the Investor Relations team focused on explaining the business model of the ZhongDe Group to investors and on raising awareness among the financial commu-

nity. For example, management actively held conversations with investors and analysts at the German Equity Forum in November 2009 to communicate especially the new strategic focus of the ZhongDe Group. In the future, ZhongDe Waste Technology AG will continue to meet the information requirements of investors with its open and transparent communication policy. Furthermore, shareholders can find a wide range of relevant information on our website at www.zhongde-ag.com

Basic data	
ISIN	DE000ZDWT018
WKN	ZDWT01
Trading symbol	ZEF
Sector	Industrial
Stock category	Individual no-par-value nominal shares
Share capital	13,000,000 shares
Stock market segment	Frankfurt Stock Exchange (Prime Standard)
Key share indicators 2009 in €	
Share price	
Year-end price	12.05
High	16.99
Low	9.51
Earnings per share	0.44
Dividend per share (proposed)	0.15
Market capitalisation (31 Dec.)	156.7 million



Beijing R&D centre and plant

ZhongDe's new R&D and production facilities are under construction in Beijing as part of the Company's long-term capacity expansion programme.

At present, the main structures for the technological building as well as for the canteen building have been completed. Construction of the factory has been practically completed. The installation of technical fixtures and fittings in the technological building is proceeding swiftly.

The Beijing plant is expected to be put into operation in Q3 2010.



Group management report

18	Market environment
18	Financial performance
19	Operational performance
20	Order status
23	Balance sheet overview
23	Financial position and cash flow
24	Summary of the current economic position
24	Human resources
25	Research & development
25	Principles and objectives of financial management
26	Corporate Governance Declaration
30	Description of the main features of the internal control and risk management system relating to the financial reporting process pursuant to Section 289 para. 5, 315 para. 2 (5) HGB (German Commercial Code)
31	Risk report
34	Corporate strategy
34	Management and control
34	Remuneration report
35	Statements and report pursuant to Section 289 para. 4, 315 para 4 HGB (German Commercial Code)
36	Subsequent events
37	Outlook

Group management report

Market environment

A year after the adoption of the RMB 4,000 billion (approx. €420 billion) economic stimulus package provided by the Central Government of China, the world's third-largest economy has curbed a downward trend and confirmed a V-shaped recovery.

According to preliminary estimations from China's National Bureau of Statistics, gross domestic product (GDP) in 2009 amounted to RMB 33,535 billion (€3,520 billion), an increase of 8.7% year on year, but 0.9 percentage points less than in 2008. In the first quarter of 2009, the growth rate amounted to 6.2%, in the second quarter 7.9%, in the third quarter 9.1% and in the last quarter of 2009 it reached 10.7%. The investment stimulus package has clearly shown its effect.

The environmental protection industry in China is still growing at a fast pace and becoming an important supporting force for the growth of industrial economic efficiency.

According to the State Environmental Protection Administration (SEPA), the annual output of municipal waste will reach 152 million tons in 2010, 179 million tons in 2015 and 210 million tons in 2020. The experts predicted that with effective measures, such as waste classification, municipal waste in large and medium-sized cities will almost meet the demands of direct incineration in 2010, as organic content of Chinese municipal waste is above 70% and water content also reaches about 50%. As China is currently under dual pressure from both the energy crisis and environmental deterioration, waste incineration with power generation has great growth potential with regard to conserving resources.

Financial performance

Overview

Financial Performance in k€	2009	2008
Revenues	40,199	49,530
Gross profit	15,033	27,697
EBIT	8,018	21,303
Net profit	5,713	23,112
Return on equity	5%	18%
Return on capital employed*	58%	93%
Current liquidity ratio	806%	1,076%
Equity ratio	88%	91%
Working capital	132,865	132,056
Earnings per share (diluted and undiluted)	0.44	1.78

* EBIT/(total assets – current liabilities – cash)

Revenues

Total revenues amounted to €40.2 million in fiscal year 2009, representing a decrease of 19% compared to 2008. Due to reduced local tax revenue as a result of the global economic crisis, the municipal authorities in China have postponed their purchase plans for small and medium-sized incinerators. In line with changing market demand in China, the Company quickly shifted its focus to large waste-to-energy (WTE) projects. In addition to the decline in sales, there was also a substantial change in the composition of total revenues. The EPC¹ and BOT² project revenues accounted for 72% of total revenues in 2009, compared to just 25% in 2008. The considerable decline in sales relating to small and medium-sized incinerators was largely offset by the change in strategy in 2009, which resulted in rising revenues from EPC and BOT projects. This underlines the flexibility of ZhongDe, which enables it to react to market changes quickly.

1 Engineering, procurement and construction
2 Build, operate and transfer

Operating results

EBIT amounted to €8.0 million in 2009, representing a decrease of 62.4% compared to EBIT of €21.3 million in 2008. The gross profit margin of the Datong EPC project amounted to approximately 25%. ZhongDe's overall gross profit margin amounts to 37%.

Net profit reached €5.7 million, resulting in a net profit margin of 14% and earnings per share of €0.44. Based on the consolidated annual net profit, ZhongDe's management proposes to pay shareholders a dividend of €0.15 per share.

Order intake and order backlog

The order position of the ZhongDe Group significantly improved during the last year. Order intake increased by 29% to €109.3 million, compared to €84.5 million in 2008. Order backlog increased in 2009 by 85% to €151.2 million, compared to €81.6 million in 2008. Order backlog includes three EPC projects (Zhucheng, Zhaodong and Dingzhou) and four BOT projects (Zhoukou, Feicheng, Xianning and Kunming). In general, the contract amount of EPC and BOT projects is much higher than that of orders for small and medium-sized incinerators. The sharp increase in the order backlog reflects the success of ZhongDe's business strategy transition and indicates potential growth of revenues in the years ahead.

Beijing R&D centre and plant

New R&D and production facilities are under construction in Beijing as part of the Company's long-term capacity expansion programme. At present, the main structures for the technological building as well as for the canteen building have been completed. Construction of the factory has been practically completed. The installation of technical fixtures and fittings in the technological building is proceeding swiftly. The Beijing plant is expected to be put into operation in Q3 2010.

Operational performance

Revenues

Revenues in 2009 reached €40.2 million, representing a decrease of 19% year on year. Revenues can be broken down into €11.2 million relating to small and medium-sized incinerators (previous year: €37.1 million), €24.4 million from EPC projects (previous year: €8.9 million) and €4.6 million from BOT projects (previous year: €3.5 million).

Gross profit

Gross profit amounted to €15.0 million in 2009, equating to a €13.0 million or 46.2% year-on-year downturn. The reasons for this development are closely related to the reasons mentioned in relation to revenues and concern the substantial reduction in the high-margin business with small and medium-sized incinerators. An expansion in business, especially in relation to EPC, only went some way to offsetting the resultant drop in gross profit, as EPC generates much lower profit margins.

Expenses

Distribution expenses

Distribution expenses remained almost unchanged year on year at €1.9 million in 2009, even though the focus on EPC and BOT projects resulted in a shift in the structure of these expenses. Distribution expenses increased from 3.9% to 4.7% of revenues, in part due to increased new project acquisition activities.

Administrative expenses

Administrative expenses rose from €1.5 million in 2008 to €1.9 million in 2009. This is primarily attributable to the project companies that are currently developing infrastructural facilities as part of BOT projects.

Research and development expenses

Research and development expenses amounted to €0.5 million in 2009, which was slightly down from the previous year's level.

Other operating expenses

Other operating expenses rose from €2.8 million in 2008 to €3.2 million in 2009. For the most part, the increase stems from the R&D centre being developed in Beijing and from the production plant for large-scale waste-to-energy incinerators.

Interest income

Against the backdrop of the global financial crisis, ZhongDe decided to keep its strong cash position to avoid any liquidity risks and maintain its flexibility for BOT projects according to local government requirements. Interest income amounted to €0.7 million in 2009, compared to €1.7 million in the previous financial year. The decrease is partly due to lower interest on fixed-term deposits. As of the reporting date, most of the available funds were still deposited in the bank of our PRC subsidiary, pending investment in BOT projects and the completion of the Beijing factory.

Taxes on income and earnings

The increase in taxes on income and earnings from €0.6 million in 2008 to €2.0 million in 2009 primarily relates to the 2009 expiration of complete tax exemption for Fujian FengQuan Environmental Protection Holdings Ltd., which is the main operating company. It is a foreign-owned enterprise and enjoyed tax holidays both in 2007 and 2008. From 2009 to 2011, it is entitled to a 50% reduction in the normal tax rate (25%), thus resulting in a tax rate of 12.5% for this period. ZhongDe continuously monitors the latest tax policies and will continue to apply for tax relief on the basis of its involvement in the environmental protection industry.

Consolidated annual net profit

The consolidated annual net profit for 2009 amounted to €5.7 million and was thus €17.4 million lower than in the previous year. This is equivalent to a year-on-year downturn of 75%. There was a net profit margin of 14% in 2009. The substantially lower consolidated annual net profit was primarily attributable to the drop in gross profit on sales, which fell from €28.0 million in 2008 to €15.0 million in 2009 because of a sharp decline in the disposal of small and medium-sized incinerators.

In addition, a €2.7 million decline in the financial result and higher tax expenditure due to the expiration of Fujian FengQuan's complete exemption from corporation tax contributed to a decline in profits compared to 2008.

Order status

Orders in k€	2009	2008	Change %
Order intake ¹	109,312	84,491	29.4
Order backlog ²	151,156	81,660	85.1

1 Average exchange rate 2009 used for translation

2 Exchange rate as of 31 Dec. 2009 used for translation

Order intake

Total order intake for the year 2009 rose to €109.3 million, an increase of 29% compared to €84.5 million in the previous year. Municipal and medical waste incinerators accounted for 2%, large-scale EPC incinerator projects accounted for 67% and BOT projects accounted for 31% of total order intake.

Order intake	
Type	Amount in k€
Incinerator for	
- Medical waste	179
- Municipal solid waste	2,420
EPC	72,935
BOT	33,777
Total	109,312

Order backlog

Order backlog increased by 85.1% to €151.2 million in 2009, thus exceeding the 2008 figure by €69.5 million. Municipal and medical waste incinerators accounted for 2%, large-scale EPC incinerator projects accounted for 45% and BOT contracts accounted for 53% of total order backlog.

Order backlog	
Type	Amount in k€
Incinerator for	
- Medical waste	570
- Municipal solid waste	2,345
EPC	68,499
BOT	79,742
Total	151,156

Current project status

• EPC projects:

Zhucheng project

The Zhucheng project comprises the construction of a 500 tons-per-day waste-to-energy incinerator plant. The project is worth approximately RMB 268 million (€27.3 million) and is expected to be completed by the end of 2010. The “percentage of completion” method is used for this construction contract, which means that the Zhucheng project will contribute to revenues and earnings of 2010. This is another large engineering, procurement and construction project (EPC project) after the Datong project.

Zhaodong project

The ZhongDe Group has signed an EPC contract for a municipal waste incineration plant in Zhaodong City, Heilongjiang Province. The waste-to-energy project has a waste disposal capacity of 500 tons of waste per day and the contract value is approximately RMB 251 million (€25.5 million). The contractual partner is Zhaodong Longjie Environmental Protection Co., Ltd. This is the third EPC project for ZhongDe after Datong and Zhucheng.

Dingzhou project

ZhongDe has signed an EPC contract with Dingzhou Ruiquan Solid Waste Treatment Co., Ltd. on a 600 tons-per-day waste-to-energy incineration plant. The contract value is RMB 268 million (€27.3 million). This is the fourth engineering, procurement and construction project (EPC project) for ZhongDe. By signing this contract we have successfully realised the geographical distribution of projects in China. This contract furthers our strategy of expanding into the large-scale incineration market and strengthens our market position in the segment of waste-to-energy incineration plants.

All the above-mentioned projects are currently still in the preliminary stages, and only negligible construction work or no work at all had been carried out as at the balance sheet date.

• BOT projects:

Zhoukou project

The Zhoukou project concerns the construction and operation of a large-scale waste-to-energy incineration plant with a daily waste disposal capacity of 500 tons. In addition to waste incineration, the Company will sell the electricity generated when the plant is in operation. The capital expenditure amounts to RMB 228 million (€23.2 million) and the franchise is for a period of 30 years. Approximately 24% of the work had been completed as at 31 December 2009.

Feicheng project

The Feicheng project concerns the construction and operation of a large-scale waste-to-energy incineration plant with a daily waste disposal capacity of 200 tons. In addition to waste incineration, the Company will sell the steam generated when the plant is in operation. The capital expenditure amounts to RMB 51 million (€5.2 million) and the franchise is for a period of 30 years. Approximately 49% of the work had been completed as at 31 December 2009.

Kunming and Xianning projects

The Kunming and Xianning projects comprise the construction and operation of large-scale municipal waste-to-energy incineration plants. The daily waste disposal capacity of the Kunming project is 700 tons while the Xianning project has a daily waste disposal capacity of 500 tons. The contractual partners can increase these capacities to 1,050 and 1,000 tons, respectively, in a second expansion stage. Both the Kunming and the Xianning projects guarantee stable cash flows from electricity sales. The investment volume for the first expansion stage amounts to RMB 585 million (€59.5 million), and the concession period is 30 years.

Both of the above-mentioned BOT projects are currently still in the preliminary stages, and only negligible construction work had been carried out as at the balance sheet date.

Waste incinerator Key figures by segments in k€	2009	2008	Change %
Incinerators for			
- Medical waste			
Units sold	1	3	-66.7
Revenues	506	2,221	-77.2
Gross profit	363	1,800	-79.8
- Municipal solid waste			
Units sold	6	13	-53.8
Revenues	10,715	34,885	-69.3
Gross profit	6,735	23,886	-71.8
EPC			
% of completion	100%	32%	212.5
Revenues	24,366	8,901	173.7
Gross profit	6,782	1,406	382.4
BOT			
% of completion	29%	13%	121.4
Revenues	4,589	3,523	30.3
Gross profit	1,139	875	30.2

The adjustment of our strategy resulted in a change of our revenues.

One medical waste incinerator was sold in 2009 and contributed total revenue of €0.5 million, a decrease of 77.2% compared to the previous year.

