



## Interim Report

Second Quarter 2010

ZhongDe Waste Technology AG

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-> Cover photo: ZhongDe (China) Environmental Protection Co. Ltd., Beijing

## Key Figures

### Operational data

Amount in k€	Q2 2010	Q2 2009	Change %	H1 2010	H1 2009	Change %
Order intake <sup>1)</sup>	25,455	1,062	>100.0	25,455	61,677	-58.7
Order backlog <sup>2)</sup>	187,791	138,469	35.6	187,891	138,469	35.7
Revenues	11,256	9,751	15.4	14,970	20,632	-27.4
Gross profit	2,555	2,606	-2.0	3,049	8,450	-63.9
Gross profit margin	23%	27%	-15.1	20%	41%	-50.3
Cost of sales	(8,701)	(7,145)	21.8	(11,921)	(12,182)	-2.1
EBITDA	1,222	776	57.5	(347)	5,088	<-100.0
EBITDA margin	11%	8%	36.4	-2%	25%	<-100.0
EBIT	1,090	686	58.9	(572)	4,906	<-100.0
EBIT margin	10%	7%	37.6	-4%	24%	<-100.0
Net profit	308	329	-6.4	(1,712)	2,585	<-100.0
Net profit margin	3%	3%	-18.9	-11%	13%	<-100.0
Earnings per share (in €)	0.02 <sup>3)</sup>	0.03 <sup>4)</sup>	-33.3	(0.14) <sup>5)</sup>	0.20 <sup>6)</sup>	<-100.0

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

<sup>2)</sup> Period-end exchange rate used for translation.

<sup>3)</sup> Calculated on the basis of 12,656,200 shares.

<sup>4)</sup> Calculated on the basis of 13,000,000 shares.

<sup>5)</sup> Calculated on the basis of 12,673,239 shares.

<sup>6)</sup> Calculated on the basis of 13,000,000 shares.

### Cash flow data

Amount in k€	Q2 2010	Q2 2009	Change %	H1 2010	H1 2009	Change %
Cash flow from operating activities	(3,142)	13,570	<-100.0	(8,864)	12,565	<-100.0
Cash flow from investing activities	(137)	(517)	-73.5	2,824	(795)	<-100.0
Free cash flow before financing	(3,279)	13,053	<-100.0	(6,040)	11,770	<-100.0

### Balance sheet data

Amount in k€	30 June 2010	31 December 2009	Change %
Total assets	166,074	142,178	16.8
Tangible and intangible fixed assets	32,928	17,421	89.0
Net working capital	110,870	108,266	2.4
Cash and cash equivalents	119,456	111,899	6.8
Long-term liabilities	1,584	593	>100.0
Shareholders' equity	142,214	125,094	13.7
Headcount	343	375	(8.5)

## Highlights of the Second Quarter 2010

### Revenues

Revenues increased by 15% in Q2 2010, although the revenues in Q2 2009 were greatly amended from € 8.2 million to € 9.8 million in view of the retrospective application of IFRIC 12 to BOT projects. As the result, the revenues increased € 9.8 million in Q2 2009 to € 11.3 million in Q2 2010. This increase came from BOT and EPC projects. The Company is currently focusing on large-scale waste-to-energy facilities, because the small- to medium-sized incinerators market has not yet recovered in China. Meanwhile, we have focused on the marketing and negotiation of potential waste-to-energy project contracts. ZhongDe has been successful in developing EPC and BOT projects, and we expect that this could have tremendous future potential.

### Operating Results

The operating result for the second quarter of 2010 was not only well above that of the first quarter, but was also better than the operating result achieved in Q2 2009. In Q2 2010, gross profit was € 2.6 million, which was almost the same amount as in Q2 2009, although the gross profit in Q2 2009 were amended from € 2.2 million to € 2.6 million in view of the retrospective application of IFRIC 12 to BOT projects,. Earnings before interest and tax (EBIT) strongly increased by 59% to € 1.1 million (Q2 2009: € 0.7 million), although the EBIT in Q2 2009 were greatly amended from € 0.3 million to € 0.7 million. In Q2 2010, € 0.3 million net profit was almost the same as the € 0.3 million net profit in Q2 2009 which was greatly amended from € 0.03 million to € 0.3 million in view of the retrospective application of IFRIC 12 to BOT projects,. EBIT increased, primarily due to lower selling and distribution and other operating expenses. The EBIT margin in Q2 2010 is 10%, which is better than the 7% EBIT margin of Q2 2009

### Order Intake and Order Backlog

Order intake increased significantly from € 1.1 million in Q2 2009 to € 25.5 million in Q2 2010. The main reason for the increase was the Company signing a new EPC contract with Shouguang Fuyuan Waste to Power Co., Ltd in Q2 2010, with a total contract value of RMB 270 million (€ 29.8 million using average exchange rate for H1 of 9.0678) including tax.

The order backlog still strongly increased by 36% to € 187.8 million year on year, although the order backlog for 2009 were greatly amended from € 39.5 million to € 138.5 million in view of the retrospective application of IFRIC 12 to BOT projects.

The investigation work and negotiations for large-scale projects take more time than for small- and medium-sized projects, especially the preparation of international contracts. Currently, we are negotiating some large-scale projects that have already entered the approval stage.

### Datong project regarded as a model green plant in China

The Datong project is operating smoothly and has passed the off-gas test which was performed by government authority. The energy-from-waste- plant is visited by many high-ranking officials of China's central government and the Shanxi Province authorities, as well as Chinese and foreign partners and potential clients. The EU standard waste-to-energy plant is regarded by these high-ranking officers as the model plant for the green

economy of China. These visits received heavy media coverage, which has created an excellent reputation and image for ZhongDe Waste Technology AG, both in China and in other countries.

## Zhucheng EPC Project

The main structure of the complex building has been completed, as have the painting work for the interior and exterior walls and the ceiling plastering. Concrete pouring for the chimney barrel has been completed, with 60% of the inner lining now completed. The construction work for the main factory is fully under way. At the end of the first half-year of 2010, the completion percentage of the Zhucheng EPC project was 12%.

