

ZhongDe Waste Technology AG

Annual Report 2011

Clean Technology for the Future



Key Financial Highlights

in k€	2011	2010	Change %
Operational data			
Order intake ¹	5,076	25,438	-80
Order backlog ²	143,331	157,758	-9
Revenues	32,405	33,396	-3
Gross profit	4,114	7,387	-44
Gross profit margin	13%	22%	-9 pp
Cost of sales	28,291	26,008	+9
EBITDA	-7,270	1,373	< -100
EBITDA margin	-22%	-4%	-18 pp
EBIT	-7,737	849	N/A
EBIT margin	-24%	3%	-27 pp
Net profit	-10,708	-955	<-100
Net profit margin	-33%	-3%	-30 pp
Earnings per share	-0.85	-0.08	<-100
Cash flow data			
Cash flow from operating activities	-17,172	-24,722	-31
Cash flow from investing activities	21,554	1,989	>100
Cash flow from financing activities	19,139	8,379	>100
Balance sheet data			
Total assets	198,787	162,622	22
Property, plant and equipment	1,258	1,584	-21
Net working capital ³	101,672	109,903	-7
Cash and cash equivalents	117,308	83,805	40
Long-term liabilities	33,383	12,749	>100
Shareholders' equity	125,668	129,658	-3
Headcount (as at 31 December 2011)	388	388	0

¹ Average exchange rate 2011 used for translation

² Exchange rate as of 31 Dec 2011 used for translation

³ Current Asset – Current Liabilities

Company profile

As a general contractor of EPC projects, we are responsible for design, procurement, construction, and installation of circulating fluidized bed.

As an investor in BOT projects, we also operate the Energy-from-Waste plants, which dispose of solid municipal, industrial (including hazardous), and medical waste.

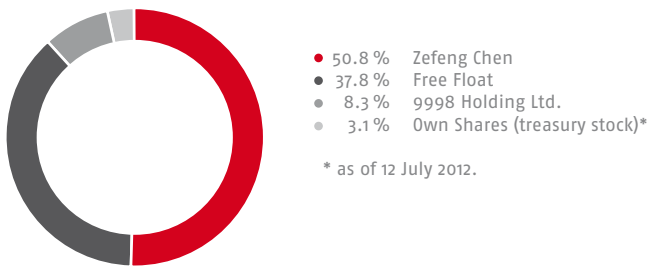
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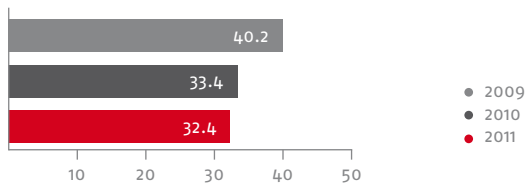


ZhongDe at a Glance

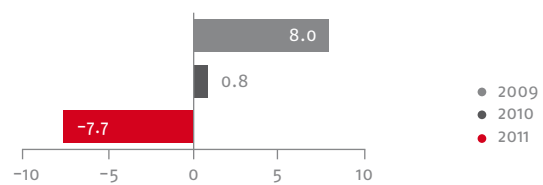
Shareholder Structure



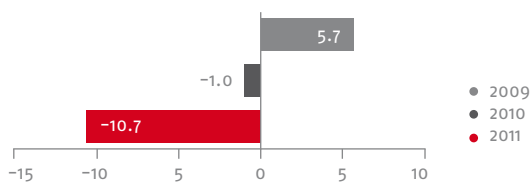
Revenues in € million



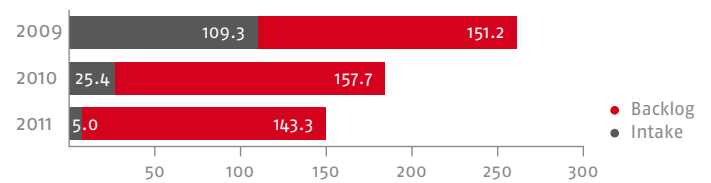
EBIT in € million



Net profit in € million



Oder backlog in € million





Mission Statement

We have successfully completed a strategy transition from a manufacturer of small to medium-sized incinerators to a general contractor of large-scale Energy-from-Waste EPC projects and an investor in BOT projects in 2009. Now we are focusing on the standardization of Energy-from-Waste EPC and BOT projects in 2011 and 2012.

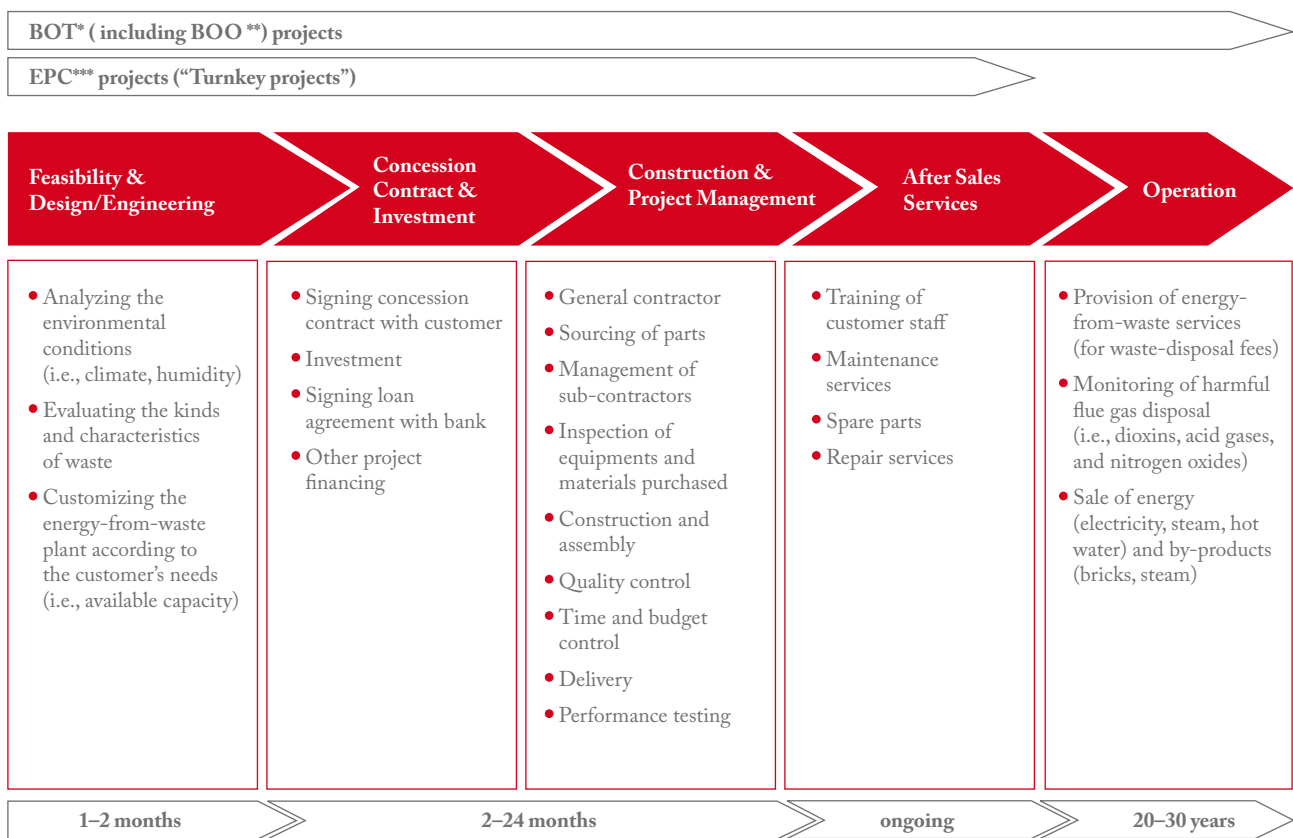
Green growth played an important role in China's business development when China became the second biggest economy according to GDP. We are doing the right things in the right place with the nation's rapid growth and business potential with the government's staunch support of sustainability.

This includes government backing of incineration as a means of tackling environmental pollution and promoting renewable energy after the two years of national discussions about Energy-from-Waste plants.

ZhongDe's Business Model

(= European Technology + Chinese Prices)

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



*Build-Operate-Transfer ** Build-Own-Operate ***Engineering-Procurement-Construction

ZhongDe's business model is mainly influenced by the Company's mission statement: "German technology at a Chinese price." We are the general contractor of large-scale energy-from-waste EPC projects and an investor in BOT projects. We also operate energy-from-waste plants.

ZhongDe Group successfully completed its strategy transition from small-scale incinerators to large-scale EPC and BOT energy-from-waste projects in the year 2009. Although ZhongDe is still a manufacturer of waste incinerators or other high value spare parts and equipment for waste disposal, such business was not ZhongDe's main business any more in 2011. Compared to the year 2009, ZhongDe Group put more focus on BOT projects in 2010 and 2011, which include sales and marketing, financing and investment, and the standardisation and the preparation of operation of BOT projects. The reasons for that further strategic shift in 2010 and 2011 were the following:

- There was and still is an increasing demand for BOT projects in China.
 - BOT projects cover the entire value chain in the field of energy-from-waste (5 phases) compared to EPC (4 phases). That needs more liquid resources to invest in BOT projects. That is the reason why ZhongDe began to sign project financing loans and leasing agreements with bank and other financial institutions in 2010. That is also the reason why ZhongDe launched an American Depository Receipt (ADR) program on the New York OTC capital market in September 2010. When further BOT and EPC projects will be finished in 2012 and 2013, more revenues and profits will be reflected on ZhongDe's financial statements in order to increase ZhongDe's share price to a more reasonable level to indicate the potential strength of the Company.
 - The success of the Datong project has proved ZhongDe's management expertise regarding EPC project (also called turnkey projects). The BOT project management expertise will be proven still further by the operation of the Feicheng project, which was completed in December 2010 and is currently in the testing phase. Furthermore three further BOT projects (Zhoukou, Xianning, and Kunming) are planned to be completed in 2012 and 2013. The standardisation of BOT method is important to strengthen ZhongDe's capability of managing BOT projects.
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The new business model chart on page 4 illustrates that ZhongDe covers, with its standard business in the form of BOT projects, the entire value chain in the field of energy-from-waste:

- 1) Feasibility and design/engineering
- 2) Reversion contract and investment
- 3) Construction and project management
- 4) After-sales service
- 5) Operation

BOT stands for “Build-Operate-Transfer.”

The first BOT phase is feasibility and design/engineering.

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

The second BOT phase is concession contract and investment.

After detailed discussions and negotiation, ZhongDe signs a concession contract with the customer and invests its equity in its project company. Meanwhile, ZhongDe cooperates with a commercial bank to secure a project financing loan. The way of project financing also includes leasing.

The third BOT phase is construction and project management.

ZhongDe acts as the general contractor and source of parts of the construction to some subcontractors. ZhongDe manages its subcontractors and inspects the equipment and materials purchased from the subcontractors. ZhongDe begins to construct the plant and assembles the equipment on site. ZhongDe’s project management includes quality control, time and budget control, delivery of the energy-from-waste plant to the owner on time, and performance testing.

The second and third phases last about 24 months.

The fourth BOT phase is after-sales service.

This includes training the customer's staff, and maintenance and repair services, with spare parts provision.

The fifth BOT phase is operation.

ZhongDe operates the plant by providing energy-from-waste services in exchange for waste disposal fees, monitors and purifies harmful flue gases (i.e., dioxins, acid gases, and nitrogen oxides). ZhongDe also receives revenues from the sale of energy (electricity, steam, hot water) and other by-products (bricks).

Operation lasts for 20 to 30 years, depending on the concession agreement. Ownership of the energy-from-waste plant is then transferred to the municipal government.

ZhongDe's EPC projects only cover four parts of the entire value chain, excluding the "operation" phase.

EPC stands for Engineering-Procurement-Construction. An EPC project is sometimes also called a turnkey project. In contrast to BOT, there is no investment or operation involved in an EPC project. When construction of the energy-from-waste plant is finished, it is transferred to the owner for operation.



Datong EPC Project

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To our Shareholders

Letter to our Shareholders

Dear shareholders,

for ZhongDe Waste Technology AG, 2011 was a very challenging transition period to establish a solid foundation for our future growth. It is a pleasure to present our annual report to you, which should give you a detailed insight into our company.

Waste-to-energy business benefits from difficult market environment in China

In 2011, the weakening of the global economy also affected the Chinese economy. GDP growth rates of the past could not be maintained. Despite the general slow down, China is still the driving force of the world economy and is expected to compensate negative developments. China's quarterly GDP rates have shown only a mild deceleration so far. The growth rates came slightly down from 9.7% in the 1st quarter to 9.5% in the 2nd quarter to 9.1% in the third and finally to 8.9% in the 4th quarter of 2011.

Chinese government quickly reacted to this difficult situation with a pro-active fiscal policy and prudent monetary policy. Its anti-inflation policy has already shown initial success. In addition to that, the government regarded waste-to-energy companies to be part of the renewables sector. It issued a policy package to stimulate the waste-to-energy industry in China. Both, the big population of about 1.3 billion people and the limited land resource, require that China's traditional way of waste disposal comes to an end.



Zefeng Chen, Chairman of the Management Board (CEO)



William Jiuhoa Wang, Executive Director of the
Management Board (CFO)

Focus on BOT projects further strengthened

ZhongDe group reacted to the changing domestic market environment by further strengthening its focus on BOT (Build-Operate-Transfer) projects. This has also influenced ZhongDe's financing strategy. The Company is well-prepared for increased future investments in BOT projects having gained additional bank loans. Furthermore, ZhongDe has optimized the standardization of BOT projects.

ZhongDe's first BOT project, the Feicheng project, showed that the off-gas emissions of the plant do not only fulfill the national requirements in China, but also some of the high EU standards (e.g. dioxin emission). The successful emission tests strengthened ZhongDe's good reputation in China.

Financial Performance reflecting challenges in the project business

Group revenue decreased slightly by 3% to € 32.4 million in the fiscal year 2011. Gross profit amounted to € 4.1 million (-44%), while net income amounted to € -10.7 million. Total assets increased by 22% to € 198.8 million, while shareholders' equity went slightly down by 3% to € 125.7 million. Although more cash was invested in the construction of waste-to-energy projects, the cash position kept very strong and amounted to € 117.3 million (+40%).

Successful cooperation to strengthen competitiveness

ZhongDe continued to cooperate with Tsinghua University in order to commonly establish a post doctoral research station.

Outlook

According to our current planning, one BOT project will be completed and put into formal operation in the current financial year. This will generate revenues and will contribute to the group profits. Two new projects are currently in ZhongDe's approval process.

Looking ahead to 2012 and 2013, we expect to further benefit from the favourable economic environment for eco-friendly waste disposal as well as from the growing demand for our waste-to-energy plants, both in China and throughout Asia. China's Government will expand the stimulation of green industries on the basis of the five-year plan to maintain the rapid growth and ensure employment in this sector. The increasing demand for waste-to-energy plants favours ZhongDe's operative business environment. We are convinced, that our company can show an improved financial performance in the coming years.

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.

Frankfurt am Main, 13 July 2012



Zefeng Chen
Chairman of the
Management Board (CEO)



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

Supervisory Board Report

Dear Shareholders,

2011 was a difficult year, both for the global economy and for ZhongDe Waste Technology and its affiliated entities (the “**ZhongDe-Group**”). In particular the second half year was affected by economic uncertainties due to the debt, monetary and financial crisis.

The Supervisory Board has always critically and constructively accompanied the Executive Board through this challenging environment. Central topics of the Supervisory Board’s practice and discussions with the Executive Board during the reporting period were the current business development of ZhongDe-Group as well as the short and mid-term planning of the further business development, the development of running projects and the discussion and approval of new projects. In addition, the Supervisory Board has initiated a technical assessment of the Company by an external expert and continuously monitored the implementation of the recommendations of the external expert.