Revenues from municipal waste incinerators decreased by 69% year on year to €10.7 million and accounted for 27% of total revenues in 2009. During the reporting period, the Company sold six municipal waste incinerators. Several local governments postponed their purchase plans for small to medium-sized municipal waste incinerators due to the global economic crisis.

EPC projects contributed €24.4 million or 61% of total revenues. In 2009, the total amount of revenues in this segment originated from the Datong waste-to-energy project, which is the Company's first large-scale EPC project. The role of its EPC projects has now come to fruition. The Datong project has been successfully completed and has now been generating electricity since 2009. This emphasises that the EPC business segment is now ZhongDe's most important business segment.

BOT projects contributed €4.6 million, or 11%, to total revenues in 2009. Revenues in this segment relate to the Zhoukou and Feicheng projects.

Balance sheet overview

Non-current assets

The Company's non-current assets amounted to €17.4 million, which represents an increase of 36.7% compared to 2008. The main reason for this increase is the new application of IFRIC 12 to BOT projects. Based on this new interpretation, intangible and financial assets from the construction of infrastructural facilities are carried in the balance sheet, that registered additions in 2009 amounting to €4.3 million.

Current assets

Trade receivables fell by €9.8 million to €5.6 million on the back of the decline in sales of incineration plants for municipal and medical waste, and the simultaneous increase in revenues from EPC projects. This drop in trade receivables stems from the different payment conditions applicable to incineration plants for municipal and medical waste and to EPC projects. While all the other parameters are the same, the sale of small and medium-sized waste incineration plants results in a markedly higher balance of receivables than is the case with large-scale incineration plants, as a much higher proportion of payments is agreed for these. Much lower receivables are consequently recognised in relation to the sale of large-scale incineration plants.

Liabilities

Non-current liabilities of €0.6 million comprise deferred tax liabilities resulting from the application of the POC method in relation to EPC and BOT projects (manufacturing orders).

Total current liabilities rose from €12.3 million in 2008 to €16.5 million in 2009. Current liabilities included trade receivables and other liabilities, the latter primarily relating to the Datong project. Current liabilities include down payments made on EPC projects, tax liabilities, accrued sales commission and employee benefits.

Equity

Equity decreased from €128.3 million to €125.1 million year on year, predominantly as a result of exchange rate effects (€-4.6 million) and the buy-back of own shares (€-2.4 million) in conjunction with a lower year-on-year consolidated annual net profit of €5.7 million. Equity was also lowered by the payment of dividends worth €1.95 million.

Financial position and cash flow

Cash position

Cash and cash equivalents amounted to €111.9 million in 2009, an increase of 5.8% compared to 2008. These funds are to be invested in budgeted projects such as the R&D centre and the manufacturing site in Beijing, as well as in the BOT projects in Zhoukou, Feicheng, Kunming and Xianning, and other new potential projects.

Cash flow

Cash flow from operating activities decreased by 23.3% to €16.4 million in 2009, primarily due to lower revenues and the resultant lower earnings contributions.

Cash and cash equivalents amounting to €1.6 million were paid in relation to investments for tangible and intangible assets. In addition, the balance of deposits and withdrawals amounted to €-19.6 million due to fund investments relating to temporary fund management, resulting in a cash flow from investment activities of €-21.2 million.

In 2009, ZhongDe generated negative cash flow from financing activities of €4.4 million due to a dividend payout of €1.95 million and the buy-back of own shares worth €2.4 million.

Financing

Up to the balance sheet date, the Company and its subsidiaries had not obtained any credit facilities and did not have any outstanding bank borrowing. However, it cannot be ruled out that, with its expansion in the BOT sector, the Group may apply for bank borrowing in 2010 in order to have the financial opportunity to further its expansion.

Capital expenditure

Total capital expenditure of the ZhongDe Group including investments in BOT projects decreased to €6.2 million in the year 2009, compared to €8.2 million in 2008. We expect capital expenditure including funds relating to BOT projects to peak in 2010, with a series of budgets planned for the completion of our Beijing plants and the contracted BOT projects. We may also invest a substantial amount in constructing additional large-scale WTE incinerators – a focused direction of the ZhongDe Group in the current financial year 2010.

The Group delayed the pace of its capital expenditure in 2009, which included construction work at our Beijing manufacturing site. In view of ZhongDe's strategy transition, the facilities in Beijing will now comprise an R&D centre and a manufacturing site for large-scale WTE incinerators instead of a second production plant for small and medium-sized incinerators.

A further reason for the lower capital expenditure was that certain BOT investments were postponed. The Company tried to negotiate better terms with the government with regard to its policy on promoting environmental protection businesses, especially in the field of waste management.

Another factor was that ZhongDe's first major EPC project in Datong had monopolised more capacity than originally anticipated. Nevertheless, ZhongDe garnered a great deal of experience during this construction phase, which the Company can put to profitable use in future EPC and BOT projects.

Summary of the current economic position

The ZhongDe Group successfully realised its strategy transition to focus on large-scale waste-to-energy incinerator projects in 2009. This resulted in revenues being reported in the segments for EPC and BOT projects from which the ZhongDe Group can generate stable yields in the long term. These developments are in contrast to the decline in revenues from the sale of incineration plants for municipal and medical waste, which could not be offset by the increases in the field of large-scale incineration plants. Overall expenses essentially remained stable.

As at 31 December 2009, the ZhongDe Group had cash and cash equivalents of €111.9 million and an equity ratio of 88%, thus emphasising the strong economic position of ZhongDe.

Human resources

The increased profile and market reputation of the Company continues to attract qualified staff to the ZhongDe Group. As of 31 December 2009, the total number of employees amounted to 375, compared to 369 as of 31 December 2008.

In 2009, our Company improved its standard recruitment process in order to ensure the professionalism of new staff. Various recruitment channels have been adopted in order to gain information on all types of skilled employees and enable our Company to build a complete talent database for its future development.

Research & development

Since 2008, our Company has been collaborating with Nankai University, Tianjin, China, to advance SCR dioxin emission reduction technology. Focal points of the research process have been identified, research into developing heating, catalytic and cooling techniques has been carried out and general layout drawings have been completed. The development of a medium-sized prototype will continue in 2010.

Research into semi-dry acid and dust remover technology has been completed. The technology department appointed a working group to investigate the relevant gas purification technologies and this group developed the technical specifications and evaluation parameters for incinerators with a capacity of 200 tons per day. All the drawing design work in the system, such as the drawings for the overall design, bag filter, circular fluidisation tower, ash residue tower, etc. have been completed.

The R&D department also established a working group to investigate grate incinerator manufacturers and incineration plants for the technological development of 350-tons-per-day grate incinerators. This group organises meetings to identify design parameters and technology schemes.

ZhongDe has successfully developed a cooling jacket-type distributor, which has been successfully applied in vertical double-looped pyrolysis incinerators. The technology has become the indispensable and core part of vertical double-loop pyrolysis incinerators and helps maximise the competitiveness of the product. At present, the Company has applied for patent protection for this technology. ZhongDe has developed an air and gas pre-mix room designed to improve incineration efficiency, which could successfully be applied in medical waste incineration projects.

Principles and objectives of financial management

ZhongDe strives to maximise the financial interests of its stakeholders through sound and efficient financial management involving the necessary financial and liquidity planning. In the current period of financial crisis, enterprises face the continuous shrinking of the credit market as a consequence of problems in the global banking system.

The Chinese government has introduced a flexible monetary policy which includes interest rate cuts, while the Chinese central bank has suspended its limitations on bank loans for businesses. The financial institutions are willing to offer loans to companies with stable earnings and growth in the industrial sectors promoted by the state. Waste disposal and the construction of incinerators fall within this category and are prioritised by the banks as projects to be awarded loans.

The cash and cash equivalents held by the Company as at 31 December 2009 may not be sufficient to cover the financing needed for projects scheduled for 2010, especially the completion of the Beijing production plant. It will therefore be necessary for the Company to consider applying for bank loans if it wishes to have the scope to realise further potential projects. Since the environmental protection industry has received strong support from central government, the Company is negotiating with various major banks to explore cooperative potential in China. The Company's management considers debt financing a feasible option, which can help the Company leverage its capital with lower borrowing costs to maximise the return of shareholders.

Corporate Governance Declaration

Corporate governance within the ZhongDe Group

ZhongDe Waste Technology AG is committed to the principles of good and responsible corporate governance. Corporate governance at ZhongDe is focused on responsible long-term value creation and is based on the German Corporate Governance Code. We merit the trust of our shareholders, clients and employees by close and constructive cooperation between the Supervisory Board and the Management Board. The close cooperation between the two boards is characterised by open corporate communication and intense customer care, as well as due care in relation to accounting, audit and risk management.

Since its implementation in 2002, the code has proved itself as a benchmark for good corporate governance in Germany. The Supervisory Board and the Management Board of ZhongDe Waste Technology AG explicitly support the code and its objectives.

Declaration of Compliance

In the financial year 2009, the Management Board and the Supervisory Board dealt with corporate governance issues on several occasions. On 23 April 2010, the Management Board and the Supervisory Board jointly issued an updated declaration of compliance in accordance with Section 161 of the German Stock Corporation Act (Aktengesetz/AktG) and made it permanently available to the shareholders on the Company's website. ZhongDe Waste Technology AG complies with the recommendations of the German Corporate Governance Code save as provided for otherwise below:

German Corporate Governance Code 2009

The Management Board and the Supervisory Board herewith declare that the Company has complied and will comply with the recommendations of the German Corporate Governance Code (Code) in the version dated 18 June 2009 except the following deviations:

- Sections 4.2.2 to 4.2.4 contain recommendations on the remuneration of members of the Management Board granted by the Company. The Company deviates from the recommendations as set forth in Sections 4.2.2 to 4.2.4 of the Code, because the remuneration of members of the Management Board is ex-

clusively provided for through employment agreements with the ZhongDe Group's operational entity Fujian FengQuan Environmental Protection Holding Limited.

- According to Section 5.1.2 para. 2 (3) and Section 5.4.1 (2) of the Code, the determination of an age limit is recommended. The Company's statutes do not provide for such an age limit, however. The Company believes that the determination of such an age limit for members of the Management Board and/or the Supervisory Board is not useful as a general rule since the Company wishes to be in the position to decide on a case-by-case basis to appoint elder qualified board members. The Company therefore deviates from the recommendations as set forth in Section 5.1.2 para. 2 (3) and Section 5.4.1 (2) of the Code.
- Sections 5.3 and 5.2 para. 2 of the Code recommend the constitution of supervisory board committees. Since the Company's Supervisory Board is composed of merely three members, the constitution of supervisory board committees is obviously not reasonable. The Company therefore deviates from the recommendations as set forth in Sections 5.3 and 5.2 para. 2 of the Code.
- Pursuant to Section 3.8 para. 2 of the Code, D&O insurance policies shall provide for a deductible for members of the Management Board and the Supervisory Board. The existing D&O insurance contracts do not provide for such deductibles. The Company therefore deviates from the recommendation as set forth in Section 3.8 para. 2 of the Code. However, the Company plans to amend the D&O insurance policies within the next months which shall then provide for appropriate deductibles for the board members.
- Section 7.1.2 of the Code recommends that the annual consolidated financial statements be made available to the public domain within 90 days after expiration of the last business year and that interim financial reports be made available within 45 days of the end of the respective reporting period. The Company slightly missed these timelines. The reason is that due to its international holding structure and some linguistic challenges to be faced with the preparation of the financial reports, the Company has put, and will put, more emphasis on accurate financial statements rather than to exactly meet the recommended timelines.

German Corporate Governance Code 2008

The Management Board and the Supervisory Board herewith declare that the Company has complied, and will comply with, the recommendations of the Code in the version as of 6 June 2008 except the following deviations:

- Sections 4.2.2 to 4.2.4 contain recommendations on the remuneration of members of the Management Board granted by the Company.

The Company deviates from the recommendations as set forth in Sections 4.2.2 to 4.2.4 of the Code because the remuneration of members of the Management Board is exclusively provided for through employment agreements with the ZhongDe Group's operational entity Fujian FengQuan Environmental Protection Holding Limited.

- According to Section 5.1.2 para. 2 (3) and Section 5.4.1 (2) of the Code, the determination of an age limit is recommended. The Company's statutes do not provide for such an age limit, however. The Company believes that the determination of such an age limit for members of the Management Board and/or the Supervisory Board is not useful as a general rule since the Company wishes to be in the position to decide on a case-by-case basis to appoint elder qualified board members. The Company therefore deviates from the recommendations as set forth in Section 5.1.2 para. 2 (3) and Section 5.4.1 (2) of the Code.
- Sections 5.3 and 5.2 para. 2 of the Code recommend the constitution of supervisory board committees. Since the Company's Supervisory Board is composed of merely three members, the constitution of supervisory board committees is obviously not reasonable. The Company therefore deviates from the recommendations as set forth in Sections 5.3 and 5.2 para. 2 of the Code.

- Pursuant to Section 3.8 para. 2 of the Code, D&O insurance policies shall provide for a deductible for members of the Management Board and the Supervisory Board. The existing D&O insurance contracts do not provide for such deductibles. The Company therefore deviates from the recommendation as set forth in Section 3.8 para. 2 of the Code.
- Section 5.4.6 para. 2 of the Code recommends variable remuneration components for members of the Supervisory Board. Until the resolution on a new remuneration system for members of the Supervisory Board as adopted by the Annual General Meeting on 31 July 2009, the remuneration for Supervisory Board members did not include variable components. The reason was that until that time the Company considered their remuneration system applicable at that time to be reasonable and appropriate. Hence, until 31 July 2009, the Company deviated from the recommendations as set forth in Section 5.4.6 para. 2 of the Code.
- Section 7.1.2 of the Code recommends that the annual consolidated financial statements be made available to the public domain within 90 days after expiration of the last business year and that interim financial reports be made available within 45 days of the end of the respective reporting period. The Company slightly missed these timelines. The reason is that due to its international holding structure and some linguistic challenges to be faced with the preparation of the financial reports, the Company has put, and will put, more emphasis on accurate financial statements rather than to exactly meet the recommended timelines.