## Dingzhou EPC Project

The civil engineering work for the complex building has been carried out smoothly. The plastering work for the interior walls and the ceiling has been completed. The foundation pad for the waste pit has been completed. The construction of a moisture-proof and waterproofing layer above the foundation pad and of a baseboard reinforcing steel bar for the waste foundation pit has been completed. At the end of the first half-year of 2010, the completion percentage of the Dingzhou EPC project was 5%.

## The New Shouguang EPC Project

The ZhongDe Group has signed an EPC contract with Shouguang Fuyuan Waste to Power Co., Ltd for a 600 tons/day waste-to-energy plant. The project is located in the north of Shouguang city, Shandong Province. The actual contract value (VAT excluded) is RMB 230.8 million (€ 25.5 million). This is the fifth engineering, procurement and construction (EPC) project for ZhongDe.

The Shouguang project uses grate furnace technology. Two lines with a daily treatment capacity of 300 tons will be installed. The project treats an average of 600 tons of domestic waste daily in the first phase, with an annual 8,000 hours of equipment utilization. The total waste treatment volume of the whole plant is 200,000 tons per year. Flue gas purifying treatment for the project adopts the techniques "semi-dry reaction tower + activated carbon adsorption + bag filter". The steam produced from the waste heat boiler will be utilized for the power generation of a 9 MW turbo generator unit. The electric power generated by the unit will be partly used for production and the running of the plant, and the remaining power will be incorporated into the urban power grid. The matching systems include a flue gas treatment system, slag or a flying-ash delivery system, etc. The annual maximum generating capacity amounts to  $66.30 \times 10^6$  kWh.

## Feicheng BOT Project

The complex building for the Feicheng project has been finished and accepted. The constructions for the water pumping house and the weighbridge room have been completed. The power distribution equipment installation and the heat preservation construction for waste gas treatment system have been completed. At the end of the first half-year of 2010, the completion percentage of the Feicheng BOT project was 78%.

## Zhoukou BOT Project

Interior coating and construction of the foundations for indoor equipment have been carried out smoothly. The glass curtain wall construction for the complex building and the installation work for 1# boiler have been completed. The installations for 2# boiler and supporting facilities are fully under way. At the end of the first-half year of 2010, the completion percentage of the Zhoukou BOT project was 45%.

## Kunming BOT Project

The main structure for the complex building has been completed. The construction of the foundations for the gas purification system equipment is progressing smoothly. The construction for foundation pillar of the factory has been completed. The foundation construction for the machine room is fully under way. At the end of the first half-year of 2010, the completion percentage of the Kunming BOT project was 10%.

## Beijing R&D Centre and Manufacture Project

The constructions for the separation wall and the peripheral structure of the technical building have been finished and accepted. The foundation construction for the factory has been completed and its design work has been accepted. The installation of supporting facilities in the steel plant, such as air conditioning and fire-extinguishing equipment, is fully under way.

## Research & Development

ZhongDe's R&D department has successfully applied the four patent rights for the utility model, such as an integrated unit for a secondary combustion room and exhaust-heat boiler and a drying unit for continual feeding of municipal waste. In addition, two inventive patents have also been successfully applied, one for integrated technology for livestock manure composting and waste incineration, the other relating to integrated technology for sludge drying and waste incineration.

# 03

## Share Performance



The global economy continued to recover in the second quarter of 2010, but this upswing was not reflected in the German stock markets. European share prices remained muted, in particular because of the instability of the Greek economy and the rising debt-equity ratios of certain European countries.

The ZhongDe share was quoted at € 15.00 at the end of the second quarter, which was 24.5% higher than the previous year's closing price. It therefore developed considerably better than the market as a whole in the first half-year of 2010, with the market's leading indices DAX and SDAX appreciating by just 0.1% and 10% respectively in the same period. Looking at the second quarter on its own, the ZhongDe share depreciated by 13.3%, and therefore performed worse than the DAX and the SDAX (-3.1% and +0.2% respectively). The ZhongDe share closed at € 13.10 on 9 August.

The economic outlook continues to be positive. In its July update, the International Monetary Fund (IMF) corrected its forecast for global economic growth of up to 4.6% (April: 4.2%) for 2010 as a whole. This was primarily as a result of robust growth in Asia and increased consumer confidence in the developed countries.



## Economic and Political Environment

### Macroeconomic Environment

In the first half of 2010, all regions and departments effectively implemented the policies and measures set by the Central Party Committee and the State Council, consistently carried out the packages of policies to deal with the international financial crisis, and proactively pushed forward the transformation of the mode of economic development and the adjustment of economic structures. As a result, the national economy showed good momentum of development and kept moving towards the expected direction of macroeconomic control.

According to the preliminary estimation, the gross domestic product (GDP) of China in the first half of this year was RMB 17,284.0 billion, a year-on-year increase of 11.1%, which was 3.7 percentage points higher than in the same period last year. The value added of the primary industry was RMB 1,336.7 billion, up by 3.6%; that of the secondary industry was RMB 8,583.0 billion, up by 13.2%; and that of the tertiary industry was RMB 7,364.3 billion, up by 9.6%.

In the first half of this year, the country's investment in fixed assets was RMB 11,418.7 billion, a year-on-year growth of 25.0%. Of this total, investment in urban areas reached RMB 9,804.7 billion, up by 25.5%, while that in rural areas was RMB 1,614.0 billion, up by 22.1%. Total retail sales of consumer goods reached RMB 7,266.9 billion, a year-on-year rise of 18.2%. Consumer prices went up by 2.6%. In the first half of this year, the per capita total income of urban households was RMB 10,699. Of this total, the per capita disposable income of the urban population was RMB 9,757, a year-on-year growth of 10.2%, or a real growth of 7.5% after deducting price factors.

The total value of imports and exports for the first half of this year was USD 1,354.9 billion, up by 43.1% year on year. The value of exports was USD 705.1 billion, up by 35.2%, and the value of imports was USD 649.8 billion, up by 52.7%. The trade surplus was USD 55.3 billion.

