

modern waste management

## KEY FINANCIAL HIGHLIGHTS

| in EUR                              | 2012    | 2011    | Change in % |
|-------------------------------------|---------|---------|-------------|
| <b>Operational data</b>             |         |         |             |
| Order intake <sup>1)</sup>          | 140,555 | 6,532   | >100        |
| Order backlog <sup>2)</sup>         | 257,365 | 144,201 | 78          |
| Revenues                            | 24,758  | 32,405  | -24         |
| Gross profit                        | 1,583   | 4,114   | -62         |
| Gross profit margin                 | 6%      | 13%     | -7 pp       |
| Cost of sales                       | 23,175  | 28,291  | -18         |
| EBITDA                              | -4,637  | -7,271  | -36         |
| EBITDA margin                       | -19%    | -22%    | -3 pp       |
| EBIT                                | -12,568 | -7,738  | -62         |
| EBIT margin                         | -51%    | -24%    | -27 pp      |
| Net income                          | -12,230 | -10,708 | -14         |
| Net income margin                   | -49%    | -33%    | -16 pp      |
| Earnings per share                  | -0.97   | -0.85   | -14         |
| <b>Cash flow data</b>               |         |         |             |
| Cash flow from operating activities | -39,709 | -17,172 | <-100       |
| Cash flow from investing activities | -1,017  | 21,554  | <-100       |
| Cash flow from financing activities | 24,292  | 19,139  | 27          |
| <b>Balance sheet data</b>           |         |         |             |
| Total assets                        | 200,741 | 198,787 | 1           |
| Property, plant, equipment          | 805     | 1,258   | -36         |
| Net working capital <sup>3)</sup>   | 94,530  | 101,673 | -7          |
| Cash and cash equivalents           | 100,309 | 117,308 | 14          |
| Long-term liabilities               | 49,713  | 33,383  | 49          |
| Shareholders' equity                | 112,759 | 125,668 | -10         |
| Headcount (as at 31 December 2012)  | 391     | 388     | 1           |

<sup>1)</sup> Average exchange rate 2012 used for translation

<sup>2)</sup> Exchange rate as of 31 Dec 2012 used for translation

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

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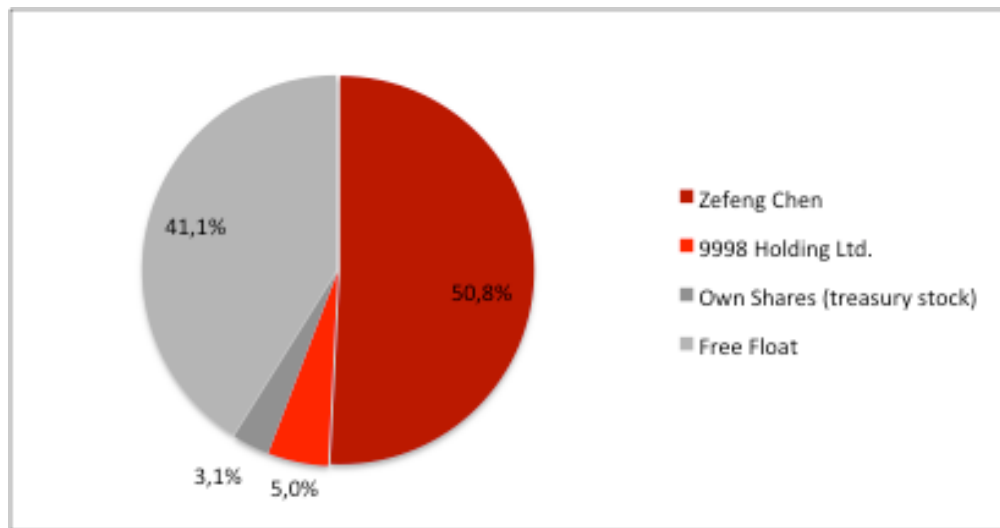
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## ZHONGDE AT A GLANCE

### Shareholder Structure

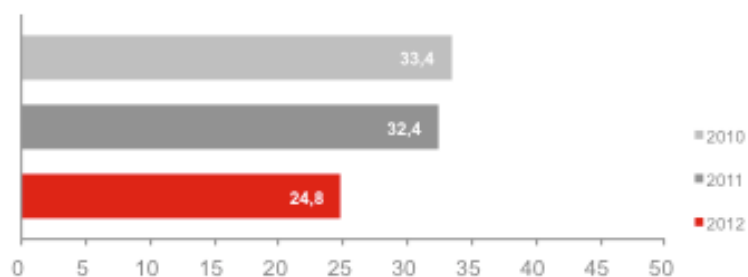


| Shareholders                |  | in % |
|-----------------------------|--|------|
| Zefeng Chen                 |  | 50.8 |
| Free float                  |  | 41.1 |
| 9998 Holding Ltd.           |  | 5.0  |
| Own shares (treasury stock) |  | 3.1  |

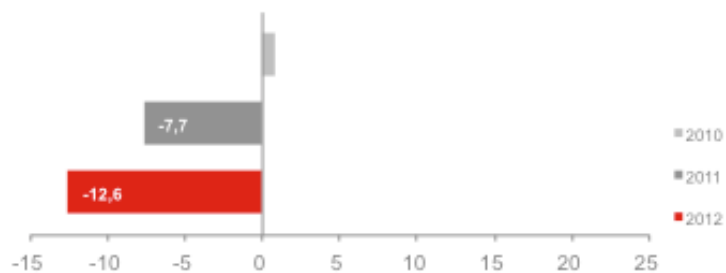
\* As at 29 April 2013

## Overview Financial Highlights

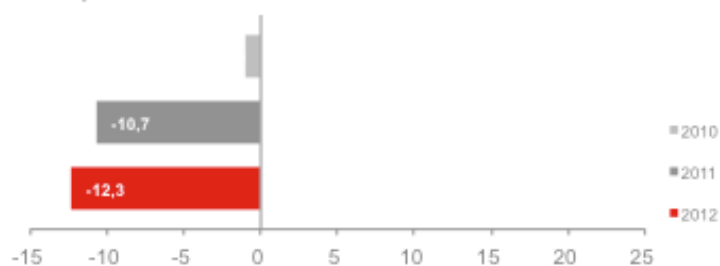
Revenues in € million



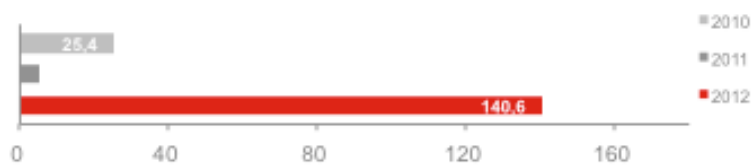
EBIT in € million



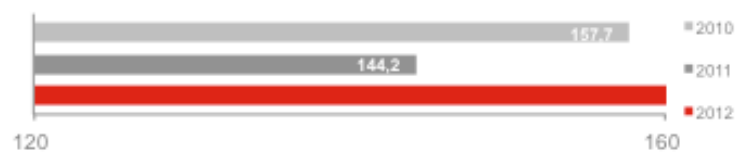
Net profit in € million



Oder intake in € million



Oder backlog in € million



## TO OUR SHAREHOLDERS

### Letter to our Shareholders



***Dear shareholders,***

2012 was still very challenging transition period for ZhongDe Waste Technology AG. It is our honour and pleasure to present our annual report to you, which should give you a detailed insight into our company.

#### **Energy-from-Waste shows bright future while the economy of China stabilized**

In 2012, the slow recovery of USA economy, the European sovereign debt crisis, the territorial dispute between China and Japan, and the political unrest in Africa, resulted in a weakening of the global economy. Fortunately, despite the general slowdown, the BRICS countries, especially China, have already become the driving forces of the world economy and have compensated negative developments.

Furthermore, considering the huge 1.3 billion population, the limited land and energy resources, China's traditional way of waste disposal, including the landfill and dump, comes to its end and Chinese government decides to shift to the waste-to-energy. Chinese government regarded waste-to-energy to be one of the key areas for environmental protection industry. In 2012, it issued a policy package to stimulate the waste-to-energy industry in China. As the result, the energy –from-waste industry shows a huge market potential and bright future in China.

## **Beijing Miyun Manufacture Facility**

The original land contract, signed in 2007, for the granting of land use rights for the construction area in Beijing for the formerly planned production facility for manufacturing small and medium-sized waste incinerators. The project was planned to increase ZhongDe's total manufacture capacity of small and medium-sized waste incinerators, which would meet the demand of the market in Northern China.

As the decline of the order of and medium-sized waste incinerators, ZhongDe decided to change its strategy and shifted its main business to focus the BOT and EPC large-size energy –from-waste plant since 2009. Accordingly, the construction of the Beijing Miyun Manufacture Facility was suspended. During the suspension period, ZWT negotiated with potential partners to plan to set up a joint venture for producing some high value-add equipments and its spare parts for large size waste-to-energy plant in Beijing Miyun Manufacture Facility. These negotiations have not resulted a joint venture agreement until the end of 2012.

In accordance with IAS 8, an error correction for the previous years has therefore been effected in 2011, because the certificate of land usage right had not been granted. In September, 2012, ZhongDe finally received the certificate of land usage right and the appreciation was made accordingly in Q3 2012.

The company plans to continue the negotiations with potential partners to plan to reach a joint venture agreement and then continue the construction of the facility. If such agreement cannot be reached finally, ZhongDe may decide to sell the share of the facility to one of the potential partners. In this way, according to updated CBRE development-report of the facility, ZhongDe may receive the previous investments of the facility and achieve investment profit from the appreciation of the land usage right and the building under construction. As the actual planning for the potential use of the construction project was not concrete enough as at 31 December 2012, the appreciation accounted for in Q3 2012 was reversed.

## **BOT market competitiveness has been strengthened**

Firstly, ZhongDe group has identified and caught the emerging opportunity of energy –from-waste business since 2009 and has strengthened its market competitiveness in BOT (Build-Operate-Transfer) energy–from-waste industry by continuously signing new large-size BOT contracts.

In 2012, ZhongDe signed the biggest Lanzhou BOT contact with the waste disposal capacity of 3000 ton per day. With a total investment of approximately RMB 1.37 billion, ZhongDe will build the largest energy-from-waste plant in China, respectively in Asia. The plant will be located in Lanzhou City, the capital city of Gansu Province and the second largest city in the northwest of China with a population of over 3.6 million. This biggest BOT contact has greatly



improved the reputation and influence of ZhongDe in the energy–from-waste industry in China and in Asia. It has strengthened ZhongDe’s market competitiveness in both Gansu province and the northwest of China through its broadened geographic market-coverage.

Secondly, this market-coverage strategy has also influenced ZhongDe’s financing strategy. The Company is well-prepared for increased future investments in BOT projects, having gained additional long-term project loans from the local banks.

Finally, ZhongDe has optimized the standardization of BOT projects. Although the delay of government approvals reduced the speed of the BOT construction, ZhongDe’s three BOT project, the Zhoukou project, Xianning projects and Kunming projects, had still made progress in both construction and operation preparation in 2012. The construction of three BOT will be completed and start their operation to bring ZhongDe the revenue and cash in 2013.

### **Financial performance reflecting challenges in the project business**

Group revenue decreased slightly by 24% to € 24.8 million in the fiscal year 2012. Gross profit amounted to € 1.6 million (-62%), while net income amounted to € -12.2 million, which included the EUR 7.4 million expense due to the impairment of intangible assets of Zhoukou BOT project.

Total assets increased by 1% to € 200.7 million, while shareholders’ equity went slightly down by 10% to € 112.6 million. Although more cash was invested in the construction of waste-to-energy projects, the cash position kept very strong and amounted to € 100.3 million (-14%).

### **Successful R&D and cooperation to strengthen competitiveness**

ZhongDe continues to cooperate with the TsingHua University to conduct the post-doctoral research project. The post-doctoral research station was awarded as the Natural Science Fund Project in Fujian Province in 2012. In 2012, ZhongDe has enhanced its competitiveness in the waste-to-energy industry through the successful R&D results. In this year, the company has successfully obtained 4 patents and another 4 updated practical technologies. The company signed the technical service agreement with Zhejiang Haizheng Medical Group in 2012, for the incineration of Chinese medical waste with daily capacity of 80 tons. This technology is the brand new and pioneer technology in China.

### **Outlook**

The new government of China has the target of “Beautiful China” and continuously strengthens the execution of reducing the pollutions and protecting the environment in China. It has chosen the energy–from-waste as the most important way of municipal and industry solid waste disposal. Enormous sum of money will be invested in the waste-to-energy industry according to the “12<sup>th</sup> Five Year Plan”. As the result, the energy–from-waste industry shows a huge market potential and bright future in China

Looking ahead to 2013 and 2014, we expect to further benefit from the favorable political and economic environment for eco-friendly waste disposal, as well as from the growing demand for our energy-from-waste plants, both in China and throughout Asia. The increasing demand for energy-from-waste plants favors ZhongDe's operative business environment. Two new projects will enter into the approval procedure of ZhongDe. The current three BOT projects will be completed and begin their operation in 2013. The biggest Lanzhou project will finish its preparation stage and start its construction in 2013. If we find an investor for the project in the Beijing Miyun, we will be able to appreciate the building to its then existing fair value. Also, as soon as it is approved that the waste incinerate capacity in Zhoukou will reach a higher level than currently expected, the impairment can be reversed accordingly. ZhongDe's financial performance will be improved and create value for our shareholder in the coming year.

### 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, 26 April, 2013



Zefeng Chen  
Chairman of the Management Board (CEO)



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

## Supervisory Board Report

Dear Shareholders,

2012 was another challenging year for the global economy and for ZhongDe Waste Technology AG and its affiliated entities (the "**ZhongDe-Group**"), but also showed significant positive developments. As regards the global economy, 2012 showed hopeful signs of recovery, particularly the Chinese economy appears to have stabilized. In 2012, as regards ZhongDe, we not only were very close to complete our first BOT project in Feicheng, but also signed the biggest Lazhou BOT project contract, which is an important milestone reflecting ZhongDe-Group's enhanced strategic focus.

### Supervision of and Provision of Advice in Dialogue with the Executive Board

The Supervisory Board has always critically and constructively accompanied the Executive Board during the financial year 2012. 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, the discussion of potential new projects and the improvement of the Company's project management capabilities. Another focus was the monitoring of the preparation and auditing of the financial statements and the approval of the financial statements, including the discussion of measures to avoid future delays of the publication of the Company's audited financial reporting.

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

During the reporting period, the Executive Board regularly provided the Supervisory Board with written reports on matters of significant importance for the ZhongDe-Group, in particular the business development, planning, strategy, profitability, cash flow, the progress of major projects as well as potential new projects, new economic and legal developments, compliance and the risk situation as well as the risk management. 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.

The Supervisory Board continuously works towards improvements of the carrying out of the internal risk management activities in order to ensure that potential risks for ZhongDe Group can be discovered at an early stage. Another focus of last year's activities was the improvement of the Company's project management capabilities.

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

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 that were of key importance for the ZhongDe-Group.

### **Supervisory Board Meetings**

During the financial year 2012, 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.

Generally, at each Supervisory Board meeting the Executive Board reports on the economic, and in particular the financial 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 each case, the Executive Board provided the quarterly figures for the quarter just ended and, if applicable, other documents to the Supervisory Board for this purpose. Discussion of current quarterly figures and deviations from business plans was therefore a standard element of each Supervisory Board meeting. In addition, the Supervisory Board regularly uses the meetings to advise on the economic development and the short and long-term strategy of the Company with the Executive Board. Transactions requiring prior approval from the Supervisory Board also form a standard agenda item of the Supervisory Board meetings.

Apart from the aforesaid topics, the central topics of the meetings of the Company's Supervisory Board that have been held in the financial year 2012 can be summarised as follows:

The main focus of the Supervisory Board meeting held on **9 April 2012** lay on the delay and the progress in the preparation and auditing of the financial statements of the Company and the consolidated financial statements of the ZhongDe Group. The annual financial statement auditor and consolidated financial statement auditor and the members of the Executive

Board were present at the meeting. The Supervisory Board, the annual financial statement auditor and consolidated financial statement auditor and the members of the Executive Board discussed the reasons for the delay. The Supervisory Board also advised on the steps to be taken for the preparation and auditing of the financial statements.

On **16 July 2012**, the Supervisory Board met in **Düsseldorf** for the financial statement Supervisory Board meeting for financial year 2011. The main focus of this meeting was accordingly the detailed discussion, examination and approval of the individual and consolidated financial statements, management report and group management report, as well as the report of the Executive Board on relations to affiliated entities for financial year 2011, and the discussion and examination of the associated audit reports. The annual financial statement auditor and consolidated financial statement auditor and Executive Board took part. Preparations were also made for the annual general shareholders' meeting of the Company in this meeting. Further topics were the discussion of the business development and the progress of current projects of the Company. In addition, the measures proposed by the Executive Board to improve the controlling of contracts were presented and discussed. Finally, the Supervisory Board assessed the efficiency of its work.

At the Supervisory Board meeting on **29 August 2012 in Frankfurt**, the Supervisory Board primarily dealt with the preparation of the general shareholders' meeting. Further main topics were the current business development and the forecasts of the Company, particularly the deviations of the actual business development from the planning. The underlying reasons were discussed. Other topics included the development of current projects, the implementation of improvements for the project controlling, the audit of the Company's financial reports by the German Financial Reporting Enforcement Panel (FREP), the handling of several shareholder loans granted to subsidiaries of the Company, and internal financing.

The Supervisory Board meeting on **26 October 2012 in Beijing** started with a review of the development of ZhongDe-Group in the financial year 2012, including the balance sheet, revenues, results, tax issues and cash flow estimates. The Supervisory Board also extensively dealt with the reasons for the deviations from the planning. Another topic was the discussion of the short and mid-term revenue-, asset-, investment- and financial planning. The Supervisory Board further dealt with the current status of the running projects and, in particular, also with the status of implementation of the improved project management and controlling system. In this respect, the Executive Board also reported on the status of cooperation between the Company and the German engineering consulting firm Wandschneider + Gutjahr, Hamburg, as external expert. Finally, the status of the preparations of the individual consolidated financial statements pertaining to the financial year 2012 was reviewed.

## Board Committees

The Supervisory Board of ZhongDe Waste Technology has not established any committees, since the Articles of Association require it to only consist of three members, and the Aktiengesetz (German Stock Corporation Act – AktG) requires Supervisory Board committees to have at least three members in order to constitute quorum.

## Corporate Governance

In the financial year 2012, the Supervisory Board 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 Declaration of Corporate Governance, which also contains the Corporate Governance Report on page 20 et seqq. in accordance with section 289a of the German Commercial Code and section 3.10 of the German Corporate Governance Code.

On 23 April 2013, the Executive Board and the Supervisory Board 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. The implementation of the applicable and amended provisions of the Corporate Governance Code were discussed by the Supervisory Board and the Executive Board on 28 April 2013.

## Individual and Group Financial Statements 2012

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 applicable 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 30 August 2012 has elected Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, as auditor of the Company and the group. The Supervisory Board has thereupon awarded the auditor the audit order and has satisfied itself of the its independence. The audit was awarded and conducted in accordance with the requirements of statutory law and the

recommendations of the German Corporate Governance Code.

The annual financial statement auditor and consolidated financial statement auditor examined the individual and the consolidated financial statements as of 31 December 2012, the management report and the group management report as well as the report of the Executive Board on the relations to affiliated entities. The annual financial statement auditor and consolidated financial statement auditor has approved the individual and the consolidated financial statements as of 31 December 2012, the management report and the group management 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 members of the Supervisory Board received the individual and consolidated financial statements, the management report and group management report, as well as the report of the Executive Board on relations to affiliated entities and the audit reports of the annual financial statement auditor and consolidated financial statement auditor in timely fashion before the financial statement Supervisory Board meeting on 28 April 2013. The Supervisory Board comprehensively reviewed these documents with the Executive Board and the annual financial statement auditor and consolidated financial statement auditor during this meeting. The annual financial statement auditor and consolidated financial statement auditor reported on the main results of the audit and on the scope, focal points and costs of the audit. The Executive Board explained the financial statements in the meeting. Both the Executive Board and the annual financial statement auditor and consolidated financial statement auditor were available for questions and additional information.

The audit reports of the annual financial statement auditor and consolidated financial statement auditor satisfy statutory requirements. Based on our own examination, we are in agreement with the results of the audit by the annual financial statement auditor and consolidated financial statement auditor. Our own examination of the annual financial statement and consolidated financial statements, both as at 31 December 2012, and the management report and group management report did not identify any violations of general statutory provisions. According to our examination, the disclosures and documents required by law have been presented fully and clearly. The assessments made by the Executive Board in the management report and group management report are consistent with the reports made to the Supervisory Board during the year. Based on our own assessment of the situation of the Company and the Group, and our own forecast for future development, the Supervisory Board arrives at the same assessments. From the point of view of the Supervisory Board, the management report and group management report therefore provide a realistic picture of the situation of the Company and the Group and its outlook.

Based on the final results of our examination, no objections need to be raised. We approved the individual and consolidated financial statements, both as at 31 December 2012, prepared by the Executive Board in our meeting of 28 April 2013. The individual financial statements of

ZhongDe Waste Technology AG for the period from 1 January until 31 December 2012 are, therefore, adopted.

### **Dependency Report**

The Supervisory Board further reviewed the report prepared by the Executive Board on the Company's relations to affiliated entities in accordance with section 312 of the German Stock Corporation Act as well as the related audit report prepared by the auditor. According to the report of the Executive Board 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 unqualified opinion of the auditor is as follows:

“According to the circumstances known to us at the time the transactions were executed, or measures were implemented or omitted, ZhongDe Waste Technology AG received appropriate consideration for every transaction and has not been disadvantaged by the implementation or omission of any measures.”

The auditor attended the deliberations of the Supervisory Board on 28 April 2013 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 30 August 2012, the Chairman of the Supervisory Board, Mr Hans Joachim Zwarg, resigned from his office as member of the Supervisory Board for personal reasons. The Supervisory Board would like to take the occasion to thank Mr Zwarg once more for his commitment to the Company in the past years. The Company found an appropriate successor for Mr Zwarg in Mr Gerrit Kaufhold, who acts tax advisor and certified auditor, in Hamburg. Mr Kaufhold was appointed member of the supervisory board of ZhongDe Waste Technology AG by court order dated 23 August 2012 of the local court (Amtsgericht) of Frankfurt. Mr Kaufhold was also elected chairman of the Supervisory Board, where Prof. Dr. Neukirchen remained deputy chairman. It is intended to propose Mr Kaufhold for re-election as supervisory board member of the Company at the general shareholders' meeting 2013.



## Acknowledgements

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 2012.

Frankfurt am Main, 28 April, 2013

A handwritten signature in black ink, appearing to read 'G. Kaufhold', written in a cursive style.

### **The Supervisory Board**

Gerrit Kaufhold

Chairman of the Supervisory Board

## ZhongDe share



### Recovery of German share markets despite euro crisis

Shaped by the ongoing euro crisis, 2012 was a turbulent year. The situation remains strained in some EU Member States with uncertainty over the political and fiscal measures taken by governments and the ECB having influenced investors' decisions. Yet in spite of this, the German shares market displayed a positive trend.

The DAX recovered in 2012. Despite great volatility and a slight decline in the second quarter, the most important German shares index closed on 28 December 2012 at 7,612.39 points – an increase of 29.0% for the year. This positive trend was substantiated in early 2013, but then flattened out, leaving the DAX at 7,871.63 points as at 11 April 2013.

The SDAX showed a similar progression in 2012, closing the year at 5,249.35 points – an increase of 18.7%. However, the sharp rise between November 2012 and February 2013 could not be maintained, leaving the SDAX at 5,824.78 points as at 11 April 2013.

