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# Clean Technology for the Future

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Annual Report 2010

ZhongDe Waste Technology AG

## Key Financial Highlights

in k€	2010	2009	Change %
<b>Operational data</b>			
Order intake <sup>1)</sup>	25,438	109,311	-76.7
Order backlog <sup>2)</sup>	157,758	151,156	4.4
Revenues	33,396	40,199	-16.9
Gross profit	7,387	15,033	-50.9
Gross profit margin	22%	37%	-40.8
Cost of sales	26,008	25,166	3.3
EBITDA	1,449	8,379	-82.7
EBITDA margin	4%	21%	-17 PP
EBIT	924	8,018	-88.5
EBIT margin	3%	20%	-17 PP
Net profit	(881)	5,713	-
Net profit margin	-3%	14%	-17 PP
Earnings per share	(0.07)	0.44	-
<b>Cash flow data</b>			
Cash flow from operating activities	(24,722)	16,440	-
Cash flow from investing activities	1,989	(21,231)	-
Cash flow from financing activities	8,379	(4,358)	-
<b>Balance sheet data</b>			
Total assets	168,571	142,178	18.6
Property, plant, equipment	1,584	1,387	14.2
Net working capital <sup>3)</sup>	107,400	108,266	-0.8
Cash and cash equivalents	106,476	111,899	-4.8
Long-term liabilities	12,749	593	> 100.0
Shareholders' equity	135,608	125,094	8.4
Headcount (as at 31 December 2010)	405	375	7.9

<sup>1)</sup> average exchange rate 2010 used for translation

<sup>2)</sup> exchange rate as of 31 Dec 2010 used for translation

<sup>3)</sup> Current Asset – Current Liabilities

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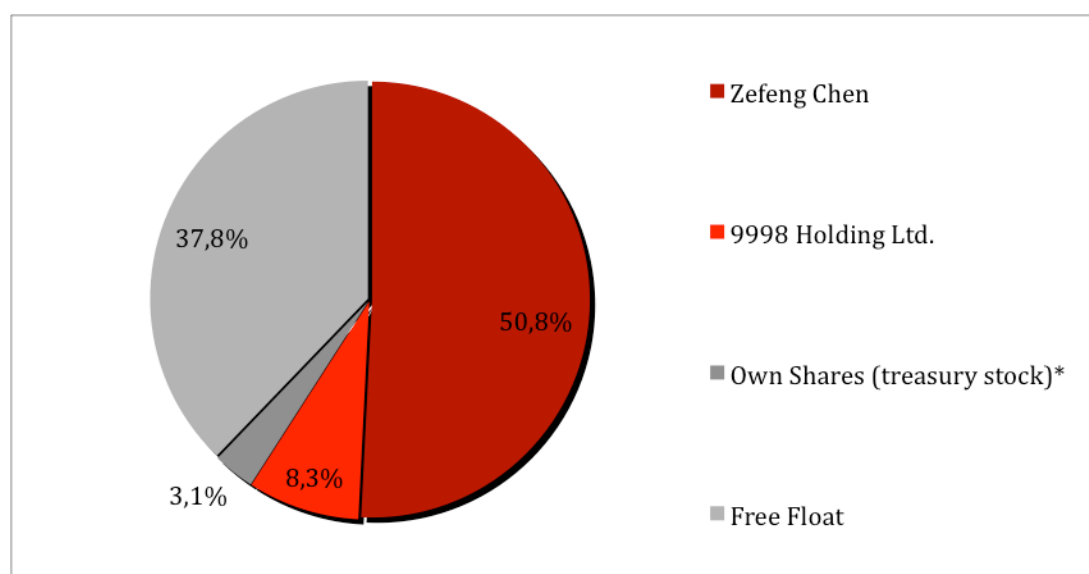
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## ZHONGDE AT A GLANCE

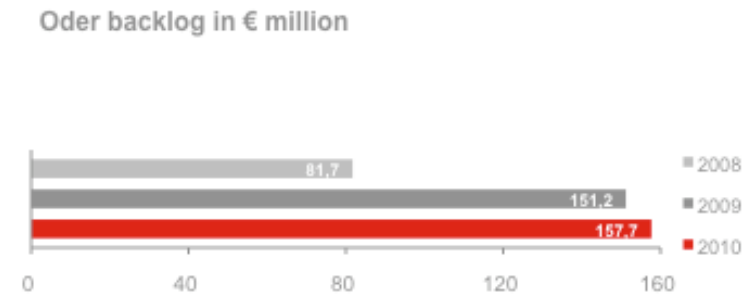
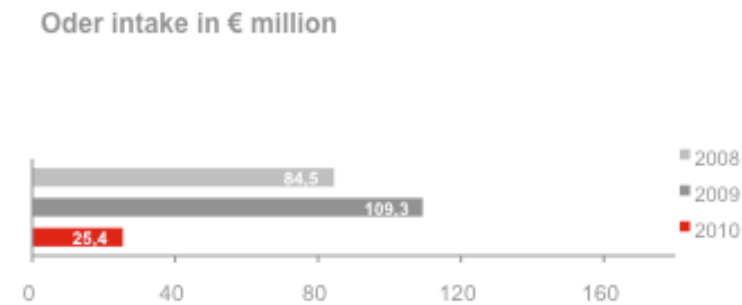
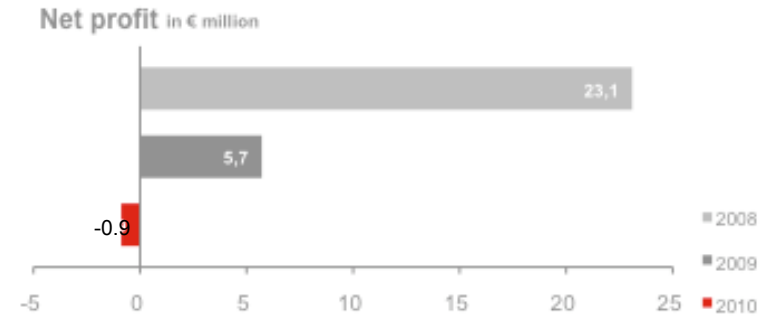
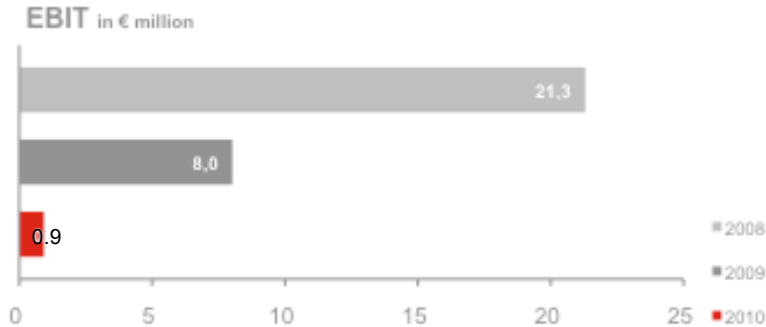
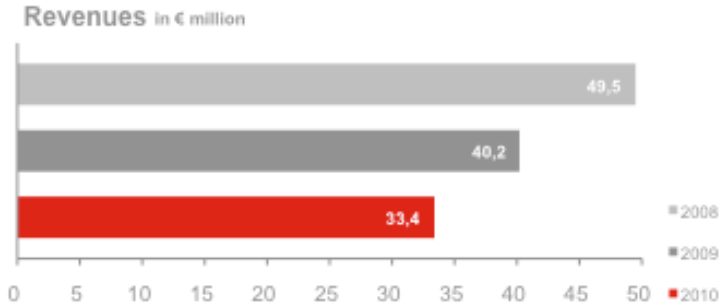
### Shareholder Structure



Shareholder		2010
Zefeng Chen		50.8%
9998 Holding Ltd.		8.3%
Own Shares (treasury stock)*		3.1%
Free Float		37.8%

\* as at 28 April 2011

# Overview Financial Highlights



## **TO OUR SHAREHOLDERS**

### **Letter to our Shareholders**

**Dear shareholders,**

Looking back to 2010, the world's financial system and the global economy tend to be stable. However, the stimulus policies in 2009 helped secure growth, but they also left some negative impacts. The Chinese government battled to cool a red-hot economy by reining in property prices and taming inflation.

In spite of this, China's economy continued to march ahead, with 10.3 GDP growth. As a result, China became not only the biggest export country in the world, but also the second largest economy in terms of GDP, surpassing Japan and is now behind the USA only. The fiscal year 2010 illustrated our continued financial and strategic progress. Since ZhongDe's successful strategy transition and relocation of its headquarters to Beijing in 2009 and 2010, we have taken full advantage of lobbying policy-makers, the talent pool and the leading-edge technology found in the capital city to develop our core competitiveness.

#### **Strategy**

ZhongDe group successfully completed its strategy transition from manufacture and sales of small- and mid-size incinerators to EPC and BOT business of energy-from-waste projects. Although ZhongDe is still a manufacturer of waste incinerator, such kind of business is not ZhongDe main business any more in 2010. Compared to the year 2009, ZhongDe group focused more on BOT projects in 2010 to react the quick changes of the market demand in China. The focus shift not only happened in the division of the sales and marketing, but also in financing and BOT investment, standardization of BOT and the preparation of operation.

Such strategy transition needs new finance strategy to raise more cash to invest in BOT projects. So ZhongDe began to sign project financing loans and leasing agreements with banks and other financial institutions in 2010. That is also the reason why ZhongDe launched American Depository Receipt (ADR) program on New York OTC capital market in Sept. 2010. According to our timetable, more construction of BOT and EPC projects are planned to be finished in 2011, which will bring more revenues on ZhongDe financial statements because of percentage of completion method. ZhongDe will issue new shares and new ADR to raise more cash to invest more and more BOT projects according to ZhongDe new finance strategy. As the preparation of the new finance strategy, besides the roadshows on the European capital market ZhongDe began its roadshows in the U.S. and Hong Kong capital market in 2010.

## **Financial Performance**

The Group's order backlog grew to € 157.8 million during the year under review. Group revenue decreased by 17.0% to € 33.4 million in the fiscal year 2010, compared with the previous financial year. The 1.2 million cost reduction of Datong project in 2010, improved its real gross profit rate from 24.4% to 26.6% and approved that the 25% gross profit standard margin of all ZhongDe energy-from-waste projects is fair. Gross profit amounted to € 7.4 million, while net profit reached € -0.9 million. Total assets increased by 18.6% to € 168.6 million, while shareholders' equity increased by 8.4% to € 135.6 million. Although more cash was invested in the construction of six energy-from-waste projects, the cash position was still very strong and amounted to € 106.5 million. We propose the distribution of a dividend of € 0.15 per share to our shareholders, subject to approval at the Annual General Meeting in June 2011.

## **Products and Technology**

In 2010, ZhongDe and Tsinghua University jointly launched their postdoctoral research programmes to integrate technology and talent in order to significantly enhance its competitive edge. One professional postdoctoral researcher has been working according to this program in 2010. ZhongDe plans to announce two new postdoctoral research positions in 2011.

## **BOT and EPC Projects**

ZhongDe Waste Technology AG has taken a new step forward in terms of expanding its business and promoting its influence in the industry, with the securing of considerable projects. As ZhongDe's first EPC project, the Datong project was finished on time and its quality is at a very high level. The real gross profit margin of Datong reached 26.6%. In September 2010, the Central China TV station (CCTV) broadcast a special programme, which showed the off-gas emissions at the Datong plant reach not only the Chinese national standard, but also some EU standards (e.g. dioxin emission). This programme strengthened ZhongDe's image of EPC project management in China. Many central and local government officers visited Datong and discussed possible cooperation with ZhongDe after watching the CCTV program. At the end of 2010, the Feicheng project had been completed and had entered into its trial operation period. Furthermore, according to our updated plan, two projects will be finished in 2011 and three projects will be finished in 2012. Therefore ZhongDe's management team expects much higher revenues in 2011 and 2012. Finally, there are two new projects in ZhongDe's approving process. The management team is confident, that ZhongDe can continue taking advantage of the enormous potential in the Chinese and international energy-from-waste market and create more value for the Company.



## Looking Ahead

Looking ahead to 2011, we are pleased about our energy-from-waste development prospects and expect to further benefit from the favourable economic environment for eco-friendly waste disposal as well as from the growing demand for our energy-from-waste plants, both in China and throughout Asia. The issuance of a new five-year plan in China will significantly impact China GDP growth. On the other hand, China's Government will stimulate the green industries much stronger to maintain the rapid growth and ensure the employment. The new five-year plan will especially accelerate the construction of energy-from-waste plants in China. The fiscal year 2011 will define the Company's strategic positioning for the next decade. We have the financial strength and expertise to capitalise on this position to create shareholder value.

## Acknowledgements

We would like to express our hearty gratitude to all our dedicated staff and wish to extend sincere gratitude to all our clients, shareholders and business partners. We look forward to our continued partnership with all of you, as we seek to chart ZhongDe's growth to the next level in this new decade.

Beijing, 27 April 2011



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 2010. Central topics of the Supervisory Board's practice and discussions with the Executive Board (Vorstand) where the business development of ZhongDe Waste Technology AG and its affiliated entities (the "**ZhongDe-Group**"), the development of projects, the legal and economic environment in the People's Republic of China pertaining to waste disposal systems including governmental investments in waste incineration plants and organisational measures aiming at optimising the structure of ZhongDe-Group.

### **Supervision of and Cooperation with the Executive Board**

In accordance with the provisions of statutory law, the Articles of Association of ZhongDe Waste Technology AG (also the "Company"), the Rules of Procedure (Geschäftsordnung) for the Executive Board and the Supervisory Board and the German Corporate Governance Code, the Supervisory Board carried out with great care the supervision, monitoring and advisory function and, therefore, intensely supervised and advised the Executive Board during the financial year 2010.

The Supervisory Board has been provided with reports by the Executive Board on a regular basis. Such regular reports were prepared and submitted in writing. Apart from those written reports, the Supervisory Board was given further information by the Executive Board orally. These written and verbal reports included up to date and comprehensive information on all aspects of substantial importance for ZhongDe-Group, including business development, incoming orders, profitability, cash flow, major projects and new economic and legal developments in China. The main strategy of ZhongDe-Group was discussed between the Supervisory Board and the Executive Board on a regular basis. In addition, all events and developments having substantial importance on ZhongDe-Group were discussed in detail by the Supervisory Board on the basis of the reports which were submitted by the Executive Board. The Supervisory Board did also discuss in detail with the Executive Board on ZhongDe-Group's strategy.

The Chairman of the Supervisory Board was in regular contact with the Executive Board where actual information was exchanged.

### **Supervisory Board Meetings**

During the last financial year 2010, four regular Supervisory Board meetings were held in Hong Kong, Hamburg, Shanghai and Beijing. At all these regular meetings, all members of the Supervisory Board as well as of the Executive Board attended. Apart from these quarterly

meetings, the Supervisory Board proceeded one extraordinary meeting on 29 April 2010 by means of a telephone conference, where the individual financial statements (Einzelabschluss) and the consolidated financial statements (Konzernabschluss) for the financial year 2010 were approved.

At each of the quarterly meetings of the Supervisory Board, the Executive Board gave account of the financial and economic condition of the Company and ZhongDe-Group, the recent development, the business policy and business strategy, the profitability, the corporate planning and major projects. At these regular Supervisory Board meetings, the Executive Board explained its forecast pertaining to the economic development of ZhongDe-Group. In addition, the Executive Board and the Supervisory Board regularly discussed the short- and mid-term strategy of ZhongDe-Group.