### Political Environment

The third session of the eleventh NPC opened solemnly on 5 March. Premier of the State Council Wen Jiabao noted in the Government Work Report that steady progress was being made in energy conservation and pollution reduction and environmental protection. Premier Wen called on all departments concerned to fight the formidable battle with perseverance:

- Promote energy conservation and enhance energy efficiency in key sectors such as industry, transport and construction. Energy conservation capacity will be increased by 80 million tons of coal equivalent this year.
- Pay more attention to environmental protection. Active effort will be made to address urban sewage treatment and waste disposal. The newly added capacity for waste disposal is expected to reach 60,000 tons a day.
- Develop circular economy and environmental industry. Efforts will be made to provide support for R&D of circular economy technology, demonstration and capacity building, promote recovery and reuse of industrial waste, and especially power generation through reuse of domestic refuse.



On 10 April 2010, MEP spokesperson Tao Detian announced China's theme for 2010 World Environment Day, "Low Emission, Green Life", calling on the public to do their bit for pollution reduction, lead a green life and make contributions to building an ecological civilization and an environmentally friendly society.

A low-carbon economy is characterized by low energy consumption, low material consumption, low emissions and a low level of pollution. Promoting a low-carbon economy will help China to ease the conflict between economic development and limited resources, adjust economic structure and transform the mode of economic development. Reducing pollution and exploring new avenues in environmental protection are of great importance to us. The Green Life campaign aims to pass on to people the idea of low-carbon life, raise public awareness of environmental protection so that every citizen and household will promote, practise and advance the cause of environmental protection, advocate green life and contribute to emission reduction.

## Impact on Business Development

The national economy showed good momentum of development, with GDP hitting RMB 17,284.0 billion in the first half of 2010. The Company expects to benefit further from the favourable economic environment for eco-friendly waste disposal as well as the growing demand for its products both in China and throughout Asia.

In the government report, Premier Wen not only clearly addressed the importance of waste disposal, but also put forward measures to support the generation of power through the reuse of waste, which will create more and more opportunities for ZhongDe and greatly improve our confidence in industry development. Furthermore, the Green Life campaign aims to pass on to people the idea of low-carbon life, raise public awareness for environmental protection so that every citizen and household will promote, practise and advance the cause of environmental protection, advocate green life and contribute to emission reduction.

All of this will place ZhongDe in an ideal position to capture the potential growth in this market and continue to drive the business forward.

# Management Report

## Results of Operations

Amount in k€	Q2 2010	Q2 2009	Change %	H1 2010	H1 2009	Change %
Revenue	11,256	9,751	15	14,970	20,632	(27)
Cost of sales	(8,701)	(7,145)	22	(11,921)	(12,182)	(2)
<b>Gross profit</b>	<b>2,555</b>	<b>2,606</b>	<b>(2)</b>	<b>3,049</b>	<b>8,450</b>	<b>(64)</b>
Other operating income	9	13	(31)	34	162	(79)
Selling and distribution expenses	(251)	(527)	(52)	(492)	(1,013)	(51)
Administrative expenses	(593)	(245)	>100.0	(1,050)	(731)	44
Research and development expenses	(12)	(163)	(93)	(65)	(259)	(75)
Other operating expenses	(618)	(998)	(38)	(2,048)	(1,703)	20
<b>Profit from operations</b>	<b>1,090</b>	<b>686</b>	<b>59</b>	<b>(572)</b>	<b>4,906</b>	<b>&lt;-100.0</b>
Finance income	468	318	47	948	779	22
Finance costs	(213)	(399)	(47)	(525)	(1,752)	(70)
<b>Profit before income tax</b>	<b>1,345</b>	<b>605</b>	<b>&gt;100.0</b>	<b>(149)</b>	<b>3,933</b>	<b>&lt;-100.0</b>
Income tax	(1,037)	(276)	>100.0	(1,563)	(1,348)	16
<b>Net profit for the period</b>	<b>308</b>	<b>329</b>	<b>(6)</b>	<b>(1,712)</b>	<b>2,585</b>	<b>&lt;-100.0</b>

The operating performance of ZhongDe was much better in Q2 2010 than in Q1 2010. Furthermore, it was also better than the performance in Q2 2009. In Q2 2010, ZhongDe successfully realized a net profit.

Revenues increased by 15% in Q2 2010, although the revenues in Q2 2009 were greatly amended from € 8.2 million to € 9.8 million in view of the retrospective application of IFRIC 12 to BOT projects. As the result, the revenues increased € 9.8 million in Q2 2009 to € 11.3 million in Q2 2010. This increase comes from BOT and EPC projects. The Company is currently focusing on large-scale waste-to-energy facilities, because the small- to medium-sized incinerators market has not yet recovered in China. Meanwhile, we focused on the marketing and negotiation of potential waste-to-energy project contracts. ZhongDe has successfully developed an order backlog of EPC and BOT projects. This is the basis for future growth.

The operating result for the second quarter of 2010 was not only well above that of the first quarter, but was also better than the operating result achieved in Q2 2009. In Q2 2010, gross profit was € 2.6 million, which was almost the same amount as in Q2 2009, although the gross profit in Q2 2009 were amended from € 2.2 million to € 2.6 million in view of the retrospective application of IFRIC 12 to BOT projects. Earnings before interest and tax (EBIT) strongly increased by 59% to € 1.1 million (Q2 2009: € 0.7 million), although the EBIT in Q2 2009 were greatly amended from € 0.3 million to € 0.7 million. In Q2 2010, € 0.3 million net profit was almost the same as the € 0.3 million net profit in Q2 2009 which was greatly amended from € 0.03 million to € 0.3 million in view of the retrospective application of IFRIC 12 to BOT projects. EBIT increased, primarily due to lower selling and distribution and other operating expenses. The EBIT margin in Q2 2010 is 10%, which is better than the 7% EBIT margin of Q2 2009.

Selling and distribution expenses and other operating expenses both fell in the second quarter of 2010, by 52% to k€ 251 (Q2 2009: k€ 527) and 38% to k€ 618 (Q2 2009: k€ 998) respectively. Administrative expenses rose from k€ 245 to k€ 593 in the second quarter of 2010.