### Unsatisfactory performance from ZhongDe shares

Our share price was subjected to considerable fluctuations, predominantly in the first half of the year. The high for the year of €3.80 was reached on 1 January 2012, before falling to a low of €1.40 on 29 August. From September onwards, the price stabilised around €1.80, closing at €1.82 on 28 December, representing a decrease of 51.6%. Throughout the entire year, the shares had a comparatively high trading volume, particularly in the second half of the year.

After a slight upward trend in the first few months of 2013 and a share price of over €2 in February and March, performance dropped in April, leaving the price at €1.76 on 11 April 2013.

### Executive board and investor relations team provide transparent investor information

Our investor relations activities aim to increase the level of awareness within the financial community and to provide investors and interested parties with a transparent picture of the company's development. To do this, we actively seek to maintain dialogue with investors and in November 2012 we once again took part in the German Equity Forum in Frankfurt. We also attended the Munich Capital Market Conference on 6 December.

We also held one-on-one discussions and regular conference calls regarding the business figures. Our shareholders can find more information relating to capital markets at anytime online at [www.zhongde-ag.de](http://www.zhongde-ag.de).

#### Basic data

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

#### Key figures for 2012 in EUR

|  |              |
|--|--------------|
| <b>Share price</b>                             |              |
| Year-end price                                 | 1.82         |
| High   | 3.80         |
| Low  | 1.40         |
| Earnings per share                             | -0,77        |
| Dividend per share (proposed)                  | 0.00         |
| Market capitalisation<br>(as at 11 April 2013) | 22.9 million |

## Declaration on Corporate Governance and Corporate Governance Report

ZhongDe Waste Technology AG is committed to the principles of good and responsible Corporate Governance. Corporate Governance at ZhongDe is focused on responsible long-term value creation and is based on the German Corporate Governance Code (Deutscher Corporate Governance Kodex – 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.

The following Executive Board's declaration on corporate governance pursuant to section 289a of the German Commercial Code (HGB) forms part of the combined management report and contains the corporate governance report recommended pursuant to section 3.10 of the German Corporate Governance Code.

### Compliance Statement

In the financial year 2012 and until the date of this report, the Executive Board and the Supervisory Board dealt with Corporate Governance issues at several occasions. On 23 April 2013, 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:

The Executive Board and the Supervisory Board herewith declare that the Company has complied and will comply with the recommendations of the German Corporate Governance Code (Code) in the version as of 15 May 2012 (as published in the Federal Gazette (*Bundesanzeiger*) on 15 June 2012), except for the following deviations:

- 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.

- According to Section 5.4.1 para. 3 of the Code, the Supervisory Board shall take into account its objectives for the composition of the Supervisory Board when proposing candidates for election to the Supervisory Board. In 2012, the Supervisory Board resolved, inter alia, to seek for adequate female representation in the Supervisory Board and, consequently, to seek to propose at least one female candidate in the next Supervisory Board elections. Although the Supervisory Board has taken into account its objectives when discussing proposals for election of Supervisory Board members, the Supervisory Board intends to propose Mr Gerrit Kaufhold and Prof. Dr. Bernd Neukirchen for re-election to the Supervisory Board at this year's general shareholders meeting; the reason being that both have skills and experience currently needed by the Company. Irrespective of the aforesaid, the Supervisory Board still maintains its objectives for its composition, which are described in more detail in the Corporate Governance Chapter of the annual report.
- According to section 5.4.6 para. 2 of the Code, which has been revised in 2012, in case the supervisory board remuneration contains a variable component, such variable component shall be directed towards a sustainable development of the company. The variable remuneration of ZhongDe's Supervisory Board is based on the annual profit per share of the Company, which in the view of the Company is generally a reasonable indicator for the Company's – and thus also the Supervisory Board's – performance. However, the variable component is not specifically based on a long-term indicator and thus, the variable remuneration may not meet the recommendation set forth in the revised section 5.4.6 para. 2 of the Code. The Company will discuss potential adjustments to the variable Supervisory Board remuneration in order to comply with the requirements of section 5.4.6 para. 2 of the Code in the future.
- 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](http://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.

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

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

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

#### **Executive Board**

The Executive Board is responsible for managing the Company, developing the Company's strategy, agreeing this strategy with the Supervisory Board and implementing it. This includes the steering of the group, the management and investment policy pertaining to the financial resources, the development of personnel strategy, the 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. In urgent cases, it has to immediately inform the chairman of the Supervisory Board.

For certain business transactions and measures as more specifically set forth in the by-laws for the Executive Board, the Executive Board 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 2012 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 provides for a deductible as prescribed by law.

### Supervisory Board

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 strategy, planning, business development, the risk situation and the risk management system. The reports of the Executive Board also include the subject of compliance, i.e. the implemented means through which adherence to statutory provisions and ZhongDe Group's internal statutes is ensured.

The members of the Supervisory Board are obliged to disclose conflicts of interest to the Supervisory Board. The Supervisory Board has to report on any conflicts of interest to the shareholders. In the financial year 2012, no conflicts of interest which would have had to be disclosed and/or reported occurred.

The Company had entered into a D&O insurance for its members of the Supervisory Board which provides for a deductible as recommended by the Code.

## **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 Jiuhua 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. Gerrit Kaufhold (Chairman), Prof. Dr. Ing. Bernd Neukirchen (Deputy Chairman) and Mr. Feng-chang Chang.

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

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 tax advisor and certified accountant is qualified and experienced in the areas of German and international accounting as well as matters of 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. 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.

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 interests and independence of its members, an age limit to be specified for the members of the Supervisory Board and diversity. These concrete objectives shall, in particular, stipulate an appropriate degree of female representation. The Supervisory Board has discussed these requirements in detail. It is of the opinion that it already complies with the requirements concerning internationality, independence and potential conflicts of interest. Potential conflicts of interests are prevented by the fact that all members of the Supervisory Board are independent within the meaning of Section 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 has decided to seek for an adequate representation of



women in the Supervisory Board. In this respect, it was initially intended to propose one female candidate for election to the Supervisory Board at the next Supervisory Board elections. Although the Supervisory Board has taken into account its objectives when discussing proposals for election of Supervisory Board members, the Supervisory Board intends to propose Mr Gerrit Kaufhold and Prof. Dr. Bernd Neukirchen for re-election to the Supervisory Board at this year's general shareholders meeting; the reason being that both have skills and experience currently needed by the Company. Irrespective of the aforesaid, the Supervisory Board still maintains its objectives for its composition.

## **Committees**

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 efficient discussions and 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 Management 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 EUR 5,000 or more within a calendar year. In respect of the financial year 2012, 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 2012, The annual general shareholders' meeting of the Company dated 30 August 2012 has elected Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, as auditor of the Company and the group. The individual and consolidated financial statements as prepared by the Executive Board and audited by the Company's auditor are reviewed and approved by the Supervisory Board.

## Corporate Compliance

At ZhongDe Waste Technology AG compliance, i.e. measures to ensure adherence to statutory provisions, internal statutes and Company policies 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 all individual employees of the Company and its affiliated entities are obliged to comply with all statutory provisions and the rules set forth in these internal guidelines. The Company puts great emphasis to fully comply with both German and Chinese statutory legal provisions and conventions.

## Risk Management

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

## Transparency

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

## COMBINED MANAGEMENT REPORT AND GROUP MANAGEMENT REPORT OF ZHONGDE WASTE TECHNOLOGY AG

### General information on the group

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

Chunghua Environmental Protection Assets (Holdings) Group Ltd., Hongkong, a directly owned subsidiary of ZhongDe Waste Technology AG is an intermediate holding company for six legal entities located in the People's Republic of China ("China" or "PRC"), which carry out the operational business of the Zhongde Group. Thereby Chunghua Environmental Protection Assets (Holdings) Group Ltd owns 100% of the shares of these operational entities directly and indirectly through Fujian FengQuan Environmental Protection Holdings Ltd., which is a further intermediate holding company and a directly owned subsidiary of Chunghua Environmental Protection Assets (Holdings) Group Ltd. ZhongDe (China) Environment Protection Co. Ltd. Peking, VRC, is another directly owned subsidiary of ZhongDe Waste Technology AG carrying out operational business.

### Business Model

ZhongDe's business model is characterized by a special a feature: "European technology at a Chinese price." We are the general contractor of large-scale energy-from-waste EPC projects and construct and operate energy-from-waste BOT ("Build-Operate-Transfer") projects. Our mission statement is "Clean the future with technology".

ZhongDe Group successfully completed its strategy transition from small-scale incinerators to large-scale EPC and BOT energy-from-waste projects since 2009. Although ZhongDe still continues to operate as a manufacturer of waste incinerators as well as other high value spare parts and equipment for waste disposal, such was not ZhongDe's main business any more in 2012. Since 2010, ZhongDe Group puts more focus on BOT projects including sales and marketing, financing and investment, as well as on the standardization and the preparation of operation of BOT projects. The reasons for that strategic shift in 2010, 2011 and 2012 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)

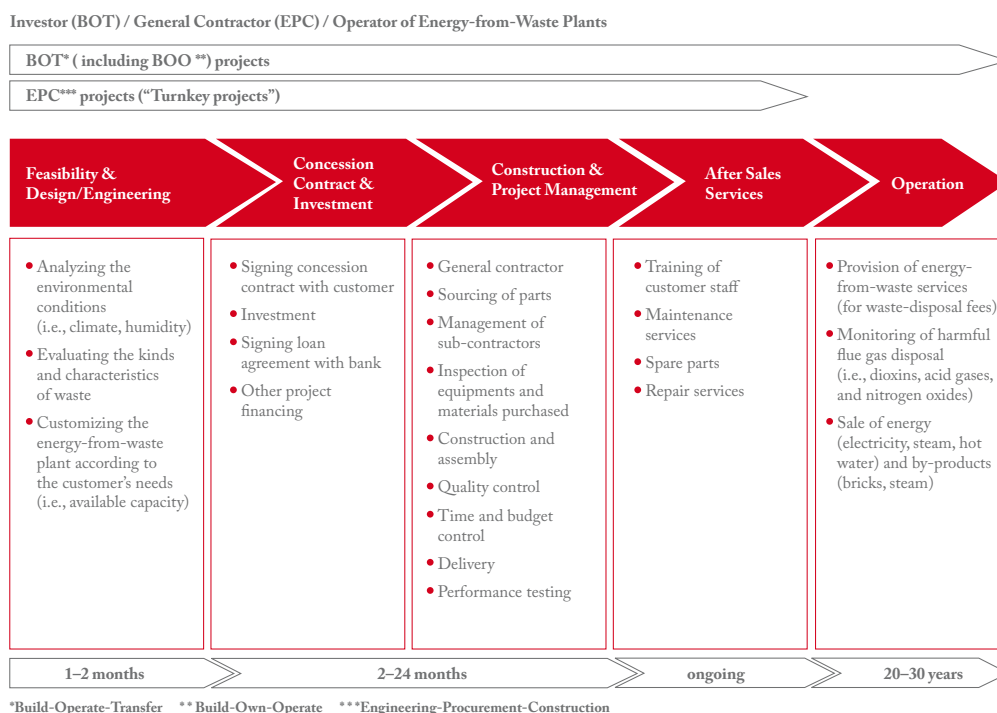
compared to EPC (4 phases).

- The success of the Datong project has proven ZhongDe’s management expertise regarding EPC projects (also called turnkey projects). The BOT project management expertise was proven by the completion of the Feicheng project in December 2010, which thereafter entered its testing phase.

In 2012 the Feicheng-project started its regular operation. Three other BOT projects (Zhoukou, Xianning, and Kunming) are planned to be completed in 2013. The standardization of BOT-projects is key to strengthen ZhongDe’s capability of improving the management of BOT projects from project to project. Since starting the first BOT-project we achieved considerable progress on this learning curve.

The business model presented below illustrates that ZhongDe covers the entire value chain in the field of energy-from-waste in its standard business-model, the BOT projects:

### ZhongDe's Business Model



### The first BOT phase: Feasibility and design/engineering

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

### The second BOT phase: Concession contract and investment

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

### The third BOT phase: Construction and project management

ZhongDe acts as a general contractor and outsources most parts of the construction to some subcontractors. During the construction ZhongDe manages the subcontractors and inspects equipment and materials purchased from the subcontractors to ensure the quality required. Besides quality control, the project management includes time and budget control and performance testing.

The second and third phases last jointly about 24 months.

### The fourth BOT phase: After-sales service

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

### The fifth BOT phase: Operation

After the site is completed, ZhongDe operates the plant by receiving and processing waste in exchange for waste disposal fees, monitoring and purifying harmful flue gases (i.e., dioxins, acid gases, and nitrogen oxides). ZhongDe receives further revenues from energy (electricity, steam, hot water), generated as the by-product of waste combustion as well as from the potential sale of other by-products (such as bricks or tiles). The payments guaranteed by the customer for the remaining service concession period increase the cash of the group and reduce the receivables built up during the construction.

The operation period lasts 20 to 30 years, depending on the concession agreement in question. Ownership of the 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. In contrast to BOT-projects, EPC-projects are transferred to the owner for operation as soon as the construction of the plant is finished.

In view of the business model ZhongDe is mainly focussed on the segments BOT and EPC, while the importance of segment Incinerators is declining.

## **Corporate Strategy**

ZhongDe's strategic target is to strengthen its position in the Chinese energy-from-waste industry and to return to strong and profitable business growth in order to create shareholder value. Within our strategy, we focus on large-size energy-from-waste projects.

The energy-from-waste industry will gain strong support from the Chinese Government and will offer promising growth opportunities as one of seven strategic new industry programmes stated in the 12th Five-Year Plan period covering the years 2011 until 2015. In view of this positive market environment we plan to expand our market position and technological expertise. In 2012, ZhongDe Waste Technology AG made headway in terms of expanding its business and promoting its influence in the industry:

In 2012, ZhongDe signed a BOT contract for a plant in Lanzhou with a waste disposal capacity of 3,000 ton per day in Lanzhou. With a total investment of approximately EUR 139 million, ZhongDe will build the largest energy-from-waste plant in China. The plant will be located in Lanzhou City, which is the capital city of Gansu Province and the second largest city in the northwest of China with 3 million inhabitants. This BOT contract is the biggest of the contracts signed by ZhongDe until now. It has greatly improved the reputation and position of ZhongDe in the energy-from-waste industry in China. It has also strengthened ZhongDe's market competitiveness in both Gansu province as well as the entire northwest of China by expanding the Group's geographic market-coverage.

With BOT projects, we plan to generate recurring revenues. The BOT business delivers a sustainable earnings stream from interest income and electricity sales and from other by-products. Additionally ZhongDe receives guaranteed payments for the financing of the construction of the site, which are granted from customers during the operation phase. Due to the prevailing accounting rules these payments are accounted for as revenues during the construction phase, but subsequently reduce the receivables during the operation phase.

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

## **Management and Control-System**

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 Jiuhua 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 investments in BOT-projects.

The production division is responsible for the production, timely delivery, completion of the installation as well as the commissioning of our incinerators. Innovation and upgrading of our products in response to the rapid changes in market demand is the main task of our research and development (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 construction and operation of the BOT-projects invested in by ZhongDe as well as for the implementation of large EPC-projects. Therefore it plays an increasingly important role in ZhongDe's business.

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

In weekly department and the monthly top management meetings the progress of each departments, the related problems, risks and corresponding measures of handling such problems and risks are discussed. The internal control and risk management department identifies the risks and reports them to management Board. The major contracts, budgets, forecasts, problems and risks are discussed both by the Management Board and are –in certain cases- subject to an approval by the Supervisory Board. In 2012, a new manager has been appointed to take charge of internal control and risk management. Further we are planning to implement a new software for planning, project calculation and accounting in 2013.

## **Research & Development**

Technology innovation is the core competitiveness for the Group's sustainable development. In 2012, the Group has made great achievements, thanks to the efforts of the R&D department. The R&D activities are focused on the improvement of existing technologies to build energy-from-waste facilities.

ZhongDe continues to cooperate with the TsingHua University to conduct a post-doctoral research project. The post-doctoral research station was awarded the title of the Natural Science Fund Project in Fujian Province in 2012.



In 2012, ZhongDe also enhanced its competitiveness in the energy-from-waste industry by effort of the R&D. The achievement of the R&D department was acknowledged by obtaining a total of four patents:

- 1) Waste incineration methods and its applications & equipment with high-effective cyclone separating second combustion room (Patent No 201210248059.3)
- 2) Complex incineration equipment with a moving grate drying bed and circulating fluidized bed boiler (Patent No. 201210432379.4)
- 3) A reciprocating grate furnace with two-stage inverse pushing style and one-stage direct pushing style grate (Patent No. 20120582221.0)
- 4) A waste incineration equipment with high-effective cyclone separating second combustion room (Patent No.201220347341.2)

Further we developed some practical technology of energy-from-waste, which we can use in the future for our new projects. This relates for example to the off-gas purification system, the waste leachate purification, the completion of R&D for cement kiln to co-process the incineration of municipal waste as well as the improvement of the technology for small-sized double-loop pyrolysis for waste incinerator and other developments.

The company signed the technical service agreement with Zhejiang Haizheng Medical Group for the incineration of Chinese medical waste with a daily capacity of 80 tons. This technology is pioneering technology in China.

## **Economic Report**

### **Market Environment**

#### Macroeconomic Conditions

In 2012, the slow recovery of the USA economy, the European sovereign debt crisis, the territorial dispute between China and Japan, and the political unrest in Africa, resulted in a weakening of the global economy. Fortunately, despite the general slowdown, the “BRICS” countries (Brazil, Russia, India, China and South Africa) in general, and China in particular, have already become the driving forces of the world economy and have compensated negative developments.

In 2012, the economy of China gradually stabilized. According to China’s National Bureau of Statistics, the gross domestic product (GDP) of China was RMB 51,932.2 billion in 2012, a year-on-year increase of 7.8 % (Q1 8.1%, Q2 7.6%, Q3 was 7.4%, and Q4 was 7.9%). In 2012, investment in fixed assets continued its fast growth. The investment in fixed assets (excluding rural households) was RMB 36,483.5 billion, a growth of 20.6%. The total value of imports and exports in 2012 was US\$ 3,866.76 billion, an annual increase of 6.2%. The trade surplus was US\$ 231.1 billion. After three years of tight monetary policies, the government has finally succeeded in reducing the inflation rate from 5.4% in 2011 to 2.6% in 2012.

Furthermore, Chinese government made clear that it regards energy-from-waste to be one of the key industry for environmental protection and issued a policy package to stimulate the energy-from-waste industry in China. Considering the huge population of 1.3 billion people as well as the limited land and energy resources, China’s traditional way of waste disposal in landfill and dumps, is slowly coming to an end and the Chinese government has decided to shift to the industrialisation of waste disposal by energy-from-waste projects. In consequence, the energy-from-waste industry faces a huge market potential in China.

## Sector Trends, Political and Ecological Environment

### Political and policy environment

On 28 March 2012, the National Development and Reform Commission issued “The Notification on Improving Price Policy for Waste Incineration with Power Generation”. This document stipulates energy-from-waste projects for the disposal of municipal waste. In China one ton municipal waste is currently expected to generate 280 KWh electricity for a standard electricity price of RMB 0.65 per KWh. This measure has been taken by the Chinese government to encourage energy-from-waste industry and preserve land resources.

On 19 April 2012, the State Council issued the National Municipal Waste Hazard-free Treatment for the period of the 12th Five-Year Plan. It clearly states that the hazard-free treatment ratio for municipal waste on the city-level shall reach no less than 90% by 2015, with total investment for the construction of municipal waste hazard-free treatment facility reaching RMB 263.6 billion. The capital city of each county shall be equipped with waste hazard-free treatment facility, with harmless treatment ratio of no less than 70%. The newly increased capacity of municipal waste hazard-free treatment will be 580,000 tons/day. Municipal waste incineration capacity shall account for 35% of the total hazard-free treatment capacity in China, and will reach 48% in the eastern areas of China.

On 16 June 2012, the State Council issued “12th Five-Year Planning for Energy Saving and Environmental Protection Industry”. It states that waste treatment and environmental protection service is to be regarded as one of the key area for the environmental protection industry. It places emphasis on the research and development of technology and equipment for percolate disposal. It also promotes large-scaled energy-from-waste and off-gas purification systems, small and medium-sized incinerators with high-efficiency disposal technology, as well as municipal waste pre-treating technology devices.

### Sector trends

According to the National Bureau of Statistics of China, the ratio of urban population to total population reached 52.6% at the end of 2012 (51.3% in 2011). The total population increased by 6.7 million to reach 1.3 billion at the end of 2012.

Considering the rapid urbanization growth (the ratio in 1978 was only 17.9%), the population of 1.3 billion people and the general 70% ratio of people living in urban areas in Western countries, it is to be expected that a huge population will keep moving into cities of China in the next decades.

Also people living in cities generate much more municipal waste than people living in rural areas. This causes an enormous volume of municipal waste and the phenomenon of “cities

surrounded by waste”.

In order to solve the serious waste problem, the government decided to invest into energy-from-waste projects. The planned investment as outlined on the website of the China Association of Environment Protection (CAEPI) amounts to RMB 88.9 billion. Waste incineration equipment suppliers, EPC contractors and BOT operators will definitely benefit from huge opportunities.

As a result, more companies have entered the energy-from-waste industry as competitors of ZhongDe.

### Competitive Environment

According to the 2012 China energy-from-waste Market Analysis Report published on the website of CAEPI<sup>1</sup>, a total of 272 new energy-from-waste plants will be constructed in China, in order to increase the waste disposal capacity of 580,000 tons/day and reach the total capacity of 871,000 tons/day over the period of the 12<sup>th</sup> Five-Year Plan.

ZhongDe competes with domestic and international companies. Our main domestic competitors are Hangzhou Jingjiang Co., Shanghai Environment Co., and Everbright Co., while Veolia is one of the international players acting in this market segment. The strongest competitors of ZhongDe are state-owned companies, such as Ever-Bright Co., which are supported by the Chinese government and have therefore better opportunities to get new contracts from municipal governments. As more competitors enter the market, ZhongDe is facing increasingly more pressure from the competition.

According to the China Environment Chamber of Commerce (CECC), ZhongDe ranks among the top 20 in the Chinese energy-from-waste market, in terms of the company's total waste disposal capacity.<sup>2</sup> ZhongDe's Management Team is convinced to be able to achieve a market share of 5% of the Chinese energy-from-waste market in the long-term. Internal calculations estimate the current share at approximately 2%.

### Strengths and Weaknesses

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

- Being listed 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

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<sup>1</sup> Source: CAEPI – China Association of Environment Protection Industry

<sup>2</sup> Source: CECC – China Environment Chamber of Commerce

- Eco-friendly market environment receiving 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 energy-from-waste sector
- Difficult access to qualified personnel 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

### Ecological Environment

Due to the rapid development of the Chinese economy and the acceleration of urbanization, the amount of municipal waste is increasing in China at an alarming rate. The phenomenon of the "cities surrounded by waste" is getting more serious, polluting soil and groundwater. The energy-from-waste industry improves the ecological environment and protects natural resources.

ZhongDe's energy-from-waste plants serve the ecology, by 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.

### **Business Development**

In 2012, ZhongDe was still in the middle of a challenging transition period from being a producer of small size incinerators to becoming an investor in large BOT and EPC-projects. However, ZhongDe was able to gradually improve its learning curve. In the long-term, we hope to benefit from the favourable economic environment for eco-friendly waste disposal as well as from the growing demand for the energy-from-waste plants, both in China and throughout Asia. China's Government will expand the stimulation of green industries on the basis of the 12<sup>th</sup> Five-Year Plan to maintain the rapid average GDP growth of 7.5%.

In October 2012, ZhongDe signed the BOT project in Lanzhou with a waste disposal capacity of 3,000 tons/day. It will be one of the largest energy-from-waste plants in China. The contract volume is about EUR 139 million.

The EPC-projects Dingzhou and Zhucheng were suspended in May 2012 at the request of our customers. We are expecting the projects to be resumed in the middle of 2013.