Supervision of and Cooperation with the Executive Board

The Supervisory Board has carried out its supervision, monitoring and advisory functions assigned to it by statutory law, the Articles of Association of ZhongDe Waste Technology AG, the Rules of Procedure (Geschäftsordnung) for the Executive Board and the Supervisory Board and the German Corporate Governance Code with great care during the reporting period. It has intensely supervised and advised the Executive Board during the reporting period. The Supervisory Board was comprehensively and timely involved in all matters of significant importance for the group.

During the reporting period, the Executive Board has regularly provided the Supervisory Board with written reports on all matters of significant importance for the ZhongDe-Group, in particular the business development, strategy, incoming orders, profitability, cash flow, major projects and new economic and legal developments. The Supervisory Board works towards a continuously improving quality of the reports. Deviations of the actual business development from business plans were thoroughly discussed. As far as further questions arose from the reports, the Executive Board addressed these questions and worked towards – oral or written – follow up reports.

Due to a change in staff in the internal revision department, the internal risk management activities have been exercised only to a limited extent in the reporting period. The Supervisory Board continuously works towards an adequate carrying out of the internal risk revision activities in order to ensure that potential risks for ZhongDe Group can be discovered at an early stage.

The strategy of ZhongDe-Group was discussed and agreed upon between Supervisory Board and Executive Board. The state of implementation of the ZhongDe-Group’s strategy was discussed on a regular basis. All events and developments with major significance for ZhongDe-Group were considered between Supervisory Board and Executive Board.

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

Supervisory Board Meetings

During the financial year 2011, the Supervisory Board held four regular meetings. All members of the Supervisory Board as well as of the Executive Board attended the Supervisory Board meetings. Conflicts of interests of members of the Supervisory Board did not occur during the reporting period.

At each of the quarterly meetings of the Supervisory Board, the Executive Board reported on 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. In addition, the respective quarterly numbers were discussed at the Supervisory Board meetings. Any deviations from business plans were explained in detail to the Supervisory Board. Furthermore, the Executive Board and the Supervisory Board regularly discussed the short- and mid-term strategy of ZhongDe-Group.

The Supervisory Board also used the quarterly meetings to advise on the economic development and the strategy of the Company with the Executive Board. Transactions requiring prior approval of the Supervisory Board were also discussed in

detail and were only approved once all questions were answered to the satisfaction of the Supervisory Board.

The central topics of the meetings of the Company's Supervisory Board that have been held in the financial year 2011 can be summarised as follows:

At the Supervisory Board meeting on **29/30 April 2011** in Singapore, the financial statements of the Company and the consolidated financial statements of the ZhongDe Group, including management report and group management report as well as dependency report for the financial year 2010 as well as the respective audit reports were presented. After detailed discussion of the reports with the auditor and the Executive Board, the Supervisory Board approved the report and the Executive Board's proposal for the utilisation of the Company's annual net profits. Another topic of this Supervisory Board meeting was the current business development. Further, the revenue-, asset-, investment- and financial planning for the financial year 2011 and the mid-term planning for the financial years 2012 and 2013 were discussed. Several new projects requiring the approval of the Supervisory Board as well as the status of several current projects were also examined. In addition, the project management and contract controlling was presented to the Supervisory Board. Further topics comprised the financial reporting of the Company, the annual general shareholders' meeting for the financial year 2011 and the relocation of the Company's seat from Hamburg to Frankfurt.

A major topic of the ordinary Supervisory Board meeting on **27 June 2011** in Frankfurt was the preparation of the annual general shareholders' meeting of the Company for the financial year 2011. Another main focus of the meeting was the short and mid-term revenue-, asset-, investment- and financial planning of the Executive Board and the discussion of the figures for the first quarter of the financial year 2011. The figures and planning provided by the Executive Board were thoroughly analyzed by the Supervisory Board and were discussed in detail with the Executive Board. In particular, the deviations of the actual Q1 figures from the planning were debated in detail. In addition, the development of current projects was debated, particularly with regard to the compliance with the initial schedule and budget. Several new projects were also presented



Hans-Joachim Zwarg, Chairman of the Supervisory Board

to the Supervisory Board. Finally, the Supervisory Board has evaluated the efficiency of its work during this meeting.

At the ordinary Supervisory Board meeting on **22 September 2011** in Kuala Lumpur, the Supervisory Board primarily dealt with the business development of the Company. The deviations of the actual business development from the planning and the underlying reasons were considered in detail with the Executive Board. Another main topic of the Supervisory Board meeting was the presentation and discussion of the recommendations made by an external expert following a technical assessment of ZhongDe-Group. Such assessment had been initiated by the Supervisory Board against the background of the challenging economic environment and the business development of ZhongDe-Group in order to better position ZhongDe Group and, thus, contribute to a positive economic development. Executive Board and Supervisory Board agreed to implement most of the recommendations and to review the status of implementation at the next Supervisory Board meeting. Other topics included the development of current projects and the presentation of new projects.

The Supervisory Board meeting on **8 December 2011** in Xiamen (China) started with a review of the state of implementation of the recommendations of the external advisor. Many of the recommendations had already been implemented in whole or at least partially at that time. Executive Board and Supervisory Board agreed that the further recommendations should be implemented as soon as possible. The Supervisory Board further dealt with the development of ZhongDe-Group in the current financial year including the result and cash flow forecasts. The discussion also included the order backlog as well as the financial condition of ZhongDe-Group. Another topic was the discussion of the short and mid-term revenue-, asset-, investment- and financial planning. Furthermore, current and new projects were discussed. Finally, the status of the preparations for the consolidated financial statements pertaining to the financial year 2011 was reviewed.

Supervisory Board Committees

The Supervisory Board of ZhongDe Waste Technology has not established any committees. In order to constitute a quorum, Supervisory Board committees require at least three members. As the Supervisory Board of the Company comprises only three members, no committees were established.

Corporate Governance

In the financial year 2011, the Supervisory Board has continuously monitored the compliance with 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 growth 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 p. 33 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 by the Supervisory Board and the Executive Board on 19 April 2012.

On 19 April 2012, the Executive Board and the Supervisory Board have jointly issued an updated compliance statement in accordance with Section 161 of the German Stock Corporation Act. The compliance statement is permanently available on the Company's website.

Individual and Group Financial Statements 2011

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) as these are to be applied in the European Union (EU). 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 annual general shareholders' meeting of the Company dated 28 June 2011 has elected BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, as auditor. The Supervisory Board has thereupon awarded the auditor the audit order and has satisfied itself of the auditor's independence. The audit was awarded in accordance with the requirements of statutory law and the recommendations of the German Corporate Governance Code.

The auditor examined the individual and the consolidated financial statements as of 31 December 2011, the status report and the group status report as well as the report of the Executive Board on the relations to affiliated entities. Both the preparation of the aforementioned reports for the fiscal year ended 31 December 2011, in particular the preparation of the consolidated financial statements, and the audit took longer than initially expected by the Company. The delay primarily resulted from the fact that the number of unfinished but running BOT projects of the Company increased compared to previous years, and that the accounting of such projects, in particular the processing of the progress of such projects, turned out to be significantly more time-consuming than expected. When the Supervisory Board encountered these problems, the Supervisory Board closely monitored the progress in preparing the individual and consolidated financial statements to ensure that the individual and consolidated financial statements could be finalized as soon as possible.

Following the finalization of the reports by the Company and the audit by the auditor, the auditor finally approved the individual and the consolidated financial statements as of 31 December 2011, the status report and the group status report as well as the report of the Executive Board on the relations to affiliated entities with an unqualified audit opinion. The audit did not lead to any qualifications.

The above-mentioned reports, including the report of the auditor, were timely distributed to all Supervisory Board members. The Supervisory Board comprehensively reviewed the documents in its meeting on 16 July 2012 in the presence of the Executive Board and the auditor. The auditor reported on the main results of the audit. The independent auditors also reported on the scope, focal points and costs of the audit. The Executive Board explain the financial statements in the meeting. Both the Executive Board and the auditor were available for questions and additional information.

On the basis of its own examination and discussion of the individual and consolidated financial statements for the period from 1 January until 31 December 2011, and the reports of the Executive Board relating to the Company and ZhongDe-Group, the Supervisory Board came to the conclusion that no objections are to be raised with respect to the reports. The Supervisory Board therefore approved the individual and consolidated financial statements as of 31 December 2011. The individual financial statements of ZhongDe Waste Technology AG for the time period from 1 January until 31 December 2011 are, therefore, adopted.

The Supervisory Board also approved the status report and the group status report as well as the assessment of the further development of the Company and the Group. Since no balance sheet profit was gained in the past financial year, the distribution of a dividend is not possible.

Dependency Report

The Supervisory Board further undertook a detailed review of the report prepared by the Executive Board on the Company's relations to affiliated entities in accordance with section 312 of the German Stock Corporation Act as well as the related audit report prepared by the auditor. According to the report of the Executive Board and the audit of the auditor, the Company has received adequate consideration for all transactions entered into with the controlling enterprise or at instigation of the controlling enterprise and has not suffered any other disadvantages at the instigation of the controlling enterprise. The report prepared by the Executive Board on the Company's relations to affiliated

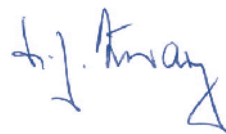
entities was issued with an unqualified audit opinion by the auditor. The auditor attended the deliberations of the Supervisory Board on 16 July 2012 and explained the results of the audit. The Supervisory Board agreed with the results of the audit by the auditor. No objections are to be raised to the statements of the Executive Board regarding the Company's relation to affiliated companies.

Personnel Matters

With effect as of 1 December 2010, the resigning member of the Supervisory Board Dr Quan Hao was replaced by Mr Feng-chang Chang, who was appointed by the local court (Amtsgericht) of Hamburg first on 1 December 2010 until the end of the annual general shareholders' meeting 2011 and by further court resolution of the local court of Hamburg dated 4 July 2011 until the end of the annual general shareholders meeting 2012. 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. The Supervisory Board intends to propose Mr Feng-chang Chang for election as ordinary Supervisory Board member at the annual general shareholders' meeting 2012.

Finally, 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 and to the customers and shareholders for their trust in the financial year 2011.

Frankfurt am Main, 16 July 2012



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

Share Performance

2011 was marked by a high degree of nervousness and volatility on the international financial and capital markets. At the beginning of the year, the share price initially benefited from the positive performance of the emerging markets. However, the subsequent earthquake in Japan on 11 March 2011 led to significant drops in the share price around the world. Many investors took advantage of this low share price and this led to an upturn in the price at first. Despite this, the debt crisis in Europe and the USA, together with political unrest in a number of Arab countries, generated a great deal of uncertainty during the summer. There were doubts about the ability of members of the eurozone to reduce their debt burden in the foreseeable future. Many investors lost confidence. The result was losses in the two-digit percentage range.

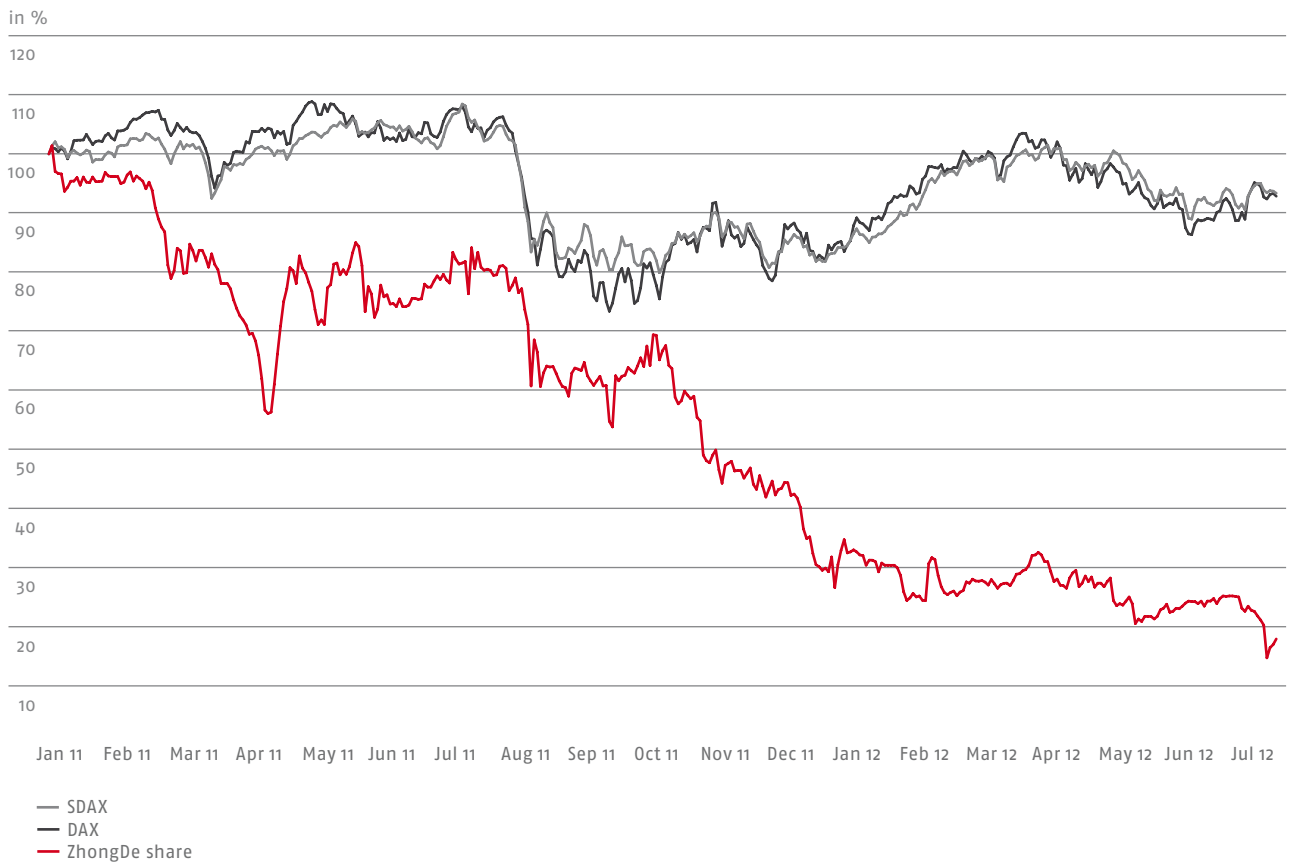
The effects of these events were also felt on the German stock market. Following a stable first quarter, the German stock index (DAX) was at 7,041.31 points on 31 March 2011. The benchmark index relevant for ZhongDe Waste Technology AG was at 5,144.02 points. However, the stock market could not hold firm against the rising tide of uncertainty. The DAX fell by 14.7% in the course of the year, closing at 5,898.35 on 30 December 2011. The SDAX trended in a similar fashion to the DAX and recorded a minus of 14.5% at the end of the year (4,421.44 points).

The ZhongDe share stabilized temporarily following early losses and began showing an upwards trend. The share's annual high reached € 11.69 (3 January), reflecting this development. However, the ZhongDe share plunged following the earthquake in March, falling to € 6.49 by 11 April. Accompanied by ongoing volatility, the share price then rose fitfully over the next few months, reaching a level of € 9.07 at the end of June, and to begin with was able to successfully counter the looming decline brought on by the earthquake. However, the share was unable to repeat its steadfast performance of the first half of the year. It mirrored the performance of the DAX and SDAX, registering a price of € 6.99 in August. This was also due to investor distrust of Chinese shares. The negative trend in the stock markets continued during the second half of the year in a difficult market environment. On 22 December, the ZhongDe share hit a low of € 3.06 before finishing the year at € 3.76. This means that it lost 67.4% of its value during the reporting period. The negative share price performance continued beyond the end of the financial year. On 14 May 2012, a new, all-time low of € 2.40 was reached. The share closed at € 2.80 on 4 June 2012.