These quarterly meetings were also intensely used by the members of the Supervisory Board to interview the Executive Board members on ZhongDe-Group's strategy, its economic development, the status and development of major projects, the profitability and liquidity.

The central topics of the four quarterly meetings of the Company's Supervisory Board that have been held in the financial year 2010 can be summarised as follows:

At the **Supervisory Board meeting on 24 March 2010** in Hong Kong the recent business development, the status of two new planned EPC projects as well as a planned BOT project were discussed. Further topics have been the finalisation of the annual and annual consolidated financial statements and the internal risk and control management at ZhongDe-Group.

At the **extra-ordinary Supervisory Board meeting on 29 April 2010**, that was proceeded by means of a telephone conference, the individual financial statements (Einzelabschluss) of the Company and the consolidated financial statements (Konzernabschluss) of ZhongDe-Group as of 31 December 2009 have been discussed and approved by the Supervisory Board. The members of the Executive Board as well as the auditor attended that telephone conference and were available for questions raised by the Supervisory Board. Furthermore, the Supervisory Board approved the proposal of the Executive Board on the utilisation of the Company's profits. In addition, the Supervisory Board together with the Executive Board approved the agenda for the annual general shareholders' meeting.

The **ordinary Supervisory Board meeting on 28 June 2010** that was held in Hamburg was devoted to the recent political developments in the People's Republic of China relating to the promotion of and legal framework for waste incineration plants and particularly energy-from-waste plants. Furthermore, the Supervisory Board and the Executive Board discussed the planning and current economic development of ZhongDe-Group as well as the status of

projects in progress. The last measures for the preparation of the annual shareholders' general meeting were discussed in detail.

The **Supervisory Board meeting on 12 September 2010** that took place in Shanghai dealt with ZhongDe-Group's business development in the current business year including the cash flow and further planning. The discussion also included the order backlog and ZhongDe-Group's financing. Furthermore, the status of projects in progress was discussed as well as measures pertaining to standardising technological procedures and applications.

At the **Supervisory Board meeting on 15 December 2010** that took place in Beijing, the Executive Board reported to the Supervisory Board on the current business development and the forecast until the end of the financial year 2011. Furthermore, the status of several financing agreements with external banks was discussed. A further topic of that meeting was the implementation of a new reporting structure. Finally, the Supervisory Board discussed with the Executive Board about the preparations for the annual and annual consolidated financial statements pertaining to the financial year 2010.

### **Personnel Matters**

The Supervisory Board member Dr Quan Hao resigned from his office with effect as of 30 November 2010. He was succeeded by Feng-Chang Chang with effect as of 1 December 2010. The Chairman of the Supervisory Board would like to take the occasion to express his gratitude to the very good cooperation with Dr Quan and his extremely valuable contribution to the Supervisory Board's work.

As the Supervisory Board comprises only of three members, no committees were constituted.

## **Corporate Governance**

In the financial year 2010, the Supervisory Board continued monitoring the compliance with and the development of corporate governance standards at ZhongDe-Group. The Executive Board and the Supervisory Board avow themselves being committed to good corporate governance that is considered as a central part of the Company's management in terms of a sustainable increase of the value of the Company. The Executive Board – also on behalf of the Supervisory Board – gives account on corporate governance with ZhongDe-Group in the Corporate Governance Report on pages 34 et seq., in accordance with section 3.10 of the German Corporate Governance Code. The implementation of the applicable and amended provisions of the Corporate Governance Code were discussed in the Supervisory Board and the Executive Board on 30 April 2011.

On 21 April 2011, the Executive Board and the Supervisory Board jointly issued an updated compliance statement in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz) and made it permanently available to the shareholders on the Company's website.

## **Personnel Changes**

The Supervisory Board member Dr Quan Hao resigned from his office with effect as of 30 November 2010. He was succeeded by Mr Feng-Chang Chang with effect as of 1 December 2010. Mr Chang was appointed by the local court (Amtsgericht) of Hamburg until the expiration of the next annual shareholders meeting in 2011. Mr Chang is currently non-executive director at Yamada Green Resources Limited and was previously senior partner and head of international services at Grant Thornton Zhonghua CPAs and BDO Shanghai Zhonghua CPAs.

## **Annual and Annual Consolidated Financial Statements 2010**

The individual financial statements of ZhongDe Waste Technology AG (Einzelabschluss) have been prepared in accordance with the German generally accepted accounting principles as provided for in the German Commercial Code (Handelsgesetzbuch). The consolidated financial statements of ZhongDe-Group were prepared in accordance with the international financial reporting standards (IFRS). Pursuant to section 315a of the German Commercial Code, the Company is released from the obligation to prepare annual consolidated financial statements in accordance with the provisions of the German Commercial Code.

The individual and the consolidated financial statements as of 31 December 2010, the status report as well as the report of the Executive Board on the relations to affiliated entities were examined in detail by the auditor appointed by the annual shareholders' meeting on 29 June

2010, BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft, Hamburg, and approved with an unqualified audit opinion. Each member of the Supervisory Board was provided with the individual financial statements, the consolidated financial statements, the combined status report as well as the report of the Executive Board on the relations to affiliated entities, the auditors report and the proposal of the Executive Board on the utilisation of the Company's annual net profits. These documents were examined in detail at the Supervisory Board meeting on 30 April 2011 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 in the Supervisory Board and with the members of the Executive Board as well as the auditor of the individual and consolidated financial statements for the period from 1 January until 31 December 2010, and the reports of the Executive Board relating to the Company and ZhongDe-Group, the Supervisory Board approved the result of the audit as well as the individual and consolidated financial statements as of 31 December 2010. The individual financial statements of ZhongDe Waste Technology AG for the time period from 1 January until 31 December 2010 are, therefore, adopted.

The Supervisory Board also approved the status report and in particular the assessment of the further development of the Company. The financial statements of ZhongDe Waste Technology AG account for an annual net profit of EUR 5,924,941.60 for the financial year that ended on 31 December 2010. Including the retained earnings and other changes this results in a net profit of EUR 5,747,537.01 as of 31 December 2010. The Supervisory Board also approved the proposal of the Executive Board on the distribution of EUR 0.15 of the net profit as dividends to the shareholders and to carry forward onto new account the remaining retained profit.

The Supervisory Board was provided with the report prepared by the Executive Board on the Company's relations to affiliated entities in accordance with section 312 of the German Stock Corporation Act (Aktiengesetz). The Supervisory Board thoroughly reviewed this report. The auditor confirmed that the disclosures in that report were correct and that compensations paid by the Company in respect of transactions as described in that report were appropriate and not unduly high. The Supervisory Board approved the audit by the appointed auditor. There are no objections to the statements of the Executive Board regarding the Company's relation to affiliated companies.

The Supervisory Board would like to take this occasion to express its gratitude to the Executive Board and all employees of ZhongDe-Group for their performance and commitment in the last financial year 2010.

Hamburg, 30 April 2011

**The Supervisory Board**

Hans-Joachim Zwarg  
Chairman of the Supervisory Board

## Share Performance



The global economy developed very positively in 2010 and investor sentiment was correspondingly optimistic. The effect this had was also very evident in the German stock market, with the SDAX having risen by 45.8% year on year as at 30 December 2010. The DAX managed to pass the 6,000 points mark once again in 2010, and even went beyond 7,000 points in December – the first time it had done so in more than two years. As at 30 December 2010, the DAX had reached 6,914.19 points. There was a certain degree of serious volatility in the stock markets due to the widening of the debt crisis in a number of EU member states, but suitable measures implemented by the EU were able to rein this volatility in.

The ZhongDe share experienced a very positive development up to mid-April 2010 and derived substantial benefit from the upswing in the German stock markets, hitting a high for the year of € 17.68 on 8 and 13 April 2010. After this, it failed to continue profiting from the optimistic mood in the markets and had fallen to € 11.60 by early August. There then followed a brief upswing which took the share back up to just short of € 15 in early September, only for it to slump to € 10.07 by the end of November 2010, which marked its lowest point for the year. The ZhongDe share developed positively in December and its closing price on the last day of trading in 2010 was € 11.53. This represented a year-on-year drop of 4.3%. At the beginning of 2011, the ZhongDe share was quoted at € 11.69 and remained relatively stable at around the € 11 mark for the first two months, until it dropped to € 9.10 on 24 February 2011. The share price then stabilized again and the share closed at € 9.77 on 4 March 2011.

In the period under review, the investor relations team focused on explaining the new business model and new strategy of the ZhongDe Group to investors and on continuing to raise awareness of the Group within the financial community. Measures taken to this end included the management once again attending the Rodman & Renshaw Annual China



Investment Conference and the Clinton Global Initiative (CGI) Conference in New York in September 2010, the German Equity Forum in November 2010 and Capital Market Conference in Munich (MKK) in December 2010, where they actively sought dialogue with investors and analysts. In one-on-one talks with the forum delegates, by means of a corporate presentation and Germany TV and Radio interview, made by CFO William Jiuhua Wang, the management focused in particular on explaining the ZhongDe Group's new strategic orientation of moving away from small waste incinerators in favour of major energy-from-waste projects. ZhongDe Waste Technology AG will continue to meet its investors' information needs on the basis of an open and transparent communication policy. Shareholders can find additional information relating to the capital markets online at [www.zhongde-ag.de](http://www.zhongde-ag.de).

#### Basic Data

ISIN	DE000ZDWT018
WKN	ZDWT01
Trading Symbol	ZEF
Sector	Industrial
Stock Category	Individual non-par-value nominal shares
Share Capital	13,000,000 Shares
Stock Market Segment	Frankfurt Stock Exchange (Prime Standard)

#### Key Share Indicators 2010 in €

<b>Share price</b>	
Year-end price	11.53
High	17.68
Low	10.07
Earnings per share	-0.07
Dividend per share (proposed)	0.15
Market capitalization (Dec. 31)	149.9 million

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## **GROUP MANAGEMENT REPORT**

### **Market Environment**

#### **Macroeconomic Environment**

According to preliminary estimates from China's National Bureau of Statistics, Gross Domestic Product (GDP) for the year 2010 was RMB 39,798.3 billion, up by 10.3% at comparable prices. In terms of growth by sectors, the value added was RMB 4,049.7 billion for the primary industry, up by 4.3%; RMB 18,648.1 billion for the secondary industry, up by 12.2%; and RMB 17,100.5 billion for the tertiary industry, up by 9.5%.

The total investment in fixed assets of the country reached RMB 27,814.0 billion, a year-on-year growth of 23.8%. Real growth was 19.5% after deducting price factors. Of this total, fixed assets investment in urban areas was RMB 24,141.5 billion, up by 24.5%, and RMB 3,672.5 billion in rural areas, up by 19.7%. In 2010, total retail sales of consumer goods reached RMB 15,455.4 billion, a growth of 18.4%. Consumer prices went up by 3.3% year on year.

The total value of imports and exports for the whole year reached US\$ 2,972.8 billion, 34.7% up on the previous year. The trade surplus was US\$ 183.1 billion, a decline of 6.4% over that of the previous year. In 2010, the per capita income of urban households was RMB 21,033, an increase of 11.5% over that of the previous year.

#### **Sector Trends and Political Environment**

Premier Wen Jiabao made a statement at the executive meeting of the State Council on 27 January 2010. The executive meeting of the State Council not only confirmed that pollution treatment facilities were essential to emission reduction, but also made a commitment to put more input into developing environmental industry and strengthen capacity building in environmental protection. In the Government Work Report in the third session of the eleventh National People's Congress (NPC) on 5 March 2010, Premier Wen not only clearly addressed the importance of waste disposal, but also put forward measures to support the generation of power through the reuse of waste.

The decision of the State Council on accelerating the adoption and development of "strategic new industries" [Guofa<sup>1</sup> (2010) NO. 32] was approved by the State Council on 8 September 2010. This decision has confirmed seven industries including energy conservation and environment protection as well as new energies as "strategic new industries" and will exercise a supportive policy for the industrial development. This will undoubtedly reinforce

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<sup>1</sup> Guofa refers to the documents issued by the State Council of China

the financial strength, which will strongly impel for the long-term industry development as well.

With the help of our government supporting the development of the strategic new industries, the solid waste industry will enter into a very promising development age, especially for the marketisation prospect of the municipal solid waste disposal industry. According to China's Municipal Solid Waste Market Report 2010, funding for China's municipal solid waste disposal market will be greatly increased during the 12th Five-Year Plan period compared with that of the 11th Five-Year Plan. It will be a trend to increase expenses for waste disposal in the next five years. For the next ten years, the ratio of waste incineration disposal volume in China will increase from 2%-3% to 10%-12%, while the annual investment in the energy-from-waste industry will amount to approximately RMB 80 billion.

The Guiding Opinion on the Reinforcement of Dioxin Pollution Control, jointly issued by nine ministries on 19 October 2010, explicitly stipulated that dioxin pollution control work has to be performed well in the key industries, such as the waste incineration industry. By 2015, the dioxin emission intensity should have been reduced by 10% and basically control the growth trend of dioxin emissions. Moreover, it will encourage the adoption of technology and control measures in favour of reducing and controlling dioxin.

The Development Programme for the Energy-Saving Environmental Protection Industry was formally approved by the State Council on 25 November 2010. For the environmental protection industry, the development programme proposes the development of advanced environmental protection technology and equipment, including disposal of sewage and waste. It will continue to effectively implement and improve the tax preferential policies on energy-saving environmental protection and new energy development.

## Financial Performance

### Overview

Financial Performance in k€	2010	2009
Revenues	33,396	40,199
Gross profit	7,387	15,033
EBIT	924	8,018
Net profit	(881)	5,713
Return on equity <sup>1)</sup>	-1%	5%
Return on capital employed <sup>2)</sup>	2%	58%
Current liquidity ratio <sup>3)</sup>	631%	757%
Equity ratio <sup>4)</sup>	80%	88%
Working capital	127,614	124,757
Earnings per share (diluted and undiluted), in €	(0.07)	0.44

<sup>1)</sup>Net profit / equity as of year end

<sup>2)</sup>EBIT / (total assets - current liabilities - cash)

<sup>3)</sup>Current asset / current liabilities

<sup>4)</sup>Equity/total assets

### Revenues

Total revenues amounted to € 33.4 million in fiscal year 2010, representing a decrease of 17.0% compared to 2009. In line with changing market demand in China, the Company quickly shifted its focus to large energy-from-waste (EFW) projects. In addition to the decline in sales, there was also a substantial change in the composition of total revenues. The revenues of EPC<sup>2</sup> and BOT<sup>3</sup> projects accounted for 95.1% of total revenues in 2010, compared to just 72.1% in 2009. The considerable decline in sales relating to small- and medium-sized incinerators was partly offset by EPC and BOT projects. In addition to this, the lack of significant progress with the EPC and BOT projects – due to delays in approvals being granted by local authorities – contributed to the decrease in revenues.

### Operating Results

EBIT amounted to € 0.9 million in 2010, representing a decrease of 88.5% compared to EBIT of € 8 million in 2009. ZhongDe's overall gross profit margin amounted to 22.1%.