The progress of the BOT-projects Zhoukou, Xianning and Kunming amounts to 43% on average, although all projects have been delayed. Details on the development of the BOT-projects are outlined under "Results of Operations".

In 2012 ZhongDe generated a consolidated loss for the year amounting to kEUR -12,230 (2011: kEUR -10,708). Please refer to the following explanations of the results of operations, financial position and net assets.

## Consolidated group figures

### Results of Operations, Financial Position and Net Assets

#### Results of Operations of consolidated financial statements

##### Overview

| Financial Performance in kEUR            | 2012    | 2011    | Change in% |
|--|---------|---------|------------|
| Revenues                                 | 24,758  | 32,405  | -24%       |
| Gross profit                             | 1,583   | 4,114   | -62%       |
| EBIT                                     | -12,568 | -7,738  | -62%       |
| Net income                               | -12,230 | -10,708 | -14%       |
| Return on equity <sup>1)</sup>           | -11%    | -9%     | -22%       |
| Return on capital employed <sup>2)</sup> | -20%    | -19%    | -5%        |
| Current liquidity ratio <sup>3)</sup>    | 3.5%    | 3.6     | -3%        |
| Equity ratio <sup>4)</sup>               | 56%     | 63%     | -11%       |
| Current assets                           | 132,799 | 141,409 | -6%        |
| Profit/Loss per share                    | -0.97   | -0.85   | -14%       |

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

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

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

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

##### Revenues

Total revenues amounted to € 24.8 million in the fiscal year 2012, compared to € 32.4 million in 2011, representing a decrease of 24%. Thereof € 24.8 million (2011: € 30.1 million) have been accounted for under the PoC-method for EPC- and BOT-projects. The decrease was mainly influenced by the fact that the construction progress of the current EPC<sup>3</sup> projects was suspended in Mai and the progress of BOT<sup>4</sup> projects was slower than planned – mainly due to delays in obtaining governments' approvals and permits required. In addition, the market for small-sized and medium-sized incinerators is further declining: no small and medium-sized incinerators were sold in 2012, compared to the four sold in 2011.

In response to changes in market demand in China, ZhongDe focused on large energy-from-waste projects. Revenues can be broken down into € 0 million relating to the sale of small- and medium-sized incinerators (2011: € 2.3 million), € 0.3 million from EPC projects (2011: € 8.9 million) and € 24.5 million from BOT projects (2011: € 21.2 million). Sales of kEUR 81.0 (2011: kEUR EUR 0.0) relate to operating revenues from the project in Feicheng. This indicates that ZhongDe begins to generate revenues and cash from the operation of a plant, besides the

<sup>3</sup> Engineering, Procurement and Construction

<sup>4</sup> Build, Operate and Transfer

construction of the energy-from-waste plants. The revenues of EPC and BOT projects accounted for 100% of total revenues in 2012, compared to 92.9% in 2011.

### *Gross Profit*

The gross profit was € 1.6 million in 2012, which corresponds to a decrease of € 2.5 million, i.e. 62%, compared to the previous year (2011: € 4.1 million). The gross profit margin of ZhongDe decreased from 13% in 2011 to 6% in 2012. The adjustments of cost estimated for the construction of the EPC and BOT projects were the main reason for the decrease in the gross profit margin.

### *Other Operating Income*

Other operating income amounts to € 1.2 million (2011: 0.2 million). The increase is due to reversal of a provision amounting to € 1.0 million to cover penalties which were settled at a more favourable amount for ZhongDe in October 2012. In the third quarter of 2012, an appreciation of construction in progress amounting to kEUR 6,743 was disclosed under other operating income after the respective land use rights had been granted. At the end of the year, however, it became apparent that the plans regarding the facility had not been stable enough to sufficiently document the reliability of the carrying amount of the facility. In consequence, the appreciation was reversed at the end of the year.

### *Expenses*

#### Sales, Marketing and Distribution Expenses

Sales, Marketing and Distribution expenses in the reporting period decreased sharply from € 3.7 million in 2011 by 49% to € 1.9 million in 2012 because ZhongDe mainly focused on the completion of the construction of current BOT and EPC projects, and finalized the negotiation of Lanzhou project contract. Moreover provisions for contractual penalties for delays decreased from € 1.3 million to € 0.2 million in 2012.

#### Administrative Expenses

Administrative expenses went down from € 4.3 million in 2011 by 13% to € 3.7 million in 2012 because ZhongDe strictly controlled costs during this period. The administrative expenses mainly consist of personnel and consulting costs as well as of material costs.

#### Research and Development Expenses

Research and development expenses increased by 21% to € 0.22 million in 2012 compared to € 0.18 million in the previous year.

## Other Operating Expenses

Other operating expenses increased by 150% from € 3.8 million in 2011 to € 9.5 million in 2012. The increase in other operating expenses mainly results from impairment of the intangible asset from service concession arrangements relating to the plant in Zhoukou amounting to € 7.4 million. On the other hand the provision for potential penalty payment for the late payment to the subscribed capital of a subsidiary (ZhongDe China) which have been accounted for in 2011 and lower expenditures associated with the preparation and audit of the annual and group financial statements reduced other operating expenses compared to 2011.

## *EBIT*

EBIT amounted to € -12.6 million in 2012, compared to € -7.7 million in 2011 which corresponds to a decrease of 63%.

## *Finance Income*

Finance income amounted to € 2.4 million in 2012 compared to € 1.9 million in the previous financial year (+28%). 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.

## *Finance Expense*

Finance expenses increased by 26% to € 2.8 million in 2012, compared with € 2.2 million in the previous year. These primarily comprise regular interest expenses for loans and foreign exchange differences.

## *Taxes on Income and Earnings*

Taxes on income and earnings decreased sharply from € -2.7 million (expenses) in 2011 to € 0.7 million (income) in 2012. This is mainly due to the reduction of the tax-rates for deferred tax liabilities on BOT- receivables and the impairment of the intangible asset (service concession right) in Zhoukou with its corresponding decrease of deferred tax liabilities. The taxes consist of current income taxes in the amount of € -0.4 million and deferred taxes in the amount of € 1.1 million. 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 note 26 in the Notes to the consolidated financial statements for further information.



## Net Income

In 2012, ZhongDe realized a negative net income of € 12.2 million (2011: € -10.7 million). The net income margin was -49.2% (2011: -33,0%) and earnings per share € -0.97.

Overall the ZhongDe-Group realised a reduced EBIT (by 62%) compared to 2011. This was mainly due to a decrease in revenues from projects (-24%). The successful reduction of costs in 2012 was overcompensated especially by the impairment concerning the project Zhoukou, accounted for under other operating expenses. The resulting tax effects positively influenced the result of the period. Nevertheless, the consolidated net loss increased by 14% in comparison to prior year.

## Key Figures by Segments

| in kEUR                             | 2012   | 2011   | Change in% |
|-------------------------------------|--------|--------|------------|
| Small and medium sized incinerators |        |        |            |
| Units sold to third party           | 0      | 4      | -100%      |
| Revenues                            | 0      | 2,298  | -100%      |
| Gross profit                        | -18    | 963    | -102%      |
| EPC                                 |        |        |            |
| % of completion                     | 37%    | 37%    | 0%         |
| Revenues                            | 307    | 8,858  | -97%       |
| Gross profit                        | -2     | 1,559  | -100%      |
| BOT                                 |        |        |            |
| % of completion                     | 76%    | 53%    | 43%        |
| Revenues                            | 24,451 | 21,249 | 15%        |
| Gross profit                        | 1,603  | 1,592  | 1%         |

In 2012, no small- and medium-sized incinerators were sold.

The Percentage-of-Completion rate in the EPC segment of the group amounted to 37% and remains unchanged compared to 2011. EPC projects contributed € 0.3 million, or 1% to total group revenues in 2012. Revenues in this segment are related to the Zhucheng and Dingzhou project, which were suspended in 2012.

The Percentage-of-Completion rate in the BOT segment amounted to 76%, an increase of 23 percentage points compared to 2011. BOT projects contributed € 24.5 million, or 99% to total group revenues in 2012. Revenues in this segment are related to the Zhoukou, Feicheng, Kunming and Xianning projects.

## Current Project Status

| EPC Projects under Construction | EPC      |          |
|---------------------------------|----------|----------|
|                                 | Zhucheng | Dingzhou |
| Daily capacity (tons/day)       | 500      | 600      |
| PoC as of 31 Dec 2012           | 59.2%    | 16.7%    |
| 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 Dec 2012                          | 87.7%   | 63.7%   | 73.4%    |
| Estimated time of completion                   | 2013    | 2013    | 2013     |

### EPC Projects

#### *Dingzhou EPC Project*

By 31 December 2012, 16.7% of the project construction was completed. The project will have a daily waste incineration capacity of 600 tons per day. Since May 2012 the construction at Dingzhou is on hold. The suspension of construction work was initiated by the customer who needs time for negotiations with local government. The customer communicated that the work in Dingzhou will probably be resumed in June 2013. The project is expected to be finished in 2014.

#### *Zhucheng EPC Project*

By 31 December 2012, 59.2% of the project construction was completed. It will have a daily waste capacity of 500 tons per day. Since May 2012 until today the construction at Zhucheng is also on hold. The suspension of construction work was likewise initiated by the customer who needs time for negotiations with local government. The customer communicated that the work in Zhucheng will probably be resumed in August 2013. The project is expected to be finished in 2013.

At both projects the company received prepayments from the customers covering the POC-receivable capitalized.

#### *Zhaodong EPC Projects*

The Zhaodong project comprises the construction of a waste incineration plant with a capacity of 500 tons per day including electricity generation. The project has a contract value, including taxes, of € 30.5 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 2012, since the current negotiations with the local government concerning the construction start have not been finished yet. Due to the delay ZhongDe is in negotiations with the client 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 in 2010 an EPC contract with Shouguang Fuyuan Waste to Power Co. Ltd. on a energy-from-waste plant with a capacity of 600 tons per day. The total contract value, including taxes, amounts to € 32.8 million (RMB 270 million). The project was still in the preparatory stage as of 31 December 2012 as certain approvals had still not been granted. Due to the delay ZhongDe is in negotiations with the client 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*

The Feicheng project is completed since 2010. In 2012 the plant generated revenues from guaranteed payments. The test runs show that the off-gas emissions of the plant fulfil not only the national requirements in China, but also some of the higher EU standards (e.g. dioxin emission). Sales of € 0.1 million (2011: € 0.0 million) relate to operating revenues from the project in Feicheng. This indicates that ZhongDe begins to generate revenues and cash from the operation of a plant, besides the construction of the energy-from-waste plants. The successful emission tests strengthened ZhongDe's good reputation in China. Due to the strategic focus on BOT-projects the project in Feicheng is planned to be sold in the following year.

#### *Zhoukou BOT Project*

The project in Zhoukou is the first BOT-project constructed by ZhongDe. At 31 December 2012, 87.7% (31.12.2011: 82%) of the project was completed. The Zhoukou project will be finished in 2013. It will have a daily waste capacity of 500 tons per day. The remaining work relates mainly to the remaining decoration works for the complex building (civil work) and installation regarding the defect treatment equipments for gas purification system as well as the installation of the flying ash solidification equipment. As of 31 December 2012 the intangible asset from the service concession agreement was depreciated by € 4.6 million to € 4.8 million.

### *Kunming BOT Project*

The project in Kunming is the second BOT-project of ZhongDe. By 31 December 2012, 63.7% (31.12.2011: 42%) of the project construction was completed. The remaining work relates to the following:

1) Civil construction

Plant's road construction, decoration work for the complex building's, plant's interior wall surface, floor surface, stair railing, firefighting system construction, plant's net rack construction, decoration works for the auxiliary buildings, entrance door and wall fence, greening landscape, flying ash solidification treatment station, furnace building for No.1 & No.2 boiler, water supply and drainage for the whole plant.

2) Installation

The No.1 & No.2 incinerator remaining installation, thermal insulation construction, gas purification system for No.1 & No. 2 boilers, drying boiler and debugging work for No.1 & No. 2 boiler, auxiliary engine installation for steam turbine generator, the auxiliary equipment for no.1 & no. 2 boiler, the electric system, the thermal control system, flying ash treatment equipment installation, leachate system equipment, pipeline construction for the whole plant, weigh-bridge equipment.

The project is expected to be finished in 2013 with a planned waste disposal capacity of 700 tons per day.

### *Xianning BOT Project*

The project in Xianning is the third BOT-project of ZhongDe. As of 31 December 2012, the project construction was progressing well with a 73.4% (31.12.2011: 32%) rate of completion. The remaining work relates to the following:

1) Civil work

Decoration works for complex building, the remaining civil works for the main plant, greening landscape engineering, the improvement of plant road, the construction for the flying ash solidification treatment station, the remaining decoration works for the main plant, the side slope and wall fence for the factory, the furnace building for No. 2 boiler.

## 2) Installation

Furnaces grate installation, thermal insulation improvement, the defect treatment equipment for gas purification system, the lightning installation for No. 2 boiler, drying and debugging work for No.2 boiler, grid connection for steam turbine generator, access system, metering mechanism and communication, hoisting facility, flying ash solidification equipment, leachate system pipeline.

The project is expected to be finished in 2013. It will have a daily waste capacity of 600 tons per day.

### *Lanzhou BOT Project*

By signing the contract for a large Build-Operate-Transfer (BOT) project in October 2012, with the Lanzhou Qinwangchuan Integrative Development Management Committee, ZhongDe has successfully concluded a very important business deal. With a total investment of approximately EUR 139 million, ZhongDe will build the largest energy-from-waste plant in China. The plant will be located in Lanzhou City, the capital city of Gansu Province and the second largest city in the northwest of China with a population of over 3.6 million. The project construction is divided into two phases: Within the first phase a daily waste disposal capacity of 2,000 tons will be achieved. The second phase will increase the daily capacity up to 3,000 tons. The project is still in the preparatory stage as approvals such as environment evaluation, land use right, etc. have still not been granted and the original budget needs to be modified after completing the designs of the energy-from-waste plant.

### Order Status

| Orders        | 2012    | 2011    | Change |
|---------------|---------|---------|--------|
| Order intake  | 140,555 | 6,532   | >100%  |
| Order backlog | 257,365 | 144,201 | 78%    |

### Order Intake<sup>5</sup>

In 2012, order intake greatly increased from € 6.5 million in 2011 to € 140.6 million. The increased order intakes are related to € 1.5 million incinerator contract and € 139.0 million new order intake from the new Lanzhou BOT project contract. The figure included for the order intake of the project in Lanzhou is based on the first calculation of the project plus a margin derived from one project already completed. This calculation will be replaced by more precise

<sup>5</sup> Exchange rate calculated at the average price during 2012 and 2011 used for translation  
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figures as the planning process progresses. If the figures change we will report this in our next quarterly or annual financial statements.

| Type                                | 2012           |            | 2011         |            |
|-------------------------------------|----------------|------------|--------------|------------|
|                                     | kEUR           | Percentage | kEUR         | percentage |
| Small and medium sized incinerators | 1,529          | 1          | 3,165        | 48         |
| EPC                                 | 0              | 0          | 1,911        | 29         |
| BOT                                 | 139,026        | 99         | 1,456        | 22         |
| <b>Total</b>                        | <b>140,555</b> | <b>100</b> | <b>6,532</b> | <b>100</b> |

## Order Backlog <sup>6</sup>

| Type                                | 2012           |            | 2011           |            |
|-------------------------------------|----------------|------------|----------------|------------|
|                                     | kEUR           | Percentage | kEUR           | percentage |
| Small and medium sized incinerators | 4,180          | 2          | 2,693          | 2          |
| EPC                                 | 90,180         | 35         | 91,169         | 63         |
| BOT                                 | 163,005        | 63         | 50,339         | 35         |
| <b>Total</b>                        | <b>257,365</b> | <b>100</b> | <b>144,201</b> | <b>100</b> |

The proportion of Small and medium sized incinerators was 2%, large EPC waste incinerator projects accounted for 35% and BOT projects accounted for 63% of the total order backlog. Order backlog significantly increased by 78% from € 144.2 million in 2011 to € 257.4 million in 2012 mainly due to the new BOT project in Lanzhou with 3,000 ton/day waste disposal capacity.

It includes four EPC projects (Zhucheng, Zhaodong, Dingzhou and Shouguang) and four BOT projects (Zhoukou, Xianning, Kunming and Lanzhou). 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 corresponding to the construction progress. On this basis, the EPC projects Zhucheng and Dingzhou will continue to contribute to consolidated revenues in the years 2013 and 2014. The EPC projects Zhaodong and Shouguang are still in the preparatory stage and a concrete forecast of when they will start to generate revenues is therefore not yet possible. The current three BOT projects (Zhoukou, Xianning, and Kunming) in the order status are under construction and due to be completed in 2013. The energy-from-waste 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. The begin of the construction of the BOT project in Lanzhou is planned for Q4 2013.

<sup>6</sup> Exchange rate as of 31 Dec 2012 and 31 Dec 2011 used for translation  
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## Financial Position of the Group

### Cash Position

Cash and cash equivalents amounted to € 100.3 million in 2012, a decrease of 14% compared to € 117.3 million in 2011. This represents an amount of € 7.7 per share (2011: € 9.0 per share). Cash transfers from China are insofar restricted as they require a formal approval from the State Administration of Foreign Exchange ("SAFE"). The funds are planned to be invested in budgeted projects such as the BOT projects in Zhoukou, Kunming, Xianning and Lanzhou, and EPC projects in Zhucheng and Dingzhou. In addition, they are expected to serve to finance further business activities.

### Financing

As of 31 December 2012, the company's loans amounted to € 52.9 million compared to € 34.2 million as of 31 December 2011. These loans were granted by various financial institutions in 2010 and 2011. They are used to finance the BOT projects. Please refer to the detailed presentation below:

| Project  | Financial Institution | Total loan amount | Total loan amount | Effective interest rate | Term | Received as of 31 Dec 2012 | Received as of 31 Dec 2012 |
|----------|-----------------------|-------------------|-------------------|-------------------------|------|----------------------------|----------------------------|
|          |                       | in EUR            | in RMB            | in %                    |      | in years                   | in EUR                     |
| Zhoukou  | Bank of China         | 12,164,414        | 100,000,000       | 7.43                    | 10   | 12,164,414                 | 100,000,000                |
| Kunming  | China Merchants Bank  | 21,895,946        | 180,000,000       | 7.99                    | 10   | 20,679,504                 | 170,000,000                |
| Kunming  | Huarong Leasing       | 14,597,297        | 120,000,000       | 11.57                   | 5    | 9,089,250                  | 74,720,000                 |
| Xianning | China Merchants Bank  | 14,354,009        | 118,000,000       | 8.16                    | 10   | 12,833,457                 | 105,500,000                |
| Xianning | Huarong Leasing       | 10,947,973        | 90,000,000        | 11.95                   | 5    | 7,155,108                  | 58,820,000                 |

## 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 since 2010 as shown in the above table.

## 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 2012 and 2011:

| in kEUR   | 2012    | 2011    |
|---|---------|---------|
| Operating cashs flow before working capital changes | -4,549  | -6,895  |
| Cash used in operations                             | -35,553 | -14,456 |
| Net cash used in operating activities               | -39,709 | -17,172 |
| Cash flow used in/from investing activities         | -1,017  | 21,554  |
| Cash flow from financing activities                 | 24,292  | 19,139  |
| Net decrease/ increase in cash and cash equivalents | -16,434 | 23,521  |
| Cash at beginning of year                           | 117,308 | 83,805  |
| Foreign exchange difference                         | -561    | 9,982   |
| of which included in assets held for sale           | -4      | 0       |
| Cash at end of the period                           | 100,309 | 117,308 |

### *Net cash used in operating activities*

The net cash position from operating activities has decreased significantly in 2012 from € -17.2 in 2011 compared to € -39.2 million. This decrease was mainly attributable to the lower decrease of trade receivables compared to prior year (€ -6.0 million), due to a decrease in the payables, provisions and accruals in the amount of € 1.6 million compared to an increase of € 10.7 million in the prior year and finally due to an increase of PoC receivables of € 24.5 million compared to only € 21.1 million in prior year.

### *Cash flow used in/from investing activities*

Cash flow used in investing activities decreased from € 21.6 million in 2011 to € -1.0 million in 2012. This is mainly attributable to the reduction of the short-term financial investments (€ 21.6 million) in 2011.

### *Cash flow from financing activities*

Cash flow from financing activities increased from € 19.1 million in 2011 to € 24.3 million in 2012. This increase was mainly attributable to payments of subsidies by the customer of the BOT project in Kunming in the amount of € 4.6 million.

### *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 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.



## **Net Assets of the consolidated Financial Statements**

### **Balance Sheet Overview**

#### Non-current Assets

The company's non-current assets amount to € 67.9 million, which represents an increase of 18% compared to 2011. This is mainly due to the progress in completion of the BOT projects, which led to an increase in intangible assets and receivables from BOT projects of € 7.5 million. A further part of the increase relates to prepayments on land use rights. In September 2012 the Group received the land use right for the site in Beijing Miyun for € 0.9 million. The right is granted for a period of 50 years. In 2007, ZhongDe paid a fee for the development of the land to be used amounting to € 2.7 million, which was disclosed under other receivables and prepayments in 2011. After having received the land use right, the fee was reclassified to prepayments on land use rights. Both are expensed on a straight line basis over 50 years. The short term portion amounting to kEUR 72 is presented under other receivables.

#### Current Assets

Current assets slightly decreased to € 132.8 million in 2012, following € 141.4 million in 2011. This is mainly due to the decrease of cash and cash equivalents to € 100.3 million in 2012 from € 117.3 million in 2011. Other receivables and prepayments of € 22.6 million (previous year: € 20.6 million) mainly comprise advance payments to suppliers for EPC/BOT projects. The decrease in trade receivables from € 1.4 million to € 0.2 million was primarily attributable to received payments from EPC projects.

#### Non-current Liabilities

Non-current liabilities of € 49.7 million comprise bank loans amounting to € 47.9 million and deferred tax liabilities totalling € 1.8 million. Compared to 2011, long-term liabilities increased by 48.9% because of the payments from existing bank loans for further investments in EPC and BOT projects. The 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 24.8%.

#### Current Liabilities

Total current liabilities declined from € 39.7 million in 2011 to € 38.3 million in 2012 (-3.7%). They mainly include trade payables, other liabilities and advance payments received.

## Equity

Equity decreased from € 125.7 million by 10.3% to € 112.8 million year-on-year due to the loss of the year of kEUR 12.230 (2011: kEUR -10.708) and by the foreign currency differences of kEUR -679 (2011: kEUR 9.111).

## Results of Operations, Financial Position and Net Assets of ZhongDe Waste Technology AG

### Financial Position of the statutory Financial Statements

| in kEUR                                   | 2012          | 2011          |
|---|---------------|---------------|
| <b>Assets</b>                             |               |               |
| Tangible Assets                           | 1             | 1             |
| Investments in affiliated company         | 35,000        | 35,000        |
| Loans due from affiliated companies       | 50,100        | 50,100        |
| <b>Non-current assets</b>                 | <b>85,101</b> | <b>85,101</b> |
| Receivables due from affiliated companies | 1,565         | 4,425         |
| Other receivables                         | 31            | 83            |
| Cash and cash equivalents                 | 21            | 470           |
| <b>Current assets</b>                     | <b>1,637</b>  | <b>5,009</b>  |
| Prepaid expenses                          | 20            | 31            |
| <b>Balance sheet total</b>                | <b>86,738</b> | <b>90,110</b> |
| <b>Equity and liabilities</b>             |               |               |
| Capital subscribed                        | 13,000        | 13,000        |
| Capital reserve                           | 67,392        | 67,392        |
| Retained earnings                         | 5,577         | 0             |
| <b>Equity</b>                             | <b>85,969</b> | <b>80,392</b> |
| Tax provision                             | 250           | 8             |
| Other provision                           | 390           | 2,144         |
| <b>Provisions</b>                         | <b>640</b>    | <b>2,152</b>  |
| Trade payables                            | 49            | 165           |
| Payables due to affiliated companies      | 40            | 7,360         |
| Other payables and accruals               | 40            | 41            |
| <b>Liabilities</b>                        | <b>129</b>    | <b>7,566</b>  |
| <b>Balance sheet total</b>                | <b>86,738</b> | <b>90,110</b> |

The statement of financial position of ZhongDe Waste Technology AG (hereinafter: ZDWT) shows a net equity of kEUR 85,969, which covers the non-current assets of kEUR 85,101. The equity ratio increased from 89.2% up to 99.1%.