During the reporting period, the Investor Relations team focused on explaining the business model of the ZhongDe Group to investors and on continuing to raise awareness among the financial community. For example, management once again participated in the German Equity Forum in November 2011, actively seeking dialogue with investors and analysts. Forum participants were provided with detailed explanations about the new strategic alignment of the ZhongDe Group – the shift from small waste incinerators to large-scale projects with energy generation (waste-to-energy) – in the course of one-to-one meetings and a Company presentation by the CFO, William Jihua Wang. Furthermore, management took part in the Rodman & Renshaw Annual China Investment Conference and the Chinese Waste-to-Energy Forum. In the future, ZhongDe Waste Technology AG will continue to meet the information requirements of investors with its open and transparent communication policy. Shareholders can also find additional information relevant to the capital market online at 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 2011 in €	
Share price	
Year-end price	3.76
High	11.69
Low	3.06
Earnings per share	-0.85
Dividend per share (proposed)	0.00
Market capitalization (31 December 2011)	48.9 million





Feicheng BOO Project

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Group Management Report

Group Management Report

Market Environment

Macroeconomic Conditions

According to China's National Bureau of Statistics, Gross Domestic Product (GDP) for the year 2011 was RMB 47,156.4 billion, up by 9.2% compared to the previous year. In 2010 the GDP growth was 10.3%. The total investment in fixed assets of the country reached RMB 30,193.3 billion, a year-on-year increase of 23.8%. The total value of imports and exports for the whole year reached US\$ 3,642.1 billion, 22.5% up on the previous year. The trade surplus was US\$ 155.1 billion, a decline of 14.5% compared to 2010.

The downgrading of the USA's credit rating, the European sovereign debt crisis, the political unrest in Africa and the earthquake in Japan resulted in a weakening of the global economy, mainly driven by Western developed countries. At the same time, fears concerning the stability of the European financial system increased and investors' uncertainty grew. This great insecurity at the capital markets was reflected by massive stock market losses.

However, China is still the driving force of the world economy and is expected to compensate negative developments. At the end of November 2011, China had kicked off a new round of monetary loosening. After more than two years of progressively tighter policies, the Chinese government reduced the proportion of deposits that banks must hold in reserve with the central bank by 0.5%. The move shows, that the government has finally succeeded in reducing the high inflation rate, that peaked at an annualised 6.5% in July. The inflation rate for the whole year 2011 amounted to 5.4%. The sales volumes of housing have also gone down and the prices are beginning to decrease in the big cities.

China's quarterly GDP rates have shown only a mild deceleration so far. The growth rates came slightly down from 9.7% in the 1st quarter to 9.5% in the 2nd quarter to 9.1% in the third and finally to 8.9% in the 4th quarter of 2011.

Sector Trends, Political and Ecological Environment

The Chinese government regarded waste-to-energy companies to be part of the renewables sector in 2011. It issued a policy package to stimulate the waste-to-energy industry in China. Both, the big population of about 1.3 billion people and the limited land resource, require that China's traditional way of waste disposal comes to an end.

On 23 March 2011, Premier Wen Jiabao presided over the State Council routine conference. The conference decided to further enhance the work for municipal waste treatment and placed municipal waste treatment as the priority for city management and environmental protection. It is estimated that in 2015 municipal waste harmless treatment rate in China will reach more than 80%, and sorting, collection and transportation of the kitchen waste should be realized in 50% of the urban communities. The conference identified the following policies and measures:¹

- **Practically control the generation of municipal waste:**
The development of clean energy to realize the waste reduction from the resources, the waste classification and resource-oriented utilization way for household waste, such as waste recycling, waste-to-energy, biomass treatment, etc. should be gradually improved.
- **Increase the capacity for municipal waste treatment:**
The waste collection network and promote the integrated construction and network development of waste treatment facilities should be improved.
- **Enhance supervision and administration:**
The monitoring system of waste treatment facilities construction and operation should be improved and perfected, and emissions should be regularly monitored.
- **Strengthen the policy support and promote the charge system for waste treatment:**
Waste treatment facilities should be installed for both, newly developed area construction and downtown renovation. Furthermore, the support for scientific research and development of waste treatment technology and facilities should be intensified.

¹ Source: Circular of the State Council on the Approval and Transmission on the Opinions to Further Strengthen Municipal Waste Treatment – GuoFa No. 9 2011

Strengthening Policy Support Measures:

- **Broaden the investment channel:**
Municipal waste treatment is mainly invested by the local government and supported in the proper way by the central government
- **Establish incentive system:**
Strictly implement and continuously perfect tax preferential policy for municipal waste treatment
- **Establish charge system:**
Promote the charge system for municipal waste treatment
- **Ensure the facility construction:**
Priority construction of municipal waste treatment facility in the new city construction and old city reconstruction. Guarantee the land supply for construction
- **Improve the innovation ability:**
Strengthen the support for technology research of municipal waste treatment, focusing on the breakthrough of key techniques, such as clean incineration, dioxin control, flying ash harmless treatment, landfill gas collection and utilization, leakage treatment, toxic emission control, informal municipal waste stacking place treatment, etc.
- **Implement talents plan:**
Set up related municipal waste treatment majors in colleges and universities. Vigorously develop vocational education

Competitive Environment

At the end of 2011, there are about 120 waste-to-energy plants throughout China. According to internal estimates of ZhongDe Group, the total of 660 cities in China will need about 200-400 large-size waste-to-energy plants within the next five to ten years.

ZhongDe competes with domestic and international companies. Our main domestic competitors are Hangzhou Jingjiang Co, Shanghai Environment Co and Everbright Co. Veolia is one of the international players acting in this market segment.

At the Chinese waste-to-energy market, ZhongDe is ranked among the top 20², in terms of the company's total waste disposal capacity. ZhongDe's Management Team is convinced to be able to achieve a market share of 10% of the Chinese energy- waste-to-energy market in the long-term.

Strengths and Weaknesses

According to a current SWOT analysis, ZhongDe has the following strengths and opportunities in the overall environment:

- Listing at Frankfurt Stock Exchange helps to increase ZhongDe's reputation in China
- Strong governmental relations in the domestic market as well as intensified relations to the international market
- Eco-friendly market environment with the support of the Chinese Central Government
- Growing demand for eco-friendly waste disposal capacities especially in China

The Group's weaknesses and threats are the following:

- Increasing competition in the waste-to-energy sector
- Difficult access to qualified personnel on time for the construction process and the expansion of engineering knowledge
- Delays in the implementation of the BOT and EPC projects due to internal and external factors

² Source: CECC-China Environment Chamber of Commerce

Ecological Environment

Due to the rapid development of the economy and the acceleration of urbanization, the amount of municipal waste is increasing at an alarming rate. The phenomena of the “waste surrounding city” is getting more serious, which causes pollution of soil and groundwater. The waste-to-energy industry improves the ecological environment and protects natural resources.

ZhongDe’s waste-to-energy plant serves as an example in the ecological field for treating waste in an efficient way. The by-products out of the waste incineration process are used for the production of steam and hot water, the generation of power and manufacturing of bricks.

Impact on ZhongDe’s Business Development

For ZhongDe 2011 was a very challenging transition period. ZhongDe could not complete the projects according to plan, mainly due to internal and external delays. As consequence, our business could not show the previous expected the operational and financial performance. Based on its experiences during the previous financial year, the Company will analyse the reasons for the development in order to derive from these the necessary measures for the improvement of processes in the future.

In the long-term, we expect to further benefit from the favourable economic environment for eco-friendly waste disposal as well as from the growing demand for our waste-to-energy plants, both in China and throughout Asia. China’s Government will expand the stimulation of green industries on the basis of the five-year plan to maintain the rapid growth and ensure employment in this sector. Since demand for waste-to-energy plants is steadily increasing, ZhongDe expects to benefit from this.

Operational Performance

Overview

Financial Performance in k€	2011	2010	Change in %
Revenues	32,405	33,396	-3
Gross profit	4,114	7,387	-44
EBIT	-7,737	849	<-100
Net income	-10,708	-955	<-100
Return on equity ¹⁾	-9%	-1%	-8 pp
Return on capital employe ²⁾	-5%	2%	-7 pp
Current liquidity ratio ³⁾	4	6	-44
Equity ratio ⁴⁾	63%	80%	-17 pp
Current assets	141,408	130,117	9
Loss per share	-0.85	-0.08	<-100

¹⁾ Net profit / equity as of year end

²⁾ EBIT / (total assets – current liabilities – cash)

³⁾ Current assets / current liabilities

⁴⁾ Equity / total assets

Revenues

Total revenues amounted to € 32.4 million in fiscal year 2011, compared to € 33.4 million in 2010, representing a slight decrease of 3%. This was mainly influenced by the fact, that the construction progress of the current EPC³ and BOT⁴ projects was slower than expected – mainly due to delays caused by internal and external factors. In addition, the market for small-size incinerators recovered slowly: four small-size incinerators were sold in 2011, compared to two in 2010.

To meet the changing market demand in China, ZhongDe focused on large waste-to-energy (EFW) projects. Revenues can be broken down into € 2.3 million relating to the sale of small- and medium-sized incinerators (2010: € 1.6 million), € 8.9 million from EPC projects (2010: € 10.7 million) and € 21.2 million from BOT projects (2010: € 21.1 million). The revenues of EPC and BOT projects accounted for 92.9% of total revenues in 2011, compared to 95.1% in 2010.

³⁾ Engineering, Procurement and Construction

⁴⁾ Build, Operate and Transfer

Gross Profit

The gross profit was € 4.1 million in 2011, which corresponds to a decrease of € 3.3 million, i.e. 44%, compared to the previous year (2010: € 7.4 million). The gross profit margin of ZhongDe decreased from 22% in 2010 to 13% in 2011. The adjustments in cost estimates for the implementation of the EPC and BOT projects were essentially the reason for the decrease of the gross profit margin.

Expenses

Distribution Expenses

Distribution expenses in the reporting period rose by 55% to € 3.7 million in 2011. They mainly consisted of personnel and travel costs and entertainment expenditures as well as expenses for the company's vehicle fleet and made up 11.4% of total revenues (2010: 7.4%).

Administrative Expenses

Administrative expenses increased sharply from € 3.7 million in 2010 by 17% to € 4.3 million in 2011. The higher administrative expenses are primarily attributable to the set up of a new office in Beijing. Furthermore there was a shift within the personnel costs since ZhongDe hired new staff with higher wages. The administrative expenses mainly consist of personnel and consulting costs as well as material costs.

Research and Development Expenses

Research and development expenses fell in the year under review. They amounted to € 0.18 million in 2011 as against € 0.21 million in the previous year.

Other Operating Expenses

Other operating expenses increased from € 1.6 million in 2010 to € 3.8 million in 2011. The increase in operating expenses mainly results from an addition to the provisions due to a potential penalty payment for the late payment to the subscribed capital of a subsidiary (ZhongDe China) as well as higher expenditures associated with the preparation and audit of the annual and group financial statements.

EBIT

EBIT amounted to € -7.7 million in 2011, compared to € 0.8 million in 2010.

Interest Income

Interest income amounted to € 1.9 million in 2011 compared to € 1.8 million in the previous financial year (+6.2%). It mainly consisted of finance income generated due to the accounting of financial assets under IFRIC 12 for BOT projects as well as regular interest income from cash in banks.

Interest Expense

Interest expenses amounted to € 2.2 million in 2011, compared with € 1.0 million in the previous year (> 100%). These primarily comprise regular interest expenses for loans and foreign exchange differences.

Taxes on Income and Earnings

Taxes on income and earnings at € 2.67 million remained almost the same compared to € 2.66 million in 2010. They consist of current income taxes in the amount of € 1.3 million and deferred taxes in the amount of € 1.4 million. Current income taxes essentially result from taxable exchange rate gains. Deferred taxes arise primarily from the changed differences in connection with the EPC and BOT projects as well as tax loss carryforwards. Please refer to the statements in the Notes to the consolidated financial statements for further information (26 Taxes on Income and Profit).

Net Income

Net income was € -10.7 million, resulting in a negative net income margin of 33% and a loss per share of € 0.85.

Key Figures Waste Incinerators by Segments

in k€	2011	2010	Change in %
Small and medium sized incinerators			
Units sold to third party	4	2	100
Revenues	2,298	1,620	42
Gross profit	963	1,135	-15
EPC			
% of completion	37%	21%	16
Revenues	8,858	10,652	-17
Gross profit	1,559	2,243	-30
BOT			
% of completion	53%	33%	20
Revenues	21,249	21,123	1
Gross profit	1,592	4,000	-60

In 2011, four small- and medium-sized incinerators were sold and contributed revenues of € 2.3 million, an increase of 42% compared to the previous year. Gross profit in the segment of small and medium-sized declined by 15% to € 1.0 million.

The Percentage-of-Completion rate in the EPC segment of the group amounted to 37% - an increase of 16 percentage points compared to 2010. EPC projects contributed € 8.9 million to total group revenues, representing a percentage of 27.3%. These revenues are attributable to the Zhucheng and Dingzhou project.

The Percentage-of-Completion rate in the BOT segment amounted to 53% - an increase of 20 percentage points compared to 2010. BOT projects contributed € 21.2 million, or 65.6% to total group revenues in 2011. Revenues in this segment are related to the Zhoukou, Feicheng, Kunming and Xianning project.

Order Status

Orders	2011	2010	Change in %
Order intake	5,076	25,438	-80
Order backlog	143,331	157,758	-9

Order Intake⁵

Type	2011		2010	
	k€	percentage	k€	percentage
Incinerators for medical waste and municipal solid waste	3,165	62	-	-
EPC	1,911	38	25,438	100
BOT	0	0	-	-
Total	5,076	100	25,438	100

In 2011, order intake fell to € 5.1 million in total - 80% lower than the previous year's figure of € 25.4 million. The order intake is related to, in addition to the sale of small- and medium-sized incinerators, to a supplemental agreement in connection with an EPC project.

Order backlog⁶

Type	2011		2010	
	k€	percentage	k€	percentage
Incinerator for medical waste and municipal solid waste	2,693	2	1,604	1.0
EPC	91,169	64	88,736	56
BOT	49,469	35	67,418	43
Total	143,331	100	157,758	100

The proportion of incinerators for municipal waste and medical waste was 2%, large EPC waste incinerator projects accounted for 64% and BOT projects accounted for 35% of the total order backlog.

⁵ Exchange rate calculated at the average price during 2011 and 2010 used for translation

⁶ Exchange rate as of 31 December 2011 and 31 December 2010 used for translation

Order backlog decreased by 9.1% from € 157.8 million to € 143.3 million in 2011. It 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 small- and medium-sized incinerators. The gross profit margin of EPC and BOT projects is much lower than that of small-sized incinerators. The large order backlog represents revenues in the years ahead, which will be generated successively within the scope of the POC methods. If completed according to schedule, the EPC projects Zhucheng and Dingzhou will begin to contribute to consolidated revenues in the years 2012, 2013 and 2014, depending on their completion dates. The EPC projects Zhaodong and Shouguang are still in the preparatory stage and a concrete forecast of when they will generate revenues is therefore not yet possible. The BOT projects in the order status are due to be completed in 2012 and 2013. The waste-to-energy plants will then be operated by ZhongDe for a concession period of 30 years, with the sale of the energy generated contributing to revenues. Subsequent to this, they will be taken over by the awarding authority.

Current Project Status

EPC Projects under Construction	EPC	
	Zhucheng	Dingzhou
Daily capacity (tons/day)	500	600
PoC as of 31 December 2011	58%	16%
Estimated time of completion	2013	2014

BOT Projects under Construction	BOT		
	Zhoukou	Kunming	Xianning
Daily capacity (tons/day)	500	700	600
Average annual power generation capacity (MWh)	> 50	> 70	> 60
PoC as of 31 December 2011	82%	42%	32%
Estimated time of completion	2012	2013	2013

• EPC Projects

Dingzhou EPC Project

There are 55 purchasing contracts for Dingzhou project, of which nearly all contracts have been signed. The construction works for the complex building and the chimney were completed, as well as for the foundation constructions for all buildings. The primary structure of the main factory had almost been finished. The lifting work for the first boiler steel was completed. By 31 December 2011, 16% of the project construction was completed. The project is expected to be finished in 2014 and will have a daily waste incineration capacity of 600 tons per day.