Information on corporate governance

Shareholders and the Annual General Meeting

The shareholders exercise their rights and voting rights at the Annual General Meeting. According to the statutory provisions and the Articles of Association, the Annual General Meeting takes place within the expiration of the first eight months of each financial year. Each share grants one vote at the Annual General Meeting. There are neither shares conferring multiple voting rights nor limited voting rights, nor are there existing preferred shares. The shareholders are entitled to exercise their voting rights at the Annual General Meetings in person or by proxy, for which they can authorise a representative of their choice or a Company-nominated proxy acting on their instructions. The invitation for the Annual General Meetings as well as invitations

for all other General Shareholders Meetings will include provisions on the attendance, the procedure pertaining to the exercise of voting rights (in person or by proxy) as well as the rights of the shareholders. All reports and documents which are required by law to be made available for Annual General Meetings, including the annual report, will be published on the Company's website at www.zhongde-tech.de/annual-general-meeting together with the agenda.

Cooperation between the Management Board and the Supervisory Board

The Management Board and the Supervisory Board work closely together in the interest of the Company. Their common goal is to ensure the continued existence of the Company and the sustainable creation of value.

In accordance with statutory requirements, ZhongDe Waste Technology AG has a so-called two-tier governance system which is characterised by the Management Board and the Supervisory Board being two separate and independent corporate bodies. The Management Board is responsible for managing the Company, developing the Company's strategy, agreeing this strategy with the Supervisory Board and implementing it. The Supervisory Board supervises, oversees and advises the Management Board and is directly involved in decisions which are of fundamental importance for the Company and, therefore, require the prior approval of the Supervisory Board. The Management Board provides the Supervisory Board with regular detailed reports and updates on business policy and all issues of relevance for the Company relating to the planning, business development, the risk situation and the risk management system. The reports of the Management Board also include the subject of compliance, i.e. the implemented means through which adherence to statutory provisions and the ZhongDe Group's internal statutes is ensured.

Conflicts of interest of the Management Board or Supervisory Board members, which must be disclosed immediately to the Supervisory Board, did not occur in the financial year 2009.

According to the recommendations of the German Corporate Governance Code, the remuneration of the members of the Management Board and the Supervisory Board are disclosed on an individual basis. The general rules of the remuneration system

and the remuneration itself are more specifically referred to in the remuneration report, which is part of this Group management report (p. 34 ff.).

Directors' dealings

According to Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz/WpHG), the members of the Management Board and the Supervisory Board and/or persons close to them are obliged to disclose the purchase and sale of ZhongDe Waste Technology AG shares and related financial instruments whenever the value of such transaction amounts to €5,000 or more within a calendar year. For the financial year 2009, ZhongDe Waste Technology AG was notified of the following transactions, which – as in the previous year – are also published on the Company's website: http://www.zhongde-ag.com/investor_relations/

On 31 December 2009, the total volume of shares in ZhongDe Waste Technology AG which were held by all members of the Management Board and the Supervisory Board amounted to 50.86% of the aggregate amount of issued shares.

Accounting and auditing

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

The individual and consolidated financial statements are prepared by the Management Board. The audit of the individual and consolidated annual financial statements is devoted to the auditor appointed by the Annual General Meeting. For the financial year 2009, BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft, Hamburg, has been appointed as auditor by the Annual General Meeting on 31 July 2009.

The individual and consolidated financial statements as prepared by the Management Board and audited by the Company's auditor are reviewed and approved by the Supervisory Board.

Corporate compliance

At ZhongDe Waste Technology AG, compliance, i.e. measures to ensure adherence to statutory provisions, internal statutes and Company policies and observance of these measures and rules by affiliated companies, is a key management duty. The Company has developed internal rules as well as a code of conduct through which any employee of the Company itself and/or its affiliated entities is obliged to comply with all statutory provisions and the rules set forth in these internal guidelines. The Company puts great emphasis on fully complying with both German and Chinese statutory legal provisions and conventions.

Risk management

Good corporate governance includes dealing responsibly with risks. The Management Board keeps the Supervisory Board timely and duly informed about existing risks and their development. The Supervisory Board regularly deals with monitoring of the accounting process, the effectiveness of internal control, risk management and internal auditing systems as well as monitoring the auditing of the financial statements. The internal control, risk management and internal auditing systems are continuously evolved and adapted to changing conditions. More details of our risk management system can be found on pages 31 ff.

Transparency

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

Cooperation between the Management Board and the Supervisory Board

Management Board

The members of the Management Board are appointed by the Supervisory Board. The Management Board is responsible for the management of the Company. The Management Board sets out the strategic goals, the main business strategy and the Group's policy and organisation. This includes the steering of the Group, the management and investment policy pertaining to the financial resources, the development of personnel strategy, the engagement of key employees and the presentation of the ZhongDe Group to the capital market and the public domain.

The Management Board of ZhongDe Waste Technology comprises two members. The current members of the Management Board are Mr Zefeng Chen (Chairman and Chief Executive Officer) and Mr William Jiuhua Wang (Chief Financial Officer).

The Management Board is obliged to continuously, timely and comprehensively inform the Supervisory Board on all matters which are relevant for the ZhongDe Group. This information includes the intended business policy, the Group's profitability, the recent development of the business activities and the financial and economic status of the Company, the business planning, the actual risk situation, the risk management and the compliance. The Management Board must immediately inform the Chairman of the Supervisory Board on matters of major importance.

For certain business transactions and measures as more specifically set forth in the by-laws for the Management Board, the Management Board must obtain the Supervisory Board's prior approval.

The members of the Management Board are obliged to disclose conflicts of interest to the Supervisory Board. The Supervisory Board has to report on any conflicts of interest to the shareholders. In the financial year 2009, no conflicts of interest which would have had to be disclosed and/or reported to the Supervisory Board occurred.

The Company has taken out D&O insurance for its members of the Management Board which currently does not include a deductible. The D&O insurance is set to be amended in accordance with the amended statutory law and the current Corporate Governance Code.

Details pertaining to the remuneration of the members of the Management Board for the financial year 2009 can be found in the remuneration report on pages 34 ff.

Supervisory Board

The task of the Supervisory Board is above all to control and advise the Management Board. The Supervisory Board is furthermore responsible for the appointment of the members of the Management Board, the determination of their remuneration as well as the review and approval of the annual financial statements of the Company. In addition, the Supervisory Board is responsible for approving business transactions which require the prior consent of the Supervisory Board.

The Supervisory Board is composed in accordance with Sections 95 and 96 of the German Stock Corporation Act (Aktengesetz/AktG) and consists of three members. The current members of the Supervisory Board are Mr Hans-Joachim Zwarg (Chairman), Prof. Dr. Ing. Bernd Neukirchen (Deputy Chairman) and Dr Hao Quan. After the resignation of the former Supervisory Board member Mr Joachim Ronge with effect as of 31 December 2008, and the appointment of Prof. Dr. Ing. Bernd Neukirchen by the local court of Hamburg on 5 January 2009, the Annual General Meeting elected Prof. Dr. Ing. Bernd Neukirchen as a member of the Supervisory Board until the expiration of the general meeting resolving on the ratification for the financial year 2012.

The members of the Supervisory Board are obliged to disclose conflicts of interest to the Supervisory Board. The Supervisory Board has to report on any conflicts of interest to the shareholders. In the financial year 2009, no conflicts of interest which would have had to be disclosed and/or reported to the Supervisory Board occurred. More details can be found in the Supervisory Board Report on pages 10 ff.

The Company has taken out D&O insurance for its members of the Supervisory Board which currently does not include a deductible. The D&O insurance is set to be amended in accordance with the amended statutory law and the current Corporate Governance Code.

Details pertaining to the remuneration of the members of the Management Board for the financial year 2009 can be found in the remuneration report on pages 34 ff.

Description of the main features of the internal control and risk management system relating to the financial reporting process pursuant to Section 289 para. 5, 315 para. 2 (5) HGB (German Commercial Code)

The main features of the internal control and risk management system of ZhongDe AG relating to the (Group) financial reporting process can be described as follows:

ZhongDe AG and the ZhongDe Group, respectively, have a distinct management and company structure. Queries concerning several areas are decided on and managed by the Management Board. The Management Board mainly operates in China, at the head office in Fuzhou and at the new administrative headquarters in Beijing.

There is a distinct division between the responsibilities of the main areas concerning the financial reporting process, i.e. finance and accounting. The areas of responsibility are clearly assigned. The integrity and responsibility regarding finance and financial reporting are secured by an independent accounting department. In the case of ZhongDe Waste Technology AG, these services are also rendered by an external tax consultation and auditing company.

Provisions are made in the Company's IT system to ensure that the financial systems used are tamper-proof. As far as possible, standard software is used. The Company aims to equip the departments and divisions involved in the financial reporting system appropriately in qualitative as well as quantitative respects.

Accounting data received or passed on is continuously checked with regard to completeness and correctness, e.g. by way of random samples. Programmed validation checks are taken, e.g. within the scope of payment processes. Processes designed to implement the four-eye principle are applied to the preparation of all financial statements. Accounting-relevant processes are regularly reviewed by the (impartial) internal auditing department.

Explanation of the main attributes of the internal control system and the risk management system in relation to the financial reporting system:

The internal control and risk management system relating to the financial reporting system, the main features of which have been described above, ensures that corporate measures are recorded, processed and validated correctly and are incorporated into the financial reporting. The use of adequate software and clear-cut legal and internal specifications are the basis for a correct, uniform and ongoing financial reporting process. The distinct division between the areas of responsibilities as well as various control and review systems as described above in more detail (in particular the validation checks and the four-eye principle) ensure correct and responsible accounting. Thereby transactions are recorded, processed and documented in accordance with the legal provisions, the Articles of Association and the internal guidelines, and are recorded promptly and correctly for the accounting department. At the same time, it is ensured that the assets and liabilities are determined, declared and valued correctly in the financial statements and the consolidated financial statements. It is also ensured that reliable and relevant information is provided completely and promptly.

Risk report

Risk and opportunity management

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

Our business relies on solid experience, high product and WTE project quality, and solid relationships with existing and potential clients. As the ZhongDe Group is still relatively small, top management is involved directly in all major projects and activities. To remain close to business developments, we regularly conduct gross margin analyses, detailed project accounting, order-entry controls and monitor the progress of accounts receivable. The monthly PRC reports, quarterly financial statements and two-weekly operation reports are core tools in the management of our business.

As well as investing in BOT projects, we are currently constructing an R&D centre and new manufacturing facilities for large-scale WTE incinerators in Beijing. The ZhongDe Group remains conscious of the fact that these investments require detailed project management. To be able to meet these requirements, we are recruiting additional personnel and highly qualified WTE project managers. We have created an internal audit department which is responsible for monitoring internal controls and for project analysis.

We are in the process of establishing internal control systems and implementing corresponding improvements, and are also developing an improved cash management system so as to better accommodate the requirements caused by the sustained business growth over the years. We believe that cash management is a high priority within the Group as a whole and within the individual companies.

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

As long as our business centres are in mainland China, there should be no currency effects on our operating business. Should ZhongDe AG take on financial responsibilities in the future, it goes without saying that we will keep a close eye on currency effects in relation to monetary transfers from Germany to China.

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

General economic risks

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

Associated and business risks

Reductions in Chinese spending on waste management would pose a risk to sales. This could result from reductions in subsidies granted by the PRC government to customers served by the ZhongDe Group, since subsidy levels influence the propensity to buy 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 and thoroughly addressing regulations concerning environmental protection and any amendments to them, in particular with regard to waste management.

Regulatory and licensing risks and opportunities

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

Our clients 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.

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

The Group has so far been successful in obtaining the licences and permits needed for new waste-to-energy incineration businesses. We therefore consider such risks to be minimal.

Sales and purchasing risks and opportunities

The Group's sales growth depends on its ability to secure new orders for the construction of solid-waste incinerators and new EPC and BOT contracts for waste-to-energy projects. The level of competition could intensify if new domestic or international suppliers entered the market.

We combat the risk of losing contracts to competitors by recruiting sales and marketing staff, and by establishing a dedicated international sales team in order to reduce our long-term dependence on the Chinese market.

The ZhongDe Group's profitability could be adversely affected by rising procurement costs or falling prices. Close ties with suppliers of special components and materials are needed for the construction of WTE incinerators and for the EPC and BOT projects.

We regularly analyse our dependence on individual suppliers and pursue avenues to forge links with alternative suppliers. We have created a database of suppliers in order to safeguard supplies and quality while simultaneously reducing costs.

Quality control management

The ZhongDe Group's experienced engineers are responsible for quality control. Risks can present themselves insofar as quality control is implemented insufficiently or not at all. We endeavour to minimise these risks through employee selection and with the help of suitable standardised procedures and internal control measures.

Warranty risks

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

Project management risks

Every project is managed by a separate team in order to clearly define the allocation of responsibilities. Project planning documentation and corresponding project budgets are drawn up for the purposes of managing the projects. In addition to regular written reports, there are fixed regular meetings designed to keep everyone abreast of the status quo and the continued development of a project.

It takes experienced and qualified personnel to manage such projects, otherwise the tasks in hand cannot be dealt with satisfactorily, potentially resulting in delays and/or budget overspends. We endeavour to avoid such risks with the aforementioned staff recruitment process.

Financial risks and other risks and opportunities

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

ZhongDe Group revenues are generated primarily in RMB. Shifts in foreign currency exchange rates could pose financial disadvantages with a resulting negative impact on dividends. As a holding company, our liquidity depends on maintaining immediate access to liquid funds at the operating subsidiary in China.

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

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

The recruitment of skilled and experienced people in all areas of the business will remain central to our ongoing measures to enhance quality and standards. Nevertheless, human resource risks could arise from a loss of expertise caused by a fluctuation in qual-

ified personnel, or from insufficiently qualified employees with a lack of commitment to service. Therefore ZhongDe decided to relocate its Chinese headquarters from Fuzhou to Beijing, where it has better access to skilled and experienced human resources.

As the influence of the international financial crisis on the Chinese economy has become increasingly clear, several local governments have postponed their plans to purchase small and medium-sized waste incinerators due to reductions in tax revenue. This inevitably entails the risk of a reduction in orders for ZhongDe's small and medium-sized waste incinerators. ZhongDe's strategy focus on large-scale WTE plants, which are also promoted by the Chinese central government's stimulus package, can play its part in successfully reducing this risk.

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

Based on expectations of a continued increase in demand for waste incineration plants, which are expected to play a part in solving China's waste and environmental problems, we currently consider the merchandising risk for the ZhongDe Group to be low in the long term.