The current liabilities amount to kEUR 769 and are compensated by current assets of kEUR 1,637. The receivables due from affiliated companies of kEUR 1,565 mainly relate to interest accrued on the loans, which are still remaining on kEUR 50,100 and relate to Chung Hua Environmental Protection Assets Holding (Group). The decrease in total amount of assets (-3.74%) is caused by dividend payments of Chung Hua Environmental Protection Assets Holding (Group), being offset with liabilities.

Other receivables amount to kEUR 31 (2011: kEUR 83) and relate to rental deposits and income tax refunds. Prepaid expenses relate to office rent, insurance premiums and contributions, which are expensed in a future period. Cash and cash equivalents relate to liquid funds on current bank accounts.

Payables due to affiliated companies decreased from kEUR 7,360 to kEUR 40 and mainly related to capital to be paid in to ZhongDe (China) Environmental Protection Co. Ltd. in 2011.

Other provisions decreased from kEUR 2,144 at 31. December 2011 to kEUR 390 at 31 December 2012, mainly due to the release of accruals for contractual penalties for delays.

The provisions are principally accrued for costs relating to the preparing, reporting and audit of the annual financial statements and consolidated financial statements as well as costs relating to supervisory board remunerations for the financial year 2012.

#### Income Statement of the statutory Financial Statements

| in kEUR                           | 1 Jan to<br>31 Dec 2012 | 1 Jan to<br>31 Dec 2011 |
|-----------------------------------|-------------------------|-------------------------|
| Other operating income            | 1,032                   | 0                       |
| Interest income                   | 2,624                   | 2,734                   |
| Personnel expenses                | 117                     | 93                      |
| Depreciation of fixed assets      | 0                       | 1                       |
| Other operating expenses          | 1,626                   | 3,102                   |
| Dividend income                   | 4,000                   | 0                       |
| Write-down of financial assets    | 0                       | 10,500                  |
| Interest expenses                 | 0                       | 0                       |
| <b>EBT</b>                        | <b>5,913</b>            | <b>-10,962</b>          |
| <b>Income taxes</b>               | <b>336</b>              | <b>0</b>                |
| <b>Profit/loss for the period</b> | <b>5,577</b>            | <b>-10,962</b>          |

In the financial year 2012, the company realised a profit of kEUR 5,577 mainly caused by dividend income and income from reversal of provisions. The other operating income of kEUR 1,032 relates mainly to the above mentioned release of accruals for contractual penalties for delays.

As a holding company ZDWT received dividend of kEUR 4,000 from Chung Hua Environmental Protection Assets Holding (Group) in May 2012.

Other operating expenses relate to current business expenses, mainly expenses for the preparation, review and audit of quarterly reports and annual financial statements, for investor relations and media services and fees for lawyers and other advisers. The other operating expenses decreased from kEUR 3,102 to kEUR 1,626.

In the financial year 2011 expenses for the examination of The Financial Reporting Enforcement Panel (FREP) had increased the other operating expenses. In the financial year 2012 the operating expenses decreased on a constant level.

The EBT of kEUR 5,913 is charged with income taxes of kEUR 336. The tax losses carried forward amount to kEUR 0 at 31 December 2012 (31 December 2011: kEUR 86).

### Cash Flow Statement of the statutory Financial Statements

| in kEUR  | 2012          | 2011          |
|--|---------------|---------------|
| Profit/loss for the period   | 5,577         | -10,962       |
| Decrease/increase in provisions and accruals                               | -1,512        | 12,279        |
| <b>Cash flow</b>   | <b>4,065</b>  | <b>1,317</b>  |
| Increase/decrease in receivables from and payables to affiliated companies | -8,460        | 8,315         |
| Decrease/increase in other assets and prepaid expenses                     | 62            | -39           |
| Decrease/increase in trade payables and other liabilities                  | -117          | 76            |
| <b>Cash flows used in operating activities</b>                             | <b>-4,450</b> | <b>9,669</b>  |
| Purchase of long-term financial assets                                     | 0             | -7,320        |
| Purchase of fixes assets   | 0             | -1            |
| <b>Cash flow fused in investing activities</b>                             | <b>0</b>      | <b>-7,321</b> |
| Dividend payment   | 0             | -1,890        |
| Dividend income  | 4,000         | 0             |
| purchase of own shares   | 0             | -504          |
| <b>Cash flow used in financing activities</b>                              | <b>4,000</b>  | <b>-2,394</b> |
| Changes in cash and cash equivalents                                       | -450          | -46           |
| Cash and cash equivalents at the start of the reporting period             | 470           | 516           |
| <b>Cash and cash equivalents at the end of the reporting period</b>        | <b>20</b>     | <b>470</b>    |

## Non-Financial Key Performance Indicators

### *Human Resources*

|   | 2012 | 2011 |
|---|------|------|
| <b>Average number of employees of the Group</b> |      |      |
| Management and Administration                   | 162  | 253  |
| Research and Development                        | 12   | 14   |
| BOT Operation & Manufacturing                   | 183  | 65   |
| Sales and Marketing                             | 34   | 56   |
| Total   | 391  | 388  |

The average number of employees working at ZhongDe remained stable during the reporting period. ZhongDe finished the full year of 2012 with 391 employees (2011: 388), with personnel working in BOT Operation & Manufacturing representing 183 persons. The sector Management and administration has been working with 162 employees, Sales and Marketing with 34 staff members and Research and development with 12 employees.

In 2012, ZhongDe's personnel structure changed. In line with the company's strategic shift to large-size WtE projects, the head account of staff in Manufacturing of Small-size incinerator, S&M and R&D has been reduced while the number of employees in the BOT operation has been increased.

### Personnel Training

There have been theoretical and practical trainings for the professional management of energy-from-waste 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.

## **Subsequent Events**

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

## **Opportunities and Risks-Report**

### **Risk Policy**

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

### **Opportunities-Report**

Within the ZhongDe Group, opportunity and risk management are closely interlinked. ZhongDe essentially derives its opportunity management from its goals and strategies and ensures an appropriate balance between opportunity and risk. Responsibility for the early and regular identification, analysis and management of opportunities rests with the Executive Board. The Executive Board occupies itself intensively with analyses of the political and legal development in China, especially with respect to changes in environment protection and related laws, potential implications on the market development and ZhongDe's competition, relevant cost drivers and critical success factors, including those related to project management and the usage of subcontractors. In decision-making, the Executive Board of ZhongDe relies on an opportunity-oriented approach, but does not neglect risks. Selected opportunity potentials for the ZhongDe Group are discussed in the forecast report.

## **Risks Management System**

The methods used for risk survey extend from analyses of markets through close contacts with customers, subcontractors and suppliers as well as other interest-related parties to observing risk indicators in an economic and socio-political environment. Risks will be assessed particularly with regard to the level of threat for the Group or its development. If deemed necessary, potential loss levels are calculated. The possible non-recurring or recurring impact on Group's objectives will then be processed in preparation for the adoption of decisions. ZhongDe will thus endeavour to systematically counter risks and consistently exploit opportunities. The Executive Board has defined Group-wide principles as well as guidelines for its risk management.

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

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

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

Apart from defined control mechanisms such as system-based and manual reconciliation processes, the fundamental principles of the internal control system include the separation of functions and compliance with directives and operating procedures. The accounting and financial reporting process for ZhongDe is managed by the Accounting Department of ZhongDe and since the third quarter of 2012 by an external German service provider supporting the IFRS-based financial reporting.

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

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

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

Currently ZhongDe is in the process of an examination by the German FREP triggered by last years error correction presented in the financial statements. Until the issuance of the actual financial statements the FREP did not arrive at a final decision. If the FREP disagrees with the way we accounted for the error correction or to any other issues the FREP raised or will potentially raise, our financial statements will have to be changed accordingly.

### Economic development in China

ZhongDe believes that the Chinese energy-from-waste industry in general, and ZhongDe in particular, are in a favourable position to provide for reasonable growth rates in the future. According to the National Bureau of Statistics, at the end of 2011 for the first time more than half of China's population were living in cities, a figure that reached 52.6% or 710 million Chinese of the country's total population by the end of 2012. The comparable figure for the United States of America is about 80%. Research published by the McKinsey Global Institute in 2009 projected that between 2009 and 2025 China's urban population will grow by 325 million people. By 2025, China is expected to have 221 cities of more than one million inhabitants, compared with 35 cities of this size in Europe today and 23 cities with more than five million. Following the current trend, the country's urban population will reach 1 billion by 2030. This development combined with the growth of an urban-professional middle class in rapidly urbanising areas will trigger strong demand for waste management and waste disposal. In addition, the demand for energy will rise in the wake of both such trends. The Executive Board of ZhongDe believes that these trends will strongly support further demand by Chinese governmental bodies for solutions addressing all such needs altogether. Accordingly, ZhongDe expects that the Chinese energy-from-waste market will show further growth in the coming years.



## Legal development in China

The Chinese environmental regulations and related technical standards to be met have become more stringent and are expected to become even stricter in the future. ZhongDe is operating in an industry which is highly influenced by such regulations and standards. Therefore, ZhongDe's products may be subject to numerous new laws and regulations relating to, among other things, the protection of the environment and natural resources, the management of hazardous substances resulting from waste treatment. Furthermore, either ZhongDe's existing technology or technology available through subcontractors or licences might not be sufficient to comply with future regulations with respect to air emissions, water discharges or levels of required energy efficiency for its power producing components. Although ZhongDe is continuously monitoring such developments and improving its existing technology through its own or outsourced R&D, ZhongDe may face substantial costs in the future to remedy any shortcomings to comply with more stringent laws and regulations relating to environmental protection. These laws and regulations could also lead to temporary or permanent closures of such plants being operated by ZhongDe within the 20 to 30 years period as contractually agreed upon for its BOT projects or may otherwise affect the usability or value of plants being operated by ZhongDe.

The expected future growing demand for waste management in China might affect the way of waste management in China. Increasing legal requirements for recycling of certain products, especially with regards to putrescible or plastic waste, could affect the usability of such waste being collected for disposal applying energy-from-waste technology. In this case, the demand for new energy-from-waste plants as well as the profitability of plants already in operation might be affected. On the other hand, the changing nature of the waste management in China might lead to additional demand for upgrading existing plants or applying new technology to cope with such changed circumstances.

## **Major Risks and Opportunities**

The strategy of focusing on large EPC and BOT projects exposes the ZhongDe Group to significant financial and operational risks due to the fact that the contractual volumes in RMB terms of EPC and BOT contracts are comparatively high and require significant debt financing from bank and other financial institutions. Accordingly, to some extent there is significant risk concentration given the limited number of projects at different stages of completion and/or maturity. Therefore, the Executive Board of ZhongDe assessed that the following risks and opportunities are essential to the Group:

## External risks

### Strategic risks

Due to the growing importance of the energy-from-waste technology for the future development of China, the Chinese government bodies might be favouring domestically owned suppliers. To counteract any such moves, the Executive Board continues maintaining already strong ties with such Chinese government bodies, thoroughly addressing regulations concerning environmental protection and any amendments to them, in particular with regard to waste management or energy production.

Based on expectations of a continued increase in demand for energy-from-waste plants and resulting public BOT projects, which are expected to play a part in solving China's waste and environmental problems, ZhongDe currently considers the market risk for ZhongDe Group to be low.

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

Furthermore, the expected market growth as well as an expected mid-term further appreciation of the Chinese currency against the US Dollar or Euro might lead to an increasing attraction of the Chinese energy-from-waste market to foreign competitors. Such foreign competitors might be able to offer more advanced technology to the market or might have better access to equity or debt financing enabling such competitors to explore more project opportunities allowing to benefit from additional economies of scale both internally and by gaining better conditions from subcontractors.

As the Group's sales growth depends on its ability to secure new orders for new EPC and BOT contracts for energy-from-waste projects and the construction of solid-waste incinerators, it will be important being prepared for such intensified level of competition, if new domestic or international suppliers entered our relevant Chinese market. ZhongDe therefore maintains and enlarges its sales and marketing capacities to monitor market developments in China, further improve ZhongDe's market presence in China and ensure that ZhongDe will participate in all public tenders for expected profitable energy-from-waste projects. By establishing a dedicated international sales team the Executive Board intends to reduce ZhongDe's dependence on the Chinese market as a long-term goal of its group development and risk management.

Finally, risks could arise to ZhongDe's ability to continue its business operations, 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 waste management could adversely affect the Group's business. As our clients are also subject to environmental laws and regulations, a failure of ZhongDe to comply with such environmental laws and regulations could in addition pose risks should the customers demand recourse or compensation for breaches of such laws or regulations. Accordingly, ZhongDe will continue to invest in R&D as part of the Group's ongoing commitment to offer high-quality energy-from-waste plants.

## **Operational risks**

### General operational risks

ZhongDe Management remains conscious of the fact, that its business operations require significant investments in large-scale energy-from-waste projects and that the resulting operational risk concentration require a high standard of its project management.

The recruitment of skilled and experienced people in all areas of the business, but especially qualified energy-from-waste project managers, will remain central to our on-going measures to enhance quality and standards. Experienced and qualified project managers are a crucial to the success of ZhongDe's projects. Nevertheless, human resource risks could arise from a loss of expertise caused by a fluctuation in qualified personnel, from insufficiently qualified employees with a lack of commitment to service or from ZhongDe's inability to obtain such highly skilled and scarce professionals in a sufficient number to maintain its on-going operations and/or to support its future growth. Therefore, ZhongDe relocated its Chinese headquarters from Fuzhou to Beijing, where better access to skilled and experienced human resources is expected.

### Risks related to Engineering and Construction phase

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

To remain close to business developments, we regularly conduct gross margin analyses, detailed project accounting, order-entry controls, and monitor the progress of accounts receivable. The monthly PoC reports, quarterly financial statements and operation reports are core tools in the management of our business.

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

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

ZhongDe is exposed to the risk of dependency on 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.

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.

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

### Risks related to Operational phase

During the time of the operational period of the BOT-projects the Chinese government might enforce new pollution standards or other environmental rules. This might lead to the necessity to adjust our technical equipment in the plants. We are monitoring the legal development, to be able to react on a timely basis and adjust our equipment. Further, during the operational phase there are risks concerning the productions stops leading to reduced revenues regarding electricity and other by products. As ZhongDe receives guaranteed payments for its BOT-projects from local authorities, there also might be delays in these payments. Price increases

of operational costs might affect future results.

### Warranty risks

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

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.

### Financial risks

Today, in addition to its equity, ZhongDe relies on loans taken from banks located in the PRC. The calculated payback periods of its BOT projects as well as the expected ongoing growth of the ZhongDe Group would not allow ZhongDe to repay such bank loans within the near future. In order to continue its business operations, especially for its existing BOT projects with an expected payback period of between 20 and 30 years on ZhongDe's initial investment, ZhongDe will have to refinance existing loans. ZhongDe cannot be certain that suitable financing will be available on acceptable terms. Accordingly, the Group is therefore in the mid-term exposed to changes in market interest rates through the bank borrowings being renewed at interest rates different to those currently contractually agreed upon. If adverse terms were to be accepted in order to continue the business operations of a group company operating a energy-from-waste plant, additional debt service obligations could have a negative impact on profitability of such a project and consequently of the Group.

In addition, those banks located in the PRC are subject to PRC rules and regulations applicable to such financial institutions. The introduction of changes or new rules and regulations might reduce the total volume of loans offered by those banks to its customers in China leading to a tightened loan market. Since 2010, ZhongDe successfully entered into long-term loan agreements by convincing such Chinese banks that energy-from-waste BOT projects belong to green-projects which enjoyed preference in the Chinese governments stimulating fiscal policies and will ensure steady future cash flows during the operation period. A tightened Chinese loan market and/or fluctuations in interest rates could therefore have material adverse effects on the liquidity and profitability of its ongoing BOT projects, the Group's financial condition and financial result.

Following its IPO, the ZhongDe Group has a comparatively high level of equity. The resulting liquidity provides a solid basis for the Group expanding its EPC and BOT business with the latter requiring ZhongDe Group also to operate the energy-from-waste plant. In order to finance its growth strategy, ZhongDe, however, may have to raise additional capital in the future

through debt or equity offerings. If additional debt is incurred, this would result in additional debt service obligations which also could have a negative impact on profitability and could expose ZhongDe to general adverse economic and industry conditions. In addition, terms of any future financing agreement could limit or restrict the ability of ZhongDe to pay dividends or restrict the Group's flexibility in planning for, or reacting to, changes in its markets or industry.

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

With respect to its receivables and other assets representing future cash flows due from its customers, a low risk of default is considered despite the fact that the contractual periods for BOT projects mean that ZhongDe's customers are obliged to provide payments over a period of 20 to 30 years. This is because the overwhelming majority of its customers for such existing projects are Chinese government bodies.

In addition, ZhongDe believes that its cash management is a high priority within the Group as a whole and within the individual group companies. However, considering the fact that the banks being used for cash management by ZhongDe are owned by the Chinese state, the risk of a failure of such banks endangering ZhongDe's cash is being considered low. In addition, due to the prevailing interest rates on the Chinese market, the exposure to interest rate changes for the Group's funds deposited with such banks is considered being immaterial. 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.

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

## Risks Specific to ZhongDe Waste Technology AG

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

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

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

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

On the other side, ZhongDe Waste Technology AG believes that the Chinese energy-from-waste-industry in general and ZhongDe in particular are in a favourable position to provide reasonable growth rates in the future as ZhongDe considers the following factors as key drivers to success: the growth of an urban-professional middle class in rapidly urbanising areas as well as growing need for energy. These will trigger strong demand for waste management and waste disposal.

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

## Assessment of Overall Risk Situation

The overall risk is assessed on the basis of the risk management system in conjunction with the planning, management and control systems used. The main potential risks to the future development of the ZhongDe Waste Technology Group are posed in particular by risks arising from development of environmental protection and related laws, the ability to attract and retain capable project managers and ZhongDe's ability to finance its investments in such projects, especially for those BOT projects having a payback period of 20 to 30 years. Taking into account all the circumstances of which ZhongDe is aware of to date, there is no group- or industry-specific risk that could individually or in conjunction with other risks have a lasting and material adverse influence on the net assets, financial position and results of operations of ZhongDe Group. Future opportunities have not been considered in assessing the overall risk. In terms of organisation, all the conditions for being able to recognise possible opportunities and risks in good time have been fulfilled.

## Opportunities-Report

### Rapid Growth of the Economy in China

In 2012, the economy of China has gradually stabilized. According to China's National Bureau of Statistics, the gross domestic product (GDP) of China was RMB 51,932.2 billion in 2012, a year-on-year increase of 7.8%. The government of China has announced that the GDP will grow at rate of about 7.5% in 2013. Such a rate should ensure the government's has the financial capacity to realise its ambitious objective of "Beautiful China" through huge investments in the Environment Protection industries. This creates a tremendous opportunity for the energy-from-waste industry in which ZhongDe operates. Having proven our competence in this sector, we expect to participate in this development by signing more contracts with governmental authorities.

### Rapid Growth of Urbanization

Considering the rapid urbanization growth (the ratio in 1978 was only 17.9%), China's 1.4 billion population and the general 70% urbanization ratio in Western countries, it is expected that huge masses of people will keep on flowing into China's cities in the next decades. Generally speaking, a person living in a city generates much more municipal waste than the same person living in a rural area. The enormous volume of municipal waste caused the phenomena of the "cities surrounded by waste". In order to solve the serious waste problem, the government will have to decide to invest in further energy-from-waste projects. such investments will amount to RMB 88.9 billion. Waste incineration equipment suppliers, EPC contractors and BOT operators will definitely benefit from these huge opportunities.



## Rapid Growing Influence of Middle Class

The rapid growth of the economy in China has stimulated the equally rapid emergence of the middle class. The influence of the middle class has been magnified by the Internet and its eco-friendly opinions, which has enhanced the public's understanding of the necessity of energy-from-waste projects.

During the period under the 12<sup>th</sup> Five-Year Planning period 272 new energy-from-waste plants will be constructed, in order to increase the new waste disposal capacity of 580,000 tons/day and reach the total capacity of 871,000 tons/day in China.

## The TV report on ZhongDe's successful Datong energy-from-waste plant

This 45 minutes special report by CCTV from 2010, has greatly improved the image and reputation of ZhongDe in China, because CCTV (China Central TV) has 1 billion viewers and is regarded as most powerful media in China. The report covered the waste problem in China and outlined the importance of energy-from-waste facilities. It further presented the Datong-project as an example for a solution to these problems.

## The Lanzhou contract strengthens ZDWT market competitiveness

With a total investment of about EUR 139 million, ZhongDe will build the largest energy-from-waste plant in China. By signing this contract, ZhongDe has also greatly improved its image and reputation of in China. This will strengthen ZhongDe's competitiveness on the market.

## **Outlook**

The new government of China has set the target of "Beautiful China" and continuously strives to reduce the pollution and protect the environment in China. It has chosen the energy-from-waste as the most important way of municipal and industry solid waste disposal. Enormous sum of money will be invested in the energy-from-waste industry according to the "12<sup>th</sup> Five Year Plan". In consequence, the energy-from-waste industry shows a huge market potential and a bright future in China.

Regarding the year 2012 we were still in a transition period. Although we planned to complete the BOT project in Zhoukou in the course of the year 2012, we did not achieve this goal. Unexpected delays and the stop of the EPC-projects in Dingzhou and Zucheng had a material impact on our revenues which decreased compared to 2011. However, our result increased compared to last year, also because we managed to lower our operating expenses.

Looking ahead to 2013 and 2014, we expect to further benefit from the favorable political and economic environment for eco-friendly waste disposal, as well as from the growing demand for our energy-from-waste-plants, both in China and throughout Asia. The increasing demand for energy-from-waste-plants favors ZhongDe's operative business environment. Currently we are in negotiations concerning two new projects. We are confident that we will successfully close the contracts in 2013. The expected volume will each be at 1.000 tons/day.

We are planning to complete the current three BOT projects (Zhoukou, Xianning, and Kunming projects) and begin their operation in 2013. The BOT-projects will then start to generate cash-inflows from guaranteed payments. As these cash-inflows mainly cover the PoC-receivables, revenues will be generated as soon as the projects generate cash-inflows from by-products such as electricity.

In addition, further revenues will be derived from the finalization of the BOT-projects and the completion of the EPC-projects in Dingzhou und Zhucheng.

Building on our experience amassed in the course of completing these projects, we are planning to improve our project controlling by implementing a new software to transfer our knowledge to the production at the facility in Lanzhou. We will finish the preparation stage of the Lanzhou project and are planning to start its construction by the end of 2013.

In summary, we are expecting that the next year will be a transition period, during which we finalise existing projects, commence their operations and start our biggest project in Lanzhou. This will result in comparably more cash-inflows from guaranteed payments from the operations but at the same time in less revenue for that transition period. For 2013, although an improvement of the operating result is to be expected, a loss before taxes is to be expected, however, with the Group's cash position being stabilized. As the construction in Lanzhou starts to progress further revenues will be realizable in the upcoming years with improvements in the Group's profitability and further improving the liquidity of the Group. Please note that these expectations are subject to uncertainty even if currently we do not have any information as to any other development.