Zhucheng EPC Project

The construction works for the office buildings and the chimney were completed, as well as of the construction for the primary structure, exterior decoration works for the main factory, the discharging platform and network of the steam turbine room and the cooling tower. The constructions for the complex pump house, waste trestle bridge, and the upper structure of chemical water workshop was completed. The installation works for the equipment of the first and second boiler, as well as for the gas purification equipments, steam turbine generator equipment, and the transformer, the electric panel and cabinet were completed. By 31 December 2011, 58% of the project construction was completed. The project is expected to be finished in 2013. It will have a daily waste capacity of 500 tons per day.

Zhaodong EPC Projects

Zhaodong project comprises the construction of a 500 tons per day waste incineration plant with electricity generation and has a contract value, including taxes, of approximately € 30.8 million (RMB 251 million). It adopts the grate furnace incineration technology. The contract for the Zhaodong project was signed in 2009. The project was still in the preparatory stage as of 31 December 2011, since the current negotiations with the local government concerning the construction start have not been finished yet. The considerable delays mean the original estimate for the construction costs is no longer accurate, and this situation may result in a loss being incurred. ZhongDe is therefore also in negotiations with the client at present regarding a price increase. In the event that these negotiations fail to bear fruit, ZhongDe will withdraw from the project on the basis of the delays, for which it was not responsible.

Shouguang EPC Projects

ZhongDe signed an EPC contract with Shouguang Fuyuan Waste to Power Co., Ltd on a 600 tons per day waste-to-energy plant in 2010. The project is located in the north of Shouguang city, Shandong Province. The total contract value, including taxes, amounts to € 32.0 million (RMB 270 million). The project was still in the preparatory stage as of 31 December 2011 as certain approvals had still not been granted. The considerable delays mean the original estimate for the construction costs is no longer accurate, and this situation may result in a loss being incurred. ZhongDe is therefore also in negotiations with the client at present regarding a price increase. In the event that these negotiations fail to bear fruit, ZhongDe will withdraw from the project on the basis of the delays, for which it was not responsible.

- **BOT Projects**

Feicheng BOO Project

ZhongDe's first BOT project, the Feicheng project, showed that the off-gas emissions of the plant do not only fulfill the national requirements in China, but also some of the higher EU standards (e.g. dioxin emission). The successful emission tests strengthened ZhongDe's good reputation in China.

Zhoukou BOT Project

All the equipment was delivered to the construction site. The engineering constructions for the main and subsidiary buildings, the plant road, the enclosing wall, the entrance gate, as well as for the civil end work were completed. Installation works were completed. The debugging for the single system, as well as for the subsystem were completed. The trial operation for the complete set of generator unit was also completed. The power grid connection works was completed at the end of December. By 31 December 2011, 82% of the project construction was completed. The Zhoukou project will be finished in the current financial year. It will have a daily waste capacity of 500 tons per day.

Kunming BOT Project

There are 61 purchasing contracts for Kunming project, of which almost all contracts with sub contractors have been signed. The main constructions for the complex building, as well as for the chimney construction were completed. The structure constructions for the main factory, as well as for the main structure of the gas treatment room were completed. Equipment installation for the first and second boiler was completed, as well as for the steam turbine generator equipment. The installation for the gas purification was fully underway. By 31 December 2011, 42% of the project construction was completed. The project is expected to be finished in 2013 with a planned waste disposal capacity of 700 tons per day.

Xianning BOT Project

All the purchasing contracts for Xianning project were signed. The construction works for the complex building and the chimney were completed, as well as the structure of the main plant and building parts. The constructions for the gas treatment room and the discharging hall, as well as for the main structure of cooling tower, complex pumping room, weigh-bridge room and waste trestle was completed. The construction for the plant road was fully underway. Steel lifting for the first boiler was completed. The installation for the steam turbine generator equipment was also finished. As at 31 December 2011, the project construction was progressing well with a 32% rate of completion. The project is expected to be finished in 2013. It will have a daily waste capacity of 600 tons per day.

Beijing Facility

The original contract, signed in 2007, for the granting of land use rights for the construction area in Beijing for the formerly planned production facility for small and medium-sized waste incineration plants is invalid due to a change in legislation in June 2008. An error correction for the previous years has therefore been effected in accordance with IAS 8. For more details, please see the explanations and the details in the Notes under 2 IAS 8 Error Correction and Changes in Accounting Estimates.

Nevertheless, the company plans to continue the negotiations of the contract terms for the land use rights. If ZhongDe receives the land usage rights retrospectively, ZhongDe intends to continue the construction of the facility.

Balance Sheet Overview

Non-Current Assets

The company's non-current assets amounted to € 57.4 million, which represents an increase of 76.5% compared to 2010. The main reason for this increase is the increase in the degree of completion of the BOT projects, which led to an increase in intangible assets and receivables from BOT projects.

Current Assets

Current assets slightly increased to € 141.4 million in 2011, following € 130.1 million in 2010. At € 117.3 million in 2011 and € 83.8 million in 2010, cash and cash equivalents were the largest item in this category. Other assets of € 20.6 million (previous year: € 13.4 million) mainly comprise down payments for EPC/BOT projects. The decrease in trade receivables from € 8.7 million to € 1.4 million was primarily attributable to received payments from EPC projects. The short-term financial investments (€ 22.7 million) shown as of 31 December 2010 were discontinued in 2011 and were entered in liquid assets.

Non-current Liabilities

Non-current liabilities of € 33.4 million comprise bank loans of € 30.1 million and deferred tax liabilities totalling € 3.3 million. Compared to 2010, long-term liabilities increased by 185.6% because of the new granted bank loans for further investments in EPC and BOT projects. These deferred tax liabilities result mainly from the application of the POC method in relation to EPC and BOT projects (manufacturing orders). The long-term debt ratio amounts to 16.8%.

Current Liabilities

Total current liabilities rose from € 20.2 million in 2010 to € 39.7 million in 2011 (+96.6%). Current liabilities mainly included trade payables, other liabilities and down payments received. The strong rise mainly resulted from the increase of advance payments for EPC and small- and medium-sized incinerators.

Equity

Equity decreased slightly from € 129.7 million by 3.0% to € 125.7 million year-on-year, predominantly as a result of decreased capital reserves due to a withdrawal of € 7.6 million for the purpose of balancing the annual deficit for ZhongDe AG and as a result of the lower net profit in the consolidated balance sheet for 2011 (€ 5.2 million). This was offset by the increase in translation adjustments (€ +9.1 million). The shareholders' equity of the ZhongDe Group totals 63.2%.

Financial Position and Cash Flow

Cash Position

Cash and cash equivalents amounted to € 117.3 million in 2011, a increase of 40% compared to 2010. These funds are to be invested in budgeted projects such as the BOT projects in Zhoukou, Kunming and Xianning, and EPC projects in Zhucheng and Dingzhou. In addition, they are expected to serve to finance further business activities.

Financing

As of 31 December 2011, the company's loans amounted to € 34.2 million. These loans were taken out by various credit institutions in 2010 and 2011. They are used to finance the BOT projects. Please refer to the detailed presentation in the note to the consolidated financial statements for further details (25 Long-Term Loans).

Cash Flow

The following table is extracted from the cash flow data of the company, which was derived from the company's consolidated financial statements under IFRS for 2011 and 2010:

in k€	2011	2010
Operating cash flow before working capital changes	-6,895	1,576
Cash generated from/ (used in) operations	-15,112	-23,862
Net cash generated from operating activities	-17,172	-24,845
Cash flow from investing activities	21,554	2,113
Cash flow from financing activities	19,139	8,379
Net increase in cash and cash equivalents	23,522	-14,354
Cash at beginning of year	83,805	88,563
Foreign exchange difference	9,982	9,596
Cash at end of the period	117,309	83,805

Project	Financial Institution	Total loan amount	Total loan amount	Effective interest rate	Term	Reveived as of 31.12.2011	Reveived as of 31.12.2011
		in €	in RMB	in %		in years	in €
Zhoukou	Bank of China	12,256,704	100,000,000	8.06	10	12,256,704	100,000,000
Kunming	China Merchants Bank	22,062,067	180,000,000	8.98	10	7,354,023	60,000,000
Kunming	Huarong Leasing	14,708,045	120,000,000	12.44	5	9,158,210	74,720,000
Xianning	China Merchants Bank	14,462,911	118,000,000	9.05	10	3,922,145	32,000,000
Xianning	Huarong Leasing	11,031,033	90,000,000	12.44	5	5,515,517	45,000,000

Net cash generated from operating activities

The net cash position has improved in 2011. Net cash flow amounted to € -17.2 million from operation as at 31 December 2011, representing an increase by € 7.7 million compared with the net cash of € -24.8 million used in operating activities in 2010. This increase was mainly attributable to a decrease of receivables from EPC and profit before income tax and a significant increase in other liabilities and provisions.

Cash flow used in investing activities

Cash flow used in investing activities increased from € 2.1 million in 2010 to € 21.6 million in 2011. This is mainly attributable to the payment in connection with the disbursement of short-term financial investments (€ 21.6 million).

Cash Flow from financing activities

Cash flow from financing activities increased from € 8.4 million in 2010 to € 19.1 million in 2011. This increase was mainly attributable to an increase in the taking out of loans.

Financing and Liquidity Provision

According to the current planning, ZhongDe's Management Team monitored the liquidity to ensure the adequate funding for the operation. The company will raise the capital through various channels, such as accelerating the pace to collect the trade receivables and raising funds from other financial institution for the projects. The primary goal of financial management at Beiersdorf is to safeguard liquidity. The type and volume of transactions are in line with the Group's basic operating and financial business. Cash flow planning is used to establish liquidity requirements.

Summary of the Economic Position

In terms of revenues and the operating result, the development of business was on the whole disappointing in the 2011 financial year, resulting in a loss. This was first and foremost due to delays in the completion of waste-to-energy plants currently under construction. However, the ZhongDe Group's high net cash position affords it the flexibility it needs for its BOT investments and for project financing. The Group's high equity ratio reflects its solid financial position.

Human Resources

	2011	2010
Average number of employees of the Group		
Management and administration	253	197
Research and development	14	29
Manufacturing	65	83
Sales and distribution	56	79
	388	388

The average number of employees working at ZhongDe remained stable during the reporting period. ZhongDe finished the full year of 2011 with 388 employees (2010: 388), with personnel working in Management and administration representing the vast majority of 253 persons. The second largest group Manufacturing has been working with 65 employees. Followed by Sales and distribution with 56 staff and Research and development with 14 employees.

In 2011, ZhongDe's personnel structure changed. In line with the company's strategic shift to large-size EFW projects, the Manufacturing, Sales and R&D staff has been reduced while the number of employees in the procurement and engineering and the controlling department has been increased.

Personnel Training

In June, there was a professional training named “Training Course for the Waste Incineration Business” for the project and technology management department, the project construction management department and the operation management department. The training included “Operation and Management of an Incineration Plant”, “Introduction of Incineration Equipment and Fume Treatment”, “Techniques and Design of Municipal Waste Incineration” and “Construction of Waste Incineration Plant”. It was led by well-experienced technicians.

Furthermore, there have been theoretical and practical trainings for the professional management of waste-to-energy projects focusing on job duties, safety guidelines, production techniques, operation and maintenance of the equipment. Through these trainings the technical skills of ZhongDe’s employees could be further improved.

Research & Development

ZhongDe continues its cooperation with Tsinghua University in order to establish, in collaboration, a post doctoral research station. In 2011, ZhongDe could enhance its competitiveness in the waste-to-energy industry through the following:

Technology introduction

ZhongDe plans to introduce a grate furnace incineration technology with a daily capacity of 450 tons per day for its current waste-to-energy projects. In 2011, the Group has developed a series of waste incinerator grate furnace technologies with different sizes for the Chinese market.

Technology originality

ZhongDe has successfully developed a 100 tons per day three forward grate furnaces technology and owns its property intellectual rights. The new technology will be applied in the Changsha project (small-size incineration) in Hunan province. For the gas treatment, ZhongDe has developed a 350 tons per day circulating fluidized bed semi-dry gas treatment technology and owns its intellectual property rights. At present, the R&D team is studying different series of circulating fluidized bed semi-dry flue gas treatment technologies and the rotary atomizing semi-dry flue gas treatment technologies. ZhongDe plans to realize its waste-to-energy projects with its own acid and dust elimination equipment.

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 planning.

If the Group is able to develop its business volume by generating further BOT project orders, financing with the Group’s cash and cash equivalents may not be sufficient. 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”, ZhongDe’s management has successfully signed project financing agreements with the Bank of China, China Merchants Bank and Huarong Leasing company.

Corporate Governance Report and Declaration on Corporate Governance Practice

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”). Since its implementation in 2002 the German Corporate Governance Code, along with the statutory provisions of law, proved itself as benchmark for good Corporate Governance in Germany. Supervisory Board and Executive Board of ZhongDe Waste Technology AG explicitly support the Code and its objectives.

Compliance Statement

In the last financial year 2011 the Executive Board and the Supervisory Board dealt with Corporate Governance issues at several occasions. On 19 April 2012 the Executive Board and the Supervisory Board jointly issued the following Compliance Statement (Entsprechenserklärung) in accordance with Section 161 of the German Stock Corporation Act and made it permanently available to the public on the Company’s website:

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

- Section 2.3.1 sentence 3 and Section 2.3.3 sentence 2 are dealing with absentee voting procedure by mail, without explicitly recommending to provide for such absentee voting procedure. In the Company’s view, there are still various practical and legal problems involved with absentee voting by mail. In view of the general shareholders’ meeting 2012, the Executive Board has therefore – as already for the general shareholders’ meeting 2011 – decided not to exercise its authorization as granted under Section 23 para. 6 of the Articles to permit absentee voting by mail. However, shareholders continue being entitled to electronically grant proxies to proxy representatives nominated by the Company.
- Sections 4.2.2 to 4.2.4 contain recommendations on the remuneration of members of the executive board granted by the company. Since the members of the Executive Board of ZhongDe Waste Technology AG have only concluded service agreements with the Chinese operating entity Fujian FengQuan Environmental Protection Equipment Limited but not with the stock corporation itself, the recommendations set forth in Sections 4.2.2 and 4.2.3 of the German Corporate Governance Code do not apply.
- According to Section 5.1.2 para. 2 sentence 3 and Section 5.4.1 para. 2 sentence 1 of the Code, the determination of an age limit is recommended. The Company has not determined such age limit and so maintains the option to appoint members of the Executive Board or the Supervisory Board that have already crossed a certain age limit on a case by case basis. The Company believes that the determination of an age limit for members of the Executive Board and/or the Supervisory Board is not useful as a general rule but rather prefers the qualification and experience of its board members as criteria. The Company, therefore, deviates from the recommendations as set forth in Section 5.1.2 para. 2 sentence 3 and Section 5.4.1 para. 2 sentence 1 of the German Corporate Governance 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 Corporate Governance Practice

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 first eight months of each financial year.

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

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

Functioning of the Executive Board and the Supervisory Board

In accordance with statutory requirements, ZhongDe Waste Technology AG has a so-called two-tier governance system which is characterised by the Executive Board and the Supervisory Board being two separate and independent governing bodies.

The Executive Board is responsible for managing the Company, developing the Company's strategy, agreeing this strategy with the Supervisory Board and implementing it. This includes the steering of the group, the management and investment policy pertaining to the financial resources, the development of personnel strategy, the engagement of key employees and the presentation of ZhongDe Group to the capital market and the public domain. The Executive Board is obliged to continuously, timely and comprehensively inform the Supervisory Board on all matters which are relevant for ZhongDe Group.

The task of the Supervisory Board is 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 of significance which require the prior consent of the Supervisory Board. The Executive Board provides the Supervisory Board with regular reports and updates on business policy and all issues of relevance for the ZhongDe Group relating to the planning, business development, the risk situation and the risk management system. The reports of the Executive Board also include the subject of compliance, i.e. the implemented means through which adherence to statutory provisions and ZhongDe Group's internal statutes is ensured.

The 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 sustainable growth.

Composition of the Executive Board and the Supervisory Board

The members of the Executive Board are appointed by the Supervisory Board, which also determines the number of the members of the Executive Board. Currently, the Executive Board of ZhongDe Waste Technology AG comprises two members, namely Mr. Zefeng Chen (Chairman and Chief Executive Officer) and Mr. William Jiu Hua Wang (Chief Financial Officer).