Our waste-to-energy plants also enjoy a very good reputation due to our straightforward technologies which are well adapted to the market conditions. Most of our customers are city government-related bodies, and we can therefore assume that there is generally a low risk of default.

The ZhongDe Group had a very high level of equity level following its IPO. Our high levels of liquidity provide a solid basis for expanding into the construction of complete waste incineration plants, either in conjunction with EPC projects or BOT projects in which the ZhongDe Group also operates the plant. For the time being, our activities cover only mainland China.

Corporate strategy

The year 2009 was a year of a change in strategy for the ZhongDe Group. The focus of ZhongDe's business strategy was shifted from small and medium-sized waste incinerators to large-scale waste-to-energy projects. In line with the changing market conditions in China, with sales of small and medium-sized incineration plants dwindling, the Company quickly adjusted its business strategy such that it was able to largely offset this decline in sales by focusing on large waste-to-energy (WTE) projects. WTE projects are strongly promoted by the central government and local authorities as they save energy and protect the environment.

ZhongDe has already acted as a general contractor of EPC WTE projects and even acts as an investor and operator of WTE plants if there is the possibility to sign a 20 to 30-year BOT contract. This leads to additional recurring revenues from operation in addition to EPC project revenue. The ZhongDe Group's overall strategic objective is to maintain strong and profitable business growth in order to create superior shareholder value.

Management and control

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

ZhongDe's CFO, Mr Jiuhua Wang is responsible for the Human Resources, Finance and Accounting divisions as well as Investor Relations.

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

The Production division is responsible for the production, timely delivery, complete installation and commissioning of our incinerators. Innovation and upgrading of our products to meet changes in market demand is the main task of our R&D division. At present, the division is increasingly focusing on technologies required for large-scale municipal waste incinerators of various types.

The Project Management division is responsible for the realisation of the BOT projects in which ZhongDe invests as well as the implementation of large EPC projects. It plays an increasingly important role in ZhongDe's business as ZhongDe is shifting its focus onto large-scale waste-to-energy incinerators.

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

Remuneration report

Remuneration of the Management Board

The Supervisory Board determines the remuneration of the Management Board according to Section 87 para. 1; 107 para. 3 (3) German Stock Corporation Act (AktG). The current remuneration agreements with the members of the Management Board were entered into before the Act on the adequacy of remuneration of members of the Management Board as of 5 August 2009 (Gesetz über die Angemessenheit der Vorstandsvergütung) became effective. Nevertheless, remuneration of the members of the Management Board of the Company is based on the economic and financial situation of ZhongDe Waste Technology AG as well as the size of the Company and its fields of business activity. The remuneration of the members of the Management Board consists of a fixed salary.

The members of the Management Board of the ZhongDe Waste Technology AG received the following fixed remuneration in 2009:

in k€	2009	2008
Mr Zefeng Chen	18	17
Mr William Jihua Wang	7*	0
Ms Na Lin	7**	13

* For the period from 1 July to 31 December 2009

** For the period from 1 January to 30 June 2009

Remuneration of the Supervisory Board

According to Section 20 of the Articles of Association, each member of the Supervisory Board receives remuneration determined by the Annual General Meeting. The Annual General Meeting of 31 July 2009 reached the following resolution pertaining to remuneration of the Supervisory Board:

The Chairman of the Supervisory Board receives basic remuneration of €60,000.00 per calendar year and the Deputy Chairman of the Supervisory Board receives basic remuneration of €45,000.00 per calendar year. Each further member of the Supervisory Board receives basic remuneration of €15,000.00 per calendar year. In addition to the basic remuneration, members of the Supervisory Board receive annual performance-related remuneration based on the success of the Company in the amount of €100 per €0.01 of the earnings per share as disclosed in the current consolidated financial statements if this exceeds a minimum amount of €2.00. The cap for the performance-related remuneration is an amount of earnings per share of €3.50. The members of the Supervisory Board receive reimbursements for expenses with regard to their office as members of the Supervisory Board as well as VAT, if applicable.

in k€	2009	2008
Mr Hans-Joachim Zwarg (Chairman)	71	71
Prof. Dr. Ing. Bernd Neukirchen* (Deputy Chairman)	54	0
Dr Hao Quan	15	20
Mr Joachim Ronge**	0	46

* Prof. Dr. Ing. Neukirchen has been a member of the Supervisory Board since 1 January 2009

** Mr Ronge was a member of the Supervisory Board until 31 December 2008

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

1. Subscribed capital

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

2. 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 in ZhongDe Waste Technology AG.

3. Direct or indirect participation in shares exceeding 10% of the voting rights

Mr Zefeng Chen holds 50.8% of the shares in ZhongDe Waste Technology AG, providing him with a corresponding amount of voting rights.

4. Shares with exclusive rights

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

5. Exercise of voting rights by employees

Employees who are shareholders in ZhongDe Waste Technology AG exercise their voting rights on their own discretion and do not have the control of voting rights.

6. 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 AktG for a period not exceeding five years in each case. Any extension of the term of office requires a Supervisory Board resolution and may be adopted no earlier than one year prior to expiry of the current term of office. In urgent cases, the local court (Amtsgericht) may appoint a missing and required Management Board member upon application by any person with interests meriting protection (e.g. other Management Board members) (Section 85 AktG). This office would, however, be terminated as soon as the deficiency could be rectified, e.g. as soon as the Supervisory Board has appointed a missing Management Board member. Dismissal of a Management Board member is permissible only with good cause (Section 84 para. 3 [1] [3] AktG). Good causes include gross negligence of duties, inability to duly perform duties or revocation of confidence by the Annual General Meeting. Pursuant to Section 8 para. 2 of the Articles of Association of ZhongDe Waste Technology AG, the Supervisory Board may appoint a chairman as well as a deputy chairman of the Management Board.

The Articles of Association can only be amended by a resolution of the Annual General Meeting according to Section 179 AktG. Beside this, the Supervisory Board is, pursuant to Section 18 para. 3 of the Articles of Association, entitled to make changes to the Articles of Association, provided that these changes only concern the wording or form.

7. Authority of the Management Board to issue shares

The Management Board is authorised to increase the share capital of the Company with the consent of the Supervisory Board until 31 July 2013 once or several times by up to €6,500,000.00 by issue of up to 6,500,000 new bearer shares of no par value in consideration of contributions in cash or in kind (authorised capital 2009). In each case ordinary shares and/or preference shares may be issued. The Management Board is further authorised, in each case with the consent of the Supervisory Board, to provide that the pre-emptive rights of the shareholders are excluded.

The Management Board was authorised by the Annual General Meeting on 31 July 2009 to issue convertible bonds of up to €195,000,000.00 in return for option or conversion rights for the acquisition of up to 6,500,000 shares in total.

The Management Board was also authorised by the Annual General Meeting to acquire up to 1,300,000 Company shares until 31 December 2010. During this period, the authorisation may be exercised once or several times for one or several purposes. The acquisition of the Company's own shares can either be carried out via the stock exchange or by means of a public offer or by equity derivatives. If the Company shares are purchased via the stock exchange, the nominal value per share may not fall below or exceed the opening price of the Xetra trading system by more than 10% on the day of the purchase. If the Company shares are purchased by way of public offer, the price granted may not fall below or exceed the average closing price of the Xetra trading system on the 4th and 10th day before the publication of the price granted by more than 20%.

8. No change of control provisions

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

9. No agreements on compensation in case of a takeover

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

Subsequent events

Founding of ZhongDe China: ZhongDe (China) Environmental Protection Co. Ltd. Beijing, PRC, was founded in January 2010 with €10.5 million of capital. In addition to the capital required by the Articles of Association, there have so far been additional deposits of €1.68 million. The Company directly holds 100% of the shares in this subsidiary. By establishing a subsidiary which goes by the "ZhongDe" name in China, it is hoped that its strong ties with the parent company in Germany will be made more apparent, that cooperation between businesses in Germany and in China will be fostered, especially with regard to the sharing of technical expertise, and that the Company's expansion activities in China will be facilitated.

Outlook

Assessing economic developments in the coming years remain subject to considerable uncertainty. However, signs of recovery are visible following this severe recession. Our planning is therefore based on an economic upturn in 2010 and 2011, although there are likely to be significant regional differences in the speed and strength of the recovery. It remains to be seen how the economic upturn will have an effective influence on the expenses in China for waste disposal management.

Due to the current and anticipated economic development of China in 2009 and 2010, the Chinese government has decided to pay more attention to the quality of economic development, including environmental protection. It is focusing on anti-inflation and employment measures, and on raising people's incomes, rather than purely on increasing its GDP. We therefore anticipate an increase in demand for large-scale waste-to-energy plants in the financial year 2010, as these are promoted both by the central government and by local authorities.

Based upon our order intake and order status, we currently see a sound basis for a sustainable increase in revenues in 2010 and 2011 in comparison to 2009, primarily in relation to EPC projects. We also expect to see higher gross profit in the next two years than in the current financial year.

Based upon our most recent negotiations with potential clients, we are confident that we will be able to conclude additional contracts for EPC projects with satisfactory profit margins. Our Datong project serves as an example that we are able to manage bigger projects and are capable of handling the corresponding risks.

It goes without saying that the risks increase proportionate to the size of the project. We therefore have to focus all our energies on ensuring that we calculate our projects correctly and that we have a functioning project management system that shields us from any unpleasant surprises. We also have to ensure that we have suitable financing for our projects.

A total of 45% of our orders on hand currently relate to EPC projects and a further 53% relate to BOT projects. As far as the financing for EPC projects is concerned, we must arrange down payments that correlate to the increase in output if we are to sufficiently safeguard our liquidity. We endeavour to finance BOT projects by striking a balance between loans from banks and using our own current funds.

On the whole, we anticipate a stable business environment for the Company, allowing ZhongDe to capitalise on the opportunities this presents to expand its business activities. These opportunities relate to our strategic positioning and, above all, to the development of our brand name and our increasing presence in the sector of large-scale WTE incinerating plants. This goes hand in hand with sales growth and a long-term earnings perspective. However, we must emphasise that our expectations are fraught with the usual uncertainties, even if there is currently no evidence of the business developing in any way other than anticipated.

Hamburg, 28 April 2010

The Management Board



Zefeng Chen
Chairman of the Management Board (CEO)



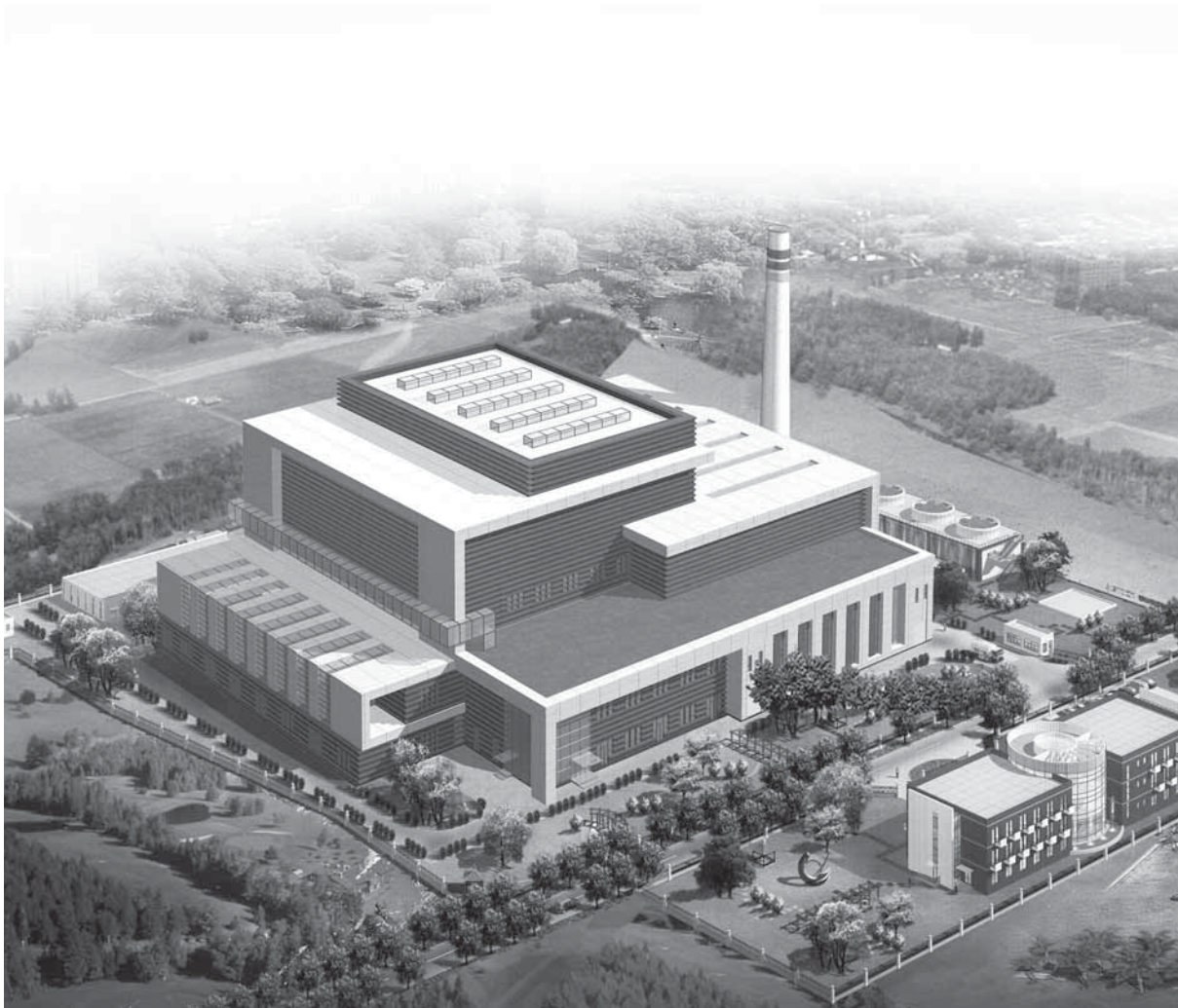
William Jiuhua Wang
Executive Director of the
Management Board (CFO)

Zhucheng EPC project

The Zhucheng project comprises the construction of a 500 tons-per-day waste-to-energy incinerator plant. The project is worth approximately RMB 268 million (€27.3 million) and is expected to be completed by the end of 2010.

The "percentage of completion" method is used for this construction contract, which means that the Zhucheng project will contribute to revenues and earnings of 2010.