As ZhongDe Waste Technology AG is a holding company for ZhongDe Group with major business in the PRC the future perspective of ZhongDe Waste Technology AG highly depends on the economic development in China, especially the ongoing urbanization and the increase in waste to be treated, and expectations and perspectives of the operational entities in PRC as discussed above. Without considering dividend payments from its subsidiaries, ZhongDe Waste Technology AG expects small net profits in the next two years, with a balanced to slightly positive operating cash flow in 2013 and beyond.

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

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

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

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

According to the Company's Articles of Association (*Satzung*) each share confers one voting right. The Company's Articles of Association do not provide for restrictions on the transfer of shares. As of the date of this report, 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 or 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 any 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 section 84 of the 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 causes include serious breaches of duties, inability to duly perform duties or revocation of confidence by the Annual General Shareholders' Meeting.

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

Pursuant to sec. 179 AktG, the Articles of Association can be amended by a resolution of the General Shareholders' Meeting. 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. In addition, 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 the Executive Board to Issue Shares**

The Executive Board is authorised to increase the share capital of the Company with the consent of the Supervisory Board until 31 July 2014 once or several times by up to EUR 6,500,000.00 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, in certain cases and with the consent of the Supervisory Board, authorised to exclude the subscription rights of the shareholders.

The Executive Board was authorised by the Annual General Shareholders' Meeting 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 EUR 195,000,000.00 in return for option or conversion rights for the acquisition of up to totally 6,500,000 shares. Said authorization is valid until 31 July 2014. 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 EUR 3,250,000.00 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 4<sup>th</sup> and 10<sup>th</sup> 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.

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

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

## **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 2012, the members of the Executive Board of the ZhongDe Waste Technology AG have received the following remuneration:

| in kEUR      | 2012      | 2011      |
|--------------|-----------|-----------|
| Zefeng Chen  | 29        | 26        |
| Jiuhua Wang  | 23        | 21        |
| <b>Total</b> | <b>52</b> | <b>47</b> |

### 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 EUR 60,000.00 per calendar year. The other members of the Supervisory Board receive a basic remuneration of EUR 45,000.00 per calendar year. In addition to the basic remuneration, members of the Supervisory Board receive an annual performance related remuneration of EUR 100.00 per each cent of the profit per share exceeding EUR 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 EUR 3.50. If a person is a member of the Supervisory Board for a certain part of a financial year only, the fixed remuneration as well as the performance related remuneration shall be paid on a pro rata temporise 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 2012, the members of the Supervisory Board have received the following remuneration:

| in kEUR   | 2012       | 2011       |
|---|------------|------------|
| Gerrit Kaufhold<br>(Chairman of the Supervisory Board)<br>(30 August 2012 until 31 December 2012)                       | 20         | n.a.       |
| Hans-Joachim Zwarg<br>(Chairman of the Supervisory Board until 30 August 2012)<br>(1 January 2012 until 30 August 2012) | 40         | 60         |
| Prof. Dr. Bernd Neukirchen<br>(Deputy Chairman of the Supervisory Board)  | 45         | 45         |
| Mr. Feng-Chang Chang  | 45         | 45         |
| <b>Total</b>  | <b>150</b> | <b>150</b> |

## **Declaration on Compliance with the German Corporate Governance Code**

The Declaration on Compliance with the German Corporate Governance Code according to Sec. 161 of the German Stock Corporations Act and the Declaration of those concerned with governance is openly available for inspection on the Company`s website at [http://www.zhongde-ag.com/investor\\_relations](http://www.zhongde-ag.com/investor_relations).

Frankfurt am Main, 26 April 2013



Zefeng Chen  
Chairman of the Executive Board (CEO)



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



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## CONSOLIDATED FINANCIAL STATEMENTS

### Consolidated Statement of Comprehensive Income

of ZhongDe Waste Technology AG for the period  
from 1 January to 31 December 2012

| In kEUR  | Notes             | 2012           | 2011           |
|--|-------------------|----------------|----------------|
| Revenues   | 2.5, 3, 4         | 24,758         | 32,405         |
| Cost of sales  | 5                 | -23,175        | - 28,291       |
| <b>Gross Profit</b>  |                   | <b>1,583</b>   | <b>4,114</b>   |
| Other operating income   | 6                 | 1,165          | 154            |
| Selling and distribution expenses                                      | 7                 | -1,890         | -3,696         |
| Administrative expenses  | 8                 | -3,726         | -4,281         |
| Research and development expenses                                      | 2.8               | -222           | -183           |
| Other operating expenses   | 9                 | -9,478         | -3,846         |
| <b>Profit / loss from operations</b>                                   |                   | <b>-12,568</b> | <b>-7,738</b>  |
| Finance income   | 2.23, 11          | 2,437          | 1,905          |
| Finance costs  | 2.25, 22          | -2,789         | -2,206         |
| <b>Profit / loss before tax</b>  |                   | <b>-12,920</b> | <b>-8,039</b>  |
| Income tax expense   | 2.7, 2.26 ,23, 26 | 690            | -2,669         |
| <b>Loss for the year</b>   |                   | <b>-12,230</b> | <b>-10,708</b> |
| Foreign exchange differences   |                   | -679           | 9,111          |
| <b>Other comprehensive income</b>                                      |                   | <b>-679</b>    | <b>9,111</b>   |
| <b>Total comprehensive income</b>                                      |                   | <b>-12,909</b> | <b>-1,597</b>  |
| <b>Profit/loss attributable to owners of the parent</b>                |                   | <b>-12,230</b> | <b>-10,708</b> |
| <b>Total comprehensive income attributable to owners of the parent</b> |                   | <b>-12,909</b> | <b>-1,597</b>  |
| Earnings per share (diluted and undiluted)                             | 2.27              | -0,97          | -0,85          |
| Weighted average shares outstanding (diluted and undiluted)            |                   | 12,600,000     | 12,608,760     |

## Consolidated Statement of Financial Position of ZhongDe Waste Technology AG as of 31 December 2012

| in kEUR  | Notes             | 31.12.2012     | 31.12.2011     |
|--|-------------------|----------------|----------------|
| <b>Assets</b>                                    |                   |                |                |
| <i>Non-current assets</i>                        |                   |                |                |
| Intangible assets                                | 2.4, 2.8, 13      | 16,411         | 15,782         |
| Prepayments on land use right                    | 2.9, 14           | 3,484          | 0              |
| Property, plant and equipment                    | 2.5, 2.10, 15     | 805            | 1,258          |
| Construction in progress                         | 2.11, 16          | 0              | 0              |
| Receivables from BOT                             | 2.13, 2.4, 17     | 47,070         | 40,181         |
| Deferred tax assets                              | 2.7, 2.26, 23, 26 | 172            | 157            |
|  |                   | 67,942         | 57,378         |
| <i>Current assets</i>                            |                   |                |                |
| Inventories                                      | 2.14, 18          | 2,387          | 1,810          |
| Trade receivables                                | 2.5, 2.16, 19, 30 | 201            | 1,385          |
| Other receivables and prepayments                | 2.16, 15, 19, 30  | 22,606         | 20,600         |
| Amounts due from related parties                 | 19, 29, 30        | 47             | 306            |
| Cash and cash equivalents                        | 2.17, 20          | 100,309        | 117,308        |
| Assets held for sale                             | 2.3, 2.18         | 7,249          | 0              |
|  |                   | 132,799        | 141,409        |
| <b>Total assets</b>                              |                   | <b>200,741</b> | <b>198,787</b> |
| <b>Liabilities and Equity</b>                    |                   |                |                |
| <b>Capital and Reserves</b>                      |                   |                |                |
| Issued capital                                   | 1, 2.19, 21.1     | 13,000         | 13,000         |
| Own shares                                       | 2.19, 21.1        | -4,608         | -4,608         |
| Capital reserve                                  | 2.19, 21.2a)      | 62,914         | 62,914         |
| Statutory reserve                                | 2.19, 21.2b)      | 7,972          | 7,972          |
|  |                   |                |                |
| Retained earnings                                | 21.2c)            | 9,587          | 21,817         |
| Foreign exchange difference                      | 21.3              | 23,894         | 24,573         |
| <b>Total equity</b>                              |                   | <b>112,759</b> | <b>125,668</b> |
| <i>Liabilities</i>                               |                   |                |                |
| <b>Long-term liabilities</b>                     |                   |                |                |
| Long-term loans                                  | 2.15, 22          | 47,927         | 30,054         |
| Deferred tax liabilities                         | 2.7, 2.26, 23, 26 | 1,786          | 3,329          |
|  |                   | 49,713         | 33,383         |
| <b>Current liabilities</b>                       |                   |                |                |
| Trade payables                                   | 2.15, 24, 30      | 15,784         | 18,459         |
| Other payables and prepayments                   | 2.15, 24, 30      | 13,081         | 14,033         |
| Provisions                                       | 2.5, 2.20, 25     | 2,725          | 2,741          |
| Amounts due to related parties                   | 24, 29, 30        | 215            | 6              |
| Tax liabilities                                  | 2.26, 26          | 251            | 334            |
| Other Financial liabilities                      | 2.15, 22          | 4,984          | 4,163          |
| Liabilities associated with assets held for sale | 2.3, 2.18         | 1,229          | 0              |
|  |                   | 38,269         | 39,736         |
| <b>Total liabilities</b>                         |                   | <b>87,982</b>  | <b>73,119</b>  |
| <b>Total liabilities and equity</b>              |                   | <b>200,741</b> | <b>198,787</b> |

## Consolidated Statement of Cash Flow

of ZhongDe Waste Technology AG for the period  
from 1 January to 31 December 2012 and the same period in the previous year

| in kEUR  | Note 32 | 2012           | 2011           |
|--|---------|----------------|----------------|
| <b>Profit before income tax</b>                            |         | <b>-12,920</b> | <b>-8,039</b>  |
| Adjustments for:   |         |                |                |
| Amortization of intangible assets                          |         | 7,452          | 22             |
| Expensing of land use rights                               |         | 24             | 0              |
| Allowance for doubtful trade debts                         |         | 168            | 270            |
| Provision for warranty                                     |         | -106           | 81             |
| Depreciation of property, plant and equipment              |         | 455            | 445            |
| Gains/losses property, plant and equipment                 |         | 26             | 23             |
| Interest income/exchange gains                             |         | -2,437         | -1,925         |
| Interest expense/exchange losses                           |         | 2,789          | 2,228          |
| <b>Operating cash flows before working capital changes</b> |         | <b>-4,549</b>  | <b>-6,895</b>  |
| <b>Working capital changes:</b>                            |         |                |                |
| (-)Increase/(+)decrease in:                                |         |                |                |
| Inventories  |         | -601           | -227           |
| Trade receivables  |         | 963            | 7,048          |
| Other receivables and prepayments                          |         | -3,835         | -5,055         |
| Amounts due from related parties                           |         | 259            | -258           |
| POC receivables from BOT-projects                          |         | -24,451        | -21,133        |
| (+)Increase/(-)decrease in:                                |         |                |                |
| Trade payables   |         | -1,909         | 1,317          |
| Other payables, provisions and accruals                    |         | -1,641         | 10,743         |
| Amounts due to related parties                             |         | 211            | 4              |
| <b>Cash used in operations</b>                             |         | <b>-35,553</b> | <b>-14,456</b> |
| Interest received  |         | 570            | 974            |
| Interest paid  |         | -4,243         | -2,755         |
| Income tax paid  |         | -483           | -935           |
| <b>Net cash used in operating activities</b>               |         | <b>-39,709</b> | <b>-17,172</b> |

| in kEUR   | 2012           | 2011           |
|---|----------------|----------------|
| <b>Cash flow from investing activities</b>                              |                |                |
| Receipts from short-term financial cash investments                     | 0              | 21,612         |
| Purchase property, plant, equipment, intangible assets, land use rights | -1,017         | -58            |
| <b>Cash flow used in investing activities</b>                           | <b>-1,017</b>  | <b>21,554</b>  |
| <b>Cash flow from financing activities</b>                              |                |                |
| Borrowings  | 24,345         | 20,873         |
| Repayments of loans   | -5,123         | -431           |
| Cash repayments of financial assets (BOT-projects)                      | 5,070          | 1,091          |
| Dividends paid  | 0              | -1,890         |
| Buy back of own shares  | 0              | -504           |
| <b>Cash flow from financing activities</b>                              | <b>24,292</b>  | <b>19,139</b>  |
| <b>Net increase (+) / decrease (-) in cash and cash equivalents</b>     | <b>-16,434</b> | <b>23,521</b>  |
| Cash at beginning of year   | 117,308        | 83,805         |
| Foreign exchange differences  | -561           | 9,982          |
| <b>Cash at end of period (Note 16)</b>                                  | <b>100,313</b> | <b>117,308</b> |
| <b>Of which: Included in assets held for sale</b>                       | <b>4</b>       | <b>0</b>       |
| <b>Of which: Cash as per Consolidated Balance Sheet</b>                 | <b>100,309</b> | <b>117,308</b> |

Please refer to note 32 for explanations on the Consolidated Statement of Cashflow, including a correction of prior years figures.

## Consolidated Statement of Changes in Equity

of ZhongDe Waste Technology AG for the period  
from 1 January to 31 December 2012

| in kEUR   | Number of shares outstanding | Share capital AG | Capital Reserves | Statutory reserves | Own shares    | Retained earnings | Currency Translation reserve (other comprehensive income) | Total equity   |
|---|------------------------------|------------------|------------------|--------------------|---------------|-------------------|---|----------------|
|   | 21.1                         | 21.1             | 21.2 a)          | 21.2 b)            | 21.1          | 21.2 c)           | 21.3  |                |
| Balance as of January 1, 2011   | 12,652,440                   | 13,000           | 70,522           | 7,793              | -4,104        | 26,986            | 15,461  | 129,655        |
| Total comprehensive income  |                              |                  |                  |                    |               | -10,708           | 9,111   | -1,597         |
| Appropriation of current year's income                                |                              |                  |                  | 179                |               | -179              |   | 0              |
| Withdrawals from the capital reserve for offsetting an annual deficit |                              |                  | -7,608           |                    |               | 7,608             |   | 0              |
| Dividend paid for the year 2010                                       |                              |                  |                  |                    |               | -1,890            |   | -1,890         |
| Buy back own shares   | -52,440                      |                  |                  |                    | -504          |                   |   | -504           |
| Balance as of 31 December 2011  | 12,600,000                   | 13,000           | 62,914           | 7,972              | -4,608        | 21,817            | 24,573  | 125,666        |
| Total comprehensive income  |                              |                  |                  |                    |               | -12,230           | -679  | -12,909        |
| <b>Balance as of 31 December 2012</b>                                 | <b>12,600,000</b>            | <b>13,000</b>    | <b>62,914</b>    | <b>7,972</b>       | <b>-4,608</b> | <b>9,587</b>      | <b>23,894</b>   | <b>112,755</b> |

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

## **NOTES TO THE FINANCIAL STATEMENTS**

of ZhongDe Waste Technology AG as of 31 December 2012

### **| 1 | Background and Basis of Preparation**

#### **| 1.1 | The Company**

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

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

##### **Business purpose of the Company**

The Company's purpose is the holding, administration and disposal of direct and indirect participations of undertakings and participations in the waste disposal business, particularly waste incineration and waste management, including all transactions related thereto and services for affiliated entities. 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 produced 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 projects, the ZhongDe Group is responsible for the design, engineering, procurement, construction and installation of waste incinerators with a power generation with the above mentioned techniques (energy-from-waste). In addition to the above EPC-role, the ZhongDe Group also produces and operates the energy-from-waste plants as an investor of BOT projects. 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 is still very slow. In 2012, no incinerators were sold.

### Group structure

The operational business of the ZhongDe Group is carried out by individual operating subsidiaries, being limited liability companies formed under the laws of the PRC.

The following subsidiaries are under either direct or indirect control of ZhongDe Waste Technology AG and accordingly consolidated:

|    | in kEUR   | Interest<br>(direct/indirect) | Equity<br>31.12.2012 | Results<br>2012 | Project  |
|----|---|-------------------------------|----------------------|-----------------|----------|
| 1. | ZhongDe (China) Environmental Protection Co. Ltd., Peking, PRC                  | Direct 100%                   | 3,616                | -1,753          | Dingzhou |
| 2. | Chung Hua Environmental Protection Assets (Holdings) Group Ltd., Hongkong       | Direct 100%                   | 35,738               | -2,655          | n/a      |
| 3. | Fujian FengQuan Environmental Protection Holding Ltd., Fuzhou PRC               | Indirect 100%                 | 71,458               | -2,341          | n/a      |
| 4. | Beijing ZhongDe Environmental Protection Technology Co. Ltd., Peking, PRC       | Indirect 100%                 | 1,738                | 5,962           | Zhucheng |
| 5. | Zhoukou FengQuan Environmental Protection Electric Power Co. Ltd., Zhoukou, PRC | Indirect 100%                 | 11,277               | -430            | Zhoukou  |
| 6. | Feicheng FengQuan Waste Disposal Co. Ltd., Feicheng, PRC                        | Indirect 100%                 | 1,149                | 130             | Feicheng |
| 7. | Xianning ZhongDe Environmental Protection Electric Power Co. Ltd., Xinjiang PRC | Indirect 100%                 | 16,290               | 1,567           | Xianning |
| 8. | Kunming FengDe Environmental Protection Electric Power Co. Ltd., Kunming, PRC   | Indirect 100%                 | 9,298                | -1,502          | Kunming  |
| 9. | Lanzhou FengQuan Environmental Electric Power Co., Ltd., Lanzhou, PRC           | Indirect 100%                 | 1,180                | -35             | Lanzhou  |



Chung Hua Environmental Protection Assets (Holdings) Group Ltd. (2.) and Fujian FengQuan Environmental Protection Holding Ltd. (3.) are intermediate holding companies and hold all the shares of six operating companies carrying out BOT- or EPC-projects. ZhongDe Waste Technology AG also holds 100% of the shares in ZhongDe (China) Environmental Protection Co. Ltd. (1.) ("ZhongDe (China)"), which was established in 2010. This subsidiary is mainly responsible for handling project acquisition, project planning and other administrative duties at the site in Beijing. Furthermore the EPC-project in Dingzhou is operated in this subsidiary.

Dividends to be paid by the Chinese subsidiaries generally have to be approved by Chinese government bodies. In addition, dividends are only payable if Chinese statutory reserves satisfy the relating legal requirements. Cash transfers from China require a formal approval from the State Administration of Foreign Exchange ("SAFE").

## **| 1.2 | Basis of preparation of the consolidated financial statements**

The Consolidated Financial Statements of the ZhongDe Group for the reporting period ending 31 December 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), London, United Kingdom, and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRSIC), in so far as these have been adopted by the European Union (EU) in effect at the closing date and in accordance with Sec. 315a Para. 3 of the German Commercial Code.

The Consolidated Financial Statements of ZhongDe Group are drawn up in Euros. Amounts are stated in thousands of Euros (EUR thousand or kEUR) except where otherwise indicated. The financial statements of the individual consolidated companies are prepared as of the closing date for the Group financial statements.

The Consolidated Financial Statements for the reporting period ended 31 December 2012 (including comparative information relating to the accounting year 2011) were approved and authorised for issue by the Management Board on 26 April 2013. They are approved by the Supervisory Board on its meeting of 28 April 2013.

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 classified as current. In accordance with IAS 12, deferred tax assets/deferred tax liabilities are presented as non-current assets or liabilities. The consolidated statement of comprehensive income was prepared using the cost of sales method. The items are disclosed and explained separately in the notes.

The significant accounting policies and measurement bases that have been applied in the preparation of these Consolidated Financial Statements as of 31 December 2012 are summarised below.

With the exception of the changes in the accounting policies as set out below, the Consolidated Financial Statements have been prepared in accordance with the accounting policies adopted in the Consolidated Financial Statements for the year ended 31 December 2011. With reference to changes in accounting policies and estimates under Note 2.7 the accounting policies have been applied consistently throughout the Group for the purpose of preparation of these Consolidated Financial Statements.

An overview of new standards, amendments and interpretations applicable for the first time in the 2012 financial year, is given in Note 1.3.

### **| 1.3 | Standards, Interpretations and Amendments to Standards applicable for the first time in the 2012 financial year**

The Group has applied the following standard of the IASB as well as its changes or revisions for the first time in the 2012 reporting period:

- Amendments to IFRS 7 - Financial Instruments: Disclosures – Transfers of financial assets

No material effect arose on the consolidated statement of financial position, consolidated statement of cash flows or consolidated statement of comprehensive income of the ZhongDe Group as a result of the first-time application of these amendments to IFRS 7.

### **| 1.4 | Published but not yet applied Standards, Interpretations and Amendments**

At the time of preparation of the Group consolidated financial statements, the following standards and interpretations of the IASB as well as their changes and revisions had either not been endorsed by the European Union or were not compulsorily applicable in the 2012 financial year, and were therefore not applied by the ZhongDe Group:

- IFRS 1 (Amendments) – Severe Hyperinflation and Removal of Fixed Assets for first time Adopters (to be applied from 1 January 2013)
- IFRS 1 (Amendments) – Government Loans (to be applied from 1 January 2013)
- IFRS 7 (Amendments) – Financial Instruments – Disclosures – Offsetting Financial Assets and Financial Liabilities (to be applied from 1 January 2013)
- IFRS 9 – Financial Instruments (issued 12 November 2009) and subsequent amendments (application date unknown yet)
- IFRS 10 – Consolidated Financial Statements (to be applied from 1 January 2014)
- IFRS 11 – Joint Arrangements (to be applied from 1 January 2014)

- IFRS 12 – Disclosures of Interests in Other Entities (to be applied from 1 January 2014)
- Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27 (issued 31 October 2012) (application date still uncertain)
- Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12 (to be applied from 1 January 2014)
- IFRS 13 – Fair Value Measurement (to be applied from 1 January 2013)
- IAS 1 (Amendments) – Presentation of Items of Other Comprehensive Income (to be applied from 1 July 2012)
- IAS 12 (Amendments) – Deferred tax: Recovery of Underlying Assets (to be applied from 1 January 2013)
- IAS 19 (Amendments) – Employee Benefits (to be applied from 1 January 2013)
- IAS 27 – Separate Financial Statements (to be applied from 1 January 2014)
- IAS 28 – Investments in Associates and Joint Ventures (to be applied from 1 January 2014)
- IAS 32 (Amendments) – Financial Instruments – Offsetting Financial Assets and Financial Liabilities (to be applied from 1 January 2014)
- Annual Improvements to IFRSs 2009-2011 Cycle (issued 17 May 2012) (to be applied from 1 January 2013)
- IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine (to be applied from 1 January 2013)

The aforementioned IFRS are to be applied in the Consolidated Financial Statements of the ZhongDe Group from the 2013 financial year or later. Aside from additional or modified disclosure requirements ZhongDe Group currently expects from the first-time application of these standards, interpretations and amendments only marginal effect on the consolidated financial statements.

## | 2 | Significant Accounting Policies

### | 2.1 | Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiary undertakings drawn up to 31 December 2012. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. All subsidiaries have an annual reporting date of 31 December.

Consistent accounting and valuation policies are applied for like transactions and events in similar circumstances. The inter-group business relations 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 recognized in single-entity financial statements, these are reversed in the course of consolidation. Subsidiaries are fully consolidated from the date of acquisition or foundation, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases.

The Consolidated Financial Statements are prepared in Euro. The amounts presented are rounded to thousand EUR if not otherwise stated. We point out that due to using rounded numbers, commercial rounding differences may occur.

## **| 2.2 | 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 currency of the combined entities and are recorded, on initial recognition, in the functional currency at the approximate exchange rates current as at their respective transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange applicable as of the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when their respective fair values are determined.