The Supervisory Board is composed in accordance with Sections 95 and 96 of the German Stock Corporation Act (Aktiengesetz) and consists of three members. The current members of the Supervisory Board are Mr. Hans-Joachim Zwarg (Chairman), Prof. Dr. Ing. Bernd Neukirchen (Deputy Chairman) and Mr. Feng-chang Chang. Mr. Feng-chang Chang was appointed by the local court of Hamburg as member of the Supervisory Board with effect until the expiration of the general meeting resolving on the ratification for the financial year 2011. The Supervisory Board intends to propose Mr. Feng-chang Chang for re-election as a member of the Supervisory Board to the next Annual General Shareholders Meeting.

Pursuant to Section 5.4.1 of the Code, the Supervisory Board has to be composed of members being in command of all required skills, qualifications and experience required for the performance of its duties. The Supervisory Board believes being composed in accordance with these requirements. Its chairman as former chief financial officer of a listed German stock corporation is qualified and experienced in the areas of German and international accounting, stock corporation and capital markets law. 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. Fengchang Chang as certified auditor is qualified in international financing and accounting with particular understanding for Chinese companies and namely the Company's business.

Further, according to Section 5.4.1 of the Code, the Supervisory Board shall specify concrete objectives regarding its composition which, whilst considering the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest, an age limit to be specified for the members of the Supervisory Board and diversity. These concrete objectives shall, in particular, stipulate an appropriate degree of female representation. The Supervisory Board has discussed these requirements in detail. It is of the opinion that it already complies with the requirements concerning internationality and potential conflicts of interest. Potential conflicts of interests are prevented by the fact that all members of the Supervisory Board are independent within the meaning of Section 100 para. 5 of the German Stock Corporation Act and Section 5.4.2 of the Code. The international operations of the Company primarily comprise Germany and China. Accordingly, already as of today the Supervisory Board comprises two members of German origin and one member of Chinese origin. The Supervisory Board intends – while securing the qualification and experience of its board members – to secure this internationality and independence of its members in the future. In addition, the Supervisory Board intends to provide for an adequate representation of women in the Supervisory Board from the next ordinary Supervisory Board elections following the Annual General Shareholders' Meeting 2012 on. In this respect, it is initially intended to propose one female candidate for election to the Supervisory Board. The Supervisory Board will therefore seek for adequate candidates. The Supervisory Board will regularly report on the status of implementation in the corporate governance report.

Neither the Executive Board nor the Supervisory Board have set up any committees. Both bodies are with two (Executive Board) and three members, respectively (Supervisory Board), dimensioned in a manner that warrants an effective work. The setting up of committees therefore – at least at the moment – does not promise any advantages.

Remuneration of Executive Board and Supervisory Board

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.

Directors' Dealings

According to Section 15a of the Securities' Trading Act (Wertpapierhandelsgesetz), 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 without undue delay to the Company and the German Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) whenever the value of such transaction amounts to € 5,000 or more within a calendar year. In respect of the financial year 2011, ZhongDe Waste Technology AG has not been notified of any transactions pertaining to directors' dealings.

The members of the Executive Board hold, directly or indirectly, in total 50.8% of the shares in ZhongDe Waste Technology AG. The members of the Supervisory Board do not hold any shares in ZhongDe Waste Technology AG.

Accounting and Audit

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) as applicable in the European Union. The individual annual financial statements (Einzelabschluss) are prepared in accordance with the German generally accepted accounting principles and the statutory provisions of the German Commercial Code (Handelsgesetzbuch). The sole basis for the profit distribution is the individual annual financial statements prepared under the German Commercial Code.

The individual and consolidated financial statements are prepared by the Executive Board. The audit of the individual and consolidated annual financial statements is devoted to the auditor appointed by the Annual General Shareholders Meeting. For the financial year 2011, BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, has been appointed as auditor by the Annual General Meeting on 28 June 2011. 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 to be continuously evolved in order to meet the changing conditions. More details of our risk management system can be found in the management report.

Transparency

Our investors and shareholders as well as the interested public domain are provided with information on ZhongDe Waste Technology AG and ZhongDe Group as well as on major business events particularly through financial reports (annual reports and quarterly reports), balance sheet press conferences, analyst meetings and 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 General Shareholders' Meetings. The fi-

ancial statements, ad hoc releases and notifications on directors' dealings as well as press releases can also be viewed on the Company's website at www.zhongde-ag.com/investor_relations/. All shareholders and interested parties can subscribe to an electronic e-mail alert on our website or directly get in touch with us.

Objectives of the Supervisory Board in respect of its Composition

Pursuant to Sect. 5.4.1 of the Code, the Supervisory Board shall 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 2011 no conflicts of interest which would have had to be disclosed and/or reported to the Supervisory Board occurred.

The Company had entered into a D&O insurance for its members of the Executive Board which includes a deductible since 1 July 2011.

Details pertaining to the remuneration of the members of the Executive Board for the financial year 2011 can be found in the Remuneration Report on p. 42.

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.

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 2011 no conflicts of interest which would have had to be disclosed and/or reported to the Supervisory Board occurred.

The Company had entered into a D&O insurance for its members of the Supervisory Board which includes a deductible since 1 July 2011.

Details pertaining to the remuneration of the members of the Executive Board for the financial year 2011 can be found in the Remuneration Report on page 42.

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 had 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 generally 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 had 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.

Due to a change in staff, internal auditing and internal risk management activities were only performed to a limited degree in the last financial year. ZhongDe will focus even more strongly on the expansion of the internal risk revision activities in the current and subsequent financial year.

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 waste-to-energy 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 operation reports are core tools in the management of our business.

ZhongDe Management remains conscious of the fact, that its investments in large-scale waste-to-energy projects require the standardization of project management. To be able to meet these standardization requirements, ZhongDe is recruiting additional personnel and highly qualified waste-to-energy project managers. Therefore, the Group is exposed to the risk not to be able to obtain such highly skilled and scarce professionals.

We plan to establish additional internal control systems and will implement corresponding improvements, and will also develop 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 waste-to-energy 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.

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.

Sales and Purchasing Risks and Opportunities

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

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

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

ZhongDe is exposed to the risk of dependency of suppliers. Therefore, we regularly analyse our dependence on individual suppliers and pursue avenues to forge links with alternative suppliers. We had 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. Therefore, the Group is exposed to the risk not to be able to obtain such highly skilled and scarce professionals.

There are the approval timing risks of local authorities about various technical and legal requirements of ZhongDe waste-to-energy 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 waste-to-energy 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 2011.

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 waste-to-energy 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 has relocated its Chinese headquarters from Fuzhou to Beijing, where it has better access to skilled and experienced human resources.

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

Based on expectations of a continued increase in demand for waste-to-energy 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 waste-to-energy plants also enjoy a very good reputation due to the successful Datong waste-to-energy project. Most of our customers are city government-related bodies. Although the business with local governments will be decreasing, we can still 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 waste incineration plants, either in conjunction with EPC projects or BOT projects in which the ZhongDe Group also operates the plant. For the time being, our activities cover only mainland China.

For the reporting of risks relating to financial instruments, please see the notes to the consolidated financial statements: 31. Objectives and Strategies of Financial Risk Management.

Corporate Strategy

ZhongDe's strategic target is to strengthen our position in the Chinese waste-to-energy industry and to return to strong and profitable business growth in order to create shareholder value. Within our strategy, we focus on the large-size waste-to-energy projects due to the slow recovery of the small-sized incinerators' market. Because of the new market conditions, the Company quickly adjusted its business strategy such that it was able to largely offset the decline in sales by focusing on large waste-to-energy projects.

As one of seven strategic new industry programmes during the 12th five-year Plan period, the waste-to-energy industry will gain strong support from the Chinese Government and will have promising growth opportunities.

We plan to expand our market position and technological expertise. ZhongDe Waste Technology AG had 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 interest income and electricity sales and from other by-products. With the help of external service providers, ZhongDe designs and installs incinerators for the treatment of municipal solid waste and then operates these waste-to-energy plants for a contracted period of time in accordance with its concession agreements.

Management and Control

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

ZhongDe's CFO, Mr William Juhua Wang is responsible for the 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, completes 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 had shifted its focus to large-scale waste-to-energy incinerators.

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

Remuneration Report

Remuneration of the Management Board

According to Sections 87 para. 1, 107 para. 3 sentence 3 of the German Stock Corporation Act (Aktiengesetz), the Supervisory Board determines the remuneration of the Executive Board. The members of the Executive Board of ZhongDe Waste Technology AG have only concluded service agreements with Chinese subsidiaries but not with ZhongDe Waste Technology AG itself. In addition, the current service 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, VorstAG) 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 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.

In 2011, the members of the Executive Board of the ZhongDe Waste Technology AG have received the following remuneration:

in k€	2011	2010*
Zefeng Chen	26	28
Jiuhua Wang	21	20
Total	47	48

* Due to an editorial error in the previous year, the amount of compensation (Zefeng Chen) for 2010 was increased by € 14,000.

Remuneration of the Supervisory Board

According to Section 20 of the articles of Association, each member of the Supervisory Board receives a compensation to be determined by the General Shareholders' Meeting. On 28 June 2011, the annual General Shareholders' meeting has resolved on the following remuneration for the Supervisory Board:

The chairman of the Supervisory Board receives a basic remuneration of € 60,000.00 per calendar year. The other members of the Supervisory Board receive a basic remuneration of € 45,000.00 per calendar year. In addition to the basic remuneration, members of the Supervisory Board receive an annual performance related remuneration of € 100.00 per each cent of the profit per

share exceeding € 2.00, as disclosed in the current consolidated financial statements. The cap for the performance related remuneration is an amount of earnings per share of € 3.50. If a person is a member of the Supervisory Board for a certain part of a financial year only, the fixed remuneration as well as the performance related remuneration shall be paid on a pro rata temporis basis. Furthermore, the members of the Supervisory Board receive reimbursements for expenses with regard to their office as member of the Supervisory Board as well as the amount of VAT due on their remuneration, if applicable.

In the financial year 2011, the members of the Supervisory Board have received the following remuneration:

in k€	2011	2010
Hans-Joachim Zwarg (Chairman of the Supervisory Board)	60	60
Prof. Dr. Bernd Neukirchen (Deputy Chairman of the Supervisory Board)	45	45
Dr. Quan Hao (until 30 November 2010)	0	14
Feng-Chang Chang	45	1
	150	120

Statements Pursuant to Section 315 para. 4 German Commercial Code (Handelsgesetzbuch)

1. Subscribed Share Capital

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

2. Restrictions regarding Voting Rights and/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 do not provide for restrictions on the transfer of shares. As of 13 July 2012, ZhongDe Waste Technology AG held 400,000 treasury shares. Pursuant to Section 71b of the German Stock Corporation Act, the Company is not entitled to any voting or other rights with respect to these treasury shares. The Executive Board is not aware of any other restrictions regarding voting rights and the right to transfer shares in ZhongDe Waste Technology AG.

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

The Company's chief executive officer, Mr. Zefeng Chen, holds 50.8% 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

Pursuant to sec. 84 German Stock Corporation Act (AktG), the Supervisory Board appoints the members of the Executive Board for a period not exceeding five years in each case. Any extension of the term of office requires a Supervisory Board resolution and may be adopted no earlier than one year prior to expiry of the current term of office. In urgent cases, the local court (Amtsgericht) may appoint a missing and required executive board member upon application by any person with interests meriting protection (e.g. other executive board members) (sec. 85 AktG). This office would, however, be terminated as soon as the deficiency is rectified, e.g. as soon as the supervisory board has appointed a missing executive board member. Dismissal of an executive board member is permissible only for good cause (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 Section 8 para. 1 of the Articles of Association of ZhongDe Waste Technology AG, the Executive Board consists of one or more persons. The number of the members of the Executive Board is determined by the Supervisory Board. Currently, the Executive Board of ZhongDe Waste Technology AG comprises two members. 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 be amended by a resolution of the General Shareholders' Meeting pursuant to sec. 179 AktG. Pursuant to sec. 179 para. 2 AktG, an amendment of the articles of association requires a majority of three fourths of the share capital represented at the passing of the resolution. The articles of association may, in principle, provide for a different majority. The Articles of Association of ZhongDe Waste Technology AG make use of this option. Pursuant to sec. 26. Para. 1 of the Articles of Association of the Company, resolutions of the General Meeting shall require a simple majority of the votes cast and, in the event a capital majority is required, a simple majority of the share capital represented at the passing of the resolution, unless otherwise prescribed by mandatory law or the Articles of Association. The requirement of a simple majority shall also apply – to the extent permitted by law – to amendments of the Articles of Association or capital measures. Beside this the Supervisory Board is, pursuant to 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 € 6,500,000.00 by issuance of up to 6,500,000 new no par value bearer shares against contributions in cash or in kind (Authorised Capital 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 option warrants and/or convertible bonds ("bonds") with a term of up to 15 years and in a maximum total nominal amount of up to € 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. Shareholders are generally entitled to subscription rights on the bonds. However, the Executive Board is authorised, subject to Supervisory Board approval, to exclude the shareholders' subscription rights in certain cases. The terms of the bonds may also provide for anti-dilution protection in favour of the creditors of the bonds.

In order to serve the bonds, two conditional capitals in an amount of each € 3,250,000 by issuance of each up to 3,250,000 new no par value bearer shares were created (Conditional Capital I and II). The conditional capital increases serve the purpose of granting shares to bearers or creditors of option or convertible bonds, which are issued in accordance with the authorization of the Annual General Shareholders' Meeting on 31 July 2009 by the Company up until 31 July 2014 to the extent that the issue occurs in return for cash. They are to be carried out only to the extent that option or conversion rights in respect of the above-mentioned bonds are used or conversion obligation in respect of such bonds are used and to the extent that no other forms of fulfilment are used.

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 4th and 10th day before the publication of the price granted by more than 20%.

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

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.

Events Subsequent to the Financial Year

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

Outlook

In the new five-year plan of China's Central Government, the environment protection industry is chosen to be one of the seven strategic key industries. These strategic industries will benefit from Chinese Government's special financial supporting policies. They will account for 8% of GDP in 2015 and are expected to reach 15% of GDP in 2020.

In the first half year of 2011, China's Central Government issued a series of new stimulating policies promoting the waste-to-energy industry in China. During the 11th five-year plan period, the investment for solid waste treatment reached RMB 210 billion, with an average annual growth rate of 18.5%. The Chinese Academy for Environmental Planning estimated that during the 12th five-year plan period, the investment for solid waste industry will amount to RMB 800 billion, quadrupling 11th five-year plan period. The waste-to-energy industry should experience rapid development during the 12th five-year plan.

The company expects to further benefit from this favourable economic environment, although the new stimulating policies will need some time to achieve real effect in China.

The Management Board of ZhongDe expects to finalize its current BOT project in Zhoukou until the end of the 2012 financial year.

For ZhongDe 2011 was a very challenging transition period. Due to further delays in the completion of waste-to-energy projects, we failed to achieve the result we forecast in our half-year report and notified the market of this accordingly in November 2011. We expect this transition period to further influence our business development. Our financial performance in 2012 and 2013 will be highly affected by our ability to complete the ongoing EPC and BOT construction projects. According to the experiences made in the past, the fulfilment of our planning is considerably influenced by several internal as well as external factors, that are difficult to foresee. Nevertheless, we expect for the long-term to reach our goals.

Although we were unable to reach our sales targets in the first few months of financial year 2012, according to the current planning and by adopting that no unforeseeable events will happen, we expect that ZhongDe Group can generate a better result in revenues as well as a higher gross profit margin in 2012 compared to 2011. Furthermore, we expect our operating expenses to be lower in 2012 compared to 2011. In 2013 we expect additional improvements in relation to the forecast for the current financial year 2012. Our estimates are generally applicable for all of our three business segments. Please note that these expectations are subject to the customary uncertainty even if currently we do not have any information as to any other developments.