This is another large engineering, procurement and construction project (EPC project) after the Datong project.



Financial statements

- 40 Consolidated balance sheet
- 42 Consolidated statement of cash flow
- 44 Consolidated statement of income
and expenses
- 44 Statement of comprehensive income
- 45 Consolidated statement of changes
in equity
- 46 Notes to the consolidated financial
statements

Consolidated balance sheet

of ZhongDe Waste Technology AG as of 31 December 2009

in k€	Note	31 Dec. 2009	31 Dec. 2008
Assets			
<i>Non-current assets</i>			
Intangible assets	2.4, 3, 10	5,207	3,714
Property, plant and equipment	2.2, 2.5, 11	1,387	1,298
Construction in progress	12	5,400	4,682
Receivables from BOT	2.6, 3, 13	5,248	2,393
Deferred tax assets	2.18	179	659
		17,421	12,746
<i>Current assets</i>			
Inventories	2.10, 14	4,032	4,097
Trade receivables	2.2, 2.9, 15, 25	5,581	15,403
Other receivables and prepayments	2.9, 15, 25	3,239	3,013
Amounts due from related parties	15, 24, 25	6	10
Cash and cash equivalents	2.8, 16, 25	111,899	105,740
		124,757	128,263
Total assets		142,178	141,009

in k€	Note	31 Dec. 2009	31 Dec. 2008
Liabilities and equity			
<i>Capital and reserves</i>			
Issued capital, stated value €1.00, issued: 13,000,000 and 13,000,000, outstanding: 12,798,800 and 13,000,000 at 31 Dec. 2009 and 31 Dec. 2008, respectively	1, 17.1	13,000	13,000
Capital reserves	17.2a)	69,822	69,822
Statutory reserves	17.2b)	7,225	6,348
Own shares 201, 200 and 0 at 31 Dec. 2009 and 31 Dec. 2008, respectively	17.1	-2,408	0
Retained earnings	17.2c)	35,571	32,684
Foreign exchange difference	17.3	1,884	6,486
Total equity		125,094	128,340
<i>Liabilities</i>			
Long-term liabilities			
Deferred tax liabilities	2.18, 18	593	396
		593	396
Current liabilities			
Trade payables	2.11, 19, 25	9,398	4,353
Other payables and accruals	2.11, 19, 25	5,456	6,809
Provisions	2.2, 2.12, 20, 25	1,067	830
Amounts due to related parties	19, 24, 25	37	199
Income tax payable	2.18	533	82
		16,491	12,273
Total liabilities		17,084	12,669
Total liabilities and equity		142,178	141,009

Consolidated statement of cash flow

for the period from 1 January to 31 December 2009

in k€	2009	2008
Profit before income tax	7,737	23,684
<i>Adjustments for:</i>		
Amortisation of intangible assets	56	45
Allowance for doubtful trade debts	(380)	(21)
Provision for warranty	316	104
Depreciation of property, plant and equipment	305	219
Gains/losses PPE	121	6
Interest income/exchange gains	(1,141)	(3,820)
Interest expense/exchange losses	1,423	1,439
Operating cash flows before working capital changes	8,437	21,656
<i>Working capital changes:</i>		
(Increase)/decrease in:		
Inventories	65	(1,484)
Trade receivables	10,476	(1,222)
Other receivables and prepayments	(227)	(2,531)
Amounts due from related parties	4	(2)
Receivables from BOT	(4,589)	(3,523)
Increase/(decrease) in:		0
Trade payables	5,045	3,118
Other payables, provisions and accruals	(1,431)	2,976
Amounts due to related parties	(162)	124
Cash generated from/(used in) operations	17,618	19,113
Interest received/exchange gains	1,141	3,820
Interest paid/exchange losses	(1,423)	(1,439)
Income tax paid	(896)	(47)
Net cash generated from operating activities	16,440	21,447
<i>Cash flow from investing activities</i>		
Payments in connection with the short-term financial management of cash investments	(22,587)	(8,200)
Receipts in connection with the short-term financial management of cash investments	3,000	10,200
Purchase of property, plant, equipment, intangible assets, land use rights	(1,644)	(4,728)
Cash flow used in investing activities	(21,231)	(2,728)

in k€	2009	2008
Cash flow from financing activities		
Dividend paid	(1,950)	(1,950)
Buy back of own shares	(2,408)	0
Cash flow from financing activities	(4,358)	(1,950)
<i>Net increase in cash and cash equivalents</i>	<i>(9,149)</i>	<i>16,769</i>
Cash at beginning of year	102,740	78,827
Foreign exchange differences	(5,028)	7,144
Cash at end of period	88,563	102,740
Short-term (duration over 3 months) financial management of cash investments	23,336	3,000
Cash and cash equivalents (balance sheet)	111,899	105,740

Consolidated statement of income and expenses

for the period from 1 January to 31 December 2009

in k€	Note	2009	2008
Sales	2.2, 2.14, 3, 4	40,199	49,530
Cost of sales		25,166	21,563
Gross profit		15,033	27,967
Other operating income		381	65
Selling and distribution expenses		1,873	1,938
Administrative expenses		1,864	1,479
Research and development expenses	2,4	464	494
Other operating expenses		3,195	2,818
Profit from operations		8,018	21,303
Finance income	2.14, 8	1,141	3,820
Finance costs	2.16, 9	1,423	1,439
Profit before tax		7,736	23,684
Income tax expense	2.18, 21	2,023	572
Profit for the year		5,713	23,112
Earnings per share (diluted and undiluted)	2.19	0,44	1,78
Weighted average shares outstanding (diluted and undiluted)		12,971,502	13,000,000

Statement of comprehensive income

for the period from 1 January to 31 December 2009

in k€	2009	2008
Profit for the year	5,713	23,112
Other comprehensive income		
Foreign exchange differences recognised directly in equity (no relating income tax)	(4,602)	8,150
Total changes recognised directly in equity	(4,602)	8,150
Total comprehensive income	1,111	31,262

Consolidated statement of changes in equity

for the period from 1 January to 31 December 2009

in k€	Number of shares outstanding	Share capital AG	Capital reserves	Statutory reserves	Own shares	Retained earnings	Foreign exchange differences	Total equity
Balance as at 31 December 2007	13,000,000	13,000	69,422	3,657	0	14,213	(1,664)	98,628
Changes in measurement and accounting methods	0	0	0	0	0	0	0	0
Balance as at 1 January 2008	13,000,000	13,000	69,422	3,657	0	14,213	(1,664)	98,628
After-tax gains (+) or losses (-) recognised directly in equity from								
Currency translation adjustment	0	0	0	0	0	0	8,150	8,150
Total after-tax gains (+) or losses (-) recognised directly in equity	0	0	0	0	0	0	8,150	8,150
Net profit for the period	0	0	0	0	0	23,112	0	23,112
Total result for the period	0	0	0	0	0	23,112	8,150	31,262
Appropriations of current year's income	0	0	0	2,691	0	(2,691)	0	0
Dividend paid for the year 2007	0	0	0	0	0	(1,950)	0	(1,950)
Deferred taxes on IPO expenses	0	0	400	0	0	0	0	400
Balance as at 1 January 2009	13,000,000	13,000	69,822	6,348	0	32,684	6,486	128,340
After-tax gains (+) or losses (-) recognised directly in equity from								
Currency translation adjustment	0	0	0	0	0	0	(4,602)	(4,602)
Total after-tax gains (+) or losses (-) recognised directly in equity	0	0	0	0	0	0	(4,602)	(4,602)
Net profit for the period	0	0	0	0	0	5,713	0	5,713
Total result for the period	0	0	0	0	0	5,713	(4,602)	1,111
Appropriations of current year's income	0	0	0	877	0	(877)	0	0
Dividend paid for the year 2008	0	0	0	0	0	(1,950)	0	(1,950)
Buy back own shares	(201,200)	0	0	0	(2,408)	0	0	(2,408)
Balance as at 31 December 2009	12,798,800	13,000	69,822	7,225	(2,408)	35,570	1,884	125,093

Notes to the consolidated financial statements

| 1 | Background and basis of preparation

| 1.1 | The Company

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

ZhongDe Waste Technology AG (“the Company”) is the parent company of the ZhongDe Group and was formed by means of a notarial deed of incorporation, dated 4 May 2007. The business name of the Company is “ZhongDe Waste Technology AG”. The Company is registered under the registration number HRB 101376 at the local court in Hamburg. The legal domicile of the Company is located at Stadthausbrücke 1–3, 20355 Hamburg, Germany. The principal place of business is located in Beijing. The Company’s financial year is the calendar year (i.e. 1 January to 31 December). The duration of the Company is unlimited.

Business purpose of the Company

The Company’s purpose is the holding, administration and disposal of direct and indirect participations of undertakings and participations in the waste disposal business, particularly waste incineration and waste management, including all transactions related thereto and services for affiliated entities. 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, de-merge parts of its business to subsidiaries and associated companies, including joint ventures with third parties, sell interests in other companies, conclude enterprise agreements or limit itself to the management of shareholdings.

Business of the ZhongDe Group

The ZhongDe Group designs, manufactures and installs incinerators for the disposal of solid medical, municipal (mixed household refuse) and industrial (including hazardous) waste. This involves a variety of incineration techniques: grate, pyrolytic and rotary kiln incineration. The ZhongDe Group waste incinerators are designed primarily for dedicated operators responsible for the disposal of medical waste created by hospitals and the health industry, and also for small and medium-sized municipalities in developed areas of the People’s Republic of China. Furthermore, as a general contractor of EPC, the ZhongDe Group is responsible for the design, engineering, procurement, construction and installation of pyrolytic, grate and rotary kiln waste incinerators with a power generation (waste-to-energy). As an investor of BOT projects, the ZhongDe Group also produces and operates the waste-to-energy plants besides the above EPC role.

Group structure

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

All subsidiaries of ZhongDe Waste Technology AG shown in the following table are consolidated:

in k€	Interest	Equity 31 Dec. 2009	Results 2009
Chung Hua Environmental Protection Assets (Holdings) Group Ltd., Hong Kong	100%	36,537	6,503
Fujian FengQuan Environmental Protection Holding Ltd., Fuzhou, PR China	100%	63,329	8,183
Beijing ZhongDe Environmental Protection Technology Co. Ltd., Beijing, PR China	100%	906	(1,505)
Zhoukou FengQuan Environmental Protection Electric Power Co., Ltd., Zhoukou, PR China	100%	7,206	245
Feicheng FengQuan Waste Disposal Co., Ltd., Feicheng, PR China	100%	1,431	248
Lianshui FengQuan Waste Disposal Co., Ltd., Lianshui, PR China	100%	986	(10)
Xianning ZhongDe Environmental Protection Electric Power Co., Ltd., Xinjiang, PR China	100%	7,943	(199)
Kunming FengDe Environmental Protection Electric Power Co., Ltd., Kunming, PR China	100%	5,000	(77)

The number of consolidated subsidiaries has increased compared to the previous year: Two subsidiaries, Xianning and Kunming, were formed new and the Xinjiang subsidiary was liquidated of compared to last year. Fujian FengQuan Environmental Protection Holding Ltd., has a share in five subsidiaries for the execution of BOT projects, which are included in the consolidated financial statements. Thus, there is no impact on the consolidated financial statements.

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

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

|1.2| Basis of preparation

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 Accounting Standards Board (IASB) and the EU, in conjunction with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) with consideration to the principle of reverse acquisition.

The consolidated financial statements were generally prepared using the historical cost convention. The consolidated statement of comprehensive income 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 initial application of IFRIC 12 ahead of schedule has an effect on the consolidated financial statements of the ZhongDe Group, as it resulted in a change in the presentation of the BOT projects carried out by its subsidiaries. This affects both the financial year 2009 and the previous financial years because of its retro-active application.

IFRIC 12 concerns arrangements pertaining to service concessions granted to a private company (operator) by a public authority (licensor) for the rendering of public services such as the construction, operation and maintenance of infrastructural facilities, and according to which the public authorities have certain rights of control.

The operator shall carry the rights granted to it by the licensor in its balance sheet as a financial asset insofar as the operator has acquired unconditional rights to the payment of a fixed counter-performance or compensation from the public authority. Insofar as the operator is entitled to a counter-performance dependent on the utilisation of the infrastructural facilities, this shall be carried as an intangible asset in the balance sheet of the operator.

The accounting of rights pertaining to service concession arrangements is therefore reported as a financial asset or an intangible asset, respectively, instead of being included as part of property, plant and equipment carried at fair value. Accordingly, the consequences for the consolidated financial statements of the ZhongDe Group are shown below:

Consequences of IFRIC 12 to balance sheet in k€	31 Dec. 2009	31 Dec. 2008	1 Jan. 2008
Construction in progress	(6,000)	(2,852)	0
Intangible asset	2,860	1,400	0
Receivables from BOT	5,248	2,393	0
Retained earnings	1,570	682	0
Foreign exchange differences	95	52	0
Deferred tax liabilities	443	207	0

Consequences of IFRIC 12 to Profit and Loss in k€	2009	2008	2007
Revenue	4,589	3,523	0
Cost of sales	(3,450)	(2,649)	0
Profit before income tax	1,139	874	0
Income tax	(251)	(192)	0
Profit of the period	888	682	0
EPS (in €)	0.07	0.05	0.00

New standards and interpretations and amendments to existing standards and interpretations applicable for the financial year ending 31 December 2009 are:

- IFRS 1 Revised “First Time Adoption of IFRS” (effective date: 1 January 2009): This amendment had no material impact on the Group’s financial statements.
- IFRS 2 Amendment – Share-based Payment – Vesting Conditions and Cancellations (effective date: 1 January 2009): This amendment had no impact on the Group’s financial statements.
- IFRS 7 Amendments – Financial Instruments: Disclosures (effective date: 1 January 2009): This amendment had no material impact on the Group’s financial statements.
- IFRS 7 and IAS 39 Amendments: Reclassification of Financial Instruments as well as Financial Assets (effective date: 1 January 2009): This amendment had no material impact on the Group’s financial statements.
- IFRS 8 Operating Segments (effective date: 1 January 2009): This new standard had an impact on the nature and extent of the notes in the Group’s financial statements and is described in the relevant chapter.
- IAS 1 Presentation of Financial Statements – Revised (effective date: 1 January 2009): This amendment had only impact on the presentation of the Group’s financial statements.
- IAS 23 Borrowing Costs – Revised (effective date: 1 January 2009): This amendment had no impact on the Group’s financial statements.
- IAS 27 Amendments – Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective date: 1 January 2009): These amendments had no impact on the Group’s financial statements.
- IAS 32/IAS 1 Amendments – Financial Instruments: Presentation/Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective date: 1 January 2009): These amendments had no material impact on the Group’s financial statements.
- IFRIC 9/IAS 39 Amendments – Reassessment of Embedded Derivatives/Financial Instruments: Recognition and Measurement – Embedded Derivatives (effective date: 1 January 2009): These amendments had no impact on the Group’s financial statements.
- IFRIC 13 Customer Loyalty Programmes (effective date: 1 January 2009): This interpretation had no impact on the Group’s financial statements.
- IFRIC 14/IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective date: 1 January 2009): This interpretation had no impact on the Group’s financial statements.
- Improvements to IFRS (2008) (effective date: 1 January 2009): These improvements had no material impact on the Group’s financial statements.