At the end of the first half of 2010, almost all items of the balance sheet are better than these items at the end of 2009. In particular, the net cash position as at 30 June 2010 has improved, although the company continued its buy-back programme. At the end of Q2 2010, ZhongDe's cash position improved by 6.8% from € 111.9 million as of December 2009 to € 119.5 million. As one of ZhongDe risk-avoiding measures, the majority of cash and cash equivalents were transferred into China, and converted into RMB, considering that the RMB long-term appreciation tendency against the major currencies, Euro, USD, etc.. The appreciation of RMB against Euro in H1 2010, improved the cash position of ZhongDe. The Shareholders' equity increased by € 13.7 % to € 142 million. The company maintains a very strong equity ratio of 86%. With the strong cash position and equity ratio, ZhongDe maintains flexibility in the fields of investment and financing on the background of the remaining influence of international financial crisis and the economic turmoil.

## Current Status of Waste-to-Energy Projects

### Datong project regarded as model green plant in China

The Datong project is operating smoothly and has passed the off-gas test which was performed by government authority. The waste-to-energy plant is visited by many high-ranking officials of China's central government and the Shanxi Province authorities, as well as Chinese and foreign partners and potential clients. The EU standard energy-from-waste plant are regarded by these high-ranking officers as the model plant for the green economy of China. These visits received heavy media coverage, which has created an excellent reputation and image for ZhongDe Waste Technology AG, both in China and in other countries.

### Zhucheng EPC Project

The main structure of the complex building has been completed, as have the painting work for the interior and exterior walls and the ceiling plastering. Concrete pouring for the chimney barrel has been completed, with 60% of the inner lining now completed. The construction work for the main factory is fully under way. At the end of the first half-year of 2010, the completion percentage of the Zhucheng EPC project was 12%.

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## Feicheng BOT Project

The complex building for the Feicheng project has been finished and accepted. The constructions for the water pumping house and the weighbridge room have been completed. The power distribution equipment installation and the heat preservation construction for waste gas treatment system have been completed. At the end of the first half-year of 2010, the completion percentage of the Feicheng BOT project was 78%.

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Interior coating and construction of the foundations for indoor equipment have been carried out smoothly. The glass curtain wall construction for the complex building and the installation work for 1# boiler have been completed. The installations for 2# boiler and supporting facilities are fully under way. At the end of the first-half year of 2010, the completion percentage of the Zhoukou BOT project was 45%.

## Kunming BOT Project

The main structure for the complex building has been completed. The construction of the foundations for the gas purification system equipment is progressing smoothly. The construction for foundation pillar of the factory has been completed. The foundation construction for the machine room is fully under way. At the end of the first half-year of 2010, the completion percentage of the Kunming BOT project was 10%.

## Order Development

Order intake increased significantly from € 1.1 million in Q2 2009 to € 25.5 million in Q2 2010. The main reason for the increase was the Company signing a new EPC contract with Shouguang Fuyuan Waste to Power Co., Ltd in Q2 2010, and the total contract value was RMB 270 million (€ 29.8 million using average exchange rate for H1 of 9.0678) including tax.

Order backlog still strongly increased by 36% to € 187.8 million year on year, although the order backlog for 2009 were greatly amended from € 39.5 million to € 138.5 million in view of the retrospective application of IFRIC 12 to BOT projects.

The investigation work and negotiations for large-scale projects take more time than for small- and medium-sized projects, especially the preparation of international contracts. Currently, we are negotiating additional large-scale projects that have already entered the approval stage.

## Business Segments Overview

Amount in k€	Q2 2010	Q2 2009	Change %	H1 2010	H1 2009	Change %
<b>Medical waste incinerators</b>						
Units sold	0	0	–	0	1	(100)
Revenues	0	(12)	(100)	0	530	(100)
<b>Gross profit</b>	<b>0</b>	<b>(10)</b>	<b>(100)</b>	<b>0</b>	<b>383</b>	<b>(100)</b>
<b>Municipal solid waste incinerators</b>						
Units sold	0	1	(100)	0	3	(100)
Revenues	0	3,344	(100)	0	11,072	(100)
<b>Gross profit</b>	<b>0</b>	<b>2,124</b>	<b>(100)</b>	<b>0</b>	<b>7,129</b>	<b>(100)</b>
<b>EPC Project</b>						
Revenues (POC)	4,240	4,905	(14)	4,240	6,838	(38)
<b>Gross profit</b>	<b>878</b>	<b>112</b>	<b>&gt;100.0</b>	<b>878</b>	<b>390</b>	<b>&gt;100.0</b>
<b>BOT Project</b>						
<b>Zhoukou Project</b>						
Revenues (POC)	3,136	831	>100.0	5,314	1,356	>100.0
<b>Gross profit</b>	<b>778</b>	<b>211</b>	<b>&gt;100.0</b>	<b>1,318</b>	<b>341</b>	<b>&gt;100.0</b>
<b>Feicheng Project</b>						
Revenues	593	683	(13)	2,129	836	>100.0
<b>Gross profit</b>	<b>83</b>	<b>169</b>	<b>(51)</b>	<b>37</b>	<b>207</b>	<b>(82)</b>
<b>Kunming Project</b>						
Revenues	3,287	0	–	3,287	0	–
<b>Gross profit</b>	<b>816</b>	<b>0</b>	<b>–</b>	<b>816</b>	<b>0</b>	<b>–</b>
<b>Total Revenues</b>	<b>11,256</b>	<b>9,751</b>	<b>15</b>	<b>14,970</b>	<b>20,632</b>	<b>(27)</b>
<b>Total Gross Profit</b>	<b>2,555</b>	<b>2,606</b>	<b>(2)</b>	<b>3,049</b>	<b>8,450</b>	<b>(64)</b>

### Incinerators

No incinerators were also sold in Q2 2010 because the small- to medium-sized incinerators market has not yet recovered in China. The Company anticipated that the demand for incinerators would be lower this year and the Board of Directors is striving to expand the Company's EPC and BOT market share in China and explore the waste-to-energy international market.