Exchange differences arising from the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in 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 as the parent company is a German Stock Corporation listed in Germany. The results and financial position of the combined entities are translated from RMB (or HKD), the functional currency of all entities of the Group, into Euro as follows:

| Development of exchange rates (1 EUR/ foreign currency) |     |              |         |              |         |
|---|-----|--------------|---------|--------------|---------|
|   |     | Average rate |         | Closing rate |         |
| ISO-Code  |     | 2012         | 2011    | 2012         | 2011    |
| Chinese Yuan  | CNY | 8.1052       | 8.9960  | 8.2207       | 8.1588  |
| Hong Kong-Dollar  | HKD | 9.9663       | 10.8362 | 10.2260      | 10.0510 |

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

All resulting exchange differences are recognised without effect on profit and loss in other comprehensive income in the currency translation reserve, a separate component of equity.

### | 2.3 | Non-current assets held for sale (disposal group)

ZhongDe AG's interests in Feicheng FengQuan Waste Disposal Co. Ltd., which operates the Feicheng BOO-project are held by Fujian FengQuan Environmental Protection Holding Ltd. As this project does not fit to the strategic change to BOT-projects, the subsidiary is planned to be sold within the next year. Its assets and liabilities are therefore reported in accordance with IFRS 5 as non current assets held for sale (comprising a disposal group) since 31 December 2012.

Under IFRS 5, disposal groups are measured at the lower of carrying amount and fair value less costs to sell.

The assets and liabilities classified relating to the disposal group are presented separately in the Statement of Financial Position. The table below shows the major classes of assets and liabilities held for sale.

| in kEUR                     | 31.12.2012   |
|-----------------------------|--------------|
| Receivables from BOT        | 7,134        |
| Fixed Assets                | 33           |
| Trade receivables           | 59           |
| Cash                        | 4            |
| Other assets                | 19           |
| <b>Total assets</b>         | <b>7,249</b> |
| Deferred Taxes              | 477          |
| Trade payables              | 654          |
| Other payables and accruals | 7            |
| Provisions                  | 91           |
| <b>Total Liabilities</b>    | <b>1,229</b> |

Not disclosed are intercompany liabilities amounting to kEUR 4,870. The liabilities relate to a loan granted by Fujian Fengquan Environmental Protection Holding Ltd. and are eliminated on consolidation level.

#### **| 2.4 | Service concession arrangements**

The subsidiaries of the Group entered into service concession arrangements with various grantors. Pursuant to the service concession arrangements, the Group has to design and construct energy-from-waste 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 minimum annual payments under the arrangements. Upon expiry of the concession periods, the infrastructure and the related facilities will be transferred to the local government authorities (grantors) without consideration. In case of delayed payment of waste disposal fees, the Group is entitled to receive penalties 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.

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

Revenue and profits or losses in the reporting period resulting from rendering construction services in exchange for a financial or intangible asset relate to the segment BOT- projects and are disclosed in the segment reporting under [| 3 | Segment Reporting](#).

## **| 2.5 | 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 kEUR 603 (2011: kEUR 441).

## **b) Depreciation of property, plant and 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, according to life expectations in comparable industries. The carrying amount of the Group's equipment at 31 December 2012 was kEUR 805 (2011: kEUR 1,258). 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 expire within one year after 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 kEUR 1,936 (2011: kEUR 1,840) 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. POC-revenues amount to kEUR 24,677 (2011: kEUR 30,107).

#### **f) Measurement of fair value of the construction services of BOT projects**

The Group uses the cost-plus method to determine the fair value of construction services. This entails the addition of a margin to the costs incurred in the production and development phases to obtain fair value. As well as a precise estimate of all the production and development costs incurred for the project, this requires the estimate of a margin for each project. In the absence of available data the margin is deduced from comparable projects that have already been realized. The management of the operating units continuously reviews all estimates made in the course of BOT projects and adjusts them as necessary.

### **| 2.6 | Restatement of Derecognition of Construction in Progress**

In 2011, construction costs capitalized for the Beijing Miyun facility under construction were corrected retrospectively as the land-use right for the property was not granted at reporting date.

The correction of the expenses capitalized for the building in Beijing Miyun in the consolidated financial statements as at 31 December 2011 was carried out on the assumption that due to this fact, i.e. the land-use right still not being granted although subject to certain legal proceedings for a number of years, any construction on that site had to be expensed as incurred. In China generally the granting of land use rights can take a considerable period of time during which the start of the intended construction happens on a regular basis and in compliance with other Chinese legal requirements as for example construction permits. Under this viewpoint, a correction of the amounts capitalized for construction is necessary, when uncertainty arises that the land use right might be granted at all, leading to a depreciation of the amounts capitalized.

As this is in line with general business practice in China, ZhongDe follows this approach and rededicates the amounts retrospectively expensed in 2011 as depreciation of construction on progress in former year, leading to a change in the fixed asset movement schedule. There the amounts formerly eliminated are now presented as incurred and eliminated by a full depreciation charge. There are no other effects on prior years' financial statements. The land use rights in question have been granted in September 2012. After the land use right was finally granted in September 2012 following an additional payment of kEUR 916 after EUR 2.7 million had already been paid in 2007 with respect to the development of the land for construction usage.

## **| 2.7 | Changes in Accounting Estimates**

The group applies different tax rates for the calculation of deferred taxes on temporary differences from BOT-receivables and other assets and liabilities. In the reporting period the deferred taxes on temporary differences from BOT-receivables are calculated on individual tax rates of 23.47% - 23.75% applicable for the referring project entities, instead of an overall tax rate of 25%, because as a result of the increased degree of completion of the BOT-projects a more reliable estimate of the timing of the reversal of the respective temporary differences was possible.

Due to this change in accounting estimate the Group realised kEUR 597 less tax expense on deferred taxes in 2012. The effect in future periods will be approximately kEUR 310 less tax expense on deferred taxes.

## **| 2.8 | Intangible assets**

### **a) Software**

Acquired 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 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.

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 increased compared to the previous year by kEUR 39 to kEUR 222.

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**

A service concession right is recognised to the extent that the ZhongDe Group receives through a BOT-contract a right to charge users of the public service for providing the infrastructure or other services. Borrowing costs are included in acquisition costs as far as they relate to the qualifying intangible asset.

Service concession rights are amortised over the agreed period of use, which according to the terms of the contracts is generally 30 years. Amortization begins when the infrastructure is put into service, which is expected to be in 2013 for the next BOT projects. During the production phase a capitalized intangible asset is tested annually for impairment.

All intangible assets have a definite useful life.

### **| 2.9 | Prepayments on Land Use Rights**

In September 2012 ZhongDe was granted land use rights for the facility in Beijing against a payment of kEUR 916. The payments for this land use right are presented as prepayments for land use rights and expensed over the lease term of 50 years. The carrying amount of prepayments on land use rights was kEUR 3,484 as of 31 December 2012 (2011: kEUR 0). The short term portion amounting to kEUR 72 is disclosed in the statement of financial position under the item Other receivables and prepayments. The carrying amounts also includes the fees for the development of land which have been presented under Other Receivables in prior year (please also refer to note 2.6).

## | 2.10 | Property, plant and equipment

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

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

| Machinery, equipment                        |  | 10 years   |
|---|--|------------|
| Cars  |  | 5 years    |
| Electronic equipment, fixtures and fittings |  | 5-10 years |

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

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

## | 2.11 | Construction in progress

Construction in progress is carried at cost, less any recognised impairment loss. Depreciation of these assets commences when the assets are ready for their intended use. Please also refer to note 2.6.

## | 2.12 | 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.

The group performed impairment tests for the intangible assets from service concession agreements not yet available for use. The impairment test for the project in Zhoukou (cash generating unit) documented that based on actual assumptions and knowledge the expected discounted cashflows in the operating period do not cover the assets capitalized. The recoverable amount was calculated as value in use at an interest before tax of 17.8%. Accordingly the intangible asset for the service concession right had to be written down by € 7.4 million. The project in Zhoukou belongs to the segment BOT.

### **| 2.13 | Receivables from BOT**

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

Receivables from BOT are recognised at amortised cost less repayments and any amortisation, where applicable. In subsequent periods the receivables are subject to the effective interest method.

## | 2.14 | Inventories

Inventories are valued at the lower of acquisition and production costs or the net realisable value as follows:

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

## | 2.15 | Financial Instruments

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

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

### a) Financial assets

For the purpose of subsequent measurement, financial assets are classified into different categories. The category determines subsequent measurement. The Group held only financial assets of the category loans and receivables (including cash and cash equivalents).

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables and amounts due from related parties fall into this category of financial instruments. All loans and receivables are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for

impairment in groups, which are determined by reference to the industry and region of the counterparty and other available features of shared credit risk characteristics.

## b) Financial Liabilities

The Group's financial liabilities include interest-bearing long term loans, trade and other payables, accruals and amounts due to related parties.

Financial liabilities are measured subsequently at amortised cost using the effective interest method. Gains are recognised in the statement of comprehensive income when it is evident that payment will not be necessary.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in the statement of comprehensive income are included within "finance cost" or "finance income".

### **| 2.16 | Trade and other receivables**

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

### **| 2.17 | 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.

### **| 2.18 | Non-current assets held for sale and associated liabilities**

Non-current assets held for sale and associated liabilities are measured in accordance with IFRS 5 and reported as current assets/liabilities. To be classified as held for sale, assets must be available for immediate sale and their sale must be highly probable. Assets held for sale can be individual non-current assets, groups of assets held for sale (disposal groups) or discontinued operations. Liabilities that are disposed of with assets in a single transaction are part of a disposal group and are likewise reported separately under current liabilities as liabilities associated with assets held for sale. Non-current assets held for sale cease to be

depreciated or amortized, and are measured at their carrying amount or at fair value less costs to sell, whichever is lower. Gains or losses arising on the measurement of individual assets held for sale or of disposal groups are reported under result of the year until their ultimate disposal.

## **| 2.19 | Capital and Reserves**

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

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

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

## **| 2.20 | Provisions**

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

If the provisions are long term, they are discounted using a current pre-tax rate that reflects 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. As at 31 December 2012 all provisions are classified as current as they are due to reach maturity within a year.

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



## **| 2.21 | Operating lease**

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

## **| 2.22 | Order backlog**

The order backlog regarding incinerators and EPC projects is calculated based on the contractual amounts less any amounts of work already completed.

Regarding BOT-projects the order backlog is stated at the fair value of the construction of the energy-from-waste plants less the revenues accounted for according to the actual stage of completion. The fair value of the constructions is derived from the originally budgeted costs plus a margin based on a project that has already been realized (cost-plus method).

## **| 2.23 | Revenue recognition**

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

### **a) Sales of goods**

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership to the customer, which generally coincides with delivery and acceptance of the goods sold. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods. Sale of goods represents the invoiced amount of delivered goods net of discounts, returns and value added tax.

### **b) Rendering service**

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

### **c) Long-term construction contract revenue**

Revenue for long-term construction contracts is accounted for under the percentage of completion method where revenue is recognised as the performance of the contract progresses. The contract progress is determined based on the percentage of costs incurred to date compared to the actual total estimated cost for each contract. This stage of

completion is applied on the share of revenue recognisable until the reporting date. Total recognisable revenue refers to the contract price (incinerators and EPC-projects) or the fair value of the construction costs (BOT-projects). Please also refer to Note 2.5 f) Measurement of fair value of construction services of BOT projects.

#### **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 interest basis.

#### **| 2.24 | 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.

#### **| 2.25 | 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.

All other borrowing costs are expensed as incurred.

#### **| 2.26 | 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. None of these have been accounted for directly in equity as at balance sheet date or in the previous year.

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

Deferred tax assets and liabilities, if any, are measured at the tax rates that are expected to be applicable in the year the asset is realised or the liability is settled. Deferred tax assets and liabilities, are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to income taxes levied by the

same tax authority.

The carrying amount of deferred tax assets is 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 tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

## | 2.27 | Earnings per Share

Earnings per share for 2012 amounted to € -0.97 (2011: € -0.85). The basis for the calculation is the profit after tax attributable to the owners of ZhongDe AG (the legal parent) as the numerator. The earnings per share are determined on the basis of the weighted average of the outstanding common stock. The number of outstanding shares used for basic earnings per share for the twelve month period ended 31 December 2012 amounted to 12,600,000 shares (31 December 2011: 12,608,760 shares). Basic and diluted earnings per share are the same, as the absence of potential shares means that dilution effects are not relevant.

| in kEUR                                     | 2012       | 2011       |
|---|------------|------------|
| Calculation of earnings per share           |            |            |
| Result attributable to owners of the parent | -12,230    | -10,708    |
| Average number of shares                    | 12,600,000 | 12,608,760 |
| Basic and diluted earnings per share        | -0.97      | -0.85      |

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). Moreover 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. Both capital measures have not been exercised to date. After exercising they will lead to a dilutive effect on earnings per share.

## | 3 | Segment Reporting

### 3.1 Segment information

Operating segments are identified on the basis of the internal reporting which is regularly reviewed by the chief operating decision maker. The operating business is reported separately according to the nature of the products, with each representing a strategic business unit 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 (energy-from-waste). 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 (energy-from-waste) which are returned to the customers after the expiry of the concession period. 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 nearly all identifiable assets of the Group are located in the PRC. Therefore all revenues from external customers are attributed to the PRC.

### c) Allocation basis

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

All inter-segment sales 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 ended 31 December 2012. All revenues in the total amount of kEUR 24,758 (2011: kEUR 32,405) are from external customers.

### 3.2 Segments

|   | Incinerators |       | EPC    |        | BOT     |        | Total reportable segments |         | Consolidation |      | Group   |         |
|---|--------------|-------|--------|--------|---------|--------|---------------------------|---------|---------------|------|---------|---------|
| in kEUR                                     | 2012         | 2011  | 2012   | 2011   | 2012    | 2011   | 2012                      | 2011    | 2012          | 2011 | 2012    | 2011    |
| Revenues                                    | 0            | 2,298 | 307    | 8,858  | 24,451  | 21,249 | 24,758                    | 32,405  | 0             | 0    | 24,758  | 32,405  |
| Intercompany revenues                       |              | -     |        | 0      |         | 0      |                           | 0       |               | 0    |         | 0       |
| Total revenue for reportable segments       | 0            | 2,298 | 307    | 8,858  | 24,451  | 21,249 | 24,758                    | 32,405  | 0             | 0    | 24,758  | 32,405  |
| Total gross profit from reportable segments | -18          | 963   | -2     | 1,559  | 1,603   | 1,592  | 1,583                     | 4,114   | 0             | 0    | 1,583   | 4,114   |
| Order intake*                               | 1,529        | 3,165 | 0      | 1,911  | 139,026 | 1,456  | 140,555                   | 6,532   | 0             | 0    | 140,555 | 6,532   |
| Order backlog*                              | 4,180        | 2,693 | 90,180 | 91,169 | 163,005 | 50,339 | 257,365                   | 144,201 | 0             | 0    | 257,365 | 144,201 |

\* The amount for BOT 2011 was corrected retrospectively due to a calculation error in 2011.

The accounting policies the Group uses for segment reporting under IFRS 8 are the same as those used in its financial statements.

| in kEUR                                      | 2012           | 2011           |
|--|----------------|----------------|
| Total gross profit for reportable segments   | 1,583          | 4,114          |
| Consolidation                                | 0              | 0              |
| <b>Total gross profit for the Group</b>      | <b>1,583</b>   | <b>4,114</b>   |
| Unallocated income and expenses of the Group | -14,151        | -11,852        |
| <b>EBIT</b>                                  | <b>-12,568</b> | <b>-7,738</b>  |
| Finance income                               | 2,437          | 1,905          |
| Finance expense                              | -2,789         | -2,206         |
| <b>Profit before tax</b>                     | <b>-12,920</b> | <b>-8,039</b>  |
| Income tax                                   | 690            | -2,669         |
| <b>Profit (+)/Loss (-) for the year</b>      | <b>-12,230</b> | <b>-10,708</b> |

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

### 3.3 Information about major customers

All of ZhongDe's revenues were earned by Group companies based in Mainland China. In the BOT segment revenues of € 24.4 million (2011: € 20.8 million) were achieved with three customers. The following table presents the total amount from each customer with whom the Group achieved more than 10% of total sales and identify the relevant segment of the revenues:

| in EUR million | Segment | Revenues |      |
|----------------|---------|----------|------|
|                |         | 2012     | 2011 |
| BOT Xianning   | BOT     | 14.7     | 6.3  |
| BOT Kunming    | BOT     | 8.0      | 8.7  |
| BOT Zhoukou    | BOT     | 1.7      | 5.8  |
| EPC Zhucheng   | EPC     | 0.2      | 7.0  |

## Notes on the Statement of Comprehensive Income

### | 4 | Revenues

Revenue amounts to € 24.8 million (2011: € 32.4 million). Thereof € 24.7 million (2011: € 30.1 million) have been accounted for under the PoC-method for EPC- and BOT-projects. These PoC-revenues generated profits amounting to € 1.5 million (2011: € 3.1 million) by costs incurred amounting to € 23.2 million (2011: 27.0 million). A breakdown of revenue by segment can be found in the segment reporting. Sales of kEUR 81 (2011: kEUR 0) relate to operating revenues from the project in Feicheng.

## | 5 | Cost of Sales

The following table shows a breakdown of costs of sales for the period under review for each category:

| in kEUR                      | 2012          |              | 2011          |              |
|------------------------------|---------------|--------------|---------------|--------------|
|                              | kEUR          | %            | kEUR          | %            |
| Subconstructors services     | 22,042        | 95.1         | 26,907        | 95.1         |
| Personnel expenses           | 972           | 4.2          | 239           | 0.8          |
| Materials                    | 134           | 0.6          | 1,005         | 3.6          |
| Depreciation on fixed assets | 0             | 0.0          | 29            | 0.1          |
| Others                       | 27            | 0.1          | 110           | 0.4          |
| <b>Total Cost of Sales</b>   | <b>23,175</b> | <b>100.0</b> | <b>28,291</b> | <b>100.0</b> |

Cost of sales decreased from kEUR 28,291 in 2011 by kEUR 5,116 to kEUR 23,175 in 2012. The decrease is mainly attributable to lower respective growth rates of completion. However the decrease of Cost of Sales is lower than the reduction of revenues which leads to a decreased Gross Profit Margin of 6.4% (2011: 12.7%).

As the Group act as General Contractor the predominant part of Cost of Sales relates to subconstructors' services.

## | 6 | Other operating income

The resolution of a provision relating to penalties amounting to kEUR 1,027 lead to an increase in other operating income impacted the operating result as a consequence of a settlement agreed upon in October 2012.

In Q3 of 2012 the construction in progress was appreciated by kEUR 6,743 after the referring land use rights have been granted. At the end of the year it became obvious that the development plans of the site are not stable enough to substantiate the book value of the site, despite the fact that an independent valuation agency confirmed the value. Accordingly the appreciation was reversed at year-end. Please also refer to note 16.

## | 7 | Selling and distribution expenses

The following table shows a breakdown of selling and distribution expenses for the period under review:

| in kEUR                | 2012         | 2011         |
|------------------------|--------------|--------------|
| Entertainment expenses | 632          | 657          |
| Personnel expenses     | 365          | 538          |
| Travel expenses        | 325          | 524          |
| Provisions for delay   | 204          | 1,335        |
| Car using fee          | 111          | 211          |
| Conference expenses    | 21           | 79           |
| Advertising            | 0            | 128          |
| Others                 | 232          | 224          |
|                        | <b>1,890</b> | <b>3,696</b> |

## | 8 | Administrative expenses

The following table shows a breakdown of administrative expenses for the period under review:

| in kEUR                       | 2012         | 2011         |
|-------------------------------|--------------|--------------|
| Personnel expenses            | 1,635        | 2,492        |
| Depreciation and Amortization | 504          | 438          |
| Rent                          | 387          | 273          |
| Office expenses               | 346          | 245          |
| Entertainment expenses        | 311          | 206          |
| Consulting Fees               | 230          | 188          |
| Provision on bad debt         | 168          | 270          |
| Other Taxes                   | 63           | 103          |
| Travel expenses               | 45           | 57           |
| Other expenses                | 37           | 9            |
|                               | <b>3,726</b> | <b>4,281</b> |

Although the total number of employees (391 employees) is nearly unchanged compared to prior year (388 employees), personnel expenses decreased significantly. The reason for that is a change in ZhongDe's personnel structure in 2012: While the number of employees in BOT operation increased, administrative personal were reduced.



## | 9 | Other operating expenses

The following table shows a breakdown of other operating expenses for the period under review:

| in kEUR                              | 2012         | 2011         |
|--------------------------------------|--------------|--------------|
| Impairment of intangible assets      | 7,427        | 0            |
| Financial statements and audit costs | 689          | 990          |
| Investor relations costs             | 310          | 256          |
| Legal and advisory costs             | 293          | 187          |
| Supervisory board costs              | 151          | 140          |
| Consulting fees                      | 106          | 142          |
| Penalty for delayed capital payment  | 0            | 997          |
| Expenses Beijing                     | 0            | 455          |
| Others                               | 502          | 679          |
|                                      | <b>9,478</b> | <b>3,846</b> |

The impairment relates to the project in Zhoukou. Please also refer to note 2.12.

In 2011 ZhongDe AG set up a provision for penalties relating to delayed capital payment in ZhongDe (China) in the amount of kEUR 997. After a payment of kEUR 74 the remaining amount of the provision was released in 2012.

All expenses incurred at Beijing ZhongDe Environmental Protection Technology Co. Ltd. ("Beijing ZhongDe") were disclosed under other operating expenses in prior years. As in 2012 a couple of employees were transferred from ZhongDe (China) to Beijing ZhongDe to operate the Zhucheng Project, expenses incurred at Beijing ZhongDe are disclosed under administrative expenses and Cost of Sales respectively in the reporting year.

## | 10 | Selected information and the nature of expenses

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

| in kEUR  | 2012  | 2011  |
|--|-------|-------|
| Staff costs  | 3,131 | 3,413 |
| Depreciation of property plant and equipment           | 455   | 445   |
| Addition/Release of Allowance for doubtful trade debts | 168   | 270   |
| Expensing of land use rights                           | 24    | 0     |
| Amortization of intangible assets                      | 7,452 | 22    |

## | 11 | Finance Income

| in kEUR         | 2012         | 2011         |
|-----------------|--------------|--------------|
| Interest income | 2,355        | 1,589        |
| Exchange gains  | 82           | 316          |
|                 | <b>2,437</b> | <b>1,905</b> |

Interest income of € 0.5 million (2011: € 0.6 million) relates to short-term financial assets with a maturity of within 3 months as well as to interest from cash at banks and from receivables from BOT projects amounting to € 1.9 million (2011: € 1.0 million).

## | 12 | Finance Costs

| in kEUR           | 2012         | 2011         |
|-------------------|--------------|--------------|
| Bank charges      | 6            | 7            |
| Exchange loss     | 278          | 480          |
| Interest expenses | 2,505        | 1,719        |
|                   | <b>2,789</b> | <b>2,206</b> |

In 2012 borrowing costs of € 4.0 million (2011: € 2.3 million) incurred. Thereof € 1.5 million (2011: € 0.6 million) were capitalised and € 2.5 million were accounted for 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).