Net profit reached € -0.9 million, resulting in a net profit margin of 2.6% and a loss per share of € 0.07. The Group follows a long-term dividend policy having paid the shareholders € 0.15 per share in recent years, even if the Group's result has significantly exceeded the payout of dividends. Against this background, the management of ZhongDe proposes to pay shareholders a dividend of € 0.15 per share in this year, despite the consolidated annual net loss.

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<sup>2</sup> Engineering, procurement and construction

<sup>3</sup> Build, operate and transfer

## **Order Intake and Order Backlog**

Order intake decreased by 76.7% to € 25.4 million, compared to € 109.3 million in 2009. Order backlog increased in 2010 by 4.4% to € 157.8 million, compared to € 151.2 million in 2009. Order backlog includes four EPC projects (Zhucheng, Zhaodong Dingzhou and Shouguang) and four BOT projects (Zhoukou, Feicheng, Xianning and Kunming). The contract amount of EPC and BOT projects is much higher than that of orders for small- and medium-sized incinerators. The large order backlog indicates potential growth of revenues in the years ahead.

## **Beijing R&D and Manufacturing Centre**

The manufacturing facility in Beijing was originally intended for the production of small- and medium-sized incinerators. However, due to the change in strategy, boilers and off-gas purifying systems for large incinerators are set to be developed and produced here in the future in conjunction with a cooperation partner. Cooperation negotiation has not been finished and a contract has been signed as yet. For this reason, work has been almost suspended until a cooperation agreement has been concluded.

## **Operational Performance**

### **Revenues**

Revenues in 2010 reached € 33.4 million, representing a decrease of 17.0% year on year. Revenues can be broken down into € 1.6 million relating to small- and medium-sized incinerators (previous year: € 11.2 million), € 10.7 million from EPC projects (previous year: € 24.4 million) and € 21.1 million from BOT projects (previous year: € 4.6 million).

### **Gross Profit**

Gross profit amounted to € 7.4 million in 2010, equating to a € 7.6 million or 50.9% year-on-year downturn. The main reason for this development is the substantial reduction in the high-margin business with small- and medium-sized incinerators. In addition to this, the gross profit on project business fell slightly, despite higher year-on-year sales, due to adjustments to the estimated total project costs anticipated.

### **Gross Profit Unrelated to the Accounting Period**

The reported figure of € 1.2 million results primarily from the final account for the Company's first energy-from-waste project. During the negotiations with subcontractors, ZhongDe succeeded in securing a price of € 903 thousand for the services it required – less than anticipated in the cost estimates. In addition to this, there were revenues of € 260 thousand unrelated to the accounting period.

## **Expenses**

### Distribution Expenses

Distribution expenses rose to € 2.4 million in 2010 from € 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 4.7% to 7.2% of revenues. This relative increase is largely due to the fall in revenues.

### Administrative Expenses

Administrative expenses rose from € 1.9 million in 2009 to € 3.7 million in 2010. The higher administrative expenses are primarily attributable to the project activities of Beijing ZhongDe Environmental Protection Technology Co. Ltd. and ZhongDe China Environmental Protection Co. Ltd.

### Research and Development Expenses

Research and development expenses amounted to € 0.2 million in 2010, which was down from the previous year's level.

### Other Operating Expenses

Other operating expenses decreased from € 3.2 million in 2009 to € 1.6 million in 2010. The drop was largely prompted by the project companies commencing operations, which meant that expenses were allocable to different functional divisions.

## **Interest Income**

Interest income amounted to € 1.3 million in 2010, compared to € 0.5 million in the previous financial year. The increase in interest income was due to a rise in longer-term fund management along with first-time interest income from BOT receivables in connection with IFRIC 12.

## **Taxes on Income and Earnings**

The increase in taxes on income and earnings from € 2.0 million in 2009 to € 2.7 million in 2010 relates on the one hand to taxable exchange rate gains and on the other hand to non-deductible exchange rate losses in connection with intercompany loans. In addition to this, profits are subject to higher taxation because the portion of earnings attributable to Fujian FengQuan – which is subject to a reduced tax rate of 12.5% – shrank

## **Consolidated Annual Profit**

The consolidated annual profit for 2010 amounted to € -0.9 million and was thus € 6.6 million lower than in the previous year. This is equivalent to a year-on-year downturn of 115.4%.



There was a net profit margin of -2.6% in 2010. The substantially lower consolidated annual profit was primarily attributable to the drop in gross profit on sales, which fell from € 15.0 million in 2009 to € 7.4 million in 2010 because of a sharp decline in the disposal of small- and medium-sized incinerators. An improved financial result of € 1.1 million partly compensated for the decrease in gross profit.

## Order Status

Orders in k€	2010	2009	Change %
Order intake	25,438	109,312	-76.7
Order backlog	157,759	151,156	4.4

### Order Intake<sup>4</sup>

In 2010, order intake fell to € 25.4 million in total – 76.7% lower than the previous year's figure of € 109.3 million. The intake related to the Shouguang EPC project.

Type	2010		2009	
	k€	percentage	k€	percentage
Incinerator for medical waste and municipal solid waste	-	-	2,599	0%
EPC	25,438	100.0%	72,935	66.7%
BOT	-	-	33,777	30.9%
<b>Total</b>	<b>25,438</b>	<b>100.0 %</b>	<b>109,311</b>	<b>100.0%</b>

### Order backlog<sup>5</sup>

Order backlog increased by 4.4% to € 157.8 million in 2010, thus exceeding the 2009 figure by € 151.2 million. Municipal and medical waste incinerators accounted for 1.0%, large-scale EPC incinerator projects accounted for 56.2%, and BOT contracts accounted for 42.7% of total order backlog.

Type	2010		2009	
	k€	percentage	k€	percentage
Incinerator for medical waste and municipal solid waste	1,604	1.0 %	2,915	1.9 %
EPC	88,736	56.2 %	68,499	45.3 %
BOT	67,418	42.7 %	79,742	52.8 %
<b>Total</b>	<b>157,758</b>	<b>100.0 %</b>	<b>151,156</b>	<b>100.0 %</b>

<sup>4</sup> exchange rate as of 31 Dec 2010 used for translation

<sup>5</sup> exchange rate as of 31 Dec 2009 used for translation

## **Current Project Status**

- **EPC Projects:**

### **Dingzhou EPC Project**

Construction of the foundations of the main plant, flue gas cleaning room, neutralising tank of the discharging platform, cable duct in the steam turbine room and master control building is proceeding well. The construction and capping for the upper structure of the chimney are completed. By 31 December 2010, 11% of the project construction had been completed. The project is expected to be finished in 2012.

### **Zhucheng EPC Project**

Construction of the steam turbine room, the deoxygenation room, the waste pool and the discharging platform is all proceeding well. Installation of the economiser and the flue gas pre-heater is done. The lifting for the cooling wall and the superheater are now under way. By 31 December 2010, 31% of the project construction had been completed. The project is expected to be finished in late 2011 or early 2012.

### **Zhaodong and Shouguang EPC Projects**

The contracts for the Zhaodong and Shouguang EPC projects were signed in 2009 and 2010 respectively. Both projects were still in the preparatory stage as of 31 December 2010.

- **BOT Projects:**

### **Feicheng BOO Project**

The acceptance check for the building project, landscape project and decorating project is completed. Debugging of the desulphurisation equipment is under way, as is the acceptance check for the waste heat boiler. The other equipment has passed the acceptance check and is preparing for the commission work. As at 31 December 2010, the project construction was largely completed and entered into trial operation.

### **Zhoukou BOT Project**

The decoration of the main plant is under construction. The construction for the load meter and the main body frame of the load meter room has been basically completed. Installation of the flue gas duct of #1 boiler is currently at the stage of commencement of work. Installation of the #1 boiler construction is completed, while the installation of the flue gas treatment for #1 boiler is currently under way. By 31 December 2010, 59% of the project construction had been completed. The project is expected to be finished in late 2011.

**Kunming BOT Project**

The painting of the outer walls of the building complex is completed, as is the foundation concreting for the equipment of the flue gas cleaning room in the main plant. The major structure of the main plant and the waste pool are under construction. Construction of the chimney is completed. By 31 December 2010, 16% of the project construction had been completed. The project is expected to be finished in 2012.

**Xianning BOT Project**

Construction of the major structure of the building complex is completed, while the walls and waterproofing are under construction. The foundation concreting for the boilers is completed, as is the chimney construction. The waste pool, slag pool, waste discharging platform, stream turbine room and flue gas treatment are under construction. As at 31 December 2010, the project construction was proceeding well, with 12% completed. The project is expected to be finished in 2012.

## Key Figures Waste Incinerators by Segments

in k€	2010	2009	Change %
Small and medium sized incinerators			
Units sold to third party	2	7	-71.43
Revenues	1,620	11,221	-85.56
Gross profit	1,135	7,098	-84.00
EPC			
% of completion	21%	100%	-79.30
Revenues	10,652	24,366	-56.28
Gross profit	2,243	6,782	-66.92
BOT			
% of completion	33%	29%	13.10
Revenues	21,123	4,589	360.30
Gross profit	4,000	1,139	251.18

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

One medical waste incinerator was sold in 2010 and contributed total revenue of € 0.2 million, a decrease of 62.3% compared to the previous year.

Revenues from municipal waste incinerators decreased by 86.7% year on year to € 1.4 million and accounted for 4.3% of total revenues in 2010. During the reporting period, the Company sold one municipal waste incinerator.

EPC projects contributed € 10.7 million or 31.9% of total revenues. Specifically, these were the Zhucheng and Dingzhou projects.

BOT projects contributed € 20.2 million, or 63.3%, to total revenues in 2010. Revenues in this segment relate to the Zhoukou, Feicheng, Kunming and Xianning projects.

## **Balance Sheet Overview**

### **Non-Current Assets**

The Company's non-current assets amounted to € 41.0 million, which represents an increase of 135.1% compared to 2009. The main reason for this increase is the accounting method used to report intangible and financial assets from the construction of infrastructural facilities; additions amounting to € 21.4 million were recorded in 2010.

### **Current Assets**

Current assets amounted to € 127.6 million in 2010, following € 124.8 million in 2009. At € 106.5 million in 2010 and € 111.9 million in 2009, cash and cash equivalents were the largest item in this category. Other assets of € 10.9 million (previous year: € 3.2 million) mainly comprise down payments for EPC/BOT projects. The increase in trade receivables from € 3.2 million to € 8.7 million was primarily attributable to the reporting of POC receivables from EPC projects (€ 4.7 million).

### **Non-current Liabilities**

Non-current liabilities of € 12.7 million comprise bank loans of € 10.5 million and deferred tax liabilities totalling € 2.2 million. These deferred tax liabilities result from the application of the POC method in relation to EPC and BOT projects (manufacturing orders).

### **Current Liabilities**

Total current liabilities rose from € 16.5 million in 2009 to € 20.2 million in 2010. Current liabilities mainly included trade payables, other liabilities and down payments received. The largest item relates to trade payables to subcontractors in connection with the Datong project. Current liabilities include reserves, tax liabilities, accrued sales commission and employee benefits.

### **Equity**

Equity increased from € 125.1 million to € 135.6 million year on year, predominantly as a result of exchange rate effects (€ 14.3 million).

## **Financial Position and Cash Flow**

### **Cash Position**

Cash and cash equivalents amounted to € 106.5 million in 2010, a decrease of 4.8% compared to 2009. 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 EPC projects in Zhucheng and Dingzhou.

### **Cash Flow**

Cash flow from operating activities decreased more than 250% to € -24.7 million in 2010. This decline primarily relates to the changes in trade receivables (€ 13.7 million) and PoC receivables for BOT projects (€ 17.0 million).

Cash and cash equivalents amounting to € 1.0 million were paid in relation to investments for tangible and intangible assets. In addition, the balance of deposits and withdrawals amounted to € 3 million due to fund investments relating to temporary fund management, resulting in a cash flow from investment activities of € 2.0 million.

In 2010 ZhongDe generated cash flow from financing activities of € 8.4 million mainly due to the uptake of loan liabilities of € 10.5 million.

### **Financing**

At the balance sheet date, the Company had loans from Huarong Leasing Co. Ltd. However, with its expansion in the BOT and EPC sectors, the Group may apply for more loans in 2011 in order to have the financial opportunity to further its expansion.

### **Capital Expenditure**

The Group reduced the pace of its capital expenditure in 2010, 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.

## **Summary of the Current Economic Position**

ZhongDe implemented a strategic shift to large energy-from-waste plants last year. Year on year, revenues for energy-from-waste incineration plants were increased by approximately 10%, whereas revenues for small and medium-sized incinerator sales fell by around 85%. Because of the disparate profit margins, gross profit on sales fell by a total of € 7.6 million. This decline was partially offset by the out-of-period result relating to the final accounts of the Datong project worth € 1.2 million, such that the adjusted gross profit on sales was down by € 6.5 million year on year. The consolidated net income for the year totalling € -0.9 million was also down year on year by € 6.6 million. The changes in operating expenses, financial result and income tax largely offset each other.

Assets rose in comparison to the previous year due to higher non-current assets made up primarily of receivables from BOT projects and service concession agreements. The increase in liabilities is first and foremost attributable to the currency-related increase in equity (currency conversion differential) and the uptake of long-term bank loans. As at 31 December 2010, ZhongDe had cash and cash equivalents of € 106.5 million and a very high equity ratio of 80.4%.

## **Human Resources**

ZhongDe achieved its strategic shift thanks to the motivation, talent and commitment of its staff. As the Company is on a rapid path of expansion, ZhongDe continually recruits new talents and engages its existing staff to prepare for growth. As at 31.12.2010 the total amount of employees amounted to 405. That is an increase of about 7.9% compared to the 375 employees as at 31.12.2009.

ZhongDe sped up the introduction of advanced management and technical talents, which improved and optimised the talent structure. In addition, a performance assessment management system that serves as the basis for staff remuneration was implemented, which has boosted work efficiency and the employees' sense of responsibility



## **Research & Development**

Over the past years, ZhongDe Waste Technology AG has driven its corporate development with technology and innovation. In 2010, ZhongDe and Tsinghua University jointly launched their postdoctoral research programmes. The laboratory furniture for NO<sub>x</sub> emission control during waste incineration in Tsinghua University has been set up.

- **Product Check and Acceptance**

The “SSR-100-L vertical double-loop pyrolysis boiler for municipal waste” has been approved through the appraisal of new technology and products organised by the Provincial Economic and Trade Commission. In addition, the product has been granted the following two certificates: Scientific and Technological Achievements Identification Certificate (Fujian Economic and Trade Identification [2010] Number 11) and Fujian Province New Product and New Technology Appraisal Check and Accept Certificate (Fujian Economic and Trade Technology Identification [2010] Number 12) and was awarded the Excellent Achievement Prize. The LFRY-5 pyrolysis incinerator for medical waste was also awarded the Excellent Achievement Prize.

## **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.

The cash and cash equivalents held by the Company as at 31 December 2010 may not be sufficient to cover the financing needed for more BOT projects scheduled. It will therefore be necessary for the Company to continue 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. Taking the advantage of belonging to “green-tech industry” which can apply the special “green-loan” supporting, the Company’s management considers debt financing a feasible option, which can help the Company leverage its capital with reasonable borrowing costs to maximise the return of shareholders.