Frankfurt am Main, 13 July 2012



Zefeng Chen
Chairman of the
Management Board
(CEO)



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



Zhoukou BOT Project

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Consolidated financial statements

Consolidated Balance Sheet

of ZhongDe Waste Technology AG as of 31 December 2011

in k€	Notes	31.12.2011	31.12.2010*	1.1.2010 after restatement
Assets				
<i>Non-current assets</i>				
Intangible assets	3.4, 4, 12	15,782	7,774	3,067
Land	13	0	0	0
Property, plant and equipment	3.2, 3.6, 14	1,258	1,584	1,387
Construction in progress	15	0	470	35
Receivables from BOT	3.7, 4, 16	40,181	21,927	5,248
Deferred tax assets	3.20, 26	157	760	179
		57,380	32,515	9,916
<i>Current assets</i>				
Inventories	3.12, 17	1,809	1,442	4,032
Trade receivables	3.2, 3.11, 18, 30	1,385	8,744	5,581
Other receivables and prepayments	3.11, 18, 30	20,600	13,426	5,476
Amounts due from related parties and companies	18, 29, 30	305	19	6
Short-term cash investments		0	22,671	23,336
Cash and cash equivalents	3.10, 20, 30	117,308	83,805	88,563
		141,408	130,107	126,994
Total assets		198,787	162,622	136,910

* Corrected

in k€	Notes	31.12.2011	31.12.2010*	1.1.2010 after restatement
Liabilities and Equity				
<i>Capital and Reserves</i>				
Issued capital, stated value € 1.00	1, 21.1	13,000	13,000	13,000
Capital reserve	21.2a)	62,914	70,522	69,822
Statutory reserves	21.2b)	7,972	7,793	7,225
Own shares	21.1	-4,608	-4,104	-2,408
Retained earnings	21.2c)	21,817	26,986	30,410
Foreign exchange difference	21.3	24,573	15,461	1,777
Total equity		125,668	129,658	119,826
<i>Liabilities</i>				
Long-term liabilities				
Long term-loans	3.18, 23	30,054	10,524	0
Deferred tax liabilities	3.20, 22	3,329	2,226	593
		33,383	12,750	593
Current liabilities				
Trade payables	3.13, 23, 30	18,459	15,729	9,398
Other payables and accruals	3.13, 23, 30	14,033	3,385	5,456
Provisions	3.2, 3.14, 24, 30	2,741	1,091	1,067
Amounts due to related parties and companies	23, 29, 30	6	2	37
Tax liabilities	3.2	334	7	533
Share of long-term loans due in the short term	25	4,163	0	0
		39,737	20,214	16,491
Total Liabilities		73,120	32,964	17,084
Total liabilities and equity		198,787	162,622	136,910

* Corrected

Consolidated Statement of Cash Flow

of ZhongDe Waste Technology AG for the period from 1 January to 31 December 2011
and the same period in the previous year

in k€	2011	2010
Profit before income tax	-8,039	1,703
<i>Adjustments for:</i>		
Amortization of intangible assets	22	42
Allowance for doubtful trade debts	270	64
Provision for warranty	81	-228
Depreciation of property, plant and equipment	445	434
Gains/losses PPE	23	10
Interest income/exchange gains	-1,926	-1,408
Interest expense/exchange losses	2,228	959
Operating cash flows before working capital changes	-6,895	1,576
Working capital changes:		
<i>(Increase)/decrease in:</i>		
Inventories	-227	2,590
Trade receivables	7,048	-3,227
Other receivables and prepayments	-5,055	-7,694
Amounts due from related parties	-258	-13
POC receivables in conjunction with BOT projects	-21,790	-21,571
<i>(Increase)/decrease in:</i>		
Trade payables	1,317	6,331
Other payables, provisions and accruals	10,743	-1,819
Amounts due to related parties	4	-35
Cash generated from/(used in) operations	-15,112	-23,862
Interest received/exchange gains	974	1,408
Interest paid/exchange losses	-2,098	-959
Income tax paid	-935	-1,432
Net cash generated from operating activities	-17,172	-24,845

in k€	2011	2010
Cash flow from investing activities		
Payments in connection with the short-term financial management of cash investments	0	-22,066
Receipts in connection with the short-term financial management of cash investments	21,612	25,092
Purchase property, plant, equipment, intangible assets, land use rights	-58	-913
Cash flow used in investing activities	21,554	2,113
Cash flow from financing activities		
Borrowings	20,873	10,524
Repayments of loans	-431	0
Payments received from receivables in conjunction with BOT projects	1,092	1,449
Dividend paid	-1,890	-1,898
Buy back of own shares	-504	-1,696
Cash flow from financing activities	19,139	8,379
Net increase (+)/decrease (-) in cash and cash equivalents	23,522	-14,354
Cash at beginning of year	83,805	88,563
Foreign exchange differences	9,982	9,596
Cash at end of period (Note 20)	117,309	83,805

Consolidated Statement of Income and Expenses

of ZhongDe Waste Technology AG for the period from 1 January to 31 December 2011

in k€	Notes	2011	2010 after restatement
Revenues	3.2, 3.16, 4, 5	32,405	33,396
Cost of sales		28,291	26,008
Gross Profit		4,114	7,388
Gross Profit relating to proceeding year		0	1,163
Adjusted Gross Profit		4,114	8,551
Other operating income		154	249
Selling and distribution expenses		-3,696	-2,392
Administrative expenses		-4,281	-3,658
Research and development expenses	3.4	-183	-209
Other operating expenses		-3,846	-1,692
Profit from operations		-7,738	849
Finance income	3.16, 10	1,904	1,813
Finance costs	3.18, 11	-2,206	-959
Profit before tax		-8,039	1,703
Income tax expense	3.20, 26	-2,669	-2,658
Profit (+)/loss (-) for the year		-10,708	-955
Earnings per share (diluted and undiluted)	3.21	-0,85	-0,08
Weighted average shares outstanding (diluted and undiluted)		12,608,760	12,664,031

Statement of Comprehensive Income

of ZhongDe Waste Technology AG for the period from 1 January to 31 December 2011

in k€	2011	2010 after restatement
Profit (+) / loss (-) for the year	-10,708	-955
Other comprehensive income		
Foreign exchange differences recognized directly in equity	9,111	13,684
Total changes recognized directly in equity	9,111	13,684
Total comprehensive income	-1,597	12,728

The recognised foreign exchange differences did not give rise to deferred taxes. So-called 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 2011

in k€	Number of shares outstanding	Share capital AG	Capital Reserves	Statutory reserves	Own shares	Retained earnings	Foreign exchange differences	Total equity
	21.1	21.1	21.2a)	21.2b)	21.1	21.2c)	21.3	
Balance as at 1 January 2010	12,798,800	13,000	69,822	7,224	-2,408	35,571	1,884	125,093
IAS 8 restatement	0	0	0	0	0	-5,161	-107	-5,268
Balance as at 1 January 2010	0	13,000	69,822	7,224	-2,408	30,410	1,777	119,826
Total result for the period	0	0	0	0	0	-956	13,684	12,728
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
Balance as at 31 December 2010	12,652,440	13,000	70,522	7,793	-4,104	26,986	15,461	129,659
Total result for the period						-10,708	9,111	-1,597
Appropriations of current year's income				179		-179		0
Withdrawals from the capital reserve for offsetting an annual deficit			-7,608			7,608		
Dividend paid for the year 2010						-1,890		-1,890
Buy back own shares	-52,440				-504			-504
Balance as at 31 December 2011	12,600,000	13,000	62,914	7,972	-4,608	21,817	24,573	125,668

Notes to the Financial Statements

of ZhongDe Waste Technology AG as of 31 December 2011

| 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 as a listed stock corporation under the registration number HRB 97838 at the local court in Frankfurt am Main. The legal domicile of the Company is located at Herriot street 1, Frankfurt, 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. Compared with last year, the production and sale of waste incinerators have not changed too much. In 2011, four incinerators were sold.

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.

The following subsidiaries which ZhongDe Waste Technology AG controls either directly or indirectly are consolidated:

in k€	Interest (direct/ indi- rect)	Equity 31.12.2011	Results 2011
ZhongDe (China) Environmental Protection Co. Ltd., Peking, VR China	Direct 100%	5,385	-3,676
Chung Hua Environmental Protection Assets (Holdings) Group Ltd., Hongkong	Direct 100%	42,714	6,170
Fujian FengQuan Environmental Protection Holding Ltd., Fuzhou, VR China	Indirect 100%	74,326	1,721
Beijing ZhongDe Environmental Protection Technology Co. Ltd., Peking, VR China	Indirect 100%	-4,172	233
Zhoukou FengQuan Environmental Protection Electric Power Co. Ltd., Zhoukou, VR China	Indirect 100%	11,789	-1,041
Feicheng FengQuan Waste Disposal Co. Ltd., Feicheng, VR China	Indirect 100%	1,029	-232
Xianning ZhongDe Environmental Protection Electric Power Co. Ltd., Xinjiang, VR China	Indirect 100%	14,857	208
Kunming FengDe Environmental Protection Electric Power Co. Ltd., Kunming, VR China	Indirect 100%	10,861	-522
Lanzhou FengQuan Environmental Electric Power Co., Ltd., Lanzhou, VR China	Indirect 100%	1,224	-1

In comparison with the previous year one new subsidiary, (9. Lanzhou) was formed. In order to carry out BOT projects Fujian FengQuan Environmental Protection Holding Ltd. (3.) and Chung Hua Environmental Protection Assets (Holdings) Group Ltd. (2.) hold all the shares in a total of six companies included in the consolidated financial statements. ZhongDe Waste Technology AG also holds 100% of the shares in ZhongDe (China; 1.), which was established in 2010. This subsidiary is chiefly responsible for handling project acquisition, project planning and other administrative duties at the site in Beijing. This change has 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 of the consolidated financial statements

The consolidated financial statements of ZhongDe Waste Technology AG for the year to 31 December 2011 were prepared in accordance with the International Financial Reporting Standards (IFRSs) and the International Financial Reporting Interpretations (IFRICs) valid in the European Union. Sec. 315a para. 1 of the German Commercial Code (HGB) was also taken into account.

The consolidated financial statements were generally prepared using the historical cost convention. The balance sheet is divided into non-current and current assets in accordance with IAS 1. Assets and liabilities which are due within one year are classed as being current. In accordance with IAS 12, deferred tax assets/deferred tax liabilities are presented as non-current assets or liabilities. 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 31 December 2011 are:

Change/Standard	Publication Date	Date of adoption as EU law	Application date (EU)
Amendment to IAS 32 Financial Instruments: Presentation: Classification of Rights Issues	8 Oct 09	1 Feb 10	23 Dec 09
Amendments to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	28 Jan 10	1 Jul 10	30 Jun 10
IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments	26 Nov 09	1 Jul 10	23 Jul 10
IAS 24(rev.2009) – Related Party Disclosures	4 Nov 09	1 Jan 11	19 Jul 10
Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement	26 Nov 09	1 Jan 11	19 Jul 10
Improvements to IFRSs (issued by the IASB in May 2010) (AIP 2010)	6 May 10	primarily 1 Jan 11	18 Feb 11

The first-time adoption of standards and interpretations had no material effect in the reporting period.

The following IFRSs issued prior to the reporting date were adopted as EU law. They will only become compulsory for later reporting periods, unless use has been made of an option to apply these standards at an earlier date:

Change/Standard	Publication Date	Date of adoption as EU law	Application date (EU)
Amendments to IFRS 7 Financial Instruments: Disclosures	Oct 10	1 Jul 11	22 Nov 11

The following standards, interpretations and amendments to existing standards were also issued by the IASB. Their use is not yet compulsory for the consolidated financial statements to 31 December 2011. They will only become valid should they be adopted by the EU as part of the IFRS endorsement process:

Change/Standard	Publication Date	Date of adoption as EU law	Application date (EU)
Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1)	Dec 10	1 Jul 11	Q2/2012
Deferred tax: Recovery of Underlying Assets (Amendments to IAS 12)	Dec 10	1 Jan 12	Q2/2012
Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)	Jun 11	1 Jul 12	Q1/2012
IFRS 9 Financial Instruments	Nov 09	1 Jan 15	Open
Mandatory Effective Date of IFRS 9 and Transition Disclosures	Dez 11	1 Jan 15	Open
IFRS 10 Consolidated Financial Statements	May 11	1 Jan 13	Q3/2012
IFRS 11 Joint Arrangements	May 11	1 Jan 13	Q3/2012
IFRS 12 Disclosures of Interests in Other Entities	May 11	1 Jan 13	Q3/2012
IFRS 13 Fair Value Measurement	May 11	1 Jan 13	Q3/2012
IAS 27 Separate Financial Statements	May 11	1 Jan 13	Q3/2012
IAS 28 Investments in Associates and Joint Ventures	May 11	1 Jan 13	Q3/2012
Amendments to IAS 19 Employee Benefits	Jun 11	1 Jan 13	Q1/2012
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	Oct 11	1 Jan 13	Q2/2012
Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	Dec 11	1 Jan 13	Q3/2012
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	Dec 11	1 Jan 14	Q3/2012

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

The Company constantly assesses the impact of updates to the IFRSs on its financial statements. At present, they will have no material effect on the consolidated financial statements apart from additional or modified disclosure requirements.

The Consolidated Financial Statements are prepared in euros. The amounts are presented in rounded k€ if not otherwise stated.

The Consolidated Financial Statements as of 31 December 2011 have been prepared on a going-concern basis and were released for submission to the Supervisory Board on 13 July 2012. The Consolidated Financial Statements will probably be approved at the balance sheet meeting of the Supervisory Board on 16 July 2012, until the time of approval it is possible for the Supervisory Board to amend the Consolidated Financial Statements.

| 2 | Details of Error Correction as per IAS 8

In 2007, the Company purchased a land-use right via a subsidiary for the sum of RMB 22.0 million. However, due to a change in legislation which was not taken into account, the land-use right was not transferred prior to the reporting date. The erroneous entry of the land-use right in the balance sheet was retrospectively corrected during this financial year in line with IAS 8. Because the Company capitalised the cost of constructing a new administration block on this land between 2007 and 2010, these were retrospectively carried as other operating expenses as per IAS 8. The RMB 22.0 million paid for the land-use right is recorded as an advance payment by ZhongDe because it is entitled to a refund. The corrections made to the amount of each balance sheet item affected are shown in the error correction column. The figures shown for previous years in both the statement of income and expenses and the statement of comprehensive income have also been restated. As stipulated in IAS 1.39, a third balance sheet (corrected opening balance sheet for the previous period) was shown; the overall effect of the corrections was also included in the statement of changes in equity. In total, the corrections had an effect of € -5.268 million as of 1 January 2010. They affected basic and diluted earnings per share by € -0.01 and € -0.08 in 2010. The corrections did not have an impact on taxes.