## Notes on the Consolidated Statement of Financial Position

## | 13 | Intangible Assets

| in kEUR   | Software   | Trademark,<br>Patent | Service<br>concession<br>rights | Total         |
|---|------------|----------------------|---------------------------------|---------------|
| <b>Cost:</b>  |            |                      |                                 |               |
| At 1 January 2012                                       | 232        | 48                   | 15,587                          | 15,867        |
| Additions   | 0          | 38                   | 8,172                           | 8,210         |
| Exchange difference                                     | -2         | -1                   | -230                            | -233          |
| <b>At 31 December 2012</b>                              | <b>230</b> | <b>85</b>            | <b>23,529</b>                   | <b>23,844</b> |
| <b>Accumulated<br/>amortization and<br/>impairment:</b> |            |                      |                                 |               |
| At 1 January 2012                                       | 67         | 18                   | 0                               | 85            |
| Amortization  | 25         | 0                    | 0                               | 25            |
| Impairment  | 0          | 0                    | 7,427                           | 7,427         |
| Exchange difference                                     | -1         | 1                    | -104                            | -104          |
| <b>At 31 December 2012</b>                              | <b>91</b>  | <b>19</b>            | <b>7,323</b>                    | <b>7,433</b>  |
| <b>Net carrying amount:</b>                             |            |                      |                                 |               |
| At 1 January 2012                                       | 165        | 30                   | 15,587                          | 15,782        |
| <b>At 31 December 2012</b>                              | <b>139</b> | <b>66</b>            | <b>16,206</b>                   | <b>16,411</b> |
|   |            |                      |                                 |               |
| Exchange difference                                     | -1         | -2                   | -126                            | -129          |

| in kEUR   | Software   | Trademark,<br>Patent | Service<br>concession<br>rights | Total         |
|---|------------|----------------------|---------------------------------|---------------|
| <b>Cost:</b>  |            |                      |                                 |               |
| At 1 January 2011                                       | 214        | 44                   | 7,572                           | 7,830         |
| Additions   | 1          | 0                    | 6,711                           | 6,712         |
| Exchange difference                                     | 17         | 4                    | 1,304                           | 1,325         |
| <b>At 31 December 2011</b>                              | <b>232</b> | <b>48</b>            | <b>15,587</b>                   | <b>15,867</b> |
| <b>Accumulated<br/>amortization and<br/>impairment:</b> |            |                      |                                 |               |
| At 1 January 2011                                       | 39         | 17                   | 0                               | 56            |
| Amortization  | 22         | 0                    | 0                               | 22            |
| Exchange difference                                     | 6          | 1                    | 0                               | 7             |
| <b>At 31 December 2011</b>                              | <b>67</b>  | <b>18</b>            | <b>0</b>                        | <b>85</b>     |
| <b>Net carrying amount:</b>                             |            |                      |                                 |               |
| At 1 January 2012                                       | 175        | 27                   | 7,572                           | 7,774         |
| <b>At 31 December 2011</b>                              | <b>165</b> | <b>30</b>            | <b>15,587</b>                   | <b>15,782</b> |
|   |            |                      |                                 |               |
| Exchange difference                                     | 11         | 3                    | 1,304                           | 1,318         |

The impairment relates to the intangible asset from service concession rights of the project in Zhoukou. Please also refer to note 2.12.

Intangible assets from service concessions are qualifying assets in the meaning of IAS 23 (Borrowing Costs). Accordingly proportional borrowing costs of € 1.5 million have been

capitalized in 2012 (2011: € 0.6 million). The borrowing costs were determined on the basis of interest rates between 7.4% and 9.0% (2011: between 7.4% and 8.4%). Depreciation on intangible assets is presented as administrative costs.

The following important intangible assets which being used by the Group free of charge, 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.

## | 14 | Prepayments on Land use right

| in kEUR                                  | Land<br>under operating leasing and land<br>development fees |
|--|--|
| <b>Acquisition and production costs:</b> |  |
| At 1 January 2012                        | 0  |
| Additions                                | 916  |
| Disposals                                | 0  |
| Reclassification                         | 2,696  |
| Exchange difference                      | -32  |
| <b>At 31 December 2012</b>               | <b>3,580</b>   |
| <b>Accumulated amortization</b>          |  |
| At 1 January 2012                        | 0  |
| Amortization charged for the year        | 24   |
| Disposals                                | 0  |
| Exchange difference                      | 0  |
| <b>At 31 December 2012</b>               | <b>24</b>  |
| <b>Net carrying amount</b>               |  |
| At 1 January 2012                        | 0  |
| <b>At 31 December 2012</b>               | <b>3,556</b>   |
| Exchange difference                      | -32  |

In September 2012 the Group received the land use right for the site in Beijing Miyun for kEUR 916. The right is granted for a period of 50 years. In 2007, ZhongDe paid a fee for the development of the land to be used amounting to € 2.7 million, which was disclosed under

other receivables and prepayments in 2011. After having received the land use right, the fee was reclassified to prepayments on land use rights. Both are expensed on a straight line basis over 50 years. The short term portion amounting to kEUR 72 is presented under other receivables.

## | 15 | Property, Plant and Equipment

| in kEUR   | Machine equipment | Vehicle      | Electronic equipment, fixtures and fittings | Total        |
|---|-------------------|--------------|---|--------------|
| <b>Cost:</b>                                    |                   |              |   |              |
| At 1 January 2012                               | 785               | 1,607        | 606   | 2,998        |
| Additions                                       | 0                 | 24           | 40  | 64           |
| Disposals                                       | -6                | -62          | -10   | -78          |
| Reclassifications                               | -3                | -23          | -32   | -58          |
| Exchange difference                             | -8                | -21          | -5  | -34          |
| <b>At 31 December 2012</b>                      | <b>768</b>        | <b>1,525</b> | <b>599</b>                                  | <b>2,892</b> |
| <b>Accumulated depreciation and impairment:</b> |                   |              |   |              |
| At 1 January 2012                               | 469               | 941          | 330   | 1,740        |
| Depreciation charged for the year               | 56                | 290          | 109   | 455          |
| Disposals                                       | -2                | -41          | -9  | -52          |
| Reclassifications                               | -1                | -4           | -20   | -25          |
| Exchange difference                             | -4                | -17          | -10   | -31          |
| <b>At 31 December 2012</b>                      | <b>518</b>        | <b>1,169</b> | <b>400</b>                                  | <b>2,087</b> |
| <b>Net carrying amount:</b>                     |                   |              |   |              |
| At 1 January 2012                               | 316               | 666          | 276   | 1,258        |
| <b>At 31 December 2012</b>                      | <b>250</b>        | <b>356</b>   | <b>199</b>                                  | <b>805</b>   |
|   |                   |              |   |              |
| Exchange difference                             | -4                | -4           | 5   | -3           |

## The reclassifications exclusively relate to assets held for sale

| in kEUR   | Machine equipment | Vehicle      | Electronic equipment | Total        |
|---|-------------------|--------------|----------------------|--------------|
| <b>Cost:</b>                                    |                   |              |                      |              |
| At 1 January 2011                               | 730               | 1,542        | 508                  | 2,780        |
| Additions                                       | 0                 | 0            | 56                   | 56           |
| Disposals                                       | -4                | -55          | -5                   | -64          |
| Exchange difference                             | 59                | 120          | 47                   | 226          |
| <b>At 31 December 2011</b>                      | <b>785</b>        | <b>1,607</b> | <b>606</b>           | <b>2,998</b> |
| <b>Accumulated depreciation and impairment:</b> |                   |              |                      |              |
| At 1 January 2011                               | 366               | 613          | 217                  | 1,196        |
| Depreciation charged for the year               | 68                | 287          | 90                   | 445          |
| Disposals                                       | -3                | -35          | -3                   | -41          |
| Exchange difference                             | 38                | 76           | 26                   | 140          |
| <b>At 31 December 2011</b>                      | <b>469</b>        | <b>941</b>   | <b>330</b>           | <b>1,740</b> |
| <b>Net carrying amount:</b>                     |                   |              |                      |              |
| At 1 January 2011                               | 364               | 929          | 291                  | 1,584        |
| <b>At 31 December 2011</b>                      | <b>316</b>        | <b>666</b>   | <b>276</b>           | <b>1,258</b> |
|   |                   |              |                      |              |
| <b>Exchange difference</b>                      | <b>21</b>         | <b>44</b>    | <b>21</b>            | <b>86</b>    |

## | 16 | Construction in Progress

| in kEUR   | Construction in progress |
|---|--------------------------|
| <b>Acquisition and production costs:</b>        |                          |
| At 1 January 2012                               | 6,146                    |
| Additions                                       | 0                        |
| Disposals                                       | 0                        |
| Exchange difference                             | 0                        |
| <b>At 31 December 2012</b>                      | <b>6,146</b>             |
| <b>Accumulated depreciation and impairment:</b> |                          |
| At 1 January 2012                               | 6,146                    |
| Depreciation charged for the year               | 0                        |
| Appreciation charged for the year               | 0                        |
| Exchange difference                             | 0                        |
| <b>At 31 December 2012</b>                      | <b>6,146</b>             |
| <b>Net carrying amount</b>                      |                          |
| At 31 December 2011                             | 0                        |
| <b>At 31 December 2012</b>                      | <b>0</b>                 |
|   |                          |
| <b>Exchange difference</b>                      | <b>0</b>                 |

| in kEUR   | Construction in progress |
|---|--------------------------|
| <b>Acquisition and production costs:</b>        |                          |
| At 1 January 2011                               | 6,613                    |
| Additions                                       | 0                        |
| Disposals                                       | -461                     |
| Exchange difference                             | -6                       |
| <b>At 31 December 2011</b>                      | <b>6,146</b>             |
| <b>Accumulated depreciation and impairment:</b> |                          |
| At 1 January 2011 after restatement             | 6,143                    |
| Depreciation charged for the year               | 0                        |
| Disposals                                       | 0                        |
| Exchange difference                             | 3                        |
| <b>At 31 December 2011</b>                      | <b>6,146</b>             |
| <b>Net carrying amount</b>                      |                          |
| At 31 December 2010                             | 470                      |
| <b>At 31 December 2011</b>                      | <b>0</b>                 |
|   |                          |
| <b>Exchange difference</b>                      | <b>-9</b>                |

Construction in progress relates to the building in Beijing Miyun where the Group has already constructed a building. Due to the strategic change of the Group the construction of the building ceased by the end of 2009. ZhongDe is currently seeking for joint venturers for this project as a research and development center. The land use rights for the building have been granted in September 2012. Please also refer to note 2.6.

## | 17 | Receivables from BOT Projects

| in kEUR   | Receivables from BOT Projects |
|---|-------------------------------|
| <b>Cost:</b>                                    |                               |
| At 1 January 2012                               | 40,181                        |
| Additions                                       | 19,600                        |
| Disposals                                       | -5,070                        |
| Reclassification of assets held for sale        | -7,134                        |
| Exchange difference                             | -507                          |
| <b>At 31 December 2012</b>                      | <b>47,070</b>                 |
| <b>Accumulated depreciation and impairment:</b> |                               |
| At 1 January 2012                               | 0                             |
| Depreciation charged for the year               | 0                             |
| Disposals                                       | 0                             |
| Exchange difference                             | 0                             |
| <b>At 31 December 2012</b>                      | <b>0</b>                      |
| <b>Net carrying amount:</b>                     |                               |
| At 1 January 2012                               | 40,181                        |
| <b>At 31 December 2012</b>                      | <b>47,070</b>                 |
|   |                               |
| <b>Exchange difference</b>                      | <b>-507</b>                   |
| in kEUR   | Receivables from BOT          |
| <b>Cost:</b>                                    |                               |
| At 1 January 2011                               | 21,927                        |
| Additions                                       | 16,031                        |
| Disposals                                       | -1,092                        |
| Exchange difference                             | 3,315                         |
| <b>At 31 December 2011</b>                      | <b>40,181</b>                 |
| <b>Accumulated depreciation and impairment:</b> |                               |
| At 1 January 2011                               | 0                             |
| Depreciation charged for the year               | 0                             |
| Disposals                                       | 0                             |
| Exchange difference                             | 0                             |
| <b>At 31 December 2011</b>                      | <b>0</b>                      |
| <b>Net carrying amount:</b>                     |                               |
| At 1 January 2011                               | 21,927                        |
| <b>At 31 December 2011</b>                      | <b>40,181</b>                 |
|   |                               |
| <b>Exchange difference</b>                      | <b>3,315</b>                  |

## | 18 | Inventories

| in kEUR                        | 31.12.2012   | 31.12.2011   |
|--------------------------------|--------------|--------------|
| Raw materials and consumables  | 343          | 413          |
| Finished goods                 | 1,952        | 1,060        |
| Work in progress               | 68           | 336          |
| Raw materials for BOT-projects | 29           | 1            |
| Reclassification               | -1           | 0            |
| Less: Stock provision          | -4           | 0            |
|                                | <b>2,387</b> | <b>1,810</b> |

Inventories mainly affect incinerators. The reclassification relate to assets held for sale.



## | 19 | Trade and Other Receivables

| in kEUR                                   | 31.12.2012    | 31.12.2011    |
|---|---------------|---------------|
| <b>Trade receivables:</b>                 |               |               |
| Trade receivables                         | 804           | 1,826         |
| Allowance for trade receivables           | -603          | -441          |
|   | <b>201</b>    | <b>1,385</b>  |
|   |               |               |
| <b>Other receivables and prepayments:</b> |               |               |
| VAT receivable                            | 2,024         | 1,029         |
| Other receivables                         | 1,879         | 4,655         |
| Interest receivable                       | 13            | 0             |
| Advance to suppliers / subcontractors     | 18,690        | 14,916        |
|   | <b>22,606</b> | <b>20,600</b> |
| Allowance for other receivables           | 0             | 0             |
|   | <b>22,606</b> | <b>20,600</b> |
| <b>Amount due from related parties:</b>   |               |               |
|   |               |               |
| Amount due from related parties           | 47            | 306           |
|   | 47            | 306           |
|   | <b>22,854</b> | <b>22,290</b> |

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

| in kEUR  | 31.12.2012 | 31.12.2011   |
|--|------------|--------------|
| Neither impaired nor due past as of balance sheet date | 0          | 0            |
|  |            |              |
| Overdue:   |            |              |
| Within 30 days   | 0          | 0            |
| 31-90 days   | 0          | 0            |
| 91-180 days  | 0          | 0            |
| 181-360 days   | 0          | 1,421        |
| 361-1,080 days   | 804        | 405          |
| More than 1,080 days                                   | 0          | 0            |
|  | <b>804</b> | <b>1,826</b> |

**Allowance for doubtful receivables**

Trade receivables are adjusted for impairment on the basis of their age. Balances aged less than one year are written off by 5%, while those of age between one and three years are written off by 50%. A 100% allowance is made for all balances with an age of more than three years.

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

| in kEUR                    | 2012       | 2011       |
|----------------------------|------------|------------|
| At 1 January               | 441        | 132        |
| Additions                  | 168        | 270        |
| Releases                   | 0          | 0          |
| Exchange difference        | -6         | 38         |
| <b>At 31 December 2012</b> | <b>603</b> | <b>441</b> |

## | 20 | Cash and Cash Equivalents

| in kEUR  | 31.12.2012     | 31.12.2011     |
|--|----------------|----------------|
| Cash at banks and in hand (relates to the cash fund) | 100,309        | 117,308        |
|  | <b>100,309</b> | <b>117,308</b> |
| Thereof in Germany                                   | 21             | 470            |
| Thereof in China                                     | 100,288        | 116,838        |

The cash at banks earns interest at an annual rate of 0.35%.

## | 21 | Equity

### | 21.1 | Issued capital

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

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.

## Own Shares

As of 31 December 2012 treasury stocks of the parent company amounted to kEUR 4,608 (2011: kEUR 4,608) and are divided into 400,000 shares (2011: 400,000 shares) with a notional amount of € 1.00 each. The number of outstanding shares at 1 January 2012 and 31 December 2012 amounts to 12,600,000; or an average of 12,600,000 (2012) and 12,608,760 (2011).

### | 21.2 | Reserves and retained earnings

#### a) Capital reserves

The amount reflected in the balance sheet generally relates to the proceeds from the IPO in 2007. In 2011 € 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). After the withdrawal the capital reserve amounts to kEUR 62,914 (2011: kEUR 62,914).

#### b) Statutory reserves

This statutory reserve amounting to kEUR 7,972 (2011: kEUR 7,972) relates to the subsidiary Fujian FengQuan Environmental Protection Holding Ltd. According to the legal regulations of the PRC, a corporate enterprise has to allocate at least 10% of its annual net profit to the statutory reserve until this amount to at least 50% of the paid-in capital. This statutory reserve can be used for loss compensation or for a capital increase as long as the reserve does not fall below 25% of the paid-in capital. As Fujian FengQuan Environmental Protection Holding Ltd failed to realise a positive result in 2012 no further addition has been made to this reserve.

#### c) Retained earnings

Retained earnings comprise the cumulative net gains and losses recognised in the consolidated statement of income and expense and amount to kEUR 9,587 (2011: kEUR 21,817). In accordance with the resolution of the shareholders' meeting on 30 August 2012, no dividend was paid for 2011.

### | 21.3 | Currency Translation Reserve

The foreign currency translation reserve represents the foreign currency translation differences arising from the translation of the financial statements from RMB to EUR.

## | 22 | Long Term Loans

The principal conditions of loans are as follows:

|                     | Bank Name                      | Starting Date | Duration in month | Contract Amount in kEUR (kRMB)    | Amount used in kEUR (kRMB)        | Carrying Amount in kEUR (kRMB) | Effective Interest Rate |
|---------------------|--------------------------------|---------------|-------------------|-----------------------------------|-----------------------------------|--------------------------------|-------------------------|
| Kunming BOT Loan 1  | Huarong Financial Leasing Ltd. | 22.10.2010    | 60                | 14,597<br>(120,000)               | 9,089<br>(74,720)                 | 4,710<br>(38,716)              | 11.57%                  |
| Kunming BOT Loan 2  | China Merchants Bank           | 29.4.2011     | 120               | 21,896<br>(180,000)               | 20,680<br>(170,000)               | 20,596<br>(169,363)            | 7.99%                   |
| Xianning BOT Loan 1 | Huarong Financial Leasing Ltd. | 22.10.2010    | 60                | 10,948<br>(90,000)                | 7,155<br>(58,820)                 | 4,076<br>31,404                | 11.95%                  |
| Xianning BOT Loan 2 | China Merchants Bank           | 6.12.2011     | 120               | 14,354<br>(118,000)               | 12,833<br>(105,500)               | 12,520<br>105,030              | 8.16%                   |
| Zhoukou BOT Loan    | Bank of China                  | 18.4.2011     | 120               | 12,165<br>(100,000)               | 12,165<br>(100,000)               | 11,009<br>90,500               | 7.43%                   |
| <b>Total</b>        |                                |               |                   | <b>73,960</b><br><b>(608,000)</b> | <b>61,922</b><br><b>(509,040)</b> | 52,911<br>434,964              | <b>8.90%</b>            |

As far as repayments become due within 12 months loans are disclosed as current under other financial liabilities (€ 5.0 million, 2011: € 4.2 million).

Receivables from BOT as well as intangible assets relating to service concessions arrangements are stated as property, plant and equipment in the statutory accounts of Chinese companies. According to the loan contracts these fixed assets are pledged to the loan granting bank as soon as the respective project will start the operation phase.

## | 23 | Deferred Tax Liabilities

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

| in KEUR                       | 31.12.2012          |                          | 31.12.2011          |                          |
|-------------------------------|---------------------|--------------------------|---------------------|--------------------------|
|                               | Deferred tax assets | Deferred tax liabilities | Deferred tax assets | Deferred tax liabilities |
| Construction in progress      | 14,418              | 0                        | 8,701               | 0                        |
| Property, plant and equipment | 1,235               | 0                        | 1,287               | 0                        |
| Intangible asset              | 51                  | 0                        | 53                  | 0                        |
| Service concession rights     | 0                   | 3,448                    | 0                   | 3,312                    |
| Receivables from BOT          | 0                   | 12,963                   | 0                   | 10,045                   |
| Trade receivables             | 151                 | 13                       | 110                 | 0                        |
| Provisions                    | 0                   | 0                        | 25                  | 0                        |
| Inventories                   | 557                 | 0                        | 541                 | 0                        |
| Other payables and accruals   | 345                 | 2,444                    | 503                 | 1,078                    |
| Losses carried forward        | 20                  | 0                        | 43                  | 0                        |
| <b>Total</b>                  | <b>16,777</b>       | <b>18,868</b>            | <b>11,263</b>       | <b>14,435</b>            |
| Reclassification              | -1,319              | -1,796                   | 0                   | 0                        |
| Netting                       | -15,286             | -15,286                  | -11,106             | -11,106                  |
|                               | <b>172</b>          | <b>1,786</b>             | <b>157</b>          | <b>3,329</b>             |

The reclassification relates to assets held for sale and associated liabilities.

An advanced representation has been made compared to the previous year. This leads to changes compared to the figures disclosed at 31 December 2011.

## | 24 | Trade and Other Payables

| in kEUR                                   | 31.12.2012 | 31.12.2011 |
|---|------------|------------|
| <b>Current liabilities</b>                |            |            |
| Trade payables                            | 15,784     | 18,459     |
| <b>Other payables and prepayments:</b>    |            |            |
| PoC liabilities                           | 6,187      | 5,835      |
| Advance from customers                    | 2,274      | 1,245      |
| Accrued Payroll Expenses                  | 313        | 632        |
| VAT payable                               | 1,855      | 2,295      |
| Other tax payables                        | 988        | 1,019      |
| Other payables                            | 1,464      | 3,007      |
|   | 13,081     | 14,033     |
| <b>Amounts due to related parties:</b>    |            |            |
| Amounts due to other related parties      | 215        | 6          |
|   | 215        | 6          |
| <b>Current portion of long-term loans</b> | 4,984      | 4,163      |
| <b>Tax Liabilities</b>                    | 251        | 334        |
|   | 34,315     | 36,995     |

VAT payables shown in the table above amounting to kEUR 2,143 (2011) are restated from PoC-liabilities to VAT-payables in prior year figures. Also kEUR 795 (2011) are restated from accrued payroll expenses to other payables in prior year figures.

All trade payables are non-interest bearing. As in prior year trade and other payables have not been discounted due to their short duration. Management considers the carrying amounts recognised in the balance sheet to be a reasonable approximation of their fair value. Trade payables include retentions amounting to kEUR 674.

POC liabilities relate to EPC-projects where the advances of customers exceed the amount already realized as POC receivables and comprise of the following:

| in kEUR  | 31.12.2012 | 31.12.2011 |
|--|------------|------------|
| Receivables from PoC   | 3,878      | 3,602      |
| Advanced payments received   | -10,065    | -9,437     |
|  | -6,187     | -5,835     |
| thereof gross amount due from / to customers for contract work as a(n) |            |            |
| - asset  | 0          | 0          |
| - liability  | -6,187     | -5,835     |

## | 25 | Provisions

| in kEUR  | Maintenance / warranties | Staff bonus and welfare | Penalties    | Total        |
|--|--------------------------|-------------------------|--------------|--------------|
| At 1 January 2011  | 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                      | 166          | 234          |
| <b>At 31 December 2011</b>   | <b>106</b>               | <b>795</b>              | <b>1,840</b> | <b>2,741</b> |
| Additions  | 0                        | 0                       | 204          | 204          |
| Utilised   | 0                        | 0                       | 0            | 0            |
| Released   | 107                      | 0                       | 0            | 107          |
| Reclassification to liabilities associated with assets held for sale | 0                        | 0                       | -91          | -91          |
| Exchange differences   | 1                        | -6                      | -17          | -22          |
| <b>At 31 December 2012</b>   | <b>0</b>                 | <b>789</b>              | <b>1,936</b> | <b>2,725</b> |

### | 25.1 | Warranty

Provisions for warranty claims are based on current sales figures and available information as well as expectations about warranty claims during the one-year warranty period for all products sold. The carrying amount for provisions for warranty amounts to kEUR 0 (2011: kEUR 106 ) on the balance sheet date as the company did not sell any products in 2012.