## **Corporate Governance Declaration**

### **Corporate Governance at 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 (Deutscher Corporate Governance Kodex – the "Code"). We merit the trust of our shareholders, clients and employees by close and constructive cooperation between the Supervisory Board and the Executive 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 proved itself as benchmark for good Corporate Governance in Germany. Supervisory Board and Executive Board of ZhongDe Waste Technology AG explicitly support the code and the objectives purposed by the Code.

### **Compliance Statement**

In the last financial year 2010 the Executive Board and the Supervisory Board dealt with Corporate Governance issues at several occasions. On 21 April 2011 the Executive Board and the Supervisory Board jointly issued an updated Compliance Statement (Entsprechenserklärung) in accordance with Section 161 of the German Stock Corporation Act (Aktien-gesetz/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:

Executive Board and Supervisory Board herewith declare that the Company has complied with the recommendations of the German Corporate Governance Code (Code) in the version as of 18 June 2009 until 2 July 2010 and thereafter has complied and will comply with the recommendations of the Code in the version as of 26 May 2010, except the following deviations:

- Section 2.3.1 (3) and Section 2.3.3 (2) mention postal voting without explicitly recommending that postal voting be provided for. The Company is of the opinion that postal voting is still fraught with numerous practical and legal problems. The Executive Board therefore resolved not to avail itself of the authorisation bestowed upon it pursuant to sec. 23 para. 6 of the Articles of Association to also allow for votes to be submitted postally for the Annual General Shareholders' Meeting 2011. The shareholders are nonetheless still entitled to authorise proxies stipulated by the Company to vote electronically on their behalf.

- Sections 4.2.2 to 4.2.4 contain recommendations on the remuneration of members of the executive 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 Executive Board is exclusively provided for through employment agreements with ZhongDe Group's operational entity Fujian FengQuan Environmental Protection Equipment 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, however, not provide for such an age limit. The Company believes that the determination of such age limit for members of the Executive 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.
- Section 7.1.2 of the Code recommends the annual consolidated financial statements to be made available to the public domain within 90 days after expiration of the last business year, and to make available the interim financial reports within 45 days after the end of the respective reporting period. By now, the Company has missed these timelines. The reason is that due to its international holding structure and higher translation efforts to be made in respect of the preparation of the financial reports, the Company has put and will put more emphasis on accurate financial statements rather than to exactly meet the recommended timelines.

## **Information on the Corporate Governance Practise**

### **Shareholders and General Shareholders Meeting**

The Shareholders exercise their rights and voting rights at the General Shareholders Meeting (Hauptversammlung). According to the statutory provisions and the Articles of Association, the Annual General Shareholders Meeting takes place within the expiration of the first eight months of each financial year. Each share grants one vote in the General Shareholders Meeting. There are neither shares conferring multiple voting rights nor limited voting rights nor are existing preferred shares. The shareholders are entitled to exercise their voting rights in the General Shareholders Meetings in person or by proxy, for which they can authorise a

representative of their choice or a company-nominated proxy acting on their instructions. The invitation for the Annual General Shareholders 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 General Shareholders Meetings, including the annual report, will be published on the Company's website at [www.zhongde-ag.de/annual general meeting](http://www.zhongde-ag.de/annual%20general%20meeting) together with the agenda. After completion of the general shareholders meeting, the actual quorum and the voting results can also be found at said web address.

### **Cooperation between Executive Board and Supervisory Board**

The Executive Board and the Supervisory Board work closely together in the interest of the Company. Their common goal is to ensure the continued existence of the Company and 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 Executive Board and the Supervisory Board being two separate and independent corporate bodies. The Executive 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 Executive 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 Executive 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 Executive Board also include the subject of compliance, i.e. the implemented means through which adherence to statutory provisions and ZhongDe Group's internal statutes is ensured.

Conflicts of interest of the Executive Board or Supervisory Board members, which must be disclosed immediately to the Supervisory Board, did not occur in the financial year 2010.

According to the recommendations of the German Corporate Governance Code, the remuneration of the members of the Executive Board and the Supervisory Board are disclosed on an individual basis. The general rules of the remuneration system and the remuneration itself are more specifically referred to in the Remuneration Report which is part of the Annual Report (page 49).

## **Directors' Dealings**

According to Section 15a of the Securities' Trading Act (Wertpapierhandelsgesetz/WpHG), the members of the Executive 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 EUR 5,000 or more within a calendar year. In respect of the financial year 2010, ZhongDe Waste Technology AG has not been notified of any transactions pertaining to directors' dealings.

On 31 December 2010, the total volume of shares in ZhongDe Waste Technology AG which were held by all members of the Executive Board and the Supervisory Board amounted to 50,86% of the aggregate amount of issued shares.

## **Accounting and Audit**

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

The individual and consolidated financial statements are prepared by the Executive Board. The audit of the individual and consolidated annual financial statements is devoted to the auditor appointed by the Annual General Shareholders Meeting. For the financial year 2010, BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft, Hamburg, has been appointed as auditor by the Annual General Meeting on 29 June 2010. The individual and consolidated financial statements as prepared by the Executive Board and audited by the Company's auditor are reviewed and approved by the Supervisory Board.

## **Corporate Compliance**

At ZhongDe Waste Technology AG compliance, i.e. measures to ensure adherence to statutory provisions, internal statutes and Company policies 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 to fully comply with both German and Chinese statutory legal provisions and conventions.

## **Risk Management**

Good Corporate Governance includes dealing responsibly with risks. The Executive Board keeps the Supervisory Board timely and duly informed about existing risks and their development. The Supervisory Board regularly deals with monitoring of the accounting process, the effectiveness of internal control, risk management and internal auditing systems as well as monitoring the auditing of the financial statements. The internal control, risk management and internal auditing systems are continuously evolved and adapted to changing conditions. More details of our risk management system relating to the financial reporting process pursuant to § 315 para. 2 (5) HGB (German Commercial Code) are part of this management report.

## **Transparency**

Our investors and shareholders as well as the interested public domain are provided with information on ZhongDe Waste Technology AG and ZhongDe Group as well as on major business events particularly through financial reports (annual reports and quarterly reports), 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 Shareholders 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](http://www.zhongde-ag.com/investor_relations). All shareholders and interested parties can subscribe to an electronic e-mail alert on our website or directly get in touch with us.

## **Objectives of the Supervisory Board in respect of its Composition**

Pursuant to Sect. 5.4.1 of the Code, the Supervisory Board states that the board must be composed of members being in command of all required skills, qualifications and experience required for the performance of its duties. The Supervisory Board believes being composed in accordance with Sect. 5.4.1 of the Code. Its chairman as former chief financial officer of a listed German stock corporation is qualified and experienced in the area of German and international accounting, stock corporation law and capital markets. Professor Dr. Neukirchen is professor in science and engineering and, therefore, qualified to supervise and advise the Executive Board in all matters relating to the Company's technology. Mr. Feng-Chang Chang as certified auditor is qualified in international financing and accounting with particular understanding for Chinese companies and namely the Company's business. The international composition of the Company's Supervisory Board proves its diversity. The Supervisory Board regularly discusses about the objectives of its composition. These objectives are, amongst others, securing of the qualification and experience as well as the

internationality of the board members. In addition, the Supervisory Board is positive towards the admission of qualified women in case of futures vacancies.

## **Functions and Responsibilities of the Executive Board and the Supervisory Board**

### **Executive Board**

The members of the Executive Board are appointed by the Supervisory Board. The Executive Board is responsible for the management of the Company. The Executive 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 ZhongDe Group to the capital market and the public domain.

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

The Executive Board is obliged to continuously, timely and comprehensively inform the Supervisory Board on all matters which are relevant for 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 Executive 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 Executive Board, the Executive Board must obtain the Supervisory Board's prior approval.

The members of the Executive Board are obliged to disclose conflicts of interest to the Supervisory Board. The Supervisory Board has to report on any conflicts of interest to the shareholders. In the financial year 2010 no conflicts of interest which would have had to be disclosed and/or reported to the Supervisory Board occurred.

The Company has entered into a D&O insurance for its members of the Executive Board which includes a deductible since 1 July 2010.

Details pertaining to the remuneration of the members of the Executive Board for the financial year 2010 can be found in the Remuneration Report on pages 48.

## **Supervisory Board**

The task of the Supervisory Board is above all to control and advise the Executive Board. The Supervisory Board is furthermore responsible for the appointment of the members of the Executive 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 to decide on granting the approval to 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 (Aktiengesetz/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 Mr Feng-Chang Chang. After the resignation of the former Supervisory Board member Dr. Quan Hao with effect as of 30 November 2010 and the appointment of Mr Feng-Chang Chang by the local court of Hamburg, the Supervisory Board will propose to the next Annual General Shareholders Meeting to elect Mr Feng-Chang Chang as 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 2010 no conflicts of interest which would have had to be disclosed and/or reported to the Supervisory Board occurred.

The Company has entered into a D&O insurance for its members of the Supervisory Board which includes a deductible since 1 July 2010.

Details pertaining to the remuneration of the members of the Executive Board for the financial year 2010 can be found in the Remuneration Report on pages 49.



## **Description of the Main Features of the Internal Control and Risk Management System Relating to the Financial Reporting Process Pursuant to § 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 energy-from-waste 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 energy-from-waste incineration and off-gas purifying systems in collaboration with a co-operation partner. The ZhongDe Group remains conscious of the fact that these investments require standardization of project management. To be able to meet these standardization requirements, we are recruiting additional personnel and highly qualified energy-from-waste 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. 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 top-quality energy-from-waste 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. As and when ZhongDe Waste Technology AG engages in further financing, we shall consider the tax impact of currency effects when devising any intercompany agreement.

We conducted a detailed assessment of existing and potential risks to the ZhongDe Group. 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

Potential risks 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 energy-from-waste 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 energy-from-waste 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 energy-from-waste 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.

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.

There are the approval timing risks of local authorities about various technical and legal requirements of ZhongDe energy-from-waste projects. Fines may be incurred if deadlines are not met.

#### Financial Risks and Other Risks and Opportunities

The strategy of focusing on large EPC and BOT projects exposes the ZhongDe Group to additional financial and operational risks, because the amount of EPC and BOT contracts are much larger than that of small incinerator sales contracts and need debt financing from bank and other financial institutions.

The government of China put strict restriction on the total amounts of new bank loans by increase commercial banks' capital ratio of deposits and raise interest rate in 2010 and 2011. However, ZhongDe successfully convinced the banks that energy-from-waste BOT projects belong to green-project which enjoy the governments stimulate policies and ensure steady cash flow and profit during the operation period. ZhongDe received cash from loan and leasing agreements from financial institutions in 2010.

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 energy-from-waste 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 qualified 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.

In order to curb domestic inflation, China's central bank raised the interest rate in 2010, which will result in an increase in financial costs. Measures to counteract this risk are, in the case of EPC projects, arrangements for the necessary down payments and, relating to BOT projects, price amendment clauses.

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 energy-from-waste BOT projects 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 energy-from-waste plants also enjoy a very good reputation due to the successful Datong energy-from-waste project, which was specially reported for 45 minutes by the most influential TV in China-CCTV in September 2010. 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 following its IPO. Our high levels of liquidity provide a solid basis for expanding into the construction of complete energy-from-waste 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.

For the reporting of risks relating to financial instruments, please see the notes to the consolidated financial statements: 28. Objectives and Strategies of Financial Risk Management.

## Corporate Strategy

ZhongDe's strategic target is to strengthen our position in the Chinese energy-from-waste industry and to return to strong and profitable business growth in order to create superior shareholder value. Within our growth strategy, we focus on the large energy-from-waste plant market. The focus of ZhongDe's business strategy was shifted from small and medium-sized incinerators to large-scale energy-from-waste projects. Because of the change in the market environment, the Company quickly adjusted its business strategy such that it was able to largely offset the decline in sales by focusing on large energy-from-waste projects. The World Economic Forum recommends energy-from-waste as one of the ten large-scale technologies to reduce greenhouse gas emissions.<sup>6</sup> As one of seven strategic new industry programmes during the 12th Five-Year Plan period, the energy-from-waste industry will gain strong support from the government and will have promising growth opportunities.

We plan to expand our market position and technological expertise. ZhongDe Waste Technology AG has taken a new step forward in terms of expanding its business and promoting its influence in the industry, with the securing of considerable projects.

With BOT projects, we want to generate recurring revenues. The BOT business delivers a sustainable earnings stream from waste disposal fee, and electricity sales, interest income and from other by-products. With the cooperation of external service providers, ZhongDe designs and installs equipments for the treatment of municipal solid waste and then operates these energy-from-waste plants for a contracted period of time in accordance with its concession agreements. At the end of 2010, the construction of Feicheng project had been completed and had entered into its trial operation period. Furthermore, three BOT additional projects will be finished in 2011 and 2012, which will contribute to ZhongDe's group revenues.

We plan to increase our activities and geographical coverage within China. ZhongDe Waste Technology AG successfully relocated its headquarters to Beijing, laying a solid foundation for the promotion of its industrial competitiveness and rapid development. When it is finished, the ZhongDe Environmental Technology Park in Beijing will be responsible for researching environmental technologies, project development and product manufacturing. The Company takes full advantage of the talent pool and leading-edge technology found in the capital city of Beijing to develop its core competitiveness.

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<sup>6</sup> (*Green Investing 2010: Policy Mechanisms to Bridge the Financing Gap*, published by the World Economic Forum in January 2010)

## **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 William 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.

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 the rapid changes in market demand is the main task of our R&D division. At present, the division is focusing more on technologies required for large-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 has shifted its focus to large-scale energy-from-waste 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 Executive Board, according to Sections 87 para 1, 107 para 3 sentence 3 of the German Stock Corporation Act (Aktiengesetz). The current employment agreements with the members of the Executive Board were entered into before the Act on the Adequacy of Remuneration of Members of the Executive Board as of 5 August 2009 (Gesetz über die Angemessenheit der Vorstandsvergütung) has become effective. Nevertheless the remuneration of the members of the Executive Board of the Company is measured at and in accordance with the economic and financial situation of the ZhongDe Waste Technology AG as well as the size of the Company and its fields of business activity. Currently, the remuneration of the members of the Executive Board merely consists of a fixed salary.

The members of the Executive Board of the ZhongDe Waste Technology AG have received in 2010 the following fixed remuneration:

in k€	2010	2009
Zefeng Chen	14	18
Na Lin (until 30 June 2009)	0	7
Jiuhua Wang (since 01 July 2009)	20	7
	34	32

### Remuneration of the Supervisory Board

According to Sec. 20 of the articles of Association each member of the Supervisory Board receives the compensation, which is determined by the General Shareholders' Meeting. The General Shareholders' meeting has resolved on the following remuneration for the supervisory board on 31 July 2009:

The chairman of the Supervisory Board receives the basic remuneration of EUR 60,000.00 per calendar year and the deputy chairman of the Supervisory Board receives a basic remuneration of EUR 45,000.00 per calendar year. Each further member of the Supervisory Board receives a basic remuneration of EUR 15,000.00 per calendar year. In addition to the basic remuneration members of the supervisory Board receive an annual performance related compensation of EUR 100 per each cent of the profit per share exceeding EUR 2.00, as disclosed in the current consolidated financial statements The cap for the performance related compensation is an amount of earnings per share of EUR 3.50 (i.e. a maximum amount of EUR 15,000). The members of the Supervisory Board receive reimbursements for expenses with regard to their office as member of the supervisory board as well as VAT, if applicable.