Shown below is an overview of the balance sheet items affected between 1 January 2010 and 31 December 2010:

in k€	31.12.2011	31.12.2010 prior to restate- ment	31.12.2010 IAS 8 restate- ment	31.12.2010 after restate- ment	1.1.2010 prior to restate- ment	1.1.2010 IAS 8 restate- ment	1.1.2010 after restate- ment
Land	-	2,336	-2,336	0	2,140	-2,140	0
Construction in progress	-	6,577	-6,107	470	5,400	-5,365	35
Other receive- ables and advan- ce payments	20,600	10,933	2,493	13,426	3,239	2,237	5,476
Consolidated ba- lance sheet profit	21,817	32,223	-5,237	26,986	35,571	-5,161	30,410
Foreign exchange difference	24,573	16,174	-713	15,461	1,884	-107	1,777

Statement of income and expenses for the period from 1 January 2010 to 31 December 2010

in k€	2010 prior to re- statement	2010 IAS 8 re- statement	2010 after re- statement
Revenue	33,396	0	33,396
Cost of sales	-26,008	0	-26,008
Gross profit	7,388	0	7,388
Gross profit from other periods	1,163	0	1,163
Restated gross profit	8,551	0	8,551
Other operating income	249	0	249
Selling and distribution expenses	-2,392	0	-2,392
Administrative expenses	-3,658	0	-3,658
Research and development expenses	-209	0	-209
Other operating expenses	-1,617	-75	-1,692
Profit from operations	924	-75	849
Finance income	1,813	0	1,813
Finance costs	-959	0	-959
Profit before income tax	1,778	-75	1,703
Income tax	-2,658	0	-2,658
Profit (+)/loss (-) for the period	-880	-75	-955
Earnings per share (diluted and basic; in €)	-0,07	-0,01	-0,08
Weighted average number of shares outstanding (diluted and basic)	12,664,031		12,664,031

Statement of comprehensive income for the period from 1 January 2010 to 31 December 2010

in k€	2010 prior to re- statement	2010 IAS 8 re- statement	2010 after re- statement
Profit (+)/loss (-) for the period	-880	-75	-955
Other comprehensive income			
Foreign exchange differences recognised directly in equity	14,290	-606	13,684
Total changes recognised directly in equity	14,290	-606	13,684
Total comprehensive income	13,409	-681	12,728

| 3 | Significant Accounting Policies

| 3.1 | 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, if any, 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 and valuation policies are applied for like transactions and events in similar circumstances. The inter-group business relations correspond to the third party comparison, if not stated otherwise.

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

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 as other operating income on the date of acquisition following a critical review.

| 3.2 | 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 was k€ 441 (previous year: k€ 132).

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 2011 was k€ 1,258 (previous year: k€ 1,584). 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 was k€ 106 (previous year: k€ 15) on the balance sheet date.

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 and EPC projects which may become due at any time (and are therefore current).

The cumulative carrying amount of these provisions was k€ 1,841 (previous year: k€ 339) at the balance sheet date.

e) Partial revenue recognition on construction contracts

Certain Group entities, particularly in the segments EPC and BOT, conduct a major proportion of their business under long-term 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 long-term 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.

| 3.3 | Functional and presentation currency

a) Functional currency

The directors have determined the functional currency for all of the Group's companies to be the 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 Euro. The results and financial position of the combined entities are translated from RMB (or HKD) into Euro as follows:

Development of exchange rates (1 € / foreign currency rate)	ISO-Code	Average rate		Ending rate	
		2011	2010	2011	2010
		Chines Yuan	CNY	8,9960	8,9712
Hong-kong-Dollar	HKD	10,8362	10,2994	10,0510	10,3856

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 income and in the currency translation reserve, a separate component of equity.

| 3.4 | Intangible assets

a) Financial software

Acquired financial software and licences, which solely comprise assets with a limited useful life, are capitalised on the basis of cost incurred to acquire and bring it to the intended condition of use, as well as other other costs relating to this. Direct expenditure, which can enhance or extend the performance of the software or licences and which can be measured reliably, is recognised as a capital improvement and added to the original cost of the software or licences. Costs associated with maintaining the software are recognised as expense as incurred.

The financial software and licences are 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 three to ten years. Amortisation has been charged to cost of sales and administrative / other expenses.

b) Research and development costs

The costs associated with research and development fell compared with the previous year by k€ 26 to k€ 183.

Research costs, if any, are expensed in the period in which they incur. Development costs are only capitalised if all the cumulative recognition criteria listed in IAS 38 are fulfilled, if the research phase can be clearly distinguished from the development phase and if the costs arising can be directly allocated to the individual project phases. No development costs were capitalised as per IAS 38 because the relevant criteria were not met. In particular, it is impossible to distinguish clearly between research and development activities due to countless interdependencies (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 the terms of the contracts is 30 years. Amortization begins when the infrastructure is put into service, which is expected to be in 2012 for the next BOT projects. During the production phase a capitalized intangible asset is checked annually for impairment.

The carrying amount of the service concession rights was € 15.6 million as of 31 December 2011 (31 December 2010: € 7.6 million).

| 3.5 | Buildings, plant and machinery, operating and office equipment

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.

| 3.6 | Receivables from BOT

Non-current financial assets refer to recognised revenue with regard to Construction contracts as per IFRIC 12 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.

| 3.7 | Impairment of non-financial assets

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

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

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

| 3.8 | Short-term deposits

Fixed-term deposits with a maturity of more than three months are presented as short-term deposits.

| 3.9 | Cash and cash equivalents

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

| 3.10 | Trade and other receivables

Trade and other receivables which are not the result of construction contracts are recognised at the original amount and then, because of their short duration, are carried, less an allowance for any uncollectible amounts. Bad debts are written off when identified.

| 3.11 | Inventories

Inventories are valued at the lower of acquisition and production costs or the 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.

| 3.12 | Financial liabilities and Equity

Financial liabilities are classified according to the substance of the contractual arrangement entered into. Significant financial liabilities include bank loans, 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.

| 3.13 | Provisions

Provisions are recognised when the Group has a present obligation (legal or factual) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only 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. All provisions which are classified as current are due to reach maturity within a year. No long-term provisions were entered in the balance sheet on the reporting date.

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.

| 3.14 | 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.

| 3.15 | 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) Long-term 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 3.16 c). The revenue relating to infrastructure operations is recognised in accordance with IAS 18 (see 3.16 a and b).

| 3.16 | Pension scheme

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

| 3.17 | 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.

| 3.18 | 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.

| 3.19 | 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.

| 3.20 | 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 as per IAS 12 on temporary differences between the carrying amounts of assets and liabilities in the financial statements according to IFRS 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.

| 3.21 | Earnings per Share

Earnings per share for 2011 amounted to € -0.85 (2010: € -0.08). 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.

| 4 | 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 consolidated 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 | 7 | Segment Reporting.

| 5 | 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 € 32.4 million (2010: € 33.4 million). A breakdown of revenue and changes by segment can be found in the segment reporting.

| 6 | Long-Term Construction Contracts (Percentage-of-Completion)

Long-term construction contracts are accounted for using the percentage of completion method (PoC 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 € 32.4 million (2010: € 33.4 million) include order income of € 30.0 million (2010: € 31.8 million) from ongoing production orders identified with the PoC-method. The accumulated costs of sales are € 58.2 million (2010: € 31.6 million). Total gross profit is € 11.6 million (2010: € 8.3 million).

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

in k€	31.12.2011	31.12.2010
Receivables from PoC	21,333	10,832
Advanced payments	-29,311	6,097
	-7,978	4,736
thereof gross amount due from customers for contract work as an		
- asset	0	4,736
- liability	-7,978	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 €. The difference is charged to equity (foreign exchange difference) and does not directly affect the income statement.

| 7 | Segment Reporting

| 7.1 | Segment information

Operating segments are identified on the basis of the internal reporting which is regularly reviewed by the chief operating decision maker. The operating business is reported separately according to the nature of the products, with each representing a strategic business unit 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.

a) Business segment

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

- **Segment "incinerators":**

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 recorded in offsetting and reconciliation.

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 2011

| 7.2 | Segments

in k€	Incinerators		EPC		BOT		Total repor- table segments		Consolidation		Group	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Revenues	2,298	1,620	8,858	10,652	21,249	21,123	32,405	33,395	0	-	32,405	33,396
Intercompany revenues	-	1,948	0	0	0	0	0	1,948	0	-1,948	0	0
Total revenue for reportable segments	2,298	3,568	8,858	10,652	21,249	21,123	32,405	35,344	0	-1,948	32,405	33,396
Total gross profit from reportable segments	963	1,135	1,559	2,243	1,592	4,000	4,114	7,378	0	9	4,114	7,387
Order intake	3,165	-	1,911	25,438	-	-	5,076	25,438	0	0	5,076	25,438
Order Back-log	2,693	1,604	91,169	88,736	49,469	67,418	143,331	157,758	0	0	143,331	157,758

in k€	2011	2010
Total profit or loss for reportable segments	4,114	7,378
Consolidation	-	9
Total profit or loss for the Group	4,114	7,387
Unallocated Income and Expenses of the Group	-11,852	-6,538
EBIT	-7,737	849
Finance income	1,926	1,813
Finance expense	-2,228	-959
Profit before tax	-8,039	1,702
Income tax	-2,669	2,658
Profit (+)/Loss (-) for the year	-10,708	-955

The unallocated expenses of the Group primarily consist of selling and distribution expenses, administrative expenses and other operating expenses.

| 7.3 | Information about major customers

All of ZhongDe's revenues were earned by Group companies based in Mainland China. In the EPC Project Segment, net revenues in the amount of € 7.0 million (2010: € 7.9 million) were achieved with one customer. In the BOT projects segment revenues of € 20.9 million (2010: € 17.9 million) were achieved with three customers.

in € million	Incinerators		EPC		BOT	
	2011	2010	2011	2010	2011	2010
Revenues	0	0	7.0	7.9	20.9	17.9
Customers	0	0	1	1	3	3

| 8 | Gross Return on Sales from other Periods

The amounts shown in the year 2010 result 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 2009 financial year. In the course of negotiations with subcontractors, in 2010 ZhongDe was able to agree on payments for services that were k€ 903 below the cost estimates. Revenue of k€ 260 was also recognised from other periods.

| 9 | Expenses

in k€	2011	2010
Depreciation of property plant and equipment	445	434
Staff costs	3,413	2,430
Amortization of intangible assets	22	42
Allowance for doubtful trade debts	270	64

| 10 | Finance Income

in k€	2011	2010
Interest income	1,589	1,288
Exchange gains	315	525
	1,904	1,813

Interest income of € 0.6 million (2010: € 0.9 million) is accounted for by interest on short-term cash investments with a duration over three months, as well as by cash at banks and receivables from BOT projects to the amount of € 1.0 million (2010: € 0.4 million).

| 11 | Finance Costs

in k€	2011	2010
Bank charges	7	4
Exchange loss*	480	837
Interest expense	1,719	118
	2,206	959

* of which exchange loss from deferred taxes to the amount of k€ 145.

In 2011 borrowing costs of € 2.3 million (2010: k€ 43) were incurred. € 0.6 million of this was capitalised and € 1.7 million was recognised within finance costs. 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).

| 12 | Intangible Assets

in k€	Software	Trademark, Patent	Service concession rights	Total
Cost:				
At 31 December 2010	214	44	7,572	7,830
Additions	1	0	6,711	6,712
Exchange difference	17	4	1,304	1,325
At 31 December 2011	232	48	15,587	15,867
Accumulated amortization and impairment:				
At 31 December 2010	39	17	0	56
Amortization	22	0	0	22
Exchange difference	5	1	0	6
At 31 December 2011	66	18	0	84
Net carrying amount:				
At 31 December 2010	175	27	7,572	7,774
At 31 December 2011	166	30	15,587	15,783
Exchange difference	12	3	1,304	1,319

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

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.

| 13 | Land

The Group no longer carries an item for land, due to the error corrections undertaken in accordance with IAS 8 (please refer to | 2 | Details of Error Corrections as per IAS 8).

| 14 | Equipment

in k€	Machine equipment	Vehicle	Electronic equipment	Total
Cost:				
At 31 December 2010	730	1,542	508	2,780
Additions	0	0	56	56
Disposals	-4	-55	-5	-64
Exchange difference	59	120	47	226
At 31 December 2011	785	1,607	606	2,998
Accumulated depreciation and impairment:				
At 31 December 2010	366	613	217	1,196
Depreciation charged for the year	68	287	90	445
Disposals	-3	-35	-3	41
Exchange difference	37	76	26	139
At 31 December 2011	468	941	330	1,739
Net carrying amount:				
At 31 December 2010	364	929	291	1,584
At 31 December 2011	317	666	276	1,259
Exchange difference	22	44	21	87

in k€	Machine equipment	Vehicle	Electronic equipment	Total
Cost:				
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
At 31 December 2010	730	1,542	508	2,780
Accumulated depreciation and impairment:				
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
At 31 December 2010	366	613	217	1,196
Net carrying amount:				
At 31 December 2009	356	769	262	1,387
At 31 December 2010	364	929	291	1,584
Exchange difference	42	91	31	164

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

There are further details in Note 28 and 29.

| 15 | Construction in Progress

in k€	Construction in progress
Acquisition and production costs:	
31 December 2010 before restatement	6,613
Restatement according to IAS 8	-6,107
At 31 December 2010 after restatement	506
Additions	0
Disposals	-461
Exchange difference	-6
At 31 December 2011	39
Accumulated depreciation and impairment:	
31 December 2010 before restatement	36
Restatement according to IAS 8	0
At 31 December 2010 after restatement	36
Depreciation charged for the year	0
Disposals	0
Exchange difference	3
At 31 December 2011	39
Net carrying amount	
31 December 2010 before restatement	6,577
Restatement according to IAS 8	-6,107
At 31 December 2010 after restatement	470
At 31 December 2011	0
Exchange difference	-9

in k€	Construction in progress
Acquisition and production costs:	
31 December 2009 before restatement	5,400
Restatement according to IAS 8	-5,365
At 31 December 2009 after restatement	35
Additions	462
Disposals	-3
Exchange difference	12
At 31 December 2010	506
Accumulated depreciation and impairment:	
31 December 2009 before restatement	0
Restatement according to IAS 8	0
At 31 December 2009 after restatement	0
Depreciation charged for the year	35
Disposals	0
Exchange difference	1
At 31 December 2010	36
Net carrying amount:	
31 December 2009 before restatement	5,400
Restatement according to IAS 8	-5,365
At 31 December 2009 after restatement	35
At 31 December 2010	470
Exchange difference	11

| 16 | Receivables from BOT Projects

in k€	Receivables from BOT Projects
Cost:	
At 31 December 2010	21,927
Additions	16,031
Disposals	-1,092
Exchange difference	3,315
At 31 December 2009	40,181
Accumulated depreciation and impairment:	
At 31 December 2010	0
Depreciation charged for the year	0
Disposals	0
Exchange difference	0
At 31 December 2011	0
Net carrying amount:	
At 31 December 2010	21,927
At 31 December 2011	40,181
Exchange difference	3,315

in k€	Forderungen aus BOT-Projekten
Cost:	
At 31 December 2009	5,248
Additions	17,264
Disposals	-1,449
Exchange difference	864
At 31 December 2010	21,927
Accumulated depreciation and impairment:	
At 31 December 2009	0
Depreciation charged for the year	0
Disposals	0
Exchange difference	0
At 31 December 2010	0
Net carrying amount:	
At 31 December 2009	5,248
At 31 December 2010	21,927
Exchange difference	864

| 17 | Inventories

in k€	31.12.2011	31.12.2010
Raw materials and consumables	413	435
Finished goods	1,060	857
Raw materials for BOT-projects	1	0
Work in process	336	150
	1,810	1,442

| 18 | Trade and Other Receivables

in k€	31.12.2011	31.12.2010
Trade receivables:		
Trade receivables	1,826	4,140
Allowance for trade receivables	-441	-132
	1,385	4,008
PoC Receivables	0	4,736
	1,385	8,744
Other receivables:		
Other receivables	4,655	1,059
Advance to customers	14,916	11,618
Interest receivable	0	49
Income Tax receivable	0	53
VAT receivable	1,029	647
	20,600	13,426
Allowance for other receivables	0	0
	20,600	13,426
Amount due from related parties and companies:		
Amount due from related parties and companies	305	19
	305	19
	22,290	22,190

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€	31.12.2011	31.12.2010
Neither impaired nor due past as of balance sheet date	0	4,736
Overdue:		
Within 30 days	0	3,166
31–90 days	0	0
91–180 days	0	946
181–360 days	1,421	0
361–1080 days	405	0
More than 1080 days	0	29
	1,826	8,876

Allowance for doubtful receivables

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

in k€	2011	2010
Provision for trade receivables	270	64
	270	64

| 19 | Short Term Deposits

in k€	31.12.2011	31.12.2010
Short term deposits (duration over 3 months) (Renminbi)	0	22,671

Since 2011 short term deposits with a duration over 3 months are shown in a separate balance sheet item. In prior periods these deposits had been shown as cash and cash equivalents. We have adjusted the prior year's disclosure accordingly. In 2011 these short term deposits with a duration over 3 months have not been extended and were repaid into regular cash accounts.