### Engineering, Procurement and Construction Projects (EPC)

The Datong project, our first large-scale EPC project, is operating smoothly and has passed the off-gas test which was performed by government authority and regarded by the high-ranking officers of China as the model green plant. This helped strengthen our confidence and further consolidate our strategy direction. The Zhucheng and Dingzhou projects had revenue contribution amounting to € 4.2 million in Q2 2010. Meanwhile, we focused on marketing and negotiating potential waste-to-energy project contracts in Q2 2010, which will ensure future revenues in the coming quarters.

In Q2 2010, the gross profit of the EPC segment amounted to € 0.9 million, corresponding to a gross profit margin of 20.7%.

### BOT Projects

BOT projects are still the main source of revenue in Q2 2010. The revenues are recognized according to the PoC method. During this reporting period, the Zhoukou, Feicheng and Kunming projects contributed € 3.1 million, € 0.6 million and € 3.3 million respectively to revenues.

In Q2 2010, the gross profit of the BOT segment amounted to € 1.7 million, corresponding to a gross profit margin of 23.8%.

## Net Worth

Amount in k€	30 June 2010	31 December 2009	Change %
Non current assets	32,928	17,421	89
Current assets	133,146	124,757	7
Equity	142,214	125,094	14
Liabilities	23,860	17,084	40
Balance sheet total	166,074	142,178	17

The balance sheet total amounted to € 166.1 million on 30 June 2010. The increase in non-current assets is primarily due to an increase of approximately € 11.1 million in BOT project receivables. Current assets increased by just 7% from € 124.8 million to € 133.1 million while equity rose by € 17.1 million to € 142.2 million. The Company's equity ratio consequently remained very high and the Company had no bank debts as at 30 June 2010.

## Financial Position

Amount in k€	Q2 2010	Q2 2009	Change %	H1 2010	H1 2009	Change %
Cash flow from operating activities	(3,142)	13,570	<-100.0	(8,864)	12,565	<-100.0
Cash flow from investment activities	(137)	(517)	(74)	2,824	(795)	<-100.0
Cash flow from financing activities	0	0	—	(1,648)	0	—

The second quarter of 2009 saw a negative free cash flow of € 3.2 million. The cash flow from operating activities amounted to € -3.1 million in the second quarter of 2010, compared with € 13.6 million in the same period last year.

However, although the Company spent € 1.6 million to continue the buy-back programme, the cash position is € 119 million at the end of Q2 2010, compared with € 116 million at the end of Q2 2009, thanks to the appreciation of the RMB against the euro.

## Research & Development

ZhongDe's R&D department has successfully applied for the four patent rights for the utility model, such as an integrated unit for a secondary combustion room and exhaust-heat boiler and a drying unit for continual feeding of municipal waste. In addition, two inventive patents have also been successfully applied for, one for integrated technology for livestock manure composting and waste incineration, the other relating to integrated technology for sludge drying and waste incineration.



## Outlook

The international financial crisis and global recession continued to impact on the Chinese and international markets in the first half of this year. In China, the 2009 stimulus package of the central government caused a real estate market bubble and high inflation expectations. In 2010, the central government initiated a tighter credit policy and more severe price controls to cool down the real estate market and cut government spending in China. The cash flows of local authorities from land usage right sales and bank financing have therefore fallen sharply. The economic development of China and the whole world is expected to remain considerably uncertain in 2010.

However, the momentum of the national economic recovery continues to gain pace. China's gross domestic product (GDP) was RMB 17,284.0 billion in the first half of this year, a year-on-year increase of 11.1%, which was 3.7 percentage points higher than in the same period last year.

The Company expects to benefit further from the favourable economic environment for eco-friendly waste disposal as well as from the growing demand for its waste-to-energy plant, both in China and throughout Asia. The Executive Meeting of the State Council of China not only confirmed pollution treatment facilities as an essential factor for emission reduction work, but also made a commitment to further developing environmental protection undertakings. This will place ZhongDe in an ideal position to capture the potential growth in this market and continue to drive the business forward.

The Company has signed a new EPC contract with Shouguang Fuyuan Waste to Power Co., Ltd for a 600 tons/day waste-to-energy plant. The project is located in the north of Shouguang city, Shandong Province. The actual contract value (VAT excluded) is RMB 230.82 million (€ 25.5 million). This is the fifth large engineering, procurement and construction project (EPC project) for ZhongDe. We are confident of signing more EPC and BOT waste-to-energy LOIs and contracts in the second half of 2010. This confidence is based on recent negotiations with local municipal governments.

The management of ZhongDe remains optimistic regarding the Company's performance in the second half of 2010.

# Financial Statements – ZhongDe Waste Technology AG

## 06.1

## Interim Consolidated Balance Sheet

for the period from 1 January to 30 June 2010

Amount in k€	30 June 2010	31 December 2009	30 June 2009
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	8,083	3,067	2,144
Land	2,503	2,140	2,203
Equipment	1,615	1,387	1,322
Construction in progress	6,383	5,400	5,014
Receivables from BOT projects	13,855	5,248	3,760
Deferred tax assets	489	179	391
	<b>32,928</b>	<b>17,421</b>	<b>14,834</b>
<b>Current assets</b>			
Inventories	2,078	4,032	2,158
Trade receivables	8,753	5,581	11,151
Other receivables and prepayments	2,851	3,239	6,332
Amounts due from related parties	8	6	332
Cash and cash equivalents	119,456	111,899	115,852
	<b>133,146</b>	<b>124,757</b>	<b>135,825</b>
<b>Total assets</b>	<b>166,074</b>	<b>142,178</b>	<b>150,659</b>
<b>Liabilities and Equity</b>			
<b>Capital and reserves</b>			
Share capital	13,000	13,000	13,000
Capital reserves	69,822	69,822	69,822
Statutory reserves	7,225	7,225	6,348
Own shares	(4,056)	(2,408)	0
Retained earnings	31,960	35,571	35,269
Foreign exchange difference	24,263	1,884	4,389
	<b>142,214</b>	<b>125,094</b>	<b>128,828</b>
<b>Liabilities</b>			
<b>Long-term liabilities</b>			
Deferred tax liabilities	1,584	593	557
	<b>1,584</b>	<b>593</b>	<b>557</b>
<b>Short-term liabilities</b>			
Trade payables	14,111	9,398	4,101
Other payables and accruals	6,160	5,456	16,163
Provisions	1,220	1,067	872
Amounts due to related parties	99	37	22
Income tax payable	686	533	116
	<b>22,276</b>	<b>16,491</b>	<b>21,274</b>
<b>Total liabilities</b>	<b>23,860</b>	<b>17,084</b>	<b>21,831</b>
<b>Total liabilities and equity</b>	<b>166,074</b>	<b>142,178</b>	<b>150,659</b>