In the financial year 2010, the members of the supervisory board have received the following remuneration:

in k€	2010	2009
Hans-Joachim Zwarg (Chairman of the Supervisory Board)	71	71
Prof. Dr. Bernd Neukirchen (Vice Chairman of the Supervisory Board)	54	54
Dr. Quan Hao (until 30 November 2010)	14	15
Feng-Chang Chang (since 1 December 2010)	1	0
	<b>140</b>	<b>140</b>

## **Statements and Report Pursuant to Sec. 289 para 4, 315 para 4 German Commercial Code (Handelsgesetzbuch / HGB)**

### **1. Subscribed Share Capital**

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

### **2. Restrictions regarding Voting Rights and/or the Right to Transfer Shares**

According to the Company's Articles of Association (Satzung) each share confers one voting right. The Company's Articles of Association does not provide for restrictions on the transfer of shares. The Executive Board is not aware of any 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**

The Company's chief executive officer, Mr. Zefeng Chen, holds 50.86% of the shares in ZhongDe Waste Technology AG, providing him with a corresponding amount of voting rights. The Company has no knowledge of other shareholders having shares in excess of 10% of the share capital.

### **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 at their own discretion and are not subject to control of voting rights.

### **6. Appointment and Dismissal of Executive Board Members**

The Executive of ZhongDe Waste Technology AG currently comprises two members appointed by the Supervisory Board pursuant to sec. 84 German Stock Corporation Act (AktG) for a period not exceeding five years in each case. Any extension of the term of office requires a Supervisory Board resolution and may be adopted no earlier than one year prior to expiry of the current term of office. In urgent cases, the local court (Amtsgericht) may appoint a missing and required executive board member upon application by any person with interests meriting protection (e.g. other executive board members) (sec. 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 executive board member. Dismissal of a executive board member is permissible only for good cause (sec. 84 para. 3 sentences 1 and 3 AktG). Good cause includes gross negligence of duties, inability to duly perform duties or revocation of confidence by the Annual General Shareholders' Meeting. Pursuant to sec. 8 para 2 of the Articles of Association of ZhongDe Waste Technology AG, the Supervisory Board may appoint a chairman as well as a deputy chairman of the Executive Board.

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

## **7. Authority of Executive Board to Issue Shares**

The Executive 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 EUR 6,500,000.00 against the issuance of up to 6,500,000 new no par value bearer shares 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 Executive Board is further authorised, in each case with the consent of the Supervisory Board, to exclude the subscription rights of the shareholders.

The Executive Board was authorised by the Annual General Shareholders' Meeting on 31 July 2009 to issue convertible bonds of up to EUR 195,000,000.00 in return for option or conversion rights for the acquisition of up to totally 6,500,000 shares. Said authorization is valid until 31 July 2014.

The Executive Board was also authorised by the Annual General Shareholders' Meeting as of 29 June 2010 to acquire up to 1,300,000 treasury shares until 28 June 2015. During this period the authorisation may be exercised once or several times for one or several purposes. The acquisition of the Company's treasury shares can either be carried out via the stock exchange or by means of a public offer or by equity derivatives. If the Company shares are purchased via the stock exchange, the nominal value per share may not fall below or exceed the opening price of the Xetra trading system by more than 10% on the day of the purchase. If the Company's treasury shares are purchased by way of public offer, the price granted may not fall below or exceed the average closing price of the Xetra trading system on the 4<sup>th</sup> and 10<sup>th</sup> day before the publication of the price granted by more than 20%.

## **8. Change of Control Provisions**

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

## **9. Agreements on Compensation in Case of a Takeover Offer**

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

## **Subsequent Events**

In 2011, the Group signed a loan agreement worth RMB 100 million to finance a BOT project. The loan agreement has a term of 114 months and is subject to an interest rate of 7.48% p.a. Depending on the change of base rate of the Chinese central bank there will be interest rate adjustments. The loan is repayable in increasing annual installments.

There were no other events subsequent to the end of the financial year.

## Outlook

Over the next ten years, the volume of waste disposed in energy-from-waste plants in China is expected to increase from 2%–3% currently to 10%–12%, while annual investment in the energy-from-waste industry is likely to amount to RMB 80 billion. The energy-from-waste industry should experience rapid development during the 12th Five-Year Plan.

The resistance to energy-from-waste incineration in 2009 and 2010 led to concerns on the part of local governments and the public regarding the environmental effect of energy-from-waste plants in China, which delayed various government approvals as well as the construction progress of ongoing energy-from-waste projects at ZhongDe. However, as a result of PR activities on the part of ZhongDe and the Chinese central government in various professional arenas, TV reporting and other government relations and media activities, the concerns and fears were dispelled and investment in energy-from-waste plants and construction projects can now continue.

In March 2011, representative of the Chinese central government, Mr Wen Jiabao, announced that the government would support energy-from-waste plant construction in China. This will accelerate the various approval procedures with local authorities for ZhongDe regarding ongoing energy-from-waste projects.

We are excited about the development prospects relating to our energy-from-waste plants. We have the financial strength and expertise to capitalize on this position and to further expand, thus achieving a new leap forward in the development of the company.

The first EPC project at ZhongDe, the Datong project, was completed on time. The quality of this project is very high, and it is regarded as a model of green plant technology in the energy-from-waste industry in China. This greatly enhances ZhongDe's reputation and image as one of the well-known players in the Chinese energy-from-waste industry, an effect which was further multiplied by the Chinese Central TV Station running a 45-minute special report on the plant during prime time. At the end of 2010, the construction work for the Feicheng project had been completed and the plant began its trial operation period. According to our updated plan, one EPC and one BOT project are likely to be finished in 2011. We anticipate that the EPC and BOT projects currently undergoing construction will be completed in 2012.

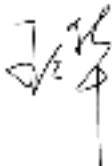
We expect new contracts for at least one EPC and one BOT to be signed in 2011. The waste disposal capacities of each project will be about 1,000 tons per day.

Although we were unable to achieve our sales targets in Q1 2011, we nevertheless expect our sales and profit levels in 2011 and 2012 to be higher than those of 2010. Our order backlog worth € 157.8 million as at 31 December 2010 forms the foundations of our growth targets.

Hamburg, 27 April 2011



Zefeng Chen  
Chairman of the Management Board (CEO)



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

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## FINANCIAL STATEMENTS

### Consolidated Balance Sheet

of ZhongDe Waste Technology AG as of 31 December 2010

in k€	Notes	31.12.2010	31.12.2009
<b>Assets</b>			
<i>Non-current assets</i>			
Intangible assets	2.4, 3, 11	7,774	3,067
Land	2.5, 12	2,336	2,140
Property, plant and equipment	2.2, 2.6, 13	1,584	1,387
Construction in progress	14	6,577	5,400
Receivables from BOT	2.7, 3, 15	21,927	5,248
Deferred tax assets	2.20, 24	760	179
		40,957	17,421
<i>Current assets</i>			
Inventories	2.11, 16	1,442	4,032
Trade receivables	2.2, 2.10, 17, 28	8,744	5,581
Other receivables and prepayments	2.10, 17, 28	10,933	3,239
Amounts due from related parties	17, 27, 28	19	6
Cash and cash equivalents	2.9, 18, 28	106,476	111,899
		127,614	124,757
<b>Total assets</b>		<b>168,571</b>	<b>142,178</b>
<b>Liabilities and Equity</b>			
<i>Capital and Reserves</i>			
Issued capital, stated value EUR 1.00	1, 19.1	13,000	13,000
Capital reserves	19.2a)	70,522	69,822
Statutory reserves	19.2b)	7,793	7,225
Own shares	19.1	-4,104	-2,408
Retained earnings	19.2c)	32,223	35,571
Foreign exchange difference	19.3	16,174	1,884
<b>Total equity</b>		<b>135,608</b>	<b>125,094</b>
<i>Liabilities</i>			
<b>Long-term liabilities</b>			
Long term-loans	2.17, 23	10,524	0
Deferred tax liabilities	2.20, 20	2,226	593
		12,749	593
<b>Current liabilities</b>			
Trade payables	2.12, 21, 28	15,729	9,398
Other payables and accruals	2.12, 21, 28	3,385	5,456
Provisions	2.2, 2.13, 22, 28	1,091	1,067
Amounts due to related parties	21, 27, 28	2	37
Income tax payable	2.20	7	533
		20,214	16,491
<b>Total Liabilities</b>		<b>32,963</b>	<b>17,084</b>
<b>Total liabilities and equity</b>		<b>168,571</b>	<b>142,178</b>

## Consolidated Statement of Cash Flow

of ZhongDe Waste Technology AG for the period  
from 1 January to 31 December 2010

in k€	2010	2009
<b>Profit before income tax</b>	<b>1,777</b>	<b>7,737</b>
Adjustments for:		
Amortization of intangible assets	42	10
Allowance for doubtful trade debts	64	(380)
Provision for warranty	(228)	316
Depreciation of land (land-use rights)	49	46
Depreciation of property, plant and equipment	434	305
Gains/losses PPE	10	121
Interest income/exchange gains	(1,408)	(1,141)
Interest expense/exchange losses	959	1,423
<b>Operating cash flows before working capital changes</b>	<b>1,699</b>	<b>8,437</b>
<b>Working capital changes:</b>		
(Increase)/decrease in:		
Inventories	2,590	65
Trade receivables	(3,227)	10,476
Other receivables and prepayments	(7,694)	(227)
Amounts due from related parties	(13)	4
Receivables from BOT	(21,571)	(4,589)
Increase/(decrease) in:		
Trade payables	6,331	5,045
Other payables, provisions and accruals	(1,819)	(1,431)
Amounts due to related parties	(35)	(162)
<b>Cash generated from/(used in) operations</b>	<b>(23,739)</b>	<b>17,618</b>
Interest received/exchange gains	1,408	1,141
Interest paid/exchange losses	(959)	(1,423)
Income tax paid	(1,432)	(896)
<b>Net cash generated from operating activities</b>	<b>(24,722)</b>	<b>16,440</b>

in k€	2010	2009
<b>Cash flow from investing activities</b>		
Payments in connection with the short-term financial management of cash investments	(22,066)	(22,587)
Receipts in connection with the short-term financial management of cash investments	25,092	3,000
Purchase property, plant, equipment, intangible assets, land use rights	(1,037)	(1,644)
<b>Cash flow used in investing activities</b>	<b>1,989</b>	<b>(21,231)</b>
<b>Cash flow from financing activities</b>		
Dividend paid	(1,898)	(1,950)
	10,524	0
	1,449	0
Buy back of own shares	(1,696)	(2,408)
<b>Cash flow from financing activities</b>	<b>8,379</b>	<b>(4,358)</b>
<b>Net increase (+) / decrease (-) in cash and cash equivalents</b>	<b>(14,354)</b>	<b>(9,149)</b>
Cash at beginning of year	88,563	102,740
Foreign exchange differences	9,596	(5,028)
<b>Cash at end of period</b>	<b>83,805</b>	<b>88,563</b>
Short term (duration over 3 months) financial management of cash investments	22,671	23,336
<b>Cash and cash equivalents (balance sheet)</b>	<b>106,476</b>	<b>111,899</b>

## Consolidated Statement of Income and Expenses

of ZhongDe Waste Technology AG for the period  
from 1 January to 31 December 2010

in k€	Notes	2010	2009
Sales	2.2, 2.15, 3, 4, 5	33,396	40,199
Cost of sales		26,008	25,166
<b>Gross Profit</b>		<b>7,387</b>	<b>15,033</b>
Gross Profit relating to proceeding year		1,163	0
<b>Adjusted Gross Profit</b>		<b>8,550</b>	<b>15,033</b>
Other operating income		249	381
Selling and distribution expenses		2,392	1,873
Administrative expenses		3,658	1,864
Research and development expenses	2.4	209	464
Other operating expenses		1,617	3,195
<b>Profit from operations</b>		<b>924</b>	<b>8,018</b>
Finance income	2.15, 9	1,813	1,141
Finance costs	2.17, 10	959	1,423
<b>Profit before tax</b>		<b>1,777</b>	<b>7,736</b>
Income tax expense	2.20, 24	2,658	2,023
<b>Profit (+) / loss (-) for the year</b>		<b>(881)</b>	<b>5,713</b>
<b>Earnings per share (diluted and undiluted)</b>	2.21	<b>(0.07)</b>	<b>0.44</b>
<b>Weighted average shares outstanding (diluted and undiluted)</b>		<b>12,664,031</b>	<b>12,971,502</b>

## Statement of Comprehensive Income

of ZhongDe Waste Technology AG for the period  
from 1 January to 31 December 2010

in k€	2010	2009
<b>Profit (+) / loss (-) for the year</b>	<b>(881)</b>	<b>5,713</b>
<b>Other Comprehensive Income</b>		
Foreign exchange differences recognized directly in equity	14,290	(4,602)
<b>Total changes recognized directly in equity</b>	<b>14,290</b>	<b>(4,602)</b>
<b>Total Comprehensive Income</b>	<b>13,409</b>	<b>1,111</b>

The recognised foreign exchange differences did not give rise to deferred taxes. Recycling was also not necessary.

## Consolidated Statement of Changes in Equity

of ZhongDe Waste Technology AG for the period  
from 1 January to 31 December 2010

in k€	Number of shares outstanding	Share capital AG	Capital Reserves	Statutory reserves	Own shares	Retained earnings	Foreign exchange differences	Total equity
	19.1	19.1	19.2 a)	19.2 b)	19.1	19.2 c)	19.3	
<b>Balance as at January 1, 2009</b>	13,000,000	13,000	69,822	6,348	0	32,684	6,486	128,340
<b>Total result for the period</b>	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)
<b>Balance as at January 1, 2010</b>	12,798,800	13,000	69,822	7,225	(2,408)	35,570	1,884	125,093
<b>Total result for the period</b>	0	0	0	0	0	(881)	14,290	13,409
Appropriations of current year's income	0	0	0	569	0	(569)	0	0
Dividend paid for the year 2009	0	0	0	0	0	(1,898)	0	(1,898)
Deferred taxes on IPO expenses	0	0	700	0	0	0	0	700
Buy back own shares	(146,360)	0	0	0	(1,696)	0	0	(1,696)
<b>Balance as at December 31, 2010</b>	<b>12,652,440</b>	<b>13,000</b>	<b>70,522</b>	<b>7,794</b>	<b>(4,104)</b>	<b>32,222</b>	<b>16,174</b>	<b>135,608</b>

## **NOTES TO THE FINANCIAL STATEMENTS**

of ZhongDe Waste Technology AG as of 31 December 2010

### **| 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, demerge parts of its business to subsidiaries and associated companies, including joint ventures with third parties, sell interests in other companies, conclude enterprise agreements, or limit itself to the management of shareholdings.

##### **Business of the ZhongDe Group**

The ZhongDe Group designs, manufactures and installs incinerators for the disposal of solid medical, municipal (mixed household refuse) and industrial (including hazardous) waste. This involves a variety of incineration techniques: grate, pyrolytic and rotary kiln incineration as well as fluidized bed combustion. 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. 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. The work and services required in connection with EPC and BOT projects are not carried out by the ZhongDe Group itself but by subcontractors. The production and sale of waste incinerators have declined in importance considerably since the financial market crisis. In 2010 only two incinerators were sold to third parties outside the Group.