These short-term deposits were made for periods of six months depending on the immediate cash requirements of the Group and earned interest of up to 2.2% annually for k€ 22,671 (RMB 200 million).

| 20 | Cash and Cash Equivalents

in k€	31.12.2011	31.12.2010*
Cash at banks and in hand (relates to the cash fund)	117,308	83,805
	117,308	83,805
Thereof in Germany	470	516
Thereof in China	116,838	83,289

* Please note the reallocation of short term deposits over 3 months into an extra balance sheet item.

The cash at banks earns interest at an annual rate of up to 0.36%.

| 21 | Equity

| 21.1 | 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 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 in return for option or conversion rights for the acquisition of up to 6,500,000 shares in total. The issuing right has not been exercised to date.

Up to 31 December 2011 treasury stock of the parent company amounted to a value of k€ 4,608 (2010: k€ 4,104) and are divided into 400,000 shares (2010: 347,560 shares). The number of circulating shares amounts to 12,600,000 (31 December 2011) and 12,652,440 (31 December 2010); or an average of 12,608,760 (2011) and 12,664,031 (2010).

| 21.2 | Reserves and retained earnings

a) Capital reserves

The amount reflected in the balance sheet relates to the proceeds from the IPO in 2007.

In the 2011 financial year, a sum of € 7,607,886.39 was withdrawn to compensate for an annual deficit in the parent company's financial statements in accordance with sec. 150 para. 4 (2) of the German Stock Corporation Act (AktG).

b) Statutory reserves

This 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 annual net profit 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 2011 a dividend of € 0.15 per share (k€ 1,890) was paid to the shareholders from the retained earnings of ZhongDe Waste Technology AG in accordance with the resolution of the shareholders' meeting on 31 August 2011.

| 21.3 | Currency Conversion Differential

The equity item for currency conversion serves to recognise 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 other income. Differences resulting from exchange rate translation are accounted in the statement of income and expenses if foreign business operations are sold. Changes in the currency conversion differential are included in other income.

| 22 | 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.

| 23 | Trade and Other Payables

in k€	31.12.2011	31.12.2010
Current liabilities		
Trade payables	18,459	15,729
Other payables and accruals:		
PoC liabilities	7,978	0
Advance from customers	1,245	601
Provisions	1,427	779
VAT payable	152	409
Other tax payables	1,019	0
Other payables	2,212	1,596
	14,032	3,385
Amounts due to related parties and companies:		
Amounts due to shareholders	0	0
	0	0
Amounts due to other related parties	6	2
	6	2
Income tax payable	334	7
	32,831	19,123

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.

| 24 | Provisions

in k€	Maintenance/ warranties	Staff bonus and welfare	Other	Total
At 31 December 2009	306	609	152	1,067
Additions	15	57	167	239
Utilised	-93	0	0	-93
Released	-243	0	0	-243
Exchange differences	30	71	20	121
At 31 December 2010	15	737	339	1,091
Additions	81	0	1,335	1,416
Utilised	0	0	0	0
Released	0	0	0	0
Exchange differences	10	58	167	234
At 31 December 2011	106	795	1,841	2,741

| 24.1 | 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.

| 24.2 | 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.

| 24.3 | Other

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

| 25 | Long-term loans

In 2010 and 2011 the Company entered into several loan agreements for the purpose of financing ongoing BOT projects. The principal conditions are as follows:

	Bank Name	Starting Date	Duration	Contract Amount	Amount Paid	Effective Interest Rate
Kunming BOT Loan 1	Huarong Financial Leasing Ltd.	22.10.2010	60 months	RMB 120,000,000	RMB 74,720,000	12.44%
Kunming BOT Loan 2	China Merchants Bank	29.4.2011	120 months	RMB 180,000,000	RMB 60,000,000	8.98%
Xianning BOT Loan 1	Huarong Financial Leasing Ltd.	22.10.2010	60 months	RMB 90,000,000	RMB 45,000,000	12.44%
Xianning BOT Loan 2	China Merchants Bank	6.12.2011	120 months	RMB 118,000,000	RMB 32,000,000	9.05%
Zhoukou BOT Loan	Bank of China	18.4.2011	120 months	RMB 100,000,000	RMB 100,000,000	8.06%
Total				RMB 608,000,000	RMB 311,720,000	10.19%

In the balance sheet, shares of long-term loans that are due in the short term are shown separately.

| 26 | Income Tax

The major components of income tax expense are as follows:

in k€	2011	2010
Current income tax	-1,276	-984
Deferred income tax induced by		
- tax rate changes	-181	0
- temporary differences	-6	-2,135
- tax loss carry forwards	-1,206	461
	-1,393	-1,674
Income taxes according to profit and loss statement	-2,669	-2,658

The reconciliation of tax expenses is as follows:

in k€	2011	2010
Profit before income tax	-8,039	1,777
Tax rate	25%	25%
Expected tax income expense	-2,010	444
Tax rate differential	105	-431
Non deductible expenses	3,020	2,997
Tax-exempted income	-765	-72
Recognition and measurement of deferred tax assets and liabilities	-1,295	-196
Withholding tax (not deductible/not eligible)	907	0
Tax payments for prior years	54	6
Other terms	63	-90
	2,669	2,658
Group tax rate	-33.2%	149.6%

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 € 7.0 million (2010: € 0.9 million). Of this amount, € 0 million (2010: € 0 million) can be carried forward without restriction; the remaining amount can primarily be carried forward for a limited period of five years in total.

No deferred tax liabilities were carried in the balance sheet in conjunction with taxable temporary differences amounting to € 2.0 million (previous year: € 2.1 million) relating to shares in Group companies, as there will be no reversal in these differences in the foreseeable future.

Deferred income tax relates to the following items:

in k€	31.12.2011		31.12.2010	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Construction in progress	10,041	0	4,814	0
Intangible asset	0	0	51	0
Service concession rights	0	3,312	0	1,609
Receivables from BOT	0	10,045	0	5,482
Trade receivables	110	0	16	1,184
Provisions	26	0	2	0
Inventories	540	0	2,134	0
Other receivables and prepayments	470	0	0	0
Other payables and accruals	0	1,045	0	1,524
Losses carried forward	43	0	1,316	0
Total	11,230	14,402	8,333	9,799
Netting	-11,073	-11,073	-7,573	-7,573
	157	3,329	760	2,226

| 27 | Employee Benefits

	2011	2010
Average number of employees of the Group		
Management and administration	253	197
Research and development	14	29
Manufacture	65	83
Sales and distribution	56	79
	388	388

in k€	2011	2010
The average payroll costs of these employees		
Wages and salaries	2,736	1,933
Social security costs	588	340
Welfare	85	101
Appropriation of welfare and bonus fund	4	56
	3,413	2,430

| 27.1 | 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 k€ 237 were recognized in 2011 and of k€ 110 in 2010.

| 28 | Commitments and Contingencies

| 28.1 | 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€	2011	2010
Lease payment recognized as expense	481	368

Future minimum lease payments payable under non-cancellable operation leases as at 31 December 2011 are as follows:

in k€	31.12.2011	31.12.2010
Not later than one year	720	355
Later than one year but not later than five years	966	858
Later than five years	722	953
	2,408	2,166

| 28.2 | Contingent liabilities

Fuijian 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, Fuijian 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 and 2011, exemptions were granted in the amount of the paid dividend of € 8.5 million, so that as of 31 December 2011 contingent liabilities only amounted to € 0.15 million.

| 29 | Related Party and Company Disclosures

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

- it possesses the ability, directly or indirectly, to control or exercise significant influence over the operating and financial decision of the Group or vice versa; or
- it is subject to common control or common significant influence,
- or the company is controlled by an individual who belongs to the Company's key management personnel or is jointly managed by a company in which this person holds a stake.

| 29.1 | 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
Fujian FengQuan Machine Manufacturing 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
ZhongHua 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 the above-listed related parties during the financial year:

in k€	2011	2010
Related parties		
Rental, water and electricity fee with a related party	113	114
Purchase goods from a related party	182	0

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€	31.12.2011	31.12.2010
Due from related parties		
Other receivables	305	19
	305	19
Allowance for doubtful trade debts	0	0
	305	19
Due to related parties		
Trade	6	0
Other payables	0	2
	6	2

Other amounts due from related parties largely relate to accumulated prepayment made by the subsidiaries Fujian Fengquan and ZhongDe (China) to the CEO, Zefeng Chen amount k€ 299.

c) Key management remuneration

in k€	2011	2010
Key management of the Group	155	75
in k€	2011	2010
Supervisory Board	150	120

The remuneration paid to executives and key management personnel consists solely of fixed compensation. No variable remuneration was paid in 2010 or 2011. For more information on remuneration, please refer to p. 42 of the management report.

| 30 | Disclosure of Financial Instruments

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

Disclosures IFRS 7

Carrying amounts, amounts recognised, and fair values by category: in k€	Category in accordance with IAS 39	Carrying Amount 31.12.2011	Amounts recognised in balance sheet according to IAS 39 at amortized cost	Carrying Amount 31.12.2011	Amounts recognised in balance sheet according to IAS 39 at amortized cost
Trade receivables	LaR	1,385	1,385	8,744	8,744
Receivables from BOT	LaR	40,181	40,181	21,927	21,927
Other receivables and prepayments	LaR	20,600	20,600	13,427	13,427
Amounts due from related parties	LaR	305	305	19	19
Short term financial deposits (duration over 3 months)	LaR	0	0	22,671	22,671
Cash and cash equivalents	LaR	117,308	117,308	83,805	83,805
Long-term loans	FLAC	30,054	30,054	10,524	10,524
Trade payables	FLAC	18,459	18,459	15,729	15,729
Other payables	FLAC	12,862	12,862	2,976	2,976
Amounts due to related parties	FLAC	6	6	2	2
Share of long-term loans due in the short term	FLAC	4,163	4,163	0	0
Of which: aggregated by category in accordance with IAS 39					
Cash and receivables (loans and receivables, LaR)		179,780	179,780	150,593	150,593
Financial liabilities measured at amortised cost (FLAC)		65,545	65,545	29,230	29,230

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)	
		2011	2010
Cash and receivables			
-calculated using the effective interest method	952	952	405
-other than amounts included in determining the effective interest rate	637	637	883
-amount of any impairment loss	0	270	-64
	1,589	1,319	1,224
Financial liabilities measured at amortized cost			
-calculated using the effective interest method	-1,719	-1,719	-118
	-1,719	-1,719	-118

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€	2011	2010
At 31 December 2010 (31 December 2009)	132	60
Additions	270	64
Releases	0	0
Exchange difference	38	8
At 31 December 2011 (31 December 2010)	441	132

| 31 | 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 2011 is k€ 179,780 (previous year: k€ 150,593).

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 borrowings are exposed to interest rate changes. The basis for the determination of each loan's nominal interest rate is the nominal market interest rate for Chinese government bonds with a duration of 10 years plus risk premium. The risk premium of the loan contracts differ. The nominal interest rate is determined on a quarterly basis.

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 k€ 373 (previous year: around k€ 200) 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, and all of the Group's interest bearing financial assets and liabilities. For this reason, foreign currency changes that effect the financial results and cash flows 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€	31.12.2011				31.12.2010*			
	2012	2013	2014 bis 2016	ab 2017	2011	2012	2013 bis 2015	ab 2016
Bank loans	7,191	7,179	15,270	18,865	1,054	3,603	7,309	25
Total	7,191	7,179	15,270	18,865	1,054	3,603	7,309	25

* The figures for the previous year have been adjusted by the sums presented in the columns.

| 32 | 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 2011, the shareholders' equity rate of the ZhongDe Group was 67% (previous year: 80%). 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 -8.5% in the 2010 and 2011 financial years, respectively.

| 33 | Members of the Executive and Supervisory Boards

Executive Board

Mr Chen Zefeng	CEO, Fuzhou, PRC, merchant
Mr Wang Jihua	CFO, Beijing, PRC, merchant

Supervisory Board

Mr Hans-Joachim Zwarg (Chairman)	freelance consultant, Sierksdorf, Germany
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member of the Supervisory Boards of:

- Hanse Yachts AG, Greifswald, Germany (until 4 November 2011)
- Asian Bamboo AG, Hamburg, Germany (Chairman of the Supervisory Board)

Prof. Dr. Bernd Neukirchen (process engineer)	freelance consultant, Deputy Chairman, Essen, Germany,
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Mr Feng-Chang Chang,	freelance business consultant/CPA, Taiwan
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Non-executive director of:

- Yamada Green Resources Ltd., Singapore
-

| 34 | Remuneration of the Executive and Supervisory Boards

Executive Board

For the fiscal year 2011, the members of the Management Board received the following fixed remuneration in excess of which they are not entitled to receive any further performance-based remuneration:

in k€	2011	2010*
Zefeng Chen	26	28
Jiuhua Wang)	21	20
	47	48

* Due to an editorial error in the previous year, the remuneration figure (Zefeng Chen) for 2010 has been increased by k€ 14.

Supervisory Board (only Fixed Remunerations)

in k€	2011*	2010*
Hans-Joachim Zwarg	60	60
Prof. Dr. Bernd Neukirchen	45	45
Dr. Quan Hao (until 30 November 2010)	0	14
Feng-Chang Chang (since 1 December 2010)	45	1
	150	120

* Supervisory Board remuneration is shown as a net figure.

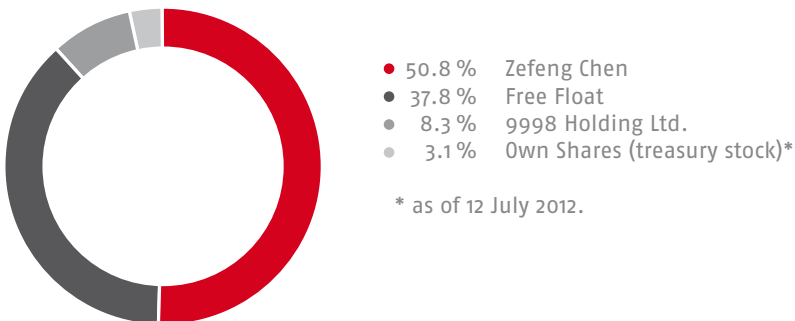
There was a change on the Supervisory Board in 2010. Mr Feng-Chang Chang replaced Dr. Quan Hao.

| 35 | 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 2011 and 19 April 2012 respectively. 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.

| 36 | Shareholdings in ZhongDe Waste Technology AG



| 37 | Audit

BDO AG Wirtschaftsprüfungsgesellschaft (“BDO”) has been elected as the auditors of ZhongDe Waste Technology AG and the Group for fiscal year 2011. 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€	2011	2010
Audit services	633*	296
Other assurance services	162	135
Other services	60	0

* Thereof expense for the previous period amounting to 149 thousand EUR.

| 38 | Proposal on the Utilisation of ZhongDe Waste Technology AG's Net Profit

As the parent company posted a balance sheet profit of € 0.00, no dividend will be paid for the 2011 financial year.

| 39 | 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. Of the cash funds, € 5.0 million is ring-fenced.

| 40 | Events after the Balance Sheet Date

We are not aware of any events after the balance sheet date.

Frankfurt am Main, 13 July 2012



Zefeng Chen
Chairman of the Executive Board
(CEO)



William Jiuhua 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 2011 to 31 December 2011. 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, 13 July 2012

BDO AG
Wirtschaftsprüfungsgesellschaft

Brandt
Wirtschaftsprüfer (Auditor)

ppa. Green
Wirtschaftsprüfer (Auditor)

Responsibility statement

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

Frankfurt am Main, 13 July 2012



Zefeng Chen
Chairman of the Executive Board (CEO)



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

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 = 1000 KW.

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 or www.zhongde-ag.com.

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Financial Calendar

31 July 2012

Interim report on the first quarter of 2012

30 August 2012

Annual General Meeting

30 August 2012

Interim report on the first half of 2012

12.-14. November 2012

German Equity Forum of Deutsche Börse, Frankfurt/Main

30 November 2012

Interim report on the third quarter of 2012

All dates are provisional and may be subject to change



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