### | 25.2 | 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.

### | 25.3 | Penalties

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

## | 26 | Income Tax

The major components of income tax expense are as follows:

| in kEUR  | 2012        | 2011          |
|--|-------------|---------------|
| <b>Current income tax</b>                                  | <b>-401</b> | <b>-1,276</b> |
| Deferred income tax induced by                             |             |               |
| - tax rate changes   | 610         | -181          |
| - temporary differences                                    | 484         | -6            |
| - tax loss carry forwards                                  | -3          | -1,206        |
|  | 1,091       | -1,393        |
| <b>Income taxes according to profit and loss statement</b> | <b>690</b>  | <b>-2,669</b> |

The reconciliation of tax expenses is as follows:

| in kEUR  | 2012           | 2011          |
|--|----------------|---------------|
| <b>Profit before income tax</b>                  | <b>-12,920</b> | <b>-8,039</b> |
| Tax rate   | 25%            | 25%           |
| Expected tax income expense                      | -3,230         | -2,010        |
| Tax rate differential                            | 651            | 105           |
| Non deductible expenses                          | 688            | 3,020         |
| Tax-exempted income                              | -542           | -765          |
| Not recognized deferred tax assets on tax losses | 1,203          | 945           |
| Withholding tax (not deductible/not eligible)    | 0              | 907           |
| Tax payments for prior years                     | 50             | 54            |
| Other terms                                      | 490            | 413           |
|  | -690           | 2,669         |
| <b>Group tax rate</b>                            | <b>5.34%</b>   | <b>-33.2%</b> |

An advanced representation has been made compared to the previous year. This leads to changes compared to the figures disclosed at 31 December 2011.

The normal Chinese tax rate amounts to 25%. Due to the fact that several subsidiaries are granted tax holidays or tax reductions the average tax rate of the group's subsidiaries is lower than 25%. During the period under review, ZDCN received the qualification as "High-tech enterprise" from a tax perspective, associated with a reduction of the normal corporate tax rate from 25% to 15% for the years 2012 to 2013. Due to their tax classification as "High-tech enterprise" the tax rate of Beijing ZhongDe also amounts to 15%.

In accordance with Hong Kong tax law the applicable tax rate for Chung Hua Environmental Protection Assets (Holdings) Group Ltd. is 16.5%



In contrast, in Germany the ZhongDe Waste Technologie AG is subject to corporation income tax at a rate of 15% plus a 5.5% solidarity surcharge (Solidaritatzuschlag) thereon (in total 15.825%). In addition, ZhongDe Waste Technologie AG is subject to trade tax (Gewerbesteuer) with their income subject to certain adjustments for trade tax purposes. The trade tax depends on the municipalities in which the corporation maintains permanent establishments. As at 31 December 2012, the effective trade tax rate for Frankfurt is 16.1% of the trade taxable income (Gewerbeertrag).

As at 31 December 2012 tax losses carried forward on which deferred tax assets have not been accounted for amount to about € 11.9 million (2011: € 6.1 million. Thereof, € 0 million (2011: € 0 million) can be carried forward without restriction. For tax losses carried forward of € 2.9 million (2011: € 2.0 million) deferred tax assets have not been accounted for due to tax holidays at the time of the expected utilization of the tax losses. The remaining amount can primarily be carried forward for a limited period of two to five years.

For deductible temporary differences of € 10.0 million (2011: € 8.3 million) deferred tax assets have not been accounted for, thereof € 1.4 million (2011: € 1.2 million) due to tax holidays at the time of the expected reversal of the deductible temporary differences.

No deferred tax liabilities were carried in the balance sheet in conjunction with taxable temporary differences amounting to € 1.1 million (2011: € 2.0 million) relating to shares in Group companies, as there will be no reversal in these outside basis differences in the foreseeable future.

## | 27 | Employee Benefits

### 27.1 Number of Employees

|   | 2012       | 2011       |
|---|------------|------------|
| <b>Average number of employees of the Group</b> |            |            |
| Management and administration                   | 162        | 253        |
| Research and development                        | 12         | 14         |
| Manufacture                                     | 183        | 65         |
| Sales and distribution                          | 34         | 56         |
|   | <b>391</b> | <b>388</b> |

| in kEUR                                     | 2012         | 2011         |
|---|--------------|--------------|
| <b>The payroll costs of these employees</b> |              |              |
| Wages and salaries                          | 2,410        | 2,736        |
| Social security costs                       | 592          | 588          |
| Welfare                                     | 129          | 85           |
| Appropriation of welfare and bonus fund     | 0            | 4            |
|   | <b>3,131</b> | <b>3,413</b> |

## | 27.2 | Retirement benefit plans

The eligible employees of the Group, who are citizens of the PRC, are members of a state managed retirement benefit scheme operated by the local government. The Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. The amount of the Group's obligation is limited. It is therefore a defined-contribution commitment. Expenses of kEUR 271 were recognized in 2012 and of kEUR 237 in 2011.

## | 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 kEUR                             | 2012 | 2011 |
|-------------------------------------|------|------|
| Lease payment recognized as expense | 452  | 481  |

Future minimum lease payments payable under non-cancellable operation leases as at December 31, 2012 are as follows:

| in kEUR   | 31.12.2012 | 31.12.2011 |
|---|------------|------------|
| Not later than one year                           | 341        | 720        |
| Later than one year but not later than five years | 744        | 966        |
| Later than five years                             | 785        | 722        |
|   | 1,870      | 2,408      |

The land use right is also considered as operating lease. Due to the advance payment there are no further payment obligations.

### | 28.2 | Contingent liabilities

Fujian FengQuan Environmental Protection Holding Ltd. ("Fujian 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, Fujian 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 2012 contingent liabilities only amount to € 0.2 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 kEUR                           | 2012 | 2011 |
|-----------------------------------|------|------|
| <b>Related parties</b>            |      |      |
| Rental, water and electricity fee | 154  | 151  |
| Purchase of goods                 | 0    | 145  |

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

Rental, water and electricity fee presented in the table above amounting to kEUR 37 (2011) are restated from purchase goods from a related party in prior year figures.

### b) Due from/to related parties

| in kEUR                            | 31.12.2012 | 31.12.2011 |
|------------------------------------|------------|------------|
| <b>Due from related parties</b>    |            |            |
| Other receivables                  | 47         | 306        |
|                                    | 47         | 306        |
| Allowance for doubtful trade debts | 0          | 0          |
|                                    | 47         | 306        |
| <b>Due to related parties</b>      |            |            |
| Trade                              | 215        | 6          |
| Other payables                     | 0          | 0          |
|                                    | 215        | 6          |

### c) Key management remuneration

| in kEUR                     | 2012 | 2011 |
|-----------------------------|------|------|
| Key management of the Group | 106  | 155  |

| in kEUR           | 2012 | 2011 |
|-------------------|------|------|
| Supervisory Board | 150  | 150  |

As in prior year the remuneration paid to executives and key management personnel consists solely of fixed compensation and are completely short-term employee benefits. No variable remuneration was paid in 2012 or 2011. For more information on remuneration, please refer to the combined 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

#### 2012

| Carrying amounts, amounts recognised, and fair values by category:<br>in kEUR | Category in accordance with IAS 39 | Amounts recognised in balance sheet according to IAS 39 at amortized cost | Carrying Amount 31.12.2012 | Fair Value 31.12.2012 |
|---|------------------------------------|---|----------------------------|-----------------------|
| Trade receivables   | LaR                                | 201   | 201                        | 201                   |
| Receivables from BOT  | LaR                                | 47,070  | 47,070                     | 47,070                |
| Other receivables   | LaR                                | 1,892   | 1,892                      | 1,892                 |
| Amounts due from related parties  | LaR                                | 47  | 47                         | 47                    |
| Cash and cash equivalents   | LaR                                | 100,309   | 100,309                    | 100,309               |
| Long-term loans   | FLAC                               | 47,927  | 47,927                     | 47,927                |
| Trade payables  | FLAC                               | 15,784  | 15,784                     | 15,784                |
| Other payables  | FLAC                               | 1,777   | 1,777                      | 1,777                 |
| Amounts due to related parties  | FLAC                               | 215   | 215                        | 215                   |
| Other financial liabilities: Share of long-term loans due in the short term   | FLAC                               | 4,984   | 4,984                      | 4,984                 |
| <b>Of which: aggregated by category in accordance with IAS 39</b>             |                                    |   |                            |                       |
| Total Loans and receivables, (LaR)  |                                    | 149,519   | 149,519                    | 149,519               |
| Total Financial liabilities measured at amortised cost (FLAC)                 |                                    | 70,687  | 70,687                     | 70,687                |

**2011**

| Carrying amounts, amounts recognised, and fair values by category:<br>in kEUR | Category in accordance with IAS 39 | Amounts recognised in balance sheet according to IAS 39 at amortized cost | Corrected Amount 31.12.2011 | Fair Value 31.12.2011 |
|---|------------------------------------|---|-----------------------------|-----------------------|
| Trade receivables   | LaR                                | 1,385   | 1,385                       | 1,385                 |
| Receivables from BOT  | LaR                                | 40,181  | 40,181                      | 40,181                |
| Other receivables   | LaR                                | 4,655   | 4,655                       | 4,655                 |
| Amounts due from related parties  | LaR                                | 306   | 306                         | 306                   |
| Cash and cash equivalents   | LaR                                | 117,308   | 117,308                     | 117,308               |
| Long-term loans   | FLAC                               | 30,054  | 30,054                      | 30,054                |
| Trade payables  | FLAC                               | 18,459  | 18,459                      | 18,459                |
| Other payables  | FLAC                               | 3,639   | 3,639                       | 3,639                 |
| Amounts due to related parties  | FLAC                               | 6   | 6                           | 6                     |
| Share of long-term loans due in the short term                                | FLAC                               | 4,163   | 4,163                       | 4,163                 |
| <b>Of which: aggregated by category in accordance with IAS 39</b>             |                                    |   |                             |                       |
| Total Loans and receivables, LaR)   |                                    | 163,834   | 163,834                     | 163,834               |
| Total Financial liabilities measured at amortised cost (FLAC)                 |                                    | 56,321  | 56,321                      | 56,321                |

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

Receivables from BOT are based on discounted cash flows from guaranteed payments. As there are no changes in the assumptions in comparison to initial measurement, the fair values are in line with the carrying amount.

Long-term loans are variable interest bearing. Due to this the fair value of these loans corresponds to their carrying amounts.

Other receivables amounting to kEUR 15,945 being presented in prior year were eliminated from this table as they included prepayments to suppliers and VAT receivables which are not financial assets. Also prior years' other payables amounting to kEUR 9,223 as 31 December 2011 were eliminated as PoC liabilities and advance from customers are not financial liabilities.

| Net gain/loss by category:<br>in kEUR                                    | From<br>interest | Net gain (loss) |               |
|--|------------------|-----------------|---------------|
|  |                  | 2012            | 2011          |
| <b>Loans and Receivables</b>   |                  |                 |               |
| - calculated using the effective interest method                         | 1,867            | 1,867           | 952           |
| - other than amounts included in determining the effective interest rate | 488              | 488             | 637           |
|  |                  |                 |               |
| - amount of any impairment loss  | 0                | -168            | -270          |
|  | <b>2,355</b>     | <b>2,187</b>    | <b>1,319</b>  |
|  |                  |                 |               |
| <b>Financial liabilities measured at amortized cost</b>                  |                  |                 |               |
| - calculated using the effective interest method                         | -2,505           | -2,505          | -1,719        |
|  | <b>-2,505</b>    | <b>-2,505</b>   | <b>-1,719</b> |

Interest from financial instruments is recognised in finance income and costs. Net gains and losses from financial instruments are presented under administration expenses.

## | 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. The Group is exposed to various risks in relation to financial instruments. The main types of risks are market risks, credit risks and liquidity risks arising in the normal course of business. The Group established a risk management system which allows identifying risk concentrations timely.

### 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 2012 is kEUR 149,519 (2011: kEUR 163,834). All material financial assets are due from Chinese public contract partners.

## b) Interest rate risk

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

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.

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates +/- 1%. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

| in kEUR          | Profit of the year |      | Equity |      |
|------------------|--------------------|------|--------|------|
|                  | +1 %               | -1 % | +1%    | -1 % |
| 31 December 2012 | -434               | 434  | -434   | 434  |
| 31 December 2011 | -373               | 373  | -373   | 373  |

## Foreign currency risk

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



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

### c) 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 non discounted payments) shows the effect on the Group's liquidity:

| in kEUR      | 31.12.2012   |              |               |               |
|--------------|--------------|--------------|---------------|---------------|
|              | 2013         | 2014         | 2015 to 2017  | From 2018     |
| Bank loans   | 4,989        | 6,841        | 21,242        | 24,252        |
| <b>Total</b> | <b>4,989</b> | <b>6,841</b> | <b>21,242</b> | <b>24,252</b> |

| in kEUR      | 31.12.2011   |              |               |               |
|--------------|--------------|--------------|---------------|---------------|
|              | 2012         | 2013         | 2014 to 2016  | From 2017     |
| Bank loans   | 7,191        | 7,179        | 15,270        | 18,865        |
| <b>Total</b> | <b>7,191</b> | <b>7,179</b> | <b>15,270</b> | <b>18,865</b> |

## | 32 | Cash Flow Statement

The cash flow statement has been prepared in accordance with IAS 7 and is classified into net cash flows from operating, investing and financing activities. The cash flow from operating activities is presented using the indirect method, while the cash flows from investing and financing activities are presented using the direct method. Cash funds are composed of cash and cash equivalents, such as short-term deposits with a fixed term of no more than three months. Cash and cash equivalents in the amount of EUR 3,2 million are earmarked

According to IAS 7.32 total interest paid has to be presented in the Consolidated Statement of Cash Flows. In the financial statements as at 31 December 2011 only the interest expensed was shown, disregarding the interest capitalized on the intangible assets of the BOT-projects as required under IAS 23.

Shown below is an overview of the cash flow items affected in 2011:

| in kEUR  | 31.12.2012 | 31.12.2011<br>prior to<br>correction | correction | 31.12.2011<br>after<br>correction |
|--|------------|--------------------------------------|------------|-----------------------------------|
| POC receivables in conjunction with BOT projects | -24,451    | -21,790                              | +657       | -21,133                           |
| Interests paid / exchange losses                 | -4,243     | -2,098                               | -657       | -2,755                            |

### | 33 | Comments on Capital Management

ZhongDe Group fundamentally pursues the goal of securing its shareholders' equity base for the long term and of achieving a suitable return on its capital. A high level of shareholders' equity is also aimed at because it supports the independence and competitiveness of the company. The ZhongDe Group's capital management also aims to ensure that the operating companies will continue to operate and to finance organic and external growth. This will be achieved by new projects as well as the continuous improvement of our project controlling. In mid-term we are planning to perform capital measures such as capital increases or convertible bonds. As of 31 December 2012, the shareholders' equity rate of the ZhongDe Group was 58% (2011: 63%). 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 -8.5% and 0.5% in the 2011 and 2012 financial years, respectively.

### | 34 | Members of the Executive and Supervisory Boards

#### Executive Board

Mr Zefeng Chen, CEO, Fuzhou, PRC, merchant

Mr Wang Jiu Hua, CFO, Beijing, PRC, merchant

#### Supervisory Board

Mr Gerrit Kaufhold, Chairman, German Public Auditor, Hamburg, Germany (since 30 August 2012)

member

of the Supervisory Board of:

- Kinghero AG, Munich (Chairman of the Supervisory Board)

Mr Hans-Joachim Zwarg, Chairman, freelance consultant, Sierksdorf, Germany; (until 30 August 2012)

member

of the Supervisory Board of:

- Asian Bamboo AG, Hamburg, Germany (Chairman of the Supervisory Board)

Prof. Dr. Bernd Neukirchen, process engineer and freelance consultant, Deputy Chairman, Essen, Germany

Mr Feng-Chang Chang, freelance business consultant/CPA, Taiwan;

Non-executive director of:

- Yamada Green Resources Ltd., Singapore

## | 35 | Remuneration of the Executive and Supervisory Boards

### Executive Board

For the fiscal year 2012, 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 kEUR     | 2012      | 2011      |
|-------------|-----------|-----------|
| Zefeng Chen | 29        | 26        |
| Jiuhua Wang | 23        | 21        |
|             | <b>52</b> | <b>47</b> |

### Supervisory Board (only Fixed Remunerations)

| in kEUR                                  | 2012*      | 2011*      |
|--|------------|------------|
| Hans-Joachim Zwarg                       | 40         | 60         |
| Gerrit Kaufhold                          | 20         | 0          |
| Prof. Dr. Bernd Neukirchen               | 45         | 45         |
| Feng-Chang Chang (since 1 December 2010) | 45         | 45         |
|  | <b>150</b> | <b>150</b> |

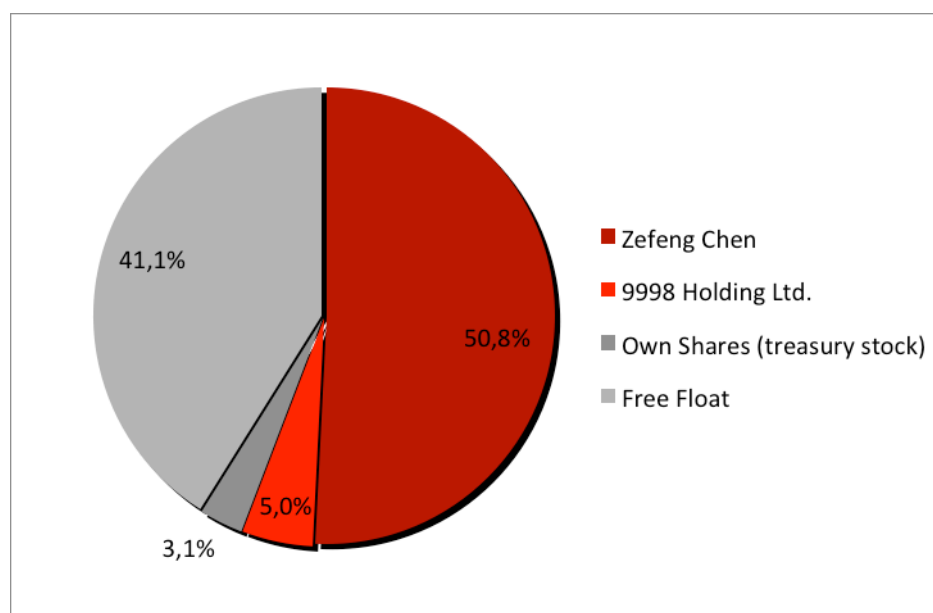
There was a change on the Supervisory Board in 2012: Mr. Gerrit Kaufhold replaced Mr. Hans-Joachim Zwarg.

## | 36 | 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 19 April 2012 and 23 April 2013 respectively. They also declared which of the recommendations were not or are not followed. The declaration is permanently accessible to shareholders on the Company's website at [www.zhongde-ag.com/investor\\_relations/corporate\\_governance.html](http://www.zhongde-ag.com/investor_relations/corporate_governance.html).

## | 37 | Shareholdings in ZhongDe Waste Technology AG



\* as of 23 April 2013

## | 38 | Audit

Warth & Klein Grant Thornton AG Wirtschaftsprüfungsgesellschaft, Düsseldorf (“GT”) has been elected as the auditors of ZhongDe Waste Technology AG and the Group for fiscal year 2012. In prior year, BDO Wirtschaftsprüfungsgesellschaft AG, Hamburg, was the company’s auditor. The following table gives an overview of the fees for the auditor charged (including out-of-pocket expenses and VAT, if any) for the business year:

| in kEUR                  | 2012 | 2011* |
|--------------------------|------|-------|
| Audit services           | 296  | 633   |
| Other assurance services | 0    | 162   |
| Other services           | 0    | 60    |

\* thereof expenses relating to 2010 in the amount of kEUR 149

## | 39 | Proposal on the Utilisation of ZhongDe Waste Technology AG's Net Profit

At the Annual General Meeting, the Executive Board and Supervisory Board will propose that no dividends will be paid out for the 2012 financial year.


## | 40 | Events after the Balance Sheet Date

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

Frankfurt am Main, 26. April 2013



Zefeng Chen  
Chairman of the Executive Board (CEO)



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

## RESPONSIBILITY STATEMENT

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

Frankfurt am Main, 26 April 2013



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 ZhongDe Waste Technology AG – comprising a consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements – and the group management report which is combined with the management report of ZhongDe Waste Technology AG for the financial year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the combined management report in accordance with IFRS, as adopted by the EU, and with the additional requirements of the German commercial law pursuant to section 315a paragraph 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with paragraph 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 combined 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 combined 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 combined 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 of ZhongDe Waste Technology AG for the financial year from 1 January to 31 December 2012 comply with IFRS, as adopted by the EU, and the additional requirements of the German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitable presents the opportunities and risks of future development.

Hamburg, 26 April 2013

Warth & Klein Grant Thornton AG  
Wirtschaftsprüfungsgesellschaft

Clemens  
Wirtschaftsprüfer  
[German Public Auditor]

von Oertzen  
Wirtschaftsprüfer  
[German Public Auditor]

## **Glossary and Abbreviations**

### **AktG:**

Aktiengesetz (German Stock Corporation Act)

### **Bage filter tubeplate hole:**

used for fixing the bag and its keel.

### **Beijing ZhongDe:**

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

### **BOO:**

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

### **BOOT:**

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

### **BOT:**

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

### **BT project:**

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

### **Catalytic oxidation:**

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

### **Consumer price index (CPI):**

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

### **Contingency waste incinerators:**

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

### **Double-loop pyrolysis technology:**

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

### **EIA:**

"Environmental Impact Assessment".

**EPC:**

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

**Five-Year Planning:**

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

**Fluidised bed waste incinerator:**

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

**Fujian FengQuan**

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

**Grate incinerator:**

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

**HGB**

Handelsgesetzbuch (German Commercial Code).

**IASB:**

International Accounting Standards Board, London, United Kingdom.

**IFRIC**

International Financial Reporting Interpretations Committee

**IFRSIC:**

Interpretations of the International Financial Reporting Standards Interpretations Committee.

**IPO:**

Initial Public Offering.

**MEP:**

Ministry of Environmental Protection.

**Municipal waste gasification power generation:**

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

**MW:**

1MW=1000KW.

**NPC:**

the National People's Congress.

**POC:**

Percentage of Completion.

**PRC:**

People's Republic of China.

**Primary industry:**

agricultural industry.

**Pyrolytic incinerator:**

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

**RMB:**

Chinese currency.

**Rotary kiln incinerator:**

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

**Secondary industry:**

manufacturing industry.

**SEPA:**

State Environmental Protection Administration.

**SKR:**

Selective catalytic reduction; a process for suppressing dioxin emissions.

**Sludge incineration technology:**

sludge incineration to make treatment harmless, reduced and recycled.

**Tertiary industry:**

service industry and other industries.

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

automatically controls normal operation for municipal waste incineration system.

**Vertical incinerator:**

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

**ZDCN:**

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

## **Contact Information**

### **ZhongDe Waste Technology AG**

#### **William Jihua Wang**

Executive Director and CFO

East 11 F/L , Huike Plaza

No. 158 Middle West Ring Rd

Haidian District

Beijing, PRC: 100089

China (PRC)

Email: [william.jw@zhongdetech.com](mailto:william.jw@zhongdetech.com)

[www.zhongde-ag.com](http://www.zhongde-ag.com)

#### **Ying Sun**

Investor Relation

Meseturm 25. Etage

Friedrich-Ebert-Anlage 49

60308 Frankfurt am Main

Germany

Tel.: +49 69 67733 122

Fax: +49 69 67733 200

Email: [ying.sun@zhongde-ag.de](mailto:ying.sun@zhongde-ag.de)

#### **Kirchhoff Consult AG**

Financial Communications

Herrengaben 1

20459 Hamburg

Phone +49 (40) 609186 0

Fax +49 (40) 609186 60

Email: [ir@zhongde-ag.de](mailto:ir@zhongde-ag.de)

[www.kirchhoff.de](http://www.kirchhoff.de)

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## **Financial Calendar**

| <b>Date*</b>        | <b>Event</b>                           |
|---------------------|--|
| 28 May 2013         | Interim report on the 1st quarter 2013 |
| 28 June 2013        | Annual General Meeting                 |
| 28 August 2013      | Interim report on the 1st half of 2013 |
| 11-13 November 2013 | German Equity Forum, Frankfurt / Main  |
| 28 November 2013    | Interim report on the 3rd quarter 2013 |

\* All dates are provisional and may be subject to change