New standards and interpretations and amendments to existing standards and interpretations that will be effective for financial years after 31 December 2009, and have not been applied in preparing these consolidated financial statements, are:

- IFRS 3 Business Combinations – Revised (effective date: 1 July 2009): This amendment will have an impact on the Group’s financial statements in the event of future business combinations.
 - IAS 27 Amendment – Consolidated and Separate Financial Statements (effective date: 1 July 2009): This amendment is not expected to have any material impact on the Group’s financial statements.
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- IAS 32 Amendment – Financial Instruments: Presentation – Classification of Rights Issues (effective date: 1 February 2010): This amendment is not expected to have any impact on the Group's financial statements.
- IAS 39 Amendment – Financial Instruments: Recognition and Measurement – Eligible hedged items (effective date: 1 July 2009): This amendment is not expected to have any material impact on the Group's financial statements.
- IFRIC 15 Agreements for the Construction of Real Estate (effective date: 1 January 2010): This interpretation is not expected to have any impact on the Group's financial statements.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective date: 30 June 2009): This interpretation is not expected to have any impact on the Group's financial statements.
- IFRIC 17 Distributions on Non-cash Assets to Owners (effective date: 1 November 2009): This interpretation is not expected to have any impact on the Group's financial statements.
- IFRIC 18 Transfers of Assets from Customers (effective date: 1 November 2009): This interpretation is not expected to have any impact on the Group's financial statements.
- Improvements to IFRS (2008) > IFRS 5 (effective date: 1 July 2009): These improvements are not expected to have any material impact on the Group's financial statements.

Entities shall apply the new standards and interpretations, and amendments to existing standards and interpretations, for annual periods beginning on or after the effective date.

New standards and interpretations, and amendments to existing standards and interpretations, are usually not applied by the Group before the effective date.

Apart from additional or modified disclosure requirements there were no material effects on the consolidated financial statements.

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

The consolidated financial statements as of 31 December 2009 were released for submission to the Supervisory Board on 28 April 2010. The consolidated financial statements will probably be approved at the balance sheet meeting of the Supervisory Board on 29 April 2009; until the time of approval, it is possible for the Supervisory Board to amend the consolidated financial statements.

| 2 | Significant accounting policies

| 2.1 | Basis of consolidation

A subsidiary is consolidated, when the ZhongDe AG has the power, directly or indirectly, to govern the financial and operating policies of the company so as to acquire benefit from its activities (control principle). Participations in companies that are not consolidated are stated in the Company's balance sheet at acquisition costs less any impairment losses, if any.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date.

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. The inter-Group business relations correspond to the third-party comparison.

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

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

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

The following estimates, which have a significant 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 judgment 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.

The carrying amount of allowance for doubtful receivables is €60 thousand.

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 expectations in the machine manufacturing industry). The carrying amount of the Group's equipment at 31 December 2009 was €1,387 thousand. As changes in the expected level of usage and technological developments could affect the economic useful life and the residual value of these assets, future depreciation charges could be revised.

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

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 that most of these costs will be incurred one year after the balance sheet date.

The carrying amount for provisions is €306 thousand.

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

d) Provisions for contractual penalties

Assumptions used to calculate the provision for contractual penalties were based on the management's best estimate and current information available. It is expected that these expenses will incur in the following year after the balance sheet date.

The carrying amount for provisions is €152 thousand.

e) Revenue recognition on construction contracts

Certain Group entities, particularly in the segments EPC and BOT, conduct a proportion of their business under construction contracts which are accounted for using the percentage of completion method. This method requires accurate estimates of the extent of process towards completion. Depending on the methodology to determine contract progress, the significant estimates include total contract costs, remaining costs to completion, total contract revenues, contract risks and other judgements. The management continually reviews all estimates involved in such construction contracts and adjust them as necessary.

| 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 ongoing services, including most of the 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 (or HKD) into euro as:

Development of exchange rates (€1/foreign currency rate)	ISO code	Average rate		Ending rate	
		2009	2008	2009	2008
		Chinese yuan	CNY	9.5277	10.2236
Hong Kong dollar	HKD	10.8114	11.4541	11.1709	10.7858

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 are approximate to the exchange rates at the date of transactions.

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

| 2.4 | Intangible assets

a) Land use rights

In 2007, the subsidiary in Beijing acquired land use rights in connection with the construction of new manufacturing facilities. The land use rights are amortised over the agreed period of use of 50 years.

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. Amortisation has been charged to cost of sales and administrative/other expenses.

c) Research and development costs

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

d) Service concession rights

With the application of the IFRIC 12 in conjunction with BOT projects, intangible assets of service concession rights are recognised. A service concession right is recognised to the extent that the ZhongDe Group receives a right to charge users of the public service provided with the infrastructure. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service.

The service concession rights are amortised over the agreed period of use of 30 years starting from the beginning of the operation of the infrastructure, which is scheduled for 2010 in the case of the first BOT projects.

| 2.5 | Equipment

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

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

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

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

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

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

| 2.6 | Receivables from BOT

Non-current financial assets refer to recognised revenue with regard to construction contracts in progress of the BOT-projects. A financial asset will be recognised to the extent that it has an unconditional contractual right to receive cash or another financial asset from, or at the direction of, the grantor for the construction services.

The financial asset carried in the balance sheet shall be recognised at amortised cost/at cost of sales and subject to the effective interest method in the subsequent periods, in accordance with IFRIC 12.25. Pursuant to IAS 39.9, the amortised cost/cost of sales is determined as the original cost/cost of sales including effected repayments and any amortisation, where applicable.

| 2.7 | 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. This increased amount cannot 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.

Since no triggering events exist, there are no indications for an impairment-test of the non-current assets at the balance sheet date.

| 2.8 | 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.

| 2.9 | 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.

| 2.10 | Inventories

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

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

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

| 2.11 | Financial liabilities and equity

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

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

| 2.12 | Provisions

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

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

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

| 2.13 | 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.

| 2.14 | 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 be met:

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) Construction contract revenue and expense

This revenue and expense is accounted for using the percentage of completion method which recognises revenue as performance as the contract progresses. The contract progress is determined based on the percentage of costs incurred to date to total estimated cost for each contract after giving the effect to the most recent estimates of total cost. Construction contracts under the percentage of completion method are measured at construction cost plus profits earned based on the percentage of the contract completed.

d) 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.

e) Service concession arrangement

According to IFRIC 12 - Service Concession Arrangements, revenue relating to construction services under a service concession arrangement (BOT) is recognised based on the percentage of completion of the work. The revenue relating to operation services is recognised in accordance with IAS 18.

| 2.15 | 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.

| 2.16 | Interest bearing loans

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

| 2.17 | Derecognition of financial assets and liabilities

a) Financial assets, if any

A financial asset is derecognised 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.

| 2.18 | 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 tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences.

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, 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 against which the temporary differences can be utilised.

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.

| 2.19 | Earnings per share

Earnings per share for 2009 amounted to €0.44 (2008: €1.78). The basis for the calculation is the profit after tax. The ZhongDe Group calculates the earnings per share in agreement with IAS 33. The earnings per share are determined on the basis of the weighted average of the outstanding common stock. According to this, treasury stock is not considered in the calculation of the basis for the earnings per share on the date these shares were bought back.

| 3 | Service concession arrangements

The subsidiaries of the Group entered into service concession arrangements with the grantors. Pursuant to the service concession arrangements, the Group has to design and construct waste-to-energy treatment plants in the PRC as well as to operate and manage them for a period of 30 years. The Group has the obligation to maintain the infrastructure in good condition. The grantors guarantee the Group will receive minimum annual payments in connection with the arrangements. Upon expiry of the concession periods, the infrastructure and the related facilities will be transferred to the local government authorities without consideration. In case of delayed payment of the waste disposal fees, the Group is entitled to receive penalty for late payments. The Group is obliged to pay compensation if it does not dispose of the delivered waste in accordance with the concession agreement.

Furthermore, the Group entered into a service concession arrangement with regards to a waste disposal incinerator plant. Pursuant to this arrangement, the Group has to design and construct a waste treatment plant in the PRC as well as to operate and manage it for a period of 30 years. The Group has the obligation to operate the infrastructure properly for the concession period. The grantor guarantees the Group will receive minimum annual payments in connection with the arrangement. The infrastructure is used for its entire useful life during the concession period. In case of delayed payment of the waste disposal fees, the Group is entitled to receive penalty for late payments. The Group is obliged to pay compensation if it does not dispose of the delivered waste in accordance with the concession agreement.

Revenue relates to the construction services provided in constructing the waste-to-energy treatment plants is recognised as intangible respectively financial asset in the financial statements. A financial asset will be recognised to the extent that it has an unconditional contractual right to receive cash or another financial asset from, or at the direction of, the grantor for the construction services. An intangible asset will be recognised to the extent that it receives a right (a licence) to charge users of the public service.

| 4 | Revenues

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

| 5 | Percentage of completion

The contracts are disclosed under receivables from PoC, or in the case of anticipated losses, under payables from PoC. If payments exceed the cumulative contract output, the construction contract is disclosed under payables.

Sales of €40.2 million (2008: €49.5 million) include order income of €4.6 million (2008: €12.4 million) from ongoing production orders identified with the PoC method. The accumulated costs of sales are €3.5 million (2008: €10.1 million), the accumulated gross profit is €1.1 million (2008: €2.3 million).

Receivables from PoC and advanced payments are disclosed in the balance sheet as following:

in k€	2009	2008
Receivables from PoC	0	9,584
Advanced payments	0	(11,482)
	0	(1,898)
thereof gross amount due from customers for contract work as an		
- asset	0	0
- liability	0	(1,898)

The receivables from PoC differ from the revenues from PoC due to the different translation of assets and revenues from the functional currency RMB into the reporting currency €. The difference is charged to equity (foreign exchange difference) and does not affect profit and loss.

| 5 | Segment analysis

Segment information

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, in order to allocate resources to the segments and to assess their performance. 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 three business segments, namely sale of incinerators (specially designed for the disposal of urban municipal waste and medical waste), EPC projects (engineering, procurement and construction) and BOT/BOOT projects (build-operate-transfer/build-operate-own-transfer).

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. Accordingly, no geographical segment analysis is presented.

c) Allocation basis

Revenue and cost of sales are directly attributable to the segments. Not directly attributable expenses and income are reported separately as unallocated income and expenses.

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 cannot be allocated reasonably.

Where applicable, inter-segment sales are eliminated on consolidation. For the years 2009 and 2008, there were no inter-segment sales.

The following table presents revenue and results information regarding the Group's business segments for the financial year ended 31 December 2009:

Business segments

in k€	2009	2008
Revenue		
Incinerators	11,221	37,106
Incinerator especially for disposal of medical waste	506	2,221
Incinerator especially for disposal of urban household waste	10,715	34,885
EPC project business	24,366	8,901
BOT project business	4,589	3,523
Zhoukou	3,030	2,530
Feicheng	1,559	993
Total revenue for reportable segments	40,176	49,530
Unallocated revenues	23	0
Total revenues	40,199	49,530
Results		
Incinerators	7,098	25,686
Incinerator especially for disposal of medical waste	363	1,800
Incinerator especially for disposal of urban household waste	6,735	23,886
EPC project business	6,782	1,406
BOT project business	1,139	875
Zhoukou	752	628
Feicheng	387	247
Total profit or loss for reportable segments	15,019	27,967
Unallocated results	(7,283)	(4,283)
Total profit from operations before tax	7,736	23,684
Income tax	(2,023)	(572)
Profit for the year	5,713	23,112

The following table presents certain assets, liabilities and other information regarding the Group's segments for the fiscal year ended 31 December 2009:

Assets and liabilities in k€	31 Dec. 2009	31 Dec. 2008
Segment assets		
Incinerators	3,893	18,427
Incinerator especially for disposal of urban household waste	3,705	16,714
Incinerator especially for disposal of medical waste	188	1,713
EPC project business	4,256	1,578
BOT project business	11,186	9,551
Zhoukou	8,393	7,769
Feicheng	2,793	1,782
Total amount segment assets	19,335	29,556
Unallocated assets	122,843	111,453
Total assets	142,178	141,009
Segment liabilities		
Incinerators	902	2,033
Incinerator especially for disposal of urban household waste	794	2,033
Incinerator especially for disposal of medical waste	108	0
EPC project business	7,810	3,420
BOT project business	2,548	1,613
Zhoukou	1,186	1,064
Feicheng	1,362	549
Total amount segment liabilities	11,260	7,066
Unallocated liabilities	5,824	5,603
Total liabilities	17,084	12,669
Investments in fixed assets	1,472	4,689
Investments in intangible assets	173	38
Depreciation and amortisation	361	264

Unallocated assets mainly represent cash €111,899 thousand (2008: €105,740 thousand).

Accounting for the individual segments follows the accounting principles that are also used in the Group. Income and costs that can not be assigned are not distributed to the segments.