## 06.2

### Interim Consolidated Statement of Income and Expenses

for the period from 1 January to 30 June 2010

Amount in k€	Q2 2010	Q2 2009	H1 2010	H1 2009
Revenue	11,256	9,751	14,970	20,632
Cost of sales	(8,701)	(7,145)	(11,921)	(12,182)
<b>Gross profit</b>	<b>2,555</b>	<b>2,606</b>	<b>3,049</b>	<b>8,450</b>
Other operating income	9	13	34	162
Selling and distribution expenses	(251)	(527)	(492)	(1,013)
Administrative expenses	(593)	(245)	(1,050)	(731)
Research and development expenses	(12)	(163)	(65)	(259)
Other operating expenses	(618)	(998)	(2,048)	(1,703)
<b>Profit from operations</b>	<b>1,090</b>	<b>686</b>	<b>(572)</b>	<b>4,906</b>
Finance income	468	318	948	779
Finance costs	(213)	(399)	(525)	(1,752)
<b>Profit before income tax</b>	<b>1,345</b>	<b>605</b>	<b>(149)</b>	<b>3,933</b>
Income tax	(1,037)	(276)	(1,563)	(1,348)
<b>Profit for the period</b>	<b>308</b>	<b>329</b>	<b>(1,712)</b>	<b>2,585</b>
Earnings per share (diluted and undiluted) (in EUR)	0.02	0.03	(0.14)	0.20
Weighted average shares outstanding (diluted and undiluted)	12,656,200	13,000,000	12,673,239	13,000,000

## 06.3

### Interim Consolidated Statement of Comprehensive Income

for the period from 1 January to 30 June 2010

Amount in k€	Q2 2010	Q2 2009	H1 2010	H1 2009
<b>Profit for the period</b>	<b>308</b>	<b>329</b>	<b>(1,712)</b>	<b>2,585</b>
Other comprehensive income				
Foreign exchange differences recognized directly in equity	13,895	(7,292)	22,379	(2,096)
<b>Total changes recognized directly in equity</b>	<b>13,895</b>	<b>(7,292)</b>	<b>22,379</b>	<b>(2,096)</b>
<b>Total recognized income and expense</b>	<b>14,203</b>	<b>(6,963)</b>	<b>20,667</b>	<b>489</b>

## 06.4

### Interim Consolidated Statement of Cash Flow

for the period from 1 January to 30 June 2010

Amount in k€	H1 2010	H1 2009
<b>Profit before income tax</b>	<b>(148)</b>	<b>3,933</b>
<b>Adjustments for:</b>		
Amortization of intangible assets	11	29
Allowance for doubtful trade debts	(10)	(162)
Provision for warranty	(37)	0
Depreciation of property, plant and equipment and land	214	153
Gains/losses PPE	11	8
Finance income	(948)	(779)
Finance expense	525	1,752
<b>Operating cash flows before working capital changes</b>	<b>(382)</b>	<b>4,934</b>
<b>Working capital changes:</b>		
<b>(Increase)/decrease in:</b>		
Inventories	1,954	1,936
Trade receivables	(3,160)	4,415
PoC receivables from BOT projects	(11,126)	(2,192)
Other receivables and prepayments	388	(3,319)
Amounts due from related parties	(2)	(322)
<b>Increase/(decrease) in:</b>		
Trade payables	4,713	(251)
Other payables, provisions and accruals	(1,004)	9,396
Amounts due to related parties	62	(178)
<b>Cash generated from/(used in) operations</b>	<b>(8,557)</b>	<b>14,419</b>
Interest received/exchange gains	948	779
Interest paid/exchange losses	(525)	(1,752)
Income tax paid	(730)	(881)
<b>Net cash generated from operating activities</b>	<b>(8,864)</b>	<b>12,565</b>
<b>Cash flow from investing activities</b>		
Payments in connection with the short-term financial management of cash investments	(22,590)	(3,000)
Receipts in connection with the short-term financial management of cash investments	25,590	3,000
Purchase property, plant, equipment, intangible assets, land use rights	(176)	(795)
<b>Cash flow used in investing activities</b>	<b>2,824</b>	<b>(795)</b>
<b>Cash flow from financing activities</b>		
Buy back of own shares	(1,648)	0
<b>Cash flow from financing activities</b>	<b>(1,648)</b>	<b>0</b>
<b>Net increase in cash and cash equivalents</b>	<b>(7,688)</b>	<b>11,770</b>
Cash at beginning of year	88,563	102,740
Foreign exchange differences	14,547	(1,658)
<b>Cash fund at end of period</b>	<b>95,422</b>	<b>112,852</b>

## 06.5

### Selected Notes to the Interim Consolidated Financial Statements

for the period ending 30 June 2010

#### Interim Consolidated Statement of Changes in Equity for the Period from 1 January to 30 June 2010

Amount in k€	Numbers of shares out- standing	Share capital AG	Capital Reserves	Statutory Reserves	Own shares	Retained earnings	Foreign ex- change differ- ences	Total equity
<b>Balance as at 1 January 2009</b>	<b>13,000,000</b>	<b>13,000</b>	<b>69,822</b>	<b>6,348</b>	<b>0</b>	<b>32,684</b>	<b>6,486</b>	<b>128,340</b>
Total comprehensive income for this period	0	0	0	0	0	2,585	(2,096)	489
<b>Balance as at 30 June 2009</b>	<b>13,000,000</b>	<b>13,000</b>	<b>69,822</b>	<b>6,348</b>	<b>0</b>	<b>35,269</b>	<b>4,390</b>	<b>128,829</b>
<b>Balance as at 1 January 2010</b>	<b>12,798,800</b>	<b>13,000</b>	<b>69,822</b>	<b>7,225</b>	<b>(2,408)</b>	<b>35,570</b>	<b>1,884</b>	<b>125,093</b>
Total comprehensive income for this period	0	0	0	0	0	(1,712)	22,379	20,667
Buy back of own shares	(142,600)	0	0	0	(1,648)	0	0	(1,648)
Dividend distribution of the year 2009	0	0	0	0	0	(1,898)	0	(1,898)
<b>Balance as at 30 June 2010</b>	<b>12,656,200</b>	<b>13,000</b>	<b>69,822</b>	<b>7,225</b>	<b>(4,056)</b>	<b>31,960</b>	<b>24,263</b>	<b>142,214</b>