## Group structure

The operational business of the ZhongDe Group is carried out by the individual operating companies in the ZhongDe Group, limited liability companies 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 2010	Results 2010
ZhongDe China Environmental Protection Co. Ltd.	100%	1,958	(1,348)
Chung Hua Environmental Protection Assets (Holdings) Group Ltd., Hong Kong	100%	33,211	(2,268)
Fujian FengQuan Environmental Protection Holding Ltd., Fuzhou, VR China	100%	76,231	5,537
Beijing ZhongDe Environmental Protection Technology Co. Ltd., Beijing, VR China	100%	1,853	829
Zhoukou FengQuan Environmental Protection Electric Power Co. Ltd., Zhoukou, VR China	100%	9,117	1,065
Feicheng FengQuan Waste Disposal Co. Ltd., Feicheng, VR China	100%	1,188	(401)
Xianning ZhongDe Environmental Protection Electric Power Co. Ltd., Xinjiang, VR China	100%	9,220	359
Kunming FengDe Environmental Protection Electric Power Co. Ltd., Kunming, VR China	100%	10,577	667

The number of consolidated subsidiaries has not changed compared to the previous year. In comparison with the previous year one new subsidiary, (ZhongDe China Environmental Protection Co. Ltd., Peking) was formed and a subsidiary (Lianshui FengQuan Waste Disposal Co., Ltd., Lian shui) was liquidated. In order to carry out BOT projects Fujian FengQuan Environmental Protection Holding Ltd. and Chung Hua Environmental Protection Assets (Holdings) Group Ltd. hold all the shares in a total of four companies included in the consolidated financial statements. These changes have no effects on the 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 applicable in the EU, in conjunction with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the International Financial Reporting Standards Interpretations Committee (IFRS IC) 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 new standards and interpretations and amendments to existing standards and interpretations applicable in the financial year ending on December 31, 2010 are:

Change / Standard	Publication Date	Date of adoption as EU law	Application date (EU)
IFRS 1(rev. 2008) – First Time Adoption of IFRS	27 Nov 08	25 Nov 09	At the latest for financial years beginning after Dec. 31, 2009
Amendments to IFRS 1 Additional Exemptions for First-time Adopters	23 Jul 09	23 Jun 10	Financial years beginning after Dec. 31, 2009
Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions	18 Jun 09	23 Mar 10	Financial years beginning after Dec. 31, 2009
IFRS 3(rev. 2008) – Business Combinations	10 Jan 08	03 Jun 09	Financial years beginning after Jun. 30, 2009
IAS 27(rev. 2008) – Amendments to IAS 27 Consolidated and Separate Financial Statements	10 Jan 08	03 Jun 09	Financial years beginning after Jun. 30, 2009
Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items	31 Jul 08	15 Sep 09	Financial years beginning on or after Jul. 1, 2009
Improvements to IFRSs (issued by the IASB in April 2009) (AIP 2009)	16 Apr 10	24 Mar 10	Various; mostly for financial years beginning after Dec. 31, 2009
IFRIC 12 - Service Concession Arrangements	30 Nov 06	25 Mar 09	Financial years beginning after Mar. 29, 2009
IFRIC 15 - Agreements for the Construction of Real Estate	03 Jul 08	22 Jul 09	At the latest for financial years beginning after Dec. 31, 2009
IFRIC 16 - Hedges of a Net Investment in A Foreign Operation	03 Jul 08	04 Jun 09	Financial years beginning after Jun. 30, 2009
IFRIC 17 - Distributions of Non-Cash Assets to Owners	27 Nov 08	26 Nov 09	At the latest for financial years beginning after Oct. 31, 2009
IFRIC 18 - Transfers of Assets from Customers	29 Jan 09	27 Nov 09	At the latest for financial years beginning after Oct. 31, 2009
Improvements to IFRS (issued May 2010)	06 May 10	19 Feb 11	Various; at the earliest for financial years beginning after Jul. 1, 2010

New standards and interpretations and amendments to existing standards and interpretations that will be effective for financial years after December 31, 2010, and have not been applied in preparing these consolidated financial statements are:

Change / Standard	Publication Date	Date of adoption as EU law	Application date (EU)
Amendments to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters	28 Jan 10	30 Jun 10	Financial years beginning after Jun. 30, 2010
Revised IAS 24 Related Party Disclosures	04 Nov 09	19 Jul 10	Financial years beginning after Dec. 31, 2010
Amendment to IAS 32 Classification of Rights Issues	08 Okt 09	23 Dec 09	Financial years beginning on or after Feb. 1, 2010
Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement	26 Nov 09	19 Jul 09	Financial years beginning after Dec. 31, 2010
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	26 Nov 09	23 Jul 10	Financial years beginning after Jun. 30, 2010

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 consolidated financial statements are prepared in euros. The amounts are presented in rounded thousand EUR if not otherwise stated.

The Consolidated Financial Statements as of 31 December 2010 have been prepared on a going-concern basis and were released for submission to the Supervisory Board on 27 April 2011. The Consolidated Financial Statements will probably be approved at the balance sheet meeting of the Supervisory Board on 28 April 2010; 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, 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 and liabilities incurred or assumed at the date of exchange. Identified assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

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 following a critical review.

## **| 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 are disclosed below:

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

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

Management uses judgment to determine the allowance for doubtful receivables, which 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.

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

The carrying amount of allowance for doubtful receivables is € 132 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 2010 was € 1,584 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 as well as expectations for guarantee claims during the one-year warranty period for all products sold. It is expected that most of these costs will be incurred within one year after the balance sheet date.

The carrying amount for provisions for warranty is € 15 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 management best estimate and current information available. The provisions relate to potential contractual penalties for delays in connection with BOT projects.

The carrying amount of this provision is € 339 thousand (previous year: € 152 thousand).

#### **e) Revenue recognition on construction contracts**

Certain Group entities, particularly in the segments EPC and BOT, conduct a major 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 review all estimates involved in such construction contracts and adjust them as necessary.

#### **f) Measurement of fair value for BOT projects**

The Group uses the cost-plus method to determine the fair value of construction services. This entails the addition of a margin to the costs incurred in the production and development phases to obtain fair value. As well as a precise estimate of all the production and development costs incurred for the project, this requires the estimate of a margin for each project. In the absence of available data the margin is deduced from comparable projects that have already been realized. The management of the operating units continuously reviews all estimates made in the course of BOT projects and adjusts 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 companies in the Group operate to be Renminbi (RMB). Sales and major costs of providing goods and ongoing services, including most of the operating expenses are stated and invoiced almost exclusively 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 without effect on profit and loss in the statement of other comprehensive income and as a separate component of equity (foreign currency translation reserve) in the consolidated balance sheet. Only on disposal of the subsidiary are they recognized in the consolidated income statement.

### **Foreign currency translation**

The presentation currency of the Group is the 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 EUR/ foreign currency rate)							
			Average rate			Ending rate	
ISO-Code			2010	2009	2010	2009	
Chinese Yuan		CNY	8.9712	9.5277	8.8220	9.8350	
Hong Kong-Dollar		HKD	10.2994	10.8114	10.3856	11.1709	

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 without effect on profit and loss in other comprehensive income and in the currency translation reserve, a separate component of equity.

## **| 2.4 | Intangible assets**

### **a) Financial software**

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

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

### **b) Research and development costs**

Research costs, if any, are expensed in the period in which they incur. An intangible asset arising from development expenditure on an individual project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell off the asset, how the asset will generate future economic benefits, the ability of resources to complete and the ability to reliably measure the expenditure during the development. The criteria for capitalizing research and development costs in accordance with IAS 38 are not met, as research and development activities cannot be separated (circular process).

### **c) 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, which according to the terms of the contracts is 30 years. Amortization begins when the infrastructure is put into service, which is expected to be in 2011 for the first BOT projects. During the production phase a capitalized intangible asset is tested annually for impairment.

The carrying amount of the service concession rights was € 7,572 thousand as of 31.12.2010 (31.12.2009: € 2,860 thousand).



## | 2.5 | Land

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

In the course of the second Annual Improvement Project (AIP 2009), the classification rules for land leases were extended from 2010. The transitional rules provide for a retrospective (re)classification of lease agreements for land. For this reason the land use rights are no longer held as intangible assets, as in the previous year, but as land. The carrying amount for intangible assets therefore declined from € 5,207 thousand (31.2.2009) and € 10,110 thousand (31.12.2010) to € 3,067 thousand (31.2.2009) and € 7,774 (31.2.2010). The carrying amount for land went up accordingly to € 2,140 thousand (31.2.2009) and € 2,336 thousand (31.2.2010). This does not affect the amount of amortization in the income statement.

## | 2.6 | Buildings, plant and machinery, operating and office equipment

Buildings, plant and machinery, operating and office equipment is recorded at historic cost, less accumulated depreciation and any impairment loss.

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.

## **| 2.7 | 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.

## **| 2.8 | Impairment of non-financial assets**

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

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

As assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses recognised for an asset other than goodwill may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss is recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount 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.

### **| 2.9 | 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.

### **| 2.10 | 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.

**| 2.11 | Inventories**

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

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

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

**| 2.12 | Financial liabilities**

Financial liabilities 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.

**| 2.13 | 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.

#### **| 2.14 | 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.

#### **| 2.15 | 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**

This revenue is accounted for using the percentage of completion method which recognises revenue as performance of 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 in line with IAS 11 (see 2.15 c). The revenue relating to infrastructure operations is recognised in accordance with IAS 18 (see 2.15 a and b).

#### **| 2.16 | 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.

#### **| 2.17 | 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.

After initial recognition the liabilities are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit and loss in the course of amortisation by means of the effective interest method and when the liability is derecognised. Liabilities are considered non-current if they mature no earlier than in twelve months.

#### **| 2.18 | Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (service concession rights) are part of the acquisition/production cost of those assets. A qualifying asset is one which necessarily takes a substantial period of time to get ready for its intended use or sale.

When measuring the amount of borrowing costs eligible for capitalisation in the period all income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs incurred.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## **| 2.19 | 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.

## **| 2.20 | 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.

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 and assets are generally recognised for all taxable temporary differences unless this is specifically forbidden under IFRS.

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.

## **| 2.21 | Earnings per Share**

Earnings per share for 2010 amounted to € -0.07 (2009: € 0.44). 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. Basic and diluted earnings per share are the same, as the absence of potential shares means that dilution effects are not relevant.



### | 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 arrangement.

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 relating 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.

Revenue and profits or losses in the reporting period resulting from rendering construction services in exchange for a financial or intangible asset relate solely to the segment BOT projects and are disclosed in the segment reporting under | 6 | [Segment analysis](#).

### | 4 | Revenues

Sale of goods represents the invoiced amount of delivered goods net of discounts, returns and value added tax. All intra-group transactions are excluded from the revenue of the consolidated group. Revenue amounted to € 33,396 thousand (2009: € 40,199 thousand). A breakdown of revenue and changes by segment can be found in the segment reporting.

## | 5 | Percentage-of-Completion

Construction contracts are accounted for using the percentage of completion method. The percentage of completion is determined using the cost-to-cost method. Contracts are recognised as assets 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 € 33,396 thousand (2009: € 40,199 thousand) include order income of € 10,652 thousand (2009: € 0) from ongoing production orders identified with the PoC-method. The accumulated costs of sales are € 8,409 thousand (2009: € 0). Total gross profit is € 2,243 thousand (2009: € 0).

Receivables from PoC and advanced payments received in connection with EPC projects are disclosed in the balance sheet as follows:

in k€	31.12.2010	31.12.2009
Receivables from PoC	10,832	0
Advanced payments	(6,097)	0
	4,736	0
thereof gross amount due from customers for contract work as an		
- asset	4,736	0
- liability	0	0

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 EUR. The difference is charged to equity (foreign exchange difference) and does not affect profit and loss.

### 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. The segments are managed on the basis of gross return on sales as well as by orders received and the order backlog. In the previous year the segment reporting also included disclosures on segment assets and liabilities. This was abandoned in the 2010 financial year following clarification in the Annual Improvement 2009, as no regular reporting is provided on these items.

#### a) Business segment

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

- Segment sale of incinerators for urban municipal waste and medical waste

The ZhongDe Group develops, produces and installs incinerators in China, in particular for the disposal of medical waste and urban municipal waste (mixed household waste). The customers for the supply of waste incinerators are mostly public and private-sector Chinese companies.

- Segment EPC projects (Engineering, Procurement and Construction)

In addition the ZhongDe Group acts as general contractor on EPC projects with responsibility for the design, construction planning, procurement, construction and assembly of waste incinerators (waste-to-energy). The necessary work and services are carried out by third parties (subcontractors).

- BOT/BOOT projects (Build-Operate-Transfer/ Build-Operate-Own-Transfer)

As an investor in BOT projects the ZhongDe Group also builds and operates waste incinerators outside the EPC projects (waste-to-energy). The work and services required to build the infrastructure is carried out by third parties (subcontractors).

## b) Geographical business

The Group's contract partners and customers are all based in the People's Republic of China ("PRC") and all of its services to date have been provided 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.

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

The following table presents revenue and results information regarding the Group's business segments for the financial year end 31 December 2010:

### Segments

	Incinerators		EPC		BOT		Total reportable segments		Unallocated		Consolidation		Group	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
in k€														
Revenues	1,620	11,221	10,652	24,366	21,123	4,589	33,396	40,176	0	23	0	0	33,396	40,199
Inter-company revenues	1,948	0	0	0	0	0	1,948	0	0	0	(1,948)	0	(0)	0
Total revenue for reportable segments	3,569	11,221	10,652	24,366	21,123	4,589	35,344	40,176	0	23	(1,948)	0	33,396	40,199
Total gross profit from reportable segments	1,135	7,098	2,243	6,782	4,000	1,139	7,378	15,019	0	14	9	0	7,387	15,033
Order intake	0	2,599	25,438	72,935	0	33,777	25,438	109,311	0	0	0	0	25,438	109,311
Order Back-log	1,604	2,915	88,736	68,499	67,418	79,742	157,758	151,156	0	0	0	0	157,758	151,156

in k€	2010	2009
Total profit or loss for reportable segments	7,378	15,019
Consolidation	9	0
<b>Total profit or loss for the Group</b>	<b>7,387</b>	<b>15,019</b>
Unallocated Income and Expenses of the Group	(6,463)	(7,283)
<b>EBIT</b>	<b>924</b>	<b>8,018</b>
Finance income	1,813	1,141
Finance expense	959	1,423
<b>Profit before tax</b>	<b>1,777</b>	<b>7,736</b>
Income tax	2,658	2,023
<b>Profit (+)/Loss (-) for the year</b>	<b>(881)</b>	<b>5,713</b>

### Information about major customers

All of ZhongDe's revenues were earned by Group companies based in Mainland China. In the Incinerator Segment, net revenues of € 5.5 million were achieved with one customer the previous year. In the EPC Project Segment, net revenues in the amount of € 7.9 million (2009: € 24.4 million) were achieved with one customer. In the BOT projects segment revenues of € 17.9 million were achieved with three customers.

in k €	Incinerators		EPC		BOT	
	2010	2009	2010	2009	2010	2009
Revenues	0	5.5	7.9	24.4	17.9	0.0
Customers	0	1	1	1	3	0

### | 7 | Gross return on sales from other periods

The amount shown results principally from the final invoice for the company's first waste-to-energy project. The Datong project was completed and accepted in late 2009, the final invoices from subcontractors were mostly still outstanding at the close of the previous financial year. In the course of negotiations with subcontractors ZhongDe was able to agree on payments for services that were € 903 thousand below the cost estimates. Revenue of € 260 thousand was also recognised from other periods.