Information about major customers

All of ZhongDe's revenues were earned by Group companies based in mainland China. In the incinerator segment, net revenues in the amount of €5.5 million (2008: €7.9 million and €5.7 million) were achieved with one customer (2008: two customers). In the EPC project segment, net revenues in the amount of €24.4 million (2008: €8.9 million) were achieved with one customer.

|7| Expenses

in k€	2009	2008
Depreciation of property plant and equipment	305	219
Staff costs	2,145	1,680
Amortisation of intangible assets	56	45
Allowance for doubtful trade debts	(380)	(21)
Costs of sales	25,166	21,563

|8| Finance income

in k€	2009	2008
Interest income	516	1,750
Exchange gains	625	2,070
	1,141	3,820

|9| Finance costs

in k€	2009	2008
Bank charges	4	2
Exchange loss	1,418	1,375
Interest expense	-	62
	1,422	1,439

| 10 | Intangible assets

in k€	Software	Trademark, patent	Land use right	Service concession rights	Total
Cost:					
At 31 December 2008	36	18	2,317	1,400	3,771
Additions	160	13	0	1,560	1,733
Exchange difference	(6)	(1)	(80)	(100)	(187)
At 31 December 2009	190	30	2,237	2,860	5,317
Accumulated amortisation and impairment:					
At 31 December 2008	3	0	54	0	57
Amortisation	10	0	46	0	56
Exchange difference	0	0	(3)	0	(3)
At 31 December 2009	13	0	97	0	110
Net carrying amount:					
At 31 December 2008	33	18	2,263	1,400	3,714
At 31 December 2009	177	30	2,140	2,860	5,207
Exchange difference	(6)	(1)	(77)	(100)	(184)

in k€	Software	Trademark, patent	Land use right	Service concession rights	Total
Cost:					
At 31 December 2007	10	2	2,046	0	2,058
Additions	23	15	0	1,300	1,338
Exchange difference	3	1	271	100	375
At 31 December 2008	36	18	2,317	1,400	3,771
Accumulated amortisation and impairment:					
At 31 December 2007	1	0	7	0	8
Amortisation	2	0	43	0	45
Exchange difference	0	0	4	0	4
At 31 December 2008	3	0	54	0	57
Net carrying amount:					
At 31 December 2007	9	2	2,039	0	2,050
At 31 December 2008	33	18	2,263	1,400	3,714
Exchange difference	3	1	267	100	371

The following important intangible assets which are being used by the Group are free of charge and were not disclosed on the consolidated balance sheet and therefore not included in the table above:

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

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

| 11 | Equipment

in k€	Machine equipment	Vehicle	Electronic equipment	Total
Cost:				
At 31 December 2008	543	983	245	1,771
Additions	113	258	190	561
Disposals	(9)	(115)	(35)	(159)
Exchange difference	(22)	(38)	(16)	(76)
At 31 December 2009	625	1,088	384	2,097
Accumulated depreciation and impairment:				
At 31 December 2008	224	174	75	473
Depreciation charged for the year	55	190	60	305
Disposals	(1)	(34)	(9)	(44)
Exchange difference	(9)	(11)	(4)	(24)
At 31 December 2009	269	319	122	710
Net carrying amount:				
At 31 December 2008	319	809	170	1,298
At 31 December 2009	356	769	262	1,387
Exchange difference	(13)	(27)	(12)	(52)

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

The factory premises in Fuzhou, that are currently used by the Group, as well as the operational and office building are leased by Fujin FengQuan Environmental Group Co. Ltd.

There are further details in notes 23 and 24.

| 12 | Construction in progress

in k€	Construction in progress
Cost:	
At 31 December 2008	4,682
Additions	911
Disposals	(6)
Exchange difference	(187)
At 31 December 2009	5,400
Accumulated depreciation and impairment:	
At 31 December 2008	0
Depreciation charged for the year	0
Disposals	0
Exchange difference	0
At 31 December 2009	0
Net carrying amount:	
At 31 December 2008	4,682
At 31 December 2009	5,400
Exchange difference	(187)

in k€	Construction in progress
Cost:	
At 31 December 2007	149
Additions	4,192
Disposals	0
Exchange difference	341
At 31 December 2008	4,682
Accumulated depreciation and impairment:	
At 31 December 2007	0
Depreciation charged for the year	0
Disposals	0
Exchange difference	0
At 31 December 2008	0
Net carrying amount:	
At 31 December 2007	149
At 31 December 2008	4,682
Exchange difference	341

Construction in progress relates almost entirely to the R&D centre and the production site in Beijing.

| 13 | Receivables from BOT projects

in k€	Receivables from BOT
Cost:	
At 31 December 2008	2,393
Additions	3,029
Disposals	0
Exchange difference	(174)
At 31 December 2009	5,248
Accumulated depreciation and impairment:	
At 31 December 2008	0
Depreciation charged for the year	0
Disposals	0
Exchange difference	0
At 31 December 2009	0
Net carrying amount:	
At 31 December 2008	2,393
At 31 December 2009	5,248
Exchange difference	(174)

in k€	Receivables from BOT
Cost:	
At 31 December 2007	0
Additions	2,223
Disposals	0
Exchange difference	170
At 31 December 2008	2,393
Accumulated depreciation and impairment:	
At 31 December 2007	0
Depreciation charged for the year	0
Disposals	0
Exchange difference	0
At 31 December 2008	0
Net carrying amount:	
At 31 December 2007	0
At 31 December 2008	2,393
Exchange difference	170

| 14 | Inventories

in k€	2009	2008
Raw materials and consumables	445	1,312
Finished goods	1,281	2,679
Raw materials for BOT projects	1,463	3
Work in process	843	103
	4,032	4,097

| 15 | Trade and other receivables

in k€	2009	2008
Trade receivables:		
Trade receivables	5,641	15,848
Allowance for trade receivables	(60)	(445)
	5,581	15,403
Other receivables:		
Other receivables	200	836
Advance to customers	3,039	2,165
Prepayments	0	12
	3,239	3,013
Allowance for other receivables	0	0
	3,239	3,013
Related parties:		
Amount due from related parties-non-trade	6	10
Allowance for amount due from related parties	0	0
	6	10
	8,826	18,426

All trade receivables are non-interest bearing. They are recognised at their original invoice amounts, which represent their fair values on initial recognition. The due dates (age structure) are as follows:

in €	2009	2008
Within 30 days	4,250	3,338
31-90 days	109	2,473
91-180 days	0	7,424
181-360 days	1,256	2,585
361-1,080 days	26	28
More than 1,080 days	0	0
	5,641	15,848

Allowance for doubtful receivables

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

in k€	2009	2008
Provision for trade receivables	(380)	(21)
Provision for other receivables	0	0
	(380)	(21)

| 16 | Cash and cash equivalents

in k€	2009	2008
Cash at banks and in hand	88,564	102,740
Short-term deposits (duration up to 3 months)	0	0
Cash fund	88,564	102,740
Short-term deposits (duration over 3 months)(euro)	3,000	3,000
Short-term deposits (duration over 3 months)(Renminbi)	20,336	0
	111,899	105,740
Thereof in Germany	4,072	4,276
Thereof in China	107,827	101,464

Cash at banks earns interest at an annual rate of up to 0.36%. The short-term deposit is made for a varying period between one and six months depending on the immediate cash requirements of the Group and earns interest of up to 1.25% annually for €3,000 thousand and 1.98% annually for €20,336 thousand (RMB 200 million).

| 17 | Equity

| 17.1 | Paid-in capital

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

The Management Board is authorised to increase the share capital of the Company with the consent of the Supervisory Board until 31 July 2014, once or several times by up to €6,500,000 by issue of up to 6,500,000 new bearer shares of no par value in consideration of contributions in cash or in kind (authorised capital 2009). In each case ordinary shares and/or preference shares may be issued. The Management Board is further authorised, in each case with the consent of the Supervisory Board, to provide that the pre-emption right of the shareholders is excluded.

The Management Board was authorised by the Annual General Shareholders' Meeting on 31 July 2009 to issue convertible bonds of up to €195,000,000 in return for option or conversion rights for the acquisition of up to 6,500,000 shares in total.

In 2009, treasury stock of the parent company amounted to a value of €2,408 thousand and is divided into 201,200 shares. The number of circulating shares amounts to 12,798,800 (31 December 2009) accordingly 13,000,000 (31 December 2008).

| 17.2 | Reserves and retained earnings

a) Capital reserves

The amount reflected in the balance sheet relates to the proceeds from the IPO in 2007. The capital reserves remain unchanged compared to last year.

b) Statutory reserves

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

c) Retained earnings

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

In 2009, a dividend of €0.15 per share (€1,950 thousand) was paid to the shareholders in accordance with the resolution of the shareholders' meeting on 31 July 2009.

| 17.3 | Currency conversion differential

The equity item for currency conversion serves to recognise differences arising from conversion of the financial statements prepared by companies affiliated to the Group which do not prepare their balance sheets in euros.

| 18 | Deferred tax liabilities

The amount is primarily based on different revenue recognition in connection with EPC and BOT projects where the PoC method is applied.

| 19 | Trade and other payables

in k€	2009	2008
Current liabilities		
Trade payables	9,398	4,353
Other payables and accruals:		
Advance from customers	1,722	2,839
Accrued expenses	873	708
VAT payable	1,128	2,082
Other tax payables	112	353
Other payables	1,619	827
	5,456	6,809
Related parties:		
Amounts due to shareholders	19	55
Amounts due to other related parties	18	144
	37	199
Income tax payable	533	82
	15,425	11,443

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.

| 20 | Provisions

in k€	Maintenance/ warranties	Staff bonus and welfare	Other	Total
At 31 December 2007	306	189	160	655
Additions	104	250	0	354
Utilised	(104)	0	(160)	(264)
Exchange differences	40	45	0	85
At 31 December 2008	346	484	0	830
Additions	316	146	152	614
Utilised	(345)	0	0	(345)
Exchange differences	(11)	(21)	0	(32)
At 31 December 2009	306	609	152	1,067

Warranty

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

Staff bonus and welfare fund

In 2007, the subsidiary company was converted into a foreign investment company. Pursuant to the foreign investment company laws of the PRC and the decisions of the board of directors of the subsidiary company, 1% of the profit after tax was allocated as a staff bonus and to the welfare fund. The fund can only be used for staff public welfare.

Other

The additions in 2009 refer to possible contractual penalties in conjunction with BOT projects.

| 21 | Income tax

The major components of income tax expense are as follows:

in k€	2009	2008
Current income tax	(1,336)	(71)
Deferred income tax induced by		
- tax rate changes	0	0
- temporary differences	(357)	(284)
- tax loss carry forwards	(330)	(217)
	(687)	(501)
Income taxes according to profit and loss statement	(2,023)	(572)

The reconciliation of tax expenses is as follows:

in k€	2009	2008
Profit before income tax	7,736	23,528
Tax rate	25%	25%
Expected tax income expense	1,934	5,882
Tax rate differential	(912)	(5,312)
Non deductible expenses	461	89
Tax-exempted income	(101)	0
Recognition and measurement of deferred tax assets and liabilities	617	(83)
Other terms	24	(4)
	2,023	572
Group tax rate	26.2%	2.4%

Applicable tax rate: The normal Chinese tax rate amounts to 25%. The major operating subsidiary Fujian FengQuan Environmental Protection Holding Ltd., was wholly exempted from the corporate income tax in 2007 and 2008 due to its status as a foreign owned entity (FOE). The subsidiary is entitled to a 50% reduction of the normal tax rate (25%) for the three years beginning from 2009, such that the applicable tax rate for this period is 12.5%.

The amount of tax loss carry forwards on which deferred tax assets have not been accounted for amount to about €4.2 million (2008: €2.2 million). Of this amount, €2.2 million (2008: €2.2 million) can be carried forward without restriction; the remaining amount can, primarily, be carried forward for a limited period of five years. In 2009, ZhongDe Waste Technology AG used €1.2 million (2008: €1.3 million) of its losses carried forward from 2008, for which deferred tax assets were formed.

No deferred tax liabilities were carried in the balance sheet in conjunction with taxable temporary differences amounting to €1.5 million (previous year: €1.7 million) relating to shares in Group companies, as there will be no reversal in these differences in the foreseeable future. In conjunction with scheduled dividend payments, the accrued German tax expenditure of €82 thousand was carried as a deferred tax liability.

Deferred income tax relates to the following:

in k€	31 Dec. 2009		31 Dec. 2008	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Construction in progress	0	1,339	0	628
Service concession rights	629	0	308	0
Receivables from BOT	1,522	0	526	0
Trade receivables	7	0	56	0
Provisions	38	0	43	0
Inventories	0	0	0	871
Other receivables and prepayments	0	0	0	138
Other payables and accruals	0	218	1,198	0
Losses carried forward	133	0	560	0
Total	2,329	1,557	2,691	1,637
Netting	(2,150)	(2,150)	(2,032)	(2,032)
	179	(593)	659	(396)

| 22 | Employee benefits

	2009	2008
Average number of employees of the Group		
Management and administration	137	128
Research and development	28	39
Manufacture	97	126
Sales	113	76
	375	369

in k€	2009	2008
The average payroll costs of these employees		
Wages and salaries	1,725	1,216
Social security costs	232	176
Welfare	98	38
Appropriation of welfare and bonus fund	90	250
	2,145	1,680

Retirement benefit plans

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

| 23 | Commitments and contingencies

Operating lease commitments

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

in k€	2009	2008
Lease payment recognised as expense	343	142

Future minimum lease payments payable under non-cancellable operation leases as at 31 December 2009 are as follows:

in k€	2009	2008
Not later than one year	283	189
Later than one year but not later than five years	792	392
Later than five years	629	739
	1,704	1,320

Contingent liabilities

Fujian FengQuan has distributed profits related to 2007 and 2006 as dividends in the amount of €10 million to its Hong Kong holding parent company in 2009. Under PRC tax laws, profits derived before 2008 are still exempt from EIT (enterprise income tax) when they are distributed to a foreign investor in 2008 or thereafter. However, for the purpose of enjoying the tax exemption, Fujian FengQuan must apply for an EIT exemption approval from the competent tax authorities when the dividends related to 2007 are accrued in the accounts, or before the amount is actually paid. At the moment the approval certificate has not been obtained.