#### General

The interim consolidated financial statements for the period 1 January to 30 June combine all subsidiaries of ZhongDe Waste Technology AG. These subsidiaries are located in the People's Republic of China (PRC) except for the interim holding company Chung Hua Environmental Protection Assets (Holdings) Group Ltd., Hong Kong.

#### Basis of Preparation

The interim consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU at the balance sheet date and the additional requirements of German commercial law pursuant to sec. 315a (1) of the German Commercial Code (HGB). The interim consolidated financial statements comply with all IFRSs that had to be adopted by the balance sheet date.

With regard to the preparation of the interim consolidated financial statements, in accordance with IAS 34 "Interim Financial Reporting", the Management Board is required to make estimates and judgments which influence the application of accounting policies within the Company, and the reporting of assets and liabilities as well as income and expenses. Actual amounts can differ from these estimates.

#### Significant Accounting Policies

The accounting policies applied by the Group in the interim consolidated financial statements generally correspond to the methods applied by ZhongDe Waste Technology AG in its consolidated financial statements for the year ending 31 December 2009. For further details, please refer to the consolidated financial statements available on the Company's website: [www.zhongdetech-ag.com](http://www.zhongdetech-ag.com).

Income that may have been recorded during the reporting period for seasonal reasons, whether due to cyclical developments or occasional developments, is not cut off accurately in the interim consolidated financial statements. Expenses that are incurred irregularly during the reporting period have been cut off in those cases where they would also be cut off at year-end.

EPC construction contracts were recognized in accordance with the percentage-of-completion (PoC) method, with the percentage of completion was calculated using the cost-to-cost method. PoC receivables were carried as trade receivables on the assets side, or in the case of impending losses, as PoC liabilities. Insofar as prepayments exceed the cumulative work completed, they are recognized as liabilities.

Revenues of € 11.3 million in Q2 2010 include contract revenues of € 4.2 million from ongoing EPC production contracts recognized in accordance with the PoC method. The cumulative costs of EPC construction contracts still in progress as at the balance sheet date amounted to € 3.4 million, with cumulative profit totalling k€ 878. As the PoC receivables (€ 5.4 million) exceeds the prepayments received (€ 1.2 million), the difference of € 4.2 million is carried as Trade Receivables on the side.

In accordance with the second Annual Improvements Project (AIP 2009), the classification regulation of leases of land was extended from 2010. The transition provision stipulates that (new) classification of leasing agreements of land shall be applied retrospectively. For this reason, the “land use right” will no longer be presented as an “intangible asset”, but as “land”. As a result, the amount of intangible assets decreased from € 2.3 million (30.06.2009), € 5.2 million (31.12.2009) and € 10.6 million (30.06.2010) to € 2.1 million (30.06.2009), € 3.1 million (31.12.2009) and € 8.1 million (30.06.2010). The amount of “land” increased from € 2.2 million (30.06.2009), € 2.1 million (31.12.2009) and € 2.5 million (30.06.2010). The amount of amortization (depreciation) in the profit and loss statement will not be influenced.

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

## Segment Analysis and Information

### -> A. Business segments

The Group's operating activities are divided into three business segments: incinerator sales, which includes municipal waste incinerators and medical waste incinerators, its EPC (engineering, procurement and construction) projects, and its BOT (build – operate – transfer) and BOOT (build – operate – own – transfer) projects.

### -> B. Market

The Group is principally engaged in the design and manufacture of various incinerators in the PRC, where all of its customers are based. In addition, all assets attributable to the Group's operating activities are likewise located in the PRC. As such, no geographical segment analysis is necessary.

### -> C. Allocation basis

Revenues and the cost of sales of the services rendered in generating revenues are directly attributable to the business segments. Income and expenses which are not directly attributable to a business segment are recognized separately as non-attributable income and expenses.

Intersegmental revenues are eliminated on consolidation.

The following table presents revenue and results information regarding the Group's business segments for the first half of 2010:

Amount in k€	Q2 2010	Q2 2009	H1 2010	H1 2009
<b>Revenue</b>				
<b>Incinerators</b>	<b>0</b>	<b>3,332</b>	<b>0</b>	<b>11,602</b>
incinerator special for disposal of medical waste	0	(12)	0	530
incinerator special for disposal of urban household waste	0	3,344	0	11,072
<b>EPC project business</b>	<b>4,240</b>	<b>4,905</b>	<b>4,240</b>	<b>6,838</b>
Zhucheng	2,923	0	2,923	0
Dingzhou	1,317	0	1,317	0
Datong	0	4,905	0	6,838
<b>BOT project business</b>	<b>7,016</b>	<b>1,514</b>	<b>10,730</b>	<b>2,192</b>
Zhoukou	3,136	831	5,314	1,356
Feicheng	593	683	2,129	836
Kunming	3,287	0	3,287	0
<b>Total revenue from reportable segments</b>	<b>11,256</b>	<b>9,751</b>	<b>14,970</b>	<b>20,632</b>
Unallocated revenues	0	0	0	0
<b>Total revenues</b>	<b>11,256</b>	<b>9,751</b>	<b>14,970</b>	<b>20,632</b>
<b>Results</b>				
<b>Incinerators</b>	<b>0</b>	<b>2,114</b>	<b>0</b>	<b>7,512</b>
incinerator special for disposal of medical waste	0	(10)	0	383
incinerator special for disposal of urban household waste	0	2,124	0	7,129
<b>EPC project business</b>	<b>878</b>	<b>112</b>	<b>878</b>	<b>390</b>
Zhucheng	616	0	616	0
Dingzhou	262	0	262	0
Datong	0	112	0	390
<b>BOT project business</b>	<b>1,677</b>	<b>380</b>	<b>2,171</b>	<b>548</b>
Zhoukou	778	211	1,318	341
Feicheng	83	169	37	207
Kunming	816	0	816	0
<b>Total profit or loss for reportable segments</b>	<b>2,555</b>	<b>2,606</b>	<b>3,049</b>	<b>8,450</b>
Unallocated results	(1,210)	(2,001)	(3,198)	(4,517)
<b>Total profit or loss from operations before tax</b>	<b>1,345</b>	<b>605</b>	<b>(149)</b>	<b>3,933</b>
Income tax	(1,037)	(276)	(1,563)	(1,348)
<b>Profit for the year</b>	<b>308</b>	<b>329</b>	<b>(1,712)</b>	<b>2,585</b>