### | 8 | Expenses

in k€	2010	2009
Depreciation of property plant and equipment	399	305
Depreciation of land	49	46
Staff costs	2,228	2,145
Amortization of intangible assets	41	10
Allowance for doubtful trade debts	64	(380)

## | 9 | Finance Income

in k€	2010	2009
Interest income	1,288	516
Exchange gains	525	625
	<b>1,813</b>	<b>1,141</b>

Cash deposits account for interest income of € 883 thousand (2009: k€ 516) and receivables from BOT projects for interest income of € 405 thousand (2009: k€ 0).

## | 10 | Finance Costs

in k€	2010	2009
Bank charges	4	4
Exchange loss	837	1,419
Interest expense	118	-
	<b>959</b>	<b>1,423</b>

In 2010 borrowing costs of € 43 thousand (2009: € 0) were capitalised. Finance costs went down accordingly. As financing is arranged for each individual BOT project, the actual financing costs are capitalised in line with IFRIC 12.22 to the extent that they are incurred for a qualifying asset (service concession rights).

## | 11 | Intangible Assets

in k€	Software	Trademark, Patent	Service concession rights	Total
<b>Cost:</b>				
At 31 December 2009	190	30	2,860	3,080
Additions	2	10	4,307	4,319
Exchange difference	22	4	405	431
<b>At 31 December 2010</b>	<b>214</b>	<b>44</b>	<b>7,572</b>	<b>7,830</b>
<b>Accumulated amortization and impairment:</b>				
At 31 December 2009	13	0	0	13
Amortization	24	17	0	41
Exchange difference	2	0	0	2
<b>At 31 December 2010</b>	<b>39</b>	<b>17</b>	<b>0</b>	<b>56</b>
<b>Net carrying amount:</b>				
At 31 December 2009	177	30	2,860	3,067
<b>At 31 December 2010</b>	<b>175</b>	<b>27</b>	<b>7,572</b>	<b>7,774</b>
Exchange difference	20	4	405	429

in k€	Software	Trademark, Patent	Service concession rights	Total
<b>Cost:</b>				
At 31 December 2008	36	18	1,400	1,454
Additions	160	13	1,560	1,733
Exchange difference	(6)	(1)	(100)	(107)
<b>At 31 December 2009</b>	<b>190</b>	<b>30</b>	<b>2,860</b>	<b>3,080</b>
<b>Accumulated amortization and impairment:</b>				
At 31 December 2008	3	0	0	3
Amortization	10	0	0	10
Exchange difference	0	0	0	0
<b>At 31 December 2009</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>13</b>
<b>Net carrying amount:</b>				
At 31 December 2008	33	18	1,400	1,451
<b>At 31 December 2009</b>	<b>177</b>	<b>30</b>	<b>2,860</b>	<b>2,877</b>
Exchange difference	(6)	(1)	(100)	(107)

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 Equipment Co. Ltd. for research and production purposes in an agreement dated 25 July 2006.

- This also applies to the brand of which Fujian FengQuan Environmental Protection Holding 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 Holding Ltd. the exclusive right of use of the brand for the entire protection period of the intellectual property rights.

## | 12 | Land

in k€	Land-use rights
<b>Cost:</b>	
At 31 December 2009	2,237
Additions	0
Disposals	0
Exchange difference	257
<b>At 31 December 2010</b>	<b>2,494</b>
<b>Accumulated depreciation and impairment:</b>	
At 31 December 2009	97
Depreciation charged for the year	49
Disposals	0
Exchange difference	12
<b>At 31 December 2010</b>	<b>158</b>
<b>Net carrying amount:</b>	
At 31 December 2009	2,140
<b>At 31 December 2010</b>	<b>2,336</b>
<b>Exchange difference</b>	<b>245</b>

in k€	Land-use rights
<b>Cost:</b>	
At 31 December 2008	2,317
Additions	0
Disposals	0
Exchange difference	(80)
<b>At 31 December 2009</b>	<b>2,237</b>
<b>Accumulated depreciation and impairment:</b>	
At 31 December 2008	54
Depreciation charged for the year	46
Disposals	0
Exchange difference	(3)
<b>At 31 December 2009</b>	<b>97</b>
<b>Net carrying amount:</b>	
At 31 December 2008	2,263
<b>At 31 December 2009</b>	<b>2,140</b>
<b>Exchange difference</b>	<b>(77)</b>



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).

## | 13 | Equipment

in k€	Machine equipment	Vehicle	Electronic equipment	Total
<b>Cost:</b>				
At 31 December 2009	625	1,088	384	2,097
Additions	36	323	80	439
Disposals	(5)	0	(4)	(9)
Exchange difference	74	131	48	253
<b>At 31 December 2010</b>	<b>730</b>	<b>1,542</b>	<b>508</b>	<b>2,780</b>
<b>Accumulated depreciation and impairment:</b>				
At 31 December 2009	269	319	122	710
Depreciation charged for the year	66	254	79	399
Disposals	(1)	0	(1)	(2)
Exchange difference	32	40	17	89
<b>At 31 December 2010</b>	<b>366</b>	<b>613</b>	<b>217</b>	<b>1,196</b>
<b>Net carrying amount:</b>				
At 31 December 2009	356	769	262	1,387
<b>At 31 December 2010</b>	<b>364</b>	<b>929</b>	<b>291</b>	<b>1,584</b>
<b>Exchange difference</b>	<b>42</b>	<b>91</b>	<b>31</b>	<b>164</b>

in k€	Machine equipment	Vehicle	Electronic equipment	Total
<b>Cost:</b>				
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)
<b>At 31 December 2009</b>	<b>625</b>	<b>1,088</b>	<b>384</b>	<b>2,097</b>
<b>Accumulated depreciation and impairment:</b>				
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)
<b>At 31 December 2009</b>	<b>269</b>	<b>319</b>	<b>122</b>	<b>710</b>
<b>Net carrying amount:</b>				
At 31 December 2008	319	809	170	1,298
<b>At 31 December 2009</b>	<b>356</b>	<b>769</b>	<b>262</b>	<b>1,387</b>
<b>Exchange difference</b>	<b>(13)</b>	<b>(27)</b>	<b>(12)</b>	<b>(52)</b>

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

There are further details in Note 26 and 27.

## | 14 | Construction in Progress

in k€	Construction in progress
<b>Cost:</b>	
At 31 December 2009	5,400
Additions	587
Disposals	(3)
Exchange difference	629
<b>At 31 December 2010</b>	<b>6,613</b>
<b>Accumulated depreciation and impairment:</b>	
At 31 December 2009	0
Depreciation charged for the year	35
Disposals	0
Exchange difference	1
<b>At 31 December 2010</b>	<b>36</b>
<b>Net carrying amount:</b>	
At 31 December 2009	5,400
<b>At 31 December 2010</b>	<b>6,577</b>
<b>Exchange difference</b>	<b>628</b>

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

Construction in progress relates almost entirely to the R&D centre and the production site in Beijing. The carrying amount of the construction in progress has been confirmed by an external appraisal.

## | 15 | Receivables from BOT Projects

in k€	Receivables from BOT
<b>Cost:</b>	
At 31 December 2009	5,248
Additions	17,264
Disposals	(1,449)
Exchange difference	864
<b>At 31 December 2010</b>	<b>21,927</b>
<b>Accumulated depreciation and impairment:</b>	
At 31 December 2009	0
Depreciation charged for the year	0
Disposals	0
Exchange difference	0
<b>At 31 December 2010</b>	<b>0</b>
<b>Net carrying amount:</b>	
At 31 December 2009	5,248
<b>At 31 December 2010</b>	<b>21,927</b>
<b>Exchange difference</b>	<b>864</b>

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

## | 16 | Inventories

in k€	31.12.2010	31.12.2009
Raw materials and consumables	435	445
Finished goods	857	1.281
Raw materials for BOT-projects	-	1.463
Work in process	150	843
	<b>1.442</b>	<b>4.032</b>

## | 17 | Trade and Other Receivables

in k€	31.12.2010	31.12.2009
<b>Trade receivables:</b>		
Trade receivables	4,140	5,641
Allowance for trade receivables	(132)	(60)
	<b>4,008</b>	<b>5,581</b>
POC Receivables	4,736	0
	<b>8,744</b>	<b>5,581</b>
<b>Other receivables:</b>		
Other receivables	1,059	200
Advance to customers	9,124	3,039
Interest receivable	49	0
Income Tax receivable	53	0
VAT receivable	647	0
	<b>10,933</b>	<b>3,239</b>
Allowance for other receivables	0	0
	<b>10,933</b>	<b>3,239</b>
<b>Related parties:</b>		
Amount due from related parties-non-trade	19	6
	19	6
	<b>19,696</b>	<b>8,826</b>

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 k€	31.12.2010	31.12.2009
Neither impaired nor due past as of balance sheet date	4,736	0
Overdue:		
Within 30 days	3,166	4,250
31-90 days	0	109
91-180 days	946	0
181-360 days	0	1,256
361-1080 days	0	26
More than 1080 days	29	0
	<b>8,876</b>	<b>5,641</b>

## Allowance for doubtful receivables

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

in k€	2010	2009
Provision for trade receivables	64	(380)
	64	(380)

## | 18 | Cash and Cash Equivalents

in k€	31.12.2010	31.12.2009
Cash at banks and in hand	83,805	88,564
Cash fund	83,805	88,564
Short term deposits (duration over 3 months)(Euro)	0	3,000
Short term deposits (duration over 3 months)(Renminbi)	22,671	20,336
	106,476	111,899
Thereof in Germany	516	4,072
Thereof in China	105,960	107,827

Cash at banks earns interest at an annual rate of up to 0.36%. Short term deposits are made for periods of six months depending on the immediate cash requirements of the Group and earn interest of up to 2.2% annually for € 22,671 thousand (RMB 200 million).

## | 19 | Equity

### | 19.1 | Paid-in capital

The share capital of the 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 € 6,500,000.00 by issue of up to 6,500,000 new bearer shares no par value in consideration of contributions in cash or in kind (authorised capital 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 € 195,000,000.00 in return for option or conversion rights for the acquisition of up to 6,500,000 shares in total.

Up to 31 December 2010 treasury stock of the parent company amount to a value of € 4,104 thousand (2009: € 2,408 thousand) and are divided into 347,560 shares (2009: 201,200 shares). The number of circulating shares amounts to 12,652,440 (31 December 2010) accordingly 12,798,800 (31 December 2009).

## **| 19.2 | 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 changed by € 700 thousand compared with last year, as the tax deductibility of the IPO expenses was reconsidered.

### **b) Statutory reserves**

The statutory reserve relates to the subsidiary 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. This 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 2010 a dividend of € 0.15 per share (€ 1,898 thousand) was paid to the shareholders in accordance with the resolution of the shareholders' meeting on 29 July 2010.

## **| 19.3 | Currency Conversion Differential**

The equity item for currency conversion serves to recognise accrued differences arising from conversion of the functional currency foreign business operations in the reporting currency (EURO); the, in the financial year, accruing differences are accounted in the statement of comprehensive income in the other comprehensive income. Differences resulting from exchange rate translation are accounted in the statement of income and expenses if foreign business operations are sold.



## | 20 | 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.

## | 21 | Trade and Other Payables

in k€	31.12.2010	31.12.2009
<b>Current liabilities</b>		
Trade payables	15,729	9,398
<b>Other Payables and accruals:</b>		
Advance from customers	601	1,722
Accrued expenses	779	873
VAT payable	409	1,128
Other tax payables	0	112
Other payables	1,596	1,619
	<b>3,385</b>	<b>5,456</b>
<b>Related parties:</b>		
Amounts due to shareholders	0	19
Amounts due to other related parties	2	18
	<b>2</b>	<b>37</b>
<b>Income tax payable</b>	<b>7</b>	533
	<b>19,123</b>	<b>15,425</b>

All trade payables are non-interest bearing. Trade and other payables have not been discounted 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.

## | 22 | Provisions

in k€	Maintenance / warranties	Staff bonus and welfare	Other	Total
<b>At December 31, 2008</b>	<b>346</b>	<b>484</b>	<b>0</b>	<b>830</b>
Additions	316	146	152	614
Utilised	(345)	0	0	(345)
Exchange differences	(11)	(21)	0	(32)
<b>At December 31, 2009</b>	<b>306</b>	<b>609</b>	<b>152</b>	<b>1,067</b>
Additions	15	57	167	239
Utilised	(93)	0	0	(93)
Released	(243)	0	0	(243)
Exchange differences	30	71	20	121
<b>At December 31, 2010</b>	<b>15</b>	<b>737</b>	<b>339</b>	<b>1,091</b>

### Warranty

Provisions for warranty claims are based on current sales figures and available information as well as expectations about warranty claims in the one-year warranty period for all products sold.

### Staff bonus and welfare fund

In 2007, the subsidiary company FengQuan was converted into a Foreign Investment Company. Pursuant to the Foreign Investment Company Laws of the PRC and the decisions of the Board of Directors of the subsidiary company, 1% of the profit after tax was allocated as a staff bonus and to the welfare fund in accordance with Chinese law. The fund can only be used for staff public welfare.

### Other

The provision relates to potential contractual penalties for delays in connection with BOT projects.

## | 23 | Long-term loans

in k€	31.12.2010	31.12.2009
Bank loans	10,524	0
<b>Total</b>	<b>10,524</b>	<b>0</b>

By way of agreements dated 21 October 2010 the Group took out loans to finance two BOT projects. The volumes of the contracts for the Kunming and Xianning projects are RMB 120 million and RMB 90 million respectively. The duration of the loans is 60 months and the monthly interest rate is 0.51667%. Including service fees and retained collateral the effective interest rate in each case is 11.5% p.a.

## | 24 | Income Tax

The major components of income tax expense are as follows:

in k€	2010	2009
<b>Current income tax</b>	<b>(984)</b>	<b>(1,336)</b>
Deferred income tax induced by		
- tax rate changes	0	0
- temporary differences	(2,135)	(357)
- tax loss carry forwards	461	(330)
	(1,674)	(687)
<b>Income taxes according to profit and loss statement</b>	<b>(2,658)</b>	<b>(2,023)</b>

The reconciliation of tax expenses is as follows:

in k€	2010	2009
<b>Profit before income tax</b>	<b>1,777</b>	<b>7,736</b>
Tax rate	25%	25%
Expected tax income expense	444	1,934
Tax rate differential	(431)	(628)
Non deductible expenses	2,997	803
Tax-exempted income	(72)	(724)
Recognition and measurement of deferred tax assets and liabilities	(196)	617
Tax payments for prior years	6	0
Other terms	(90)	21
	2,658	2,023
<b>Group tax rate</b>	<b>149.6%</b>	<b>26.2%</b>

The presentation for the previous year has been adjusted for the amounts in rows.

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 € 0.9 million (2009: € 4.2 million). Of this amount, € 0 million (2009: € 2.2 million) can be carried forward without restriction; the remaining amount can primarily be carried forward for a limited period of five years.

No deferred tax liabilities were carried in the balance sheet in conjunction with taxable temporary differences amounting to € 2.1 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 in the previous year.