In the case that the approval will not be issued, a withholding tax in the amount of €1.0 million will incur.

| 24 | Related party disclosures

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

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

Related party information

Name of related party	Relationship
Chen, Zefeng	CEO, majority shareholder
Fujian FengQuan Environmental Protection Group Co. Ltd.	Company attributable to Chen Zefeng
Fujian FengQuan Guotou Environmental Protection Co. Ltd.	Company attributable to Chen Zefeng
Fujian Fuquan Boiler Co. Ltd.	Company attributable to Chen Zefeng
Fujian FengQuan Culture Propagation Co. Ltd.	Company attributable to Chen Zefeng
Quanzhou Qingmeng Water Treatment Co. Ltd.	Company attributable to Chen Zefeng
Zhuji FengQuan Lipu Solid Waste Disposal Limited	Company attributable to Chen Zefeng
Xinjiang Hutubi FengQuan Sewage Treatment Co. Ltd.	Company attributable to Chen Zefeng
China Fengquan Group Co., Ltd. (Hong Kong)	Company attributable to Chen Zefeng
China Environmental Protection Industry (Holding) Group Co. Ltd. (Hong Kong)	Company attributable to Chen Zefeng
Singapore Jinsheng Fruit & Vegetable Co. Ltd.	Company attributable to Chen Zefeng
Xianjiang Miguan Sewage Treatment Co. Ltd.	Company attributable to Chen Zefeng

a) Sales and purchase of goods

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

in k€	2009	2008
Related parties		
Rental, water and electricity fee with a related party	152	259
Purchase goods from a related party	205	321

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

b) Due from/to related parties

in k€	2009	2008
Due from related parties		
trade	0	0
non-trade	6	10
	6	10
Allowance for doubtful trade debts	0	0
	6	10
Due to related parties		
trade	18	144
non-trade	19	55
	37	199

c) Key management remuneration

in k€	2009	2008
Key management of the Group	61	117

| 25 | Disclosure of financial instruments

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

Disclosures IFRS 7

Carrying amounts, amounts recognised and fair values by category: in k€	Category in accordance with IAS 39	Carrying Amount 31 Dec. 2009	Amounts recognised in balance sheet according to IAS 39 at amortised cost	Carrying Amount 31 Dec. 2008	Amounts recognised in balance sheet according to IAS 39 at amortised cost
Trade receivables	LaR	5,581	5,581	15,403	15,403
Receivables from BOT	LaR	5,248	5,248	2,393	2,393
Other receivables and prepayments	LaR	3,239	3,239	3,013	3,013
Amounts due from related parties	LaR	6	6	10	10
Cash and cash equivalents	LaR	111,899	111,899	105,740	105,740
Trade payables	FLAC	9,398	9,398	4,353	4,353
Other payables	FLAC	4,214	4,214	4,374	4,374
Amounts due to related parties	FLAC	37	37	199	199
Of which: aggregated by category in accordance with IAS 39					
Cash and receivables (loans and receivables, LaR)		125,973	125,973	126,559	126,559
Financial liabilities measured at amortised cost (FLAC)		13,649	13,649	8,926	8,926

Cash and cash equivalents, trade and other receivables, as well as amounts due from related parties, mainly have short times to maturity. For this reason, their carrying amounts at the reporting date approximate the fair values (in accordance with level 1 of the fair value hierarchy pursuant to IFRS 7).

Trade and other financial liabilities generally have short times to maturity; the values approximate the fair values (in accordance with level 1 of the fair value hierarchy pursuant to IFRS 7).

Net gain/loss by category: in k€	From interest	Net gain (loss)	
		2009	2008
Cash and receivables	516	516	1.750
Financial liabilities measured at amortised cost	0	0	0
	516	516	1.750

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

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

in k€	2009	2008
At 31 December 2008	445	371
Additions	0	0
Releases	(380)	(21)
Exchange difference	(5)	95
At 31 December 2009	60	445

| 26 | Financial risk management objectives and policies

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

a) Credit risk

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

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

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

b) Interest rate risk

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

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

c) Foreign currency risk

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

d) Liquidity risk

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

e) Fair values

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

| 27 | Additional comments on capital management

ZhongDe Group fundamentally pursues the goal of securing its shareholders' equity base for the long term and achieving a suitable return on its capital. A high level of shareholders' equity is also aimed at because it supports the independence and competitiveness of the Company. The ZhongDe Group's capital management also aims to ensure that the operating companies will continue to operate and to finance organic and inorganic growth. As of 31 December 2009, the shareholders' equity rate of the ZhongDe Group was 88.0% (previous year: 91.0%). The return on shareholders' equity – the ratio of the share of consolidated income of the ZhongDe Group's shareholders and the shareholders' equity on the report date – amounted to 4.6% and 18.0% in the 2009 and 2008 financial years, respectively.

| 28 | Members of the Executive and Supervisory Boards

Executive Board

Mr Chen Zefeng	CEO, Fuzhou, PRC, merchant
Mr Wang Jiu-hua	CFO, Beijing, PRC, merchant, since 1 July 2009
Ms Lin Na	CFO, Fuzhou, PRC, merchant, until 30 June 2009

Supervisory Board

Mr Hans-Joachim Zwarg (Chairman)	merchant, Sierksdorf, Germany
Prof. Dr. Ing. Bernd Neukirchen (Deputy Chairman)	consultant, Essen, Germany
Dr Hao Quan	scientist and engineer for environmental technology, Beijing, PRC

Mr Zwarg is a member of the supervisory boards of

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

| 29 | Remuneration of the Executive and Supervisory Boards

Executive Board

For the fiscal year 2009, the members of the Management Board received the following fixed remuneration in excess of which they are not entitled to receive any further, particularly performance-based, remuneration:

in k€	2009	2008
Zefeng Chen	18	17
Na Lin	7	13
Jiu-hua Wang	7	0

Supervisory Board (fixed remunerations)

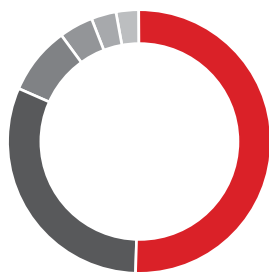
in k€	2009	2008
Hans-Joachim Zwarg	71	71
Prof. Dr. Ing. Bernd Neukirchen	54	0
Dr Hao Quan	15	20
Joachim Ronge	0	46

| 30 | Declaration of compliance with the German Corporate Governance Code

Corporate Governance Code

The Management Board and the Supervisory Board submitted their Declaration of Compliance with the recommendations of the Government Commission on the German Corporate Governance Code in accordance with Section 161 Aktiengesetz (German Stock Corporation Act) on 23 April 2010, and made this declaration permanently accessible to shareholders on the Company's website at www.zhongde-ag.com/investor_relations/corporate_governance.html.

| 31 | Shareholdings in ZhongDe Waste Technology AG



- 50.8% Zefeng Chen
- 30.9% Free float
- 8.3% 9998 Holding Ltd.
- 4.3% Hunter Hall Asset Management Ltd.*
- 3.1% Fortis Investment Management Netherlands N.V.*
- 2.6% Own shares (treasury stock)**

* According to the latest voting rights notifications presented to the Company

** As of 12 February 2010

| 32 | Audit

BDO Deutsche Warentreuhand AG (“BDO”) has been elected as the auditors of ZhongDe Waste Technology AG and the Group for fiscal year 2009. The following table gives an overview of the fees recognised as expenses (including out-of-pocket expenses and VAT, if any) in the business year:

in k€	2009	2008
Audit	258	234
Other assurance services	113	99

| 33 | Proposal on the utilisation of ZhongDe Waste Technology AG's net profit

Net profits

At the Annual General Meeting, the Executive Board and Supervisory Board will propose that based on retained earnings of ZhongDe Waste Technology AG amounting to €3,435 thousand, as reflected in the German statements, an amount of €0.15 per share will be distributed out of the retained profit to the shareholders and the amount remaining after the dividend payout will be carried forward onto new account.

| 34 | Notes to the cash flow statement

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

| 35 | Events after the balance sheet date

Founding of ZhongDe China

ZhongDe (China) Environmental Protection Co. Ltd., Beijing, PRC, was founded in January 2010 with €10.5 million of capital. In addition to the capital required by the Articles of Association, there have so far been additional deposits of €1.68 million. The Company directly holds 100% of the shares in this subsidiary. By establishing a subsidiary which goes by the “ZhongDe” name in China, it is hoped that its strong ties with the parent company in Germany will be made more apparent, that cooperation between businesses in Germany and in China will be fostered, especially with regard to the sharing of technical expertise, and that the Company’s expansion activities in China will be facilitated.

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 2010



Zefeng Chen
Chairman of the Management Board (CEO)



William Jiuhua Wang
Executive Director of the Management Board (CFO)

Auditor's opinion

We have audited the consolidated financial statements prepared by ZhongDe Waste Technology AG, Hamburg, comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the consolidated financial statements, together with the Group management report for the business year from 1 January 2009 to 31 December 2009. The preparation of the consolidated financial statements and the Group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a para. 1 HGB (and supplementary provisions of the shareholder agreement/articles of incorporation) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

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

Our audit has not led to any reservations.

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

Hamburg, 28 April 2010

BDO Deutsche Warentreuhand Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr Zemke
Auditor

Brandt
Auditor

Glossary

BOO:

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

BOT:

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

BT project:

“build-transfer”. The contractor has a licence and is in charge of project construction. Once completed, the government will take over the project.

Consumer price index (CPI):

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

Catalytic oxidation:

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

Contingency waste incinerators:

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

Double-loop pyrolysis technology:

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

Bag filter tube plate hole:

used for fixing the bag and its keel.

EIA:

“Environmental Impact Assessment”.

EPC:

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

Five-Year Planning:

national economic development plan. The Chinese government has developed an economic development plan every five years since 1953.

Fluidised bed waste incinerator:

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

Grate incinerator:

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

IPO:

“Initial Public Offering”.

MEP:

“Ministry of Environmental Protection”.

**Municipal waste gasification
power generation:**

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

MW:

1 MW = 1,000 KW

NPC:

“National People’s Congress”.

PRC:

“People’s Republic of China”.

Primary industry:

agricultural industry.

Pyrolytic incinerator:

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

RMB:

Chinese currency.

Rotary kiln incinerator:

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

Secondary industry:

manufacturing industry.

SEPA:

“State Environmental Protection Administration”.

Sludge incineration technology:

sludge incineration to make treatment harmless, reduced and recycled.

Tertiary industry:

service industry and other industries.

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

automatically controls normal operation for municipal waste incineration system.

Vertical incinerator:

a kind of upright incinerator made of a fireproof steel vessel with the advantage of a small footprint and wide adaptability.

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Financial calendar

30 April 2010

Annual financial statements 2009

29 May 2010

Interim report on the first quarter of 2010

29 June 2010

Annual General Meeting

31 August 2010

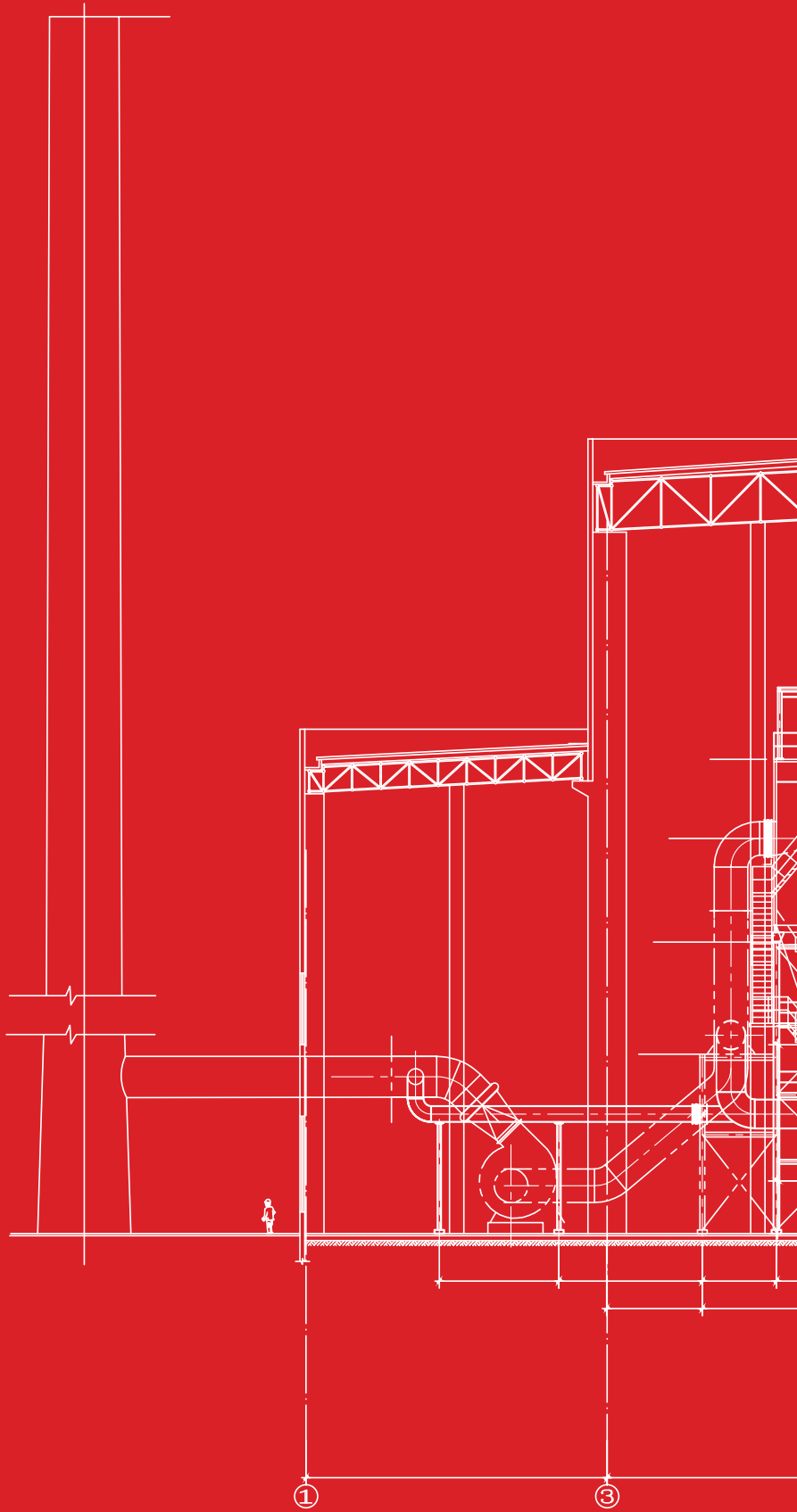
Interim report on the first half of 2010

22–24 November 2010

German Equity Forum of Deutsche Börse, Frankfurt/Main

30 November 2010

Interim report on the third quarter of 2010



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