## Functional and Presentation Currency

	30 June 2010	30 June 2009
Exchange rate RMB/€ at the end of the period	8.3215	9.6545
Average exchange rate RMB/€ for H1	9.0678	9.1028

  

	30 June 2010	30 June 2009
Exchange rate HKD/€ at the end of the period	9.5549	10.9540
Average exchange rate HKD/€ for H1	10.3233	10.3271

The functional currency of the consolidated subsidiaries is RMB.

## Income Tax

Lower than usual income taxes are recognized in the interim consolidated financial statements because of the status of the main operating subsidiaries Fujian FengQuan Environmental Protection Holding Co., Ltd., Zhoukou FengQuan Environmental Protection Electric Power Co. Ltd., Feicheng FengQuan Waste Disposal Co., Ltd. and Kunming FengDe Environmental Protection Electric Power Co., Ltd. Due to the tax status of Fujian FengQuan as a foreign-owned entity, the tax rate for 2009, 2010 and 2011 amounts to half of the normal tax rate of 25%. The Group tax rate may differ from the applicable local Chinese income tax rate majorly due to different treatment of exchange gains and exchange losses for consolidated financial statements and tax purposes.

## Cash Fund

Amount in k€	H1 2010	H1 2009
Cash at end of period	95,422	112,852
Short-term deposits (duration over 3 months)	24,034	3,000
<b>Cash and cash equivalents (balance sheet)</b>	<b>119,456</b>	<b>115,852</b>

Hamburg, 30 August 2010  
ZhongDe Waste Technology AG

On behalf of the Management



**Zefeng Chen**  
Chairman of the  
Board of Directors (CEO)



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

## Responsibility Statement by the Management

“To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the condensed interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group, and the condensed interim management report of the Group includes a fair view 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 the expected development of the Group for the remaining months of the financial year.”

Hamburg, 30 August 2010  
ZhongDe Waste Technology AG  
On behalf of the Management



**Zefeng Chen**  
Chairman of the  
Board of Directors (CEO)



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

## Cautionary Note Regarding Forward-Looking Statements

This interim report contains certain forward-looking statements. These statements may be identified by words such as “expects”, “looks forward to”, “anticipates”, “intends”, “plans”, “believes”, “seeks”, “estimates”, “will”, or words of similar meaning. Such statements are based on current assumptions, expectations, and forecasts on future sector trends, on future legal and commercial developments, and on the future development of the ZhongDe Group. These assumptions, expectations and forecasts are no guarantee of future performance and are subject to change at any time, and are thus subject to certain risks and uncertainties. A variety of factors, many of which are beyond the ZhongDe Group’s control, affect its operations, performance, business strategy and results, and could cause the actual results, performance or achievements of the ZhongDe Group to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements.

For us, particular uncertainties arise, among others, from: changes in general economic and business conditions; changes in the regulatory environment; the introduction of competing products or technologies by other companies; changes in business strategy; our analysis of the potential impact of such matters on our financial statements; as well as various other factors. More detailed information about our risk factors and key factors affecting our results and operations is contained in ZhongDe’s Securities Prospectus, which is available on the ZhongDe website, [www.zhongdetech.com](http://www.zhongdetech.com). Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement as expected, anticipated, intended, planned, believed, sought, estimated or projected. ZhongDe does not intend, or assume any obligation, to update or revise these forward-looking statements in the light of developments which differ from those anticipated, unless otherwise required by law.

The English translation of this interim report is for convenience purposes only. The German version of this interim report is exclusively binding in legal terms.

## About ZhongDe Waste Technology AG



ZhongDe Waste Technology AG is listed on the German Stock Exchange (German securities identification number ZDWT01, ISIN DE000ZDWT018, ticker symbol ZEF). Correspondingly, with effect from 1 January 2005, the Company is obliged to prepare its consolidated interim reports in compliance with the International Accounting Standards, as required by the “EU Regulation adopting certain international accounting standards”, Article 6 (2). This condensed interim report was prepared and published pursuant to IAS 34 of the International Financial Reporting Standards (IFRS). The interim report’s scope of consolidation comprises eight fully consolidated affiliates.

ZhongDe Waste Technology is an energy-from-waste company that designs, invests in, constructs and operates energy-from-waste plants, which generate electricity through the disposal of solid municipal, industrial (including hazardous) and medical waste. Since 1996, ZhongDe Group has completed approximately 200 waste disposal projects in about 13 provinces in China, of which more than 80 projects have been completed in the last three years.

# Financial Calendar and Contact

## Financial Calendar

Date*	Event
22–24 November 2010	German Equity Forum of Deutsche Börse, Frankfurt am Main
30 November 2010	Interim report on the third quarter of 2010

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

## Contact

This interim report, recent publications, and additional information are all available on the Internet at: [www.zhongde-ag.com](http://www.zhongde-ag.com) and [www.zhongde-ag.de](http://www.zhongde-ag.de).

### ZhongDe Waste Technology AG

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