The Group has deferred tax assets of € 433 thousand, the realisation of which depends on generating taxable earnings in future that are higher than the effect on earnings from the reversal of existing taxable temporary differences. In view of the existing EPC project contracts, which will give rise to initial revenue in the current year under the PoC method, there is no doubt as to the value of the deferred tax assets.

Deferred income tax relates to the following:

in k€	31.12.2010		31.12.2009	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Construction in progress	4,814	0	1,339	0
Intangible asset	51	0	0	0
Service concession rights	0	1,609	0	628
Receivables from BOT	0	5,482	0	1,521
Trade receivables	16	1,184	7	0
Provisions	2	0	38	0
Inventories	2,134	0	0	0
Other receivables and prepayments	0	0	0	0
Other payables and accruals	0	1,524	218	0
Losses carried forward	1,316	0	133	0
Total	8,333	9,799	1,735	2,149
Netting	(7,573)	(7,573)	(1,556)	(1,556)
	<b>760</b>	<b>2.226</b>	<b>179</b>	<b>593</b>

The presentation for the previous year has been adjusted for the amounts in columns.

## | 25 | Employee Benefits

in k€	2010	2009
<b>Average number of employees of the Group</b>		
Management and administration	191	137
Research and development	30	28
Manufacture	116	97
Sales	68	113
	<b>405</b>	<b>375</b>

in k€	2010	2009
<b>The average payroll costs of these employees</b>		
Wages and salaries	1,768	1,725
Social security costs	306	232
Welfare	98	98
Appropriation of welfare and bonus fund	56	90
	<b>2,228</b>	<b>2,145</b>

### Retirement benefit plans

The eligible employees of the Group, who are citizens of the PRC, are members of a state managed retirement benefit scheme operated by the local government. The Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. The amount of the Group's obligation is limited. It is therefore a defined-contribution commitment. Expenses of € 110 thousand were recognized in 2010 and of € 66 thousand in 2009.

## | 26 | 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€	2010	2009
Lease payment recognized as expense	368	343

Future minimum lease payments payable under non-cancellable operation leases as at December 31, 2010 are as follows:

in k€	31.12.2010	31.12.2009
Not later than one year	355	283
Later than one year but not later than five years	858	792
Later than five years	953	629
	2,146	1,704

### **Contingent liabilities**

Fuijan Fengquan distributed profits related to 2007 and 2006 as dividends in the amount of € 10.0 million to its HongKong 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 in 2008 or thereafter. However, for purpose of enjoying the tax exemption, Fuijan Fengquan must apply for an EIT exemption approval from the competent tax authorities when the obligation to pay a dividend is accrued in the accounts or the amount is actually paid. At the time the consolidated financial statements were prepared for 2009 the approval certificate had not been obtained, so that had it not been issued, a withholding tax in the amount of € 1.0 million would have been levied. In 2010 an exemption was granted in the amount of the paid dividend of € 5.0 million, so that as of 31 December 2010 contingent liabilities only amounted to € 0.5 million.

### **| 27 | 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	City, Province, Country
Chen Zefeng	CEO, majority shareholder	Fuzhou, Fujian, China
Fujian FengQuan Environmental Protection Group Co. Ltd.	Company attributable to Chen Zefeng	Fuzhou, Fujian, China
Fujian FengQuan Guotou Environmental Protection Co. Ltd.	Company attributable to Chen Zefeng	Fuzhou, Fujian, China
Fujian Fuquan Boiler Co. Ltd.	Company attributable to Chen Zefeng	Fuzhou, Fujian, China
Fujian FengQuan Culture Propagation Co. Ltd.	Company attributable to Chen Zefeng	Fuzhou, Fujian, China
Quanzhou Qingmeng Water Treatment Co. Ltd.	Company attributable to Chen Zefeng	Quanzhou, Fujian, China
Zhuji FengQuan Lipu Solid Waste Disposal Limited	Company attributable to Chen Zefeng	Lipu, Zhejiang, China
Xinjiang Hutubi FengQuan Sewage Treatment Co. Ltd.	Company attributable to Chen Zefeng	Xinjiang, Hutubi, China
China Fengquan Group Co. Ltd. (HongKong)	Company attributable to Chen Zefeng	Hong Kong, China
China Environmental Protection Industry (Holding) Group Co. Ltd. (HongKong)	Company attributable to Chen Zefeng	Hong Kong, China
Singapore Jinsheng Fruit & Vegetable Co. Ltd.	Company attributable to Chen Zefeng	Singapore
Xianjiang Miguan Sewage Treatment Co. Ltd.	Company attributable to Chen Zefeng	Miquan, Xinjiang, China

### a) Sales and purchase of goods

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

in k€	2010	2009
<b>Related parties</b>		
Rental, water and electricity fee with a related party	114	152
Purchase goods from a related party	0	205

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€	31.12.2010	31.12.2009
<b>Due from related parties</b>		
non-trade	19	6
	19	6
<b>Due to related parties</b>		
trade	0	18
non-trade	2	19
	2	37

### c) Key management remuneration

in k€	2010	2009
Key management of the Group	61	117



## | 28 | 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 Dec 31, 2010	Amounts recognised in balance sheet according to IAS 39 at amortized cost	Carrying Amount Dec 31, 2009	Amounts recognised in balance sheet according to IAS 39 at amortized cost
Trade receivables	LaR	8,744	8,744	5,581	5,581
Receivables from BOT	LaR	21,927	21,927	5,248	5,248
Other receivables and prepayments	LaR	10,933	10,933	3,239	3,239
Amounts due from related parties	LaR	19	19	6	6
Cash and cash equivalents	LaR	106,476	106,476	111,899	111,899
Long-term loans	FLAC	10,524	10,524	0	0
Trade payables	FLAC	15,729	15,729	9,398	9,398
Other payables	FLAC	2,976	2,976	4,214	4,214
Amounts due to related parties		2	2	37	37
<b>Of which: aggregated by category in accordance with IAS 39</b>					
Cash and receivables (loans and receivables, LaR)		148,099	148,099	125,973	125,973
Financial liabilities measured at amortised cost (FLAC)		29,230	29,230	13,649	13,649

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 measured by reference to quoted prices in active markets (in accordance with level 1 of the fair value hierarchy pursuant to IFRS 7).

Trade and other financial liabilities generally also 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)	
		2010	2009
<b>Cash and receivables</b>			
- calculated using the effective interest method	405	405	0
- other than amounts included in determining the effective interest rate	883	883	516
- amount of any impairment loss	0	-64	380
	1,288	1,224	896
<b>Financial liabilities measured at amortized cost</b>			
- calculated using the effective interest method	-118	-118	0
	(118)	(118)	0

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€	2010	2009
At 31 December 2009	60	445
Additions	64	0
Releases	0	(380)
Exchange difference	8	(5)
<b>At 31 December 2010</b>	<b>132</b>	<b>60</b>

## | 29 | 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 (default risk)**

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

The Group's credit risk is primarily attributable to its trade and other receivables. 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. The carrying amount of financial assets as of 31 December 2010 is € 148,089 thousand (previous year: € 125,973 thousand).

Receivables from contract partners are not so high as to represent an exceptional concentration of risk. Default risks are reflected in allowances.

#### **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 exposed to interest rate risks. Its interest-bearing assets are mainly current bank deposits. The majority of the Group's income and operating cash flows is independent of changes in market interest rates. The Group's policy is to secure all of its borrowings at fixed borrowing rates.

If interest rates had been 100 basis points higher or lower the financial result on the basis of the Group's investment strategy would have been around € 200 thousand (previous year: around € 50 thousand) higher (lower).

### 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, the same with all of the Group's interest bearing financial assets and liabilities. For this reason foreign currency changes that affect the financial results and cashflows are limited. Significant foreign currency risks result from the translation of the consolidated financial statements into the reporting currency EURO. Impacts from foreign currency changes are entered into the accounts without affecting consolidated earnings.

### d) Liquidity risk

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

The following maturity analysis of financial liabilities (contractually agreed and discounted payments) shows the effect on the Group's liquidity:

in k€	31.12.2010			
	2011	2012	2013 bis 2015	ab 2016
Bank loans	2,708	2,881	3,933	0
<b>Total</b>	<b>2,708</b>	<b>2,881</b>	<b>3,933</b>	<b>0</b>

in k€	31.12.2009			
	2010	2011	2012 bis 2014	ab 2015
Bank loans	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

### e) Fair values

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

## | 30 | 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 2010, the shareholders' equity rate of the ZhongDe Group was 80.% (previous year: 88%). 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 -0.7% and 4.6% in the 2009 and 2010 financial years, respectively.

## | 31 | Members of the Executive and Supervisory Boards

### **Executive Board**

Mr Zefeng Chen, 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. Bernd Neukirchen, Consultant, Deputy Chairman, Essen, Germany

Mr Feng-Chang Chang, business consultant /CPA, Taiwan (from 1 December 2010)

Dr Quan Hao, scientist and engineer for environmental technology, Beijing, PRC (until 30 November 2010)

Mr Zwarg is a member of the supervisory boards of

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

Mr Feng-Chang Chang is a non-executive director of

- Yamada Green Resources Ltd., Singapore

## | 32 | Remuneration of the Executive and Supervisory Boards

### Executive Board

For the fiscal year 2010, 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€	2010	2009
Zefeng Chen	14	18
Na Lin (until 30 June 2009)	0	7
Jiuhua Wang (since 01 July 2009)	20	7
	<b>34</b>	<b>32</b>

### Supervisory Board (Fixed Remunerations)

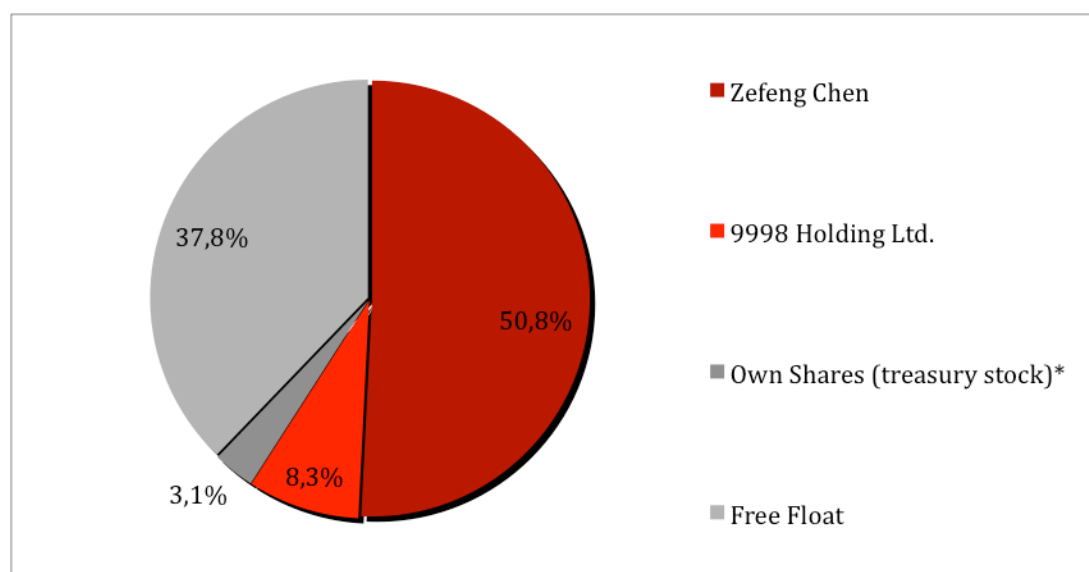
in k€	2010	2009
Hans-Joachim Zwarg	71	71
Prof. Dr. Bernd Neukirchen	54	54
Dr. Quan Hao (until 30 November 2010)	14	15
Feng-Chang Chang (since 01 December 2010)	1	0
	<b>140</b>	<b>140</b>

## | 33 | Declaration of Compliance with the German Corporate Governance Code

### Corporate Governance Code

The Executive Board and the Supervisory Board submitted their Declaration of Compliance with the recommendations of the Government Commission on the German Corporate Governance Code in accordance with section 161 Aktiengesetz (German Stock Corporation Act) on 21 April 2010. They also declared which of the recommendations were or are not followed. The declaration is permanently accessible to shareholders on the Company's website at [www.zhongde-ag.com/investor\\_relations/corporate\\_governance.html](http://www.zhongde-ag.com/investor_relations/corporate_governance.html).

## | 34 | Shareholdings in ZhongDe Waste Technology AG



\* as of 28 April 2011

## | 35 | Audit

BDO Deutsche Warentreuhand AG ("BDO") has been elected as the auditors of ZhongDe Waste Technology AG and the Group for fiscal year 2010. 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€	2010	2009
Audit	296	258
Other assurance services	135	113

## | 36 | 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 € 5,748 thousand, as reflected in the German statements, an amount of € 0.15 per share will be distributed and the remainder carried forward onto new account.



## | 37 | 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 with a fixed term of no more than three months.

## | 38 | Events after the Balance Sheet Date


In 2011, the Group signed a loan agreement worth RMB 100 million to finance a BOT project. The loan agreement has a term of 114 months and is subject to an interest rate of 7.48% p.a. Depending on the change of base rate of the Chinese central bank there will be interest rate adjustments. The loan is repayable in increasing annual installments.

There were no other events subsequent to the end of the financial year.

Hamburg, 27 April 2011



Zefeng Chen  
Chairman of the Executive Board (CEO)



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

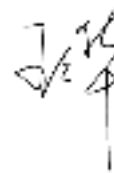
## RESPONSIBILITY STATEMENT

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

Hamburg, 27 April 2011



Zefeng Chen  
Chairman of the Executive Board (CEO)



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

## AUDITOR'S OPINION

We have audited the consolidated financial statements prepared by the ZhongDe Waste Technology AG, Hamburg, comprising the statement of financial position, the statement of comprehensive income, statement of changes in equity, statement of cash flows and the 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 sec. 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 sec. 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 sec. 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 AG  
Wirtschaftsprüfungsgesellschaft

Dr. Zemke  
Wirtschaftsprüfer (Auditor)

Brandt  
Wirtschaftsprüfer (Auditor)

## Glossary

### **BOO:**

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

### **BOT:**

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

### **BT project:**

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

### **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 tubeplate 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 year since 1953.

### **Fluidised bed waste incinerator:**

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

**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:**

1MW=1000KW.

**NPC:**

the National People's Congress.

**PRC:**

People's Republic of China.

**Primary industry:**

agricultural industry.

**Pyrolytic incinerator:**

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

**RMB:**

Chinese currency.

**Rotary kiln incinerator:**

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

**Secondary industry:**

manufacturing industry.

**SKR:**

Selective catalytic reduction; a process for suppressing dioxin emissions.

**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 fire-proof steel vessel with the advantage of a small footprint and wide adaptability.

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This Annual Report is available in German and English on our website [www.zhongde-ag.de](http://www.zhongde-ag.de) or [www.zhongde-ag.com](http://www.zhongde-ag.com).



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## **Financial Calendar**

### **02 May 2011**

Annual financial statements 2010

### **31 May 2011**

Interim report on the first quarter of 2011

### **28 June 2011**

Annual General Meeting

### **31 August 2011**

Interim report on the first half of 2011

### **November 2011**

German Equity Forum of Deutsche Börse, Frankfurt/Main

### **30 November 2011**

Interim report on the third quarter of 2011